

**Consolidated Financial Results**  
**First Quarter of the Fiscal Year Ending March 2017**  
 (April 1–June 30, 2016)

August 4, 2016

**Listed Company Name: Rinnai Corporation**

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

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Scheduled date for release of quarterly securities report: August 9, 2016

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, 2017**

(April 1– June 30, 2016; 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 attributable to owners of the parent company (% change)
First Quarter to June 2016	¥74,519 [+7.2%]	¥6,522 [+4.4%]	¥6,513 [-4.5%]	¥3,866 [-4.1%]
First Quarter to June 2015	¥69,502 [+6.6%]	¥6,244 [-6.8%]	¥6,819 [-6.9%]	¥4,032 [-11.2%]

Notes: Comprehensive income: First quarter of the year ending March 31, 2017; ¥523 million [-75.2%]

First quarter of the year ended March 31, 2016; ¥2,114 million [-64.3%]

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
First Quarter to June 2016	¥74.35	—
First Quarter to June 2015	77.54	—

Note: The Corporation revised the consolidated financial statements for the first quarter of the fiscal year ended March 31, 2016 (fiscal 2016), in accordance with confirmation of provisional accounting treatment for its business combination in the third quarter of fiscal 2016.

**(2) Consolidated Financial Position**

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
June 30, 2016	¥371,494	¥270,182	68.5%
March 31, 2016	370,246	271,709	69.2

(Reference) Equity capital: First quarter of the year ending March 31, 2017: ¥254,367 million

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

**II. Dividends**

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

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

### III. Forecast for the Fiscal Year Ending March 31, 2017 (Consolidated)

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

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
First half	¥156,000 [+4.4%]	¥15,200 [+2.3%]	¥15,700 [+0.0%]	¥9,700 [+0.6%]	¥186.53
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 1 (Company name: Gastar Co., Ltd.): Excluded — (Company name: —)

Note: For more information, please refer to "2. Summary (Other) Information, (1) Changes in Major Subsidiaries during Period" on page 5 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

(4) Number of Outstanding Shares (Common Stock)

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

June 30, 2016: 52,216,463 shares

March 31, 2016: 52,216,463 shares

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

June 30, 2016: 214,007 shares

March 31, 2016: 213,899 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 2017: 52,002,526 shares

First quarter of the fiscal year ended March 2016: 52,003,823 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, 2016.

## 1. Consolidated Performance

### (1) Operating Results

In the first quarter under review (April 1–June 30, 2016), the world economy found a firm footing, buoyed by ongoing economic recovery in the United States stemming from an improved employment environment and increasing personal consumption, as well as steady personal consumption in Europe. However, the outlook for China remained uncertain as economic growth continued to slow. Meanwhile, economic recovery in Japan showed lack of momentum as improvements in corporate earnings and consumer sentiment marked time.

The domestic housing appliance industry performed well, 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 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 contribution of Gastar Co., Ltd., which became a consolidated subsidiary, as well as healthy sales of water heaters in China and the United States. On the earnings side, we posted increased profit due to cost reduction measures associated with falling raw materials prices, together with efforts encouraging customers to switch to new products.

As a result, consolidated net sales for the period amounted to ¥74,519 million, up 7.2% from the previous corresponding period. Operating income rose 4.4%, to ¥6,522 million. Due to exchange loss, however, ordinary income slipped 4.5%, to ¥6,513 million. Net income attributable to owners of the parent company declined 4.1%, to ¥3,866 million.

Our results by geographical segment were as follows:

#### *Japan*

In Japan, we enjoyed growth in demand for built-in hobs (stovetops) for new homes associated increasing housing starts, as well as standalone water heaters and other products. Accordingly, sales in Japan rose 8.0% year on year, to ¥40,287 million. However, an increase in sales of low-priced products for the home rental market dampened the shift to high-value-added products. As a result, operating income declined 16.0%, to ¥3,352 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 Rinnai-brand water heaters increasing as a result. As a result, sales in the United States increased 20.2%, to ¥5,408 million, and operating income jumped 87.7%, to ¥371 million.

### **Australia**

In Australia, we posted steady sales of water heaters owing to an increase in electric tank-based models, which contrasted with lower sales of gas tankless models. Among home heaters, we enjoyed increased sales of ducted heating/cooling systems made by Brivis Climate Systems Pty Ltd, which became a consolidated subsidiary in the previous fiscal year. As a result, sales in Australia rose 7.3%, to ¥4,922 million, and operating income was ¥220 million, compared with an operating loss of ¥218 million in the previous corresponding period.

### **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, as well as rising average unit prices as increasing living standards led to the proliferation of large-capacity, high-performance models. Consequently, sales in China increased 20.2%, to ¥9,270 million, and operating income rose 11.5%, to ¥1,114 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. In addition, more and more people shied away from hanging washing outside due to concerns about air pollution, which boosted sales of gas clothes dryers. Although local-currency sales were steady, sales in yen terms slipped 2.7% year on year, to ¥8,023 million, and operating income declined 17.4%, to ¥222 million.

