

# Rinnai Corporation

Securities Code: 5947



## Notice of Convocation of the 67th Ordinary General Shareholders' Meeting to Be Held on June 28, 2017

### **DATE AND TIME**

Wednesday, June 28, 2017 at 10:00 a.m.

### **PLACE**

7F ("Tsubaki-no-ma" Room), Meitetsu New Grand Hotel  
6-9, Tsubaki-cho, Nakamura-ku, Nagoya-shi (next to the Bic Camera store)

### **Matters for Resolution**

#### **First Item on the Agenda:**

Approval of the proposed appropriation of retained earnings

#### **Second Item on the Agenda:**

Election of seven (7) directors

#### **Third Item on the Agenda:** Audit & Supervisory Board

Election of one (1) substitute member

### Contents

Notice of Convocation of the 67th Ordinary General Shareholders' Meeting (Attachment)	02
Business Report	05
Consolidated Financial Statements	20
Nonconsolidated Financial Statements	22
Independent Auditor's Report	24
Guide to Voting	29

This document has been prepared as a guide for non-Japanese investors and contains forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. This document is a translation of the Japanese-language original.

Securities Code: 5947  
 June 6, 2017  
 To the Shareholders of Rinnai Corporation

Hiroyasu Naito  
 President  
**Rinnai Corporation**  
 2-26, Fukuzumi-cho, Nakagawa-ku, Nagoya-shi,  
 Aichi 454-0802, Japan

**Notice of Convocation of  
 the 67th Ordinary General Shareholders' Meeting  
 to Be Held on June 28, 2017**

You are cordially invited to attend the 67th Ordinary General Shareholders' Meeting of Rinnai Corporation (the "Corporation"). Details of the meeting are given below.

**In the event that you are unable to attend the meeting, you can exercise your voting rights in written form or by electromagnetic method (the Internet and mobile phone), as stated on the page 3 - 4. The forms must arrive at the Corporation no later than 5:20 p.m. on Tuesday, June 27, 2017.**

<b>1. DATE AND TIME</b>	Wednesday, June 28, 2017 at 10:00 a.m.
<b>2. PLACE</b>	7F ("Tsubaki-no-ma" Room), Meitetsu New Grand Hotel 6-9, Tsubaki-cho, Nakamura-ku, Nagoya-shi (next to the Bic Camera store)
<b>3. AGENDA</b>	<b>Matters for Reporting:</b> 1. The Business Report, report on the Consolidated Financial Statements, and the results of the audit of the Consolidated Financial Statements by the Independent Auditor and the Audit & Supervisory Board Member for the 67th Fiscal Year (from April 1, 2016, to March 31, 2017). 2. Report on the Nonconsolidated Financial Statements for the 67th Fiscal Year (from April 1, 2016, to March 31, 2017). <b>Matters for Resolution:</b> First Item on the Agenda: Approval of the proposed appropriation of retained earnings Second Item on the Agenda: Election of seven (7) directors Third Item on the Agenda: Election of one (1) substitute Audit & Supervisory Board Member

-END-

**Rinnai Corporation website: <http://www.rinnai.co.jp/>**

- Notes to Consolidated Financial Statements, Consolidated Statements of Changes in Shareholders' Equity, and Notes to Nonconsolidated Financial Statements, Nonconsolidated Statements of Changes in Shareholders' Equity are posted on the above website according to laws and Article 16 of the Corporation's Articles of Incorporation, and so are not included the Notice of Convocation. These items posted on the website have been included in audits by the independent auditor and Audit & Supervisory Board Members, along with each document described in the Notice of Convocation.
- For those planning to attend the meeting in person, please submit the attached Exercise of Voting Rights form at the reception desk upon your arrival.
- Any changes to attached Shareholder Reference Materials, Business Report, and Nonconsolidated Financial Statements and Consolidated Financial Statements will be posted on the above Corporation's website.

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

## Guide to Exercise of Voting Rights

You can exercise your voting rights by the following three means.

### **[Exercise of voting rights by attending the meeting in person]**



Please submit the enclosed Exercise of Voting Rights Form at the reception desk upon your arrival.

**1. DATE AND TIME: Wednesday, June 28, 2017 at 10:00 a.m.**

**2. PLACE:** 7F (“Tsubaki-no-ma” Room), Meitetsu New Grand Hotel  
6-9, Tsubaki-cho, Nakamura-ku, Nagoya-shi  
(next to the Bic Camera store)

### **[Exercise of voting rights by mail]**



Please indicate your approval or disapproval of the proposals on the enclosed Voting Rights Form, and mail the Form to the Corporation. The form does not need any stamps.

**Deadline: Arriving to the Corporation by 5:20 p.m. on Tuesday, June 27, 2017**

### **[Exercise of voting rights by Internet and others]**



Please access the Online Voting Website from your computer, smart phone or mobile phone. First use the “Code” and “Password” shown on the enclosed Voting Rights Form, then follow the instructions on the screen and enter your approval or disapproval of the proposal.

Website URL to exercise voting rights: **<http://www.web54.net>** (Japanese only)

**Deadline: Received by the Corporation by 5:20 p.m. on Tuesday, June 27, 2017**

1. Voting rights may be exercised via the Internet only by accessing the above Online Voting Website designated by the Corporation.
2. The deadline for exercising voting rights is 5:20pm on Tuesday, June 27, 2017. We recommend you exercise your voting rights earlier.
3. Any costs arising from access to the Online Voting Website for exercising voting rights (such as Internet connection fees) shall be borne by the shareholder.

#### **Notice for exercising voting rights**

1. If you have exercised your voting rights more than once, the last exercise of voting rights shall be deemed valid. If the voting form arrives at the Corporation on the same day that you vote by mail and internet, the online vote shall take precedence.
2. The Code on the Voting Form is valid for this Ordinary General Shareholders' Meeting only.
3. If an incorrect password is used more than a specified number of times, it will become inoperative. Shareholders who wish to have a new password issued are asked to apply by following the instructions on the screen.
4. The ability to exercise voting rights via personal computer or smartphone is dependent upon network environment and access may be hindered if your environment features a firewall is set for the Internet connection, antivirus software has been installed or a proxy server is used.
5. Should you be unsure of how to operate your personal computer or mobile phone in relation to exercising your voting rights using electromagnetic means, please contact the support desk at the number indicated below.

#### **[For institutional investors]**

Institutional investors are also eligible to exercise voting rights via the "Electronic Voting Platform" run by ICJ, Inc.

#### **Contact**

**Transfer Agent Web Support, Sumitomo Mitsui Trust Bank, Limited**  
**Direct dial in Japan: 0120-652-031** (Hours: 9:00 am–9:00 pm, Toll Free)

## Business Report

### April 1, 2016, to March 31, 2017

#### 1. Consolidated Business Overview

##### (1) Consolidated Business Results

In the fiscal year under review, the world economy was characterized by heightened uncertainty amid ongoing economic slowdown in China and other emerging Asian nations, as well as the decision of the United Kingdom to exit the European Union. In the United States, moreover, concerns about policies of the new administration could not be allayed, making the outlook difficult to predict. Meanwhile, moderate economic growth continued in Japan, reflecting improvements in employment and worker income conditions and a turnaround in personal consumption.

The domestic housing appliance industry was buoyed by an increase in new housing starts stemming from various government measures to support residential purchases, as well as lower home loan interest rates. Replacement demand for reliable housing appliances also firmed.

Under these conditions, the Rinnai Group ended the second 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 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 healthy sales of water heaters in China and the United States, as well as the addition of Gastar Co., Ltd., which became a consolidated subsidiary. This was despite the impact of the yen’s appreciation. On the earnings side, we posted a decrease in operating income due to a rise in the sales ratio for low-priced products in Japan, as well as depressed unit sales of kitchen appliances and home heaters.

As a result, consolidated net sales for the year amounted to ¥330,256 million, up 3.2% from the previous year. Operating income slipped 1.6%, to ¥34,056 million, and ordinary income was down 1.5%, to ¥35,280 million. Net income attributable to owners of the parent declined 1.7%, to ¥22,322 million.

Our results by geographical segment were as follows:

##### *Japan*

In Japan, we enjoyed an increase in sales of standalone water heaters amid growth in the home rental market. We also benefited from healthy sales of dishwasher/dryers thanks to enhancement of our lineup for the replacement market, as well as firm sales of gas clothes dryers—a distinctive Rinnai strength—and our *ECO ONE* hybrid water heaters with heating systems. Accordingly, sales in Japan rose 5.7% year on year, to ¥189,036 million. However, an increase in sales of low-priced products led to a decline in the sales ratio for high-value-added products. As a result, operating income declined 3.1%, to ¥22,305 million.

##### *United States*

In the United States, we saw a shift away from conventional tank-based water heaters toward high-efficiency gas tankless water heaters, due to stricter minimum heat efficiency standards enforced by the Department of Energy. As a result, sales in the United States rose 4.0%, to ¥23,504 million. Due to an increase in procurement costs stemming from the yen’s appreciation, however, operating income declined 8.6%, to ¥1,661 million.

##### *Australia*

In Australia, we enjoyed steady business expansion thanks to growth in storage-type (tank-based) water heaters and air conditioning systems of Brivis Climate Systems Pty Ltd, which became a consolidated subsidiary in the previous fiscal year. Sales in local-currency terms increased as a result. Due to the yen’s appreciation, however, sales in Australia declined 7.0%, to ¥21,468 million. Operating income grew 8.8%, to ¥1,249 million, thanks to a year-on-year decrease in expenses associated with the acquisition of Brivis Climate Systems.

### China

In China, the number of gas appliance users continued to increase thanks to expansion of gas infrastructure in regional cities. This, together with enlargement of our sales network, resulted in healthy sales of water heaters. Moreover, rising living standards led to the continued trend towards larger-capacity, higher-performance water heaters, which also bolstered sales.

Consequently, sales in China increased 12.5%, to ¥35,962 million, and operating income rose 15.4%, to ¥3,069 million.

