

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2018

(April 1, 2017 to September 30, 2017)

November 7, 2017

Listed Company Name: Rinnai Corporation

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

Website: <http://www.rinnai.co.jp>

Representative: Hiroyasu Naito, President

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Anticipated date for releasing quarterly securities report: November 13, 2017

Anticipated date to begin distributing dividends: December 6, 2017

Supplemental information sheets of quarterly results: Yes

Information meeting of quarterly results: Yes (for analyst and institutional investors)

1. Performance for the Six Months Ended September 30, 2017

(April 1, 2017 – September 30, 2017; amounts less than one million are omitted)

(1) Consolidated Operating Results

(Millions of yen / %)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net income attributable to owners of the parent company (% change)
Two-quarter total at September 2017	¥159,752 (+3.0)	¥13,927 (-6.4)	¥14,998 (-0.0)	¥9,435 (+5.4)
Two-quarter total at September 2016	155,106 (+3.8)	14,873 (+0.1)	15,003 (-4.4)	8,951 (-7.2)

Note: Comprehensive Income: Six months ended September 30, 2017; ¥11,790 million (—%)
Six months ended September 30, 2016; ¥569 million (-92.4%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2017	¥181.98	—
Two-quarter total at September 2016	172.14	—

Note: Percentage figures in net sales, operating income, ordinary income and net income columns indicate increase or decrease from the previous term.

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
Two-quarter total at September 2017	¥402,362	¥293,082	68.4
Full-year at March 2017	404,325	290,638	67.5

(Reference) Equity capital : Six months ended September 30, 2017; ¥275,045 million
Year ended March 31, 2017; ¥272,778 million

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2017	—	¥42.00	—	¥44.00	¥86.00
March 2018	—	44.00	—	—	—
March 2018 (anticipated)	—	—	—	46.00	90.00

Note: Changes on the forecast at the second quarter: None

3. Forecast for the Fiscal Year Ending March 31, 2018

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

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Full year	¥340,000 (+3.0)	¥37,000 (+8.6)	¥38,000 (+7.7)	¥24,000 (+7.5)	¥464.74

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: 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: 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)

September 30, 2017: 51,616,463 shares

March 31, 2017: 52,216,463 shares

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

September 30, 2017: 215,857 shares

March 31, 2017: 215,317 shares

(c) Average number of shares during the term

First two quarters of the fiscal year ending March 2017: 51,848,814 shares

First two quarters of the fiscal year ending March 2017: 52,002,413 shares

*** Implementation status of quarterly review process**

This report is exempt from a quarterly review process.

*** 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 6 of this report.

* Supplemental information sheets of financial results are posted on the Corporation’s website on Tuesday, November 7, 2017.

1. Consolidated Performance

(1) Operating Results

In the first two quarters under review (April 1–September 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.

Despite a decrease in newly built rental homes, the domestic housing appliance industry was steady, benefiting from healthy sales of condominiums underpinned by low-interest home loans, as well as firm replacement demand for reliable housing appliances.

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 and China. On the earnings side, posted a year-on-year decline in operating income due to increases in raw materials costs and higher sales promotion expenses overseas, as well as sluggish domestic sales of high-value-added products.

As a result, consolidated net sales for the period amounted to ¥159,752 million, up 3.0% from the previous corresponding period. Operating income declined 6.4% year on year, to ¥13,927 million, and ordinary income remained unchanged, at ¥14,998 million. Net income attributable to owners of the parent company rose 5.4%, to ¥9,435 million.

Our results by geographical segment were as follows:

Japan

In Japan, our performance was affected by contraction of the market for tabletop cookers and a decrease in sales of built-in hobs (stovetops) due to intensified competition, as well as lower sales of water heaters via some sales channels. Accordingly, sales in Japan slipped 2.6% year on year, to ¥84,202 million, and operating income declined 7.3%, to ¥7,671 million

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 22.5%, to ¥13,196 million, and operating income edged up 0.7%, to ¥804 million.

Australia

In Australia, we enjoyed healthy sales of mainstay tankless water heaters, as well as higher sales of ducted heating/cooling systems and air conditioners. As a result, sales in Australia rose 5.0%, to ¥12,105 million, and operating income grew 27.4%, to ¥1,312 million.

China

In China, we posted steady sales of water heaters thanks to expansion of gas infrastructure and rising living standards. Sales of boilers also increased, due to government environmental policies promoting a shift from coal to gas. Consequently, sales in China increased 13.8%, to ¥20,402 million. Due to increased sales promotion expenses, however, operating income declined 10.4%, to ¥1,898 million.

South Korea

In South Korea, we enjoyed increased sales of boilers owing to a rise in the number of newly built small-scale condominium buildings, as well as higher replacement demand. As a result, sales climbed

6.0%, to ¥15,879 million. However, operating income fell 37.9%, to ¥149 million, due to intensified competition in the tabletop cooker market and surging raw materials costs.

