

Consolidated Financial Results

First Quarter of the Fiscal Year Ending March 2016

(April 1–June 30, 2015)

August 4, 2015

Listed Company Name: Rinnai Corporation

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

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

Representative: Hiroyasu Naito, President

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Scheduled date for release of quarterly securities report: August 6, 2015

Anticipated date to begin distributing dividends: —

Supplemental information sheets of quarterly results: Yes

Information meeting of quarterly results: None

I. Performance in the First Quarter of the Fiscal Year Ending March 31, 2016

(April 1– June 30, 2015; amounts less than one million yen are omitted)

(1) Consolidated Operating Results

Percentage figures in parentheses indicate increase or decrease from the previous term.

(¥ millions; %)

	Net Sales	Operating Income	Ordinary Income	Net Income
First Quarter to June 2015	¥69,502 [+6.6%]	¥6,727 [+0.4%]	¥7,301 [-0.3%]	¥4,373 [-3.6%]
First Quarter to June 2014	65,212 [+12.7%]	6,701 [+50.4%]	7,321 [+40.1%]	4,539 [+41.1%]

Notes: Comprehensive income: First quarter of the year ending March 31, 2016; ¥2,449 million [-58.7%]

First quarter of the year ended March 31, 2015; ¥5,926 million [-16.2%]

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
First Quarter to June 2015	¥84.10	—
First Quarter to June 2014	87.29	—

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
June 30, 2015	¥351,909	¥261,486	70.1%
March 31, 2015	357,506	261,414	69.0

(Reference) Equity capital: First quarter of the year ending March 31, 2016; ¥246,631 million

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

II. Dividends

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

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

III. Forecast for the Fiscal Year Ending March 31, 2016 (Consolidated)

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

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
First half	¥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

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, Brivis 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 5 of this report.

(4) Number of Outstanding Shares (Common Stock)

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

June 30, 2015: 52,216,463 shares

March 31, 2015: 52,216,463 shares

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

June 30, 2015: 212,778 shares

March 31, 2015: 212,472 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 2016: 52,003,823 shares

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

* Implementation status of quarterly review process

This report is exempt from a quarterly review process under the Financial Instruments and Exchange Act (FIEA). At the time of this report's release, the review process of the Corporation's consolidated quarterly financial statements under the FIEA was not completed.

* Note on appropriate use of performance forecasts

Performance forecasts contained in this document are based on information currently available and certain judgments deemed by the Corporation to be reasonable. Actual results may differ significantly from such forecasts due to various factors. For more information, please refer to “(3) Consolidated Performance Forecasts” on page 5 of this report.

Supplemental information sheets of quarterly results:

Please refer to Supplemental information sheets of quarterly results, which will be posted on the Corporation's website on Tuesday, August 4, 2015.

1. Consolidated Performance

(1) Operating Results

In the first quarter under review (April 1–June 30, 2015), the world economy continued expanding moderately, buoyed by ongoing economic recovery in the United States amid increasing housing sales and personal consumption, as well as rising consumer purchasing power in Europe despite some remaining debt-related problems. In China, the economy continued to slow down amid weakness in such areas as retail sales volume and capital investments. By contrast, the Japanese economy showed modest recovery thanks mainly to improvements in corporate earnings and capital investments assisted by a weak yen.

The domestic housing appliance industry displayed signs of recovery, benefiting from an upturn in new housing starts in March 2015—the first in a long time—and an expanding market for renovations stemming from improving consumer sentiment.

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. We will also make a social contribution through our core business, which is provision of heat and energy appliances.

With respect to revenue, domestic sales declined year on year because the rush in demand associated with the consumption tax hike continued into April 2014. However, overseas sales increased thanks to ongoing healthy sales of water heaters in China, as well as steady expansion of our business in Australia. Despite the decrease in domestic sales, we reported a slight rise in operating income thanks to higher overseas sales and favorable foreign exchange factors.

As a result, consolidated net sales for the period amounted to ¥69,502 million, up 6.6% from the previous corresponding period. Operating income edged up 0.4%, to ¥6,727 million, and ordinary income slipped 0.3%, to ¥7,301 million. Net income attributable to owners of the parent company declined 3.6%, to ¥4,373 million.

Our results by geographical segment were as follows:

Japan

In Japan, sales of built-in hobs (stovetops) declined year on year because the rush in demand associated with the consumption tax hike continued into April 2014. This was despite an accelerated shift towards high-end models amid economic recovery and a gradual turnaround in consumption. As a result, sales in Japan amounted to ¥37,300 million, down 2.1% from the previous corresponding period. Operating income declined 12.2%, to ¥3,992 million.

South Korea

In South Korea, our water heaters performed well owing to healthy sales of high-efficiency boilers. However, our kitchen appliances faced difficulties due to price competition with other companies and declining demand. Thanks to favorable foreign exchange factors, sales in South Korea rose 8.5% year on year, to ¥8,244 million. However, operating income fell 38.9%, to ¥270 million, due to reduction in market prices of cookers.

