



**Financial Results for First Three Quarters of
Fiscal 2017, ending March 31, 2017**

February 7, 2017

Fiscal 2017 (3Q): Highlights

Domestic demand on recovery trend since first half of fiscal year but below expectations

- **Bright signs for water heaters but kitchen appliances and home heaters struggling**
- **Shrinking sales to some clients due to policy changes stemming from energy sector liberalization (distribution inventory adjustments and requests for delivery price negotiations)**
- **Valued-added amount remained at previous-year levels, so burdened by increasing fixed costs (although parent company's operating margin high, at 11.8%, in October–December quarter)**

Overseas: Continuation of solid local performances but growing yen-based losses due to foreign exchange factors

- **China and United States exceeded expectations with no change in local trends**

Failed to achieve year-on-year profit increase in third quarter (peak demand period); revised consolidated forecasts for full-year period

- **No change in strategy; heading towards steady growth in medium and long terms**

Fiscal 2017 (3Q): Consolidated Performance Overview 2

Net sales: ¥ 243.3 billion (up 2.8% year on year)

Record-high level

Buoyed by healthy overseas local-currency sales and consolidation of Gastar, despite foreign exchange factors

Operating income: ¥ 26.0 billion

(down 2.3%; operating margin: 10.7%)

Lower income due to poorer product mix in Japan and reduced sales of kitchen appliances and home heaters

Ordinary income: ¥ 27.3 billion

(down 2.7%; ordinary income ratio: 11.2%)

Down due to operating income decline

Net income attributable to owners of the parent company: ¥ 17.0 billion

(down 3.0%; return on sales: 7.0%)

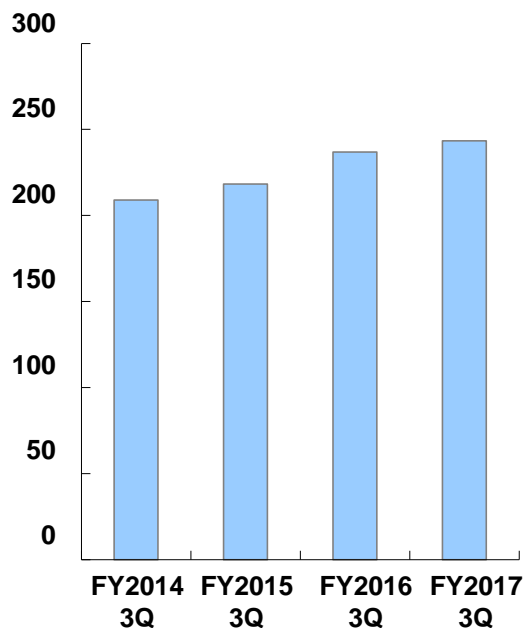
Down due to ordinary income decline

Second (middle) year of medium-term business plan (Evolution and Succession 2017):
Underperformed targets due to failure to compensate for lower domestic profits;
revised performance forecasts

Consolidated Financial Results (3Q)

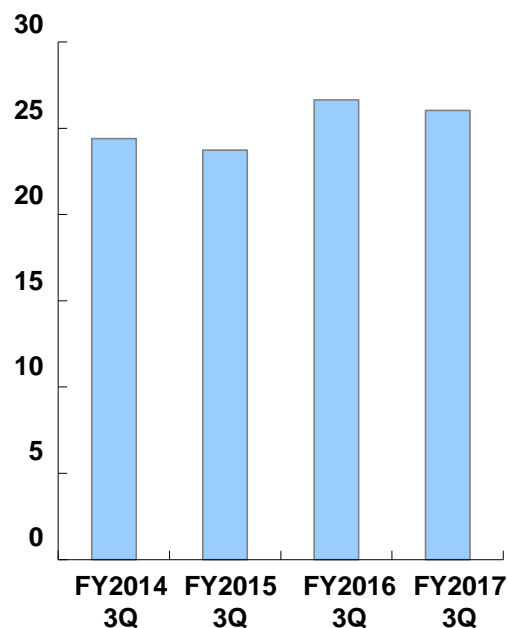
Net Sales

[Billions of yen]



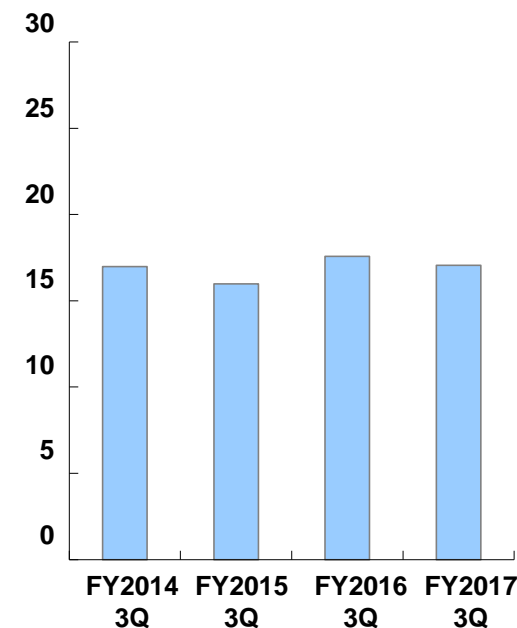
Operating Income

[Billions of yen]



