

Rinnai

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

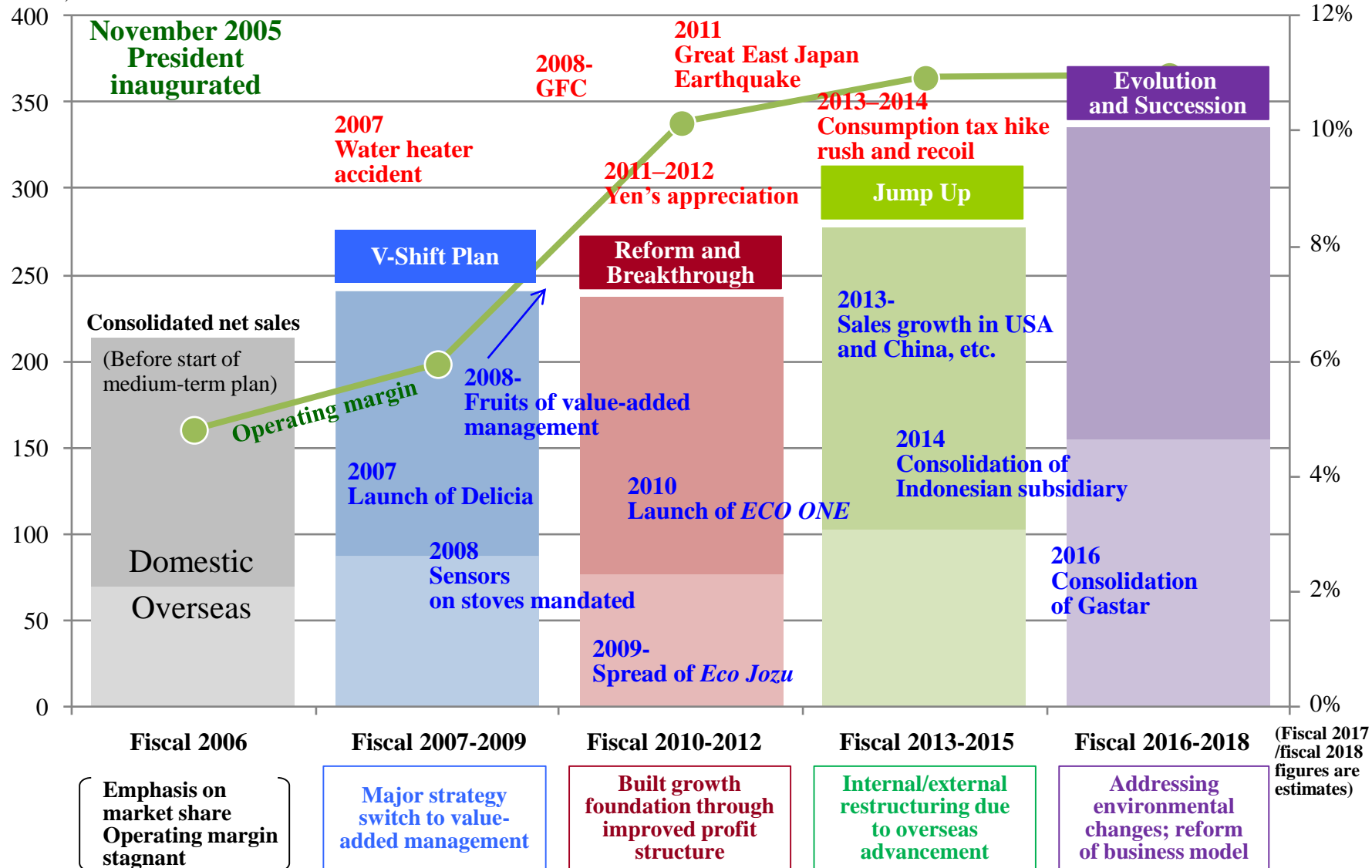
November 4, 2016

Decade in Review

Net sales
(¥ billions)

