

Rinnai

Shareholders' Report

Vol. 47

68th Interim Term

(April 1 to September 30, 2017)



G:

TSE code 5947

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



Hiroyasu Naito
President

In the first two fiscal quarters under review (April 1–September 30, 2017), the world economy performed favorably overall, reflecting moderate economic recovery in the United States and Europe, as well as a high rate of economic growth in China. In Japan, as well, the economy continued recovering, buoyed by improved corporate earnings and a turnaround in personal consumption.

Despite a decrease in newly built rental homes, the domestic housing appliance industry was steady, benefiting from healthy sales of condominiums underpinned by low-interest home loans, as well as firm replacement demand for reliable housing appliances.

Under these conditions, the Rinnai Group entered the final year of its medium-term business plan, entitled Evolution and Succession 2017, which began in April 2015. Under the plan, we sought to ensure the “succession” of our corporate culture and spirit, 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 healthy sales of water heaters in the United States and China. On the earnings side, we posted a year-on-year decline in operating income due to increases in raw materials costs and higher sales promotion expenses overseas as well as sluggish domestic sales of high-value-added products. More details of our financial performance are given later in this report. The Company declared an interim cash dividend of ¥44.00 per share, up ¥2.00 from a year earlier.

We will continue reforming our business model while keeping ahead of various changes in the operating environment, with the aim of establishing the Rinnai brand as a comprehensive manufacturer of heat and energy appliances.

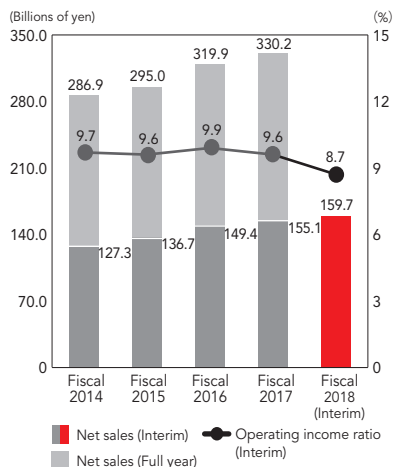
December 2017

Hiroyasu Naito
President

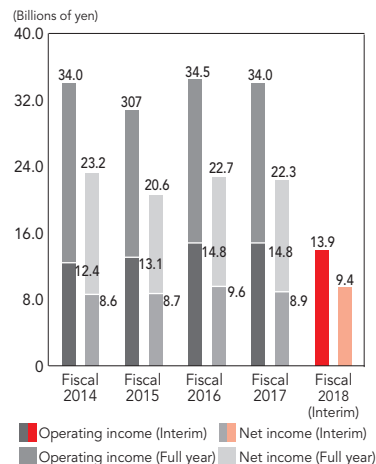
Performance Highlights

- New record-high figures for net sales
- Net sales up year on year for **fifth consecutive period**, buoyed by healthy sales of water heaters, especially in U.S. and China
- Interim cash dividend of ¥44.00 per share, for **eighth consecutive year of interim dividend increases**

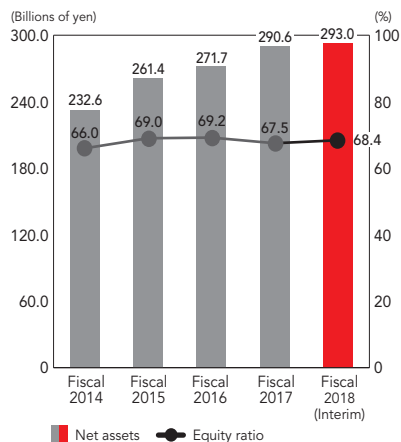
Net sales, operating income ratio



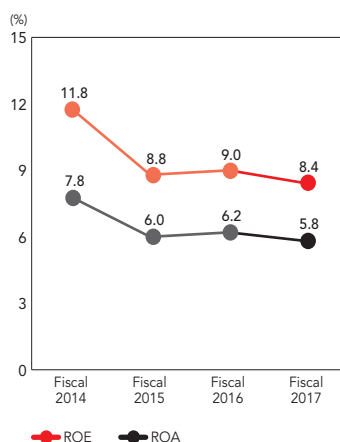
Operating income, net income attributable to owners of the parent company