Net income attributable to owners of the parent company

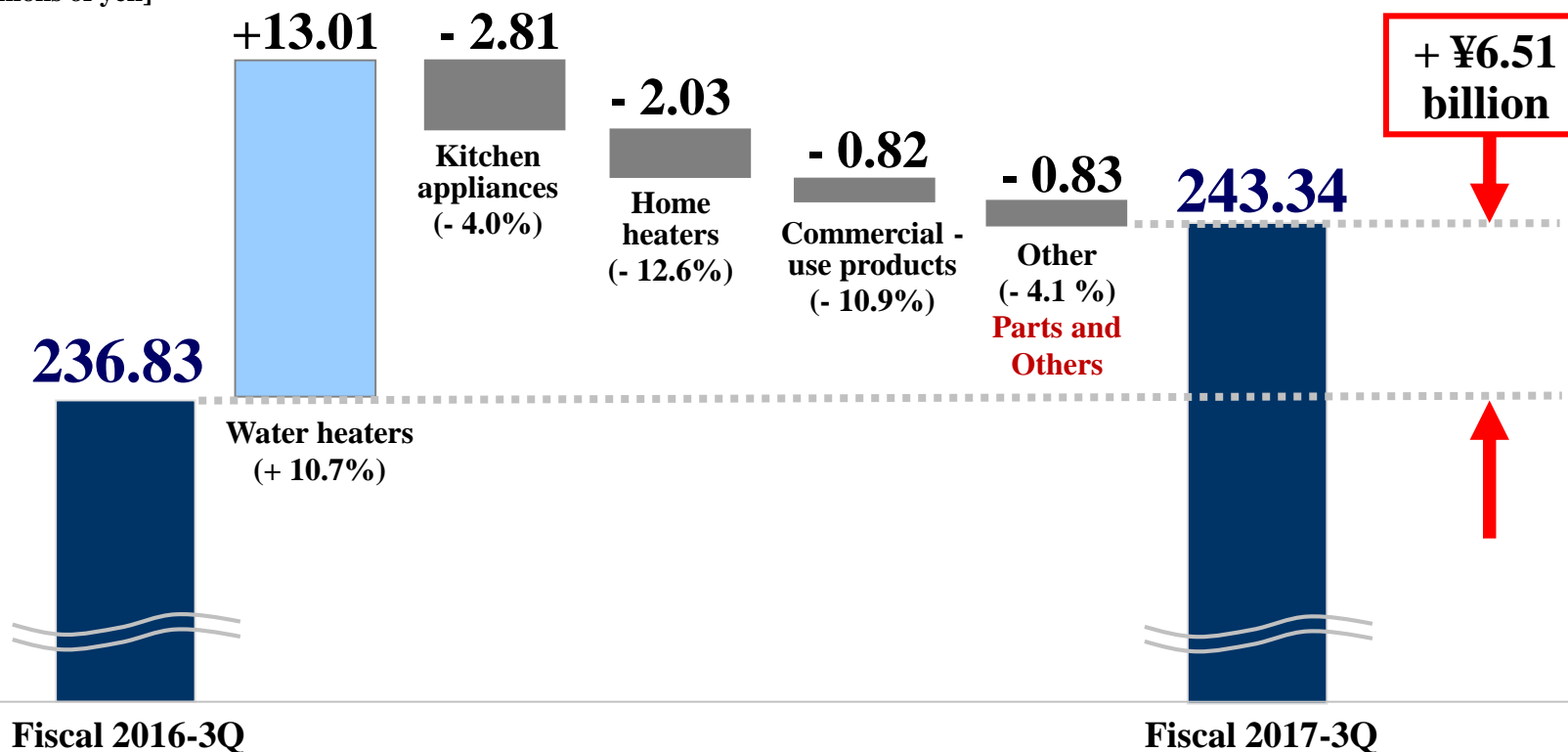
[Billions of yen]



- Net sales up year on year for seventh consecutive period; record high for three-quarter period
- Operating margin remained high at over 10%

Fiscal 2017 (3Q): Consolidated Net Sales by Products 4

[Billions of yen]



