

Rinnai

Shareholders' Report

Vol. 43

66th Interim Term
(April 1 to September 30, 2015)



TSE code 5947

<http://www.rinnai.com/>



Susumu Naito
Chairman



Hiroyasu Naito
President

In the two-quarter period under review (April 1–September 30, 2015), the world economy continued growing moderately, buoyed by ongoing economic expansion in the United States amid healthy personal consumption, as well as continued modest economic growth in Europe. In China, the economic growth rate slowed, and falling share prices also caused the economy to decelerate. By contrast, the Japanese economy showed moderate recovery owing to the softening impact of the consumption tax hike and firming personal consumption, as well as a turnaround in capital investments backed by solid corporate earnings.

The domestic housing appliance industry benefited from the dissipating impact of the recoil in demand following the rush ahead of the consumption tax hike. Other factors included various measures to stimulate demand, such as establishment of an energy-saving points system for houses and expansion of the tax-exempt scope for residential purchases. The markets for new houses and home renovations were also healthy.

Under these conditions, the Rinnai Group embarked on a new medium-term business plan, entitled Evolution and Succession 2017, which began in April 2015. Under the plan, we will ensure the “succession” of our corporate culture and spirit attained through our history, while emphasizing “evolution” of our business model so we can create new products and services that benefit society.

With respect to revenue, we reported a year-on-year increase in net sales thanks to solid sales of water heaters in Japan, United States, and China, as well as good progress in expanding our business in Australia. On the earnings side, we posted increased profit due to higher overseas sales and favorable foreign exchange factors, as well as cost reduction efforts. More details of our financial performance are given later in this report. The Company declared an interim cash dividend of ¥40.00 per share, up ¥2.00 from a year earlier.

Going forward, the Rinnai Group will keep abreast of various changes in the business environment as it innovates its business model in order to create new products and services. Our aim is to establish Rinnai’s reputation as a comprehensive manufacturer of heat and energy appliances.

We look forward to the renewed support and cooperation of all shareholders.

December 2015

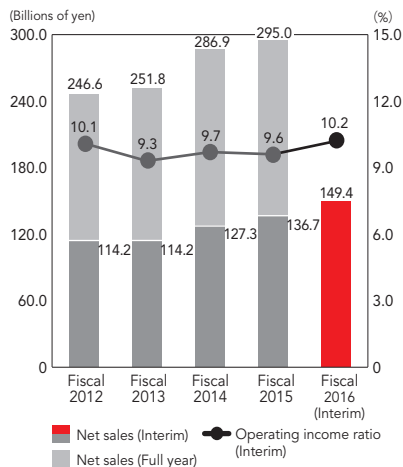
Susumu Naito
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Hiroyasu Naito
President

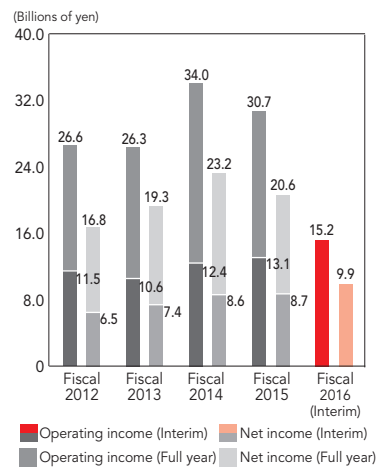
Performance Highlights

- Record-high figures across the board for net sales, operating income, ordinary income, and net income
- Achieved operating margin above 10%
- Interim cash dividend of ¥40.00 per share, for **sixth consecutive year of interim dividend increases**

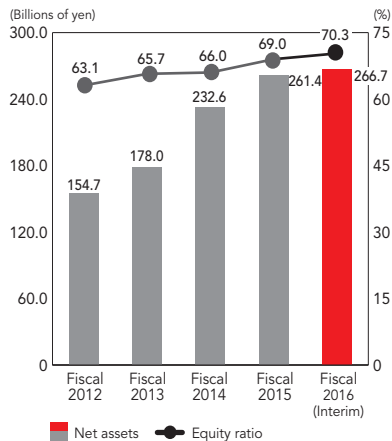
Net sales, operating income ratio



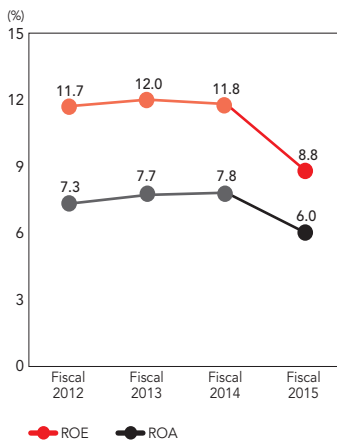
Operating income, net income attributable to owners of the parent company



