

Consolidated Financial Results

First Three Quarters of the Fiscal Year Ending March 2018

(April 1–December 31, 2017)

February 7, 2018

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: Yasuo Koketsu, Managing Executive Officer, General Manager of Administration Headquarters

TEL: +81 (52) 361-8211

Scheduled date for release of quarterly securities report: February 13, 2018

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, 2018

(April 1–December 31, 2017; 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. 2017	¥254,672 [+4.7%]	¥24,868 [-4.5%]	¥26,344 [-3.7%]	¥16,690 [-2.1%]
Three Quarters to Dec. 2016	243,347 [+2.8%]	26,047 [-2.3%]	27,343 [-2.7%]	17,052 [-3.0%]

(Reference)

Comprehensive Income: First three quarters of the year ending March 31, 2018; ¥21,135 million (+106.3%)

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

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Three Quarters to Dec. 2017	¥322.75	—
Three Quarters to Dec. 2016	327.91	—

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, 2017	¥415,060	¥300,162	67.8%
March 31, 2017	404,325	290,638	67.5

(Reference) Equity capital: Three quarters of the year ending March 31, 2018; ¥281,230 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
March 2018	—	44.00	—		
March 2018 (anticipated)				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 attributable to owners of the parent company	Net Income per Share (¥)
Full year	¥345,000 [+4.5%]	¥34,000 [-0.2%]	¥35,500 [+0.6%]	¥22,300 [-0.1%]	¥431.82

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 Concerning Revision of Consolidated Full-Year Forecasts” released today.

* 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)

First three quarters of the fiscal year ending March 2018: 51,616,463 shares

Year ended March 31, 2017: 52,216,463 shares

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

First three quarters of the fiscal year ending March 2018: 216,290 shares

Year ended March 31, 2017: 215,317 shares

(c) Average number of shares during the term

First three quarters of the fiscal year ending March 2018: 51,714,274 shares

First three quarters of the fiscal year ended March 2017: 52,002,257 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 5 of this report.

* Supplemental information sheets of financial results are posted on the Corporation’s website on Wednesday, February 7, 2018.

1. Consolidated Performance

(1) Operating Results

In the first three quarters under review (April 1–December 31, 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 year-on-year decreases in newly built owned and rental homes, the domestic housing appliance industry was steady, benefiting from healthy sales of condominiums underpinned by home loan interest rates, 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 sluggish domestic sales of high-value-added products.

As a result, consolidated net sales for the period amounted to ¥254,672 million, up 4.7% from the previous corresponding period. Operating income declined 4.5% year on year, to ¥24,868 million, and ordinary income slipped 3.7%, to ¥26,344 million. Net income attributable to owners of the parent company was down 2.1%, to ¥16,690 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 edged down 1.0% year on year, to ¥139,635 million, and operating income declined 9.1%, to ¥15,281 million

United States

In the United States, where the market for housing appliances remained steady, sales of highly convenient tankless water heaters were healthy, and we posted solid sales growth for high-efficiency models. As a result, sales in the United States increased 21.3%, to ¥19,819 million, and operating income climbed 24.1%, to ¥1,504 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 8.6%, to ¥18,169 million, and operating income grew 35.6%, to ¥1,752 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 in cold regions. Consequently, sales in China increased 20.2%, to ¥30,928 million. Despite growth in local-currency terms, operating income declined 4.7%, to ¥2,539 million, due to the depreciation of the yuan.

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 5.8%, to ¥24,137 million. However, operating income fell 51.7%, to ¥165 million, due to intensified competition in the tabletop cooker market and surging raw materials costs.

Indonesia

In Indonesia, the gradual emergence of replacement demand led to recovery in sales of tabletop cookers. Accordingly, sales in rose 6.4% year on year, to ¥8,779 million. Due to surging raw materials costs, however, operating income declined 3.7%, to ¥1,312 million.

(For references 1) Sales Composition by Business Segment

(¥ millions; %)

	Three Quarters to Dec. 31, 2016		Three Quarters to Dec. 31, 2017		Change		Year to March 31, 2017	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Water heaters	¥135,050	55.5%	¥144,582	56.8%	¥ 9,532	7.1%	¥188,202	57.0%
Kitchen appliances	67,814	27.9	67,237	26.4	(576)	(0.9)	88,456	26.8
Air conditioning appliances	14,124	5.8	15,095	5.9	971	6.9	17,952	5.4
Commercial-use equipment	6,737	2.8	7,238	2.8	500	7.4	9,122	2.8
Others	19,621	8.1	20,518	8.1	897	4.6	26,521	8.0
Total	¥243,347	100.0%	¥254,672	100.0%	¥11,324	4.7%	¥330,256	100.0%

(For references 2) Overseas Sales

(¥ millions; %)

	Three Quarters to Dec. 31, 2016			Three Quarters to Dec. 31, 2017		
	Asia	Others	Total	Asia	Others	Total
I. Overseas sales	¥68,693	¥40,307	¥109,000	¥76,034	¥46,227	¥122,262
II. Consolidated net sales	—	—	243,347	—	—	254,672
III. Composition ratio of overseas sales to consolidated net sales	28.2%	16.6%	44.8%	29.9%	18.2%	48.0%

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

(2) Financial Position

As of December 31, 2017, Rinnai had total assets of ¥415,060 million, up ¥10,735 million from March 31, 2017. Total liabilities rose ¥1,212 million, to ¥114,898 million. Net assets were up ¥9,523 million, to ¥300,162 million. The equity ratio at the end of the period was 67.8%.

