

Rinnai

Business Outlook

Medium-Term Business Plan, “Jump Up 2014”

May 9, 2014

Contributing to the Environment and Saving Energy through Commitment to Heat and Comfortable Lifestyles.

Gas equipment

Production bases:

Japan, Asia, Oceania, etc.



Built-in-stove



Rice cooker



Hot-water unit



Fan heater



Tabletop stove



Clothes dryer



Fireplace

Electrical equipment

Production bases:

New Zealand

ASEAN

China

Korea

Japan

(range hoods, dishwashers)



Range hood



Hot-water unit



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

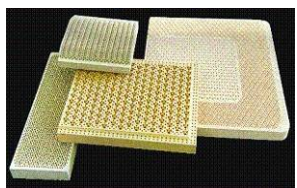
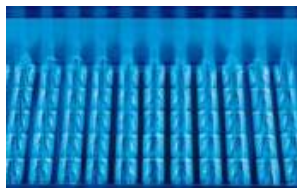
Providing heat appliances, centered on household use products, matched to the living cultures and energy circumstances of each country (80 nations worldwide)

Basic Philosophy of Product Manufacturing: Relentless Pursuit of Quality and Safety

2

Basic management philosophy: “Quality is our destiny”

In-house development of core technologies related to heat



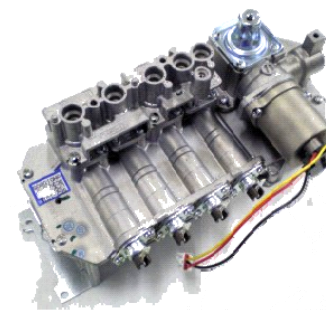
Burners



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

Medium-Term Business Plan, Targets

(From Fiscal 2013 to Fiscal 2015)

