

Consolidated Financial Results

First Three Quarters of the Fiscal Year Ending March 2016

(April 1–December 31, 2015)

February 5, 2016

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

Contact: Masao Kosugi, Director and Managing Executive Officer, General Manager of Administration
Headquarters

TEL: +81 (52) 361-8211

Scheduled date for release of quarterly securities report: February 12, 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 Three Quarters of the Fiscal Year Ending March 31, 2016

(April 1–December 31, 2015; amounts less than one million yen are omitted)

(1) Consolidated Operating Results

(¥ millions; %)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net income attributable to owners of the parent company (% change)
Three Quarters to Dec. 2015	¥236,834 [+8.5%]	¥26,652 [+12.3%]	¥28,100 [+8.9%]	¥17,572 [+9.9%]
Three Quarters to Dec. 2014 (Reference)	218,268 [+4.4%]	23,737 [-2.7%]	25,810 [-3.7%]	15,984 [-5.9%]

Comprehensive Income: First three quarters of the year ending March 31, 2016; ¥10,185 million (– 50.0%)

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

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Three Quarters to Dec. 2015	¥337.91	—
Three Quarters to Dec. 2014	307.36	—

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

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
December 31, 2015	¥362,215	¥267,086	69.6%
March 31, 2015	357,506	261,414	69.0

(Reference) Equity capital: Three quarters of the year ending March 31, 2016; ¥252,004 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
March 2016	—	40.00	—		
March 2016 (anticipated)				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 attributable to owners of the parent company	Net Income per Share (¥)
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: Changes in performance forecasts since most recent announcement: No

* 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)

December 31, 2015: 52,216,463 shares

March 31, 2015: 52,216,463 shares

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

December 31, 2015: 213,679 shares

March 31, 2015: 212,472 shares

(c) Average number of shares during the term

First three quarters of the fiscal year ending March 2016: 52,003,520 shares

First three quarters of the fiscal year ended March 2015: 52,004,918 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.

* Supplemental information sheets of financial results are posted on the Corporation's website on Friday, February 5, 2016.

1. Consolidated Performance

(1) Operating Results

In the three-quarter period under review (April 1–December 31, 2015), economic slowdown in China, falling crude oil prices, and other factors caused concerns about global economic recession to emerge. This was despite moderate economic recovery in the United States and Europe. Meanwhile, although personal consumption firmed, the outlook for the Japanese economy remained unclear as corporations adopted a cautious approach to capital investments.

The domestic housing appliance industry benefited from a recovery trend in consumer sentiment as the impact of the consumption tax hike dissipated. New housing starts and the home renovation market were also healthy, thanks to market stimulation measures, including the establishment of an energy-saving points system for houses and expansion of the tax-exempt scope for residential purchases.

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.

With respect to revenue, we reported a year-on-year increase in net sales thanks to solid sales of water heaters in Japan, United States, and China, as well as good progress in expanding our business in Australia and favorable foreign exchange factors. On the earnings side, we posted increased profit due to higher overseas sales, as well as improved added value stemming from cost reduction efforts.

As a result, consolidated net sales for the period amounted to ¥236,834 million, up 8.5% from the previous corresponding period. Operating income grew 12.3%, to ¥26,652 million, and ordinary income climbed 8.9%, to ¥28,100 million. Net income attributable to owners of the parent company rose 9.9%, to ¥17,572 million.

Our results by geographical segment were as follows:

Japan

In Japan, our water heaters benefited from an increase in the sales ratio for water heaters with heating systems and ECO ONE hybrid water heaters with heating systems. In kitchen appliances, new built-in hobs (stovetops) with upgraded grilling functions performed well. As a result, sales in Japan amounted to ¥134,106 million, up 1.0% from the previous corresponding period. Operating income rose 6.0%, to ¥18,136 million.

South Korea

In South Korea, we enjoyed healthy sales of high-efficiency boilers in the water heater category. However, our kitchen appliances faced challenges due to intensified competition stemming from falling demand for cookers. Thanks for favorable foreign exchange factors, however, sales in South Korea rose 5.8% year on year, to ¥23,323 million. However, operating income fell 28.7%, to ¥394 million, due to reductions in market prices of cookers.

United States

In the United States, demand for tankless water heaters, which offer superior convenience, were healthy as the market for housing appliances expanded in the wake of economic recovery. We also benefited from a rise in unit prices, stemming from an increase in the sales ratio for high-

efficiency models, together with favorable foreign exchange factors. As a result, sales in the United States increased 27.9%, to ¥15,729 million, and operating income jumped 129.2%, to ¥1,269 million.