### South Korea

In South Korea, we enjoyed healthy sales of boilers thanks to increased construction of small-scale multiple-dwelling projects and growing replacement demand. We also posted higher sales of gas clothes dryers due to acclaim for their fast-drying capability. Local-currency sales increased year on year as a result. Due to the yen's appreciation, however, sales in South Korea slipped 4.2%, to ¥32,455 million. Operating income fell 38.6%, to ¥920 million.

### Indonesia

In Indonesia, sales of tabletop cookers increased year on year, leading to a rise in overall local-currency sales. Due to the yen's appreciation, however, sales in yen terms decreased 2.7% year on year, to ¥10,737 million. Operating income jumped 44.0%, to ¥1,901 million, thanks to cost-related improvements.

### Consolidated net sales and operating income by reporting segment (Millions of yen)

	66th fiscal year (previous fiscal year) (April 1, 2015, to March 31, 2016)		67th fiscal year (current fiscal year) (April 1, 2016, to March 31, 2017)		Change	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Japan	178,781	23,007	189,036	22,305	5.7%	(3.1)%
United States	22,602	1,817	23,504	1,661	4.0	(8.6)
Australia	23,092	1,148	21,468	1,249	(7.0)	8.8
China	31,966	2,659	35,962	3,069	12.5	15.4
South Korea	33,888	1,499	32,455	920	(4.2)	(38.6)
Indonesia	11,038	1,320	10,737	1,901	(2.7)	44.0
Others	18,567	2,799	17,090	2,712	(8.0)	(3.1)
Adjustments	—	341	—	234	—	—
Net sales on the consolidated statements of income	319,935	34,593	330,256	34,056	3.2	(1.6)

Notes: 1. "Others" includes sales from subsidiaries in Taiwan, Thailand, Vietnam, New Zealand, Brazil and other regions.

2. "Net sales" are sales to external customers, and "Adjustments" under "Operating income" are the intersegment transactions to eliminate.

A breakdown by product shows that sales in the water heaters segment totaled ¥188,202 million, up 11.0% year-on-year; kitchen appliances, ¥88,456 million, down 5.2%; home heaters, ¥17,952 million, down 7.8%; commercial-use equipment, ¥ 9,122 million, down 9.2%; other products, ¥26,521 million, down 3.4%.

**Net sales by product**

(Millions of yen)

	66th fiscal year (previous fiscal year) (April 1, 2015, to March 31, 2016)		67th fiscal year (current fiscal year) (April 1, 2016, to March 31, 2017)		Change  (%)
	Amount	% of total	Amount	% of total	
Water heaters	169,623	53.0	188,202	57.0	11.0
Kitchen appliances	93,340	29.2	88,456	26.8	(5.2)
Home heaters	19,463	6.1	17,952	5.4	(7.8)
Commercial-use equipment	10,041	3.1	9,122	2.8	(9.2)
Others	27,466	8.6	26,521	8.0	(3.4)
Total	319,935	100.0	330,256	100.0	3.2

**(2) Consolidated Capital Expenditures**

In the period under review, the Group's total capital expenditures amounted to ¥20,664 million. Funds were applied primarily to investments in land and buildings to expand production facilities in Japan and overseas; tools and fixtures, including molds for new products; and renewal and rationalization of machinery and equipment aimed at cost reduction and quality improvement.

**(3) Consolidated Fund Procurement**

There was no significant new fund procurement during the period under review.

**(4) Issues Requiring Our Attention**

In the fiscal year ending March 2018, we expect the world economy to maintain its moderate expansion tone, but we predict that economic growth in China and other Asian nations will continue slowing. In Japan, there are causes for concern, such as weak growth in household and population numbers, as well as fluctuating materials prices and foreign exchange factors. Nevertheless, we look forward to certain levels of demand, including in the replacement market.

Under these conditions, the Rinnai Group will continue implementing its medium-term business plan, entitled Evolution and Succession 2017. Under the plan, we will emphasize "succession" of the "Rinnai Spirit" to deliver stable business continuity, while ensuring "evolution" in accordance with the challenges of the new era. At the same time, we will reform our business model while keeping ahead of various changes in the operating environment, with the aims of creating new products and services that benefit society and establishing the Rinnai brand as a comprehensive manufacturer of heat and energy appliances.

In Japan, we will step up sales of products with exceptional environmental and energy-efficiency performances. These include our *ECO ONE* hybrid water heaters with heating systems that use electricity and gas separately and efficiently, as well as our *Eco Jozu* series of high-efficiency water heaters. In addition, we will enhance our planning and consulting capabilities for system-based offerings, such as integrated water and room heaters (and their peripherals) that deploy hot water in multifaceted ways, as well as stoves and range hoods for a built-in kitchen. Overseas, we will expand sales in response to growing demand for heating equipment, including for gas water heaters in China and the United States and kitchen appliances in Asian nations.

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

**(5) Changes in Performance and Assets**

(¥ millions / except where noted)

	64th fiscal year (Year ended March 31, 2014)	65th fiscal year (Year ended March 31, 2015)	66th fiscal year (Year ended March 31, 2016)	67th fiscal year (Year ended March 31, 2017) (current fiscal year)
<b>Net sales</b>	286,981	295,022	319,935	330,256
<b>Ordinary income</b>	36,910	32,938	35,807	35,280
<b>Net income attributable to owners of the parent company</b>	23,254	20,647	22,710	22,322
<b>Net income per share (yen)</b>	454.74	397.03	436.71	429.27
<b>Total assets</b>	334,382	357,506	370,246	404,325
<b>Net assets</b>	232,635	261,414	271,709	290,638
<b>Net assets per share (yen)</b>	4,245.48	4,742.42	4,924.24	5,245.62

Note: Net income per share is calculated using the average number of shares outstanding during the fiscal year, and net assets per share is calculated using the number of shares outstanding at fiscal year-end. Number of outstanding shares excludes treasury stock.

**(6) Significant Subsidiaries (As of March 31, 2017)**

Name	Capital	The Corporation's Holdings	Primary Business
Yanagisawa Manufacturing Co., Ltd.	¥150 million	100.0%	Manufacture and sale of gas appliances
Rinnai Technica Co., Ltd.	¥200 million	100.0%	Manufacture and sale of gas appliances
RB Controls Co., Ltd.	¥150 million	100.0%	Manufacture and sale of electronic control units
Rinnai Precision Co., Ltd.	¥128 million	92.2%	Manufacture and sale of gas appliance components
Gastar Co., Ltd.	¥2,450 million	90.0%	Manufacture and sale of gas appliances
Rinnai Net Co., Ltd.	¥300 million	100.0%	Sale of gas appliances
RG Co., Ltd.	¥150 million	*100.0%	Sale of gas appliances
Rinnai Australia Pty., Ltd.	A\$2 million	*100.0%	Manufacture and sale of gas appliances
Rinnai America Corporation	US\$11 million	100.0%	Sale of gas appliances
Rinnai Korea Corporation	15,107 million won	*100.0%	Manufacture and sale of gas appliances
Shanghai Rinnai Co., Ltd.	74 million yuan	50.0%	Manufacture and sale of gas appliances
P.T. Rinnai Indonesia	3,085 million rupiah	52.0%	Manufacture and sale of gas appliances

\* Percentage of shares includes shares held indirectly by subsidiaries.

**(7) Principal Business (As of March 31, 2017)**

The Group is primarily engaged in the manufacture and sale of gas appliances and related businesses. Principal products by division are as follows:

Division	Principal Products
Water heaters	Water heaters, water heater with bath-filling system, water heater with heating system, and hybrid water heaters with heating system
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, commercial-use ranges, and rice cookers
Others	Clothes dryers, infrared burners, and components

**(8) Major offices and production facilities (As of March 31, 2017)****(a) Parent Company**

	Name	Address
Head office and related centers	Head office	Nakagawa-ku, Nagoya-shi
	Technology Development Center	Oguchi-cho, Niwa-gun, Aichi
	Production Technology Center	Komaki-shi, Aichi
	Integrated Logistics Center	Komaki-shi, Aichi
	Rinnai Parts Center	Iwakura-shi, Aichi
Factories	Oguchi Factory	Oguchi-cho, Niwa-gun, Aichi
	Seto Factory	Seto-shi, Aichi
	Akatsuki Factory	Seto-shi, Aichi
	Asahi Factory	Owariasahi-shi, Aichi
Sales Branches	Tohoku	Wakabayashi-ku, Sendai-shi
	Kanto	Shinagawa-ku, Tokyo
	Chubu	Nakagawa-ku, Nagoya-shi
	Kansai	Yodogawa-ku, Osaka-shi
	Kyushu	Hakata-ku, Fukuoka-shi

**(b) Subsidiaries**

Name	Address
Yanagisawa Manufacturing Co., Ltd.	Kadoma-shi, Osaka
Rinnai Technica Co., Ltd.	Minato-ku, Tokyo
RB Controls Co., Ltd.	Kanazawa-shi, Ishikawa
Rinnai Precision Co., Ltd.	Komaki-shi, Aichi
Gastar Co., Ltd.	Yamato-shi, Kanagawa
Rinnai Net Co., Ltd.	Nakagawa-ku, Nagoya-shi
RG Co., Ltd.	Shinagawa-ku, Tokyo
Rinnai Australia Pty., Ltd.	Melbourne, Victoria, Australia
Rinnai America Corporation	Peachtree City, Georgia, United States
Rinnai Korea Corporation	Incheon, South Korea
Shanghai Rinnai Co., Ltd.	Shanghai, People's Republic of China
P.T. Rinnai Indonesia	Jakarta, Indonesia

**(9) Number of Consolidated Employees (As of March 31, 2017)**

Number of employees	Increase (decrease) from previous fiscal year-end
10,512	+572

Notes: The above figures do not include temporary employees.

The average number of temporary employees during the fiscal year was 3,727.

## 2. Stock Information (As of March 31, 2017)

(a) Number of authorized shares: 200,000,000

(b) Number of issued shares: 52,001,146 (Excluding 215,317 shares of treasury stock)

(c) Number of shareholders: 4,002

### (d) Major shareholders (top 10)

Name of shareholders	Number of shares (thousand)	Shareholding ratio (%)
Naito Co., Ltd.	6,215	11.95
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,105	7.89
Yoshikane Shoji Co., Ltd.	4,002	7.69
Kenji Hayashi	2,502	4.81
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,253	4.33
Japan Trustee Services Bank, Ltd. (Trust Account)	1,762	3.38
Tokyo Gas Company, Limited	784	1.50
Nippon Life Insurance Company	720	1.38
HSBC-FUND SERVICES CLIENTS A/C 500	718	1.38
Japan Trustee Services Bank, Ltd. (Trust Account 5)	655	1.26

Note: Shareholding ratios are calculated by number of shares excluding treasury stock.