Indonesia

In Indonesia, local inflation and sluggish consumption led to a decline in sales of tabletop cookers. Thanks to an increase in sales of commercial-use stoves, however, sales rose 3.4% year on year, to ¥5,357 million, and operating income grew 12.1%, to ¥797 million.

References 1: Net sales by product

(¥ millions; %)

	First two quarters for the year ended March 31, 2017 (April 1, 2016, to Sept. 30, 2016)		First two quarters for the year ending March 31, 2018 (April 1, 2017, to Sept. 30, 2017)		Change		Year ended March 31, 2017 (April 1, 2016, to March 31, 2017)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Water heaters	¥ 87,287	56.3	¥ 91,779	57.5	¥4,491	5.1	¥188,202	57.0
Kitchen appliances	42,212	27.2	40,773	25.5	(1,438)	(3.4)	88,456	26.8
Home heaters	8,743	5.6	9,398	5.9	654	7.5	17,952	5.4
Commercial-use equipment	4,424	2.9	4,818	3.0	394	8.9	9,122	2.8
Others	12,437	8.0	12,982	8.1	544	4.4	26,521	8.0
Total	155,106	100.0	159,752	100.0	¥4,645	3.0	¥330,256	100.0

References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2017 (April 1, 2016, to Sept. 30, 2016)			First two quarters for the year ending March 31, 2018 (April 1, 2017, to Sept. 30, 2017)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	¥46,480	¥26,759	¥ 73,239	¥49,704	¥30,674	¥ 80,378
II. Consolidated net sales	—	—	155,106	—	—	159,752
III. Composition ratio of overseas sales to consolidated net sales	30.0%	17.3%	47.2%	31.1%	19.2%	50.3%

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

(2) Financial Position

As of September 30, 2017, Rinnai had total assets of ¥402,362 million, down ¥1,963 million from March 31, 2017. Total liabilities declined ¥446 million, to ¥109,279 million. Net assets were up ¥2,443 million, to ¥293,082 million. The equity ratio at the end of the period was 68.4%.

Cash Flows

Cash and cash equivalents at September 30, 2017, stood at ¥84,836 million, down ¥10,460 million from March 31, 2017.

Net cash provided by operating activities amounted to ¥4,699 million, down 63.8% from the previous corresponding period. The main factor was the secured operating income, which contrasted with a increase in inventories.

Net cash used in investing activities totaled ¥5,514 million, up 200.9% from the previous

corresponding period. The main factor was purchases of tangible fixed assets.

Net cash used in financing activities was 9,388 million, up 240.4% from the previous corresponding period. This was due mainly to acquisition of treasury stock.

(3) Consolidated Performance Forecasts

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

3. Consolidated Quarterly Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March, 2017 (Year ended March 31, 2017)	At Sept. 30, 2017 (First two quarters for the year ending March 31, 2018)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	¥115,225	¥104,933
Notes and accounts receivable	62,547	63,921
Electronically recorded monetary claims	7,540	6,996
Marketable securities	8,563	14,998
Products	24,839	29,811
Raw materials and stores	13,963	15,382
Other	5,973	6,227
Less allowance for doubtful accounts	(982)	(1,208)
Total current assets	237,671	241,062
Fixed assets		
Property, plant and equipment	78,175	81,324
Intangible fixed assets	6,853	6,495
Investments and advances		
Investments in securities	59,725	51,200
Other	22,281	22,666
Less allowance for doubtful accounts	(382)	(387)
Total investments and advances	81,624	73,479
Total fixed assets	166,653	161,299
Total assets	¥404,325	¥402,362

(¥ millions)

	At March, 2017 (Year ended March 31, 2017)	At Sept. 30, 2017 (First two quarters for the year ending March 31, 2018)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥ 22,205	¥ 20,740
Electronically recorded obligations	33,891	30,251
Accrued corporate taxes	6,012	4,396
Accrued employee's bonuses	4,290	4,097
Allowance for product guarantee	3,952	4,142
Other allowances	544	668
Other	20,671	21,899
Total current liabilities	91,568	86,197
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Reserves	85	159
Net defined benefit liabilities	9,484	9,949
Other	10,292	10,719
Total long-term liabilities	22,118	23,082
Total liabilities	113,686	109,279
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	247,327	249,317
Treasury stock	(1,007)	(1,855)
Total shareholders' equity	261,536	262,678
Other comprehensive income:		
Unrealized gain on marketable securities	4,883	6,266
Foreign exchange translation adjustment	3,047	2,845
Remeasurements of defined benefit plans	3,310	3,254
Total other comprehensive income	11,241	12,366
Non-controlling interests	17,860	18,036
Total net assets	290,638	293,082
Total liabilities and net assets	¥404,325	¥402,362

