



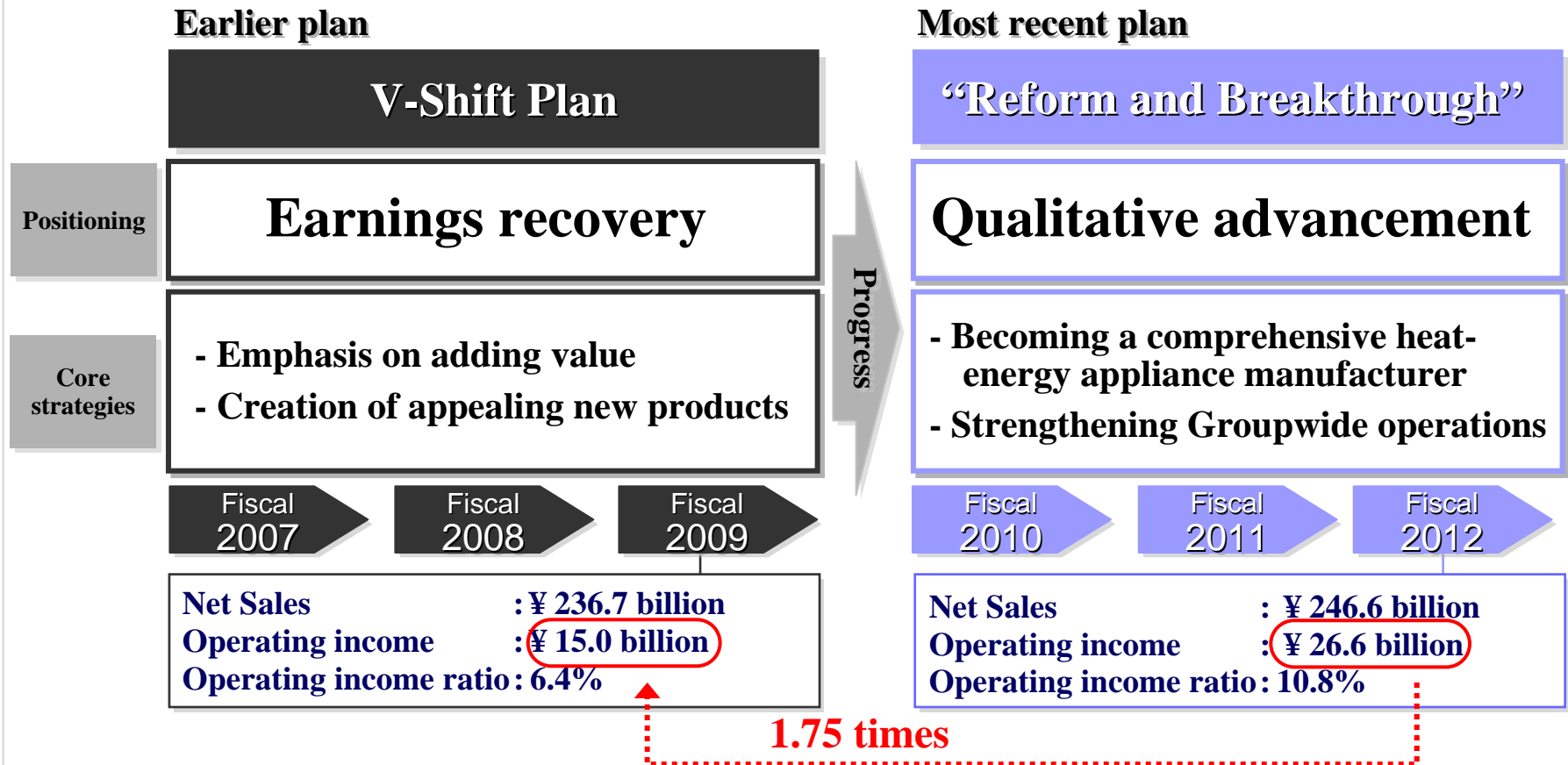
Rinnai

**Fiscal 2012 Year-End Business Outlook
Medium-Term Business Plan
“Jump UP 2014”**

May 11, 2012

Review of Previous Medium-Term Plans

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- Renewed pursuit of fundamental reforms and achieved plan’s initial operating income target ahead of schedule, despite negative factors (world economic recession following Lehman Shock, strong yen, and surging raw materials prices)
- Introduced groundbreaking products envisaging 20 years into future, such as world’s first hybrid hot-water system