## 3. Stock Acquisition Rights

There is no applicable information.

#### 4. Board of Directors and Auditors of Rinnai Corporation

##### (1) Name of Directors and Audit & Supervisory Board Members (As of March 31, 2017)

Position	Name	Position at Other Institutions or Major Profession
Representative Director, and Vice Chairman	Kenji Hayashi	
Representative Director, President and Executive Officer	Hiroyasu Naito	
Representative Director, and Executive Vice President	Tsunenori Narita	Assistant to the President, in charge of Production Headquarters, Overseas Business Headquarters, and President of Rinnai Net Co., Ltd.
Director and Senior Managing Executive Officer	Masao Kosugi	General Manager of Corporate Planning Headquarters and Corporate Planning Division, in charge of Administration Headquarters, and President of Rinnai Enterprises
Director and Senior Managing Executive Officer	Yuji Kondo	General Manager of Marketing & Sales Headquarters, in charge of Research & Development Headquarters
Director	Nobuyuki Matsui	Professor under chancellor at Chubu University, outside director at Fuji Machine MFG Co., Ltd., and outside director at Aichi Tokei Denki Co., Ltd.
Director	Takashi Kamio	Chairman of Sasaeai, specified nonprofit corporation
Audit & Supervisory Board Member (Standing auditor)	Takashi Sonoda	
Audit & Supervisory Board Member (Standing auditor)	Haruhiko Ishikawa	
Audit & Supervisory Board Member	Masaaki Matsuoka	Certified public accountant, outside director at Kanemi Co., Ltd., and outside Audit & Supervisory Board Member at Mitachi Co., Ltd.
Audit & Supervisory Board Member	Ippei Watanabe	Lawyer, outside director at Howa Machinery, Ltd. (Audit and Supervisory Committee member)

- Notes:
1. Nobuyuki Matsui and Takashi Kamio are outside directors.
  2. Masaaki Matsuoka and Ippei Watanabe (Audit & Supervisory Board Members) serve as outside auditors.
  3. Mr. Matsuoka is a certified public accountant and has considerable knowledge about accounting and finance.
  4. The Corporation has notified the Tokyo Stock Exchange and the Nagoya Stock Exchange that Mr. Matsui, Mr. Kamio (directors), and Mr. Matsuoka and Mr. Watanabe (Audit & Supervisory Board Members) satisfy the conditions for independent officer.
  5. Change of Directors and Audit & Supervisory Board Members in the Year Ended March 2017
    - (1) Susumu Naito, Representative Director and Chairman, passed away and retired as of March 20, 2017. At the time of his retirement, he was also Representative Director and Chairman of Rinnai Korea Corporation.
    - (2) Yasuhiko Goto, Toshinori Tsutsumi, Kiyokira Fukui and Kinya Nankan, Audit & Supervisory Board Members, retired at the conclusion of the 66th Ordinary General Shareholders' Meeting held on June 28, 2016.

## (2) Summary of liability-limiting agreements

In accordance with the provisions of Article 427, Paragraph 1, of the Corporate Law, two outside directors and two outside members of the Audit & Supervisory Board have signed agreements that limit liability for damages as provided for in Article 423 of the same law. The limit of liability for damages, based on these agreements, is an amount prescribed by law.

## (3) Remuneration for Directors and Audit & Supervisory Board Members

	Recipients (persons)	Remuneration (Millions of yen)
Directors (including outside directors)	8 (2)	419 (12)
Audit & Supervisory Board Members (including outside members)	8 (4)	46 (11)
Total	16	465

Notes: 1. The above includes one director who retired on March 20, 2017.

2. Remuneration for directors does not include the employee portion in the case of directors who serve concurrently as employees.
3. Per resolution of the 58th Ordinary General Shareholders' Meeting held on June 27, 2008, the combined remuneration for directors is limited to ¥45 million per month (excluding the employee portion in the case of directors who serve concurrently as employees).
4. Per resolution of the 58th Ordinary General Shareholders' Meeting held on June 27, 2008, the combined remuneration for Audit & Supervisory Board Members is limited to ¥5 million per month.
5. As of March 31, 2017, the Corporation had seven (7) directors, including two (2) outside directors and four (4) Audit & Supervisory Board Members, including two (2) from outside.

## (4) Items Related to Outside Executives

### (a) Director: Nobuyuki Matsui

- i. Serving concurrently in important positions at other companies, etc., and the relationship between the Corporation and these companies, etc.:  
Mr. Matsui is a professor under the chancellor at Chubu University, an outside director at Fuji Machine MFG. Co., Ltd. and an outside director at Aichi Tokei Denki Co., Ltd. The Corporation has no special relationships with either of these organizations.
- ii. Main activities in the year under review:  
Attended fourteen (13) of the 14 Board of Directors' meetings held during the year, providing impartial advice mainly from a scholarly perspective based on his experience as a professor and president of a university.

### (b) Director: Takashi Kamio

- i. Serving concurrently in important positions at other companies, etc., and the relationship between the Corporation and these companies, etc.:  
Mr. Kamio is Chairman of Sasaeai, a specified nonprofit corporation. The Corporation makes donations to Sasaeai, but the amounts are as little as ¥30,000 per year.
- ii. Main activities in the year under review:  
Attended all meetings of the Board of Directors (10 times) held after his appointment on June 28, 2016, providing impartial advice mainly from his extensive experience and wide-ranging insight as a director of other companies.

### (c) Audit & Supervisory Board Member: Masaaki Matsuoka

- i. Serving concurrently in important positions at other companies, etc., and the relationship between the Corporation and these companies, etc.:  
Mr. Matsuoka is a certified public accountant and outside director at Kanemi Co., Ltd., and outside Audit & Supervisory Board Member at Mitachi Co., Ltd. The Corporation has no special relationships with the those companies.

ii. Main activities in the year under review:

Attended all meetings of the Board of Directors (10 times) and all meetings of the Audit & Supervisory Board (10 times) held after his appointment on June 28, 2016, providing impartial advice mainly from accounting and taxation perspectives.

**(d) Audit & Supervisory Board Member: Ippei Watanabe**

i. Serving concurrently in important positions at other companies, etc., and the relationship between the Corporation and these companies, etc.:

Mr. Watanabe is a lawyer and outside director at Howa Machinery, Ltd. (Audit and Supervisory Committee member). The Corporation has no special relationship with that company.

ii. Main activities in the year under review:

Attended all meetings of the Board of Directors (10 times) and all meetings of the Audit & Supervisory Board (10 times) held after his appointment on June 28, 2016, providing impartial advice mainly from legal perspectives.

Note: In addition to the aforementioned Board of Directors' meetings, there was one written resolution that was treated as a Board of Directors' resolution pursuant to Article 370 of the Corporate Law and Article 24 of the Corporation's Articles of Incorporation.

**5. Status of Independent Auditor**

**(1) Name of independent auditor**

Deloitte Touche Tohmatsu LLC

**(2) Compensation to independent auditor in the year under review** (Millions of yen)

Compensation for services as independent auditor	51
Total monetary and other financial profits paid by the Corporation and its subsidiaries	51

Notes: 1. Under the agreement between the Corporation and its independent auditor, there is no clear distinction between compensation for audits under the Corporate Law and audits under the Financial Instruments and Exchange Law. For this reason, only the total compensation amounts to the independent auditor are listed here.

2. Among major subsidiaries, Gastar Co., Ltd., Rinnai Korea Corporation and other overseas subsidiaries have different independent auditors.

**(3) Reason Audit & Supervisory Board Agrees to Compensation for Independent Auditor**

The Audit & Supervisory Board reviewed and discusses such aspects as the content of the audit plan by the independent auditor, the execution of duties by the independent auditor, and the basis for calculation of compensation estimates, and agreed that compensation to the independent auditor was in line with Article 399, Paragraph 1 of the Corporate Law.

**(4) Policy on removal or non-reappointment of independent auditor**

If the Audit & Supervisory Board finds it necessary, due to an obstacle that prevents the independent auditor from properly executing required duties or due to some other issue of consequence, the Audit & Supervisory Board will prepare the content of an agenda item on the dismissal or non-reappointment of the independent auditor to be put before the general meeting of shareholders.

In addition, the Audit & Supervisory Board will dismiss the independent auditor upon the consent of all members of the Audit & Supervisory Board, if the independent auditor falls subject to any of the provisions in Article 340, Paragraph 1 of the Corporate Law. In this event, a member of the Audit & Supervisory Board, chosen among board members, will give a report on the purpose for dismissing the independent auditor and associated background at the first general meeting of shareholders that convenes after the dismissal.

## **6. Systems to Ensure Appropriateness of Business Activities and Operational Status of the System**

### **(1) An overview of systems to ensure appropriateness of business activities**

An overview of systems to ensure that execution of business by directors conforms to legal regulations and the Articles of Incorporation, as well as systems to ensure appropriateness of other business activities, is given below.

#### **(a) System to ensure that execution of business by directors and employees conforms to legal regulations and the Articles of Incorporation**

- To ensure that directors and employees are constantly aware of the need to observe legal regulations and the Articles of Incorporation when executing their duties, the Corporation has formulated the Rinnai Group Code of Ethics, which consists of the Corporation motto, the Rinnai's Mission, the Rinnai Charter, and the Rinnai Code of Conduct. The Corporation and its subsidiaries shall work to ensure that all directors and employees are fully familiarized with the Rinnai Group Code of Ethics.
- In addition to establishing the Business Ethics Committee to build, maintain and improve its internal control system, the Corporation shall build and maintain an effective compliance system.
- If a director becomes aware of an incident in which there is suspicion of a major legal violation, he or she shall immediately report the incident to the Audit & Supervisory Board and the Board of Directors.
- The Corporation has set up a business ethics hotline as an internal reporting system to handle incidents in which there is suspicion of a major legal violation. Operation of the hotline is based on the Corporation's business ethics manual.
- If an Audit & Supervisory Board Member believes there is a problem with the Corporation's legal compliance system or internal hotline, he or she shall convey his or her opinion and seek measures to correct the situation.

