

# Consolidated Financial Results

## First Two Quarters of the Fiscal Year ending March 2017

(April 1, 2016 to September 30, 2016)

November 4, 2016

### Listed Company Name: Rinnai Corporation

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

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

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Anticipated date for releasing quarterly securities report: November 11, 2016

Anticipated date to begin distributing dividends: December 5, 2016

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, 2016

(April 1, 2016 – September 30, 2016; 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 2016	¥155,106 (+3.8)	¥14,873 (+0.1)	¥15,003 (-4.4)	¥8,951 (-7.2)
Two-quarter total at September 2015	149,440 (+9.3)	14,851 (+12.8)	15,693 (+10.1)	9,643 (+10.7)

Note: Comprehensive Income: Six months ended September 30, 2016; ¥569 million (-92.4%)

Six months ended September 30, 2015; ¥7,481 million (-26.2%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2016	¥172.14	—
Two-quarter total at September 2015	185.43	—

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 2016	¥368,600	¥270,248	69.2
Full-year at March 2016	370,246	271,709	69.2

(Reference) Equity capital : Six months ended September 30, 2016; ¥255,068 million

Year ended March 31, 2016; ¥256,073 million

## 2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2016	—	¥40.00	—	¥42.00	¥82.00
March 2017	—	42.00	—	—	—
March 2017 (anticipated)	—	—	—	44.00	86.00

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

## 3. Forecast for the Fiscal Year Ending March 31, 2017

(April 1, 2016, to March 31, 2017)

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Full year	¥337,000 (+5.3)	¥37,000 (+7.0)	¥38,000 (+6.1)	¥23,500 (+3.5)	¥451.90

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

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

**\* Notes**

(1) Changes in scope of consolidation of major subsidiaries during the period: Yes

Newly included one company, Gastar Co., Ltd. (Company name: —): Excluded — (Company name: —)  
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.

(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, 2016: 52,216,463 shares

March 31, 2016: 52,216,463 shares

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

September 30, 2016: 214,279 shares

March 31, 2016: 213,899 shares

(c) Average number of shares during the term

First two quarters of the fiscal year ending March 2017: 52,002,413 shares

First two quarters of the fiscal year ended March 2016: 52,003,678 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 Friday, November 4, 2016.

## **1. Consolidated Performance**

### **(1) Operating Results**

In the first two quarters under review (April 1–September 30, 2016), the outlook for the world economy became unclear. Despite moderate economic recovery in the United States stemming from improvements in personal consumption and the employment environment, economic uncertainty in Europe increased following the United Kingdom’s decision to exit the European Union, and economic growth in China continued to slow. Meanwhile, the Japanese economy remained in a holding pattern as exporting companies posted weak revenues amid the yen’s appreciation, despite signs of improvement in employment and worker incomes.

The domestic housing appliance industry was buoyed by an upward trend in new housing starts stemming from various government measures to support residential purchases, as well as lower home loan interest rates, while home renovations and replacement demand for housing appliances also firmed.

Under these conditions, the Rinnai Group entered the second year of its medium-term business plan, entitled Evolution and Succession 2017, which began in April 2015. Under the plan, we sought to 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 the addition of Gastar Co., Ltd., which became a consolidated subsidiary, as well as healthy sales of water heaters in China and the United States. This was despite the impact of the yen’s appreciation. On the earnings side, we posted increased profit due to falling raw materials prices, together with an increase in overseas sales.

As a result, consolidated net sales for the period amounted to ¥155,106 million, up 3.8% from the previous corresponding period. Operating income edged up 0.1%, to ¥14,873 million. Ordinary income slipped 4.4%, to ¥15,003 million, reflecting a foreign exchange loss stemming from the yen’s appreciation. Net income attributable to owners of the parent company declined 7.2%, to ¥8,951 million.

Our results by geographical segment were as follows:

#### ***Japan***

In Japan, we enjoyed an increase in sales of standalone water heaters amid growth in the home rental market. We also benefited from healthy sales of dishwasher/dryers thanks to enhancement of our lineup for the replacement market, as well as firm sales of gas clothes dryers—a distinctive Rinnai strength—and our ECO ONE hybrid water heaters with heating systems. Accordingly, sales in Japan rose 6.3% year on year, to ¥86,472 million. However, an increase in sales of low-priced products led to a decline in the sales ratio for high-value-added products. As a result, operating income declined 11.2%, to ¥8,279 million.

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

In the United States, we saw a shift away from conventional low-efficiency tank-based water heaters toward high-efficiency gas tankless water heaters, due to stricter minimum heat efficiency standards enforced by the Department of Energy. We also benefited from the reintroduction of a tax rebate system for consumers replacing their water heaters with gas tankless models, with sales of water heaters increasing as a result. As a result, sales in the United States rose 10.0%, to ¥10,774 million, and operating income climbed 27.6%, to ¥798 million.