Global Conditions Affecting Hot-Water Units

Economy	<ul style="list-style-type: none">- Emerging nations: Continued high growth amid rising populations and expanding internal demand- Advanced nations: Instable due to EU crisis; economic recovery delayed- Yen remains strong; stepped-up FTAs between nations
Environment	<ul style="list-style-type: none">- Continuing global warming; increasing emissions of greenhouse gases- Various nations expediting environmental measures; resistance against international restrictive frameworks- Numerous natural disasters (earthquakes, floods) and abnormal weather events
Energy	<ul style="list-style-type: none">- Ongoing electricity shortages due to increased energy consumption- No framework for determining power generation methods (high cost for renewable energy)- Changing energy demand due to shale gas, new oil fields, etc.- Slowing support for nuclear power; increasing use of gas and fuel conversion

Trade balances among nations are changing, but no change to increasing number of households in need of heat appliances.

Next 20–30 years: Ongoing trend of increased gas usage and energy diversification

Heat appliance business: Long-term growth will continue globally

Heat Appliances: Changing Trends and Sophisticated Consumer Demands

Changing trends

Increased gas use
among fossil fuels

Higher environmental standards
for renewed energy savings

Heightened risk awareness
regarding dependence
on single energy sources

Consumer demands

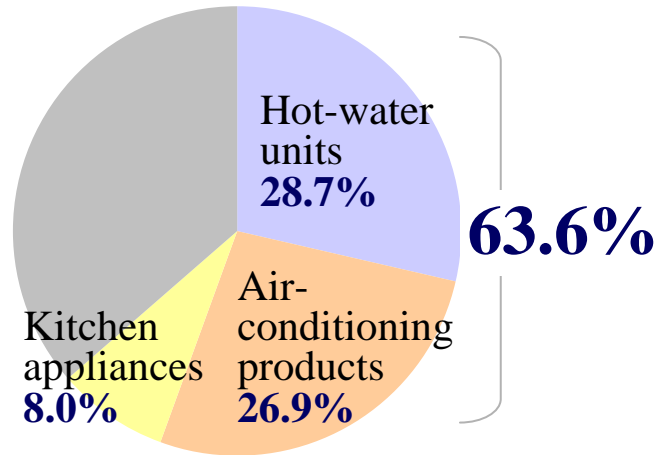
**Upgrade and reinforce lineups
of gas appliances in various nations**

**Offer products with both
environmental and economic benefits,
without sacrificing comfort levels**
(High cost-performance with exceptional
environmental and energy-saving benefits)

**Target overall optimization via
combination with other compatible heat
appliances that are diversifying**
(Example: Affinity with solar systems)

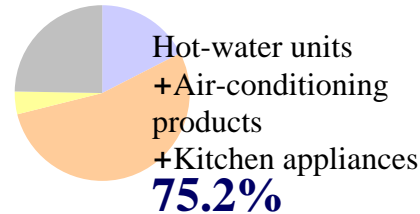
Energy Consumption in the Home

Japan

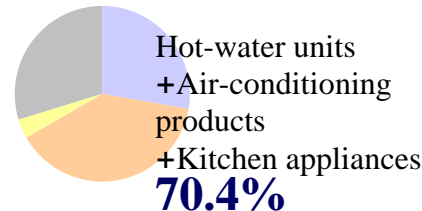


*Source: Fiscal 2009 data in "Fiscal 2011 Annual Energy Report"

United States

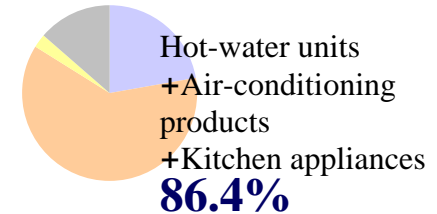


Australia

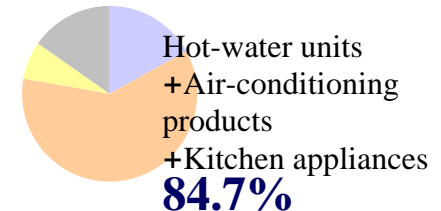


* Compiled by Rinnai based on Jyukankyo Research Institute Inc. data (2001 data; 1999 data for Australia)

