

Consolidated Financial Results

First Two Quarters of the Fiscal Year ending March 2019

(April 1, 2018 to September 30, 2018)

November 7, 2018

Listed Company Name: Rinnai Corporation

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

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

Representative: Hiroyasu Naito, President

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Anticipated date for releasing quarterly securities report: November 13, 2018

Anticipated date to begin distributing dividends: December 6, 2018

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, 2018

(April 1, 2018 – September 30, 2018; 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 2018	¥162,750 (+1.9)	¥12,338 (-11.4)	¥14,145 (-5.7)	¥8,802 (-6.7)
Two-quarter total at September 2017	159,752 (+3.0)	13,927 (-6.4)	14,998 (-0.0)	9,435 (+5.4)

Note: Comprehensive Income: Six months ended September 30, 2018; ¥5,281 million (-55.2%)

Six months ended September 30, 2017; ¥11,790 million (—%)

(¥)

	Net Income per Share	Fully Diluted Net Income per Share
Two-quarter total at September 2018	¥171.25	—
Two-quarter total at September 2017	181.98	—

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 2018	¥419,758	¥311,089	69.4
Full-year at March 2018	422,422	307,965	68.0

(Reference) Equity capital : Six months ended September 30, 2018; ¥291,274 million

Year ended March 31, 2018; ¥287,283 million

2. Dividends

	Dividend per Share				
	1st Quarter (¥)	2nd Quarter (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
March 2018	—	¥44.00	—	¥46.00	¥90.00
March 2019	—	46.00	—	—	—
March 2019 (anticipated)	—	—	—	46.00	92.00

Note: Changes on the forecast in period under review: None

3. Forecast for the Fiscal Year Ending March 31, 2019

(April 1, 2018, to March 31, 2019)

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net income attributable to owners of the parent company (% change)	Net Income per Share (¥)
Full year	¥360,000 (+3.7)	¥36,000 (+9.6)	¥37,300 (+8.8)	¥23,000 (+8.5)	¥447.47

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, 2018: 51,616,463 shares

March 31, 2018: 51,616,463 shares

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

September 30, 2018: 216,706 shares

March 31, 2018: 216,404 shares

(c) Average number of shares during the term

First two quarters of the fiscal year ending March 2019: 51,399,954 shares

First two quarters of the fiscal year ended March 2018: 51,848,814 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 Wednesday, November 7, 2018.

1. Consolidated Performance

(1) Operating Results

In the first two quarters under review (April 1–September 30, 2018), the world economy assumed a sense of uncertainty, reflecting a slowdown in economic growth in China and trade issues centered on the United States and China. This was despite moderate economic recovery in the United States and Europe. In Japan, the economy continued recovering, buoyed by improved corporate earnings and a turnaround in personal consumption.

The domestic housing sector was affected by sluggish growth in construction of new housing, especially condominiums, and conditions in the housing appliance industry remained weak in the absence of robust replacement demand.

Under these circumstances, the Rinnai Group embarked on its new medium-term business plan, “G-shift 2020,” which started in April 2018. Under the plan (with the slogans “heat and lifestyles” and “health and lifestyles”), we will strive to help improve living standards in the global market. In addition to existing offerings, in the period under review we embraced new initiatives aimed at creating unique products and services by incorporating new technologies into our core technologies.

With respect to revenue, we reported a year-on-year increase in net sales thanks to healthy sales in China, the United States, and other overseas markets. On the earnings side, we posted a year-on-year decline in operating income due to weak performances of high-value-added products in Japan.

As a result, consolidated net sales for the period amounted to ¥162,750 million, up 1.9% from the previous corresponding period. Operating income declined 11.4%, to ¥12,338 million, and ordinary income slipped 5.7%, to ¥14,145 million. Net income attributable to owners of the parent company decreased 6.7%, to ¥8,802 million.

Our results by geographical segment were as follows:

Japan

In Japan, revenue declined due to weak sales of mainstay water heaters with heating systems, bathwater heaters, and built-in hobs (stovetops), as well as intensified competition with other companies. Accordingly, sales in Japan were down 2.9% year on year, to ¥81,736 million, and operating income declined 16.3%, to ¥6,422 million.