United States

In the United States, sales languished temporarily due to labor strikes at West Coast ports, but real demand was healthy. Thanks also to favorable foreign exchange factors, sales in the United States increased 13.5%, to ¥4,499 million. Operating income grew 36.7%, to ¥198 million.

Australia

Amid local economic recovery, sales of mainstay tankless water heaters increased. Business expansion activities over the past several years also bore fruit, and Brivis Climate Systems Pty Ltd became a consolidated subsidiary during the period. As a result, sales in Australia jumped 61.7%, to ¥4,589 million, and operating income rose 47.2%, to ¥263 million.

China

Economic slowdown in major Chinese cities took stronger hold, but rising living standards in interior cities and steady expansion of gas infrastructure led to solid growth in sales of water heaters. Consequently, sales in China increased 28.1%, to ¥7,712 million, and operating income jumped 67.0%, to ¥999 million.

Indonesia

In Indonesia, sales languished due to slowdown in economic growth, weak personal consumption, and a retreat in demand as tabletop cookers reached a certain proliferation level. As a result, sales in Indonesia declined 5.5%, to ¥2,697 million, and operating income fell 27.3%, to ¥226 million.

(For references 1)

Sales Composition by Business Segment

(¥ millions; %)

	First Quarter to June 30, 2014		First Quarter to June 30, 2015		Change		Year to March 31, 2015	
	Amount	Amount	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥34,536	53.0%	¥37,949	54.6%	¥3,413	9.9%	¥153,697	52.1%
Kitchen appliances	20,656	31.7	20,386	29.3	(270)	(1.3)	90,838	30.8
Home heaters	1,740	2.7	2,417	3.5	677	39.0	14,972	5.1
Commercial-use equipment	2,094	3.2	2,440	3.5	345	16.5	9,227	3.1
Others	6,183	9.5	6,308	9.1	124	2.0	26,287	8.9
Total	¥65,212	100.0%	¥69,502	100.0%	¥4,289	6.6%	¥295,022	100.0%

(For references 2)

Overseas Sales

(¥ millions; %)

	First Quarter to June 30, 2014			First Quarter to June 30, 2015		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥20,076	¥8,853	¥28,929	¥22,951	¥11,434	¥34,385
II. Consolidated net sales	—	—	65,212	—	—	69,502
III. Composition ratio of overseas sales to consolidated net sales	30.8%	13.6%	44.4%	33.0%	16.5%	49.5%

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

(2) Financial Position

As of June 30, 2015, Rinnai had total assets of ¥351,909 million, down ¥5,596 million from March 31, 2015. Total liabilities declined ¥5,668 million, to ¥90,422 million. Net assets rose ¥72 million, to ¥261,486 million. The equity ratio at the end of the period was 70.1%.

(3) Consolidated Performance Forecasts

Rinnai has not changed its forecasts for the first two-quarter period ending September 30, 2015, or the full-year period ending March 31, 2016. (Those forecasts were released on May 8, 2015.)

2. Summary (Other) Information

(1) Changes in Major Subsidiaries during Period

Not applicable.

Effective the period under review, Brivis 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 Specific Accounting Treatment

Not applicable.

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

(Changes in Accounting Policies)

(Application of Accounting Standard for Business Combinations)

Effective the period under review, the Corporation has applied “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASJB Statement No. 22, September 13, 2013), and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013). Accordingly, the difference arising from changes in equity held by the Corporation in a subsidiary, in cases where control of the subsidiary continues, shall be treated as capital surplus, and acquisition-related costs shall be expensed in the consolidated fiscal year in which they are incurred. For business combinations implemented after the beginning of the period under review, review of acquisition allocation costs by determination of the provisional accounting treatment shall be reflected in the quarterly consolidated financial statements for the quarter in which the date of business combination occurred. In addition, the Corporation has changed its expression of net income, etc., and changed “minority interests” to “non-controlling interests.” Financial statements for the first quarter 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 has been applied according to specific transitional provisions as determined in Clause 58-2-4 of Accounting Standard for Business Combinations, Clause 44-5-4 of Accounting Standard for Consolidated Financial Statements, and Clause 57-4-4 of Accounting Standard for Business Divestitures, and has been applied prospectively from the beginning of the quarter.

The aforementioned had no effect on the consolidated financial statements for the period under review.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2015 (Fiscal 2015)	At June 30, 2015 (First Quarter of Fiscal 2016)
ASSETS:		
Current assets		
Cash and deposits	¥ 60,730	¥ 52,976
Notes and accounts receivable	63,889	59,186
Marketable securities	41,112	41,717
Products	21,670	23,616
Raw materials and stores	12,812	13,036
Other	6,540	6,373
Less allowance for doubtful accounts	(644)	(625)
Total current assets	206,111	196,282
Fixed assets		
Tangible fixed assets	56,841	58,110
Intangible fixed assets	4,365	6,944
Investments and advances		
Investments in securities	64,163	64,006
Other	26,946	27,469
Less allowance for doubtful accounts	(922)	(903)
Total investments and advances	90,187	90,572
Total fixed assets	151,395	155,627
Total assets	¥357,506	¥351,909