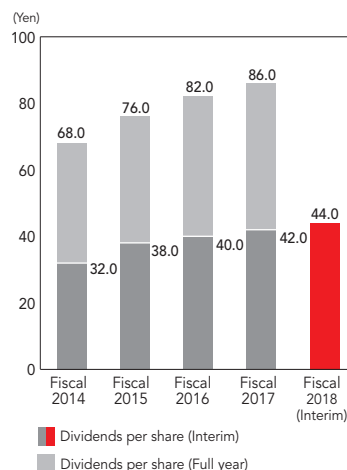
Net assets, equity ratio



ROE, ROA



Dividends per share



To enhance shareholder's return, the Company acquired its treasury stock of 600,000 shares on August 8, 2017, and cancelled them on August 25, 2017.

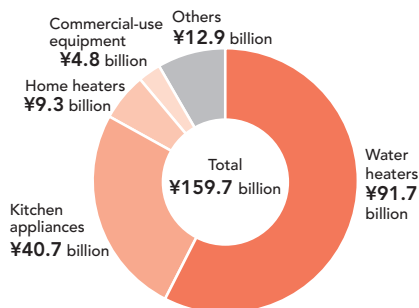
Consolidated Business Results

(First Two Quarters of the Fiscal Year ending March 2018)

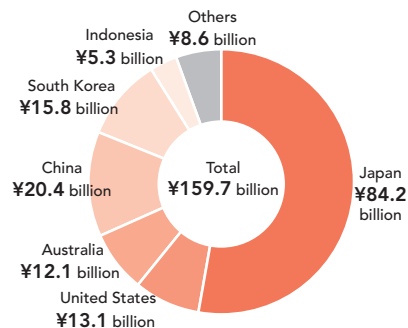
Highlights by Product Segment

- Water heaters: **Higher sales** thanks to healthy overseas demand in China and United States
- Kitchen appliances: **Lower sales** due to declining tabletop cookers market and intensified competition of built-in hobs (stovetops) in Japan
- Home heaters, commercial-use equipment, and others: **Increase in segment sales** thanks to healthy sales of home heaters, in United States and Australia

Net sales by product

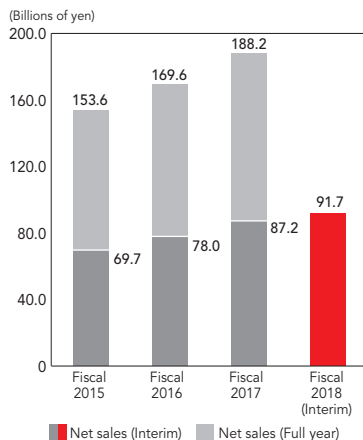


Net sales by region

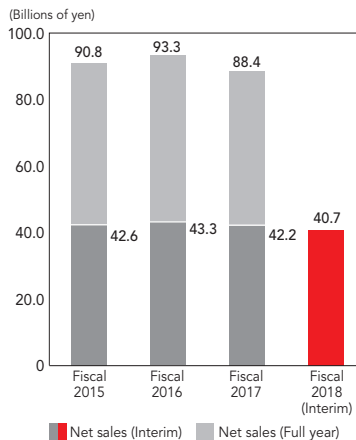


Principal products	Principal Products
Water heaters	Tankless water heater with basic functions, bath-filling systems, heating systems, and hybrid water heater with heating systems
Kitchen appliances	Tabletop cookers, built-in hobs (stovetops), ovens, dishwashers, range hoods and rice cookers
Home heaters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