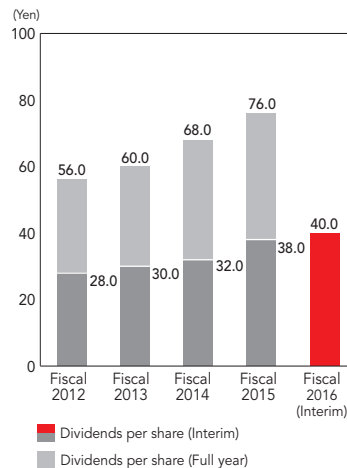
Net assets, equity ratio



ROE, ROA



Dividends per share



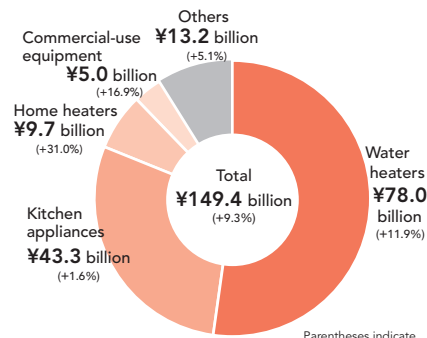
Consolidated Business Results by Product/Region

(First Two Quarters of the Fiscal Year ending March 2016)

Highlights by Product Segment

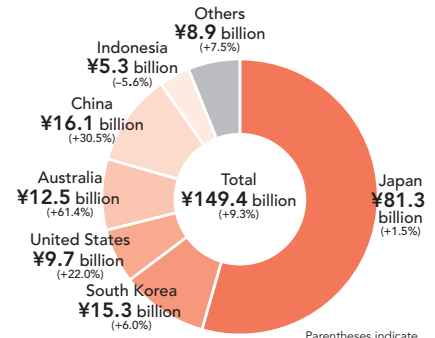
- Water heaters: Recovery in domestic replacement demand, as well as increased sales of tankless water heaters in Australia and the United States, led to **double-digit sales growth**
- Kitchen appliances: Increased domestic shipments of built-in hobs (stovetops) and range hoods compensated for stagnant overseas markets for tabletop cookers, resulting in a **slight increase in segment sales**
- Home heaters and others: Increased sales of gas clothes dryers, which have high customer satisfaction levels, as well as consolidation of Brivis Climate Systems, led to **significant increase in segment sales**

Net sales by product



Parentheses indicate percentage change over previous corresponding period.

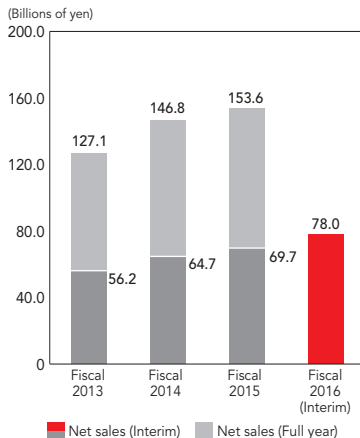
Net sales by region



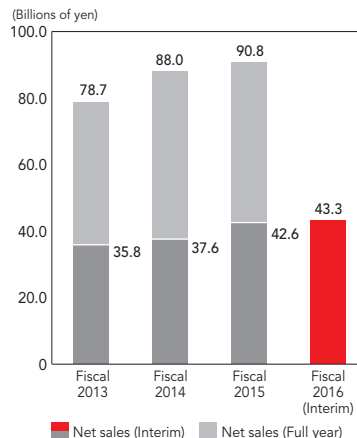
Parentheses indicate percentage change over previous corresponding period.