United Kingdom



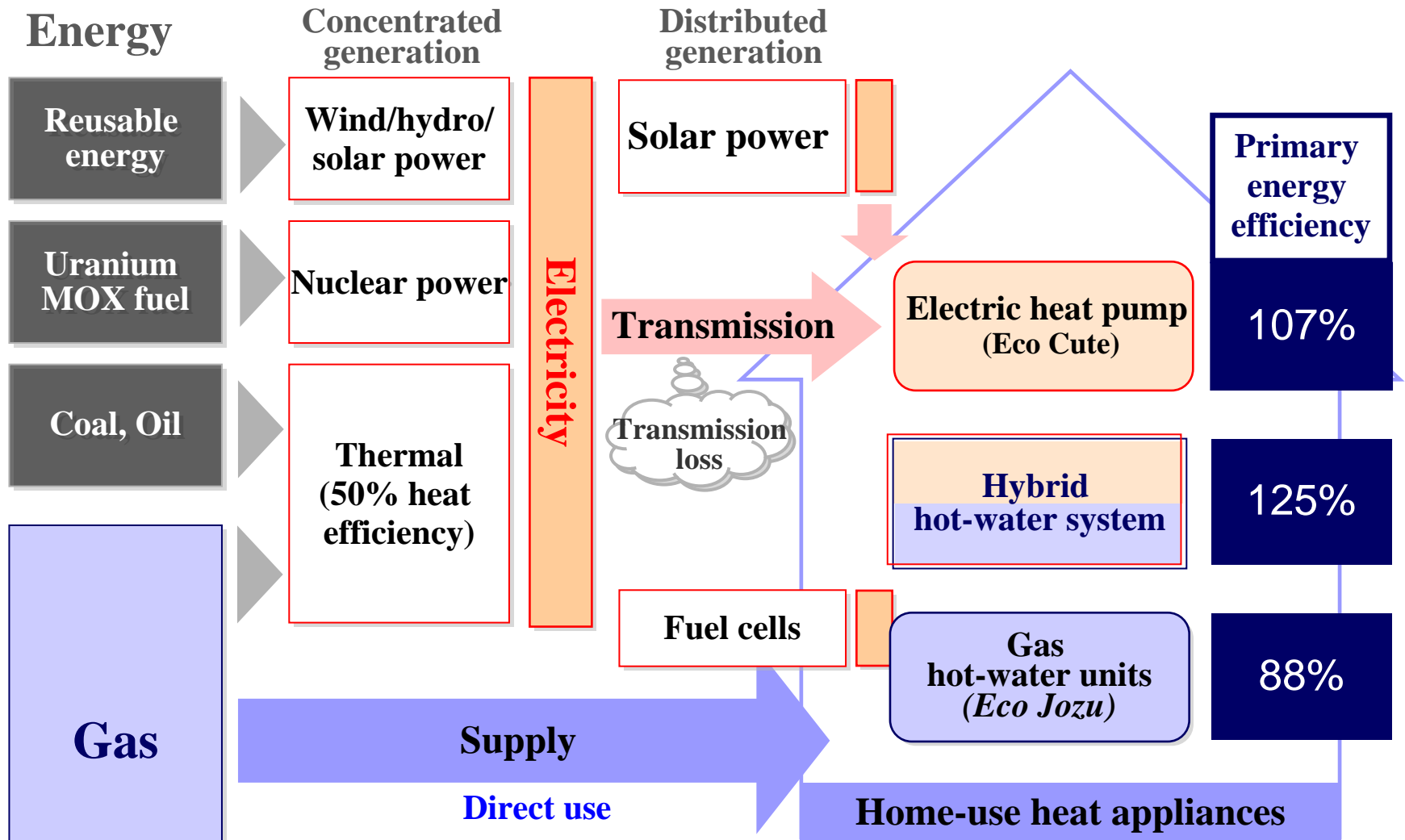
South Korea



Hot water units, air-conditioning products, and kitchen appliances account for 60-70% of household energy consumption; urgent priorities are to save energy and reduce CO₂ and NO_x emissions

Rinnai contributes to the environment and energy-saving in the fields of hot water, air conditioning, and kitchen appliances

