

Consolidated Financial Results

First Quarter of the Fiscal Year Ending March 2018

(April 1–June 30, 2017)

August 4, 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: August 10, 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 Quarter of the Fiscal Year Ending March 31, 2018

(April 1– June 30, 2017; 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 2017	¥76,052 [+2.1%]	¥6,456 [-1.0%]	¥7,091 [+8.9%]	¥4,544 [+17.5%]
First Quarter to June 2016	¥74,519 [+7.2%]	¥6,522 [+4.4%]	¥6,513 [-4.5%]	¥3,866 [-4.1%]

Notes: Comprehensive income: First quarter of the year ending March 31, 2018; ¥5,752 million [+998.1%]

First quarter of the year ended March 31, 2017; ¥523 million [-75.2%]

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
First Quarter to June 2017	¥87.38	—
First Quarter to June 2016	74.35	—

(2) Consolidated Financial Position

(¥ millions; %)

	Total Assets	Net Assets	Equity Ratio (%)
June 30, 2017	¥401,763	¥293,040	68.7%
March 31, 2017	404,325	290,638	67.5

(Reference) Equity capital: First quarter of the year ending March 31, 2018; ¥275,938 million

Year ended March 31, 2017; ¥272,778 million

II. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2017	—	¥42.00	—	¥44.00	¥86.00
June 2017	—				
March 2018 (anticipated)		44.00	—	46.00	90.00

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

III. Forecast for the Fiscal Year Ending March 31, 2018 (Consolidated)

(April 1, 2017, to March 31, 2018)

(¥ millions/%)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (¥)
First half	¥160,000 [+3.2%]	¥15,500 [+4.2%]	¥16,000 [+6.6%]	¥9,700 [+8.4%]	¥186.53
Full year	340,000 [+3.0]	37,000 [+8.6]	38,000 [+7.7]	24,000 [+7.5]	461.53

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 — (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: None

(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, 2017: 52,216,463 shares

March 31, 2017: 52,216,463 shares

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

June 30, 2017: 215,554 shares

March 31, 2017: 215,317 shares

(c) Average number of shares during the term

First quarter of the fiscal year ending March 2018: 52,001,049 shares

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

* This report is exempt from a quarterly review process.

* Note on appropriate use of performance forecasts, and other specified notes

Performance forecasts contained in this document are based on information currently available and certain judgments deemed by the Corporation to be reasonable. No intent is implied of promise by the Corporation to achieve such forward-looking statements. 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 4 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 Friday, August 4, 2017.

1. Consolidated Performance

(1) Operating Results

In the first quarter under review (April 1–June 30, 2017), the world economy performed favorably overall, reflecting moderate economic recovery in the United States and Europe, as well as a high rate of economic growth in China. In Japan, as well, the economy continued recovering, buoyed by improved corporate earnings and a turnaround in personal consumption.

The domestic housing appliance industry benefited from an increase in new housing starts stemming from improved employment and income environment, as well as lower home loan interest rates. Replacement demand for reliable housing appliances also firmed.

Under these conditions, the Rinnai Group entered the final 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, 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 the United States. On the earnings side, posted a slight year-on-year decline in operating income due to an increase in sales promotion expenses overseas.

As a result, consolidated net sales for the period amounted to ¥76,052 million, up 2.1% from the previous corresponding period, but operating income edged down 1.0%, to ¥6,456 million, due to an increase in sales promotion expenses overseas. Thanks to year-on-year decline in exchange loss, however, ordinary income rose 8.9%, to ¥7,091 million. Net income attributable to owners of the parent company declined climbed 17.5%, to ¥4,544 million.

Our results by geographical segment were as follows:

Japan

In Japan, we enjoyed increases in sales of water heaters with heating systems and dishwasher/dryers, which have entered a period replacement demand, but sales of built-in hobs (stovetops) declined. Accordingly, sales in Japan slipped 1.0% year on year, to ¥39,900 million. However, operating income rose 11.0%, to ¥3,722 million, thanks to a shift to high-value-added products, as well as increased export sales.