* Medium-term plan figures for net sales and operating margin are three-year averages

Operating margin



(Fiscal 2017 /fiscal 2018 figures are estimates)

Medium-Term Business Plan

“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”
- 2 “Quality is our destiny”
- 3 Contributing to local communities

Consolidated Business Plan

[Billions of Yen]

Final Year’s Target (Fiscal 2018)

Net Sales	350.00
Operating Income	39.0
Operating Margin	11.1%

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

Exploiting Business Environment Changes to Enter Long-Term Growth Trajectory

Business environment changes	Japan	Overseas (Advanced nations)	Overseas (Emerging nations)
	<ul style="list-style-type: none">- Electricity/gas market deregulation- Promotion of environmental and energy-efficiency measures (ZEH, low-carbon certification for homes, etc.)- Household numbers peaking- Aging population; increase in single-person households	<ul style="list-style-type: none">- Energy diversification- Tightening of environmental measures and rules (Driven by EU; emphasis on renewables)- Rising awareness about environment, energy efficiency, and safety	<ul style="list-style-type: none">- Electricity shortages; proliferation of gas- Promotion of environmental protection- Rising incomes and living standards- Growing populations and household numbers

Switch to advanced eco-friendly, energy-efficient appliances
Increase in households using heat appliances

Medium-term business plan as transitional period

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

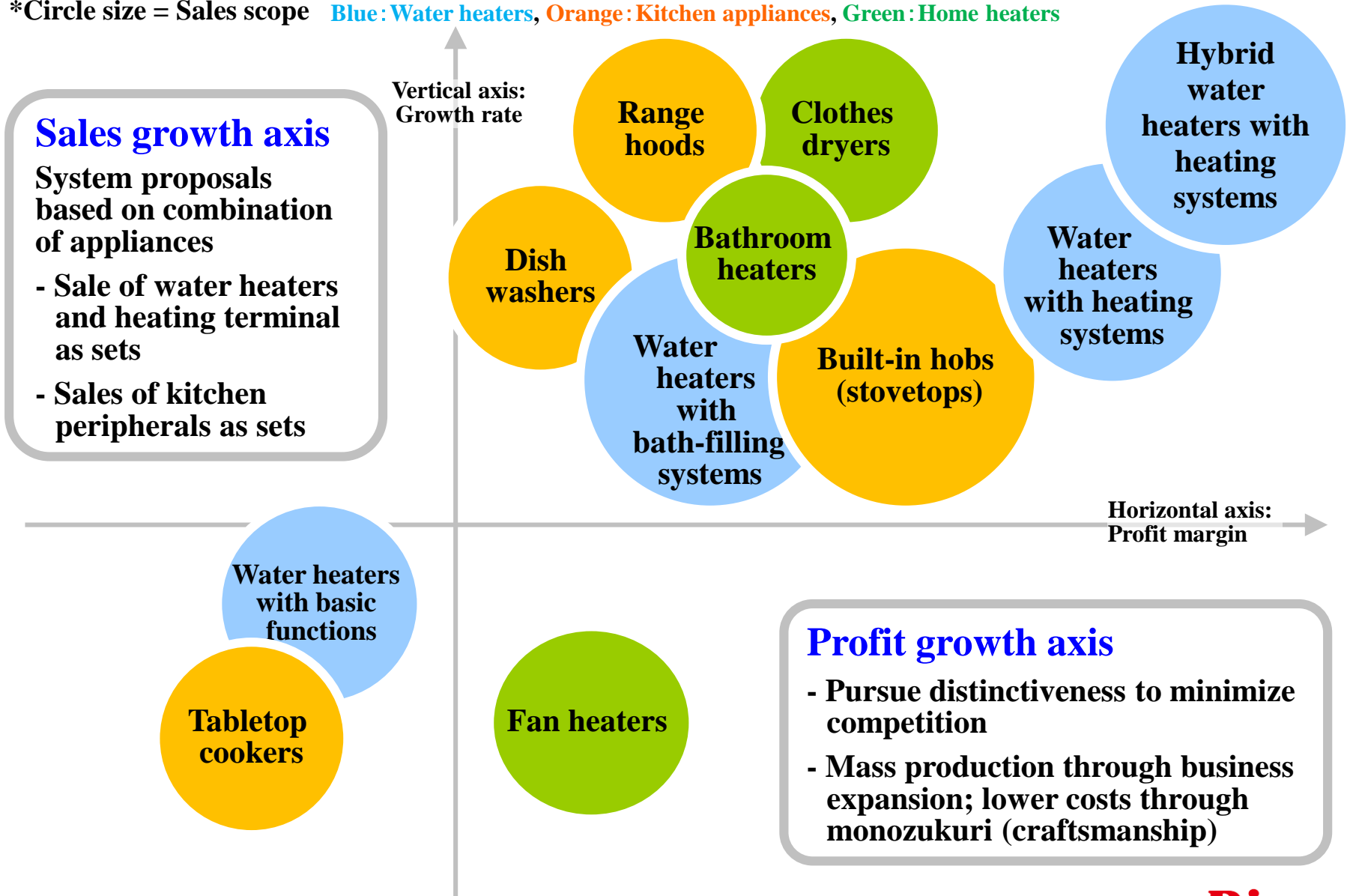
Next medium-term plan (From April 2018 to March 2021 : Rinnai's 100th anniversary)