- **Water heaters:** Major increase in sales, with healthy sales maintained in Japan and overseas
- **Kitchen appliances:** Sales down due to lower domestic sales of tabletop cookers and foreign exchange factors, despite healthy overseas sales
- **Home heaters:** Sluggish in Japan; lower overseas sales due to foreign exchange factors

Fiscal 2017 (3Q): Consolidated Sales/Income Results 5

[Billions of yen]

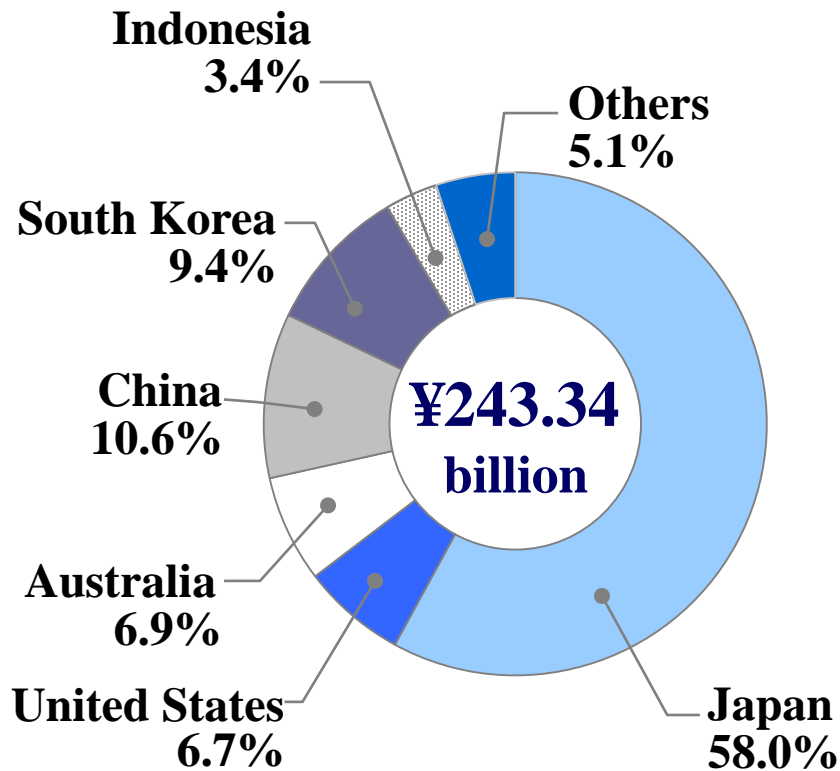
	Net Sales	YOY Change	Operating Income	YOY Change	Operating Margin	YOY Change
Consolidated	243.34	+ 2.8%	26.04	- 2.3%	10.7%	- 0.5P



	Net Sales	YOY Change	Operating Income	YOY Change	Operating Margin	YOY Change
Rinnai	148.21	- 0.3%	13.86	- 11.6%	9.4%	- 1.2P
Domestic	92.02	+ 25.3%	3.06	+ 36.1%	3.3%	+ 0.3P
Overseas	108.87	- 0.6%	9.37	+ 9.6%	8.6%	+ 0.8P
Total	349.11	+ 5.3%	26.31	- 0.7%	7.5%	- 0.5P