#### **(b) System for storing and managing information related to the execution of duties by directors**

- Information related to the execution of duties by directors shall be stored and managed appropriately according to the Corporation's internal procedures for managing paper and electronic documents, in a manner appropriate to its storage medium and in an easily retrievable form.

#### **(c) Regulations and other systems for managing the risk of loss**

- As part of its risk management system, the Corporation shall determine risk management regulations and promote internal checks and awareness activities to prevent the occurrence of risk at the group-wide basis, under the Risk Management Committee chaired by the president. Risk managers shall be assigned to deal with specific types of risk, and a risk management system shall be set up according to the relevant provisions.

#### **(d) System to ensure efficient execution of duties by directors**

- To ensure that directors execute their duties in an efficient manner, meetings of the Board of Directors shall be held on a regular basis to discuss and debate important matters and make executive decisions.
- Directors formulate management strategy and track the progress of management plans at the group-wide executive meeting held every year.
- Execution of business based on decisions made at Board of Directors meetings shall be performed by the relevant director according to the Corporation's rules and procedures.
- The Corporation formulates the management direction, management plan and management numerical target in each fiscal year, based on the medium-term management plan, medium-term numerical target, and management indicators. Each department formulates an action plan, according to the Corporation-wide plan and target for each fiscal year, and the Corporation practices consistent management of each department.

**(e) System to ensure appropriate operations in the corporate group (parent company and subsidiaries)**

- To ensure that business at Rinnai Group companies is conducted appropriately, the Corporation shall formulate a Code of Ethics for Rinnai Group Companies to serve as a behavioral guide for Group members. Based on the Charter, Group companies shall create their own specific regulations.
- Business control of Rinnai Group companies shall be based on procedures and reporting rules determined by provisions for controlling Rinnai Group companies.
- Internal audits by the Internal Control Office and relevant divisions were carried out in accordance with the business content and operating scale of each Group company.

**(f) System for employees when requested to support the Audit & Supervisory Board; system to ensure independence from directors, and system to ensure effective execution of instruction by Audit & Supervisory Board Members**

- If an Audit & Supervisory Board Member makes a request for an employee to provide support, an employee from the Internal Control Office shall be assigned to concurrently provide such support to the Audit & Supervisory Board Member, and the assigned person shall also be responsible for duties within Office of the Audit & Supervisory Board. The assigned person has priority to provide support of the Member, and shall not accept instructions or commands related to said support duties from superior officers in the department from which he or she was assigned.
- Changes in personnel and assessment of performance of assigned persons from the Internal Control Office serving concurrently as support staff for an Audit & Supervisory Board Member shall require the consent of the Audit & Supervisory Board.

**(g) System for reporting by directors and employees to Audit & Supervisory Board Members, other systems concerning reporting to Audit & Supervisory Board Members, and other system to ensure effective execution of duties by Audit & Supervisory Board Members**

- Directors and employees of the Corporation and its subsidiaries shall report immediately to the Audit & Supervisory Board incidents that could cause significant damage to the Corporation's operations or its business performance. Moreover, Audit & Supervisory Board Members can request reports from directors and employees at any time as required.
- The Audit & Supervisory Board shall hold regular meetings with the Board of Directors, Internal Control Office, and independent auditor to exchange opinions and ensure proper communication of intentions.

**(h) System to ensure that individuals who have made reports to the Audit & Supervisory Board as described in (7) above will not be treated unfavorably (put at a disadvantage) on the basis of such reports**

- Every effort shall be made to ensure that directors and employees of the Corporation and its subsidiaries, who report information to a member of the Audit & Supervisory Board, will not be treated unfavorably on the basis of the report given.

**(i) Matters concerning procedures for advance payment or reimbursement of expenses incurred by a member of the Audit & Supervisory Board in the process of executing duties and any other policy for processing costs and obligations**

- Costs incurred in the process of executing duties by a member of the Audit & Supervisory Board shall be covered by the Corporation.

## **(2) An overview of the operational status of systems to ensure appropriateness of business activities**

An overview of operational status of systems to ensure appropriateness of business activities at the current fiscal term are given below.

### **(a) Matters related to compliance**

- During Corporate Ethics Month, an opportunity created by the Corporation to reinforce ethics, all employees read the Rinnai Code of Conduct together, to ensure deeper awareness of ethics and appropriate conduct. A questionnaire survey was implemented to gauge the level of employee awareness.
- The Corporation ran lectures by lawyers for compliance committee members in each division to raise awareness of legal and regulatory compliance and thereby underpin in-house compliance practices.
- The Corporation maintains an internal reporting system and set up a new external consultation desk at a lawyer's office. However, there were no logged reports of suspected serious legal or regulatory violations.

### **(b) Matters related to risk management**

- The Risk Management Committee, comprising executive officers and divisional heads and chaired by the president, met every quarter, and each person with responsibility gave a report on the implementation status of in-house checks and associated improvement pertaining to risk-related issues within the Corporation and at Group companies. The content was reviewed, information was shared, and efforts were made to prevent potential risks from becoming reality.

### **(c) Matters related to execution of duties by directors**

- During the current fiscal year, the Board of Directors met 14 times, to discuss and approve key agenda items and to receive business reports. In addition to the aforementioned Board of Directors' meetings, there was one written resolution that was treated as a Board of Directors' resolution pursuant to Article 370 of the Corporate Law and Article 24 of the Corporation's Articles of Incorporation.
- The Executive Committee, attended by executives responsible for operating divisions at the Corporation and at Group companies, met quarterly to review progress on annual business plans and to confirm status toward achieving goals and any issues requiring attention.
- The minutes of Board of Directors' meetings and Executive Committee meetings, along with approval documents, in written form were properly stored and managed.

### **(d) Matters related to appropriateness of the Group's business**

- Key business management issues at Group companies were properly handled in accordance with approval rules established under Management Rules for Subsidiaries. Also, through regular opportunities to provide updates on business activities and the delivery of monthly business reports, the Corporation was able to confirm the status of progress on fiscal management plans and pinpoint issues requiring attention.
- Internal audits by the Internal Control Office and relevant divisions were carried out based on plans drafted to match the business content and operating scale of each Group company.

### **(e) Matters related to audits by members of the Audit & Supervisory Board**

- Members of the Audit & Supervisory Board performed business audits based on audit plans to ensure the appropriateness of business activities by the Corporation and Group companies.
- Members of the Audit & Supervisory Board attended meetings of the Board of Directors and the Executive Committee, and stated opinions, as necessary. In addition, members of the Audit & Supervisory Board looked over request documents (*ringi*) for circulating to executives in lieu of a meeting to obtain approval for some action as well as monthly business reports and the minutes of important meetings, and confirmed the content of such materials.
- Members of the Audit & Supervisory Board communicated with the independent auditor and exchanged opinions regarding the audit plan proposed by the independent auditor and the

results obtained through the audit. In addition, members of the Audit & Supervisory Board exchanged opinions with the representative director and the Internal Control Office.

- Costs incurred by members of the Audit & Supervisory Board in the course of their work were swiftly processed as corporate expenses.

## 7. Basic Policy on Control of Joint Stock Companies

The Corporation's basic policy on the control of joint stock companies is given below.

### (1) Basic policy concerning people who control decisions on the Corporation's financial and business policies

The Corporation believes, in principle, that the share certificates, etc. of the Corporation, as a listed company, should be freely sold and purchased in the market, and that its shareholders should make the final decisions of their own will as to whether or not they sell their shares, etc. in the Corporation in response to a large-scale purchase proposal made by a person or entity to conduct a large-scale purchase of share certificates, etc. of the Corporation. Consequently, the Corporation would not flatly refuse such a large-scale purchase proposal if it truly contributes to ensuring and raising the corporate value of the Corporation and the common interests of the shareholders.

However, in the case where a large-scale purchase of share certificates, etc. is conducted unilaterally, without sufficient prior negotiations with or the consent of the Board of Directors of the Corporation and without the sufficient disclosure of information such as the purpose of the proposed purchase and management policies after the purchase, the Corporation is concerned that the shareholders who hold the share certificates, etc. of the Corporation might have difficulty ensuring sufficient time and information for their appropriate decision making as to whether or not they should accept such a large-scale purchase proposal, in view of such alarming circumstances.

The Corporation believes that any person or entity seeking to purchase its shares in a manner that is likely to harm its corporate value and the common interests of its shareholders is not an appropriate person to control the Corporation's decisions on financial and business policies. The Corporation believes that adopting an appropriate defense mechanism against such persons making large-scale purchases is necessary to protect its corporate value and the common interests of its shareholders.

### (2) Special initiatives for implementing basic policy

Leveraging its stable earnings foundation, the Corporation is committed to strengthening its competitive position and raising levels of satisfaction among all stakeholders based on medium- and long-term perspectives. In these ways, Rinnai will strive to maintain and improve corporate value and to safeguard the common interests of shareholders, in order to encourage investment from a diverse range of investors. In the belief that such actions will facilitate implementation of its basic policy, the Corporation is pursuing the following initiatives.

In the 97 years since its foundation in 1920, the Corporation has actively contributed through its businesses to improving people's lives in the fields of water heaters, kitchen appliances, and home heaters with its sophisticated heat-utilization technologies and a passion for *monozukuri*, or manufacture and fabrication. Its continuous steady growth has been firmly supported by its mission of supplying a heat-based comfortable life for society on the basis of its original corporate philosophies: "Quality is our destiny" and "*Wa-Ki-Shin* (harmony, spirit and truth)." All Group companies in Japan and overseas have made concerted efforts to sustain corporate development by pursuing the stable supply of high-quality products and services to create comfortable lifestyles under the banner of the Rinnai brand. Regarding our overseas business operations, we have achieved solid performances for more than 40 years. As a consequence, we have established overseas production and sales bases in 16 countries and our foreign sales ratio has exceeded 40%. This is one of the defining features of the Corporation in the gas appliance industry.