Principal products	Principal Products
Water heaters	Tankless water heater with basic functions, bath-filling systems, heating systems, and hybrid water heater with heating systems
Kitchen appliances	Tabletop cookers, built-in hobs (stovetops), built-in ranges, dishwashers, ovens, rice cookers and range hoods
Home heaters	Fan heaters, fanned flue heaters and infrared heaters
Commercial-use equipment	Commercial-use ceramics griller, ranges and rice cookers
Others	Clothes dryers, infrared burners and components

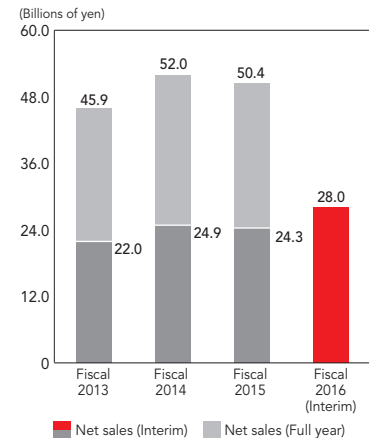
Sales of water heaters



Sales of kitchen appliances

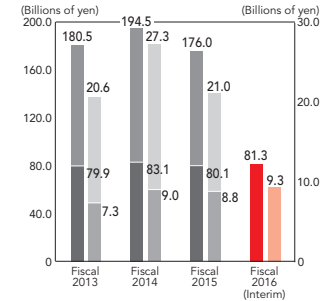
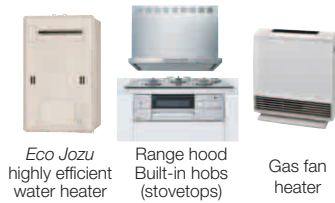


Sales of heaters, commercial-use equipment, and others



Highlights by Regional Segment

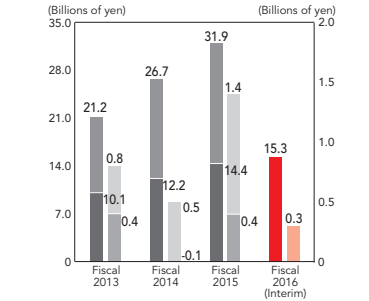
Japan



Increases in both sales and income thanks to steady response to recovery in housing starts and renovations, with particularly healthy sales of water heaters and range hoods

■ Net sales (Interim) ■ Operating income (Interim)
■ Net sales (Full year) ■ Operating income (Full year)

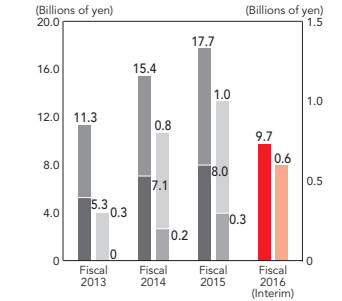
South Korea



Shrinking gas kitchen appliance market and intensified price competition led to increase in sales but decrease in income

■ Net sales (Interim) ■ Operating income (Interim)
■ Net sales (Full year) ■ Operating income (Full year)

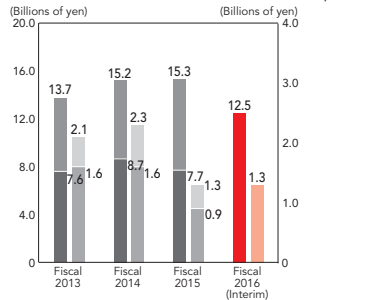
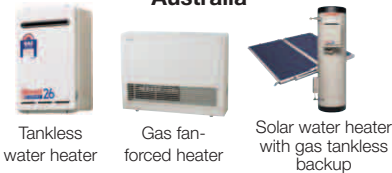
United States



Higher revenue and earnings thanks to expansion of tankless water heater market due to growing housing market backed by stable economy

■ Net sales (Interim) ■ Operating income (Interim)
■ Net sales (Full year) ■ Operating income (Full year)

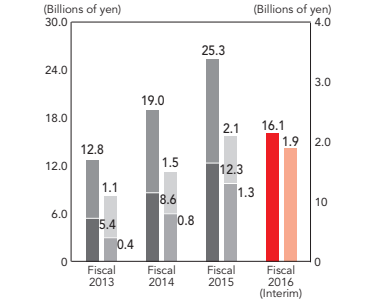
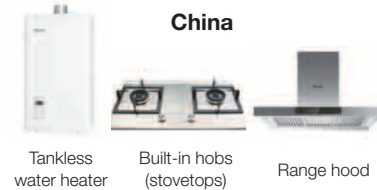
Australia