Australia

Buoyed by a healthy housing market, in Australia we enjoyed solid sales of mainstay tankless water heaters, as well as business growth for solar systems and commercial water heaters. During the period, Brivis Climate Systems Pty Ltd became a consolidated subsidiary. As a result, sales in Australia jumped 52.9%, to ¥18,386 million. Due to depreciation of goodwill associated with the acquisition of Brivis Climate Systems, however, operating income declined 12.9%, to ¥1,211 million.

China

Despite continued local economic slowdown in China, we benefited from expansion of gas infrastructure, a broader sales network, and rising living standards in interior cities. The result was growth in sales of gas appliances, especially water heaters. Consequently, sales in China increased 30.3%, to ¥23,569 million, and operating income jumped 57.5%, to ¥2,434 million.

Indonesia

In Indonesia, year-on-year revenue declined amid sluggish economic growth and weak personal consumption, while demand for tabletop cookers tapered after reaching a certain level of market proliferation. As a result, sales in Indonesia declined 2.9%, to ¥8,355 million, and operating income fell 21.1%, to ¥813 million.

(For references 1) Sales Composition by Business Segment

(¥ millions; %)

	Three Quarters to Dec. 31, 2014		Three Quarters to Dec. 31, 2015		Change		Year to March 31, 2015	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥109,730	50.3%	¥122,033	51.5%	¥12,302	11.2%	¥153,697	52.1%
Kitchen appliances	69,421	31.8	70,627	29.8	1,206	1.7	90,838	30.8
Home heaters	12,910	5.9	16,160	6.8	3,249	25.2	14,972	5.1
Commercial-use equipment	6,740	3.1	7,559	3.2	819	12.2	9,227	3.1
Others	19,465	8.9	20,453	8.6	987	5.1	26,287	8.9
Total	¥218,268	100.0%	¥236,834	100.0%	¥18,565	8.5%	¥295,022	100.0%

(For references 2) Overseas Sales

(¥ millions; %)

	Three Quarters to Dec. 31, 2014			Three Quarters to Dec. 31, 2015		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥59,611	¥31,949	¥ 91,560	¥68,237	¥41,650	¥109,888
II. Consolidated net sales	—	—	218,268	—	—	236,834
III. Composition ratio of overseas sales to consolidated net sales	27.3%	14.6%	41.9%	28.8%	17.6%	46.4%

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

(2) Financial Position

As of December 31, 2015, Rinnai had total assets of ¥362,215 million, down ¥4,709 million from March 31, 2015. Total liabilities declined ¥963 million, to ¥95,128 million. Net assets rose ¥5,672 million, to ¥267,086 million. The equity ratio at the end of the period was 69.6%.

(3) Consolidated Performance Forecasts

Rinnai has not changed its forecasts for 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.

While not applicable to a change in specified subsidiaries, in the first quarter of the fiscal year Bravis Climate Systems Pty Ltd was newly included in the scope of consolidation due to the purchase of shares.

(2) Application of Specific Accounting Treatment in Preparation of Quarterly Financial Statements

Not applicable.

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

(Application of Accounting Standard for Business Combinations)

Effective the first quarter of the current fiscal year, the Company has applied “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013). Under the change, the difference arising from a change in the Company’s equity in a subsidiary (in cases where controlling interest of subsidiary continues) is now recorded as capital surplus, while acquisition-related expenses are recorded in the consolidated fiscal year in which they were incurred. For business combinations carried out on or after the beginning of the first quarter of the current fiscal year, the accounting method has changed to one in which the reviewed acquisition cost allocation, resulting from finalization of tentative accounting treatment, is reflected in the quarterly consolidated financial statements for the quarter in which the business combination occurred. The Company has also changed its expression of net income, etc., and changed “minority interests” to “non-controlling interests.” Financial statements for the first two quarters 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 is being applied in accordance with the transitional treatment set forth in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. It is being applied prospectively from the beginning of the first quarter of the current fiscal year.

The aforementioned had no effect on the Company’s quarterly consolidated financial statements.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2015 (Fiscal 2015)	At December 31, 2015 (Three Quarters of Fiscal 2016)
ASSETS:		
Current assets		
Cash and deposits	¥ 60,730	¥ 58,778
Notes and accounts receivable	63,889	73,207
Marketable securities	41,112	39,301
Products	21,670	22,241
Raw materials and stores	12,812	12,333
Other	6,540	5,403
Less allowance for doubtful accounts	(644)	(590)
Total current assets	206,111	210,674
Fixed assets		
Property, plant and equipment	56,841	59,082
Intangible fixed assets	4,365	5,780
Investments and advances		
Investments in securities	64,163	61,842
Other	26,946	25,638
Less allowance for doubtful accounts	(922)	(804)
Total investments and advances	90,187	86,676
Total fixed assets	151,395	151,540
Total assets	¥357,506	¥362,215