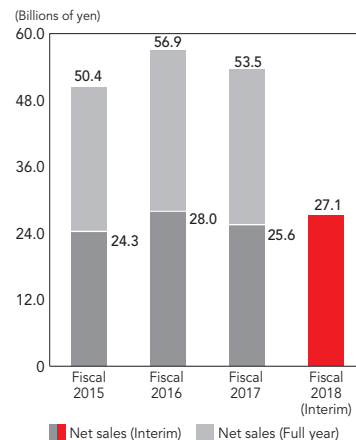
Sales of water heaters



Sales of kitchen appliances

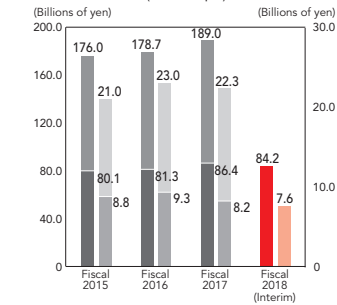


Sales of home heaters, commercial-use equipment, and others



Highlights by Regional Segment

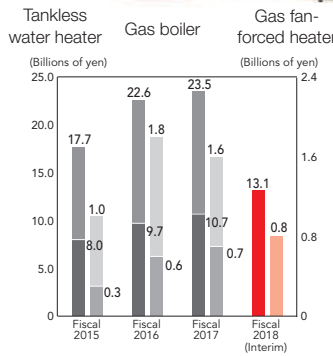
Japan



Lower sales and lower income due to sales decline for table-top cookers and water heaters for some sales channels

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

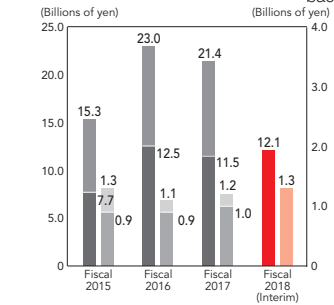
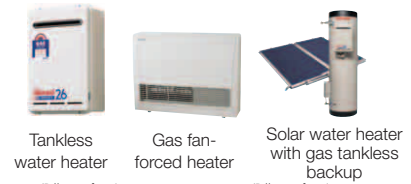
United States



Higher sales and income thanks to healthy sales of user-friendly tankless water heaters, reflecting healthy market for housing appliances

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

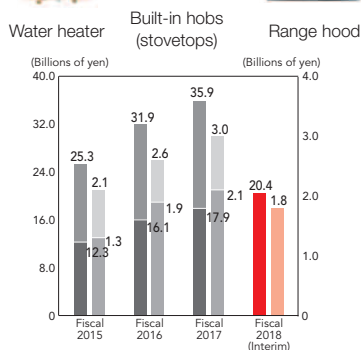
Australia



Higher sales and income owing to sales increase in tankless water heaters and duct-type air-conditioning and heating system

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

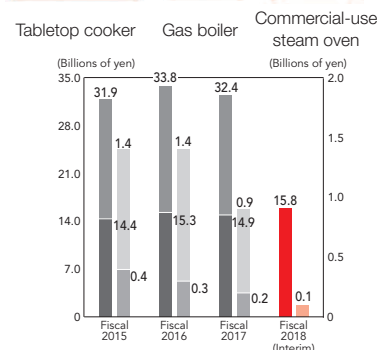
China



Increase in sales owing to increase in water heaters and boilers, but decrease in income due to rise of sales promotion expenditures

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

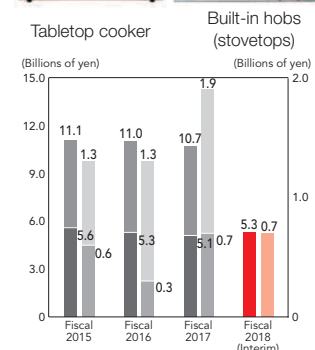
South Korea



Intensified competition led to higher sales and lower income despite healthy sales of boilers stemming from increases in new housing starts

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

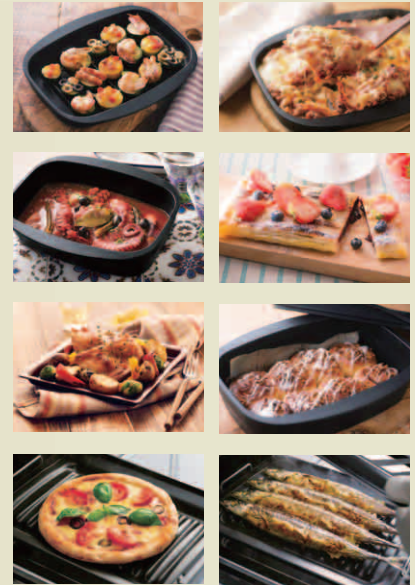
Indonesia



Decrease in sales of mainstay table-top cookers, but sales increase of commercial stoves led to higher sales and income

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

Kitchen Products that Meet Need for Fast-and-Easy Cooking and Cleanup



Simple cleanup is essential for making everyday cooking a joy not a chore. We build proprietary clean technology into our gas stoves for easy cleanup.