Healthy demand for water and home heaters stemming from cold winter and growing market for tankless water heaters, as well as acquisition of Brivis Climate Systems, led to **higher sales and income**

■ Net sales (Interim) ■ Operating income (Interim)
■ Net sales (Full year) ■ Operating income (Full year)

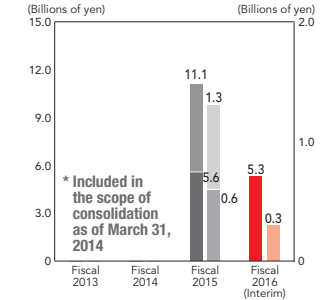
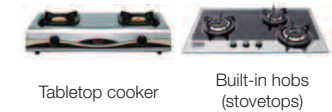
China



Increases in both revenue and earnings thanks to higher regional sales outside of Shanghai, despite overall economic slowdown

■ Net sales (Interim) ■ Operating income (Interim)
■ Net sales (Full year) ■ Operating income (Full year)

Indonesia



Contracting market for cookers amid local economic slowdown, together with depreciation of the rupiah, led to **decreases in both sales and income**

■ Net sales (Interim) ■ Operating income (Interim)
■ Net sales (Full year) ■ Operating income (Full year)

Special Feature

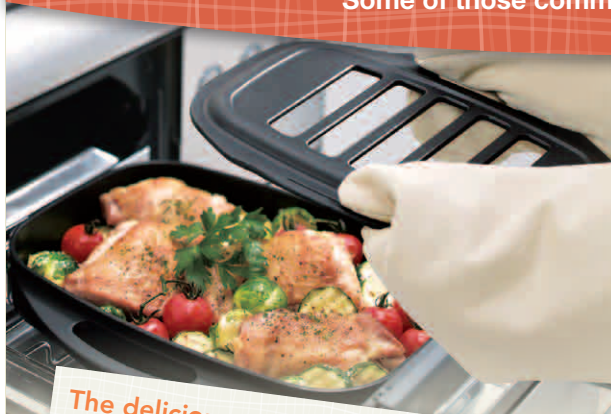
One year since launch of Cocotte, which allows diverse grilling options

Feedback from more than 6,000 satisfied customers

Comments and photos uploaded by customers are posted on Rinnai's website.

<http://www.rinnai-style.jp/product/review/cocotte/>

Some of those comments are shown below.



I made juicy roast chicken and crispy vegetables.



After placing sliced vegetables and seasoned chicken side by side, I left everything up to Delicia and Cocotte.

[Female, 30s, Osaka Prefecture]

The delicious taste was similar to cooking on an embedded charcoal griller.



Crunchy on the outside, soft and full on the inside. And easy to clean as well.

[Male, 50s, Chiba Prefecture]

I made magnificent soup meat patties!



Simply place the ingredients on the tray and add soup stock.

The automatic result was great taste, which helped me a lot.

[Female, 40s, Hiroshima Prefecture]

Cocotte Satisfaction Rate

[2,692 responses; as of June 2015]



Cocotte

Container with mesh-like lid suitable for pottery-based cooking, which efficiently uses heat from the burner for delicious golden-brown result!



Rinnai's proprietary wave formation

Cocotte Dutch Oven Satisfaction Rate

[3,349 responses; as of June 2015]



Cocotte Dutch Oven

Cooks by efficiently utilizing flame and heat inside the grill box. Comparable to full-fledged Dutch oven cooking! And lighter weight for more convenience.



60% weight reduction

On sale now!

We have compiled 100 delicious recipes for Cocotte and Cocotte Dutch oven used in combination with Rinnai's Delicia built-in hob (stovetop).



Cocotte Series dedicated recipe book on sale now!

