

Consolidated Financial Results

First Three Quarters of the Fiscal Year Ending March 2015

(April 1–December 31, 2014)

February 6, 2015

Listed Company Name: Rinnai Corporation

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

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Representative: Hiroyasu Naito, President

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Scheduled date for release of quarterly securities report: February 12, 2015

Anticipated date to begin distributing dividends: —

Supplemental information sheets of quarterly results: None

Information meeting of quarterly results: None

I. Performance in the First Three Quarters of the Fiscal Year Ending March 31, 2015

(April 1–December 31, 2014; amounts less than one million yen are omitted)

(1) Consolidated Operating Results

(¥ millions; %)

	Net Sales	Operating Income	Ordinary Income	Net Income
Three Quarters to Dec. 2014	¥218,268 [+4.4%]	¥23,737 [-2.7%]	¥25,810 [-3.7%]	¥15,984 [-5.9%]
Three Quarters to Dec. 2013	208,991 [+11.3%]	24,406 [+20.2%]	26,807 [+20.8%]	16,995 [+11.8%]

(Reference)

Comprehensive Income: First three quarters of the year ending March 31, 2015; ¥20,369 million (– 5.8%)

First three quarters of the year ended March 31, 2014; ¥21,632 million (+ 33.2%)

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

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Three Quarters to Dec. 2014	¥307.36	—
Three Quarters to Dec. 2013	334.03	—

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
December 31, 2014	¥336,966	¥246,559	69.3%
March 31, 2014	334,382	232,635	66.0

(Reference) Equity capital: Three quarters of the year ending March 31, 2015; ¥233,367 million

Year ended March 31, 2014; ¥220,788 million

II. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2014	—	¥32.00	—	¥36.00	¥68.00
March 2015	—	38.00	—		
March 2015 (anticipated)				38.00	76.00

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

III. Forecast for the Fiscal Year Ending March 31, 2015 (Consolidated)

(April 1, 2014, to March 31, 2015)

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
Full year	¥295,000 [+2.8%]	¥30,500 [-10.3%]	¥33,000 [-10.6%]	¥20,200 [-13.1%]	¥388.43

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

Note: Changes in performance forecasts since most recent announcement: Yes

For details about changes in performance forecasts, please refer to news release of February 6, 2015, entitled "Announcement of Revised Performance Forecasts."

* Notes

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

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

(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 6 of this report.

(4) Number of Outstanding Shares (Common Stock)

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

December 31, 2014: 52,216,463 shares

March 31, 2014: 52,216,463 shares

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

December 31, 2014: 212,206 shares

March 31, 2014: 210,931 shares

(c) Average number of shares during the term

First three quarters of the fiscal year ending March 2015: 52,004,918 shares

First three quarters of the fiscal year ended March 2014: 50,878,823 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 "1. Consolidated Performance, (3) Consolidated Performance Forecasts" on page 5 of this report.

1. Consolidated Performance

(1) Operating Results

In the three-quarter period under review (April 1–December 31, 2014), the world economy was mixed. Despite healthy economic recovery in the United States, clouds of uncertainty appeared in the European economy, while economic growth among Asian nations, centered on China, continued to slow. Meanwhile, the Japanese economy was affected by the prolonged recoil in demand after a surge ahead of the consumption tax hike. Accordingly, an optimistic outlook remained out of reach.

In the domestic housing appliance industry, new housing starts stayed at low levels, although home renovations and replacement demand for housing appliances firmed.

Under these conditions, the Rinnai Group entered the final year of its medium-term business plan, entitled Jump Up 2014, covering the three-year period from April 2012 to March 2015. Under the plan, we upgraded our product lineup and advanced global business initiatives as a comprehensive manufacturer of heating appliances that contributes to people's lives and the global environment.

With respect to revenue, sales in Japan declined year on year as the recoil in demand following the consumption tax hike had a negative economic impact. Overseas, however, we posted an overall increase in sales, owing mainly to healthy sales of water heaters in China, as well as the inclusion of P.T. Rinnai Indonesia in the scope of consolidation. However, lower demand in Japan led to a decline in earnings, despite favorable foreign exchange factors and the effects of higher sales overseas.

As a result, consolidated net sales for the period amounted to ¥218,268 million, up 4.4% from the previous corresponding period. Operating income declined 2.7%, to ¥23,737 million, and ordinary income decreased 3.7%, to ¥25,810 million. Net income for the period was down 5.9%, to ¥15,984 million.

