

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2016

(April 1, 2015 to September 30, 2015)

November 5, 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

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Anticipated date for releasing quarterly securities report: November 12, 2015

Anticipated date to begin distributing dividends: December 4, 2015

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, 2015

(April 1, 2015 – September 30, 2015; 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 attributable to owners of the parent company (% change)
Two-quarter total at September 2015	¥149,440 (+9.3)	¥15,285 (+16.1)	¥16,127 (+13.1)	¥9,936 (+14.1)
Two-quarter total at September 2014	136,768 (+7.4)	13,166 (+6.1)	14,256 (+3.3)	8,707 (+0.8)

Note: Comprehensive Income: Six months ended September 30, 2015; ¥ 7,774 million (-23.3%)

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

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2015	¥191.08	—
Two-quarter total at September 2014	167.44	—

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 2015	¥357,207	¥266,754	70.3
Full-year at March 2015	357,506	261,414	69.0

(Reference) Equity capital : Six months ended September 30, 2015; ¥251,201 million

Year ended March 31, 2015; ¥246,624 million

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2015	—	¥38.00	—	¥38.00	¥76.00
March 2016	—	40.00	—	—	—
March 2016 (anticipated)	—	—	—	42.00	82.00

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

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

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

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Full year	¥318,000 (+7.8)	¥34,000 (+10.4)	¥36,000 (+9.3)	¥22,500 (+9.0)	¥432.66

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

Note: Revision of fiscal year forecast in period under review: None

*** Notes**

(1) Changes in scope of consolidation of major subsidiaries during the period: None

Newly included — (Company name: —): Excluded — (Company name: —)

Note: Effective the period under review, Bravis Climate Systems Pty Ltd was included in the scope of consolidation due to acquisition of its shares. (However, this does not constitute a change in specified subsidiary.)

(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, 2015: 52,216,463 shares

March 31, 2015: 52,216,463 shares

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

September 30, 2015: 213,026 shares

March 31, 2015: 212,472 shares

(c) Average number of shares during the term

First two quarters of the fiscal year ending March 2016: 52,003,678 shares

First two quarters of the fiscal year ended March 2015: 52,005,145 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.

* Supplemental information sheets of financial results are posted on the Corporation’s website on Thursday, November 5, 2015.

1. Consolidated Performance

(1) Operating Results

In the two-quarter period under review (April 1–September 30, 2015), the world economy continued grew moderately, buoyed by ongoing economic expansion in the United States amid healthy personal consumption, as well as continued modest economic growth in Europe. In China, the economic growth rate slowed, and falling share prices also caused the economy to decelerate. By contrast, the Japanese economy showed moderate recovery owing to the softening impact of the consumption tax hike and firming personal consumption, as well as a turnaround in capital investments backed by solid corporate earnings.

The domestic housing appliance industry benefited from the dissipating impact of the recoil in demand following the rush ahead of the consumption tax hike. Other factors included various measures to stimulate demand, such as establishment of an energy-saving points system for houses and expansion of the tax-exempt scope for residential purchases. The markets for new houses and home renovations were also healthy.

Under these conditions, the Rinnai Group embarked on 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 our corporate culture and spirit attained through our history, while emphasizing “evolution” of our business model so we can create new products and services that benefit society.

With respect to revenue, we reported a year-on-year increase in net sales thanks to solid sales of water heaters in Japan, United States, and China, as well as good progress in expanding our business in Australia. On the earnings side, we posted increased profit due to higher overseas sales and favorable foreign exchange factors, as well as cost reduction efforts.

As a result, consolidated net sales for the period amounted to ¥149,440 million, up 9.3% from the previous corresponding period. Operating income grew 16.1%, to ¥15,285 million, and ordinary income climbed 13.1%, to ¥16,127 million. Net income attributable to owners of the parent company rose 14.1%, to ¥9,936 million.

Our results by geographical segment were as follows:

Japan

Amid recovering demand in housing-related markets, in Japan our water heaters benefited from an increase in the sales ratio for high-end water heaters and hybrid water heaters with heating systems. In kitchen appliances, there was a shift in demand from Tabletop cookers to built-in hobs (stovetops) amid increased demand for system-based kitchens. As a result, sales in Japan amounted to ¥81,384 million, up 1.5% from the previous corresponding period. Operating income rose 5.7%, to ¥9,325 million.

