

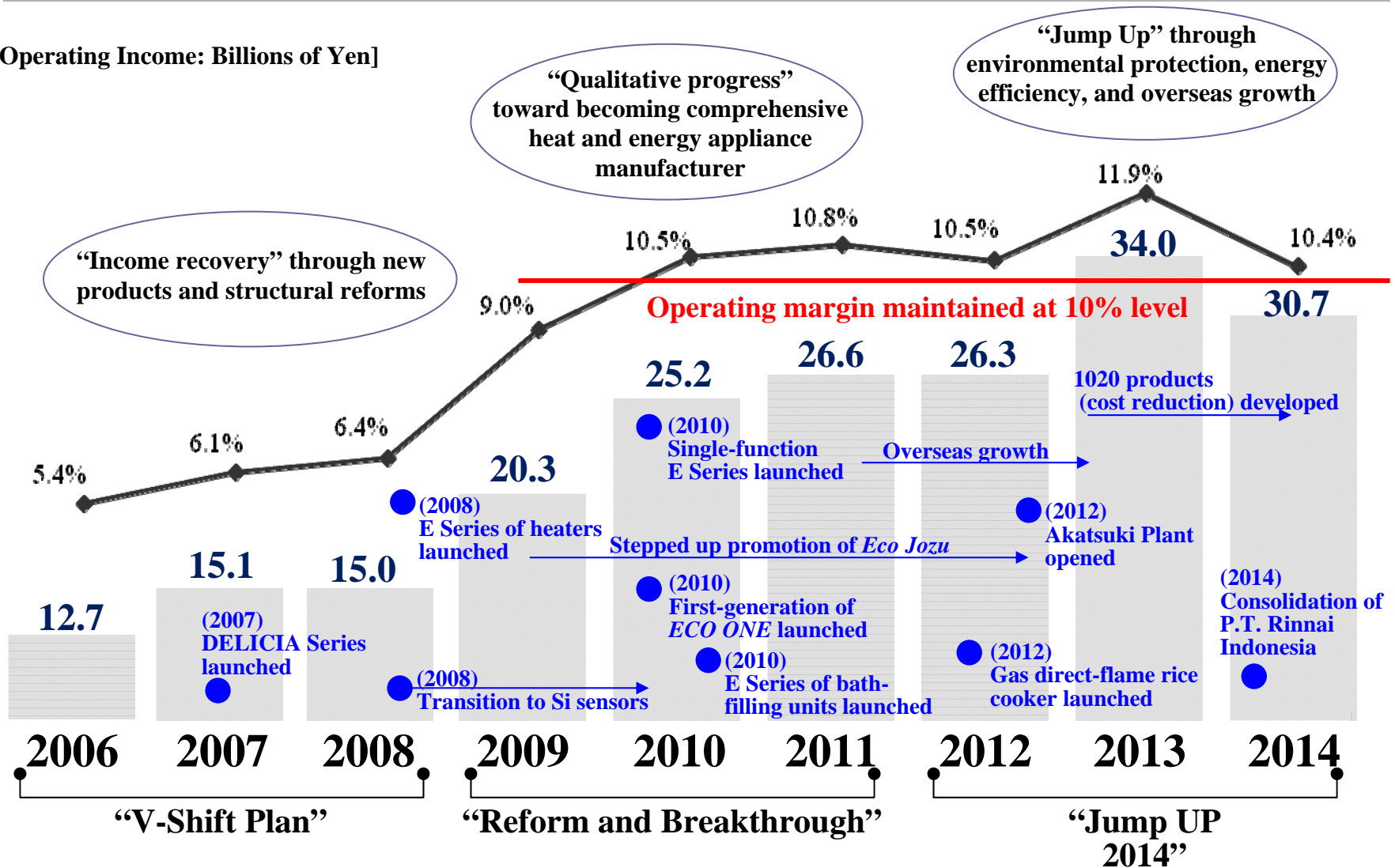
Rinnai

Business Outlook
Medium-Term Business Plan,
“Evolution and Succession 2017”

May 8, 2015

Review of Previous Medium-Term Business Plans

[Operating Income: Billions of Yen]