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

Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2017 (April 1, 2016, to Sept. 30, 2016)	First two quarters for the year ending March 31, 2018 (April 1, 2017, to Sept. 30, 2017)
	Amount	Amount
Net sales	¥155,106	¥159,752
Cost of Sales	104,128	107,039
Gross Profit	50,977	52,713
Selling, general and administrative expenses	36,104	38,785
Operating income	14,873	13,927
Other income:		
Interest income	458	459
Dividends received	361	397
Foreign exchange income	—	54
Other	472	322
Total other income	1,292	1,233
Other expenses:		
Interest expenses	18	5
Foreign exchange loss	949	—
Loss on retirement of fixed assets	83	69
Other	110	87
Total other expenses	1,162	162
Ordinary income	15,003	14,998
Extraordinary inIn		
Insurance income	—	291
Total extraordinary income	—	291
Extraordinary loss:		
Loss on step acquisitions	137	—
Total extraordinary loss	137	—
Income before income taxes	14,866	15,290
Income taxes:		
Current	4,375	5,041
Deferred	(7)	(684)
Total income taxes	4,368	4,357
Net income	10,497	10,933
Net income attributable to non-controlling interests	1,545	1,498
Net income attributable to owners of the parent company	¥ 8,951	¥ 9,435

Consolidated Statements of Comprehensive Income

(¥ millions)

	First two quarters for the year ended March 31, 2017 (April 1, 2016, to Sept. 30, 2016)	First two quarters for the year ending March 31, 2018 (April 1, 2017, to Sept. 30, 2017)
	Amount	Amount
Net Income	¥ 10,497	¥ 10,933
Other comprehensive income		
Unrealized gain on marketable securities	(370)	1,384
Foreign exchange translation adjustment	(9,399)	(473)
Remeasurements of defined benefit plans	(157)	(54)
Total other comprehensive income	(9,927)	856
Comprehensive income	569	11,790
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	1,147	10,560
Non-controlling interest	(577)	1,229

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2017 (April 1, 2016, to Sept. 30, 2016)	First two quarters for the year ending March 31, 2018 (April 1, 2017, to Sept. 30, 2017)
Cash flows from operating activities		
Income before income taxes	¥ 14,866	¥ 15,290
Depreciation and amortization	4,617	5,046
Decrease (increase) in trade receivables	4,804	(993)
Decrease (increase) in inventories	(929)	(6,596)
Increase (decrease) in trade payables	(7,324)	(5,031)
Other	2,330	2,695
Subtotal	18,364	10,411
Interest and dividends received	809	837
Interest paid	(18)	(4)
Income taxes paid	(6,156)	(6,545)
Net cash provided by operating activities	12,998	4,699
Cash flows from investing activities		
Transfers to time deposits	(17,567)	(18,258)
Withdrawals from time deposits	24,370	18,170
Purchases of tangible fixed assets	(9,611)	(9,193)
Purchases of investments in securities	(4,319)	(313)
Sale and redemption of investments in securities	3,606	3,808
Proceeds from subsidiary shares due to the change of scope of Consolidation	1,644	—
Other	43	271
Net cash used in investing activities	(1,832)	(5,514)
Cash flows from financing activities		
Acquisition of treasury stock	(3)	(6,006)
Dividends paid	(2,182)	(2,275)
Dividends paid to non-controlling shareholders	(719)	(1,053)
Other	146	(52)
Net cash used in financing activities	(2,758)	(9,388)
Effect of exchange rate fluctuations on cash and cash equivalents	(3,153)	(256)
Net increase (decrease) in cash and cash equivalents	5,254	(10,460)
Cash and cash equivalents at beginning of term	79,600	95,297
Cash and cash equivalents at end of term	¥ 84,854	¥ 84,836

(4) Noted to Quarterly Consolidated Financial Statements

Assumptions for Going Concern

Not applicable.

Note on Major Changes in Shareholders' Equity

Not applicable.

Segment Information

I. First two quarters for the year ended March 31, 2017 (April 1, 2016, to Sept. 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	¥ 86,472	¥10,774	¥11,527	¥17,935	¥14,982	¥5,183	¥146,875	¥8,231	¥ —	¥155,106
Intersegment	14,440	—	13	758	688	321	16,222	1,440	(17,663)	—
Total	100,912	10,774	11,540	18,694	15,670	5,505	163,098	9,672	(17,663)	155,106
Income	8,279	798	1,029	2,117	241	711	13,178	1,347	346	14,873

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" is adjusted from operating income on Consolidated Statement of Income.

II. First two quarters for the year ending March 31, 2018 (April 1, 2017, to Sept. 30, 2017)

(¥ 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	¥ 84,202	¥13,196	¥12,105	¥20,402	¥15,879	¥5,357	¥151,144	¥8,608	¥ —	¥159,752
Intersegment	16,504	—	75	840	737	295	18,453	1,352	(19,805)	—
Total	100,706	13,196	12,180	21,243	16,617	5,653	169,597	9,961	(19,805)	159,752
Income	7,671	804	1,312	1,898	149	797	12,632	1,313	(18)	13,927

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" is adjusted from operating income on Consolidated Statement of Income.