Price: ¥1,944 (including consumption tax)

Can be purchased via our official sales site: Rinnai style
<http://www.rinnai-style.jp/product/detail/52-2930.html>

* Compared with conventional 4.2kg model

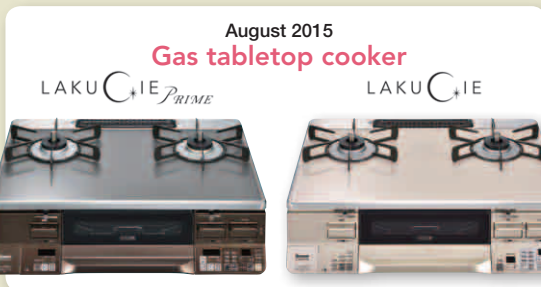
Reborn kitchen appliance lineup: Currently being rolled out!



Model change of *Mytone* cookers with grill plate allowing broad range of cooking options!

- **Simple design that looks good and is easy to operate**
Sleeker-looking front panel using **new wide grate** for extra feeling of stability!
- **With convenient functions that make cooking even easier**
Any burner (right or left) can be used with strong flame. Fitted with **double wide flame burners** and **Double Temperature Entrustment** function that allows temperature to be adjusted.
- **Cooks anything from grilled fish to non-fry dishes**
Grill Plate* can be used for grilling fish and as a cooking plate.

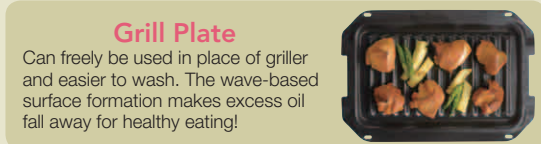
* Sold separately



New reborn *LAKUCIE* series of cookers: Harmonious design and easy to use

- **Diverse range of grilling options to enjoy**
Compatible with **Grill Plate***, which is popular with other Rinnai cooker series
- **Easy to use design blends well with the kitchen**
Front-face panel has ignition switch at top and operation buttons slanting outwards underneath, for **visual appeal and ease of use**
- **Highly acclaimed functions make cooking and cleaning easier**
Incorporates **Double Temperature Entrustment** (*LAKUCIE Prime* only), **Automatic Cooking**, and **Heat Off**, which prevents temperature of the top plate from rising

* Grill Plate included with *LAKUCIE Prime* RTS65AWG35R2N-DB and RTS65AWG34R2N-V models only; otherwise sold separately



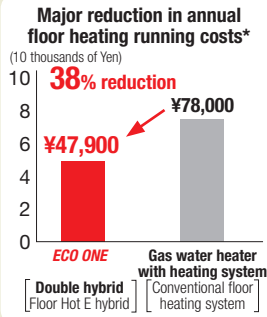
Enhanced design, operability, and ease of cleaning!
Reinforced lineup of popular *AirPRO*

- **Slanted front design and slim appearance**
With hood only **35mm** thick, the stylish slanted front design has **easy-to-operate switches**
- **Easier to clean and maintain**
This non-filter range hood prevents grime buildup, making it **easy to clean**
- **Operates in tandem with built-in hob (stovetop)**
The range hood **switches on/off automatically** when its partnered cooker is switched on or off

Hybrid system uses electricity and gas for water and floor heating
New launch of third-generation ECO ONE double hybrid type

Rinnai's third-generation *ECO ONE* water heaters with heating systems were unveiled in April 2015. In October 2015, we enhanced the lineup with the launch of a double hybrid model that uses a combination of electricity and gas for water and floor heating.

For floor heating, a powerful *Eco Jozu* unit is engaged to swiftly warm up the room. While the unit is not in operation, a highly efficient heat pump is used to maintain room temperature by boiling water and circulating it. This saves energy and reduces running costs while maintaining the comfort of gas heating. By using the system in combination with energy-efficient "Floor Hot E" floor heating, you can reduce annual running costs for floor heating by 38%* compared with conventional gas water heaters.



*Test conditions (2015 double hybrid type): 30m² room; system running 8 hours/day (engaging twice daily) for 120 days/year; using LPG at ¥50/m³; electricity cost ¥25.6/kWh (average unit cost excluding base cost); Rinnai estimates as of September 2014; Floor heating: Conventional 60°C hot-water mat used for water heater with heating system uses; 40°C Floor Hot E hybrid used for double hybrid

Good Design Award received

At the 2015 Good Design Awards (hosted by the Japan Institute of Design Promotion), Rinnai received an award* for its third-generation *ECO ONE* double hybrid water heater with heating system in recognition of its smart design, reliability, and ease of installation.