(3) Consolidated Performance Forecasts

Despite healthy performances by overseas subsidiaries, the Rinnai Group has made a downward revision of its consolidated full-year forecasts, due to higher-than-expected prices of raw materials and sluggish domestic sales of mainstay products during the period when high demand is anticipated. In light of these factors and our recent performance, we have revised our forecasts for the full-year period ending March 31, 2018, as shown below. (The original forecasts were released on May 9, 2017.)

Revision of consolidated performance forecasts for fiscal 2018
(April 1, 2017–March 31, 2018)

(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)	340,000	37,000	38,000	24,000	461.53
Revised forecast (B)	345,000	34,000	35,500	22,300	431.82
Difference (B – A)	5,000	-3,000	-2,500	-1,700	—
Change (%)	1.5	-8.1	-6.6	-7.1	—
(For references) Year ended March 31, 2017 (actual)	330,256	34,056	35,280	22,322	429.27

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March 31, 2017 (Fiscal 2017)	At December 31, 2017 (Three Quarters of Fiscal 2018)
ASSETS:		
Current assets		
Cash and deposits	¥115,225	¥111,237
Notes and accounts receivable	62,547	68,851
Electronically recorded monetary claims	7,540	8,617
Marketable securities	8,563	15,584
Products	24,839	29,187
Raw materials and stores	13,963	15,646
Other	5,973	5,576
Less allowance for doubtful accounts	(982)	(1,231)
Total current assets	237,671	253,469
Fixed assets		
Property, plant and equipment	78,175	82,971
Intangible fixed assets	6,853	6,410
Investments and advances		
Investments in securities	59,725	49,976
Other	22,281	22,621
Less allowance for doubtful accounts	(382)	(389)
Total investments and advances	81,624	72,208
Total fixed assets	166,653	161,590
Total assets	¥404,325	¥415,060

(¥ millions)

	At March 31, 2017 (Fiscal 2017)	At December 31, 2017 (Three Quarters of Fiscal 2018)
LIABILITIES:		
Current liabilities		
Notes and accounts payable	¥ 22,205	¥ 22,073
Electronically recorded obligations	33,891	33,038
Accrued income taxes	6,012	4,177
Accrued employee's bonuses	4,290	2,135
Allowance for product guarantee	3,952	4,159
Other allowances	544	692
Other	20,671	25,026
Total current liabilities	91,568	91,303
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Reserves	85	164
Net defined benefit liabilities	9,484	10,134
Other	10,292	11,040
Total long-term liabilities	22,118	23,594
Total liabilities	113,686	114,898
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	247,327	254,311
Treasury stock	(1,007)	(1,859)
Total shareholders' equity	261,536	267,668
Other comprehensive income:		
Unrealized gain on marketable securities	4,883	6,530
Foreign exchange translation adjustment	3,047	3,804
Remeasurements of defined benefit plans	3,310	3,226
Total other comprehensive income	11,241	13,561
Non-controlling interests	17,860	18,931
Total net assets	290,638	300,162
Total liabilities and net assets	¥404,325	¥415,060

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

Consolidated Statements of Income

(¥ millions)

	Three Quarters of Fiscal 2017 (From April 1 to December 31, 2016)	Three Quarters of Fiscal 2018 (From April 1 to December 31, 2017)
Net sales	¥243,347	¥254,672
Cost of sales	162,675	170,892
Gross profit	80,672	83,780
Selling, general and administrative expenses	54,624	58,911
Operating income	26,047	24,868
Other income:		
Interest income	685	686
Dividends received	455	498
Foreign exchange income	—	79
Other	628	505
Total other income	1,769	1,769
Other expenses:		
Interest expenses	27	4
Foreign exchange loss	135	—
Loss on retirement of fixed assets	157	99
Other	153	190
Total other expenses	473	294
Ordinary income	27,343	26,344
Extraordinary income:		
Insurance income	—	291
Compensation for expropriation	253	—
Total extraordinary income	253	291
Extraordinary loss:		
Loss on step acquisitions	137	—
Total extraordinary loss	137	—
Income before income taxes	27,459	26,636
Income taxes (current)	7,407	7,900
Income taxes (deferred)	771	(57)
Total income taxes	8,179	7,842
Net income	19,280	18,793
Net income attributable to non-controlling interests	2,228	2,102
Net income attributable to owners of the parent company	¥ 17,052	¥ 16,690

Consolidated Statements of Comprehensive Income

(¥ millions)

	Three Quarters of Fiscal 2017 (From April 1 to December 31, 2016)	Three Quarters of Fiscal 2018 (From April 1 to December 31, 2017)
Net Income	¥19,280	¥18,793
Other comprehensive income		
Unrealized gain on marketable securities	942	1,649
Foreign exchange translation adjustment	(9,754)	774
Remeasurements of defined benefit plans	(222)	(82)
Total other comprehensive income	(9,034)	2,342
Comprehensive income	10,245	21,135
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	10,355	19,011
Non-controlling interest	(109)	2,124

(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, 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.

First Three Quarters of the Fiscal Year Ending March 31, 2018
(April 1 to December 31, 2017)

(¥ 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	¥139,635	¥19,819	¥18,169	¥30,928	¥24,137	¥8,779	¥241,471	¥13,201	¥ —	¥254,672
Intersegment	24,280	—	92	1,361	1,108	461	27,304	2,071	(29,376)	—
Total	163,916	19,819	18,262	32,290	25,246	9,240	268,775	15,273	(29,376)	254,672
Income (loss)	15,281	1,504	1,752	2,539	165	1,312	22,556	2,078	233	24,868

- 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.