Changing Business Environment

	Japan	Overseas (advanced nations)	Overseas (emerging nations)
Background	<ul style="list-style-type: none">- Electricity and gas deregulation- Ministry of Environment energy policies (zero-energy house, etc.)	<ul style="list-style-type: none">- Energy diversification- Stronger environmental regulations	<ul style="list-style-type: none">- Electricity shortages; proliferation of gas- Emphasis on environmental protection
	<ul style="list-style-type: none">- Falling birthrate, ageing population (Declining workforce; diversifying human resources)	<ul style="list-style-type: none">- Rising awareness about environment, energy efficiency, and safety	<ul style="list-style-type: none">- Rising living standards- Growing number of middle-income earners

Confronting major unprecedented changes over the next three years (2015–2017)

**Create new products and services that will transform our business.
Rinnai will continue using heat to benefit society.**

Overview of “Evolution and Succession 2017”

Evolution

Reform business model

- * Provide system-based products in timely manner
- * Create new products and services

Address changing environment

- * Deregulation of energy
- * Growing overseas sales ratio
- * Diversifying human resources

Pursue priority issues aimed at evolution

Rejuvenate organization / Foster human resources / Enhance business efficiency

Succession

“Quality is our destiny”

“Rinnai Spirit”

**Establish reputation
as comprehensive heat and energy appliance manufacturer**

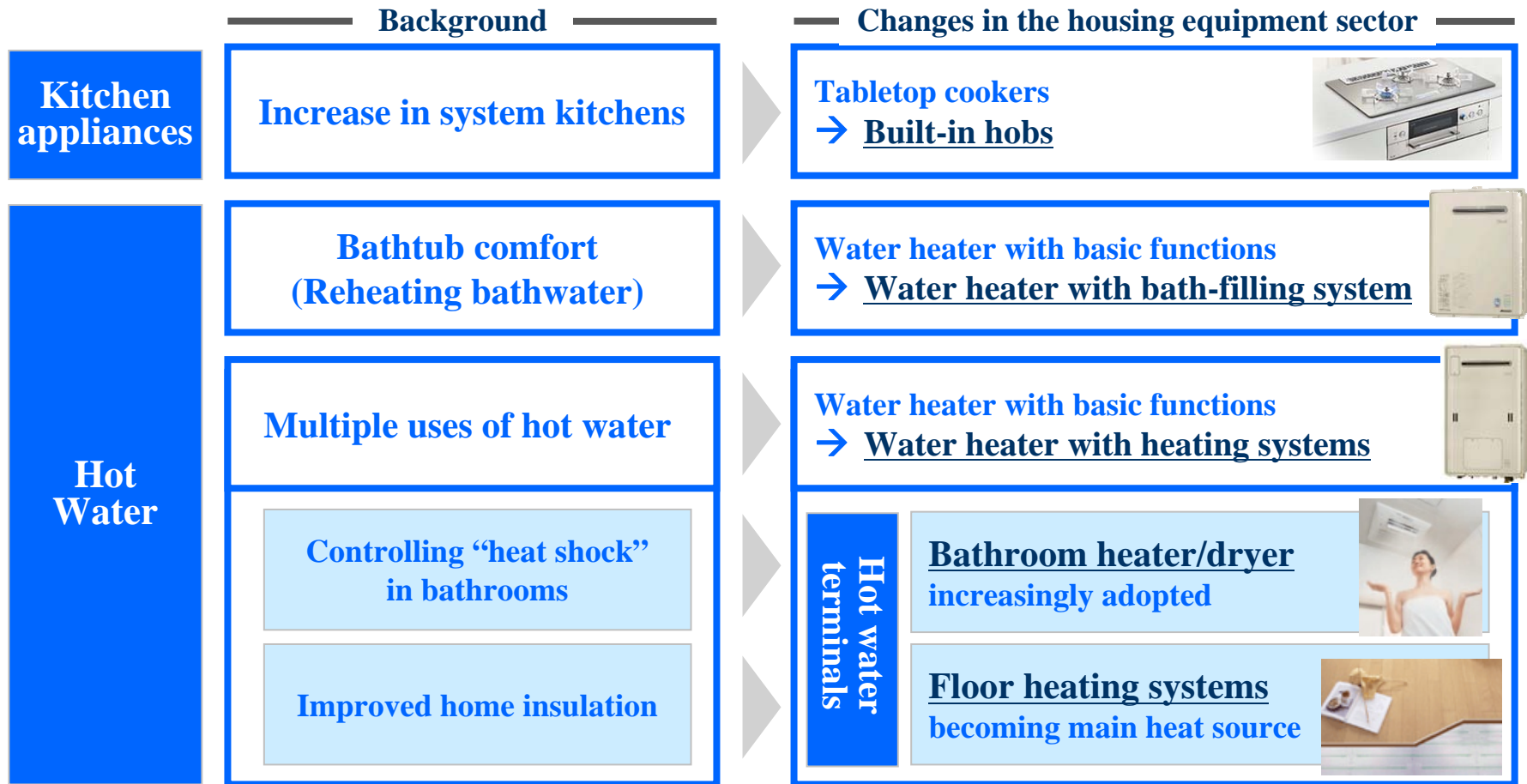
Domestic business model

Gas appliance peripherals business model

Overseas business model

New domains business model

Changing trends for conventional products



Transition to system-based offerings marks shift to high-value-added products

Leveraging our *ECO ONE* hybrid water heater with heating system to rebuild our business model for system-based products

ECO ONE

New!

Third generation
ECO ONE

Launched: April 2015



**Features of
*ECO ONE***

World's highest primary energy efficiency of 138%

Adaptable to various situations (narrow spaces, cold regions, detached houses, condominiums, etc.)

Self-learning function tailored to home usage scenario

Highly compatible with solar power generation

Network-compatible (HEMS, etc.)

By strengthening the development, production, and sales processes, we will make *ECO ONE* the pillar of domestic business growth.

Production system

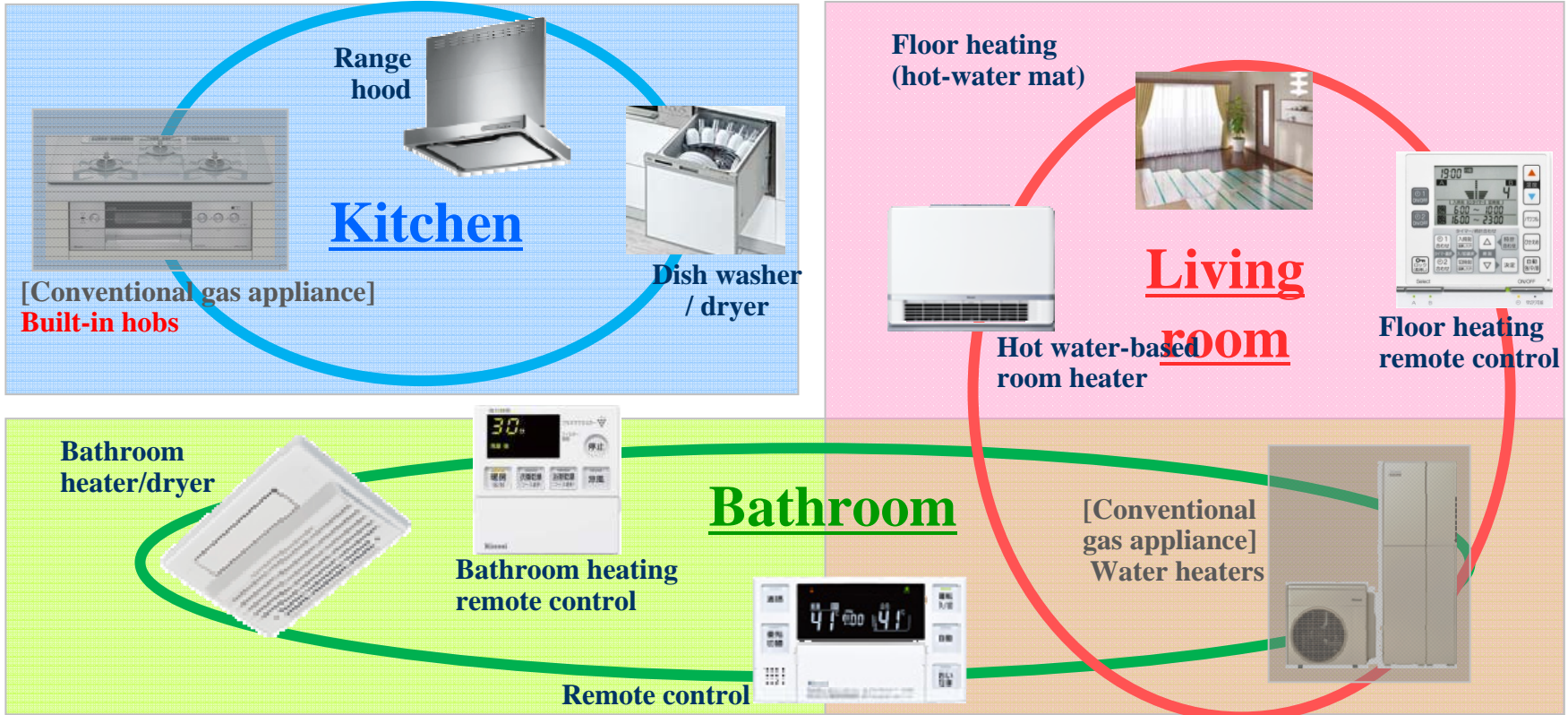


Akatsuki Factory

New wing of Akatsuki Factory to be completed within three years
Fiscal 2018 (March 2018):
Annual production of *ECO ONE* to surpass 30,000 units
(Targeting 100,000 units in fiscal 2021)