To continue improving corporate value, the Corporation must consistently execute a "customer's priority on quality" and supply "environmentally friendly products" by focusing on safety and peace of mind, the environment, saving energy, and considerations to health and our

aging society—all of which the Corporation has tackled for years. At the same time, the Corporation believes it must establish high standards to ensure a profit foundation and a growth strategy based on medium- and long-term perspectives, supported by the “reinforcement of our competitive edge through technological innovations.”

In view of the historical background of the Corporation’s businesses and its desired future directions, management drafted “Evolution and Succession 2017,” a medium-term business plan (from April 2015 to March 2018) —and is working to sustain the Rinnai spirit cultivated long ago and maintain stable business growth into the future while also evolving to meet the changes of a new era that are sure to emerge. In addition, the Rinnai Group will strive to achieve a consolidated operating income ratio of 10% or higher and a consolidated return on equity (ROE) of 10% or higher, while emphasizing increased profitability and capital efficiency in its core businesses by strengthening Groupwide collaboration.

Rinnai regards reinforcement of corporate governance to be an important management issue. With this in mind, we will flexibly build an optimal management framework capable of addressing changes in the business environment. In addition, we have shortened the term of directors to one year, in order to further clarify their responsibilities on an annual basis and increase opportunities to confirm the confidence of shareholders in the elected management team.

### **(3) Measures to prevent decisions on financial and business policies from being controlled by inappropriate persons, in light of basic policy**

In light of its basic policy, the Corporation is taking steps to prevent decisions on financial and business policies from being controlled by inappropriate parties. When a person or entity makes a large-scale purchase of the Corporation’s shares, etc., Rinnai believes that all shareholders should be given ample information and time to decide whether or not to take action in consideration of the Corporation’s specific characteristics, and should also be given full opportunity to negotiate with the purchaser. Therefore, the Corporation decided it was necessary to establish specific rules for use when a person or entity attempts to make large-scale purchases of shares, etc.

The Board of Directors of Rinnai Corporation resolved the “Policy (Actions against Corporate Acquisition) toward Large-Scale Purchases of Share Certificates, etc., of Rinnai Corporation” at its meeting held on May 13, 2008, which was approved by shareholders at the 58th Ordinary General Shareholders’ Meeting held on June 27 of the same year. Following introduction, it has remained in force through resolution by the Board of Directors at its meeting on May 11, 2011, and shareholder approval at the 61st Ordinary General Shareholders’ Meeting on June 29 of the same year. These measures (hereafter, “This Plan” as the partially revised “Policy (Actions against Corporate Acquisition) toward Large-Scale Purchases of Share Certificates, etc., of Rinnai Corporation”) were again approved, by the Board of Directors at its meeting on May 9, 2014, and by shareholders at the 64th Ordinary General Shareholders’ Meeting on June 27 of the same year, and continue to remain in force.

This Plan includes specific rules related to purchases of large volumes of shares, etc., with the intent to acquire 20% or more of the total voting rights, or purchases of shares, etc., resulting in the holding of 20% or more of the total voting rights. Such acts will also trigger a defense mechanism.

### **(4) This Plan does not compromise the corporate value and common interests of the Corporation’s shareholders, and its purpose is not to maintain the status of the directors of the Corporation**

#### **(i) Special initiatives for implementing basic policy**

Measures have been devised as specific measures aimed at continuously maintaining and improving corporate value and the common interests of shareholders. Such measures, which conform to This Plan, do not compromise the corporate value and common interests of the Corporation’s shareholders, and their purpose is not to maintain the status of the directors of the Corporation.

#### **(ii) Measures to prevent decisions on financial and business policies from being controlled**

- by inappropriate persons, in light of basic policy**
- a. This Plan fully satisfies the three principles stipulated by the guidelines for takeover defense measures**
- This Plan fully satisfies the following three principles set forth under the “Guidelines Regarding Takeover Defenses for Protecting and Enhancing Corporate Value and Shareholders’ Common Interests (*Kigyo-kachi/Kabunushi-kyodo no Rieki no Kakuho matawa Kojo no Tame no Baishu-boei-saku ni Kansuru Shishin*)” jointly released by the Ministry of Economy, Trade and Industry and the Ministry of Justice as of May 27, 2005: (i) protection and enhancement of corporate value and shareholders’ common interests; (ii) prior disclosure and respect of shareholders’ intentions; and (iii) securing necessity and suitability.
- b. Respect for shareholders’ overall intention and the disclosure of information**
- This Plan was approved by shareholders at the 64th Ordinary General Shareholders’ Meeting held on June 27, 2014. Accordingly, the overall intention of the shareholders on the implementation of This Plan is properly reflected.
- In addition, even before the expiry of such term of validity, if the General Shareholders’ Meeting resolves to abolish This Plan, This Plan will be abolished at the time of such resolution. Therefore, the introduction and abolishment of This Plan is designed to fully reflect the shareholders’ intentions on this regard.
- Furthermore, to ensure the shareholders make appropriate decisions on abolishing This Plan and other matters, and make the final decision as to whether or not they sell their shares of the Corporation in response to a Large-Scale Purchase, the Board of Directors of the Corporation will appropriately disclose to the shareholders the Large-Scale Purchase Information and other information supplied by the Large-Scale Purchaser at the appropriate time.
- c. Schemes to eliminate arbitrary judgments of the Board of Directors of the Corporation**
- (1) Respect of judgments of highly independent outside experts
- In order to eliminate arbitrary judgments of the Board of Directors, the Corporation established the Special Committee upon implementing This Plan.
- When a Large-Scale Purchase is proposed to the Corporation, the Board of Directors of the Corporation will make an inquiry to the Special Committee, and The Special Committee will deliberate and examine the appropriateness of any countermeasures toward the Large-Scale Purchase and submit a recommendation to the Board of Directors of the Corporation. The Board of Directors will respect the Special Committee’s recommendation to the greatest extent possible in making a resolution on whether or not to implement a countermeasure. Consequently, This Plan has a scheme to ensure that the Board of Directors will be prevented from implementing any countermeasures based on its arbitrary judgments.
- (2) Setting reasonable and objective requirements
- The actual application of This Plan will be limited only to cases where the Large-Scale Purchaser does not comply with the Large-Scale Purchase Rules stipulated in This Plan or where reasonable and detailed objective requirements are satisfied as a situation in which the Large-Scale Purchaser would significantly impair the corporate value of the Corporation. Consequently, This Plan has a scheme to ensure that the Board of Directors of the Corporation will be prevented from arbitrarily implementing any countermeasures in this regard.
- (3) Neither a dead-hand nor a slow-hand type anti-takeover measure
- This Plan may be abolished by a decision of the Board of Directors of the Corporation. Therefore, This Plan is not a dead-hand type anti-takeover measure. Moreover, This Plan is not a slow-hand type anti-takeover measure, because the Corporation has adopted no staggered board structure.

**(Reference)**

This Plan is set to expire at the close of the 67th Ordinary General Shareholders’ Meeting to be held on June 28, 2017. The Corporation resolved to discontinue (abolish) this Plan at the Board of Directors’ Meeting on May 9, 2017, effective upon such expiration.

**Consolidated Balance Sheets**  
**As of March 31, 2017**

(Millions of yen)

<b>ASSETS</b>		<b>LIABILITIES</b>	
<b>Current assets</b>	<b>237,671</b>	<b>Current liabilities</b>	<b>91,568</b>
Cash and deposits	115,225	Notes and accounts payable	22,205
Notes and accounts receivable	62,547	Electronically recorded monetary claims	33,891
Electronically recorded monetary claims	7,540	Other payables	13,169
Marketable securities	8,563	Accrued consumption taxes	1,412
Products	24,839	Accrued income taxes	6,012
Raw materials and stores	13,963	Accrued employees' bonuses	4,290
Deferred tax assets	3,581	Allowance for product guarantee	3,952
Other	2,391	Other	6,624
Less allowance for doubtful accounts	(982)	<b>Long-term liabilities</b>	<b>22,118</b>
		Deferred tax liabilities	7,452
		Allowance for environmental measures	2,255
<b>Fixed assets</b>	<b>166,653</b>	Net defined benefit liabilities	9,484
<b>Property, plant and equipment</b>	<b>78,175</b>	Other	2,926
Buildings and structures	27,489	<b>Total liabilities</b>	<b>113,686</b>
Machinery and vehicles	13,539	<b>NET ASSETS</b>	
Tools and fixtures	4,868	<b>Shareholders' equity</b>	<b>261,536</b>
Land	22,939	Common stock	6,459
Leased assets	243	Capital surplus	8,756
Construction in progress	9,094	Earned surplus	247,327
<b>Intangible fixed assets</b>	<b>6,853</b>	Treasury stock	(1,007)
<b>Investments and advances</b>	<b>81,624</b>	<b>Other accumulated comprehensive income</b>	<b>11,241</b>
Investments in securities	59,725	Unrealized gain on marketable securities	4,883
Net defined benefit assets	17,234	Foreign exchange translation adjustment	3,047
Deferred income taxes	1,620	Remeasurements of defined benefit plans	3,310
Other	3,426	<b>Non-controlling interests</b>	<b>17,860</b>
Less allowance for doubtful accounts	(382)	<b>Total net assets</b>	<b>290,638</b>
		<b>Total liabilities and net assets</b>	<b>404,325</b>
<b>Total assets</b>	<b>404,325</b>		

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

**Consolidated Statements of Income**  
**Year ended March 31, 2017**

(Millions of yen)

<b>Net sales</b>		<b>330,256</b>
<b>Cost of sales</b>		<b>221,355</b>
<b>Gross profit</b>		<b>108,900</b>
<b>Selling, general and administrative expenses</b>		<b>74,844</b>
<b>Operating income</b>		<b>34,056</b>
<b>Other income</b>		
Interest income	939	
Dividends received	466	
Other	805	<b>2,210</b>
<b>Other expenses</b>		
Interest expenses	32	
Foreign exchange loss	287	
Loss on retirement of fixed assets	345	
Other	320	<b>986</b>
<b>Ordinary income</b>		<b>35,280</b>
<b>Extraordinary income</b>		
Compensation income for expropriation	253	<b>253</b>
<b>Extraordinary losses</b>		
Loss on step acquisitions	137	
Loss on disaster	393	<b>530</b>
<b>Income before income taxes</b>		<b>35,003</b>
Income taxes (current)	10,161	
Income taxes (deferred)	(301)	9,859
<b>Income before minority interests</b>		<b>25,143</b>
Net income attributable to non-controlling interests		2,821
<b>Net income attributable to owners of the parent company</b>		<b>22,322</b>