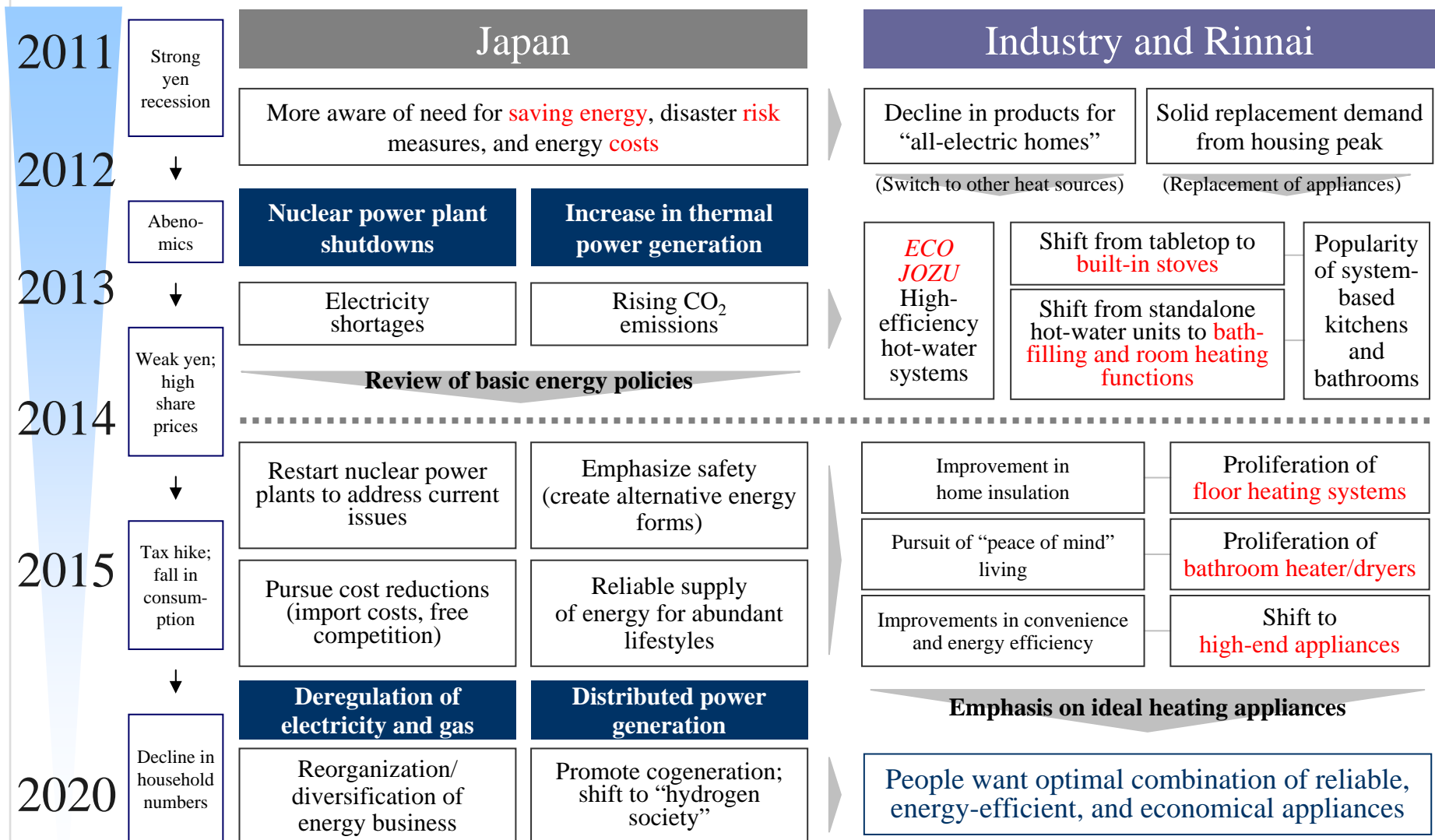
《 Consolidated 》		Medium-Term Business Plan “Jump UP 2014”				
		Fiscal 2013 Actual	Fiscal 2014 Target	Fiscal 2014 Actual	Fiscal 2015 Original Target	Fiscal 2015* Revised Target
[Billions of yen]						
Net Sales		251.8	268.0	286.9	280.0	313.0
Breakdown	Domestic	172.9	176.0	186.0	180.0	188.0
	Overseas	78.9	92.0	100.9	100.0	125.0
Operating Income		26.3	30.0	34.0	33.0	36.5
Operating Margin		10.5%	11.2%	11.9%	11.8%	11.7%