CLEAN TEC



EASY CLEAN

Top surface temperature **69°C DOWN**

Without easy clean



With easy clean



Just a quick wipe, and cleanup is done
Burned-on messes, like pot spillovers and oil splatters, are easily wiped away to keep surface looking bright and clean.



SMOKE OFF

Odor **99% CUT** Smoke **81% CUT**



Huge reduction in odor and smoke keeps kitchen area smelling fresh
A special burner at the back of the grill chamber eliminates cooking odors and smoke generated during the grilling process for excellent smoke- and odor-control results.



COCOTTE

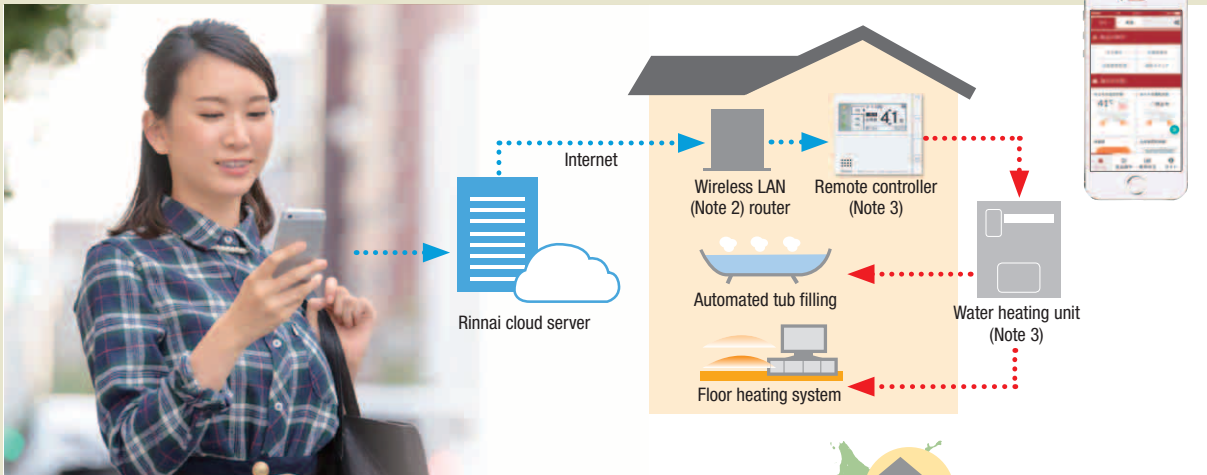
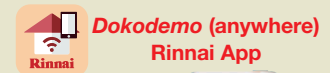
Oil build-up **99.9% CUT**



No mess inside grill chamber means cleanup a breeze
Cocotte series means hardly any oil splatters inside the grill chamber. No wipe-down necessary after cooking. Odors less likely to spread. This makes grilled dishes easy and fun to prepare.

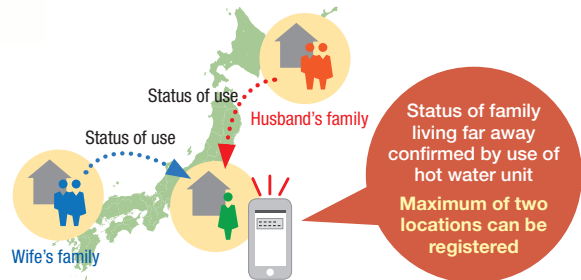
Dokodemo Rinnai App – Service Launch

With a smartphone (Note 1), it is possible to fill a bathtub with hot water or turn on the floor heating system from outside. Then the room is warm and welcoming and the bath is ready for a hot soak when the user gets home.



■ New service turns “worry” into “peace of mind” when families live far apart

By installing a Dokodemo Rinnai App compatible remote control device in a home where some members of an extended family live at a distance from the rest of the family and connecting to it by smartphone (Note 1), the app user will receive a message at 8:00am the next morning if the family members living far away used hot water the previous day.