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

**Nonconsolidated Balance Sheets**  
**As of March 31, 2017**

(Millions of yen)

<b>ASSETS</b>		<b>LIABILITIES</b>	
<b>Current assets</b>	<b>119,113</b>	<b>Current liabilities</b>	<b>44,529</b>
Cash and deposits	54,512	Accrued payable	12,927
Notes receivable	5,986	Electronically recorded monetary claims	18,927
Accounts receivable	32,837	Lease obligations	85
Electronically recorded monetary claims	5,628	Other payables	4,109
Marketable securities	7,014	Accrued expenses	662
Products	7,910	Accrued income taxes	3,656
Raw materials and stores	3,284	Deposits payable	144
Deferred tax assets	1,555	Accrued employees' bonus	2,417
Other	406	Allowance for product guarantees	795
Less allowance for doubtful accounts	(22)	Other	802
<b>Fixed assets</b>	<b>129,688</b>	<b>Long-term liabilities</b>	<b>6,871</b>
<b>Property, plant and equipment</b>	<b>34,017</b>	Lease obligations	90
Buildings	10,946	Accrued employees' retirement benefits	2,687
Structures	541	Other	4,093
Machinery, equipment	3,316	<b>Total liabilities</b>	<b>51,400</b>
Vehicles and delivery equipment	22	<b>NET ASSETS</b>	
Tools, furniture and fixtures	1,827	<b>Shareholders' equity</b>	<b>192,701</b>
Land	11,004	<b>Common stock</b>	<b>6,459</b>
Leased assets	154	<b>Capital surplus</b>	<b>8,719</b>
Construction in progress	6,203	Capital reserve	8,719
<b>Intangible fixed assets</b>	<b>1,266</b>	<b>Earned surplus</b>	<b>178,529</b>
Software	1,029	Legal reserve	1,614
Lease assets	8	Other legal reserve:	176,914
Other	228	Voluntary reserve	150,000
<b>Investments and advances</b>	<b>94,404</b>	Unappropriated retained earnings	26,914
Investments in securities	56,886	<b>Treasury stock</b>	<b>(1,007)</b>
Stocks of affiliated companies	23,035	<b>Other adjustments</b>	<b>4,700</b>
Investments in affiliated companies	1,870	Unrealized gain on marketable securities	4,700
Prepaid pension expenses	11,414	<b>Total net assets</b>	<b>197,402</b>
Other	1,225	<b>Total liabilities and net assets</b>	<b>248,802</b>
Less allowance for doubtful accounts	(27)		
<b>Total assets</b>	<b>248,802</b>		

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

**Nonconsolidated Statements of Income**  
**Year ended March 31, 2017**

(Millions of yen)

<b>Net sales</b>		<b>198,870</b>
<b>Cost of sales</b>		<b>149,471</b>
<b>Gross profit</b>		<b>49,398</b>
<b>Selling, general and administrative expenses</b>		<b>30,583</b>
<b>Operating income</b>		<b>18,814</b>
<b>Other income</b>		
Interest income and dividends received	2,375	
Other	895	<b>3,270</b>
<b>Other expenses</b>		<b>572</b>
<b>Ordinary income</b>		<b>21,512</b>
<b>Income before income taxes</b>		<b>21,512</b>
<b>Income taxes</b>		
Current	5,262	
Deferred	34	<b>5,297</b>
<b>Net income</b>		<b>16,215</b>

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

(Translation)

## INDEPENDENT AUDITOR'S REPORT

May 9, 2017

To the Board of Directors of  
Rinnai Corporation:

Deloitte Touche Tohmatsu LLC  
Designated Unlimited Liability Partner, Engagement Partner,  
Certified Public Accountant: Seiji Harada  
Designated Unlimited Liability Partner, Engagement Partner,  
Certified Public Accountant: Yuji Yamazaki

Pursuant to the fourth clause of Article 444 of the Corporate Law, we, Deloitte Touche Tohmatsu LLC ("the Auditor") have audited the consolidated financial statements of Rinnai Corporation (the "Corporation") and its consolidated subsidiaries, for the fiscal year ended March 31, 2017, namely, consolidated balance sheets, consolidated statements of income, consolidated statements of changes in shareholders' equity, significant accounting policies applicable to the consolidated financial statements, and other notes.

### Management's Responsibility for Consolidated Financial Statements

It is the responsibility of management to prepare and properly disclose consolidated financial statements, in accordance with corporate accounting standards generally accepted in Japan. This responsibility includes establishment and operation of an internal control system that management deems necessary to ensure preparation and proper disclosure of consolidated financial statements without material misstatement due to fraudulent activity or error.

### Auditor's Responsibility

It is the responsibility of the Auditor to express an opinion on the consolidated statements from an independent perspective, based on its audit. The Auditor conducts its audit in accordance with auditing standards generally accepted in Japan. Those standards require that the Auditor formulates an auditing plan and then performs an audit based on the plan to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves procedures to obtain auditing evidence concerning amounts and disclosure in the consolidated financial statements. Auditing procedures are selected and applied, based on our judgment, to evaluate the risk of material misstatement in the consolidated financial statements due to fraudulent activity or error. The purpose of an audit is not to express an opinion on the effectiveness of the internal control system, and when evaluating risk, the Auditor examines the internal control system pertaining to the preparation and proper disclosure of consolidated financial statements so that auditing procedures appropriate to the situation may be formulated. An audit also covers an examination of the overall presentation of consolidated financial statements, including an evaluation of the accounting principles used and their method of use as well as estimates made by management.

The Auditor believes the audit it has performed provides an adequate and reasonable basis for opinion.

### Auditor's Opinion

In the Auditor's opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation and its consolidated subsidiaries as of March 31, 2017, and the results of their operations for the year then ended, in conformity with accounting principles generally accepted in Japan.

### Financial Interest

Neither the firm nor its engagement partners have any financial interest in Rinnai for which disclosure is required under the provisions of the Certified Public Accountants Law.

*The above represents a translation, for convenience only, of the original report issued in Japanese.*

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

(Translation)

## INDEPENDENT AUDITOR'S REPORT

May 9, 2017

To the Board of Directors of  
Rinnai Corporation:

Deloitte Touche Tohmatsu LLC  
Designated Unlimited Liability Partner, Engagement Partner,  
Certified Public Accountant: Seiji Harada  
Designated Unlimited Liability Partner, Engagement Partner,  
Certified Public Accountant: Yuji Yamazaki

Pursuant to the first item, second clause of Article 436 of the Corporate Law, we, Deloitte Touche Tohmatsu LLC (“the Auditor”) have audited the financial statements of Rinnai Corporation (the “Corporation”), for the fiscal year ended March 31, 2017, namely, balance sheets, statements of income, statements of changes in shareholders’ equity, significant accounting policies of nonconsolidated financial statements, and other notes and attachments.

### Management’s Responsibility for Financial Statements

It is the responsibility of management to prepare and properly disclose financial statements and attachments, in accordance with corporate accounting standards generally accepted in Japan. This responsibility includes establishment and operation of an internal control system that management deems necessary to ensure preparation and proper disclosure of financial statements and attachments without material misstatement due to fraudulent activity or error.

### Auditor’s Responsibility

It is the responsibility of the Auditor to express an opinion on the financial statements and attachments from an independent perspective, based on its audit. The Auditor conducts its audit in accordance with auditing standards generally accepted in Japan. Those standards require that the Auditor formulates an auditing plan and then performs an audit based on the plan to obtain reasonable assurance about whether the financial statements and attachments are free of material misstatement.

An audit involves procedures to obtain auditing evidence concerning amounts and disclosure in the financial statements and attachments. Auditing procedures are selected and applied, based on our judgment, to evaluate the risk of material misstatement in the financial statements and attachments due to fraudulent activity or error. The purpose of an audit is not to express an opinion on the effectiveness of the internal control system, and when evaluating risk, the Auditor examines the internal control system pertaining to the preparation and proper disclosure of financial statements and attachments so that auditing procedures appropriate to the situation may be formulated. An audit also covers an examination of the overall presentation of financial statements and attachments, including an evaluation of the accounting principles used and their method of use as well as estimates made by management.

The Auditor believes the audit it has performed provides an adequate and reasonable basis for opinion.

### Auditor’s Opinion

In the Auditor’s opinion, the financial statements and attachments referred to above present fairly, in all material respects, the financial position of the Corporation as of March 31, 2017, and the results of their operations for the year then ended, in conformity with accounting principles generally accepted in Japan.

### Financial Interest

Neither the firm nor its engagement partners have any financial interest in Rinnai for which disclosure is required under the provisions of the Certified Public Accountants Law.