Gas Appliance Peripherals Business Model (Japan)

Rinnai makes all of its products efficiently in Japan.
We will protect the competitiveness of our gas appliance peripherals.



Sales
[% of domestic sales,
excluding imports]

¥25 billion
[15%]
Fiscal 2015
(Mar. 2015)



¥ 29 billion
[17%]
Fiscal 2018
(Mar. 2018)

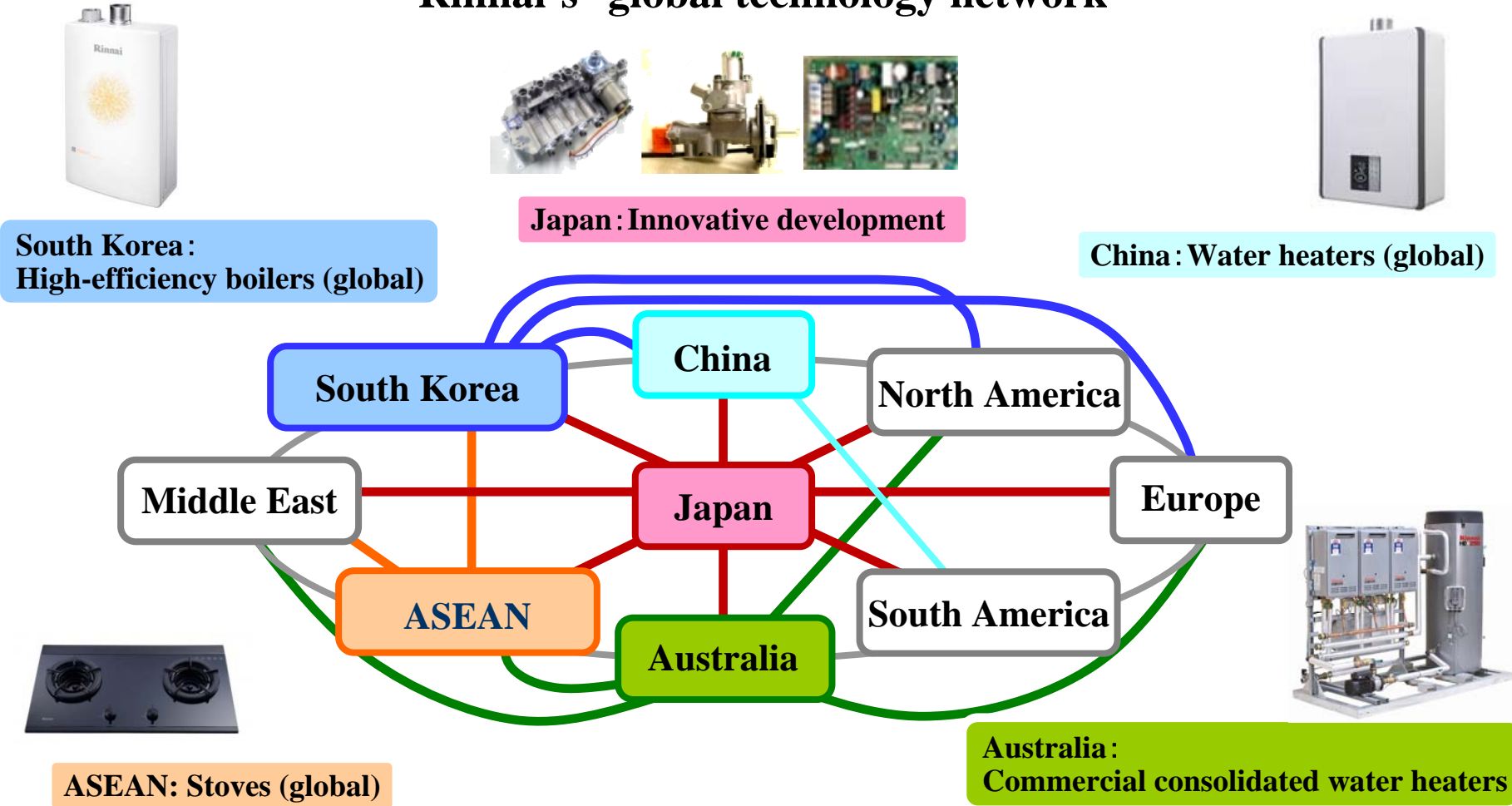


¥ 35 billion
[20%]
Fiscal 2021
(Mar. 2021)