From Electricity Conservation to Best Mix of Energy 5



Toward highly insulated “eco homes” containing heat appliances with good environmental and energy-saving performances

The Rinnai Mission

**Mission since our foundation:
“Use heat to provide society with comfortable lifestyles.”**

Amass core technologies to create safe, high-quality heat appliances

**Combustion technologies
that generate heat**

**Heat-conducting and fluid-control
technologies that people find easy to use**



Era of energy diversification in which social needs are becoming more sophisticated

Total control technologies that address best mix of energy

**As a comprehensive heat-energy appliance manufacturer,
Rinnai contributes to society by offering products with unparalleled
environmental and energy-saving features and optimal lifestyle proposals.**

Future: Maintain Growth from Long-Term Perspectives 7

Previous Medium-Term Business Plan

“Reform and Breakthrough”

- Major improvements in operating efficiency through business process reforms
- Further reinforcement of product appeal based on environment, energy-saving, and safety
- Strengthening of Groupwide operations

Fiscal
2010

Fiscal
2011

Fiscal
2012

(90th anniversary)

New Medium-Term Business Plan

- Establish systems and brand as comprehensive heat-energy appliance manufacturer
- Contribute to global environmental protection through hybrid and high-efficiency products
- Further reinforce overseas strategies

Fiscal
2013

Fiscal
2014

Fiscal
2015

Inheriting the “Rinnai Spirit”

“Heat and life”, “Quality is our destiny”, “Contributing to local communities”

Tactical name: “Jump UP 2014”

Contribute to society as a comprehensive heat-energy appliance manufacturer that emphasizes the environment and saving energy

“Three Jump Up” Priorities

- 1** Raise product quality in pursuit of zero defects
- 2** Raise versatility through reforms of development, production, and sales processes
- 3** Raise organizational strength through human resource development and Groupwide interaction

Eight reinforcement targets:

Strengthen structure as comprehensive heat-energy appliance manufacturer

Product quality	Product creation	Global	Personnel development
Products	Sales & Services	Management	Brand

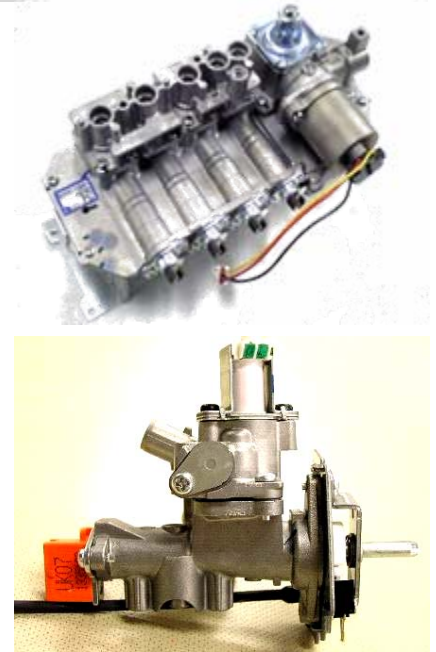
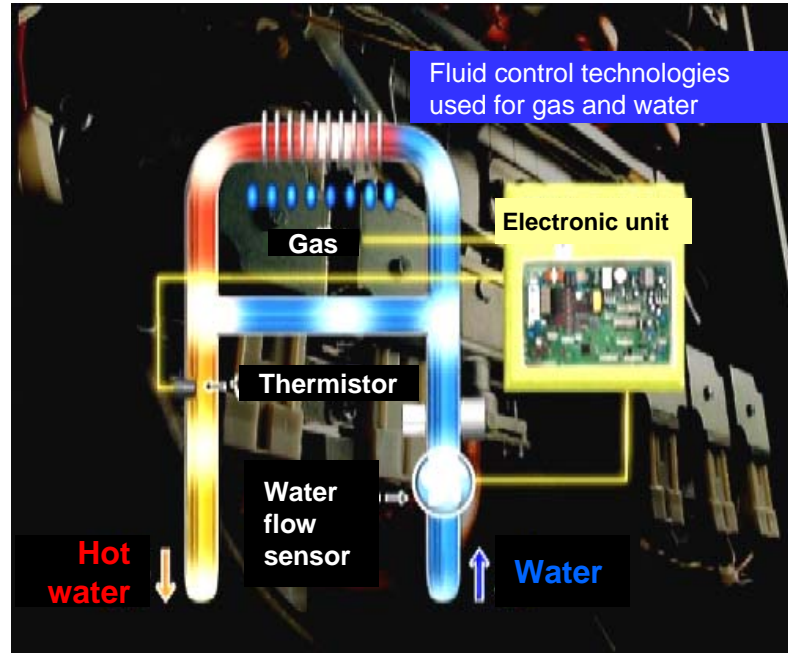
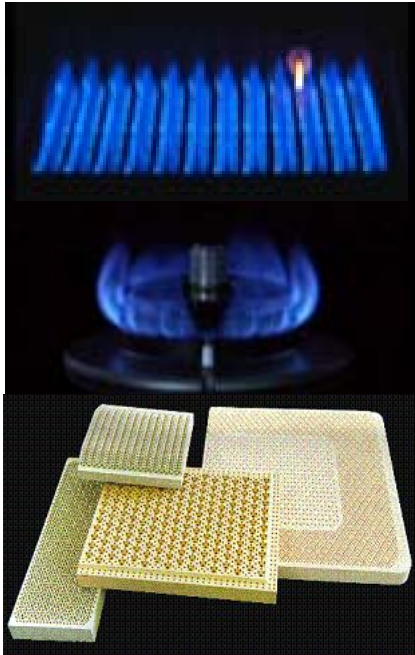
Reinforcing Product Strategies

