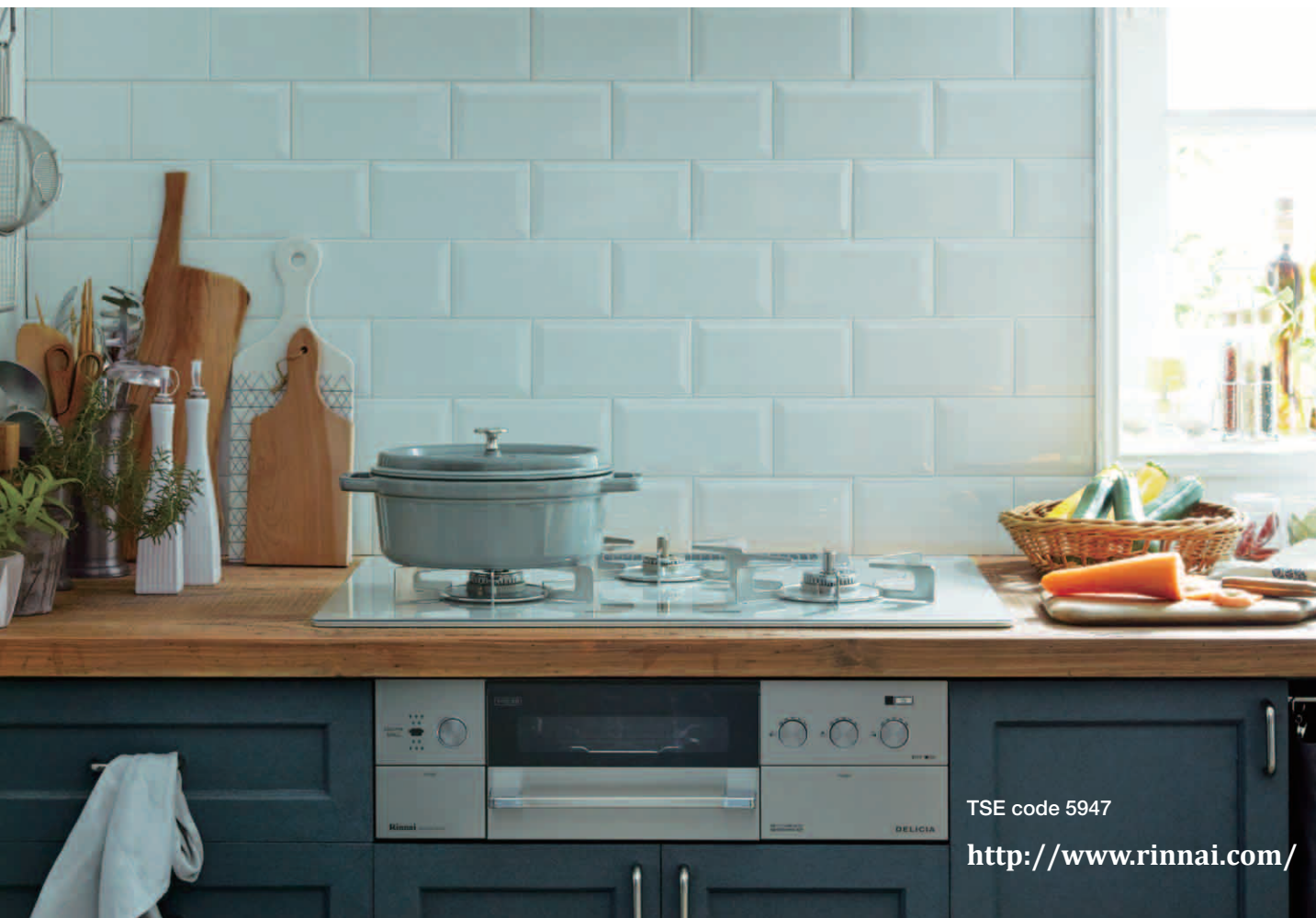


Rinnai

Shareholders' Report

Vol. 45

67th Interim Term
(April 1 to September 30, 2016)



