

Rinnai

Business Outlook

Medium-Term Business Plan, “Jump Up 2014”

November 5, 2013

Contributing to the Environment and Saving Energy through Commitment to Heat and Comfortable Lifestyles.

Gas equipment

Production bases:
Japan, Asia, Oceania, etc.



Built-in-stove



Rice cooker



Hot-water unit



Fan heater



Tabletop stove



Clothes dryer



Fires

Electrical equipment

Production bases:
New Zealand
ASEAN
China
Korea
Japan
(range hoods, dishwashers)



Range hood



Hot-water unit



Dishwasher

Solar equipment

Production bases:
Australia
Brazil



Solar hot-water panel

Hybrid equipment

Production bases:
Australia (solar + gas)
Brazil (solar + gas)
Japan (heat pump + gas)



Hybrid hot-water/heating system



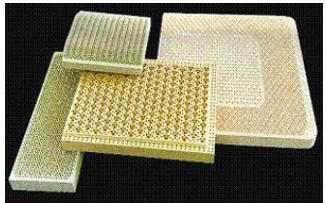
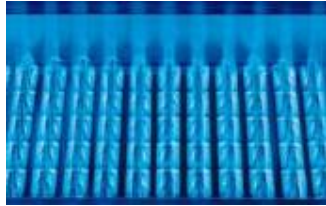
Solar system

Providing heat appliances, centered on household use products, matched to the living cultures and energy circumstances of each country (80 nations worldwide)

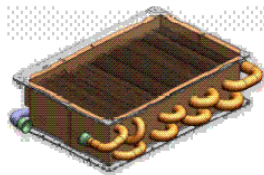
Basic Philosophy of Product Manufacturing: Relentless Pursuit of Quality and Safety

Basic management philosophy: “Quality is our destiny”

In-house development of core technologies related to heat



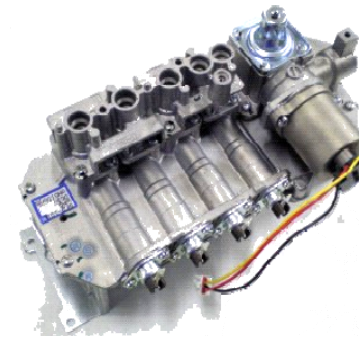
Burners



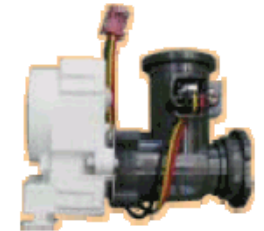
Heat exchangers



Electronic units



Gas valves

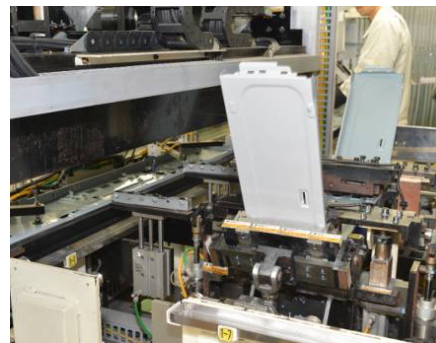


Water valves

In-house manufacture of key units and components: Integrated production system, from processing to assembly



Press work



Sheet-metal processing



Cutting work



Assembly

Units/components deemed important for quality reasons are developed in-house and manufactured within the Group

Medium-Term Business Plan (April 2012–March 2015) ₃

《Consolidated》

Medium-Term Business Plan “Jump UP 2014”

[Billions of Yen]		Fiscal 2013 Actual	Fiscal 2014 (Interim) Actual	Fiscal 2014 (Interim) Target	Fiscal 2014 (Full) Target	Fiscal 2015 (Full) Target
Net Sales		251.8	127.3	124.0	268.0	280.0
Breakdown	Domestic	172.9	79.1	80.0	176.0	180.0
	Overseas	78.9	48.1	44.0	92.0	100.0
Operating Income		26.3	12.4	12.0	30.0	33.0
Operating Margin		10.5%	9.7%	9.7%	11.2%	11.8%

**Performing well at halfway point of plan;
achieved targets for the first half of FY2013.**

Future Outlook: Rinnai's Business Environment

Positive factors

Japan	<ul style="list-style-type: none">- Ongoing replacement of equipment with high-value-added products; continued increase in number of households- Accelerating growth of new offerings, such as <i>ECO ONE</i> (hybrid hot-water/heating system)- Strengthened lineup of core products; ongoing streamlining of production system
Overseas	<ul style="list-style-type: none">- Emerging nations: Increasing number of households, expanding gas infrastructure, and rising living standards- Industrialized nations: Government measures to protect environment and save energy; economic recovery trends