■ Equipment Compatible with Dokodemo Rinnai App Service

Hybrid water heat with heating systems
ECO ONE-specific remote controller

ECO ONE



MBC-301VC(A)



Heat source for water heater with heating system, and remote controller for water heater with bath-filling system



MBC-302VC(A)



Notes: 1. Compatible smartphones are Android and iPhone. Tablets use is only possible with the iOS smartphone app.

2. Use only residential-use wireless LAN routers. Will not work with mobile routers (hotspots) or tethering. Limited to environments where wireless LAN connection possible.

3. Compatible water heating unit and remote controller required.

High marks for progressive concepts and advanced designs and features

Two Products Capture Fiscal 2017 Good Design Awards

Domino-style built-in gas stove G:101

Rinnai began sales of domino-style built-in gas stove G:101, the first in the new flagship category “G” line of kitchen appliances, in October 2017. Features, notably aspects that make cooking and cleanup easy, as well as a beautiful design captured notice, leading to inclusion in the Good Design Best 100 group of award-winning products that have earned particularly high marks from the Good Design Award judging committee.



Gas fan heater Harmo



* **Domino-style gas stove:** A gas stove that allows components to be arranged freely on the same module.

How the “G” naming came about: It is based on the phrase “God is in the details” but also stands for “grand,” “great” and “gold” (as in gold standard) as a top-of-the-line appliance.

Responding to growth in the U.S. market

Production of Gas Tankless Water Heaters to Start in United States

At Rinnai America Corporation, number of sales units in gas tankless water heaters reached to 237,000 in 2016 after surpassing the 200,000 market in 2015. It decided to start production of tankless water heaters in United States (Griffin, Georgia) from April 2018, in anticipation that sales of gas tankless water heaters will continue increasing.

The U.S. water heater market is estimated to be around 9 million units per year, but the market has traditionally centered on storage-type (tank-based) water heaters. Market expansion is expected through proliferation of gas tankless water heaters, which provide an endless supply of hot water and are more energy efficient than storage-type heaters.

Operation schedule for new factories (plan)

From April 2018

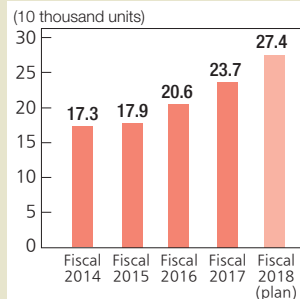
Start of operation at leased factory (provisional name) (100,000 units/year)

From January 2021

Start of operation at Griffin Factory (provisional name) (200,000 units/year)

* **Leased Factory:** The company plans to lease an existing facility in Griffin
 * **Griffin Factory:** Rinnai America plans to acquire the land and construct the new factory in Griffin (Construction work start: Beginning of 2019)

Sale unites of gas tankless water heaters at Rinnai America



Gas tankless water heaters

Consolidated Balance Sheets (Millions of yen)

Current Term (As of September 30, 2017)

Previous Term (As of March 31, 2017)

	Current Term	Previous Term
Assets		
Current assets	241,062	237,671
Fixed assets	161,299	166,653
Property, plant and equipment	81,324	78,175
Intangible fixed assets	6,495	6,853
Investments and advances	73,479	81,624
Total assets	402,362	404,325
Liabilities		
Current liabilities	86,197	91,568
Long-term liabilities	23,082	22,118
Total liabilities	109,279	113,686
NET ASSETS:		
Shareholders' equity:	262,678	261,536
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	249,317	247,327
Treasury stock	(1,855)	(1,007)
Other comprehensive income:	12,366	11,241
Minority interests	18,036	17,860
Total net assets	293,082	290,638
Total liabilities and net assets	402,362	404,325

Consolidated Statements of Income (Millions of yen)

Current Term (From April 1, 2017, to September 30, 2017)

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

	Current Term	Previous Term
Net sales	159,752	155,106
Cost of sales	107,039	104,128
Gross profit	52,713	50,977
Selling, general and administrative expenses	38,785	36,104
Operating income	13,927	14,873
Other income	1,233	1,292
Other expenses	162	1,162
Ordinary income	14,998	15,003
Extraordinary income	291	—
Extraordinary loss	—	137
Income before income taxes	15,290	14,866
Income taxes	4,357	4,368
Net income	10,933	10,497
Net income attributable to non-controlling interests	1,498	1,545
Net income attributable to owners of the parent company	9,435	8,951