TSE code 5947

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



Susumu Naito
Chairman



Hiroyasu Naito
President

In the first two fiscal quarters under review (April 1–September 30, 2016), the outlook for the world economy became unclear. Despite moderate economic recovery in the United States stemming from improvements in personal consumption and the employment environment, economic uncertainty in Europe increased following the United Kingdom’s decision to exit the European Union, and economic growth in China continued to slow. Meanwhile, the Japanese economy remained in a holding pattern as exporting companies posted weak revenues amidst the yen’s appreciation, despite signs of improvement in employment and worker incomes.

The domestic housing appliance industry was buoyed by an upward trend in new housing starts stemming from various government measures to support residential purchases, as well as lower home loan interest rates, while home renovations and replacement demand for housing appliances also firmed.

Under these conditions, the Rinnai Group entered the second year of its medium-term business plan, entitled Evolution and Succession 2017, which began in April 2015. Under that plan, we sought to ensure the “succession” of our corporate culture and spirit attained through our company’s 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-over-year increase in net sales thanks to the addition of Gastar Co., Ltd., which became a consolidated subsidiary, as well as healthy sales of water heaters in China and the United States. This increase came despite the impact of the yen’s appreciation. On the earnings side, we posted increased profit due to falling raw material prices, together with an increase in overseas sales. More details of our financial performance are given later in this report. The Company declared an interim cash dividend of ¥42.00 per share, up ¥2.00 from a year earlier.

The Rinnai Group continues to implement its medium-term business plan. Guided by our philosophy, “Quality is our destiny,” we will promote the “succession” of the “Rinnai Spirit” inherited since our foundation and ensure “evolution” to a new era. Going forward, we will add priorities to our business model, including advancing our system-based offerings, reinforcing non-gas products, forming global technical alliances, and tapping into new opportunities in living-related areas. In these ways, we will seek to create new products and services and firmly establish our brand reputation as a comprehensive manufacturer of heat and energy appliances.

We look forward to the renewed support and cooperation of shareholders as we embrace the challenges of the future.

December 2016

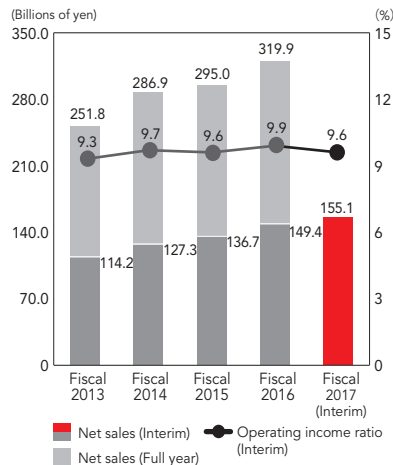
Susumu Naito
Chairman

Hiroyasu Naito
President

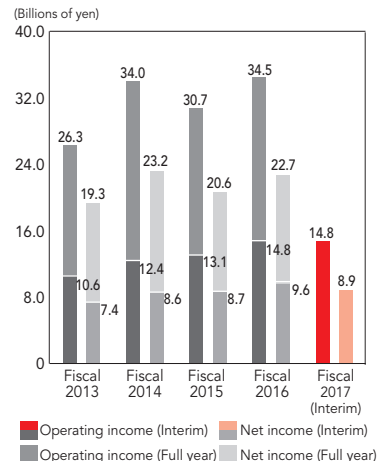
Performance Highlights

- New record-high figures for net sales and operating income
- Maintained operating margin above 10%
- Interim cash dividend of ¥42.00 per share, for **seventh consecutive year of interim dividend increases**