Consolidated Net Sales by Geographical Segment

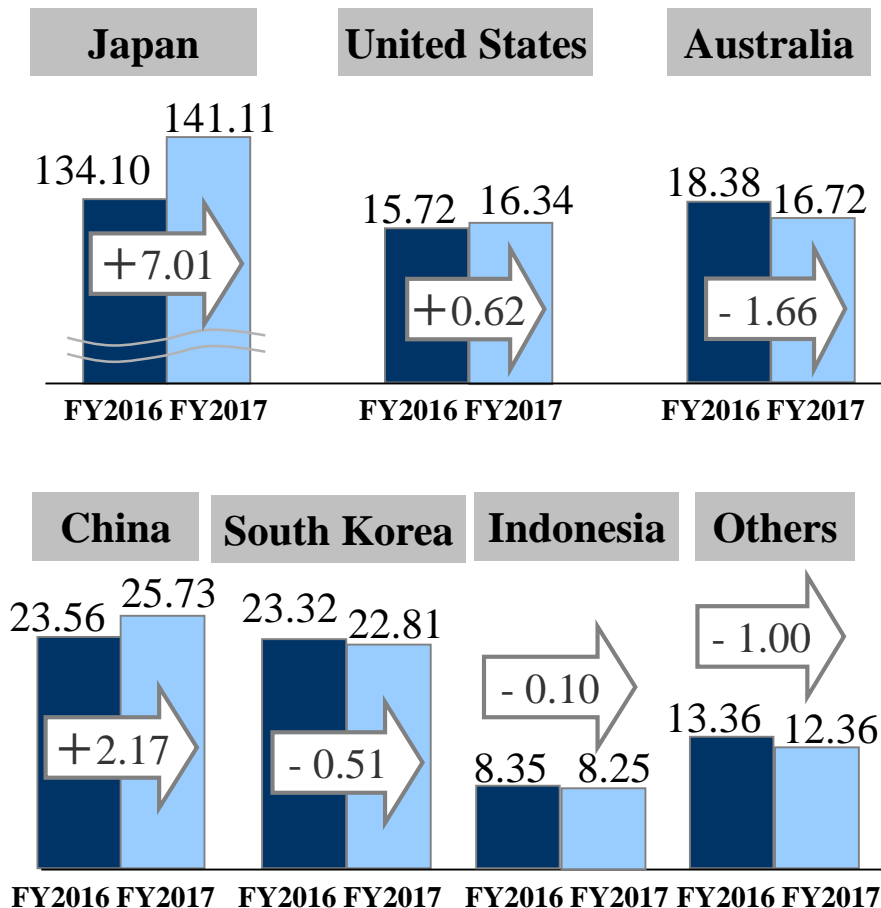
Fiscal 2017-3Q Consolidated Net Sales



Composition of Others:
Local group companies in Taiwan, Thailand,
Vietnam, New Zealand, Brazil and etc.

YOY Change by Geographical Segment

[Billions of yen]



Sales by Business Segment (Water Heaters)

[Billions of yen]

	Fiscal 2016 3Q	Fiscal 2017 3Q	YOY Change
Japan	63.44	74.28	+ 17.1%
United States	14.03	14.92	+ 6.4%
Australia	7.65	6.65	- 13.1%
China	20.26	22.17	+ 9.4%
South Korea	10.00	10.73	+ 7.4%
Others	6.63	6.26	- 5.5%
Total	122.03	135.05	+ 10.7%

Composition ratio : 55.5%



Japan



United States



China

- **Japan:** Growth in single-function models, especially for rental properties, due to increased housing starts
- **Sales in United States** buoyed by healthy economy and environmental measures; healthy sales in China due to rising living standards
- **Australia:** Sales of tankless systems down, but demand for storage-type water heaters steady

Sales by Business Segment (Kitchen Appliances)

Composition ratio : 27.9%

[Billions of yen]	Fiscal 2016 3Q	Fiscal 2017 3Q	YOY Change
Japan	48.98	47.91	- 2.2%
China	2.84	2.92	+ 3.0%
South Korea	7.16	5.79	- 19.1%
Indonesia	7.63	7.50	- 1.7%
Others	4.00	3.67	- 8.3%
Total	70.62	67.81	- 4.0%



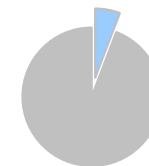
- **Japan:** Healthy sales of dishwasher/dryers (replacement demand) and range hoods, but lower overall revenue due to reduced sales of tabletop cookers
- **South Korea:** Lower revenue due to sluggish sales of tabletop cookers, intensified price competition, and foreign exchange factors
- **Indonesia:** Recovery in sales of tabletop cookers, but sales down due to foreign exchange factors

Sales by Business Segment (Home Heaters)

[Billions of yen]

	Fiscal 2016 3Q	Fiscal 2017 3Q	YOY Change
Japan	6.37	5.11	- 19.8%
United States	1.39	1.11	- 19.7%
Australia	7.66	7.27	- 5.2%
South Korea	0.05	0.02	- 52.8%
Others	0.65	0.58	- 10.4%
Total	16.16	14.12	- 12.6%