Consolidated Statements of Cash Flows (Millions of yen)

Current Term (From April 1, 2017, to September 30, 2017)

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

	Current Term	Previous Term
Cash flows provided by operating activities	4,699	12,998
Cash flows provided by investing activities	(5,514)	(1,832)
Cash flows provided by financing activities	(9,388)	(2,758)
Cash and cash equivalents at end of term	84,836	84,854

Corporate Data

Directory (As of September 30, 2017)

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	10,461 (Consolidated) 3,575 (Nonconsolidated)

Domestic Network (As of September 30, 2017)

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	(91 offices)
Other domestic offices	10 Training Centers, 2 Customer Centers

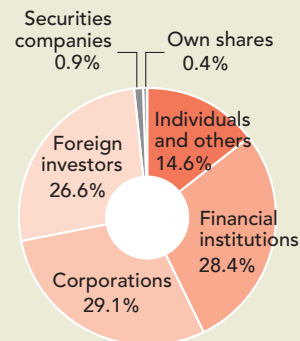
Board of Directors (As of September 30, 2017)

Chairman	Kenji Hayashi	Managing Executive Officers	Yuzo Yoshida	Audit & Supervisory Board Members	Takashi Sonoda
President and Executive Officer	Hiroyasu Naito		Terumasa Kaneko		Haruhiko Ishikawa
Director and Executive Vice President	Tsunenori Narita	Executive Officers	Kinji Mori		Masaaki Matsuoka
Director and Senior Managing Executive Officers	Masao Kosugi		Yasuo Koketsu		Ippeï Watanabe
Directors	Yuji Kondo		Fuminobu Ishikawa		
	Nobuyuki Matsui		Chuji Nakashima		
	Takashi Kamio		Shinji Tanaka	Notes: 1. Nobuyuki Matsui and Takashi Kamio (Directors) serve as an outside director.	
			Kazuhiko Matsumoto	2. Masaaki Matsuoka and Ippei Watanabe (Audit & Supervisory Board Members) serve as an outside auditor.	
			Kenji Endo		
			Masanori Shimizu		
			Kazuto Inoue		
			Hideyuki Shiraki		
			Katsuhiko Shinji		

Share Composition (As of September 30, 2017)

Number of shares	
Authorized:	200,000,000
Outstanding:	51,616,463 (Including treasury stock)
Number of shareholders:	3,808

Composition of shareholders



Rinnai Group (As of September 30, 2017)

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

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

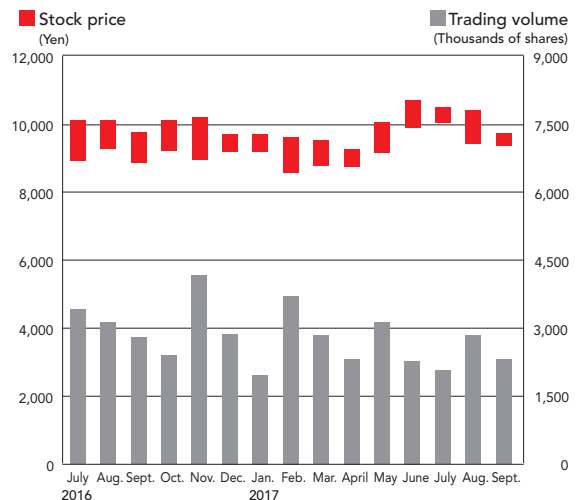
- Gas Appliance Services Corporation
- Other four companies

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

Major Shareholders (As of September 30, 2017)

Name	Shares held (Thousands)
Naito Co., Ltd.	6,215
Yoshikane Shoji Co., Ltd.	4,002
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,975
Kenji Hayashi	2,454
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,285
Japan Trustee Services Bank, Ltd. (Trust Account)	1,962
Tokyo Gas Company, Limited	784
HSBC-FUND SERVICES CLIENTS A/C 500	731
Nippon Life Insurance Company	720
Japan Trustee Services Bank, Ltd. (Trust Account 5)	661

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. For shareholders who have chosen to receive dividends by the allocation based on the number of shares method, a withholding tax amount are calculated by security companies. For inquiries about a reference attachment when preparing final tax returns, please contact your securities company. 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.