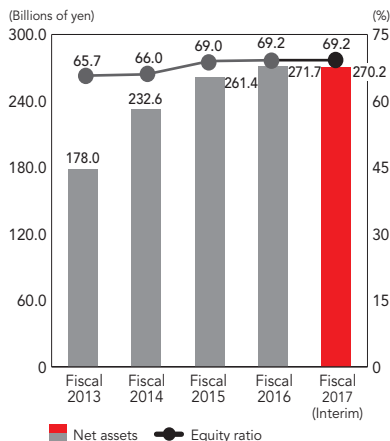
Net sales, operating income ratio



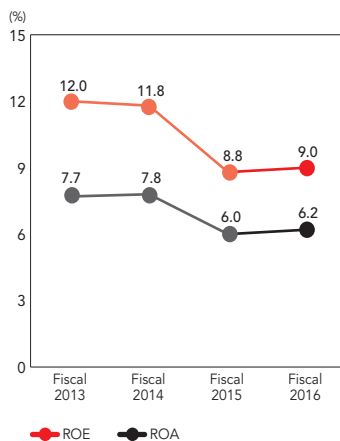
Operating income, net income attributable to owners of the parent company



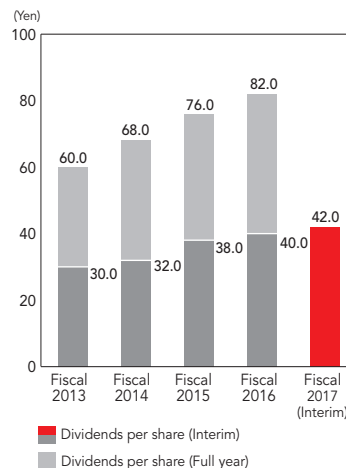
Net assets, equity ratio



ROE, ROA



Dividends per share



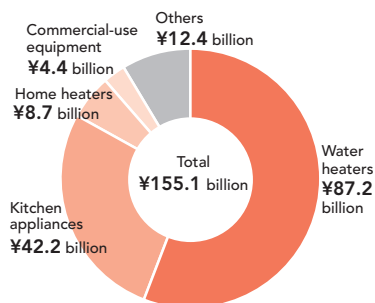
Consolidated Business Results by Product/Region

(First Two Quarters of the Fiscal Year ending March 2017)

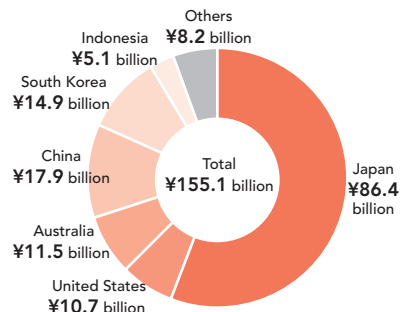
Highlights by Product Segment

- Water heaters: Buoyed by stable replacement demand in Japan, as well as healthy sales in United States and China, leading to **double-digit sales growth**
- Kitchen appliances: Decline in domestic sales of tabletop stoves and increase in low-priced products led to **decrease in segment sales**
- Home heaters and others: Lower domestic sales of fan heaters and year-on-year decrease in sales of commercial appliances in South Korea resulted in a **segment sales decline**

Net sales by product

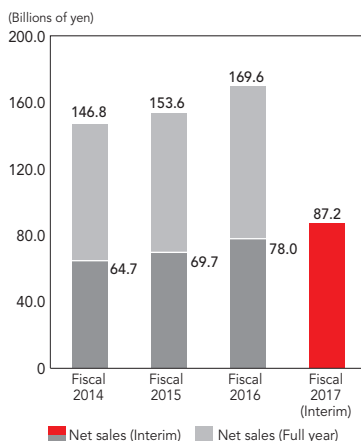


Net sales by region

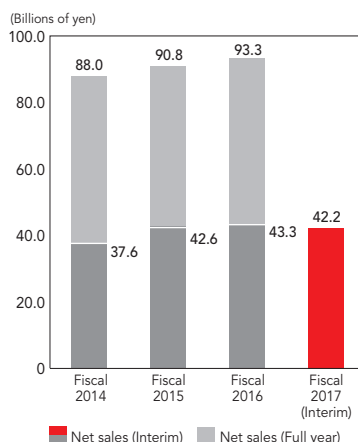


Principal products	Principal Products
Water heaters	Tankless water heater with basic functions, bath-filling systems, heating systems, and hybrid water heater with heating systems
Kitchen appliances	Tabletop cookers, built-in hobs (stovetops), ovens, dishwashers, range hoods and rice cookers
Home heaters	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