* Double hybrid single-unit type, single hybrid single-unit type

Highly acclaimed function and design

Good Design Award received in Australia

Brivis Climate Systems (Brivis), a subsidiary of Rinnai Australia, has received an Australian Good Design Award (Hardware and Building category) for its Iceberg ducted heating and cooling system. Rinnai will continue striving to develop exceptionally designed products that are also safe and convenient.



Iceberg

Rinnai Korea
Smart Wi-Fi Boiler launched

Seeking to further improve convenience for customers, Rinnai Korea has launched Smart Wi-Fi Boiler, which can be remotely operated using a smartphone. The smartphone application enables 24-hour monitoring of boiler status, as well as remote operation of various functions anywhere and anytime, such as room/water temperature adjustment and heat timer setting. The new system has achieved a high customer satisfaction rate in the South Korean market. Going forward, Rinnai Korea will target market expansion by creating new levels of value in gas boilers with innovative products.

Main features

- Boiler status can be monitored depending on distance from home; room can be heated remotely before returning home
- On busy mornings, you can use the alarm to start preheating water, so that water is at a comfortable temperature as soon as you get up
- Application also notifies smartphone user when a family member operates the boiler, thus preventing erroneous operation by children



Smartphone application (image)



Remote control device



Smart Wi-Fi Boiler

Consolidated Balance Sheets (Millions of yen)

Current Term (As of September 30, 2015)

Previous Term (As of March 31, 2015)

	Current Term	Previous Term
Assets		
Current assets	205,355	206,111
Fixed assets	151,851	151,395
Property, plant and equipment	59,451	56,841
Intangible fixed assets	6,780	4,365
Investments and advances	85,619	90,187
Total assets	357,207	357,506
Liabilities		
Current liabilities	73,776	79,805
Long-term liabilities	16,676	16,286
Total liabilities	90,453	96,091
NET ASSETS:		
Shareholders' equity:	231,021	223,065
Common stock	6,459	6,459
Capital surplus	8,719	8,719
Earned surplus	216,826	208,866
Treasury stock	(984)	(979)
Other comprehensive income:	20,180	23,559
Minority interests	15,553	14,789
Total net assets	266,754	261,414
Total liabilities and net assets	357,207	357,506

Consolidated Statements of Income (Millions of yen)

Current Term (From April 1, 2015, to September 30, 2015)

Previous Term (From April 1, 2014, to September 30, 2014)

	Current Term	Previous Term
Net sales	149,440	136,768
Cost of sales	101,131	94,528
Gross profit	48,309	42,240
Selling, general and administrative expenses	33,023	29,073
Operating income	15,285	13,166
Other income	1,118	1,298
Other expenses	276	208
Ordinary income	16,127	14,256
Income before income taxes	16,217	14,256
Income taxes	4,998	4,437
Net income	11,218	9,818
Net income attributable to non-controlling interests	1,282	1,110
Net income attributable to owners of the parent company	9,936	8,707

Consolidated Statements of Cash Flows (Millions of yen)

Current Term (From April 1, 2015, to September 30, 2015)

Previous Term (From April 1, 2014, to September 30, 2014)

	Current Term	Previous Term
Cash flows provided by operating activities	11,261	3,429
Cash flows provided by investing activities	(9,229)	(14,050)
Cash flows provided by financing activities	(3,591)	(2,996)
Cash and cash equivalents at end of term	67,262	60,219

Directory (As of September 30, 2015)

Incorporated	September 1, 1920
Established	September 2, 1950
Paid-in capital	¥6,459,746,974
Head office	2-26, Fukuzumi-cho, Nakagawa-ku, Nagoya 454-0802 TEL: +81-52-361-8211
Number of employees	9,889 (Consolidated) 3,572 (Nonconsolidated)

Domestic Network (As of September 30, 2015)

Factories and related centers Technology Development Center, Production Technology Center, Integrated Logistics Center, Parts Center, Oguchi Factory, Seto Factory, Asahi Factory, Akatsuki Factory