Our results by geographical segment were as follows:

Japan

In Japan, we reported a year-on-year increase in sales of our *ECO ONE* hybrid water heater with heating system, which boasts an exceptional environmental performance. Due to the aforementioned recoil in demand following the consumption tax hike, however, sales of mainstay products—bathwater heaters and water heaters with heating systems—were weak. Moreover, our kitchen appliances were affected by declines in sales of tabletop cookers and built-in hobs. As a result, sales in Japan amounted to ¥132,819 million, down 6.9% from the previous corresponding period. Operating income declined 11.5%, to ¥17,117 million.

South Korea

In South Korea, we enjoyed healthy sales of high-efficiency boilers, a mainstay product category. Among kitchen appliances, we benefited from an increase in sales of stoves thanks to enactment of a law mandating attachment of devices to prevent overheating. Accordingly, sales in South Korea rose 18.9%, to ¥22,045 million, and operating income was ¥554 million, from ¥36 million in the previous corresponding period.

United States

In the United States, the market for housing appliances was steady in the wake of economic recovery. During the period, we upgraded our lineup of tankless water heaters,

making them more efficient and easier to install, which boosted sales of such offerings. Consequently, sales in the United States rose 11.4%, to ¥12,298 million. However, operating income decreased 1.7%, to ¥553 million, due to increased promotional expenditures as we stepped up efforts targeting proliferation of tankless water heaters.

Australia

In Australia, where the economy is gradually recovering, we posted an increase in unit sales of tankless water heaters. Overall sales were weak, however, due to a decline in sales of fan-forced space heaters stemming from growing market share occupied by low-priced items, as well as a record-breaking warm winter. Overall sales in Australia declined 1.7%, to ¥12,027 million, and operating income fell 33.0%, to ¥1,390 million.

China

In China, we enjoyed an increase in sales, especially of water heaters. This was thanks to improving living standards and expanding gas infrastructure in regional Chinese cities, as well as a broadening network of stores nationwide handling our products. As a result, sales in China climbed 37.3%, to ¥18,087 million, and operating income jumped 40.3%, to ¥1,546 million.

Indonesia

At the end of the previous fiscal year, P.T. Rinnai Indonesia became a consolidated subsidiary. Therefore, “Indonesia” has been added as a geographical segment for consolidated reporting purposes.

The popularity of gas tabletop cookers has been growing in Indonesia, reflecting government measures aimed at proliferation of LP gas usage. In the period under review, sales in Indonesia totaled ¥8,603 million, and operating income was ¥1,030 million.

(For references 1)

Sales Composition by Business Segment

(¥ millions; %)

	Three Quarters to Dec. 31, 2013		Three Quarters to Dec. 31, 2014		Change		Year to March 31, 2014	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥ 103,673	49.6%	¥ 109,730	50.3%	¥6,057	5.8%	¥146,883	51.2%
Kitchen appliances	64,379	30.8	69,421	31.8	5,042	7.8	88,031	30.7
Home heaters	14,708	7.0	12,910	5.9	(1,798)	-12.2	16,716	5.8
Commercial-use equipment	5,597	2.7	6,740	3.1	1,142	20.4	7,552	2.6
Others	20,631	9.9	19,465	8.9	(1,165)	-5.6	27,797	9.7
Total	¥208,991	100.0%	¥218,268	100.0%	¥9,277	4.4%	¥286,981	100.0%

(For references 2)
Overseas Sales

(¥ millions; %)

	Three Quarters to Dec. 31, 2013			Three Quarters to Dec. 31, 2014		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥42,678	¥30,205	¥72,884	¥59,611	¥31,949	¥91,560
II. Consolidated net sales	—	—	208,991	—	—	218,268
III. Composition ratio of overseas sales to consolidated net sales	20.4%	14.5%	34.9%	27.3%	14.6%	41.9%

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

(2) Financial Position

As of December 31, 2014, Rinnai had total assets of ¥336,966 million, up ¥2,583 million from March 31, 2014. Total liabilities declined ¥11,340 million, to ¥90,406 million. Net assets rose ¥13,924 million, to ¥246,559 million. The equity ratio at the end of the period was 69.3%.

(3) Consolidated Performance Forecasts

The recoil in domestic demand, following a surge ahead of the consumption tax hike, has lasted beyond expectations. For this reason, and in light of its recent financial results, Rinnai has revised downwards its consolidated performance forecasts for the fiscal year ending March 31, 2015 (previous forecasts announced on May 9, 2014).

