

Rinnai

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

May 10, 2016

Medium-Term Business Plan: Progress Report

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

Challenges for evolution

- 1 Respond to changing environment
- 2 Pursue core priorities aimed at evolution
- 3 Reform business model

Keys to business model advancement

More advanced system-based products

Stronger non-gas offerings

Global technological interaction

Tapping new lifestyle-related fields

Succession of Rinnai Spirit

- 1 **Key Theme**
“Heat and comfortable lifestyles”
▶ Use heat to provide comfortable, secure, environmentally friendly living
- 2 “Quality is our destiny”
▶ Pursue core technologies and manufacturing reflecting commitment to quality
- 3 Contributing to local communities
▶ Take root in local-production-and-sales regions, centered on local Rinnai bases

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

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

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《Consolidated》

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

[Billions of Yen]

		Fiscal 2016 Target	Fiscal 2016 Actual	Fiscal 2017 Initial Target	Fiscal 2017 Revised Target	Fiscal 2018 Target
Net Sales		318.0	319.9	337.0	337.0	350.0
Breakdown	Domestic	175.0	169.5	182.0	189.0	182.0
	Overseas	143.0	150.4	155.0	148.0	168.0
	(Overseas sales ratio)	45.0%	47.0%	46.0%	43.9%	48.0%
Operating Income		34.0	34.5	37.0	37.0	39.0
Operating Margin		10.7%	10.8%	11.0%	11.0%	11.1%

**Fiscal 2017
Target**

- * No change in forecasts for net sales and operating income
- * Domestic sales below initial forecast but revised upward with addition of Gastar
- * Overseas sales revised downward due to declining benefits of translating foreign currencies into yen

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Rollout of new *ECO ONE* E Series in Fiscal 2017

“Connective technologies” conducive to the era of energy deregulation

ECO ONE



ECO ONE E Series
Retail price: ¥ 650,000 ~ 910,000
Launch: May 10, 2016



Kitchen remote control



Bathroom remote control

MBC-301VC remote control set
Retail price: ¥ 55,000
Launch: May 10, 2016

New remote control that “connects” with smartphones and tablet devices

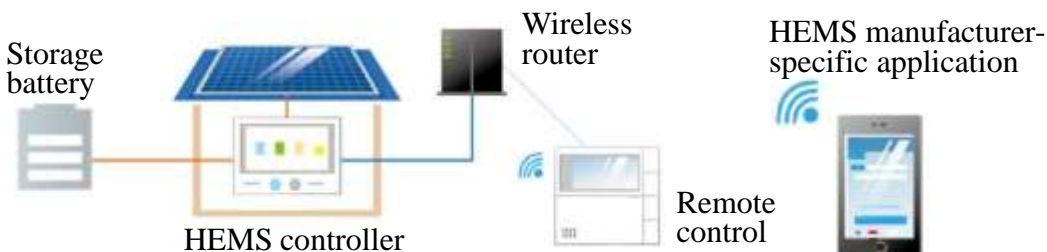


MBC-302VC remote control set compatible with wireless LAN, allowing operation via smartphone



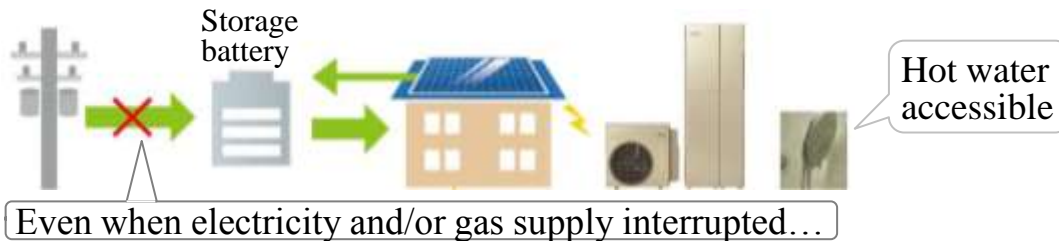
Operation screen

“Connects” with HEMS (includes ECHONET Lite communication function)



* Requires development of dedicated application by HEMS manufacturer

“Connects” with energy self-sufficient homes



Even when electricity and/or gas supply interrupted...



