

Consolidated Financial Results

First Three Quarters of the Fiscal Year Ending March 2017

(April 1–December 31, 2016)

February 7, 2017

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: February 13, 2017

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, 2017

(April 1–December 31, 2016; 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. 2016	¥243,347 [+2.8%]	¥26,047 [-2.3%]	¥27,343 [-2.7%]	¥17,052 [-3.0%]
Three Quarters to Dec. 2015	236,834 [+8.5%]	26,652 [+12.3%]	28,100 [+8.9%]	17,572 [+9.9%]

(Reference)

Comprehensive Income: First three quarters of the year ending March 31, 2017; ¥10,245 million (+0.6%)

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

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Three Quarters to Dec. 2016	¥327.91	—
Three Quarters to Dec. 2015	337.91	—

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, 2016	¥381,997	¥277,751	68.6%
March 31, 2016	370,246	271,709	69.2

(Reference) Equity capital: Three quarters of the year ending March 31, 2017; ¥262,086 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
March 2017	—	42.00	—		
March 2017 (anticipated)				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 attributable to owners of the parent company	Net Income per Share (¥)
Full year	¥328,000 [+2.5%]	¥33,000 [-4.6%]	¥34,600 [-3.4%]	¥21,300 [-6.2%]	¥409.60

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

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

Regarding consolidated performance forecasts, please refer to “Notice Related to Revision of Performance Forecasts” released today.

* Notes

(1) Changes in scope of consolidation of major subsidiaries during the period: Yes

Newly included one company, Gastar Co., Ltd. (Company name: —): 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

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, 2016: 52,216,463 shares

March 31, 2016: 52,216,463 shares

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

December 31, 2016: 214,971 shares

March 31, 2016: 213,899 shares

(c) Average number of shares during the term

First three quarters of the fiscal year ending March 2017: 52,002,257 shares

First three quarters of the fiscal year ended March 2016: 52,003,520 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 Tuesday, February 7, 2017.

1. Consolidated Performance

(1) Operating Results

In the three-quarter period under review (April 1–December 31, 2016), the world economy was characterized by heightened uncertainty amid ongoing economic slowdown in China and other emerging Asian nations, as well as the decision of the United Kingdom to exit the European Union. In the United States, moreover, the change of administration drew significant attention, making the outlook difficult to predict. Meanwhile, moderate economic growth continued in Japan, reflecting improvements in employment and worker income conditions and a turnaround in personal consumption.

The domestic housing appliance industry was buoyed by solid new housing starts stemming from various government measures to support residential purchases, as well as lower home loan interest rates and an increase in rental housing as an inheritance tax countermeasure. Replacement demand for reliable 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 healthy sales of water heaters in China and the United States, as well as the addition of Gastar Co., Ltd., which became a consolidated subsidiary. This was despite the impact of the yen’s appreciation. On the earnings side, we posted a decrease in operating income due to a rise in the sales ratio for low-priced products in Japan, as well as depressed unit sales of kitchen appliances and home heaters.

As a result, consolidated net sales for the period amounted to ¥243,347 million, up 2.8% from the previous corresponding period. Operating income declined 2.3%, to ¥26,047 million, and ordinary income was down 2.7%, to ¥27,343 million. Net income attributable to owners of the parent company declined 3.0%, to ¥17,052 million.

Our results by geographical segment were as follows:

Japan

In Japan, we enjoyed an increase in sales of water heaters with basic functions amid growth in the home rental market. We also benefited from healthy sales of dishwasher/dryers thanks to enhancement of our lineup for the replacement market, as well as firm sales of gas clothes dryers—a distinctive Rinnai strength—and our ECO ONE hybrid water heaters with heating systems. Accordingly, sales in Japan rose 5.2% year on year, to ¥141,112 million. However, an increase in sales of low-priced products led to a decline in the sales ratio for high-value-added products. As a result, operating income declined 7.3%, to ¥16,805 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 sales of water heaters increasing. As a result, sales in the United States rose 3.9%, to ¥16,343 million. Due to an increase in procurement costs stemming from the yen’s appreciation, however, operating income declined 4.5%, to ¥1,212 million.

Australia

In Australia, we enjoyed steady business expansion thanks to growth in storage-type (tank-based) water heaters and air conditioning systems of Bravis Climate Systems Pty Ltd, which became a consolidated subsidiary in the previous fiscal year. Sales in local-currency terms increased as a result. Due to the

yen's appreciation, however, sales in Australia declined 9.0%, to ¥16,727 million. Operating income grew 6.7%, to ¥1,292 million, thanks to a year-on-year decrease in expenses associated with the acquisition of Brivis Climate Systems.