*The above represents a translation, for convenience only, of the original report issued in Japanese.*

Notice of Convocation

Business Report

Financial Statements

Independent Auditors’ Report

Guide to Voting

(Translation)

### **Report of the Audit & Supervisory Board**

The Board of Auditors reviewed each auditor's report regarding the directors' execution of their duties, obligations and responsibilities for the 66th financial period, from April 1, 2016, through March 31, 2017. Upon deliberation, we created the auditor's report and would like to report as follows:

1. Methods and contents of audits by auditors and the Board of Auditors

- (1) The Board of Auditors determined the policies of audits and duties of auditors, and received reports on the status of the implementation of audits and the results from auditors. In addition, the Board of Auditors received reports on execution of duties from directors and accounting auditors, and received explanations when necessary.
- (2) According to the policies of audits and duties of auditors, determined by the Board of Auditors, auditors develop the environment for audit, collecting information through communication with directors and employees at the internal auditing division and other divisions, and have audited procedures as follows.
  - (a) Auditors also attended important meetings including Board of Directors' meeting, and constantly received reports on execution of duties from directors and other employees, and received explanations when necessary. In addition, auditors reviewed important documents about closing the books and investigated the state of operations and assets of the headquarters and major offices. For subsidiary companies, auditors received business reports, sharing information with directors and auditors of subsidiaries when necessary.
  - (b) The internal control system of the Corporation, which is based on the content of resolutions by the Board of Directors and relevant resolutions in accordance with the first and third clauses of Article 100 of the Corporate Law, is necessary for systems to ensure that execution of business by directors conforms to legal regulations and the Articles of Incorporation and systems to ensure appropriateness of the business activities of the Corporation and subsidiary companies described in this business report. Auditors reviewed regular reports about formulation and effectiveness of the internal control system, and received explanation when necessary from directors and employees, to declare opinion.
  - (c) Auditors examined basic policy and measures pertaining to the third item of Article 118 of the Corporate Law, as presented in the Business Report, based on deliberations by the Board of Directors and at other meetings.
  - (d) Auditors monitored and inspected the independence of accounting auditors and execution of adequate audits, and received the report and explanation on execution of duties from accounting auditors when necessary. We also received notice from accounting auditors that they conducted their audits in accordance with the "System to secure adequate execution of duties" (Article 131, accounting and computation rule of the Corporate Law) and the "Quality control standard regarding audits" (October 28, 2005, Business Accounting Council), and received explanation when necessary.

Based on measures as stated above, we reviewed the business reports and attachments, nonconsolidated financial statements (nonconsolidated balance sheets, nonconsolidated statements of income, nonconsolidated statements of changes in shareholders' equity, and notes to nonconsolidated financial statements) and attachments, and consolidated financial statements (consolidated balance sheets, consolidated statements of income, consolidated statements of changes in shareholders' equity), for the fiscal year ended March 31, 2017.

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

## 2. Audit results

### (1) Audit results of business report and attachments

- a. The business report and the attachments fairly reflect the state of the Corporation, in accordance with legal requirements or the Corporation's charter.
- b. There are no exceptions to be made, regarding the overlapping of director duties, and there are no violations of relevant legal requirements or the Corporation's charter.
- c. We recognize the appropriateness of resolutions by the Board of Directors' meetings is regarding the internal control system. And, as to the description in this business report and the execution of directors' duties regarding said internal control system, there are no exceptions to be made.
- d. There are no issues to be highlighted regarding the basic policy on people who control decisions on the Corporation's financial and business policies. The Corporation's measures, in accordance with the third item of Article 118 of the Corporate Law, do not compromise corporate value or the common interests of the Corporation's shareholders and, in our opinion, their purpose is not to maintain the status of the directors of the Corporation.

### (2) Audit results of nonconsolidated financial statements and attachments

In our opinion, the auditing methods applied by Deloitte Touche Tohmatsu LLC, independent auditors and their results are appropriate.

### (3) Audit results of consolidated financial statements and attachments

In our opinion, the auditing methods applied by Deloitte Touche Tohmatsu LLC, independent auditors and their results are appropriate.

May 12, 2017

The Audit & Supervisory Board, Rinnai Corporation.

Takashi Sonoda, Standing Audit & Supervisory Board Member  
Haruhiko Ishikawa, Standing Audit & Supervisory Board Member  
Masaaki Matsuoka, Outside Audit & Supervisory Board Member  
Ippei Watanabe, Outside Audit & Supervisory Board Member

Note: Masaaki Matsuoka and Ippei Watanabe (Audit & Supervisory Board Members) serve as outside auditors, in accordance with the 16th item of Article 2 and the third clause of Article 335 of the Corporate Law.

*The above represents a translation, for convenience only, of the original report issued in Japanese.*

## **Guide to Voting**

### **Agenda and referenced items**

#### **First Item on the Agenda -- Approval of the proposed appropriation of retained earnings**

Appropriation of retained earnings shall be applied as follows:

##### **1. Year-End Dividends**

The Corporation regards stable return of profits to shareholders as an important management policy, based on extensive consideration of various factors, including consolidated business performance and payout ratio. Consequently, management has decided to reward shareholders for their support by distributing total annual dividends to ¥86 per share, which includes the interim dividend (¥42 per share).

(1) Type of dividend assets

Cash

(2) Allocation of dividend assets and sum total

The Corporation intends to pay ¥44 per share of common stock, which will generate a sum total of ¥2,288,050,424.

(3) Effective date for dividends from retained earnings

June 29, 2017

##### **2. Matters regarding other appropriation of surplus**

The Corporation, taking a long-term view, effectively applies internal reserves to finance R&D, capital investment, strategic business investments at home and abroad and other measures aimed at enhancing corporate value.

(1) Item and amount of surplus to be decreased

Retained earnings carried forward: ¥10,000,000,000

(2) Item and amount of surplus to be increased

General reserve: ¥10,000,000,000

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

**Second Item on the Agenda -- Election of seven (7) directors**

The Corporation's seven (7) directors will conclude their respective terms in office at the end of the General Meeting of Shareholders. The Corporation asks shareholders to elect seven (7) directors to said positions.

The Corporation proposes the following candidates for election.

Candidate Number	Name (Date of Birth)	Career Summary and Current Representation in Other Companies	No. of Shares Owned
1	Kenji Hayashi (Jun. 27, 1949)	Apr.1972 Joined Rinnai Corporation Sep.1978 Director Feb.1980 Director, and General Manager of Corporate Planning Office Jun.1983 Managing Director, and General Manager of Production Technology Division Jul. 1992 Managing Director, and General Manager of Related Business Division Jun.2005 Director, Managing Executive Officer, and General Manager of Related Business Division Jun.2006 Vice Chairman of the Corporation Apr.2017 Chairman of the Corporation (current)	2,502,024 shares
	Reason to propose the candidate for election as director. Mr. Hayashi has been involved in the extensive management of the Corporation from 1972 when he joined the Corporation. He has been a Director from 1978, and General Manager of Corporate Planning Office (currently, General Manager of Corporate Planning Division), General Manager of Production Technology Division, Related Business Division (currently, integrated with Corporate Planning Division), thereafter. He is also familiar with the Corporation's business and has sufficient ability to solve management issues. It has been concluded, therefore, that Mr. Hayashi can properly perform his duties as a director. For this reason, management asks shareholders to reelect him to this position.		

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

Candidate Number	Name (Date of Birth)	Career Summary and Current Representation in Other Companies	No. of Shares Owned
2	Hiroyasu Naito (Apr. 20, 1955)	<p>Apr.1983 Joined Rinnai Corporation</p> <p>Jun.1991 Director, Deputy General Manager of Technology Research Headquarters, and concurrently General Manager of New Technology Development Division</p> <p>Jul.1998 Director, General Manager of Technology Research Headquarters</p> <p>Jul.2001 Director, General Manager of Corporate Planning Division and concurrently, General Manager of Administration Division</p> <p>Jun.2003 Managing Director, General Manager of Corporate Planning Division and concurrently General Manager of Administration Division</p> <p>Jun.2005 Director, Managing Executive Officer, General Manager of Corporate Planning Division and concurrently General Manager of Administration Division</p> <p>Nov.2005 President and Executive Officer of the Corporation (current)</p>	510,180 shares
<p>Reason to propose the candidate for election as director.</p> <p>Mr. Naito has been involved in the extensive management of the Corporation from 1983 when he joined the Corporation. He has been a Director from 1991, and General Manager of Research &amp; Development Headquarters, Corporate Planning Division, and Administration Division, thereafter. He is also familiar with the Corporation's business and has sufficient ability to solve management issues. It has been concluded, therefore, that Mr. Naito can properly perform his duties as a director. For this reason, management asks shareholders to reelect him to this position.</p>			

Candidate Number	Name (Date of Birth)	Career Summary and Current Representation in Other Companies	No. of Shares Owned
3	Tsunenori Narita (Jun. 15, 1948)	<p>Apr.1967 Joined Rinnai Corporation</p> <p>Jun.1988 Director, General Manager of Technology Research Headquarters and concurrently General Manager of Quality Guarantee Division</p> <p>Jun.2001 Managing Director, General Manager of Production Headquarters</p> <p>Jun.2005 Director, Managing Executive Officer, and General Manager of Production Headquarters</p> <p>Nov.2005 Director, Managing Executive Officer, in charge of domestic business, and concurrently General Manager of Marketing &amp; Sales Headquarters</p> <p>Apr.2006 Director, Senior Executive Officer, in charge of domestic business, and concurrently General Manager of Marketing &amp; Sales Headquarters</p> <p>Apr.2009 Director, Executive Vice President; responsible for Research &amp; Development Headquarters, Production Headquarters, Overseas Business Headquarters and Customer Division, and General Manager of Marketing &amp; Sales Headquarters</p> <p>Apr.2010 Representative Director, Executive Vice President; responsible for Research &amp; Development Headquarters, Production Headquarters, Overseas Business Headquarters and Customer Division, and General Manager of Marketing &amp; Sales Headquarters</p> <p>Oct.2010 Representative Director, Executive Vice President; responsible for Research &amp; Development Headquarters, Production Headquarters, Overseas Business Headquarters, and General Manager of Marketing &amp; Sales Headquarters</p> <p>Apr.2016 Executive Vice President, President's Assistant, In charge of Production Headquarters and Overseas Business Headquarters (current)</p> <p><b>Representation in other companies</b> President of Rinnai Net Co., Ltd.</p>	7,444 shares
<p>Reason to propose the candidate for election as director.</p> <p>Mr. Narita has been involved in the extensive management of the Corporation from 1967 when he joined the Corporation. He has been a Director and General Manager of Technology Research Headquarters (currently, Research &amp; Development Headquarters) from 1988, and General Manager of Production Headquarters and Marketing &amp; Sales Headquarters, thereafter. He is also familiar with the Corporation's business and has sufficient ability to solve management issues. It has been concluded, therefore, that Mr. Narita can properly perform his duties as a director. For this reason, management asks shareholders to reelect him to this position.</p>			