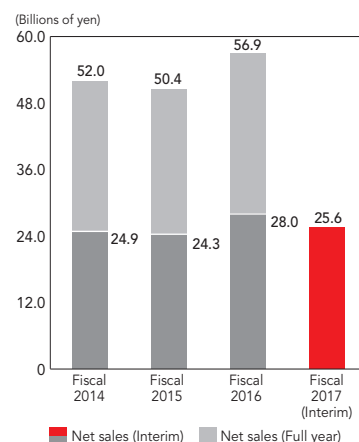
Sales of water heaters



Sales of kitchen appliances

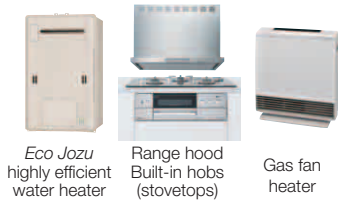


Sales of heaters, commercial-use equipment, and others

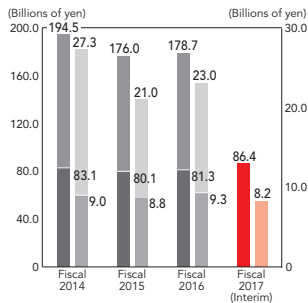


Highlights by Regional Segment

Japan



Eco Jozu highly efficient water heater Range hood Built-in hobs (stovetops) Gas fan heater



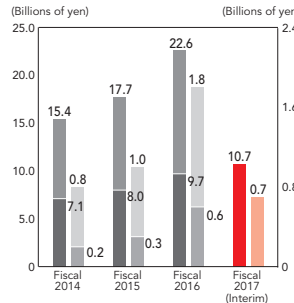
Increase in sales thanks to stable replacement demand for water heaters but **decrease in income** due to rise of low-priced products

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

United States



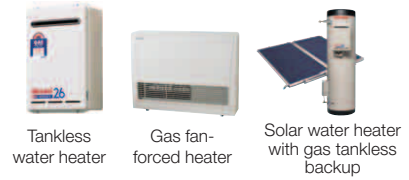
Tankless water heater Gas boiler Gas fan-forced heater



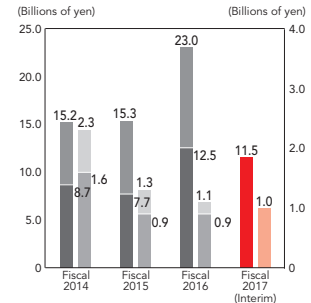
Higher sales and income thanks to housing market growth buoyed by firm economy, as well as healthy sales of tankless water heaters backed by government environmental measures

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

Australia



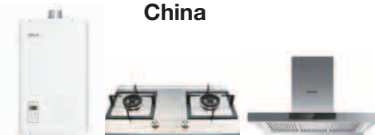
Tankless water heater Gas fan-forced heater Solar water heater with gas tankless backup



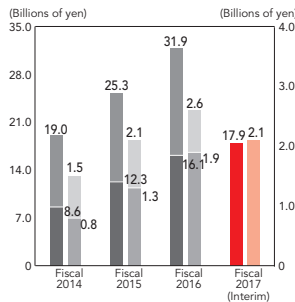
Decrease in revenue due to lower sales of tankless water heaters and foreign exchange factors, but **increase in earnings** owing to cost reductions

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

China



Tankless water heater Built-in hobs (stovetops) Range hood



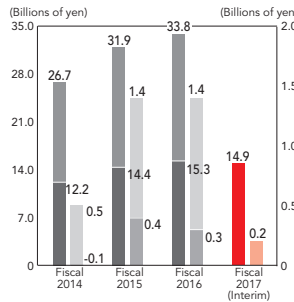
Increase in gas user numbers backed by expanded gas infrastructure, together with increased functionality, led to **improvements in both sales and income**