*Fiscal 2015 revised target includes contribution from Rinnai Indonesia

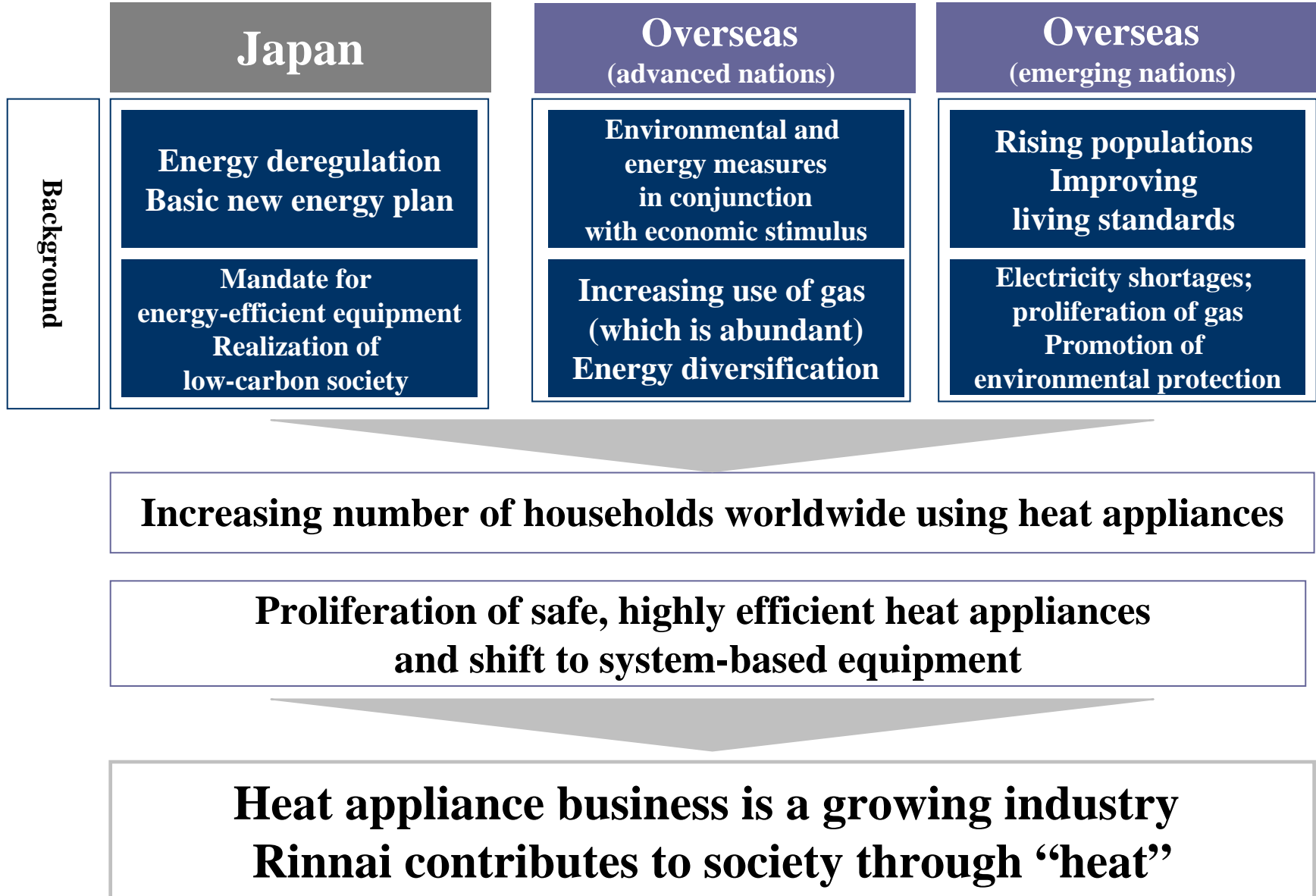
**Surpassed Fiscal 2015 targets in Fiscal 2014, ahead of schedule;
challenge for Fiscal 2015 is to achieve new targets**

Changing Domestic Business Environment

Great East Japan Earthquake and Fukushima Nuclear Power Plant Accident



Heating Appliance Business Environment



Medium-Term Business Plan “Jump UP 2014”

(From April 1, 2012 to March 31, 2015)

Aims

Contribute to people’s lives worldwide and the global environment as a comprehensive heat-energy appliance manufacturer

- ▶ **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

“Three Jump Up” Priorities

- 1 **Raise product quality** in pursuit of zero defects
- 2 **Raise versatility** through reforms of development, production, and sales processes
- 3 **Raise organizational strength** through human resource development and Groupwide interaction

Targets for final year of plan

Net Sales	313.0 billion yen
Operating income	36.5 billion yen
Operating income ratio	11.7%

**Increase targets for the final year
with view to next medium-term business plan**

Rinnai Products: Contributing to Environment and Energy Efficiency (Hot-water units)

Hybrid hot-water/heating system **ECO ONE**

Received “Energy Conservation Grand Prize”

(top prize in METI Energy Conservation Awards)



Reasons for receipt of prize

- High efficiency achieved combining heat pump (electricity) and *ECO JOZU* (gas)
(Industry-leading **primary energy efficiency of 125%**)
- Reduced energy loss owing to **learning function**
- Gas-only operation option **effectively saves electricity**