Composition ratio : 5.8%



Japan

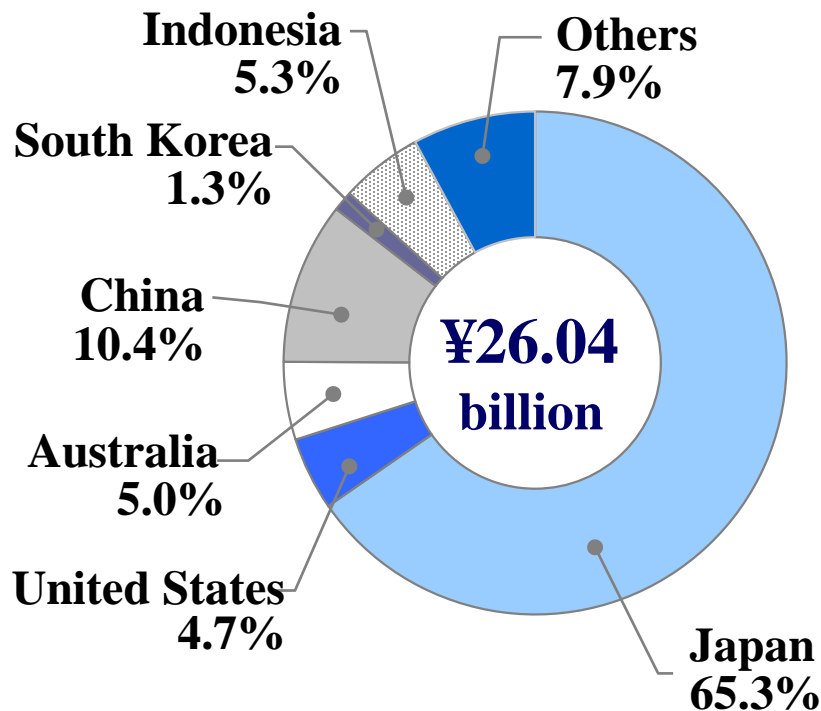


Australia

- **Australia:** Impacted by warm winter and foreign exchange factors, despite healthy sales of ducted air-conditioning systems
- **Japan:** Decline in unit sales of mainstay fan heaters

Consolidated Operating Income by Geographical Segment 10

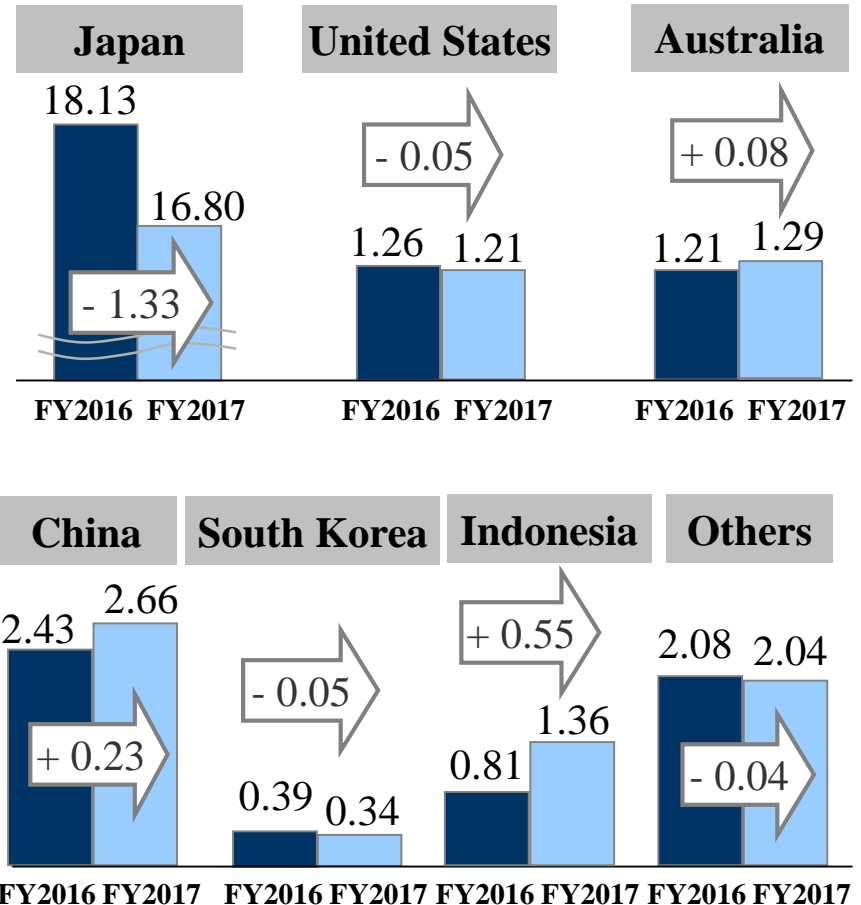
Fiscal 2017-3Q Consolidated Operating Income



Composition of Others:
Local group companies in Taiwan, Thailand,
Vietnam, New Zealand, Brazil and etc.

YOY Change by Geographical Segment

[Billions of yen]