Renewed growth as comprehensive heat-energy appliance manufacturer

Rinnai will apply heat-deployment technologies to resolve living-related issues while using its long-term growth business model for ongoing social benefit.

Japan: Long-Term Objectives (2030 vision for business growth)

*Circle size = Sales scope **Blue: Water heaters**, **Orange: Kitchen appliances**, **Green: Home heaters**

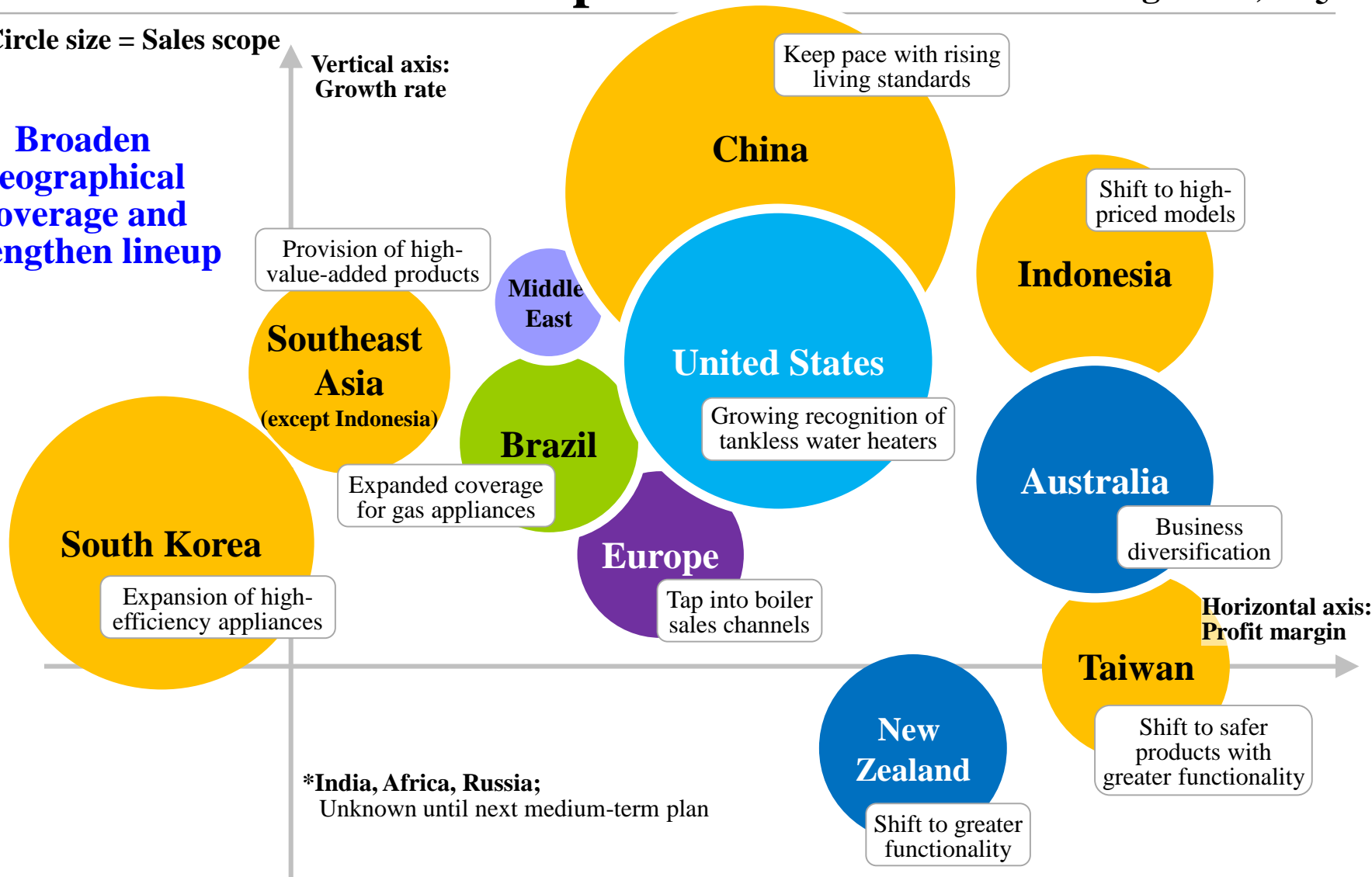


Future Overseas Development (2030 vision for business growth)

*Circle size = Sales scope

Vertical axis:
Growth rate

Broaden
geographical
coverage and
strengthen lineup



Boost cost-competitiveness by deploying strengths in developing appealing products and global presence

Third-Generation Series of *ECO ONE*

ECO ONE



ECO ONE E Series

Retail price: ¥ 650,000 ~ ¥ 910,000

Launch: May 2016