Branches Tohoku, Kanto, Chubu, Kansai, Kyushu

Domestic sales offices Hokkaido, Kita-Tohoku, Sendai, Niigata, Tokyo, Kita-Kanto, Higashi-Kanto, Minami-Kanto, Tokai, Shizuoka, Hokuriku, Nagano, Osaka, Keji, Hyogo, Chugoku, Shikoku, Fukuoka

Domestic satellite offices (76 offices)

Other domestic offices 10 Training Centers, 2 Customer Centers

Board of Directors (As of September 30, 2015)

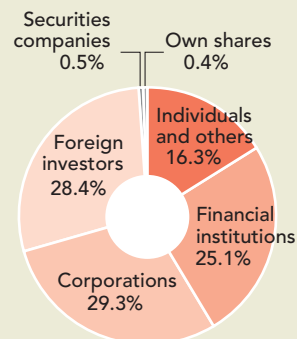
Chairman	Susumu Naito	Managing Executive Officers	Takashi Nagasaka	Corporate Auditors	
Vice Chairman	Kenji Hayashi		Yuzo Yoshida	(Standing Auditors)	Yasuhiko Goto
President and Executive Officer	Hiroyasu Naito	Executive Officers	Terumasa Kaneko		Toshinori Tsutsumi
Director and Executive Vice President	Tsunenori Narita		Kinji Mori	Corporate Auditors	Kiyookira Fukui
Director and Managing Executive Officers	Masao Kosugi		Yasuo Koketsu		Kinya Nankan
Director	Yuji Kondo		Kazuhiko Yamada	Notes: 1. Nobuyuki Matsui (Director) serves as an outside director.	
	Nobuyuki Matsui		Haruhiko Ishikawa	2. Kiyookira Fukui and Kinya Nankan (Corporate Auditors) serve as an outside auditor.	
			Fuminobu Ishikawa		
			Chuji Nakashima		
			Shinji Tanaka		
			Kazuhiko Matsumoto		
			Kenji Endo		
			Katsuhiko Shinji		

Share Composition (As of September 30, 2015)

Number of shares

Authorized:	200,000,000
Outstanding:	52,216,463 (Including treasury stock)
Number of shareholders:	4,000

Composition of shareholders



Rinnai Group (As of September 30, 2015)

14 Domestic Subsidiaries

Manufacture of Products

- Yanagisawa Manufacturing Co., Ltd.
- Rinnai Technica Co., Ltd.

Manufacture of Components

- RB Controls Co., Ltd.
- Rinnai Precision Co., Ltd.
- RT Engineering Co., Ltd.
- Japan Ceramics Co., Ltd.
- Noto Tech Co., Ltd.
- Techno Parts Co., Ltd.

Sale of Products

- Rinnai Net Co., Ltd.
- RG Co., Ltd.

Other Business

- Rinnai Enterprises
- Rinnai Kogyo Co., Ltd.
- Other two companies

30 Overseas Subsidiaries and Affiliates

Holding Company/Sale of Products

- Rinnai Holdings (Pacific) Pte Ltd.

Sale of Products

- Rinnai America Corporation
- Rinnai Hong Kong Ltd.
- Rinnai Canada Holdings Ltd.
- Shanghai Rinnai Thermo Energy Engineering Co., Ltd.

■ Rinnai Plus Corp.

■ Guangzhou Rinnai Gas and Electric Appliance Co., Ltd.

■ Rinnai (Malaysia) Sdn. Bhd.

■ Rinnai UK Ltd.

■ Rinnai Italia S.r.l.

■ Hainan Rinnai Minsheng Kitchen Appliances Sales Co., Ltd.

Manufacture and Sale of Products

- Rinnai Australia Pty., Ltd.