### **Indonesia**

In Indonesia, sales of tabletop cookers increased year on year, buoyed by recovery in demand. Despite an increase in overall local-currency sales, sales in yen terms declined 4.8% year on year, to ¥2,567 million, and operating income grew 25.3%, to ¥283 million.

(For references 1)

### **Sales Composition by Business Segment**

(¥ millions; %)

	First Quarter to June 30, 2015		First Quarter to June 30, 2016		Change		Year to March 31, 2016	
	Amount	Amount	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥37,949	54.6%	¥43,384	58.2%	¥5,434	14.3%	¥169,623	53.0%
Kitchen appliances	20,386	29.3	20,155	27.0	(230)	(1.1)	93,340	29.2
Home heaters	2,417	3.5	2,993	4.0	575	23.8	19,463	6.1
Commercial-use equipment	2,440	3.5	2,094	2.8	(345)	(14.2)	10,041	3.1
Others	6,308	9.1	5,891	7.9	(416)	(6.6)	27,466	8.6
Total	¥69,502	100.0%	¥74,519	100.0%	¥5,017	7.2%	¥319,935	100.0%

(For references 2)

### **Overseas Sales**

(¥ millions; %)

	First Quarter to June 30, 2015			First Quarter to June 30, 2016		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥22,951	¥11,434	¥34,385	¥24,216	¥12,142	¥36,359
II. Consolidated net sales	—	—	69,502	—	—	74,519
III. Composition ratio of overseas sales to consolidated net sales	33.0%	16.5%	49.5%	32.5%	16.3%	48.8%

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

### **(2) Financial Position**

As of June 30, 2016, Rinnai had total assets of ¥371,494 million, up ¥1,248 million from March 31, 2016. Total liabilities increased ¥2,774 million, to ¥101,311 million. Net assets were down ¥1,526 million, to ¥270,182 million. The equity ratio at the end of the period was 68.5%.

### **(3) Consolidated Performance Forecasts**

Rinnai has not changed its forecasts for the first two-quarter period ending September 30, 2016, or 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 Financial Statements

#### (1) Consolidated Balance Sheets

	At March 31, 2016 (Fiscal 2016)	At June 30, 2016 (First Quarter of Fiscal 2017)	(¥ millions)
<b>ASSETS:</b>			
Current assets			
Cash and deposits	¥100,528	¥103,089	
Notes and accounts receivable	66,208	62,006	
Marketable securities	8,036	7,621	
Products	23,461	24,785	
Raw materials and stores	12,608	13,471	
Other	6,236	6,200	
Less allowance for doubtful accounts	(600)	(565)	
Total current assets	216,480	216,608	
Fixed assets			
Tangible fixed assets	63,299	68,534	
Intangible fixed assets	5,887	7,271	
Investments and advances			
Investments in securities	64,133	58,035	
Other	20,853	21,434	
Less allowance for doubtful accounts	(406)	(390)	
Total investments and advances	84,579	79,079	
Total fixed assets	153,766	154,885	
<b>Total assets</b>	<b>¥370,246</b>	<b>¥371,494</b>	

	At March 31, 2016 (Fiscal 2016)	At June 30, 2016 (First Quarter of Fiscal 2017)	(¥ millions)
<b>LIABILITIES:</b>			
Current liabilities			
Notes and accounts payable	¥ 23,163	¥ 19,050	
Electronically recorded obligations	28,155	29,893	
Accrued income taxes	5,053	2,932	
Accrued employee's bonuses	4,025	1,802	
Allowance for product guarantee	3,436	3,654	
Other allowances	555	326	
Other	18,339	22,610	
Total current liabilities	82,730	80,271	
Long-term liabilities			
Allowance environmental measures	—	2,250	
Reserves	56	96	
Net defined benefit liabilities	6,349	9,106	
Other	9,400	9,587	
Total long-term liabilities	15,806	21,040	
<b>Total liabilities</b>	<b>98,537</b>	<b>101,311</b>	
<b>NET ASSETS:</b>			
Shareholders' equity:			
Common stock	6,459	6,459	
Capital surplus	8,719	8,756	
Earned surplus	229,372	231,054	
Treasury stock	(993)	(994)	
Total shareholders' equity	243,558	245,276	
Other comprehensive income:			
Unrealized gain on marketable securities	4,066	3,094	
Foreign exchange translation adjustment	5,288	2,932	
Remeasurements of defined benefit plans	3,160	3,063	
Total of other comprehensive income	12,515	9,090	
Non-controlling interests	15,636	15,815	
<b>Total net assets</b>	<b>271,709</b>	<b>270,182</b>	
<b>Total liabilities and net assets</b>	<b>¥370,246</b>	<b>¥371,494</b>	