South Korea

In South Korea, we enjoyed healthy sales of boilers in the water heater category. In kitchen appliances, however, sales of cookers were weakened by sluggish economic conditions and intensified market competition. The result was a year-on-year sales decline on a local-currency basis. Thanks to favorable foreign exchange factors, however, sales in South Korea rose 6.0% year on year, to ¥15,356 million. However, operating income fell 30.7%, to ¥320 million, due to reductions in market prices of cookers.

United States

In the United States, sales of tankless water heaters were healthy as the market for housing

appliances expanded in the wake of economic recovery. Thanks also to an increase in the sales ratio for high-efficiency models and favorable foreign exchange factors, sales in the United States increased 22.0%, to ¥9,797 million. Operating income jumped 75.1%, to ¥625 million.

Australia

In Australia, we enjoyed a year-on-year increase in revenue thanks to solid sales of mainstay tankless water heaters, while sales of room heaters were also firm as the winter was colder than usual. During the period, Brivis Climate Systems Pty Ltd became a consolidated subsidiary. As a result, sales in Australia jumped 61.4%, to ¥12,558 million, and operating income rose 39.0%, to ¥1,336 million.

China

Despite local economic slowdown in China, we benefited from rising living standards in interior cities and steady expansion of gas infrastructure. The result was an increase in the number of retail stores handling our products and growth in sales of gas appliances, especially water heaters. Consequently, sales in China increased 30.5%, to ¥16,106 million, and operating income jumped 44.0%, to ¥1,906 million.

Indonesia

In Indonesia, economic growth remained weak due to worsening consumer sentiment and other factors. This, together with lack of growth in replacement demand for tabletop cookers, led to lower year-on-year revenue. As a result, sales in Indonesia declined 5.6%, to ¥5,303 million, and operating income fell 35.2%, to ¥390 million.

References 1: Net sales by product

(¥ millions; %)

	First two quarters for the year ending March 31, 2015 (April 1, 2014, to Sept. 30, 2014)		First two quarters for the year ending March 31, 2016 (April 1, 2015, to Sept. 30, 2015)		Change		Year ended March 31, 2015 (April 1, 2014, to March 31, 2015)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Hot-water units	¥ 69,756	51.0	¥ 78,059	52.2	¥8,302	11.9	¥153,697	52.1
Kitchen appliances	42,627	31.2	43,316	29.0	689	1.6	90,838	30.8
Air-conditioning and heating units	7,445	5.4	9,754	6.5	2,309	31.0	14,972	5.1
Commercial-use equipment	4,323	3.2	5,053	3.4	730	16.9	9,227	3.1
Others	12,615	9.2	13,255	8.9	639	5.1	26,287	8.9
Total	¥136,768	100.0	149,440	100.0	¥12,672	9.3	¥295,022	100.0

References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2015 (April 1, 2014, to Sept. 30, 2014)			First two quarters for the year ending March 31, 2016 (April 1, 2015, to Sept. 30, 2015)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	¥39,805	¥20,790	¥ 60,596	¥45,405	¥27,360	¥ 72,766
II. Consolidated net sales	—	—	136,768	—	—	149,440
III. Composition ratio of overseas sales to consolidated net sales	29.1%	15.2%	44.3%	30.4%	18.3%	48.7%

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

(2) Financial Position

As of September 30, 2015, Rinnai had total assets of ¥357,207 million, down ¥298 million from March 31, 2015. Total liabilities declined ¥5,638 million, to ¥90,453 million. Net assets rose ¥5,339 million, to ¥266,754 million. The equity ratio at the end of the period was 70.3%.

Cash Flows

Cash and cash equivalents at September 30, 2015, stood at ¥67,262 million, down ¥2,077 million from March 31, 2015.

Net cash provided by operating activities amounted to ¥11,261 million, up 228.4% from the previous corresponding period. This was due mainly to the secured operating income, as well as a decrease in income taxes paid.