List Residence Yoga

(Image of completed project)

Address: Setagaya-ku, Tokyo
Size: 48 condominium units
Completion schedule: December 2016

All units certified as low-carbon constructions thanks to *ECO ONE* and floor heating installed as standard

(First condominium project in Tokyo Metropolitan Area to have all units certified)

[Merits]

***ECO ONE* installed**

- * Reduced CO₂ output helps global environment
- * Lower utility costs

Low-carbon construction certification

* **Preferential tax treatment and flat-35S interest rate**

(Increased borrowing capacity and tax cuts; extension of preferential low interest rate)

“Zero Energy House (ZEH) Roadmap,” December 2015

(Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry)

“By 2020, more than half of new residential buildings will be ZEH constructions”

* ZEH: Houses in which the net annual primary energy consumption is zero

Large housing construction companies are upgrading their ZEH plans, and more and more are adopting *ECO ONE* within those plans.

Bathroom Heater/Dryer



Bath Hotto

Model: RBHM-C419K1P

Retail price: ¥226,000

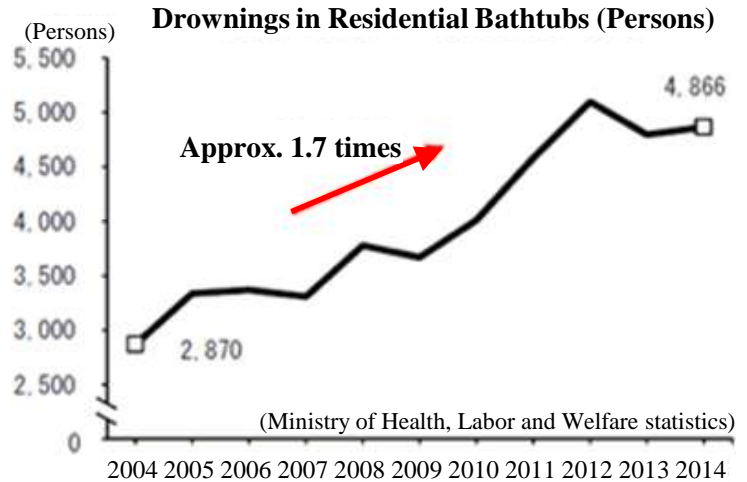
Launched: April 2016



* Plasmacluster is a registered trademark of Sharp Corporation

Bathroom heater/dryer (With splash-mist sauna)

- * Thinner front panel (from 45mm to 21mm)
- * Inclusion of splash-mist functions makes conversion to sauna easy
- * Features Plasmacluster*, which eliminates mold/bacteria
- * Includes “Save Course” for 32% reduction in heat/utility costs
- * Auto-off exhaust operation driven by humidity sensor



4,866 people drowned in 2014, up around 1.7 times in past 10 years

“Heat shock,” caused by sudden temperature changes when entering the bath in winter, places pressures on the heart and makes accidents easier to happen.

We recommend our bathroom heater/dryer as an effective means to prevent “heat shock” caused by sudden temperature changes on the body.

JAPAN

はやい
乾太くん



Speedy *Kanta-Kun*
RTD-52S

Reduced household work time

Powerful warm air from gas dries 5kg load in around 52 minutes (approx. one-third vs electric models)

Clean drying

Peace of mind even during flower-blooming season and air pollution; Kanta-kun excels all year round

Rain

Pollen

PM2.5

Yellow dust

No indoor-drying odors, yet retains same antibacterial benefits as outdoor drying

Overseas



RD-61S

Example of clothes dryers in South Korea

Growing concern about health and environmental issues related to hanging washing outside

Sharp increase in clothes-dryer sales due to rising need to hang washing indoors

Choosing gas models after considering impact of electricity costs

Built-In Hobs (stovetops)

High-end

Mid-range

Mass market



DELICIA

Bundled with Cocotte
Launched August 2015

**DELICIA
GRILLER**

LiSSe

Mytone

Launched August 2015

Special container used in grilling unit



Cocotte Dutch Oven
Enables full-scale grill-cooking, etc.