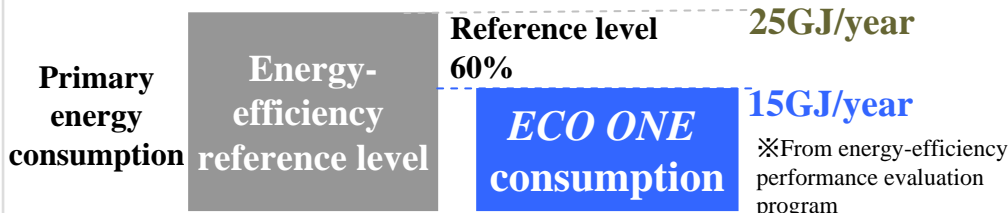


● Toward a low-carbon society

Review of energy-efficiency standards in October 2013:
Evaluation standards for primary energy consumption
now consistent

● Toward deregulation of electricity and gas

From 2016: Revisions to be made allowing
deregulation of electricity and gas sales



Featuring low primary energy consumption,
ECO ONE is the best



Utilizing both electricity and gas to achieve
optimal energy mix, *ECO ONE* is the best

As a true energy-saving product, **ECO ONE**
symbolizes “social infrastructure”

Using hot water to make bathrooms warm and comfortable



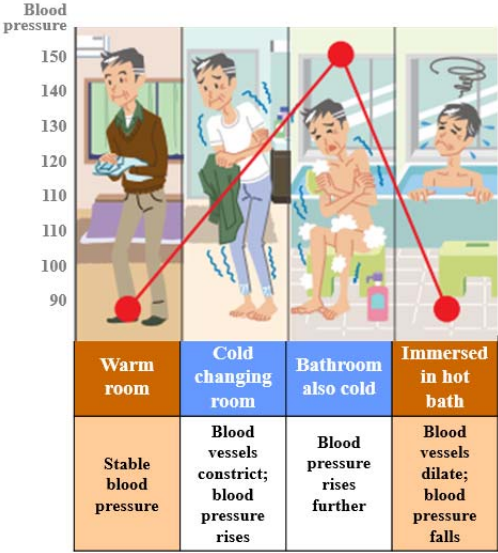
- Bathroom heating
- Clothes drying
- Mist sauna
- Cool air blowing
- Bathroom drying
- Ventilation



Ceiling type Wall-mounted type
Bathroom heater/dryer

Preventing “heat shock” when taking a bath during winter

● Blood pressure fluctuates with changes in temperature



Sudden changes in blood pressure can cause **heat shock** when taking a bath!

Number of deaths in **bathrooms** exceeds deaths through road accidents by around **three times**

● Road accidents deaths vs bathroom deaths (2011)



* Source: Tokyo Metropolitan Institute of Gerontology

Rinnai Products: Supporting Safe Lifestyles

(Kitchen appliances)

Si sensor stove
20 million units
sold!

**Temperature sensors now
minimum standard for stoves**

Equipping stoves with Si sensors since 2008
Industry shipments have now surpassed 20 million units!

Major decline in fires
caused by stoves
Market proliferation: 52%
(Rinnai estimate)



Tabletop stoves



Built-in stoves



Range hoods

Promoting sets combining
built-in stoves and range hoods
(Share of sets in overall
stove sales: 14% as of Fiscal 2014)

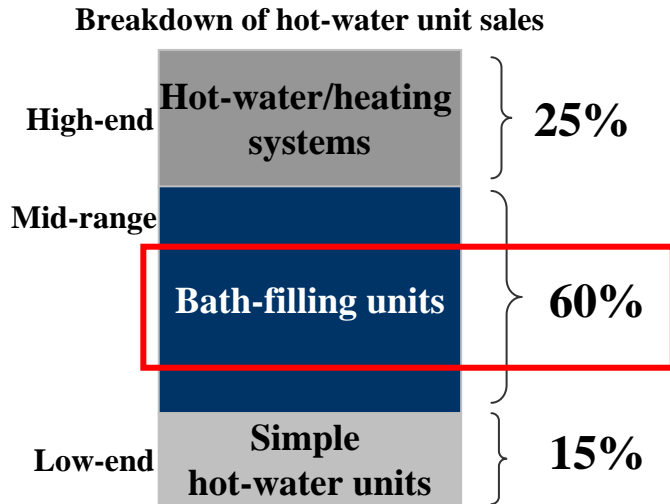


Built-in stoves linked with range hoods

Range hoods automatically turn on/off
because linked to built-in stove ignition

Further advancement of mid-range hot-water units

New product in volume zone launched



RUF-E2405
(Launched April 2014)