Net cash used in investing activities totaled ¥9,229 million, down 34.3% from the previous corresponding period. Main factors included transfers to and withdrawals from time deposits, purchases of tangible fixed assets, and purchases of shares in subsidiary associated with a change in scope of consolidation.

Net cash used in financing activities was ¥3,591 million, up 19.9% from 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, 2016. (Those forecasts were released on May 8, 2015.)

2. Summary Information (Notes)

(1) Changes in important subsidiaries during period

Not applicable

While not applicable to a change in specified subsidiaries, in the first quarter of the fiscal year Brivis Climate Systems Pty Ltd was newly included in the scope of consolidation due to the purchase of shares.

(2) Application of special accounting treatment in preparation of quarterly financial statements

Not applicable

(3) Changes in accounting policies; changes in accounting estimates; restatements

(Change in accounting policy)

(Application of Accounting Standard for Business Combinations)

Effective the first quarter of the current fiscal year, the Company has applied “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013). Under the change, the difference arising from a change in the Company’s equity in a subsidiary (in cases where controlling interest of subsidiary continues) is now recorded as capital surplus, while acquisition-related expenses are recorded in the consolidated fiscal year in which they were incurred. For business combinations carried out on or after the beginning of the first quarter of the current fiscal year, the accounting method has changed to one in which the reviewed acquisition cost allocation, resulting from finalization of tentative accounting treatment, is reflected in the quarterly consolidated financial statements for the quarter in which the business combination occurred. The Company has also changed its expression of net income, etc., and changed “minority interests” to “non-controlling interests.” Financial statements for the first two quarters of the previous fiscal year, as well as the entire previous fiscal year, have been reclassified to reflect these changes.

The Accounting Standard for Business Combinations is being applied in accordance with the transitional treatment set forth in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. It is being applied prospectively from the beginning of the first quarter of the current fiscal year.

The aforementioned had no effect on the Company’s quarterly consolidated financial statements.

3. Consolidated Quarterly Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March, 2015 (Year ended March 31, 2015)	At Sept. 30, 2015 (First two quarters for the year ending March 31, 2016)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	¥ 60,730	¥ 58,425
Notes and accounts receivable	63,889	64,826
Marketable securities	41,112	41,953
Products	21,670	22,536
Raw materials and stores	12,812	12,734
Other	6,540	5,505
Less allowance for doubtful accounts	(644)	(625)
Total current assets	206,111	205,355
Fixed assets		
Property, plant and equipment	56,841	59,451
Intangible fixed assets	4,365	6,780
Investments and advances		
Investments in securities	64,163	60,686
Other	26,946	25,805
Less allowance for doubtful accounts	(922)	(872)
Total investments and advances	90,187	85,619
Total fixed assets	151,395	151,851
Total assets	¥357,506	¥357,207

(¥ millions)

	At March, 2015 (Year ended March 31, 2015)	At Sept. 30, 2015 (First two quarters for the year ending March 31, 2016)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥ 47,870	¥ 44,648
Short-term debt	1,976	875
Accrued corporate taxes	4,719	3,406
Accrued employee's bonuses	3,377	3,654
Other allowances	3,093	3,567
Other	18,767	17,623
Total current liabilities	79,805	73,776
Long-term liabilities		
Reserves	48	52
Net defined benefit liabilities	5,291	5,701
Other	10,946	10,922
Total long-term liabilities	16,286	16,676
Total liabilities	96,091	90,453
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	208,866	216,826
Treasury stock	(979)	(894)
Total shareholders' equity	223,065	231,021
Other comprehensive income:		
Unrealized gain on marketable securities	5,921	4,453
Foreign exchange translation adjustment	10,046	8,569
Remeasurements of defined benefit plans	7,591	7,157
Total other comprehensive income	23,559	20,180
Non-controlling interests	14,789	15,553
Total net assets	261,414	266,754
Total liabilities and net assets	¥357,506	¥357,207