Cocotte
Open-fire grill-cooking for fish, non-fried food, etc.

Range hood connectivity



Range hood turns automatically on/off as stove ignited/extinguished

No problem if you forget to turn exhaust fan off

(Note: Connective versions are limited)

Recommended as set with replacement stove

Stimulating demand with enhanced functions for cooking and convenience

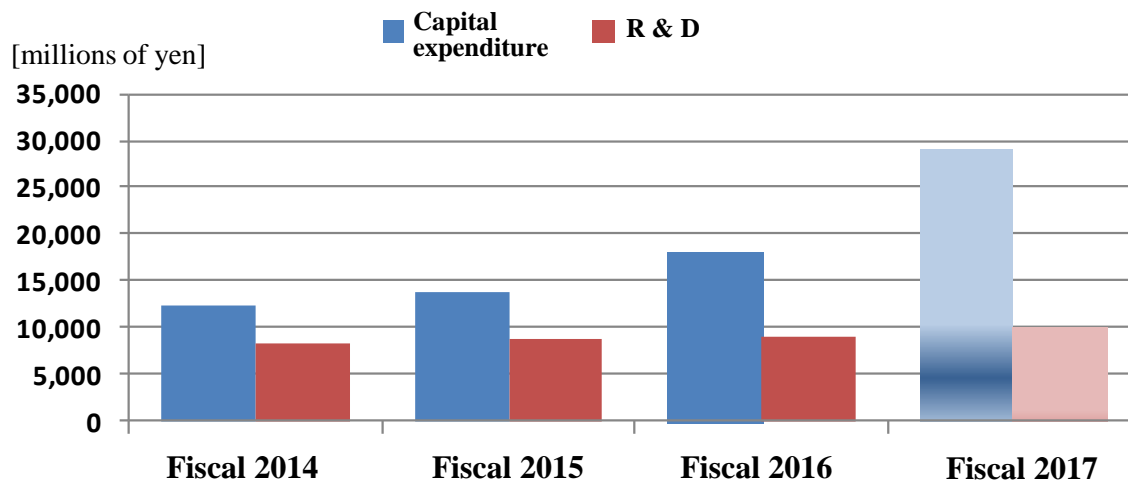
Consolidated Capital Expenditure Plan

Fiscal 2016 Results and Fiscal 2017 Target

[millions of yen]	Fiscal 2016 (Actual)	Fiscal 2017 (Target)	YOY change
Capital investment	16,938	28,900	11,962
Depreciation	10,211	11,000	789
R&D	9,113	10,000	887

Plan to increase capital expenditures by around ¥11 billion in fiscal 2017

Consolidated Capital Expenditure



Continued high-level investments with year-on-year increases

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
- * Purchase land for reconstruction of Oguchi Factory
- * Renewal of welfare wing of Seto Factory
- * Construct offices and welfare wings at affiliated companies

Product development

- * Invest in new product development (*ECO ONE*, water heaters in US market, Clothes dryers, Dish washer, etc.)
- * Strengthen production technology development system (Develop molds, equipment)

Sales/marketing

- Strengthen functions of sales bases (Chubu Branch, Minami-Kanto sales office, etc.)
- Strengthen service system
- Build distribution center



Chubu Branch

Overseas (strategic investments in new growth drivers)

- * Reinforce/expand production bases in line with demand growth (construct factories and expand land sites in China, South Korea, Australia, etc.)
- * Expand market and strengthen sales bases in newly tapped markets (Dubai, United States, China, etc.)
- * Improve production capacity; step up in-house manufacturing and facility streamlining (capital expenditures in Indonesia, China, South Korea, etc.)

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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.