**Revision of Consolidated Results Forecast for the Fiscal Year Ending March 31, 2015
(April 1, 2014 to March 31, 2015)**

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (Yen)
Previous forecast (A)	313,000	36,500	37,800	23,800	457.64
Revised forecast (B)	295,000	30,500	33,000	20,200	388.43
Difference (B – A)	(18,000)	(6,000)	(4,800)	(3,600)	—
Change (%)	- 5.8	-16.4	-12.7	-15.1	—
(For references) Year ended March 31, 2014 (actual)	286,981	34,018	36,910	23,254	454.74

2. Summary (Other) Information

(1) Changes in Major Subsidiaries during Period

Not applicable.

(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 Retirement Benefits

With respect to “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012), the Company has applied provisions stated in Clause 35 of the Retirement Benefits Accounting Standard and Clause 67 of the Guidance on Retirement Benefits, effective the first-quarter period under review. Accordingly, the Company has reassessed the method for calculating retirement benefit obligations and current service costs, and changed the period reversion method for retirement benefit estimates from a straight-line basis to a benefit calculation basis. The method of determining the discount rate has also been changed, from a rate based on remaining average service period to a single weighted average discount rate.

The Accounting Standard for Retirement Benefits is being applied transitionally as determined in its Clause 37. At beginning of the three-quarter period under review, the effect of the change in accounting standard has been reflected as an increase or decrease in earned surplus.

This change caused the liability related to retirement benefits (Net defined benefit liabilities) to increase by ¥704 million, assets related to retirement benefits (Net defined benefit assets) to decrease by ¥2,341 million, and earned surplus to decrease by ¥1,969 million. The effect of the change on income/losses for the period was minimal.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2014 (Fiscal 2014)	At December 31, 2014 (Three Quarters of Fiscal 2015)
ASSETS:		
Current assets		
Cash and deposits	¥ 57,540	¥ 54,429
Notes and accounts receivable	68,102	70,903
Marketable securities	53,491	32,453
Products	17,397	22,673
Raw materials and stores	11,696	12,566
Other	6,016	5,352
Less allowance for doubtful accounts	(725)	(648)
Total current assets	213,520	197,731
Fixed assets		
Property, plant and equipment	51,186	54,849
Intangible fixed assets	4,312	4,159
Investments and advances		
Investments in securities	44,554	60,016
Other	21,424	20,838
Less allowance for doubtful accounts	(616)	(630)
Total investments and advances	65,362	80,225
Total fixed assets	120,861	139,234
Total assets	¥334,382	¥336,966

(¥ millions)

	At March 31, 2014 (Fiscal 2014)	At December 31, 2014 (Three Quarters of Fiscal 2015)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 52,142	¥ 48,099
Short-term debt	5,950	2,516
Accrued income taxes	7,701	3,028
Accrued employee's bonuses	3,127	1,663
Other allowances	2,831	2,836
Other	16,742	17,738
Total current liabilities	88,495	75,882
Long-term liabilities		
Reserves	41	46
Net defined benefit liabilities	5,067	5,922
Other	8,142	8,555
Total long-term liabilities	13,251	14,524
Total liabilities	101,747	90,406
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	194,036	204,202
Treasury stock	(965)	(977)
Total shareholders' equity	208,249	218,404
Other comprehensive income:		
Unrealized gain on marketable securities	3,048	4,603
Foreign exchange translation adjustment	5,561	6,832
Remeasurements of defined benefit plans	3,929	3,526
Total other comprehensive income	12,538	14,963
Minority interests	11,846	13,191
Total net assets	232,635	246,559
Total liabilities and net assets	¥334,382	¥336,966

(2) Consolidated Statements of Income

(¥ millions)

	Three Quarters of Fiscal 2014 (From April 1 to December 31, 2013)	Three Quarters of Fiscal 2015 (From April 1 to December 31, 2014)
Net sales	¥208,991	¥218,268
Cost of sales	143,681	150,319
Gross profit	65,309	67,949
Selling, general and administrative expenses	40,903	44,212
Operating income	24,406	23,737
Other income:		
Interest income	705	953
Equity in earnings of affiliates	553	—
Foreign exchange income	634	513
Other	863	960
Total other income	2,757	2,427
Other expenses:		
Interest expenses	141	103
Loss on retirement of fixed assets	151	168
Other	62	82
Total other expenses	356	354
Ordinary income	26,807	25,810
Income before income taxes	26,807	25,810
Income taxes (current)	7,589	6,568
Income taxes (deferred)	1,474	1,730
Total income taxes	9,063	8,298
Income before minority interest	17,743	17,511
Minority interests	748	1,527
Net income	¥ 16,995	¥ 15,984