Negative factors

Japan	<ul style="list-style-type: none">- Impact of consumption tax hike (mainly serving replacement demand, so effect should be minimal)- Rising costs of basic materials
Overseas	<ul style="list-style-type: none">- Increasing labor costs in emerging nations (will become a positive factor later owing to higher purchasing power of workers)

Numerous positive factors, so our forecast is for increases in revenue and earnings over medium-and long terms

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

- Raise product quality in pursuit of zero defects**
- Raise versatility through reforms of development, production, and sales processes**
- Raise organizational strength 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%

We will seek to fully implement plan, with no changes in targets

No. 1 hot-water unit in terms of environmental and energy-saving performance



Primary energy consumption down **40%** (*2) compared with gas hot-water units



*2 Reduction ratio vis-à-vis gas hot-water unit (78.2% JIS efficiency) in Type 6 Region under new regional classification; floor area: 120m²

The *ECO ONE* hybrid hot-water/heating system considerably surpasses electric heat pump hot-water units (*Eco Cute*), and is recognized as **the hot-water unit with the lowest primary energy consumption** (*1)

*1 *ECO ONE* hybrid hot-water/heating system (single hybrid series, 100-liter type) as of February 2013; primary energy consumption compared with recognized energy-saving standards for low-carbon buildings

Lineup meets requirements of diverse households



Single-unit tank type

Split tank and hot-water unit type

- Product configuration suited to both condominiums and detached houses
- Variations available to match user lifestyle needs (full-scale heating, bathtub-filling, etc.)
- Can be combined with solar power to increase electricity volume sold to grid
- Well suited to “smart house era” social infrastructure

Bathroom Heater-Dryers

Using hot water to make bathrooms warm and comfortable



Bathroom heating

Clothes drying

Mist sauna

Cool air blowing

Bathroom drying

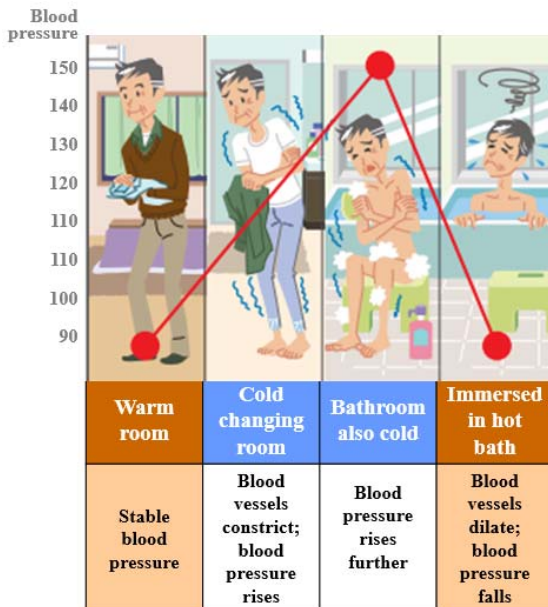
Ventilation



Ceiling type Wall-mounted type

Preventing “heat shock” when taking a bath during winter

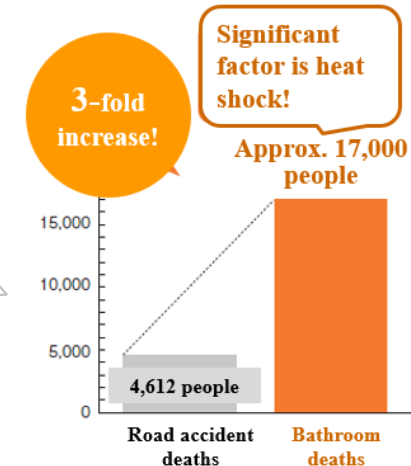
● Blood pressure fluctuates with changes in temperature



Sudden changes in blood pressure can cause **heat shock** when taking a bath!