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

South Korea



Tabletop cooker Gas boiler Commercial-use steam oven



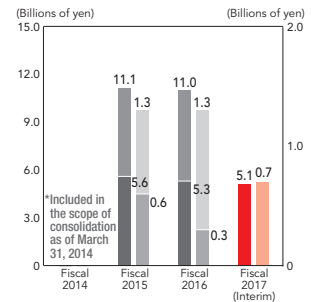
Lower sales and income due to foreign exchange factors, despite steady sales of boilers bolstered by increased housing starts

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

Indonesia



Tabletop cooker Built-in hobs (stovetops)



Decrease in revenue due to strong yen despite recovery in tabletop stoves, but **increase in earnings** thanks to cost-related improvements

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

New DELICIA series (model change)
Starring in multiple dishes for multiple families.



A chance to demonstrate your love.

Industry first!*1 Arrival of “Stove Auto Menu” that automatically regulates the heat to allow automatic cooking of five meal types*2!



Grilled dumplings



Hamburg steak



Simmered fish



Stewed taro



Egg custard

*1 As of June 2016 (based on Rinnai research) *2 Hamburg steak does not need to be turned over during cooking

Arrival of DELICIA-only application provides a “delicious surprise” every day!

Simple automatic cooking using dedicated DELICIA recipes



DELICIAAPP
 デリシアアプリ



DELICIA



Please refer to Rinnai's corporate website for more details about the dedicated DELICIA application
<http://rinnai.jp/delicia/deliciapp>

Cocotte: Direct flame for a seamless finish

Weight
22% down



Cocotte Dutch Oven:
 Enjoy the flavors of the original ingredients

22% up Capacity



Continuous launch of new products that address social needs!

Eco-friendly with reduced CO² emissions

ECO ONE hybrid water heater with heating system installed in all residential units of urban condominium building, which becomes Japan's first*1 to receive "low carbon building" certification for all units

Rinnai's *ECO ONE* hybrid water heater with heating system and hot-water-based floor heating are being installed in all units of List Residence Yoga (completion scheduled for December 2016), an urban condominium building in Setagaya-ku, Tokyo. It is the first building in the Tokyo Metropolitan Area to feature *ECO ONE* in all units. It is also the first building in Japan with *ECO ONE* installed to receive "low carbon building" certification*2.

*1 Condominium building with *ECO ONE* installed; low-carbon building certification (as of May 2016)

*2 Buildings with "low-carbon building" certification not only contribute to the environment through reduced CO² emissions, but also benefit purchasers through reduced utility costs and access to preferential treatment with respect to taxes and loan interest rates.



Preventing "heat shock" accidents

Helps prevent "heat shock" accidents while also cutting heating costs
Launch of **Bath Hotto bathroom heater/dryer** with large 4.1kW capacity

In Japan, around 19,000 people* die each year in bathroom accidents, and "heat shock" (impact on the body of sudden temperature changes when entering the bath) is becoming a major social problem. Rinnai's standard-module (ceiling mounted, with 4.1kW heating capacity) bathroom heater/dryer, launched in April 2016, was developed to help prevent the heat shock phenomenon. For example, it has a function that displays "Low Temperature" on the dressing room remote control display when the bathroom temperature gets cold. It also features exceptional energy efficiency, with a "Heating Save" setting that cuts annual heating costs by around 32%.

* According to research aimed at understanding and preventing bathroom-related accidents supported by a Health and Labor Sciences Research Grant (summarized research report, fiscal 2013)



Bath Hotto

For seasons when drying clothes outdoors is not preferred

Excels all year round in this time of major climate change
Launch of **commercial gas clothes dryer** for facilities with high washing frequencies

For beauty salons, nursing care homes, and other facilities with high-frequency clothes washing and drying needs, in October 2016 Rinnai launched a gas clothes dryer that delivers an excellent drying finish. Due to various factors in recent years, such as torrential rain, pollen, and PM2.5 particulates, the season for drying clothes outside has become shorter and shorter, thus increasing the need for clothes dryers. Our new commercial-use gas clothes dryer can handle a 5kg load in around 52 minutes. It also has three times the endurance period of residential-use gas models (Rinnai's estimates) and has various useful functions, including an "Eco" setting that reduces running costs and a dedicated setting for drying towels.