Consolidated Statements of Comprehensive Income

(¥ millions)

	Three Quarters of Fiscal 2014 (From April 1 to December 31, 2013)	Three Quarters of Fiscal 2015 (From April 1 to December 31, 2014)
Income before minority interest	¥17,743	¥17,511
Other comprehensive income		
Unrealized gain on marketable securities	817	1,556
Foreign exchange translation adjustment	3,334	1,704
Remeasurements of defined benefit plans	—	(402)
Equity equivalents in equity method affiliates	(262)	—
Total other comprehensive income	3,889	2,858
Comprehensive income	21,632	20,369
(Composition)		
Comprehensive income related to shareholders of parent company	20,142	18,409
Comprehensive income related to minority shareholders	1,490	1,960

(3) Noted to Quarterly Consolidated Financial Statements
Assumptions for Going Concern

Not applicable.

Note on Major Changes in Shareholders' Equity

Not applicable.

Segment Information

First Three Quarters of the Fiscal Year Ended March 31, 2014
(From April 1 to December 31, 2013)

(¥ 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	¥142,733	¥18,541	¥11,038	¥12,229	¥13,174	¥ —	¥197,718	¥11,273	¥ —	¥208,991
Intersegment	14,927	366	—	29	1,273	—	16,597	2,010	(18,607)	—
Total	157,661	18,908	11,038	12,259	14,448	—	214,315	13,283	(18,607)	208,991
Income (loss)	19,331	36	563	2,076	1,101	—	23,109	1,323	(27)	24,406

- 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.

First Three Quarters of the Fiscal Year Ending March 31, 2015
(From April 1 to December 31, 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	¥132,819	¥22,045	¥12,298	¥12,027	¥18,087	¥8,603	¥205,881	¥12,386	¥ —	¥218,268
Intersegment	17,332	467	—	29	1,530	406	19,766	1,997	(21,764)	—
Total	150,151	22,512	12,298	12,057	19,617	9,009	225,648	14,384	(21,764)	218,268
Income (loss)	17,117	554	553	1,390	1,546	1,030	22,192	1,762	(218)	23,737

- 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-2. Change in Reportable Segments

At the end of the previous fiscal year, Rinnai Corporation purchased additional shares in P.T. Rinnai Indonesia, which consequently became included in consolidation. From the first quarter of the year ending March 31, 2015, therefore, "Indonesia" has been added as a geographical segment for consolidated reporting purposes.

Significant Subsequent Event

Corporate combination due to acquisition

At its meeting held on December 11, 2014, the Board of Directors decided that Rinnai Corporation, through consolidated subsidiary Rinnai Australia Pty Ltd, would acquire shares in Brivis Climate Systems Pty Ltd (Brivis) and make that company into a subsidiary. A share transfer agreement was concluded on December 15, 2014, and the shares were acquired on February 2, 2015 according to that agreement.

1. Outline of Acquisition

(1) Name and business of acquisition target

Name: Brivis Climate Systems Pty Ltd

Main business: Manufacture and sale of heating and cooling systems

(2) Reason for acquisition

Through Rinnai Australia Pty Ltd, Rinnai is one of the top makers of heating equipment in the Australia market, where it has sold space heaters since the 1970s and tankless water heaters since the 1990s. By acquiring Brivis, which is strong in air-conditioning equipment, Rinnai aims to add air-conditioning equipment to its lineup and further reinforce its business in the Oceania market as part of its overseas strategy.

(3) Acquisition date

February 2, 2015

(4) Acquisition method

Purchase of shares

(5) Name of acquisition target after acquisition

Brivis Climate Systems Pty Ltd

(6) Share of voting rights acquired

100%

(7) Main factor in decision on acquisition target

Cash as compensation for purchase of shares

2. Acquisition price and related details

Acquisition price (estimated): A\$49 million

In accordance with the acquisition agreement, Rinnai is currently examining the acquisition price, which may fluctuate in the future.

3. Amount/source of goodwill incurred; method/period of depreciation

To be confirmed.