Number of deaths in **bathrooms** exceeds deaths through road accidents by around **three times**

● Road accidents deaths vs bathroom deaths (2011)



* Sources: “Survey of Sudden Deaths among Elderly in Bathrooms” (Tokyo Metropolitan Institute of Gerontology, 2011); “Report on Road Accident Deaths in 2011” (Bureau of Statistics, Ministry of Internal Affairs and Communications)

New advances in popular *DELICIA* Series



More user-friendly and easier to clean, with improved function and design, in response to customer feedback



Popular Heat OFF and Smoke OFF functions retained; large, easy-to-read dot-matrix LCD display adopted

New
DELICIA
DELICIA

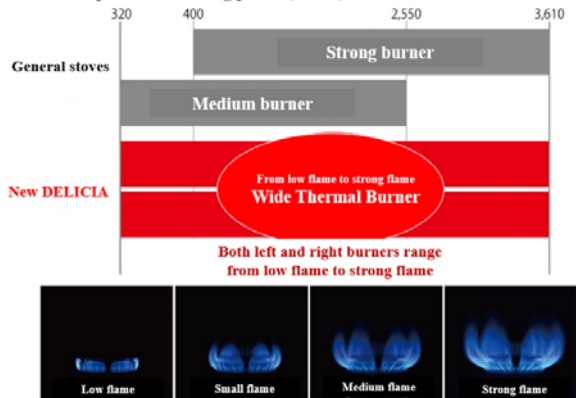
August 1 launch



GOOD DESIGN AWARD 2013

Good Design Awards 2013 (Japan Institute of Design Promotion) received for New DELICIA, built-in stoves.

■ Comparison of heating power (kcal/h)



Both left and right burners are wide-range thermal burners ranging from simmering flame to strong flame



Continuous auto grill



Industry's first continuous auto grill allows two continuous automatic cooking operations to be performed



Easier to install and more stable thanks to longer horizontal trivet extensions

Tabletop Stoves

Easy and fun to use, with functionality and attractive design



All of the highly acclaimed cooking and easy-maintenance functions of the high-end *Ancie* series adopted:



Heat OFF



Auto grill function



Easy-to-clean grill

LAKUCIE

August 26 launch



Brown tone

Pink tone

Red tone

Three color selections to suit kitchen styling and interior design sense

Power of gas leaves clothes soft and full



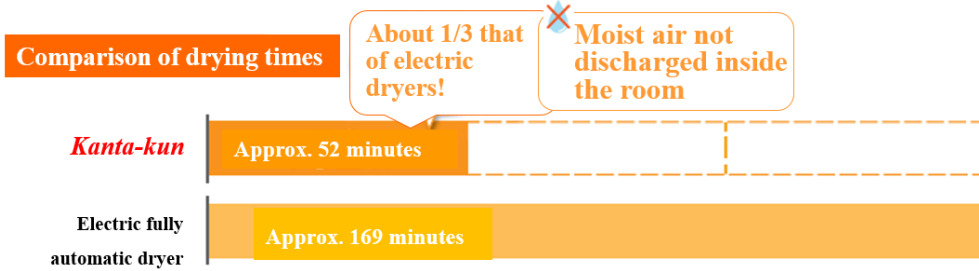
First full model change in 13 years

- Helps shorten clothes-drying cycle and reduce housekeeping time
- Clean drying with same antibacterial effect as drying in the sun
- No need to dry outside so no worry about pollen season or atmospheric pollution
- Soft on the fabric fibers for comfortable results
- Plasmacluster Ion technology adopted (reduces static electricity)

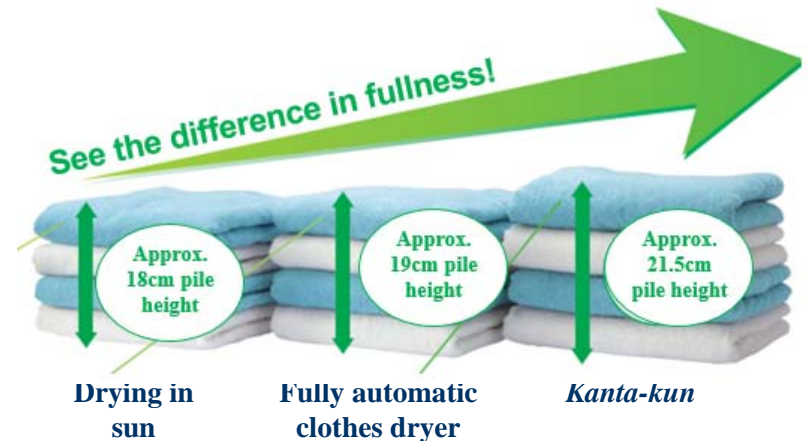


* The Plasmacluster Ion logo and name (in Japanese and English) are registered trademarks of Sharp Corporation.