- Rinnai New Zealand Ltd.
- Rinnai Taiwan Corporation
- Rinnai Korea Corporation
- Shanghai Rinnai Co., Ltd.
- Rinnai (Thailand) Co., Ltd.
- Rinnai Viet Nam Co., Ltd.
- Rinnai Brasil Heating Technology Ltd.
- P.T. Rinnai Indonesia
- Brivis Climate Systems

Manufacture and Sale of Components

- RB Korea Ltd.
- RS Korea Ltd.
- Shanghai RB Controls Co., Ltd.
- Mikuni RK Corporation

Other Business

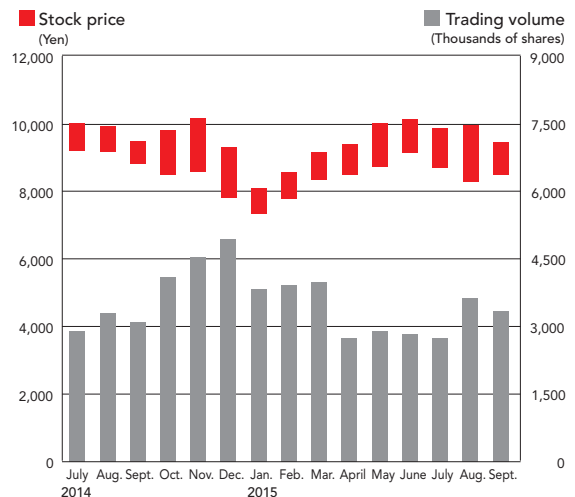
- Jordans NSW Corporation
- Gas Appliance Services Corporation
- Other three companies

● Consolidated subsidiary ■ Nonconsolidated subsidiary ■ Affiliated company (equity method not applied)

Major Shareholders (As of September 30, 2015)

Name	Shares held (Thousands)
Naito Co., Ltd.	6,215
Yoshikane Shoji Co., Ltd.	4,002
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,602
Kenji Hayashi	2,502
Japan Trustee Services Bank, Ltd. (Trust Account)	1,827
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,673
Tokyo Gas Company, Limited	784
Nippon Life Insurance Company	720
Susumu Naito	700
Rinnai employee's association	599

Stock Price Range



Financial year

From April 1 to March 31

Annual meeting of shareholders

Every June

Dates of record

Annual meeting of shareholders,

year-end dividend: March 31

Interim dividend: September 30

Minimum trading unit

100 shares

Public notice

Public notices by the Company will be announced online.

<http://www.rinnai.co.jp>

However, if due to accident or some other unavoidable reason that prevents the Company from completing an online announcement should arise, a public notice will be made by posting in the *Nihon Keizai Shimbun*.

Transfer agent

Sumitomo Mitsui Trust Bank, Limited

4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005

Special account administrator

Sumitomo Mitsui Trust Bank, Limited

4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005

Mailing and contact

Sumitomo Mitsui Trust Bank, Limited

Stock Transfer Agency Department

8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063

(Telephone)

Freedial 0120-782-031(9:00 am~17:00 pm on weekdays)

Transfer administration offices:

Sumitomo Mitsui Trust Bank, Limited

Head office, and branches throughout Japan

Stock Listings:

Tokyo Stock Exchange, First Section

Nagoya Stock Exchange, First Section

Inquiries Pertaining to Share-Related Procedures

1. Non-Payment of Dividends

Please contact the transfer agent (Sumitomo Mitsui Trust Bank, Limited; contact details above).

2. Change of address, purchases (or increases in purchases) of fractional shares, designation of dividend payment method, etc.

(1) Shareholders with account at a securities company
Please contact the securities company handling your account.

(2) Shareholders with a special account opened due to absence of account at a securities company
Please contact Sumitomo Mitsui Trust Bank, Limited

Dividend Calculation Notice

The Dividend Calculation Notice, sent to shareholders at the time of dividend payment, also functions as the Payment Notice according to regulations under the Act on Special Measures Concerning Taxation. This document can be used as a reference attachment when preparing final tax returns. The

Company will issue a Dividend Calculation Notice to shareholders who receive dividends by presenting the Year-End Dividend Receipt.

* Shareholders who prepare their own final tax returns are asked to keep the Dividend Calculation Notice in a safe place.

Notice regarding text to be used for shareholders' names and addresses

With the conversion to electronic stock certificates, shareholder names and addresses that include *kanji* characters not contained in JASDEC's giro system are converted, in whole or in part, to *kanji* characters recognized by JASDEC or to *katakana* text for inclusion in the Shareholder Register. Shareholders are asked to understand that notification documents sent to them may include characters in the name and/or address that have been converted to JASDEC-recognized text.

For inquiries about characters used in registration of shareholder names and addresses, please contact your securities company (or the transfer agent, in the case of shareholders with special accounts).