United States

In the United States, where the market for housing appliances was steady, we commenced local production of highly convenient tankless water heaters to meet growing demand. Our new high-efficiency models were also well received. As a result, sales in the United States increased 7.6%, to ¥14,202 million. However, we incurred sales promotion expenses aimed at popularizing new products, as well as an increase in costs associated with the start of local production. Accordingly, operating income fell 49.4%, to ¥406 million.

Australia

Despite a decrease in sales of open heaters (fan heaters) due to a warm winter, in Australia we enjoyed an increase in replacement demand for fan-forced room heaters, spurred by the government. As a result, sales in Australia edged up 0.3%, to ¥12,138 million. Due to deterioration of our product mix, however, operating income declined 7.0%, to ¥1,220 million.

China

In China, we reported a year-on-year decrease in sales of water heaters due to slowing demand in urban areas and intensified competition with other companies. However, a government-driven environmental policy promoting a shift from coal to gas as a fuel source led to increased sales of

boilers. Consequently, sales in China rose 15.4%, to ¥23,549 million, and operating income climbed 10.4%, to ¥2,095 million.

South Korea

In South Korea, we posted a slight increase in revenue thanks to steady business expansion underpinned by an upgraded lineup of electric cookers. This was despite lower sales of boilers due to shrinking replacement demand. Accordingly, sales in South Korea edged up 0.7%, to ¥15,989 million, and operating income rose 25.2%, to ¥187 million.

Indonesia

In Indonesia, we enjoyed healthy sales of tabletop stoves and increased sales of built-in hobs (stovetops) and range hoods, leading to higher year-on-year sales in local-currency terms. Due to the foreign exchange factors stemming from the yen's appreciation, however, sales in yen terms slipped 2.7%, to ¥5,211 million. Due to climbing raw materials costs, meanwhile, operating income declined 22.2%, to ¥620 million.

References 1: Net sales by product

(¥ millions; %)

	First two quarters for the year ended March 31, 2018 (April 1, 2017, to Sept. 30, 2017)		First two quarters for the year ending March 31, 2019 (April 1, 2018, to Sept. 30, 2018)		Change		Year ended March 31, 2018 (April 1, 2017, to March 31, 2018)	
	Amount	% of total	Amount	% of total	Amount	(%)	Amount	% of total
Water heaters	¥ 91,779	57.5	¥ 95,585	58.7	¥3,806	4.1	¥202,387	58.3
Kitchen appliances	40,773	25.5	40,235	24.7	(538)	(1.3)	88,364	25.5
Air conditioning appliances	9,398	5.9	8,698	5.3	(699)	(7.4)	19,084	5.5
Commercial-use equipment	4,818	3.0	4,094	2.5	(724)	(15.0)	9,499	2.7
Others	12,982	8.1	14,136	8.7	1,154	8.9	27,735	8.0
Total	159,752	100.0	162,750	100.0	¥2,998	1.9	¥347,071	100.0

References 2: Overseas sales

(¥ millions; %)

	First two quarters for the year ended March 31, 2018 (April 1, 2017, to Sept. 30, 2017)			First two quarters for the year ending March 31, 2019 (April 1, 2018, to Sept. 30, 2018)		
	Asia	Other regions	Total	Asia	Other regions	Total
I. Overseas sales	¥49,704	¥30,674	¥ 80,378	¥53,091	¥32,208	¥ 85,300
II. Consolidated net sales	—	—	159,752	—	—	162,750
III. Composition ratio of overseas sales to consolidated net sales	31.1%	19.2%	50.3%	32.6%	19.8%	52.4%

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

(2) Financial Position

As of September 30, 2018, Rinnai had total assets of ¥419,758 million, down ¥2,664 million from March 31, 2018. Total liabilities declined ¥5,788 million, to ¥108,668 million. Net assets were up ¥3,123 million, to ¥311,089 million. The equity ratio at the end of the period was 69.4%.