Growing sales of peripherals apart from gas appliances

Overseas Business Model

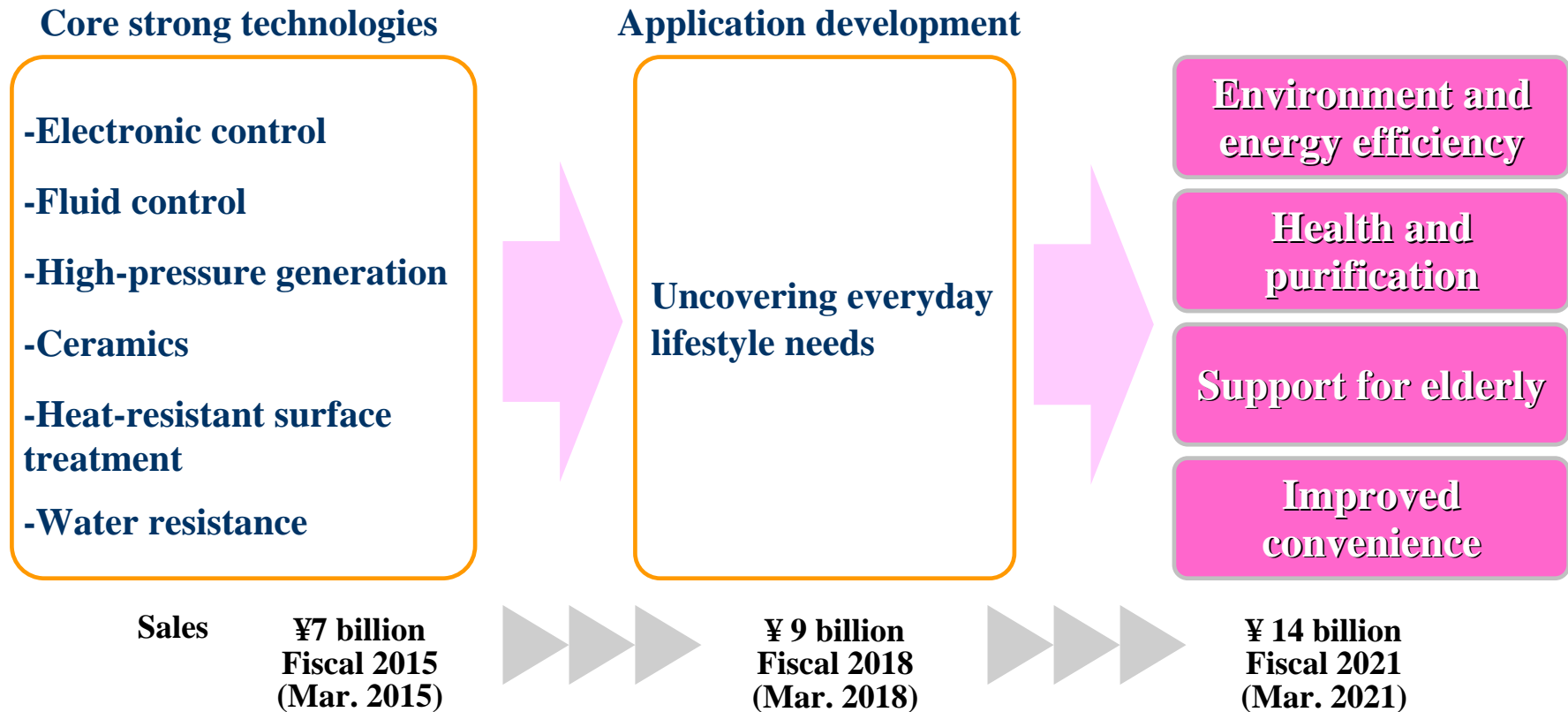
Rinnai's global technology network



**Synergistic benefits of linking respective Group strengths.
Transition from local congregations to technology alliance-based model.**