Speedy Kanta-kun



* Assumptions: 5kg clothes load (50% cotton; 50% polyester); 70% dehydration degree; using RDT-52S model; drum-type model used for electric clothes dryer; LPG used as gas; based on Rinnai research



Powerful warm gas blast shorten drying times, about 1/3 that of electric dryer

Powerful warm gas blast sent through the large-capacity drum leaves clothes soft and full

Consolidated Capital Expenditure Plan

Full-year consolidated capital expenditures: Results and plan

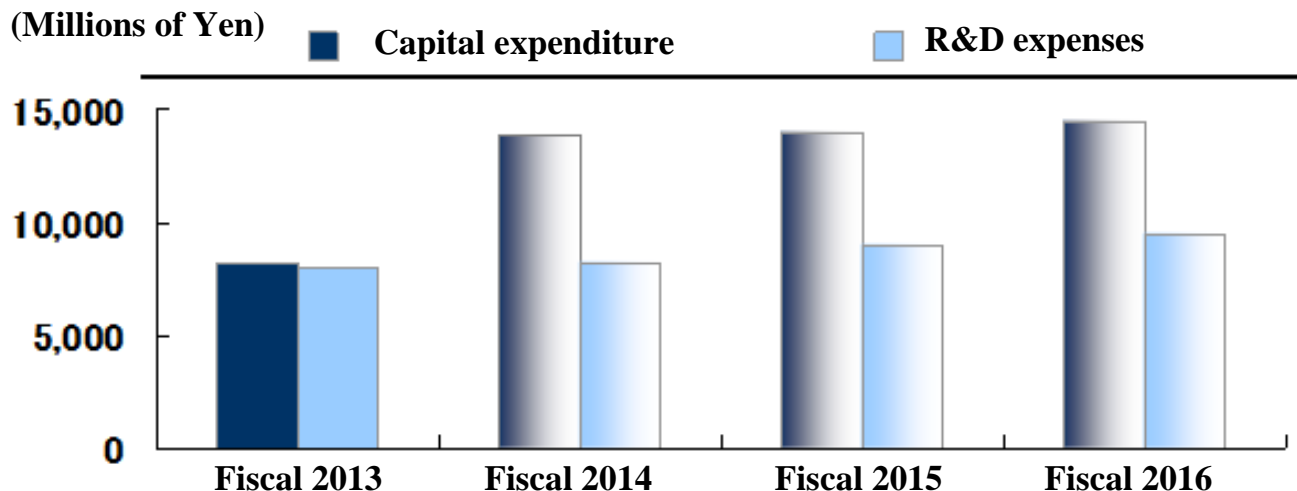
(Millions of Yen)

	Fiscal 2013 (actual)	Fiscal 2014 (plan)	Changes
Capital expenditure	8,222	13,900	5,678
Depreciation and amortization	8,805	8,700	-105
R&D expenses	8,060	8,300	240

Approx. ¥5.6 billion increase in capital expenditures in fiscal 2014

Future capital expenditure plan

(Millions of Yen)



Plan to make consistent annual investments of ¥14 billion to ¥15 billion over medium term

Medium-Term Investment Projection

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Japan (reinforce system with next-generation technological innovation)

Manufacturing



Akatsuki Plant

Integrated production of bathroom heater/dryers
Operational since May 2013

Leverage new plants to innovate Groupwide product manufacturing



ECO ONE
Hybrid hot-water/heating system



Bathroom heater/dryer

- Establish system with capacity of 30,000 *ECO ONE* units
- Build system for rational, integrated manufacture of system-based offerings, a pillar of future growth

Product development

- Expand and upgrade R&D facilities
- Reinforce Production Technology Center system



Production Technology Center

Sales

- Expand and upgrade space for sales activities (Hokkaido, Hokuriku, Kanto, Kansai, Chubu, etc.)
- Strengthen and upgrade distribution and service systems



Tsukuba Training Center

Overseas (strategic investments in growth-driver businesses)

- Expand and upgrade capacity of production facilities in Asia (China, Indonesia, Vietnam, Thailand, etc.)
- Make strategic investments in markets earmarked as next growth regions (ASEAN, Europe, etc.)

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.