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. Moreover, rising living standards led to the continued trend towards larger-capacity, higher-performance water heaters, which bolstered sales. Consequently, sales in China increased 9.2%, to ¥25,732 million, and operating income rose 9.5%, to ¥2,664 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. We also posted increased sales of gas clothes dryers due to acclaim for their fast-drying capability. Local-currency sales increased year on year as a result. Due to the yen's appreciation, however, sales in South Korea slipped 2.2%, to ¥22,812 million. Operating income declined 13.1%, to ¥343 million.

Indonesia

In Indonesia, sales of tabletop cookers increased year on year as demand for such products showed a recovery trend. The result was a rise in overall local-currency sales. Due to the yen's appreciation, however, sales in yen terms edged down 1.2% year on year, to ¥8,252 million. Operating income jumped 67.6%, to ¥1,363 million, thanks to cost-related improvements.

(For references 1) Sales Composition by Business Segment

(¥ millions; %)

	Three Quarters to Dec. 31, 2015		Three Quarters to Dec. 31, 2016		Change		Year to March 31, 2016	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥122,033	51.5%	¥135,050	55.5%	¥13,016	10.7%	¥169,623	53.0%
Kitchen appliances	70,627	29.8	67,814	27.9	(2,813)	(4.0)	93,340	29.2
Home heaters	16,160	6.8	14,124	5.8	(2,036)	(12.6)	19,463	6.1
Commercial-use equipment	7,559	3.2	6,737	2.8	(821)	(10.9)	10,041	3.1
Others	20,453	8.6	19,621	8.1	(831)	(4.1)	27,466	8.6
Total	¥236,834	100.0%	¥243,347	100.0%	¥6,513	2.8%	¥319,935	100.0%

(For references 2) Overseas Sales

(¥ millions; %)

	Three Quarters to Dec. 31, 2015			Three Quarters to Dec. 31, 2016		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥68,237	¥41,650	¥109,888	¥68,693	¥40,307	¥109,000
II. Consolidated net sales	—	—	236,834	—	—	243,347
III. Composition ratio of overseas sales to consolidated net sales	28.8%	17.6%	46.4%	28.2%	16.6%	44.8%

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

(2) Financial Position

As of December 31, 2016, Rinnai had total assets of ¥381,997 million, up ¥11,750 million from March 31, 2016. Total liabilities increased ¥5,708 million, to ¥104,245 million. Net assets rose ¥6,042 million, to ¥277,751 million. The equity ratio at the end of the period was 68.6%.

(3) Consolidated Performance Forecasts

Despite solid results of its overseas subsidiaries, Rinnai now expects to underperform its initial forecasts for the full-year period ending March 31, 2017. This is due to the impact of the yen's appreciation, an increase in the sales ratio for low-priced products in Japan, and depressed unit sales of kitchen appliances and home heaters. In light of its recent performance, as well, Rinnai has revised its full-year forecasts (initially released on May 10, 2016) as set out below.

Revision of Performance Forecasts

Revision of consolidated performance forecasts for fiscal 2017
(April 1, 2016–March 31, 2017)

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net income attributable to owners of the parent company	Net Income per Share (Yen)
Previous forecast (A)	337,000	37,000	38,000	23,500	451.90
Revised forecast (B)	328,000	33,000	34,600	21,300	409.60
Difference (B – A)	-9,000	-4,000	-3,400	-2,200	—
Change (%)	-2.7	-10.8	-8.9	-9.4	—
(For references) Year ended March 31, 2016 (actual)	319,935	34,593	35,807	22,710	436.71

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

(¥ millions)

	At March 31, 2016 (Fiscal 2016)	At December 31, 2016 (Three Quarters of Fiscal 2017)
ASSETS:		
Current assets		
Cash and deposits	¥100,528	¥ 99,965
Notes and accounts receivable	66,208	74,873
Marketable securities	8,036	7,328
Products	23,461	22,467
Raw materials and stores	12,608	13,190
Other	6,236	5,215
Less allowance for doubtful accounts	(600)	(538)
Total current assets	216,480	222,501
Fixed assets		
Property, plant and equipment	63,299	70,765
Intangible fixed assets	5,887	6,660
Investments and advances		
Investments in securities	64,133	61,425
Other	20,853	21,009
Less allowance for doubtful accounts	(406)	(365)
Total investments and advances	84,579	82,069
Total fixed assets	153,766	159,495
Total assets	¥370,246	¥381,997

(¥ millions)