Technical features

- Development of new components
- Progress in parts standardization
- More automated and streamlined

Advantages for installers

Significant reduction in weight makes installation easier

Lightest in industry*

【ECO JOZU bath-filling unit (No. 24)】

Existing model: 31.0kg

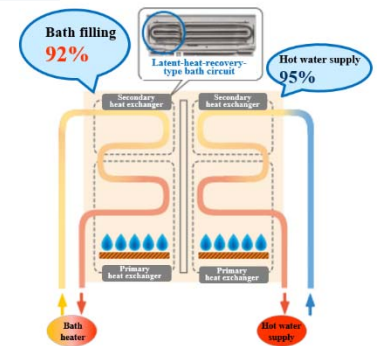
↓ -3.5kg

New model: 27.5kg

Advantages for customers

Enhanced efficiency not only for hot water supply but also bath filling

Lower running costs



*As of April 2014

Gas Clothes Dryers: *Kanta-Kun*



Features

- Powerful air flow for fast drying
Approx. one-third drying time compared with electric models
- Meticulous drying down to fiber level
Leaves clothes fluffier than when dried in sun
- Rinnai: The only name in gas clothes dryers!

Speedy

Kanta-kun

Launched June 2013

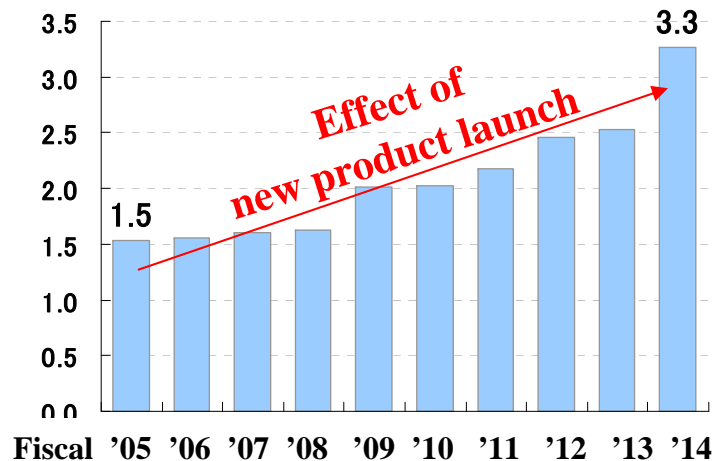
Retail price: ¥138,000

(5kg type; excludes consumption tax)

10 thousand units

Sales of Clothes Dryers

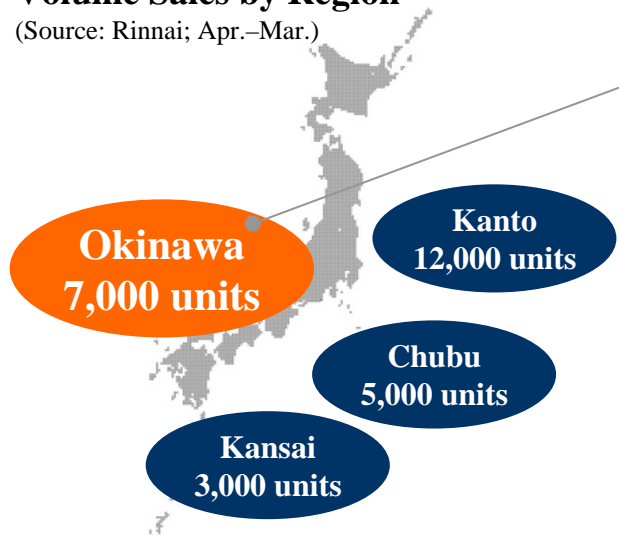
(Source: Rinnai; Apr.–Mar.)