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Inheriting the “Rinnai commitments”

Product quality, zero defects (ZD)

In-house development and manufacture of key components



Core points for reinforcement

- Pioneering development of innovative elemental technologies based on roadmap
- Raise speed of new product development through ZD design processes
- Increase level of overseas product development technologies; upgrade product lineups in various nations

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Inheriting the “Rinnai commitments”

**In-house production
of main parts**



**Integrated production,
from processing to assembly**



**Just-in-time production
and supply**



Core points for reinforcement

- Meticulous costs controls for core strategic products (cost reduction)
- Effective investments to reinforce/rebuild production system; production technology innovation
- Synergistic benefits through interaction of manufacturing group's overall strengths

Global Strategy Reinforcement

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Inheriting the “Rinnai commitments”

Contribute to local societies (local production for local consumption)

Core points for reinforcement

- Expand local production capacity; reinforce planning and technological capabilities
- Upgrade product lineups in existing markets; tap new markets



New Medium-Term Business Plan, Targets

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《Consolidated》		Results	New Medium-Term Business Plan "Jump UP 2014"				
		Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Change vs Fiscal 2012(%)	Change vs Fiscal 2012(¥)
[Billions of yen]							
Net Sales		246.6	257.0	268.0	280.0	113.5%	33.3
Breakdown	Domestic	168.2	172.0	176.0	180.0	107.0%	11.8
	Overseas	78.4	85.0	92.0	100.0	127.6%	21.6
	(overseas ratio)	31.8%	33.1%	34.3%	35.7%	-	3.9P
Operating income		26.6	28.0	30.0	33.0	123.9%	6.3
Operating income ratio		10.8%	10.9%	11.2%	11.8%	-	1.0P

Comprehensive proposals for living rooms and kitchens

Upgrade product lineup for overall support of living rooms and kitchens

Complete process for *Eco Jozu* as industry standard

Contribute to environment as gas appliance industry leader through *Eco Jozu* proliferation

Full-scale mass production and recognition enhancement of hybrid hot-water units

Expand production system (targeting 30,000 units/year); product PR to promote best mix

Product strategies (Kitchen appliances)

Expand/upgrade built-in stove series to offer comfortable spaces that are both safe and easy to clean



DELICIA

Verie



Range hood gearing function emphasizes safety

AirPRO (Non-filter slim type)



(Dishwashers)



Support for parts replacement for Rinnai products



- Simple parts searches; instructions for replacement
- Support for long-term use of much-loved products