For products with simple designs that blend into the background

“Good Design Award 2016” received

Rinnai received a Good Design Award 2016 from the Japan Institute of Design Promotion for its 300 Series of remote controls, which operate its hybrid water heater with heating system and other water heaters. With a growing number of people demanding comprehensive interior design solutions, our remote controls were highly acclaimed for their simple design and exceptional ease of operation with features including a large, easy-to-see display.



Rinnai brand also highly reputed overseas for quality and initiatives

Rinnai Korea tops the KS-SQI

Rinnai Korea Corporation was selected for the No. 1 position in the Boiler Section of the Korea Standard–Service Quality Index (KS–SQI). A total of 118 companies in 30 sectors were canvassed for selection in the index, with assessments covering such factors as service reliability, politeness, and support proactivity. Rinnai Korea has earned the top spot four times in the past five years. Having been selected in the No. 1 position of the service index will enable Rinnai Korea to enhance its corporate image and establish its brand reputation as a company with exceptional service quality.



Korea Standard–Service Quality Index (KS–SQI) certificate

Prize received in BEI Asia Awards (Singapore)

Rinnai Holdings (Pacific) Pte Ltd recently earned a prize in the BEI Asia Awards 2015/2016, with the awards ceremony held in Singapore on May 19, 2016. The prize acknowledged the business strategies, product strategies, marketing and financial activities, and other efforts of the entire Rinnai Group, not only in Singapore but throughout Southeast Asia. The Group’s contribution to local communities was particularly acclaimed, with Rinnai earning the top prize in the Regional Awards section.



Consolidated Balance Sheets (Millions of yen)

Current Term (As of September 30, 2016)

Previous Term (As of March 31, 2016)

	Current Term	Previous Term
Assets		
Current assets	211,355	216,480
Fixed assets	157,245	153,766
Property, plant and equipment	69,675	63,299
Intangible fixed assets	6,776	5,887
Investments and advances	80,792	84,579
Total assets	368,600	370,246
Liabilities		
Current liabilities	77,266	82,730
Long-term liabilities	21,085	15,806
Total liabilities	98,351	98,537
NET ASSETS:		
Shareholders' equity:	250,359	243,558
Common stock	6,459	6,459
Capital surplus	8,756	8,719
Earned surplus	236,140	229,372
Treasury stock	(997)	(993)
Other comprehensive income:	4,708	12,515
Minority interests	15,180	15,636
Total net assets	270,248	271,709
Total liabilities and net assets	368,600	370,246

Consolidated Statements of Income (Millions of yen)

Current Term (From April 1, 2016, to September 30, 2016)

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

	Current Term	Previous Term
Net sales	155,106	149,440
Cost of sales	104,128	101,601
Gross profit	50,977	47,838
Selling, general and administrative expenses	36,104	32,987
Operating income	14,873	14,851
Other income	1,292	1,118
Other expenses	1,162	276
Ordinary income	15,003	15,693
Extraordinary income	—	271
Extraordinary loss	137	182
Income before income taxes	14,866	15,782
Income taxes	4,368	4,857
Net income	10,497	10,925
Net income attributable to non-controlling interests	1,545	1,282
Net income attributable to owners of the parent company	8,951	9,643

In association with confirmation of the provisional accounting treatment related to its business combination in the third quarters of the fiscal 2016, the Corporation revised the figures in the first two quarters of the fiscal 2016.