New Domains Business Model

Expanding new businesses in genres different from heat appliances



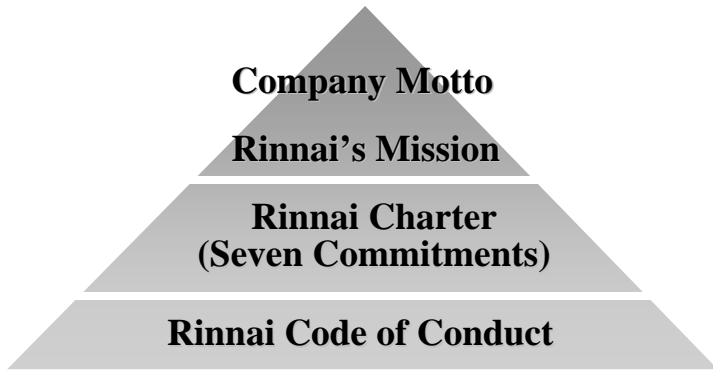
Apply core technologies amassed in gas appliance production.
Deploy strengths in product manufacturing to benefit people's lives.

Corporate Philosophy

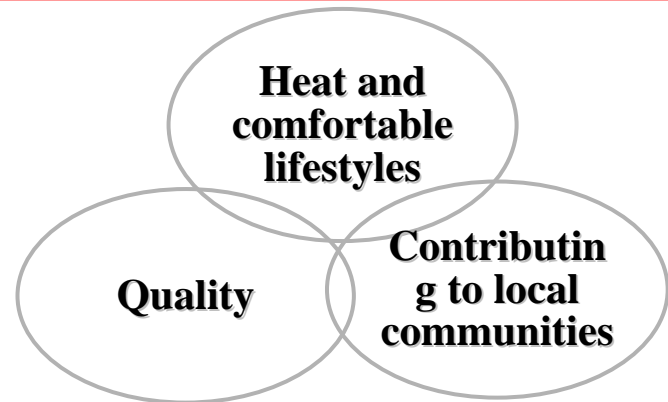
Basic Concepts

“Quality is our destiny”

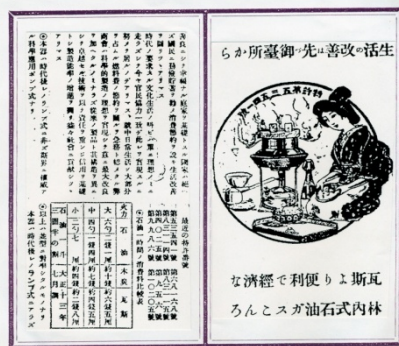
Schematic Diagram of Company Ideals



Three Key Themes



Spirit of foundation



“Raising living standards begins in the kitchen”

Rinnai's Mission

“Rinnai utilizes heating to provide society with a comfortable way of life.”

“Rinnai petroleum-fuelled stove” brochure

Rinnai Products for Heat and Comfortable Lifestyles 11

Gas equipment

Production bases:
Japan, Asia, Oceania, etc.



Built-in-stove



Rice cooker



Water heaters



Fan heater



Tabletop stove



Clothes dryer



Fireplace

Electrical equipment

Production bases:
New Zealand

ASEAN

China

Korea

Japan

(range hoods,
dishwashers)



Range hood



Water heaters



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)

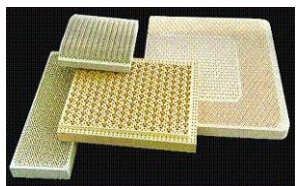
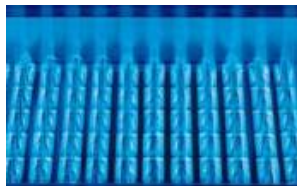
Basic Philosophy of Product Manufacturing:

—Relentless Pursuit of Quality and Safety—

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Basic management philosophy: “Quality is our destiny”

In-house development of core technologies related to heat



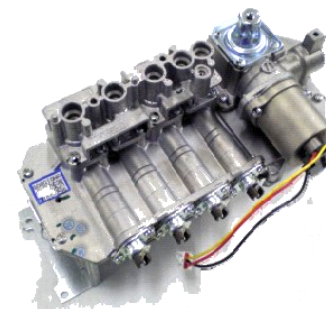
Burners



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

Rinnai

Local production and local sales

16 nations worldwide;
manufacturing and sales companies in nine countries, sales companies in eight countries