#### ***Australia***

In Australia, we posted steady sales of storage-type (tank-based) water heaters, air conditioners, and other products, and we enjoyed steady business growth thanks to higher revenue generated by Brivis Climate Systems Pty Ltd, which became a consolidated subsidiary in the previous fiscal year. Sales in local-currency terms increased as a result. Due to the yen's appreciation, however, sales in Australia declined 8.2%, to ¥11,527 million. Operating income grew 14.2%, to ¥1,029 million, thanks to a year-on-year decrease in expenses associated with the acquisition of Brivis Climate Systems.

### **China**

In China, the number of gas appliance users continued to increase thanks to expansion of gas infrastructure and broader sales networks in regional cities. Moreover, rising living standards led to the continued trend towards large-capacity, high-performance water heaters, which bolstered sales. Consequently, sales in China increased 11.4%, to ¥17,935 million, and operating income rose 11.1%, to ¥2,117 million.

### **South Korea**

In South Korea, we enjoyed healthy sales of boilers thanks to increased construction of small-scale multiple-dwelling projects and growing replacement demand. Amid growth in the market for clothes dryers, meanwhile, we posted increased sales of gas models, which are acclaimed for their fast-drying capability. Although local-currency sales increased year on year, sales in yen terms slipped 2.4%, to ¥14,982 million, and operating income declined 24.6%, to ¥241 million.

### **Indonesia**

In Indonesia, sales of tabletop cookers increased year on year as demand for such products showed a recovery trend. The result was a rise in overall local-currency sales. Due to the yen's appreciation, however, sales in yen terms declined 2.3% year on year, to ¥5,183 million, while operating income jumped 82.4%, to ¥711 million, thanks to cost-related improvements.

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

(¥ millions; %)

	First two quarters for the year ended March 31, 2016 (April 1, 2015, to Sept. 30, 2015)		First two quarters for the year ending March 31, 2017 (April 1, 2016, to Sept. 30, 2016)		Change		Year ended March 31, 2016 (April 1, 2015, to March 31, 2016)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Water heaters	¥ 78,059	52.2	¥ 87,287	56.3	¥9,228	11.8	¥169,623	53.0
Kitchen appliances	43,316	29.0	42,212	27.2	(1,104)	(2.5)	93,340	29.2
Home heaters	9,754	6.5	8,743	5.6	(1,011)	(10.4)	19,463	6.1
Commercial-use equipment	5,053	3.4	4,424	2.9	(629)	(12.4)	10,041	3.1
Others	13,255	8.9	12,437	8.0	(817)	(6.2)	27,466	8.6
Total	149,440	100.0	155,106	100.0	¥5,666	3.8	¥319,935	100.0

## References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2016 (April 1, 2015, to Sept. 30, 2015)			First two quarters for the year ending March 31, 2017 (April 1, 2016, to Sept. 30, 2016)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	¥45,405	¥27,360	¥ 72,766	¥46,480	¥26,759	¥ 73,239
II. Consolidated net sales	—	—	149,440	—	—	155,106
III. Composition ratio of overseas sales to consolidated net sales	30.4%	18.3%	48.7%	30.0%	17.3%	47.2%

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

### (2) Financial Position

As of September 30, 2016, Rinnai had total assets of ¥368,600 million, down ¥1,646 million from March 31, 2016. Total liabilities declined ¥185 million, to ¥98,351 million. Net assets were down ¥1,460 million, to ¥270,248 million. The equity ratio at the end of the period was 69.2%.

### Cash Flows

Cash and cash equivalents at September 30, 2016, stood at ¥84,854 million, up ¥5,254 million from March 31, 2016.

Net cash provided by operating activities amounted to ¥12,998 million, up 15.4% from the previous corresponding period. The main factor was the secured operating income, which contrasted with a decrease in trade payables.

Net cash used in investing activities totaled ¥1,832 million, down 80.1% from the previous corresponding period. Main factors included a decrease in time deposits and purchases of tangible fixed assets.

Net cash used in financing activities was ¥2,758 million, down 23.2% 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, 2017. (Those forecasts were released on May 10, 2016.)

## **2. Summary (Other) Information**

### **(1) Changes in Major Subsidiaries during Period**

In the first quarter under review, Rinnai Corporation purchased additional shares in Gastar Co., Ltd. and also purchased that company's treasury stock. Accordingly, Gastar became a subsidiary of Rinnai and was included in the scope of consolidation. Gastar also comes into the category of "specified subsidiary" of Rinnai.

As of March 31, 2016, Gastar Co., Ltd. was an equity-method affiliate.