Third-generation *ECO ONE* is even more advanced

Water heater operation from anywhere in the house



Operation screen

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



Activate bath-filling and water reheating from any room

Water heating remote control connected to home energy management system (HEMS)

Storage battery



HEMS controller

Wireless router



Remote control



HEMS manufacturer-specific application



* Requires development of dedicated application by HEMS manufacturer

Diverse installation variations

Can be installed in cramped spaces or varied according to home layout



Wall-mounted



Under window

Hot water supply even if power is cut off



Addressing ZEH through *ECO ONE*

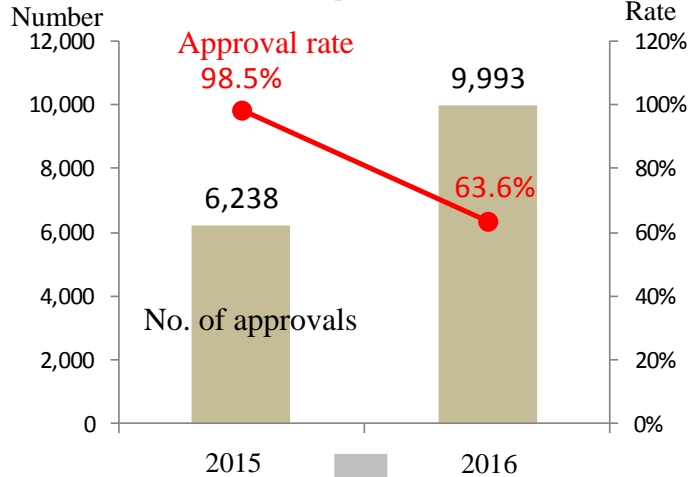
- **Business to expedite spread of ZEH:**
Second supplementary budget for fiscal 2016: ¥10 billion