Launch sales of dedicated Internet products



Sale of industry's first all-white stove

- Choice of control knob colors
- Forging new relationships with younger users

Reinforce sales of kitchen-related products and goods



Optional products that enhance kitchen enjoyment

Promoting *Eco Jozu* as the De Facto Industry Standard ¹⁶

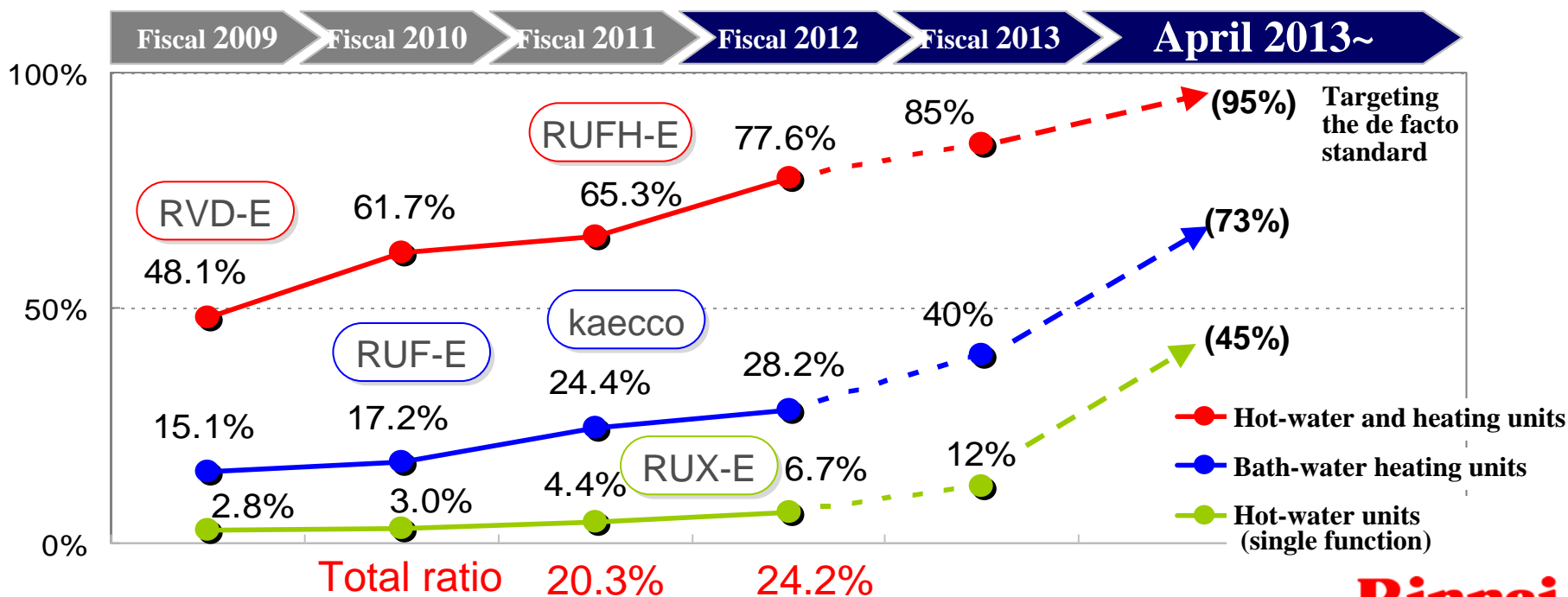
Voluntary Industry Standard

Introduction of high efficiency in all hot-water units
 Complete changeover to *Eco Jozu* by the end of March 2013



Eco Jozu Ratio at Rinnai

Introduction of “E” Series and expansion of lineup
 contribute to establishing *Eco Jozu* as de facto industry standard



Increase unit sales by appealing to mass market

**Mass market → Simple hot-water/bath-filling units (900,000 units/year market)
From 2012 to 2014 → Sales volume to double or triple**

Expand hot-water unit factories

Planned expansion of hot-water unit production plants (including for hybrid units) aimed at increasing sales

Meticulous product quality and cost controls

Raise customer satisfaction and corporate profit levels through meticulous product quality and cost controls in line with increased sales of *Eco Jozu* products

New-model Eco One deploys synergistic benefits of gas and electricity to deliver new advances in both comfort and energy-saving

World top-level primary energy efficiency achieved!