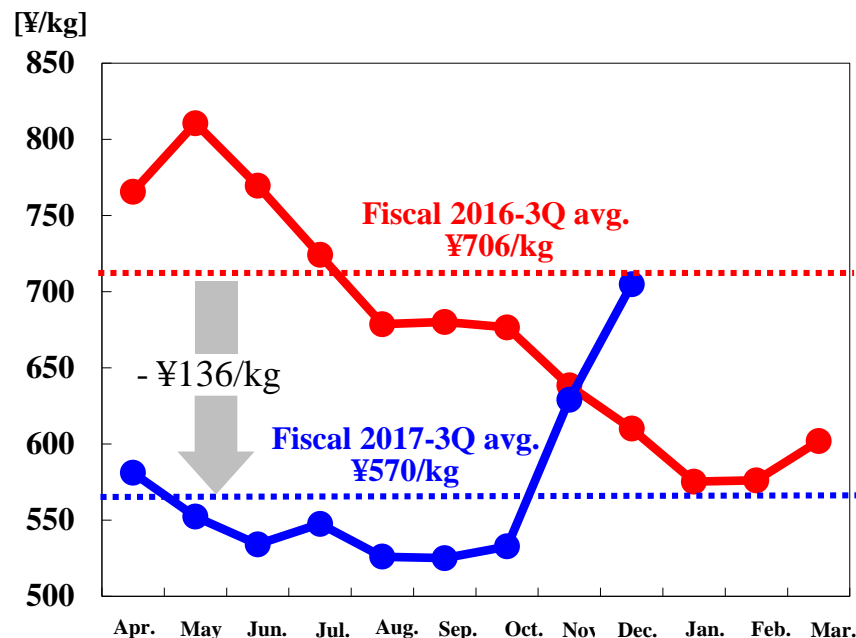


Electrolytic Copper

Electrolytic copper prices on uptrend, remaining below previous-year levels
(Initial forecast: ¥650/kg)

[¥/kg]	Fiscal 2016 3Q avg.	Fiscal 2017 3Q avg.	YOY change
Avg. price	706	570	- 19.2%

Used in: Water heaters (Heat exchangers, etc.)

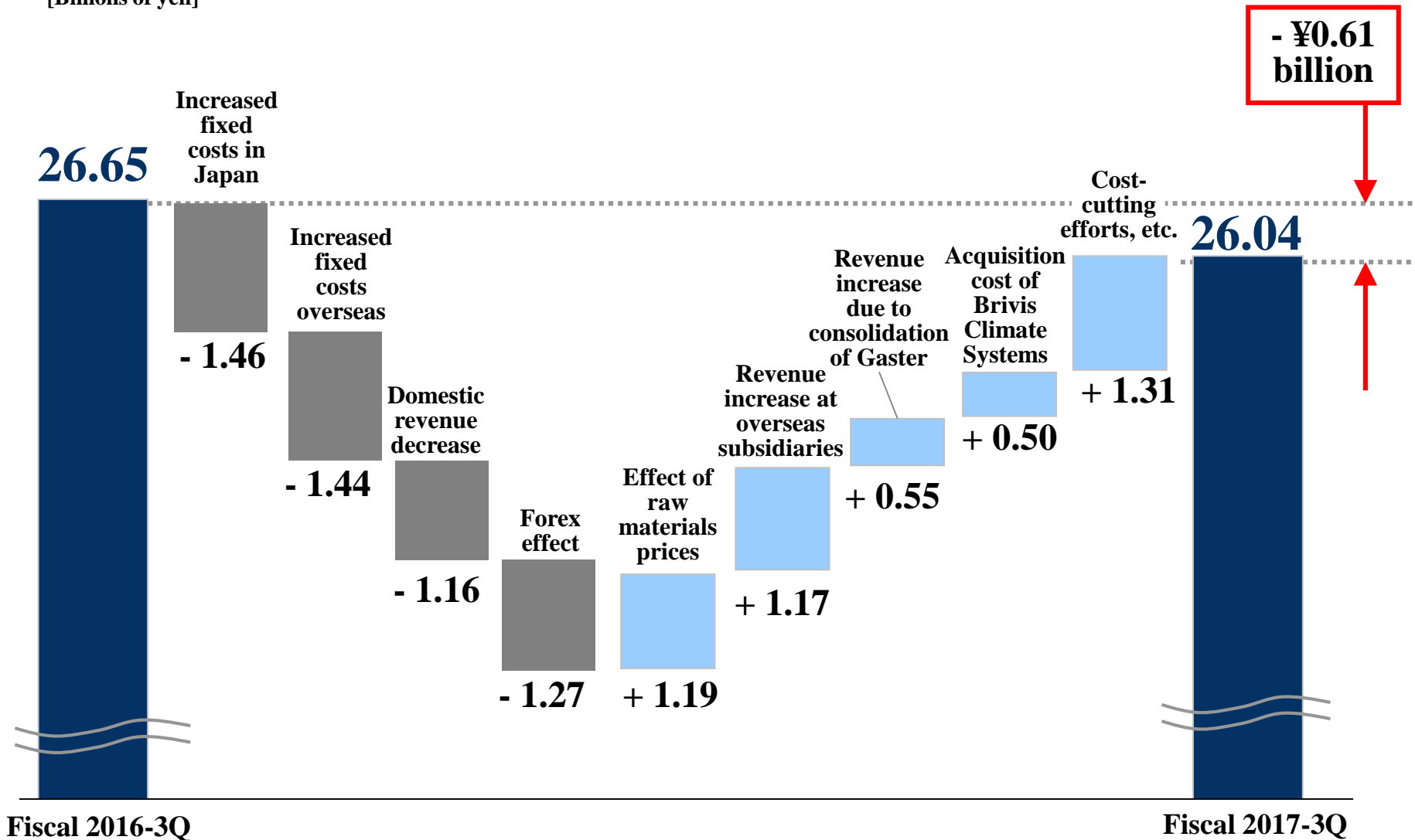


Steel

Steel prices at below previous-year level

Fiscal 2017 (3Q): Consolidated Operating Income

[Billions of yen]