Accelerate application

- **ZEH application approval rate**

Source: Sustainable open Innovation Institute



- Year-on-year decline in approval rate
- Rising hurdles to reducing energy consumption

ECO ONE key to approval

- **Schedule from application to delivery**

- November–December: Public invitation period
- December–January: Grant decision; construction start
- March–: Equipment delivery; handover



Settlement: Between end of term and beginning of following term

- **Industry trends**

- Both sellers and buyers are targeting “ZEH approval !”
- Adoption of *ECO ONE* increasing among home builders; purchasers adopting *ECO ONE* plans



Strengthen plans and ties with home-builders

New DELICIA Series of Built-In Hobs (Stovetops)



**Built-in hobs
DELICIA series**

Retail price: ¥270,000~ ¥ 330,000

Launch: August 2016



***Permits automatic cooking of five standard meal types
Arrival of “Stove Auto Menu”**



Grilled dumplings

Hamburg steak

Simmer fish

Stewed taro

Egg custard

***Arrival of DELICIA-only applications and cooking support functions (including automatic flame control) together with numerous recipes suggestions and automatic cooking**



Use smartphone application to find recipes and receive point-form cooking advice



Instruction sent from smartphone to stove automatically adjusts flame up/down



Step up sales promotions through TV commercials, Web videos, etc.

***Lighter-weight Cocotte and increased capacity of Cocotte Dutch Oven provide greater convenience**

22% reduction in Cocotte weight

22% increase in Cocotte Dutch Oven capacity



Enhanced Lineup of Dishwasher/Dryers

【Market background】

The market has been expanding since the 1990s, so replacement demand period is approaching. We have 5 new models with new functions matched to the various requirements of seasoned users.



Front-opening type

The front door opens outwards. Large capacity is a major feature.



Slide-out drawer type

Drawer slides out. No need to bend down when placing items in the unit, which is a good feature.

Launch of five models

New

Front-opening type

- (1) Large capacity that can also handle cookware

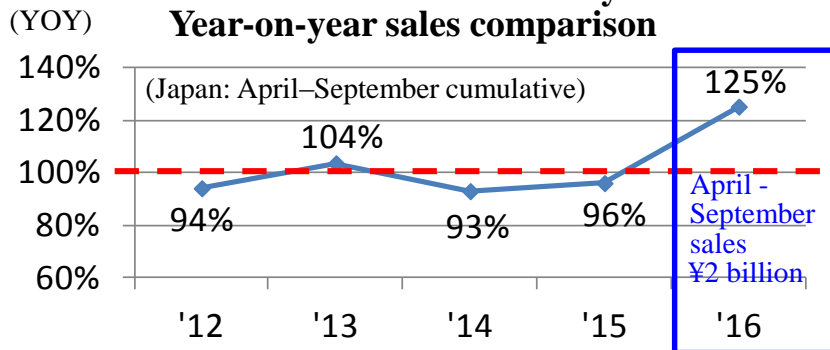
Slide-out drawer type

- (2) Wide 60cm model
- (3) High-grade model with silver ion coating
- (4) Slim-design model
- (5) 60cm-deep kitchen-compatible model

Launch: October 2016

Launch: August 2016

Rinnai-brand dishwasher/dryers: Year-on-year sales comparison



Most recent scenario

High pace of sales (unseen in recent years) resulting in increased contribution to business performance

Japan

はやい
乾太くん *Hayai Kanta-kun*



RDT-52S

Reduced housework time

Drying time around one-third vs electric models

Clean drying

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

Commercial-use Gas Clothes Dryers

New



RDTC-53S

Launch: October 2016

For beauty salons and nursing care facilities

Developed with high durability for facilities with high-frequency washing and drying

Overseas



RD-61S (South Korea)

Selling in China, Hong Kong, Italy, etc.; sales rising rapidly especially in South Korea

Example of 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

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
- Expand Oguchi Factory area for reconstruction
- 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.)

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.