Consolidated Statements of Cash Flows (Millions of yen)

Current Term (From April 1, 2016, to September 30, 2016)

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

	Current Term	Previous Term
Cash flows provided by operating activities	12,998	11,261
Cash flows provided by investing activities	(1,832)	(9,229)
Cash flows provided by financing activities	(2,758)	(3,591)
Cash and cash equivalents at end of term	84,854	67,262

Directory (As of September 30, 2016)

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	10,561 (Consolidated) 3,534 (Nonconsolidated)

Domestic Network (As of September 30, 2016)

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 (86 offices)

Other domestic offices 10 Training Centers, 2 Customer Centers

Board of Directors (As of September 30, 2016)

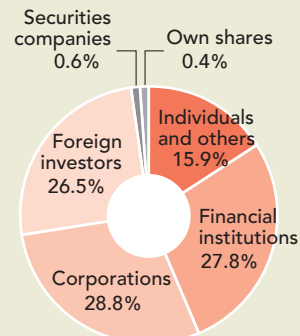
Chairman	Susumu Naito	Managing Executive Officers	Takashi Nagasaka	Corporate Auditors (Standing Auditors)	Takashi Sonoda
Vice Chairman	Kenji Hayashi		Yuzo Yoshida		Haruhiko Ishikawa
President and Executive Officer	Hiroyasu Naito		Terumasa Kaneko	Corporate Auditors	Masaaki Matsuoka
Director and Executive Vice President	Tsunenori Narita	Executive Officers	Kinji Mori		Ippei Watanabe
Director and Senior Managing Executive Officers	Masao Kosugi		Yasuo Koketsu		
	Yuji Kondo		Fuminobu Ishikawa		
Director	Nobuyuki Matsui		Chuji Nakashima		
	Takashi Kamio		Shinji Tanaka		
			Kazuhiko Matsumoto		
			Kenji Endo		
			Masanori Shimizu		
			Kazuto Inoue		
			Katsuhiko Shinji		

Notes: 1. Nobuyuki Matsui and Takashi Kamio (Directors) serve as an outside director.
2. Masaaki Matsuoka and Ippei Watanabe (Corporate Auditors) serve as an outside auditor.

Share Composition (As of September 30, 2016)

Number of shares	
Authorized:	200,000,000
Outstanding:	52,216,463 (Including treasury stock)
Number of shareholders:	3,890

Composition of shareholders



Rinnai Group (As of September 30, 2016)

15 Domestic Subsidiaries

Manufacture of Products

- Yanagisawa Manufacturing Co., Ltd.
- Rinnai Technica Co., Ltd.
- Gastar 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
- Other three companies

29 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

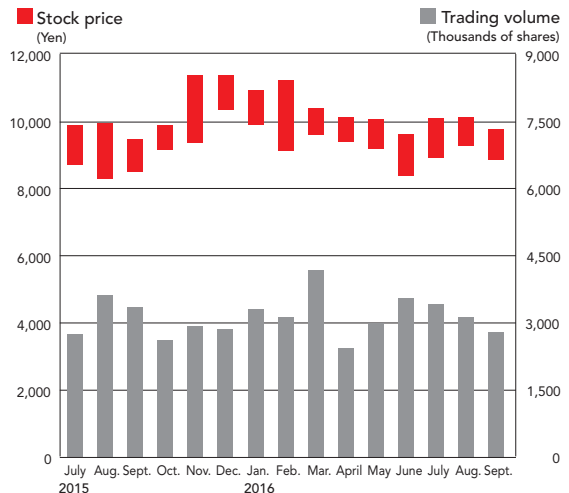
- Jordans NSW Corporation
- Gas Appliance Services Corporation
- Other two companies

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

Major Shareholders (As of September 30, 2016)

Name	Shares held (Thousands)
Naito Co., Ltd.	6,215
Yoshikane Shoji Co., Ltd.	4,002
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,873
Kenji Hayashi	2,502
Japan Trustee Services Bank, Ltd. (Trust Account)	2,077
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,022
Tokyo Gas Company, Limited	784
Nippon Life Insurance Company	720
Rinnai employee's association	594
The Bank of New York Mellon 140044	556

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, Sugunami-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).