### **(2) Application of Specific Accounting Treatment**

Not applicable.

### **(3) Changes in Accounting Policies; Changes in Accounting Estimates; Retrospective Restatements**

(Changes in Accounting Policies)

#### ***(Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)***

In association with a revision of the Corporation Tax Act, the Corporation has applied "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (PITF No. 32, June 17, 2016), effective the first quarter under review, and changed the depreciation method for facilities attached to buildings and structures that were acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The impact of this change on the Consolidated Statements of Income in the period under review was minimal.

### 3. Consolidated Quarterly Financial Statements

#### (1) Consolidated Balance Sheets

(¥ millions)

	At March, 2016 (Year ended March 31, 2016)	At Sept. 30, 2016 (First two quarters for the year ending March 31, 2017)
	Amount	Amount
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposits	¥100,528	¥100,123
Notes and accounts receivable	66,208	64,153
Marketable securities	8,036	6,478
Products	23,461	22,577
Raw materials and stores	12,608	13,111
Other	6,236	5,437
Less allowance for doubtful accounts	(600)	(525)
Total current assets	216,480	211,355
<b>Fixed assets</b>		
Property, plant and equipment	63,299	69,675
Intangible fixed assets	5,887	6,776
Investments and advances		
Investments in securities	64,133	60,113
Other	20,853	21,037
Less allowance for doubtful accounts	(406)	(357)
Total investments and advances	84,579	80,792
Total fixed assets	153,766	157,245
<b>Total assets</b>	<b>¥370,246</b>	<b>¥368,600</b>



(¥ millions)

	At March, 2016 (Year ended March 31, 2016)	At Sept. 30, 2016 (First two quarters for the year ending March 31, 2017)
	Amount	Amount
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Notes and accounts payable	¥ 23,163	¥ 17,913
Electronically recorded obligations	28,155	28,563
Accrued corporate taxes	5,053	3,654
Accrued employee's bonuses	4,025	4,014
Allowance for product guarantee	3,436	3,575
Other allowances	555	300
Other	18,339	19,245
Total current liabilities	82,730	77,266
<b>Long-term liabilities</b>		
Allowance environmental measures	—	2,255
Reserves	56	100
Net defined benefit liabilities	6,349	9,056
Other	9,400	9,673
Total long-term liabilities	15,806	21,085
Total liabilities	98,537	98,351
<b>NET ASSETS:</b>		
<b>Shareholders' equity:</b>		
Common stock	6,459	6,459
Capital surplus	8,719	8,756
Earned surplus	229,372	236,140
Treasury stock	(993)	(997)
Total shareholders' equity	243,558	250,359
<b>Other comprehensive income:</b>		
Unrealized gain on marketable securities	4,066	3,682
Foreign exchange translation adjustment	5,288	(1,980)
Remeasurements of defined benefit plans	3,160	3,006
Total other comprehensive income	12,515	4,708
<b>Non-controlling interests</b>	15,636	15,180
<b>Total net assets</b>	271,709	270,248
<b>Total liabilities and net assets</b>	¥370,246	¥368,600

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

### Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2016  (April 1, 2015, to Sept. 30, 2015)	First two quarters for the year ending March 31, 2017  (April 1, 2016, to Sept. 30, 2016)
	Amount	Amount
<b>Net sales</b>	¥149,440	¥155,106
<b>Cost of Sales</b>	101,601	104,128
<b>Gross Profit</b>	47,838	50,977
<b>Selling, general and administrative expenses</b>	32,987	36,104
<b>Operating income</b>	14,851	14,873
<b>Other income:</b>		
Interest income	600	458
Dividends received	236	361
Other	281	472
Total other income	1,118	1,292
<b>Other expenses:</b>		
Interest expenses	24	18
Foreign exchange loss	73	949
Loss on retirement of fixed assets	76	83
Other	101	110
Total other expenses	276	1,162
<b>Ordinary income</b>	15,693	15,003
<b>Extraordinary income:</b>		
Gain on sales of fixed assets	271	—
Total extraordinary income	271	—
<b>Extraordinary loss:</b>		
Loss on step acquisitions	—	137
Loss on reduction of fixed asset	182	—
Total extraordinary loss	182	137
<b>Income before income taxes</b>	15,782	14,866
<b>Income taxes:</b>		
Current	4,078	4,375
Deferred	778	(7)
Total income taxes	4,857	4,368
Net income	10,925	10,497
Net income attributable to non-controlling interests	1,282	1,545
Net income attributable to owners of the parent company	¥ 9,643	¥ 8,951

**Consolidated Statements of Comprehensive Income**

(¥ millions)