Record-high unit sales

Volume Sales by Region

(Source: Rinnai; Apr.–Mar.)



Strong sales in Okinawa

Reasons:

- Sea breezes, salt incursion
- High annual rainfall
- Many two-income households (robbery countermeasure)
- High temperature and humidity levels

Reasons for growing nationwide popularity

- Small particulate matter (PM2.5)
- Sand/dust
- Pollen
- Radiation
- Visual appearance



Consolidated Capital Expenditure Plan

12

Capital expenditures: Results and plan

(Millions of Yen)

	Fiscal 2014 (full year, actual)	Fiscal 2015 (full year, plan)	Change
Capital expenditure	12,439	16,400	+3,961
Depreciation and amortization	8,415	9,700	+1,285
R&D expenses	8,380	8,700	+320

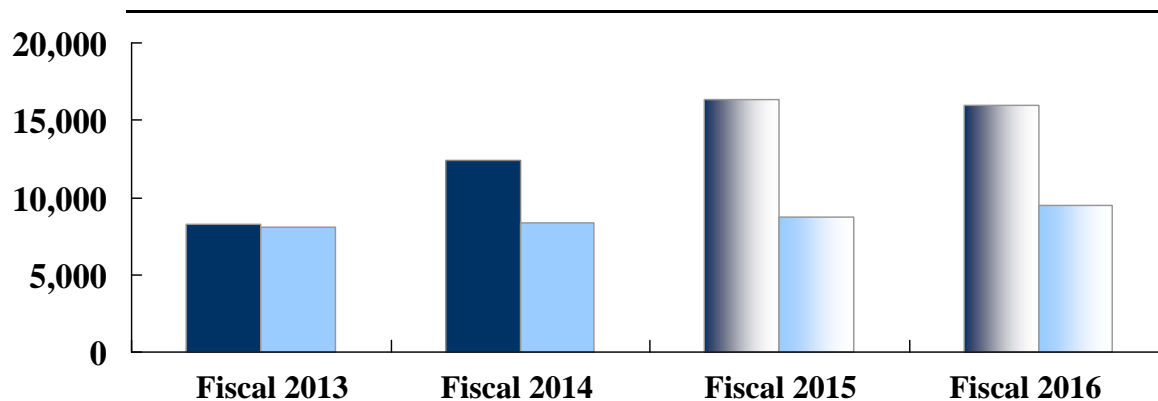
Capital expenditure to grow by around ¥4 billion in Fiscal 2015

Future capital expenditure plan

(Millions of Yen)

■ Capital expenditure

■ R&D expenses



Plan to make consistent annual investments of ¥14 billion to ¥15 billion over medium term

Japan (reinforce system with next-generation technological innovation)

Manufacturing

Leverage new plants to innovate Groupwide product manufacturing



Akatsuki Plant

Integrated production of bathroom heater/dryers
Operational since May 2013



ECO ONE Hybrid hot-water/heating system

Bathroom heater/dryer

- Establish system with capacity of 30,000 *ECO ONE* units
- Build system for rational, integrated manufacture of system-based offerings, a pillar of future growth

Product development

- Expand and upgrade R&D facilities
- Reinforce Production Technology Center system



Production Technology Center

Sales

- Expand and upgrade space for sales activities (Hokkaido, Hokuriku, Kanto, Kansai, Chubu, etc.)
- Strengthen and upgrade distribution and service systems