(¥ millions)

	At March 31, 2015 (Fiscal 2015)	At June 30, 2015 (First Quarter of Fiscal 2016)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 47,870	¥ 43,790
Short-term debt	1,976	1,243
Accrued income taxes	4,719	2,557
Accrued employee's bonuses	3,377	1,426
Other allowances	3,093	3,332
Other	18,767	21,368
Total current liabilities	79,805	73,719
Long-term liabilities		
Reserves	48	50
Net defined benefit liabilities	5,291	5,470
Other	10,946	11,182
Total long-term liabilities	16,286	16,703
Total liabilities	96,091	90,422
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	208,866	211,263
Treasury stock	(979)	(982)
Total shareholders' equity	223,065	225,460
Other comprehensive income:		
Unrealized gain on marketable securities	5,921	5,729
Foreign exchange translation adjustment	10,046	8,066
Remeasurements of defined benefit plans	7,591	7,375
Total of other comprehensive income	23,559	21,171
Non-controlling interests	14,789	14,855
Total net assets	261,414	261,486
Total liabilities and net assets	¥357,506	¥351,909

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

Consolidated Statements of Income

(¥ millions)

	First Quarter of Fiscal 2015 (From April 1 to June 30, 2014)	First Quarter of Fiscal 2016 (From April 1 to June 30, 2015)
Net sales	¥65,212	¥69,502
Cost of sales	44,526	46,927
Gross profit	20,686	22,575
Selling, general and administrative expenses	13,985	15,848
Operating income	6,701	6,727
Other income:		
Interest income	285	287
Dividends received	176	212
Foreign exchange income	—	16
Other	264	168
Total other income	726	684
Other expenses:		
Interest expenses	41	15
Foreign exchange loss	33	—
Loss on retirement of fixed assets	17	82
Other	14	12
Total other expenses	106	109
Ordinary income	7,321	7,301
Income before income taxes	7,321	7,301
Income taxes (current)	2,380	2,295
Income taxes (deferred)	(144)	(48)
Total income taxes	2,235	2,246
Net income	5,085	5,055
Net income attributable to non-controlling interests	546	681
Net income attributable to owners of the parent company	¥ 4,539	¥ 4,373

Consolidated Statements of Comprehensive Income

(¥ millions)

	First Quarter of Fiscal 2015 (From April 1 to June 30, 2014)	First Quarter of Fiscal 2016 (From April 1 to June 30, 2015)
Income before minority interest	¥5,085	¥5,055
Other comprehensive income		
Unrealized gain on marketable securities	917	(191)
Foreign exchange translation adjustment	52	(2,193)
Remeasurements of defined benefit plans	(129)	(221)
Total of other comprehensive income	840	(2,605)
Comprehensive income	5,926	2,449
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	5,405	1,985
Non-controlling interest	520	463

(3) Noted to Quarterly Consolidated Financial Statements

Assumptions for Going Concern

Not applicable.

Major Changes in Shareholders' Equity

Not applicable.

Segment Information

1. First Quarter of the Fiscal Year Ended March 31, 2015 (From April 1 to June 30, 2014)

(¥ millions)

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

Notes: 1. "Others" include sales from subsidiaries in Taiwan, Thailand, Vietnam, New Zealand, Brazil and other regions.

2. "Adjustments" is the intersegment transactions to eliminate.

3. "Income (loss)" is adjusted from operating income on Consolidated Statement of Income.

2-1. First Quarter of the Fiscal Year Ending March 31, 2016

(From April 1 to June 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	¥37,300	¥8,244	¥4,499	¥4,589	¥7,712	¥2,697	¥65,045	¥4,457	¥ —	¥69,502
Intersegment	7,369	131	—	11	483	164	8,160	790	(8,950)	—
Total	44,670	8,375	4,499	4,601	8,195	2,861	73,205	5,248	(8,950)	69,502
Income (loss)	3,992	270	198	263	999	226	5,948	679	99	6,727

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

Business Combination through Acquisition of Shares

1. Summary of Business Combination

(1) Acquired company name and business

Acquired company: Brivis 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 Brivis 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. (no change

(6) Acquired ratio of voting rights: 100%

(7) Main source of acquisition: Share acquisition by cash through Rinnai Australia Pty. Ltd., a consolidated subsidiary of Rinnai Corporation.

2. Results period of acquired company included in Consolidated Financial Statements February 2–March 31, 2015

3. Acquisition cost and consideration of acquired company

<u>Cash and deposits</u>	<u>¥4,588 million</u>
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Acquisition cost	¥4,588 million
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4. Amount of goodwill, reason of goodwill, and method/period of amortization

(1) Amount of goodwill: ¥2,812 million

Because allocation of acquisition cost has not been completed, the amount of goodwill has been provisionally calculated.

(2) Reason of goodwill

The acquisition cost exceeded the net of assets received and liabilities assumed, with the excess amount treated as goodwill.

(3) Method/period of amortization

Amortized uniformly over five years

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