Cash Flows

Cash and cash equivalents at September 30, 2018, stood at ¥104,592 million, up ¥2,894 million from March 31, 2018.

Net cash provided by operating activities amounted to ¥8,334 million, up 77.4% 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 ¥367 million, down 93.3% from the previous corresponding period. The main factor was purchases of tangible fixed assets.

Net cash used in financing activities was ¥3,771 million, down 59.8% from the previous corresponding period. This was due mainly to payment of dividends.

(3) Consolidated Performance Forecasts

Rinnai has not changed its forecasts for the full-year period ending March 31, 2019. (Those forecasts were released on May 9, 2018.)

3. Consolidated Quarterly Financial Statements

(1) Consolidated Balance Sheets

(¥ millions)

	At March, 2018 (Year ended March 31, 2018)	At Sept. 30, 2018 (First two quarters for the year ending March 31, 2019)
	Amount	Amount
ASSETS		
Current assets		
Cash and deposits	¥124,771	¥126,875
Notes and accounts receivable	66,341	63,763
Electronically recorded monetary claims	8,858	7,142
Marketable securities	17,920	21,560
Products	27,330	32,199
Raw materials and stores	16,014	16,056
Other	3,438	3,576
Less allowance for doubtful accounts	(1,213)	(1,152)
Total current assets	263,462	270,021
Fixed assets		
Property, plant and equipment	83,415	83,237
Intangible fixed assets	6,350	5,929
Investments and advances		
Investments in securities	46,067	37,170
Other	23,196	23,464
Less allowance for doubtful accounts	(68)	(65)
Total investments and advances	69,194	60,569
Total fixed assets	158,960	149,736
Total assets	¥422,422	¥419,758

(¥ millions)

	At March, 2018 (Year ended March 31, 2018)	At Sept. 30, 2018 (First two quarters for the year ending March 31, 2019)
	Amount	Amount
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥ 22,953	¥ 19,152
Electronically recorded obligations	32,771	30,963
Accrued corporate taxes	4,843	3,725
Accrued employee's bonuses	4,676	4,462
Allowance for product guarantee	4,602	4,277
Other allowances	976	699
Other	22,082	23,444
Total current liabilities	92,905	86,725
Long-term liabilities		
Allowance environmental measures	2,255	2,255
Reserves	147	100
Net defined benefit liabilities	10,466	10,459
Other	8,682	9,127
Total long-term liabilities	21,551	21,942
Total liabilities	114,457	108,668
NET ASSETS:		
Shareholders' equity:		
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	258,814	266,829
Treasury stock	(1,860)	(1,863)
Total shareholders' equity	272,170	280,182
Other comprehensive income:		
Unrealized gain on marketable securities	6,583	7,184
Foreign exchange translation adjustment	4,682	314
Remeasurements of defined benefit plans	3,846	3,592
Total other comprehensive income	15,112	11,092
Non-controlling interests	20,682	19,815
Total net assets	307,965	311,089
Total liabilities and net assets	¥422,422	¥419,758

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

Consolidated Statements of Income

(¥ millions)

	First two quarters for the year ended March 31, 2018 (April 1, 2017, to Sept. 30, 2017)	First two quarters for the year ending March 31, 2019 (April 1, 2018, to Sept. 30, 2018)
	Amount	Amount
Net sales	¥159,752	¥162,750
Cost of Sales	107,039	109,507
Gross Profit	52,713	53,242
Selling, general and administrative expenses	38,785	40,904
Operating income	13,927	12,338
Other income:		
Interest income	459	466
Dividends received	397	395
Foreign exchange income	54	421
Other	322	600
Total other income	1,233	1,882
Other expenses:		
Loss on retirement of fixed assets	69	51
Other	92	23
Total other expenses	162	75
Ordinary income	14,998	14,145
Extraordinary income		
Insurance income	291	—
Subsidy income	—	69
Total extraordinary income	291	69
Extraordinary loss:		
Loss on reduction of fixed assets	—	69
Total extraordinary loss	—	69
Income before income taxes	15,290	14,145
Income taxes:		
Current	5,041	4,305
Deferred	(684)	(437)
Total income taxes	4,357	3,867
Net income	10,933	10,277
Net income attributable to non-controlling interests	1,498	1,475
Net income attributable to owners of the parent company	¥ 9,435	¥ 8,802