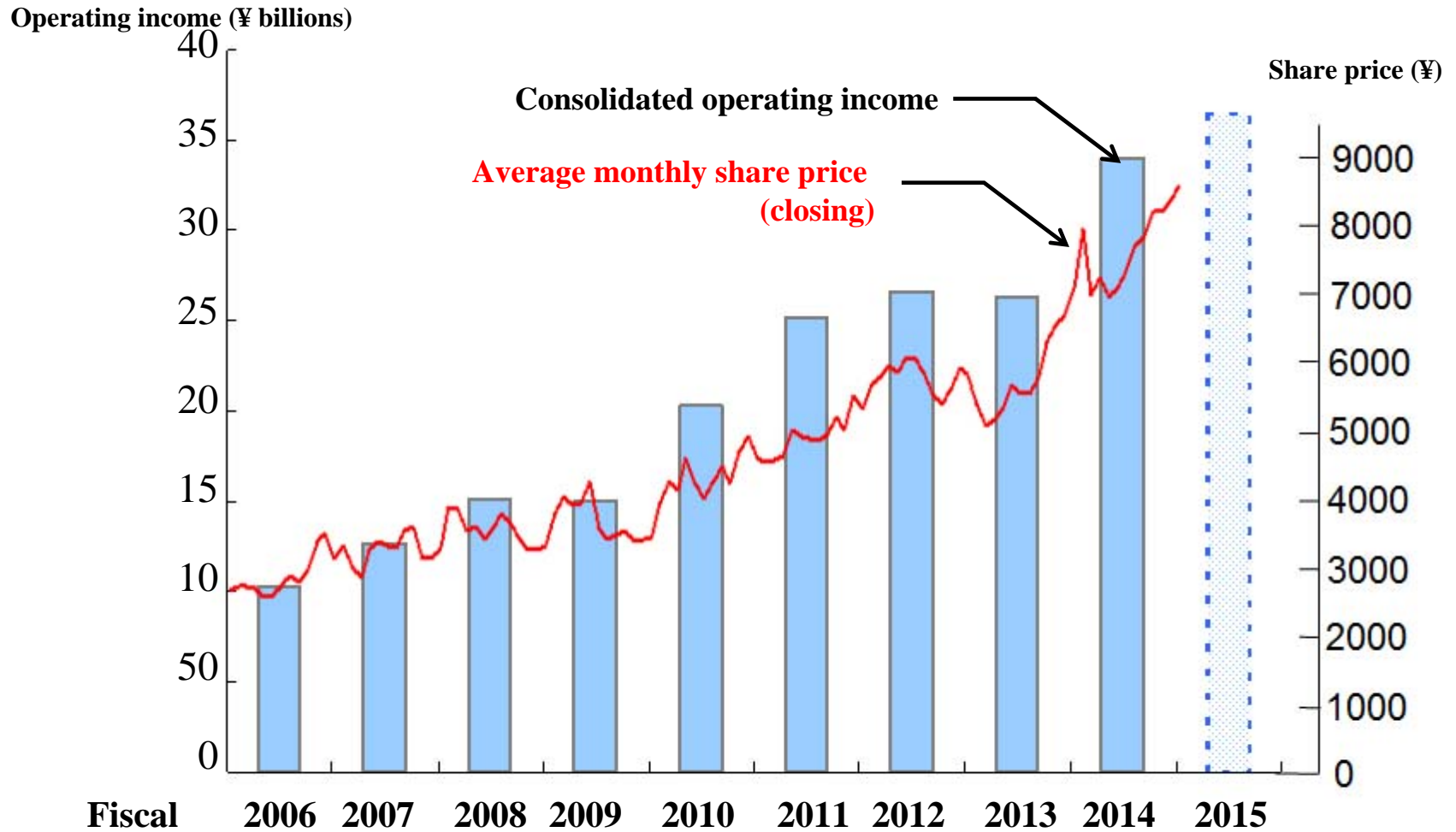


Tsukuba Training Center

Overseas (strategic investments in growth-driver businesses)

- Expand and upgrade capacity of overseas production facilities (China, Indonesia, Vietnam, Thailand, Brazil, etc.)
- Make strategic investments in markets earmarked as next growth regions (Southeast Asia, Europe, etc.)

Consolidated Operating Income, Share Price, and Dividends



Fiscal	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total annual dividend (¥)	28	30	36	40	42	48	56	60	(68)	(76)

Increased from ¥64 forecast at beginning of year

Targeting continuous dividend increases over long term based on stable dividend policy

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.