Exports (distributor sales) → Establish sales bases
→ Contribute by incrementally establishing production bases

“Evolution and Succession 2017” (From April 2015 to March 2018)

Challenges for evolution		Succession of Rinnai Spirit
1	Respond to changing environment	“Quality is our destiny” “Rinnai utilizes heating to provide society with a comfortable way of life.”
2	Pursue core priorities aimed at evolution	
3	Reform business model	

Make major advances toward 2020 (Rinnai’s centenary year) as a comprehensive manufacturer of heat and energy appliances

- Aspirations**
- ▶ **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

Medium-Term Business Plan (April 2015–March 2018)

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《Consolidated》

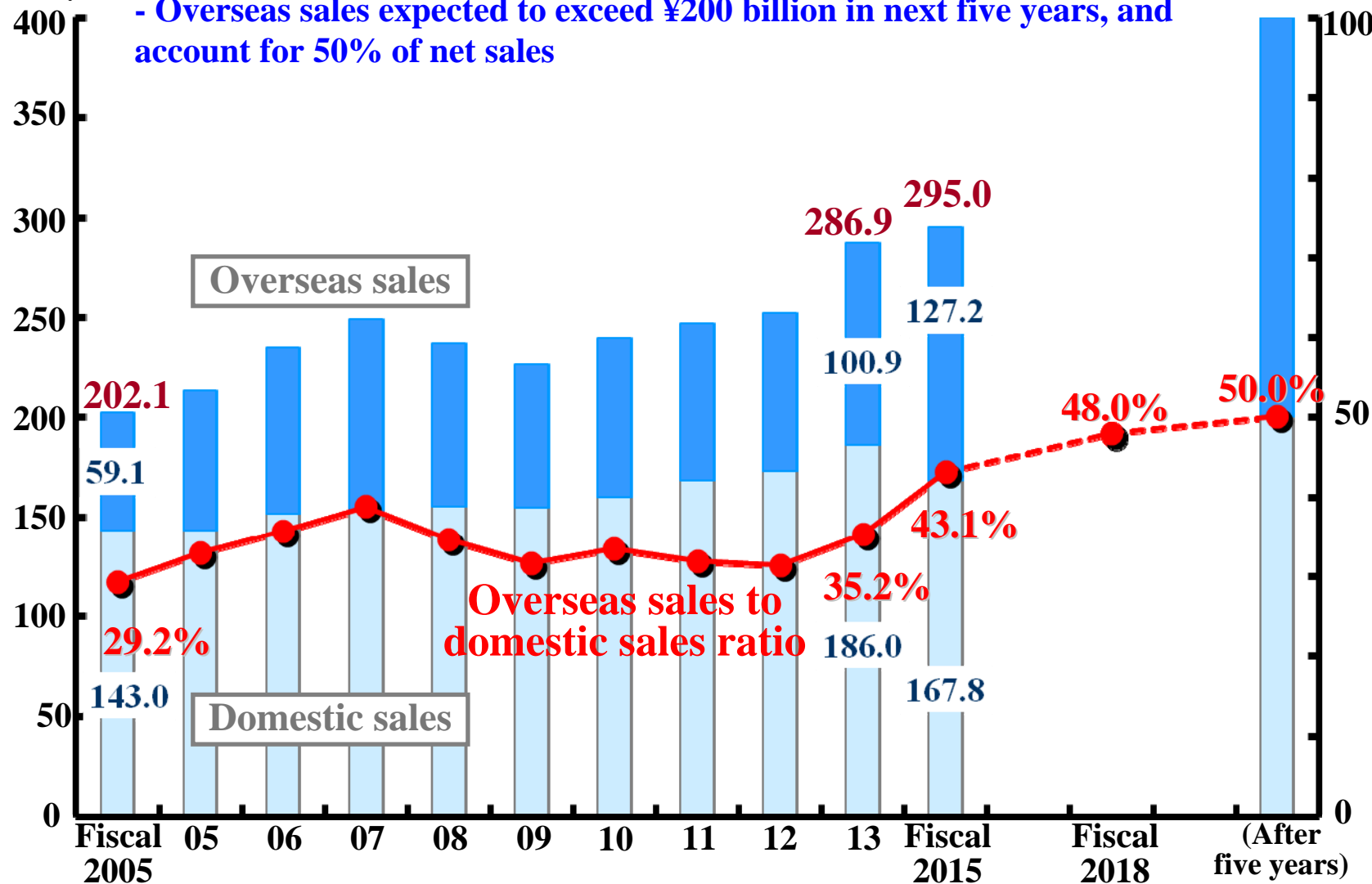
		Actual	Medium-Term Business Plan “Evolution and Succession 2017”				
		Fiscal 2015	Fiscal 2016 Target	Fiscal 2017 Target	Fiscal 2018 Target	Comparison to Fiscal 2015	YOY Changes
[Billions of Yen]							
Net Sales		295.0	318.0	337.0	350.0	118.6%	550
Breakdown	Domestic	167.8	175.0	182.0	182.0	108.5%	142
	Overseas	127.2	143.0	155.0	168.0	132.1%	408
	(Overseas sales ratio)	43.1%	45.0%	46.0%	48.0%	—	4.9p
Operating Income		30.7	34.0	37.0	39.0	126.7%	83
Operating Margin		10.4%	10.7%	11.0%	11.1%	—	0.7p