- ¥0.61 billion

Fiscal 2016-3Q

Fiscal 2017-3Q

Revision of Consolidated Performance Forecasts for Fiscal 2017 ¹³

(April 1, 2016–March 31, 2017)

	Net Sales	Operating Income	Ordinary Income	Net income attributable to owners of the parent company
[Billions of yen]				
Previous forecast (A)	337.0	37.0	38.0	23.5
Revised forecast (B)	328.0	33.0	34.6	21.3
Difference (B – A)	- 9.0	- 4.0	- 3.4	- 2.2
Change (%)	- 2.7%	- 10.8%	- 8.9%	- 9.4%
Actual results: year ended March 31, 2016	319.9	34.5	35.8	22.7
(For references) YOY change (%)	+ 2.5%	- 4.6%	- 3.4%	- 6.2%

Full-year performance forecasts revised downward due to foreign exchange factors, increased ratio of low-priced products in Japan, and depressed unit sales of kitchen appliances and home heaters

Hybrid Water Heater with Heating Systems: **ECO ONE** 14



ECO ONE (Type E)

Retail price:

¥ 650,000 - 910,000

Launched: May 2016

ECO ONE

Residential-use hybrid water heater with heating system that combines electric heat pump (which uses atmospheric heat) with high-efficiency gas water heater

Features

- Industry-leading primary energy consumption reduction rate for hot water supply
- Floor heating saves energy
- Smartphone connectivity
- Solar power generation mode
- Compatible with self-sustained power generated by domestic storage batteries



Fiscal 2016 Energy Conservation Grand Prize

Received Energy Conservation Center Chairman's Prize

(Host: The Energy Conservation Center, Japan)

Second award following the “Minister for Economy, Trade and Industry Award” (Energy Conservation Grand Prize) in fiscal 2013

(* Received for second-generation *ECO ONE*; fiscal 2016 award received for third-generation model)



**GOOD DESIGN
AWARD 2016**



300 Series (water heater remote controls)
(MBC-300/301/302/320)

**300 Series (water heater remote controls) for use with
ECO ONE hybrid water heater with heating system**

Received Good Design Award 2016

(Host: Japan Institute of Design Promotion)



**Connectivity with wireless LANs and smartphones
Fill or reheat bath from another room**

(* Wireless LAN connectivity available only with MBC-301VC and MBC-302VC models)

【Market background】

The market has been expanding since the 1990s, so replacement demand period is approaching. We have five new models with new functions matched to the various requirements of seasoned users.



Front-opening type

The front door opens outwards. Large capacity is a major feature.



Slide-out drawer type

Drawer slides out. No need to bend down when placing items in the unit, which is a good feature.

Launch of Five Models

Front-opening type

(1) Large capacity that can also handle cookware

Slide-out drawer type

(2) Wide 60cm model

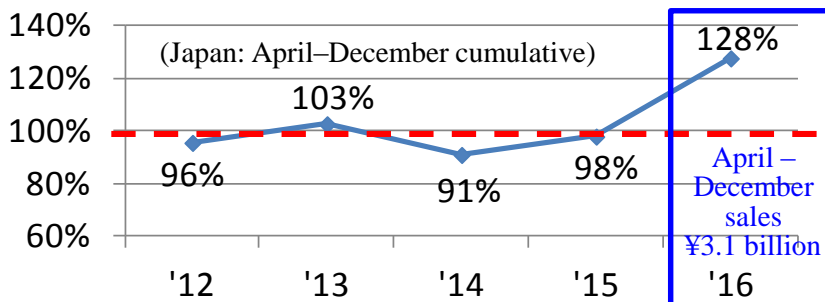
(3) High-grade model with silver ion coating

(4) Slim-design model

(5) 60cm-deep kitchen-compatible model

Rinnai-brand dishwasher/dryers:

(YOY) Year-on-year sales comparison



Most recent scenario

High pace of sales (unseen in recent years) resulting in increased contribution to business performance