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

Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2015 (April 1, 2014, to Sept. 30, 2014)	First two quarters for the year ending March 31, 2016 (April 1, 2015, to Sept. 30, 2015)
	Amount	Amount
Net sales	¥136,768	¥149,440
Cost of Sales	94,528	101,131
Gross Profit	42,240	48,309
Selling, general and administrative expenses	29,073	33,023
Operating income	13,166	15,285
Other income:		
Interest income	585	600
Dividends received	197	236
Foreign exchange income	43	—
Other	471	281
Total other income	1,298	1,118
Other expenses:		
Interest expenses	77	24
Foreign exchange loss	—	73
Loss on retirement of fixed assets	81	76
Other	49	101
Total other expenses	208	276
Ordinary income	14,256	16,127
Extraordinary income:		
Gain on sales of fixed assets	—	271
Total extraordinary income	—	271
Extraordinary loss:		
Loss on reduction of fixed asset	—	182
Total extraordinary loss	—	182
Income before income taxes	14,256	16,217
Income taxes:		
Current	3,723	4,078
Deferred	714	919
Total income taxes	4,437	4,998
Net income	9,818	11,218
Net income attributable to non-controlling interests	1,110	1,282
Net income attributable to owners of the parent company	¥ 8,707	¥ 9,936

Consolidated Statements of Comprehensive Income

(¥ millions)

	First two quarters for the year ended March 31, 2015 (April 1, 2014, to Sept. 30, 2014)	First two quarters for the year ending March 31, 2016 (April 1, 2015, to Sept. 30, 2015)
	Amount	Amount
Net Income	¥ 9,818	¥ 11,218
Other comprehensive income		
Unrealized gain on marketable securities	1,110	(1,467)
Foreign exchange translation adjustment	(525)	(1,531)
Remeasurements of defined benefit plans	(263)	(445)
Total other comprehensive income	321	(3,444)
Comprehensive income	10,140	7,774
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	9,459	6,557
Non-controlling interest	680	1,216

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2015 (April 1, 2014, to Sept. 30, 2014)	First two quarters for the year ending March 31, 2016 (April 1, 2015, to Sept. 30, 2015)
Cash flows from operating activities		
Income before income taxes	¥ 14,256	¥ 16,217
Depreciation and amortization	4,094	4,567
Decrease (increase) in net defined benefit assets	(503)	(1,425)
Decrease (increase) in trade receivables	7,446	(407)
Decrease (increase) in inventories	(6,478)	(230)
Increase (decrease) in trade payables	(6,801)	(3,452)
Other	(995)	608
Subtotal	11,018	15,876
Interest and dividends received	801	840
Interest paid	(77)	(24)
Income taxes paid	(8,313)	(5,431)
Net cash provided by operating activities	3,429	11,261
Cash flows from investing activities		
Transfers to time deposits	(17,657)	(19,296)
Withdrawals from time deposits	21,641	21,115
Purchases of tangible fixed assets	(6,493)	(7,562)
Purchases of investments in securities	(15,243)	(2,221)
Sale and redemption of investments in securities	5,543	2,844
Purchases of subsidiary shares due to the change of scope of consolidation	—	(4,588)
Other	(1,840)	479
Net cash used in investing activities	(14,050)	(9,229)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	(983)	(1,098)
Dividends paid	(1,871)	(1,976)
Other	(141)	(517)
Net cash used in financing activities	(2,996)	(3,591)
Effect of exchange rate fluctuations on cash and cash equivalents	(443)	(518)
Net increase (decrease) in cash and cash equivalents	(14,060)	(2,077)
Cash and cash equivalents at beginning of term	74,279	69,340
Cash and cash equivalents at end of term	¥ 60,219	¥ 67,262

(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, 2015 (April 1, 2014, to Sept. 30, 2014)

(¥ 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	¥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. First two quarters for the year ending March 31, 2016 (April 1, 2015, to Sept. 30, 2015)

(¥ 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	¥81,384	¥15,356	¥9,797	¥12,558	¥16,106	¥5,303	¥140,507	¥8,932	¥ —	¥149,440
Intersegment	14,720	426	—	29	1,042	331	16,550	1,563	(18,114)	—
Total	96,105	15,783	9,797	12,588	17,148	5,634	157,058	10,496	(18,114)	149,440
Income (loss)	9,325	320	625	1,336	1,906	390	13,904	1,306	75	15,285

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.