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

### Consolidated Statements of Income

	First Quarter of Fiscal 2016 (From April 1 to June 30, 2015)	First Quarter of Fiscal 2017 (From April 1 to June 30, 2016)	(¥ millions)
Net sales	¥69,502	¥74,519	
Cost of sales	46,927	49,672	
Gross profit	22,106	24,847	
Selling, general and administrative expenses	15,861	18,325	
Operating income	6,244	6,522	
Other income:			
Interest income	287	232	
Dividends received	212	324	
Foreign exchange income	16	—	
Other	168	232	
Total other income	684	789	
Other expenses:			
Interest expenses	15	2	
Foreign exchange loss	—	707	
Loss on retirement of fixed assets	82	39	
Other	12	50	
Total other expenses	109	799	
Ordinary income	6,819	6,513	
Extraordinary losses			
Loss on step acquisitions	—	137	
Total extraordinary losses	—	137	
Income before income taxes	6,819	6,375	
Income taxes (current)	2,295	2,719	
Income taxes (deferred)	(189)	(986)	
Total income taxes	2,105	1,732	
Net income	4,713	4,643	
Net income attributable to non-controlling interests	681	777	
Net income attributable to owners of the parent company	¥ 4,032	¥ 3,866	

## Consolidated Statements of Comprehensive Income

(¥ millions)

	<b>First Quarter of Fiscal 2016 (From April 1 to June 30, 2015)</b>	<b>First Quarter of Fiscal 2017 (From April 1 to June 30, 2016)</b>
Income before minority interest	¥4,713	¥4,643
Other comprehensive income		
Unrealized gain on marketable securities	(191)	(958)
Foreign exchange translation adjustment	(2,186)	(3,056)
Remeasurements of defined benefit plans	(221)	(103)
Total of other comprehensive income	(2,599)	(4,119)
Comprehensive income	2,114	523
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	1,650	443
Non-controlling interest	463	80

### (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, 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	United States	Australia	China	South Korea	Indonesia	Total			
Sales										
Outside clients	¥37,300	¥4,499	¥4,589	¥7,712	¥8,244	¥2,697	¥65,045	¥4,457	¥ —	¥69,502
Intersegment	7,369	—	11	483	131	164	8,160	790	(8,950)	—
Total	44,670	4,499	4,601	8,195	8,375	2,861	73,205	5,248	(8,950)	69,502
Income (loss)	3,992	198	(218)	999	270	226	5,466	679	99	6,244

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, 2017 (From April 1 to June 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	¥40,287	¥5,408	¥4,922	¥9,270	¥8,023	¥2,567	¥70,479	¥4,040	¥ —	¥74,519
Intersegment	7,738	—	3	422	210	181	8,557	792	(9,350)	—
Total	48,026	5,408	4,926	9,693	8,234	2,749	79,037	4,832	(9,350)	74,519
Income (loss)	3,352	371	220	1,114	222	283	5,565	648	308	6,522

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

### **I. Business Combination through Share Acquisition**

## **1. Summary of Business Combination**

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

Acquired company: Gastar Co., Ltd.

Business: Manufacturing and sales of gas water heaters

## (2) Reason of business combination

Seeking to further expand its water heater business, the Rinnai Group purchased shares of Gastar Co., Ltd., which has considerable sales power and production bases in Japan's Kanto region.

### (3) Date of business combination

April 1, 2016

#### (4) Classification of business combination

Purchase of shares by Rinnai Corporation using cash; purchase of treasury stock by Gastar Co., Ltd.

**(5) Company name after business combination**

Gastar Co. Ltd. (no change)

#### (6) Acquired ratio of voting rights

Ratio of voting rights before business combination: 22.0%

Ratio of voting rights acquired on April 1, 2016: 68.0%

(Share acquisition by Rinnai Corporation: 22.1%)

(Owned share acquisition by Gastar Co. Ltd.: 45.9%)

Ratio of voting rights after business combination: 90.0%

#### (7) Main reasons for decision on acquisition target

Since the Corporation possesses more than half the voting rights of Gastar, it decided to make Gastar the acquisition target.

## **2. Results period of acquired company included in consolidated statements of income**

April 1 – June 30, 2016

### 3 Breakdown of acquisition costs and the consideration of acquired company

Market value of ordinary shares on April 1, 2016

Market value of ordinary shares on April 1, 2013,  
held before business combination: **¥4,590 million**

Additional acquisition price      Cash and deposits      €4,626 million

**Acquisition cost** **¥9,216 million**

#### **4. Difference between acquisition cost of the acquired company and the sum of transactions leading up to the acquisition**

#### **5. Amount of goodwill, reason of goodwill, and method/period of amortization**

- (1) Amount of goodwill: ¥648 million
  - (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

## **II. 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 quarter 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 quarter 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 ¥482 million decreases in both operating income and ordinary income, as well as a ¥341 million decrease net income attributable to owners of parent, in the Consolidated Statements of Income for the first quarter of the previous fiscal year.

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