	First two quarters for the year ended March 31, 2016  (April 1, 2015, to Sept. 30, 2015)	First two quarters for the year ending March 31, 2017  (April 1, 2016, to Sept. 30, 2016)
	Amount	Amount
Net Income	¥ 10,925	¥ 10,497
Other comprehensive income		
Unrealized gain on marketable securities	(1,467)	(370)
Foreign exchange translation adjustment	(1,530)	(9,399)
Remeasurements of defined benefit plans	(445)	(157)
Total other comprehensive income	(3,443)	(9,927)
Comprehensive income	7,481	569
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	6,265	1,147
Non-controlling interest	1,216	(577)

### (3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2016  (April 1, 2015, to Sept. 30, 2015)	First two quarters for the year ending March 31, 2017  (April 1, 2016, to Sept. 30, 2016)
<b>Cash flows from operating activities</b>		
Income before income taxes	¥ 15,782	¥ 14,866
Depreciation and amortization	4,621	4,617
Decrease (increase) in net defined benefit assets	(1,425)	(294)
Decrease (increase) in trade receivables	(407)	4,804
Decrease (increase) in inventories	240	(929)
Increase (decrease) in trade payables	(3,452)	(7,324)
Other	519	2,624
Subtotal	15,876	18,364
Interest and dividends received	840	809
Interest paid	(24)	(18)
Income taxes paid	(5,431)	(6,156)
Net cash provided by operating activities	11,261	12,998
<b>Cash flows from investing activities</b>		
Transfers to time deposits	(19,296)	(17,567)
Withdrawals from time deposits	21,115	24,370
Purchases of tangible fixed assets	(7,562)	(9,611)
Purchases of investments in securities	(2,221)	(4,319)
Sale and redemption of investments in securities	2,844	3,606
Purchases of subsidiary shares due to the change of scope of Consolidation	(4,588)	—
Proceeds from subsidiary shares due to the change of scope of Consolidation	—	1,644
Other	479	43
Net cash used in investing activities	(9,229)	(1,832)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term debt	(1,098)	207
Dividends paid	(1,976)	(2,182)
Other	(517)	(783)
Net cash used in financing activities	(3,591)	(2,758)
Effect of exchange rate fluctuations on cash and cash equivalents	(518)	(3,153)
Net increase (decrease) in cash and cash equivalents	(2,077)	5,254
Cash and cash equivalents at beginning of term	69,340	79,600
Cash and cash equivalents at end of term	¥ 67,262	¥ 84,854

#### (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, 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	United States	Australia	China	South Korea	Indonesia	Total			
Sales										
Outside clients	¥81,384	¥9,797	¥12,558	¥16,106	¥15,356	¥5,303	¥140,507	¥8,932	¥ —	¥149,440
Intersegment	14,720	—	29	1,042	426	331	16,550	1,563	(18,114)	—
Total	96,105	9,797	12,588	17,148	15,783	5,634	157,058	10,496	(18,114)	149,440
Income (loss)	9,325	625	901	1,906	320	390	13,469	1,306	75	14,851

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, 2017 (April 1, 2016, to Sept. 30, 2016)

(¥ millions)

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts on consolidate statements of income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesia	Total			
Sales										
Outside clients	¥ 86,472	¥10,774	¥11,527	¥17,935	¥14,982	¥5,183	¥146,875	¥8,231	¥ —	¥155,106
Intersegment	14,440	—	13	758	688	321	16,222	1,440	(17,663)	—
Total	100,912	10,774	11,540	18,694	15,670	5,505	163,098	9,672	(17,663)	155,106
Income (loss)	8,279	798	1,029	2,117	241	711	13,178	1,347	346	14,873

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.

## **Business Combination**

### ***Major review of initial allocation for acquisition cost in comparison information***

With respect to its business combination with Brivis Climate Systems Pty Ltd., enacted on February 2, 2015, the Corporation applied provisional accounting treatment in the first two quarters of the previous fiscal year, but made confirmations in the third quarter of that year.

In association with confirmation of such provisional accounting treatment, in the first two quarters under review the Corporation did a major review of initial allocation for acquisition cost in comparison information for inclusion in the quarterly consolidated statements. Reflecting this review, the amount of goodwill, which was ¥2,812 million under the provisional calculation, was reduced by ¥1,598 million, to ¥1,214 million, due to accounting treatment confirmation. The decline in goodwill stemmed mainly from increases in inventories (up ¥459 million), property, plant, and equipment (up ¥455 million), intangible fixed assets (up ¥985 million), and deferred tax liabilities (up ¥347 million).

The above review led to ¥434 million decreases in both operating income and ordinary income, as well as a ¥293 million decrease net income attributable to owners of parent, in the Consolidated Statements of Income for the first two quarters of the previous fiscal year.

Note: Fiscal year-end of Brivis Climate Systems Pty Ltd. is December 31.