United States

In the United States, the market for housing appliances remained steady, and sales of highly convenient tankless water heaters were healthy. As a result, sales in the United States increased 22.1%, to ¥6,601 million. Due to a jump in sales promotion expenses, however, operating income declined 20.3%, to ¥296 million.

Australia

In Australia, we posted a year-on-year increase in sales of mainstay tankless water heaters, while sales of ducted heating/cooling systems and air conditioners were also up. As a result, sales in Australia rose 4.2%, to ¥5,130 million. Due to higher sales promotion expenses, however, operating income was down 1.7%, to ¥217 million.

China

In China, the number of gas appliance users continued to increase thanks to expansion of gas infrastructure. This, together with enlargement of our sales network, resulted in healthy sales of water heaters. Moreover, rising living standards led to the continued trend towards larger-capacity, higher-performance water heaters, which also bolstered sales. Consequently, sales in China grew 1.2%, to ¥9,380 million. Due to increased sales promotion expenses, however, operating income fell 23.2%, to ¥855 million.

South Korea

In South Korea, we enjoyed increased sales of highly efficient boilers in water heater segment,

leading to a 5.1% year-on-year increase in sales, to ¥8,430 million. However, sales of tabletop cookers were impacted by intensified competition. Accordingly, operating income edged down 0.2%, to ¥222 million.

Indonesia

In Indonesia, local inflation and sluggish consumption led to a year-on-year decline in sales of tabletop cookers. As a result, sales declined 8.0%, to ¥2,362 million. Thanks to reduced expenses stemming from cost-cutting efforts, however, operating income grew 32.2%, to ¥374 million.

(For references 1)

Sales Composition by Business Segment

(¥ millions; %)

	First Quarter to June 30, 2016		First Quarter to June 30, 2017		Change		Year to March 31, 2017	
	Amount	Amount	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥43,384	58.2%	¥44,897	59.0%	¥1,512	3.5%	¥188,202	57.0%
Kitchen appliances	20,155	27.0	19,179	25.2	(976)	(4.8)	88,456	26.8
Home heaters	2,993	4.0	3,301	4.3	308	10.3	17,952	5.4
Commercial-use equipment	2,094	2.8	2,306	3.0	211	10.1	9,122	2.8
Others	5,891	7.9	6,367	8.4	475	8.1	26,521	8.0
Total	¥74,519	100.0%	¥76,052	100.0%	¥1,532	2.1%	¥330,256	100.0%

(For references 2)

Overseas Sales

(¥ millions; %)

	First Quarter to June 30, 2016			First Quarter to June 30, 2017		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥24,216	¥12,142	¥36,359	¥24,193	¥14,098	¥38,291
II. Consolidated net sales	—	—	74,519	—	—	76,052
III. Composition ratio of overseas sales to consolidated net sales	32.5%	16.3%	48.8%	31.8%	18.5%	50.3%

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

(2) Financial Position

As of June 30, 2017, Rinnai had total assets of ¥401,763 million, down ¥2,561 million from March 31, 2017. Total liabilities decreased ¥4,963 million, to ¥108,722 million. Net assets were up ¥2,401 million, to ¥293,040 million. The equity ratio at the end of the period was 68.7%.

(3) Consolidated Performance Forecasts

Rinnai has not changed its forecasts for the first two-quarter period ending September 30, 2017, or the full-year period ending March 31, 2018. (Those forecasts were released on May 9, 2017.)