Consolidated Statements of Comprehensive Income

(¥ millions)

	First two quarters for the year ended March 31, 2018 (April 1, 2017, to Sept. 30, 2017)	First two quarters for the year ending March 31, 2019 (April 1, 2018, to Sept. 30, 2018)
	Amount	Amount
Net Income	¥ 10,933	¥ 10,277
Other comprehensive income		
Unrealized gain on marketable securities	1,384	601
Foreign exchange translation adjustment	(473)	(5,350)
Remeasurements of defined benefit plans	(54)	(247)
Total other comprehensive income	856	(4,996)
Comprehensive income	11,790	5,281
Total comprehensive income attributable to:		
Owners of Rinnai Corporation	10,560	4,781
Non-controlling interest	1,229	500

(3) Consolidated Statements of Cash Flows

(¥ millions)

	First two quarters for the year ended March 31, 2018 (April 1, 2017, to Sept. 30, 2017)	First two quarters for the year ending March 31, 2019 (April 1, 2018, to Sept. 30, 2018)
Cash flows from operating activities		
Income before income taxes	¥ 15,290	¥ 14,145
Depreciation and amortization	5,046	5,410
Decrease (increase) in trade receivables	(993)	3,692
Decrease (increase) in inventories	(6,596)	(6,103)
Increase (decrease) in trade payables	(5,031)	(5,180)
Other	2,695	697
Subtotal	10,411	12,661
Interest and dividends received	837	837
Subsidy received	—	196
Interest paid	(4)	(5)
Income taxes paid	(6,545)	(5,355)
Net cash provided by operating activities	4,699	8,334
Cash flows from investing activities		
Transfers to time deposits	(18,258)	(17,678)
Withdrawals from time deposits	18,170	18,059
Purchases of tangible fixed assets	(9,193)	(7,367)
Purchases of investments in securities	(313)	(3,915)
Sale and redemption of investments in securities	3,808	10,511
Other	271	23
Net cash used in investing activities	(5,514)	(367)
Cash flows from financing activities		
Acquisition of treasury stock	(6,006)	(2)
Dividends paid	(2,275)	(2,363)
Dividends paid to non-controlling shareholders	(1,053)	(1,367)
Other	(52)	(38)
Net cash used in financing activities	(9,388)	(3,771)
Effect of exchange rate fluctuations on cash and cash equivalents	(256)	(1,322)
Net increase (decrease) in cash and cash equivalents	(10,460)	2,872
Cash and cash equivalents at beginning of term	95,297	101,697
Increase in cash and cash equivalents from newly consolidated subsidiary	—	21
Cash and cash equivalents at end of term	¥ 84,836	¥104,592

(4) Notes to Quarterly Consolidated Financial Statements

Assumptions for Going Concern

Not applicable.

Notes on Major Changes in Shareholders' Equity

Not applicable.

Supplementary information

Application of "Partial Amendment of Accounting Standards for Tax Effect Accounting"

Effective the period under review, the Corporation has applied "Partial Amendment of Accounting Standards for Tax Effect Accounting" (ASBJ Standard No. 28, February 16, 2018). As a result of this change, "Deferred tax assets" are now listed under "Investment and other assets" and "Deferred tax liabilities" are listed under "Long-term liabilities."

Segment Information

I. First two quarters for the year ended 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.

II. First two quarters for the year ending March 31, 2019 (April 1, 2018, to Sept. 30, 2018)

(¥ 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	¥ 81,736	¥14,202	¥12,138	¥23,549	¥15,989	¥5,211	¥152,827	¥9,923	¥ —	¥162,750
Intersegment	18,801	—	73	718	508	318	20,419	1,303	(21,723)	—
Total	100,537	14,202	12,211	24,267	16,497	5,529	173,246	11,227	(21,723)	162,750
Income	6,422	406	1,220	2,095	187	620	10,952	1,538	(152)	12,338

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.