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

Candidate Number	Name (Date of Birth)	Career Summary and Current Representation in Other Companies	No. of Shares Owned
4	Masao Kosugi (Nov. 2, 1955)	<p>Apr.1979 Joined Rinnai Corporation</p> <p>Jun.1999 General Manager of Information System Division</p> <p>Jun.2005 Executive Officer, General Manager of Information System Division and Distribution Control Division</p> <p>Nov.2005 Executive Officer, Deputy General Manager of Administration Headquarters and concurrently, General Manager of Corporate Planning Division, Information System Division, and Distribution Control Division</p> <p>Apr.2007 Executive Officer, General Manager of Administration Headquarters and concurrently General Manager of Corporate Planning Division</p> <p>Jun.2007 Director, Executive Officer, General Manager of Administration Headquarters, and concurrently, General Manager of Corporate Planning Division</p> <p>Apr.2010 Director, Managing Executive Officer, General Manager of Administration Headquarters, and concurrently, General Manager of Corporate Planning Division and Information System Division</p> <p>Apr. 2016 Director, Senior Managing Executive Officer, General Manager of Corporate Planning Headquarters, and concurrently, General Manager of Corporate Planning Division, Information System Division, In charge of Administration Headquarters</p> <p>Jul. 2016 Director, Senior Managing Executive Officer, General Manager of Corporate Planning Headquarters, and concurrently, General Manager of Corporate Planning Division. In charge of Administration Headquarters (current)</p> <p><b><i>Representation in other companies</i></b> President, Rinnai Enterprises</p>	1,663 shares
<p>Reason to propose the candidate for election as director.</p> <p>Mr. Kosugi has been involved in the extensive management of the Corporation from 1979 when he joined the Corporation. He has been a Director and General Manager of Information System Division from 1999, and General Manager of Distribution Control Division, Corporate Planning Division, and Administration Headquarters, thereafter. He is also familiar with the Corporation's business and has sufficient ability to solve management issues. It has been concluded, therefore, that Mr. Kosugi can properly perform his duties as a director. For this reason, management asks shareholders to reelect him to this position.</p>			

Candidate Number	Name (Date of Birth)	Career Summary and Current Representation in Other Companies	No. of Shares Owned
5	Yuji Kondo (Feb. 6, 1956)	<p>Apr.1979 Joined Rinnai Corporation</p> <p>Jul. 2001 Deputy General Manager of Research &amp; Development Headquarters, and concurrently General Manager of Electronic Research &amp; Development Division</p> <p>Nov.2005 Executive Officer, General Manager of Research &amp; Development Headquarters and concurrently, General Manager of Technology Development Division</p> <p>Jul. 2007 Executive Officer, General Manager in charge of Research &amp; Development Headquarters</p> <p>Apr.2008 Executive Officer, General Manager of Research &amp; Development Headquarters and concurrently, General Manager of Technology Administration Division</p> <p>Jun.2009 Director, Executive Officer, General Manager of Research &amp; Development Headquarters and concurrently General Manager of Technology Administration Division</p> <p>Apr.2010 Director, Managing Executive Officer, General Manager of Research &amp; Development Headquarters and concurrently General Manager of Technology Administration Division</p> <p>May 2011 Director, Managing Executive Officer, General Manager of Research &amp; Development Headquarters and concurrently General Manager of Electronics Development Division</p> <p>Apr.2013 Director, Managing Executive Officer, General Manager of Research &amp; Development Headquarters</p> <p>Apr. 2016 Director, Senior Managing Executive Officer, General Manager of Marketing &amp; Sales Headquarters, In charge of Research &amp; Development Headquarters (current)</p>	1,081 shares
<p>Reason to propose the candidate for election as director.</p> <p>Mr. Kondo has been involved in the management of the Corporation from 1979 when he joined the Corporation. He has been a Director and General Manager of Research &amp; Development Headquarters from 2009, and General Manager of Marketing &amp; Sales Headquarters later. He is also broadly familiar with the Corporation's business and has sufficient ability to solve management issues. It has been concluded, therefore, that Mr. Kondo can properly perform his duties as a director. For this reason, management asks shareholders to reelect him to this position.</p>			

Candidate Number	Name (Date of Birth)	Career Summary and Current Representation in Other Companies	No. of Shares Owned
6	Nobuyuki Matsui (May 7, 1943)	<p>Apr.1985 Professor at Department of Electrical Engineering in Nagoya Institute of Technology</p> <p>Jan.2004 President at Nagoya Institute of Technology</p> <p>Apr.2010 Auditor at Aichi University of Education, Adviser of Aichi Prefectural Government Office (Industrial Labor Section)</p> <p>Apr.2012 Professor at Chubu University</p> <p>Jun.2014 Outside director, Rinnai Corporation (current)</p> <p><b>Representation in other companies</b></p> <p>Outside director at Fuji Machine MFG. Co., Ltd.</p> <p>Outside director at Aichi Tokei Denki Co., Ltd</p>	0 shares
<p>Reason to propose the candidate for election as outside director.</p> <p>Mr. Matsui has not been involved in the management of a company except as an outside director, but he has been a professor at Nagoya Institute of Technology as well as its president and has great knowledge as a scholar. Management believes this background will enable him to suitably execute his duties as an outside director. For this reason, management asks shareholders to reelect him to this position.</p>			
7	Takashi Kamio (Nov. 27, 1942)	<p>Apr. 1965 Joined Toyota Motor Co., Ltd.</p> <p>Jun. 1996 Director at Toyota Motor Corporation</p> <p>Jun. 1999 Managing Director at Toyota Motor Corporation</p> <p>Jun. 2001 Senior Managing Director at Toyota Motor Corporation</p> <p>Jun. 2005 Senior Advisor at Toyota Motor Corporation</p> <p>Jun. 2005 President at Towa Real Estate Co., Ltd.</p> <p>Jun. 2006 Director at Nakanihon Kogyo Co., Ltd.</p> <p>May 2010 Advisor at Toyota Motor Corporation</p> <p>Jun. 2010 Senior Advisor at Towa Real Estate Co., Ltd.</p> <p>Jun. 2011 Audit &amp; Supervisory Board Member at Central Nippon Expressway Company Limited</p> <p>Jun.2016 Outside director, Rinnai Corporation (current)</p> <p><b>Representation in other companies</b></p> <p>Nov. 2011 Chairman of Sasaeai, specified nonprofit corporation</p>	0 shares
<p>Reason to propose the candidate for election as outside director.</p> <p>Mr. Kamio served as a senior managing director at Toyota Motor Corporation and as president at Towa Real Estate Co., Ltd., which allowed him to accumulate extensive experience and wide-ranging knowledge. Management believes this background will enable him to suitably execute his duties as an outside director. For this reason, management asks shareholders to reelect him to this position.</p>			

Notes:

1. No candidate has any particular interest in the Corporation.
2. Nobuyuki Matsui and Takashi Kamio are candidates for the position of outside director.
3. Mr. Matsui and Mr. Kamio are currently outside directors of the Corporation. At the end of this year's Ordinary General Meeting of Shareholders, their term in office will be as follows:
  - Nobuyuki Matsui: Three years
  - Takashi Kamio: One year
4. Mr. Kamio is Chairman of Sasaeai, a specified nonprofit corporation to which the Corporation makes donations. Since the donated amounts are as little as ¥30,000 per year, however, this is deemed to have no impact on Mr. Kamio's impartiality.
5. The Corporation concluded agreements with Mr. Matsui and Mr. Kamio in accordance with the first paragraph of Article 427 of the Corporate Law that limits liability for damages caused by failure of duties to an amount determined by legal provisions. If they are reelected and appointed as outside directors, the Corporation will keep this agreement with them in force.
6. The Corporation has notified the Tokyo Stock Exchange and the Nagoya Stock Exchange that Mr. Matsui and Mr. Kamio fulfill the required position of an independent officer. If they are reelected and appointed as outside directors; the Corporation will maintain them as independent officers.

Notice of Convocation

Business Report

Financial Statements

Independent Auditors' Report

Guide to Voting

### **Third Item on the Agenda -- Election of one (1) substitute Audit & Supervisory Board Member**

In case of a vacancy on the Audit & Supervisory Board, which is required by law to maintain a specific number of members, the Corporation will ask shareholders to elect one (1) substitute Audit & Supervisory Board Member.

This item has already been agreed upon by members of the Audit & Supervisory Board. The Corporation proposes the following candidate for election as the substitute Audit & Supervisory Board Member.

Name (Date of Birth)	Career Summary and Current Representation in Other Companies	No. of Shares Owned
Yoshiro Ishikawa (Mar. 22, 1951)	Jul. 2001 Commissioner's Secretariat at National Tax Agency, Internal Inspector at Nagoya Regional Taxation Bureau Jul. 2005 Special Examiner, Large Enterprise Examination Department at Nagoya Regional Taxation Bureau Jul.2008 Appeals Judge at Nagoya National Tax Tribunal Jul.2009 District Director at Gifu-minami Tax Office Aug. 2011 Established Yoshiro Ishikawa certified tax accountant office (current) Oct. 2011 Executive director, General incorporated association Nakagawa houjinkai (current)	0 shares

Notes:

1. Yoshiro Ishikawa has no particular interest in the Corporation.
2. Mr. Ishikawa is a candidate for the position of substitute outside member of the Audit & Supervisory Board.
3. Mr. Ishikawa has not been involved in the management of a company, but he has experience and has acquired significant knowledge as an accountant. Management believes this background will enable him to suitably execute his duties as an outside member of the Audit & Supervisory Board, and management asks shareholders to elect him to this position.
4. If Mr. Ishikawa is elected and appointed as a member of the Audit & Supervisory Board, the Corporation will conclude an agreement with him in accordance with the Paragraph 1 of Article 427 of the Corporate Law that limits liability for damages caused by failure of duties to an amount determined by legal provisions.

- END -

**Rinnai Corporation**  
**Notice of Convocation of the 67th Ordinary General Shareholders' Meeting**

**PLACE**

“Tsubaki-no-ma” Room, 7th Floor, Meitetsu New Grand Hotel  
(next to the Bic Camera store)  
6-9, Tsubaki-cho, Nakamura-ku, Nagoya

**DIRECTIONS**

A five-minute walk from Nagoya Station,  
reached by JR, Meitetsu Railway, Kintetsu Railway, and Subway