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	(¥ millions)	
	At March 31, 2017 (Fiscal 2017)	At June 30, 2017 (First Quarter of Fiscal 2018)
ASSETS:		
Current assets		
Cash and deposits	¥115,225	¥110,339
Notes and accounts receivable	62,547	57,527
Electronically recorded monetary claims	7,540	7,251
Marketable securities	8,563	11,626
Products	24,839	28,487
Raw materials and stores	13,963	14,569
Other	5,973	7,116
Less allowance for doubtful accounts	(982)	(979)
Total current assets	237,671	235,939
Fixed assets		
Tangible fixed assets	78,175	80,543
Intangible fixed assets	6,853	6,632
Investments and advances		
Investments in securities	59,725	56,405
Other	22,281	22,638
Less allowance for doubtful accounts	(382)	(395)
Total investments and advances	81,624	78,647
Total fixed assets	166,653	165,823
Total assets	¥404,325	¥401,763

(¥ millions)

	At March 31, 2017 (Fiscal 2017)	At June 30, 2017 (First Quarter of Fiscal 2018)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 22,205	¥ 20,470
Electronically recorded obligations	33,891	31,275
Accrued income taxes	6,012	3,479
Accrued employee's bonuses	4,290	1,729
Allowance for product guarantee	3,952	4,040
Other allowances	544	348
Other	20,671	24,826
Total current liabilities	91,568	86,171
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Other allowances	85	88
Net defined benefit liabilities	9,484	9,730
Other	10,292	10,476
Total long-term liabilities	22,118	22,551
Total liabilities	113,686	108,722
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	247,327	249,583
Treasury stock	(1,007)	(1,009)
Total shareholders' equity	261,536	263,790
Other comprehensive income:		
Unrealized gain on marketable securities	4,883	6,033
Foreign exchange translation adjustment	3,047	2,831
Remeasurements of defined benefit plans	3,310	3,282
Total of other comprehensive income	11,241	12,147
Non-controlling interests	17,860	17,102
Total net assets	290,638	293,040
Total liabilities and net assets	¥404,325	¥401,763

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

(¥ millions)

	First Quarter of Fiscal 2017 (From April 1 to June 30, 2016)	First Quarter of Fiscal 2018 (From April 1 to June 30, 2017)
Net sales	¥74,519	¥76,052
Cost of sales	49,672	50,500
Gross profit	24,847	25,551
Selling, general and administrative expenses	18,325	19,095
Operating income	6,522	6,456
Other income:		
Interest income	232	233
Dividends received	324	366
Other	232	148
Total other income	789	748
Other expenses:		
Interest expenses	2	1
Foreign exchange loss	707	14
Loss on retirement of fixed assets	39	24
Other	50	72
Total other expenses	799	113
Ordinary income	6,513	7,091
Extraordinary losses		
Loss on step acquisitions	137	—
Total extraordinary losses	137	—
Income before income taxes	6,375	7,091
Income taxes (current)	2,719	2,862
Income taxes (deferred)	(986)	(985)
Total income taxes	1,732	1,877
Net income	4,643	5,214
Net income attributable to non-controlling interests	777	670
Net income attributable to owners of the parent company	¥ 3,866	¥ 4,544

Consolidated Statements of Comprehensive Income

(¥ millions)

	First Quarter of Fiscal 2017 (From April 1 to June 30, 2016)	First Quarter of Fiscal 2018 (From April 1 to June 30, 2017)
Income before minority interest	¥4,643	¥5,214
Other comprehensive income		
Unrealized gain on marketable securities	(958)	1,151
Foreign exchange translation adjustment	(3,056)	(586)
Remeasurements of defined benefit plans	(103)	(26)
Total of other comprehensive income	(4,119)	538
Comprehensive income	523	5,752
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	443	5,450
Non-controlling interest	80	302

(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, 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.

2. First Quarter of the Fiscal Year Ending March 31, 2018 (From April 1 to June 30, 2017)

(¥ millions)d

	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	¥39,900	¥6,601	¥5,130	¥9,380	¥8,430	¥2,362	¥71,806	¥4,246	¥ —	¥76,052
Intersegment	8,679	—	22	417	227	127	9,475	579	(10,055)	—
Total	48,580	6,601	5,153	9,798	8,658	2,490	81,282	4,826	(10,055)	76,052
Income (loss)	3,722	296	217	855	222	374	5,688	632	135	6,456

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.