Japan

はやい
乾太くん *Hayai Kanta-kun*



RDT-52S

Reduced housework time

Drying time around one-third vs electric models

Clean drying

No indoor-drying odors, yet retains same antibacterial benefits as outdoor drying

Commercial-use Gas Clothes Dryers



RDT-53S

For beauty salons and nursing care facilities

Developed with high durability for facilities with high-frequency washing and drying

Overseas

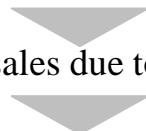


RD-61S (South Korea)

Selling in China, Hong Kong, Italy, etc.; sales rising rapidly especially in South Korea

Example of South Korea

Growing concern about health and environmental issues related to hanging washing outside



Sharp increase in clothes-dryer sales due to rising need to hang washing indoors

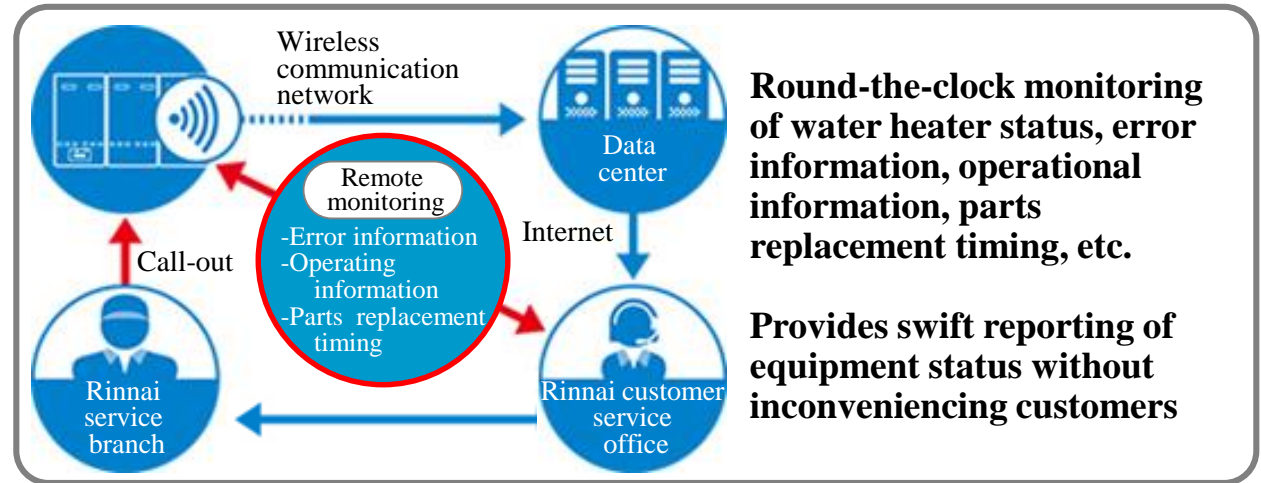
Choosing gas models after considering impact of electricity costs

Commercial-use water heaters; 24-hour monitoring system



Remote monitoring unit

Commercial-use water heaters



Cooking gas stoves: Smartphone recipe transfer



Built-in hobs
DELICIA

Sends recipe from smartphone to stove for automatic cooking; flame adjusted automatically



Uses dedicated smartphone app for recipe searches and point-form cooking advice

Water heater remote control: Remote operation



Dedicated app:
Remote control of water heaters from anywhere in Rinnai Family

Fill or reheat bath from another room



Japan (investments to expedite advancement of business model)

Manufacturing

Build streamlined production framework for system-based products, centered on *ECO ONE*



Akatsuki Factory



ECO-ONE



Bathroom heater/dryer

- Construct new wing of Akatsuki Factory
- Expand Oguchi Factory area for reconstruction
- Renewal of welfare wing of Seto Factory
- Construct offices and welfare wings at affiliated companies

Product development

- Invest in new product development (*ECO ONE*, water heaters in US market, Clothes dryers, Dish washer, etc.)
- Strengthen production technology development system (Develop molds, equipment)

Sales/marketing

- Strengthen functions of sales bases (Chubu Branch, Minami-Kanto sales office, etc.)
- Strengthen service system
- Build distribution center



Chubu Branch

Overseas (strategic investments in new growth drivers)

- Reinforce/expand production bases in line with demand growth (construct factories and expand land sites in China, South Korea, Australia, etc.)
- Expand market and strengthen sales bases in newly tapped markets (Dubai, United States, China, etc.)
- Improve production capacity; step up in-house manufacturing and facility streamlining (capital expenditures in Indonesia, China, South Korea, etc.)

Rinnai

EXPERIENCE OUR INNOVATION

Performance forecasts and other future-oriented predictions contained in these materials are based on the Company's judgments using available information. Actual results may differ from such forecasts and predictions due to changing future circumstances.