(¥ millions)

	At March 31, 2015 (Fiscal 2015)	At December 31, 2015 (Three Quarters of Fiscal 2016)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 47,616	¥ 41,993
Electronically recorded obligations	254	7,269
Short-term debt	1,976	804
Accrued income taxes	4,719	3,247
Accrued employee's bonuses	3,377	1,741
Other allowances	3,093	3,661
Other	18,767	19,703
Total current liabilities	79,805	78,422
Long-term liabilities		
Reserves	48	54
Net defined benefit liabilities	5,291	5,670
Other	10,946	10,981
Total long-term liabilities	16,286	16,706
Total liabilities	96,091	95,128
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	208,866	222,382
Treasury stock	(979)	(991)
Total shareholders' equity	223,065	236,569
Other comprehensive income:		
Unrealized gain on marketable securities	5,921	4,620
Foreign exchange translation adjustment	10,046	3,862
Remeasurements of defined benefit plans	7,591	6,951
Total other comprehensive income	23,559	15,434
Non-controlling interests	14,789	15,082
Total net assets	261,414	267,086
Total liabilities and net assets	¥357,506	¥362,215

(2) Consolidated Statements of Income

(¥ millions)

	Three Quarters of Fiscal 2015 (From April 1 to December 31, 2014)	Three Quarters of Fiscal 2016 (From April 1 to December 31, 2015)
Net sales	¥218,268	¥236,834
Cost of sales	150,319	159,713
Gross profit	67,949	77,120
Selling, general and administrative expenses	44,212	50,467
Operating income	23,737	26,652
Other income:		
Interest income	953	877
Dividends received	278	330
Foreign exchange income	513	96
Other	960	454
Total other income	2,427	1,759
Other expenses:		
Interest expenses	103	33
Loss on retirement of fixed assets	168	147
Other	82	130
Total other expenses	354	311
Ordinary income	25,810	28,100
Extraordinary income:		
Gain on sales of fixed assets	—	271
Total extraordinary income	—	271
Extraordinary loss:		
Loss on reduction of fixed asset	—	182
Total extraordinary loss	—	182
Income before income taxes	25,810	28,190
Income taxes (current)	6,568	7,024
Income taxes (deferred)	1,730	1,733
Total income taxes	8,298	8,758
Net income	17,511	19,431
Net income attributable to non-controlling interests	1,527	1,858
Net income attributable to owners of the parent company	¥ 15,984	¥ 17,572

Consolidated Statements of Comprehensive Income

(¥ millions)

	Three Quarters of Fiscal 2015 (From April 1 to December 31, 2014)	Three Quarters of Fiscal 2016 (From April 1 to December 31, 2015)
Net Income	¥17,511	¥19,431
Other comprehensive income		
Unrealized gain on marketable securities	1,556	(1,300)
Foreign exchange translation adjustment	1,704	(7,295)
Remeasurements of defined benefit plans	(402)	(649)
Total other comprehensive income	2,858	(9,245)
Comprehensive income	20,369	10,185
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	18,409	9,447
Non-controlling interest	1,960	737

(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, 2015
(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.

First Three Quarters of the Fiscal Year Ending March 31, 2016
(April 1 to December 31, 2015)

(¥ 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	¥134,106	¥23,323	¥15,729	¥18,386	¥23,569	¥8,355	¥223,470	¥13,364	¥ —	¥236,834
Intersegment	21,701	788	—	35	1,691	471	24,689	2,265	(26,955)	—
Total	155,807	24,111	15,729	18,422	25,261	8,826	248,159	15,629	(26,955)	236,834
Income (loss)	18,136	394	1,269	1,211	2,434	813	24,260	2,082	310	26,652

- 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 due to acquisition

Determination of provisional accounting treatment for business combination

In February 2, 2015, Rinnai Australia Pty Ltd, a subsidiary of Rinnai Corporation, acquired Brivis Climate Systems Pty Ltd. In the first and second quarters of the year ending March 31, 2016, the Company applied provisional accounting treatment for that business combination. In the third quarter, however, the Company has made the following determinations.

	Changes in goodwill
Inventory	¥ (459) million
Property, plant and equipment	¥ (455) million
Intangible fixed assets	¥ (985) million
Adjustments of acquisition cost	¥ (45) million
Deferred tax liability	¥347 million
Changes in goodwill	¥ (1,598) million
Goodwill (before change)	¥2,812 million
Goodwill (after change)	¥1,214 million

Note: The fiscal year-end for Rinnai Australia Pty Ltd is December 31.