- High performance and low price, with no dependence on subsidies
- Powerful performance; economical floor heating
- Increasingly adopted as standard equipment among house builders
- “Best mix” product thanks to high compatibility with solar



New ECO ONE : Launched on April 23, 2012
Retail price ¥ 680,000 ~ ¥ 800,000

Upgrading the Eco One Lineup

Diverse variations, from double hybrid to brand-new condominiums



Double hybrid
Hot-water/heating system

July launch

For brand-new condominiums
100 liter

July launch

For brand-new condominiums
100 liter (higher heating capacity)



Single hybrid
Hot-water/heating system

NEW

For detached houses
100 liter;
50 liter

NEW

For brand-new condominiums
100 liter; 50 liter



Hybrid
Bathtub filling unit
(No floor heating system)

NEW

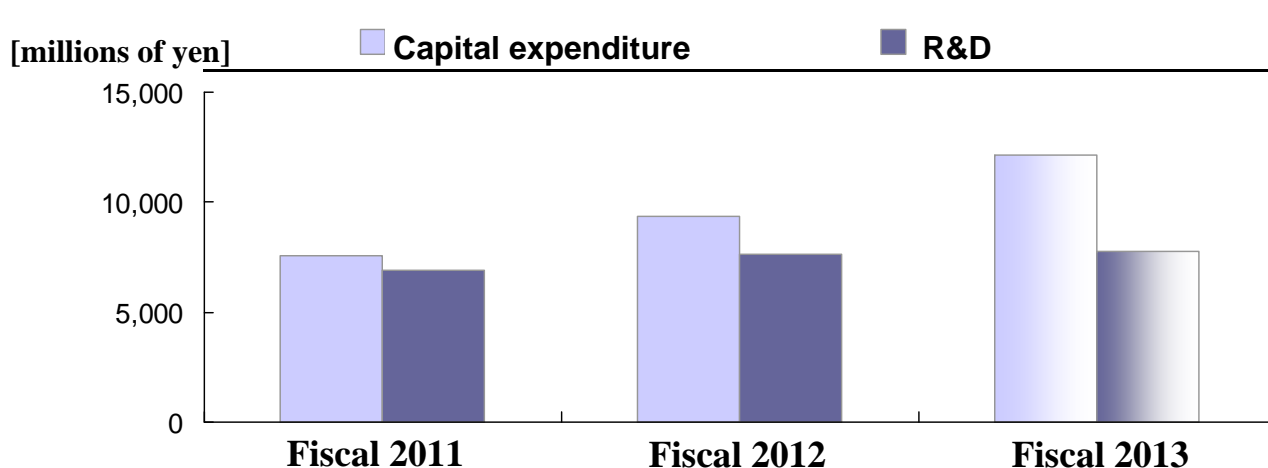
For detached houses
50 liter



Annual production of 300,000 units by 2014, enabling mass production benefits

Consolidated Capital Expenditure Plan

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Investment aims

Japan

- Expand facilities to raise productivity of mainstay products (*Eco Jozu*, etc.)
- Expand facilities to accommodate upgraded lineup of hybrid hot-water/heating systems
- Strengthen and upgrade sales bases and service system

Overseas

- Expand production capacity (in China, Indonesia, Thailand, etc.) to cater for growing demand in emerging nations
- Raise standard of in-house manufacturing technologies for local production; increase product quality

Medium-Term Business Plan “Jump UP 2014”

(From April 1, 2012 to March 31, 2015)

Aims

Contribute to people’s lives worldwide and the global environment as a comprehensive heat-energy appliance manufacturer

- ▶ **Product vision:** Comprehensive heating appliance manufacturer that delivers environmentally responsible products
- ▶ **Regional vision:** Global company that improves the lifestyles of people all over the world
- ▶ **Business vision:** Company with a unique business model that attracts people and business partners

“Three Jump Up” Priorities

- | | |
|---|--|
| 1 | <u>Raise product quality</u> in pursuit of zero defects |
| 2 | <u>Raise versatility</u> through reforms of development, production, and sales processes |
| 3 | <u>Raise organizational strength</u> through human resource development and Groupwide interaction |

Fiscal 2015 Targets

Net Sales	280 billion yen
Operating income	33 billion yen
Operating income ratio	11.8%

Rinnai

EXPERIENCE OUR INNOVATION

Performance forecasts and other future-oriented predictions contained in these materials are based on the Company's judgments using available information. Actual results may differ from such forecasts and predictions due to changing future circumstances.