Overseas Sales

- Overseas sales have doubled in past decade, and now exceed ¥100 billion
- Overseas sales expected to exceed ¥200 billion in next five years, and account for 50% of net sales

[Billions of yen]

[%]



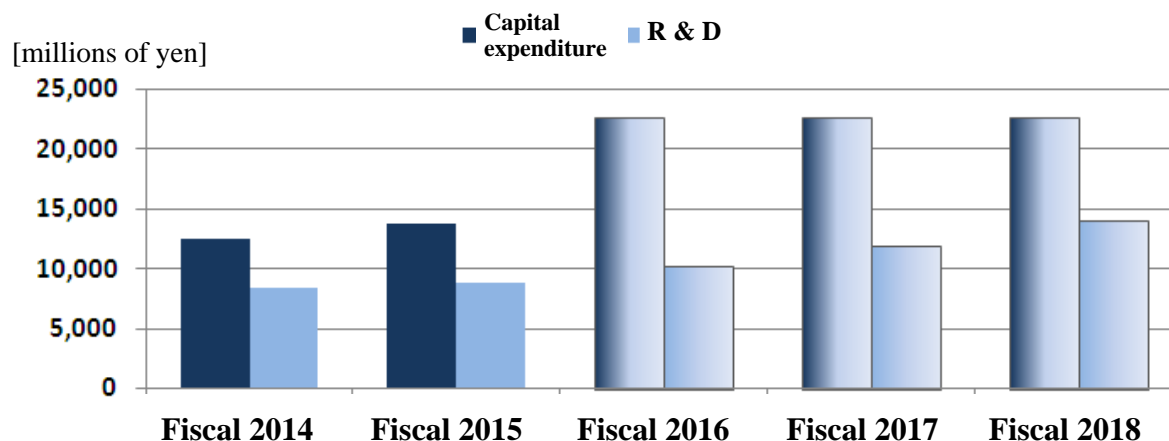
Consolidated Capital Expenditure Plan

Consolidated Capital Expenditure in Fiscal 2015 - 2016

[millions of yen]	Fiscal 2015 (Actual)	Fiscal 2016 (Target)	YOY
Capital investment	13,774	22,700	8,926
Depreciation	9,477	10,400	923
R & D	8,895	10,200	1,305

Fiscal 2016: Capital expenditure to increase by around ¥9 billion

Capital Expenditure Plan



“Evolution and Succession 2017”: Investments to remain high at around ¥22 billion level

Japan (investments to expedite advancement of business model)

Manufacturing

Build streamlined production framework for system-based products, centered on *ECO ONE*



Akatsuki Factory



ECO-ONE



Bathroom heater/dryer

- Construct new wing of Akatsuki Factory
- Increase *Eco Jozu* production capacity at Seto Factory
- Renovate facilities at Oguchi Factory
- Strengthen production systems for new businesses and domains

Product development

- Expand/upgrade R&D facilities
- Strengthen production technology development system
(Develop molds, equipment, new products)



Environmental testing laboratory (image)

Sales/marketing

- Expand floor space of sales bases (Hokkaido, Chubu, South Kanto, etc.)
- Strengthen service system
- Build new distribution center



Hokkaido branch (image)

Overseas (strategic investments in new growth drivers)

- Strengthen core bases of global technology network (Australia, South Korea, China, Indonesia, etc.)
- Reinforce hub bases for tapping new markets (Italy, Middle East, Brazil, etc.)
- Strengthen sales/production systems in line with growth (United States, Taiwan, New Zealand, Vietnam, 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.