	At March 31, 2016 (Fiscal 2016)	At December 31, 2016 (Three Quarters of Fiscal 2017)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 23,163	¥ 19,789
Electronically recorded obligations	28,155	32,035
Accrued income taxes	5,053	3,649
Accrued employee's bonuses	4,025	1,968
Allowance for product guarantee	3,436	3,605
Other allowances	555	309
Other	18,339	21,345
Total current liabilities	82,730	82,703
Long-term liabilities		
Allowance environmental measures	—	2,255
Reserves	56	104
Net defined benefit liabilities	6,349	9,191
Other	9,400	9,990
Total long-term liabilities	15,806	21,542
Total liabilities	98,537	104,245
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,719	8,756
Earned surplus	229,372	242,056
Treasury stock	(993)	(1,003)
Total shareholders' equity	243,558	256,269
Other comprehensive income:		
Unrealized gain on marketable securities	4,066	4,995
Foreign exchange translation adjustment	5,288	(2,119)
Remeasurements of defined benefit plans	3,160	2,940
Total other comprehensive income	12,515	5,816
Non-controlling interests	15,636	15,665
Total net assets	271,709	277,751
Total liabilities and net assets	¥370,246	¥381,997

(2) Consolidated Statements of Income

(¥ millions)

	Three Quarters of Fiscal 2016 (From April 1 to December 31, 2015)	Three Quarters of Fiscal 2017 (From April 1 to December 31, 2016)
Net sales	¥236,834	¥243,347
Cost of sales	159,713	162,675
Gross profit	77,120	80,672
Selling, general and administrative expenses	50,467	54,624
Operating income	26,652	26,047
Other income:		
Interest income	877	685
Dividends received	330	455
Foreign exchange income	96	—
Other	454	628
Total other income	1,759	1,769
Other expenses:		
Interest expenses	33	27
Foreign exchange loss	—	135
Loss on retirement of fixed assets	147	157
Other	130	153
Total other expenses	311	473
Ordinary income	28,100	27,343
Extraordinary income:		
Gain on sales of fixed assets	271	—
Compensation for expropriation	—	253
Total extraordinary income	271	253
Extraordinary loss:		
Loss on step acquisitions	—	137
Loss on reduction of fixed asset	182	—
Total extraordinary loss	182	137
Income before income taxes	28,190	27,459
Income taxes (current)	7,024	7,407
Income taxes (deferred)	1,733	771
Total income taxes	8,758	8,179
Net income	19,431	19,280
Net income attributable to non-controlling interests	1,858	2,228
Net income attributable to owners of the parent company	¥ 17,572	¥ 17,052

Consolidated Statements of Comprehensive Income

(¥ millions)

	Three Quarters of Fiscal 2016 (From April 1 to December 31, 2015)	Three Quarters of Fiscal 2017 (From April 1 to December 31, 2016)
Net Income	¥19,431	¥19,280
Other comprehensive income		
Unrealized gain on marketable securities	(1,300)	942
Foreign exchange translation adjustment	(7,295)	(9,754)
Remeasurements of defined benefit plans	(649)	(222)
Total other comprehensive income	(9,245)	(9,034)
Comprehensive income	10,185	10,245
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	9,447	10,355
Non-controlling interest	737	(109)

(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, 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	United States	Australia	China	South Korea	Indonesia	Total			
Sales										
Outside clients	¥134,106	¥15,729	¥18,386	¥23,569	¥23,323	¥8,355	¥223,470	¥13,364	¥ —	¥236,834
Intersegment	21,701	—	35	1,691	788	471	24,689	2,265	(26,955)	—
Total	155,807	15,729	18,422	25,261	24,111	8,826	248,159	15,629	(26,955)	236,834
Income (loss)	18,136	1,269	1,211	2,434	394	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.

First Three Quarters of the Fiscal Year Ending March 31, 2017
(April 1 to December 31, 2016)

(¥ millions)

	Reportable Segments							Others (Note 1)	Adjustments (Note 2)	Amounts on consolidated statements of income (Note 3)
	Japan	United States	Australia	China	South Korea	Indonesia	Total			
Sales										
Outside clients	¥141,112	¥16,343	¥16,727	¥25,732	¥22,812	¥8,252	¥230,981	¥12,365	¥ —	¥243,347
Intersegment	22,809	—	40	1,268	1,133	477	25,730	2,171	(27,901)	—
Total	163,922	16,343	16,768	27,001	23,946	8,729	256,711	14,537	(27,901)	243,347
Income (loss)	16,805	1,212	1,292	2,664	343	1,363	23,681	2,040	325	26,047

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.