

Rinnai Corporation

Securities Code: 5947



Notice of Convocation of the 68th Ordinary General Shareholders' Meeting to Be Held on June 27, 2018

DATE AND TIME

Wednesday, June 27, 2018 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:

Partial revision to articles of incorporation

Third Item on the Agenda:

Election of seven (7) directors

Fourth Item on the Agenda:

Election of one (1) substitute Audit & Supervisory Board member

Contents

Notice of Convocation of the 68th Ordinary General Shareholders' Meeting	02
Guide to Voting (Attachment)	05
Business Report	15
Financial Statements	30
Independent Auditor's Report	34

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 5, 2018
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 68th Ordinary General Shareholders' Meeting
to Be Held on June 27, 2018**

You are cordially invited to attend the 68th 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 26, 2018.

1. DATE AND TIME	Wednesday, June 27, 2018 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)
3. AGENDA	Matters for Reporting: 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 68th Fiscal Year (from April 1, 2017, to March 31, 2018). 2. Report on the Nonconsolidated Financial Statements for the 68th Fiscal Year (from April 1, 2017, to March 31, 2018). Matters for Resolution: First Item on the Agenda: Approval of the proposed appropriation of retained earnings Second Item on the Agenda: Partial revision to articles of incorporation Third Item on the Agenda: Election of seven (7) directors Fourth 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.

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 27, 2018 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 26, 2018

[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 26, 2018

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 26, 2018. 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 on Exercise of Voting Rights via the Internet

Shareholders wishing to exercise their voting rights via the Internet are asked to access the Company's designated website for exercising voting rights. The site can be accessed via computer, smartphone, or mobile phone. Please exercise your voting rights according to the instructions on the screen.

The Company's designated website for exercising voting rights (Japanese only):

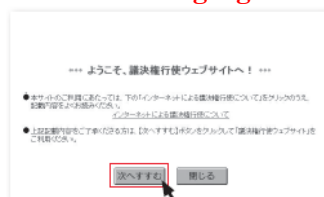
<https://www.web54.net>



It is also possible to read the two-dimensional code on the above right using a smartphone or mobile phone with a barcode-reading function, then connect to the website for exercise of voting rights.

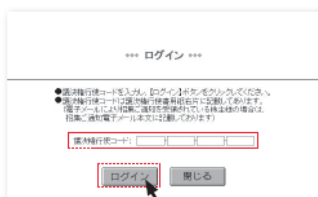
Deadline for exercise of voting rights: 5:20pm, June 26, 2018 (Tuesday)

1. Open website for exercise of voting rights



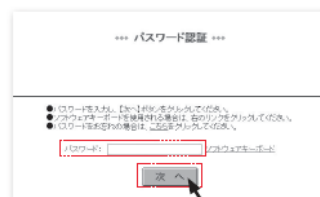
<https://www.web54.net>
Click "Next"

2. Log in



Enter "Voting Rights Exercise Code" (written on your voting rights exercise form) and click "Log in"
* Shareholders without a designated "password" need to register a new password

3. Enter password



Enter the password written on your voting rights exercise form and click "Next"

Please enter your votes while following the guidance on the screen.

- * If you exercise your voting rights multiple times via the Internet, your final vote shall prevail.
- * If you exercise your voting rights both via the Internet and in writing, your final vote shall prevail. If you exercise your voting rights simultaneously via the Internet and in writing, the vote exercised online shall prevail.

Inquiries on exercise of voting rights via the Internet:

Sumitomo Mitsui Trust Bank, Limited. (Stock Transfer Agency Department)
Toll-free number: 0120-652-031 (9:00–21:00)

To institutional investors:

Please use the electronic voting platform for institutional investors operated by ICJ, Inc.

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 ¥90 per share, which includes the interim dividend (¥44 per share).

(1) Type of dividend assets

Cash

(2) Allocation of dividend assets and sum total

The Corporation intends to pay **¥46** per share of common stock, which will generate a sum total of **¥2,364,402,714**.

(3) Effective date for dividends from retained earnings

June 28, 2018

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**

Second Item on the Agenda

Partial Revision to Articles of Incorporation

1. Reason for Amendments

To prepare for future business development, paralleling efforts to improve logistics, Rinnai shall add an item to Article 2 (Purpose) of the Articles of Incorporation, which will require renumbering each item that comes after the new entry.

2. Content of Amendment

The content of the proposed amendments are presented below.

(Changes are underlined)

Existing Articles of Incorporation	Proposed Changes
Chapter I General Provisions (Purpose) Article 2 The purpose of the Corporation shall be to engage in the following lines of business: (1)~(6) (Text omitted) (New paragraph) (7)~(9) (Text omitted)	Chapter I General Provisions (Purpose) Article 2 The purpose of the Corporation shall be to engage in the following lines of business: (1)~(6) (No change) (7) <u>Warehousing and consigned freight forwarding business</u> (8)~(10) (No change)

Third 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	Current Title	Type
1	Kenji Hayashi	Chairman of the Corporation	Reappointment
2	Hiroyasu Naito	President and Executive Officer of the Corporation	Reappointment
3	Tsunenori Narita	Executive Vice President, President's Assistant of the Corporation	Reappointment
4	Masao Kosugi	Director, Senior Managing Executive Officer, General Manager of Corporate Planning Headquarters of the Corporation	Reappointment
5	Yuji Kondo	Director, Senior Managing Executive Officer, General Manager of Overseas Business Headquarters, and concurrently, General Manager of Group3 Sales & Marketing Division, and in charge of Business Planning Division of the Corporation	Reappointment
6	Nobuyuki Matsui	Outside director of the Corporation	Reappointment Outside director Independent officer
7	Takashi Kamio	Outside director of the Corporation	Reappointment Outside director Independent officer

“Reappointment” indicates candidates for reelection.

“Outside director” indicates candidates for outside director.

“Independent officer” indicates candidates for independent officer under rules of the Tokyo Stock Exchange and the Nagoya Stock Exchange.

Candidate Number 1	Kenji Hayashi (Date of Birth: Jun. 27, 1949)	Reappointment
Career Summary and Current Position of the Corporation:		
Apr.1972 Joined Rinnai Corporation	Jun.2005 Director, Managing Executive Officer, and General Manager of Related Business Division	
Sep.1978 Director		
Feb.1980 Director, and General Manager of Corporate Planning Office	Jun.2006 Representative Director, Vice Chairman of the Corporation	
Jun.1983 Managing Director, and General Manager of Production Technology Division	Apr.2017 Representative Director, Chairman of the Corporation (current)	
Jul. 1992 Managing Director, and General Manager of Related Business Division		
No. of Shares Owned: 2,454,024 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.		

Candidate Number 2	Hiroyasu Naito (Date of Birth: Apr. 20, 1955)	Reappointment
Career Summary and Current Position of the Corporation:		
Apr.1983 Joined Rinnai Corporation	Jun.2005 Director, Managing Executive Officer, General Manager of Corporate Planning Division and concurrently General Manager of Administration Division	
Jun.1991 Director, Deputy General Manager of Technology Research Headquarters, and concurrently General Manager of New Technology Development Division	Nov.2005 Representative Director, President and Executive Officer of the Corporation (current)	
Jul.1998 Director, General Manager of Technology Research Headquarters		
Jul.2001 Director, General Manager of Corporate Planning Division and concurrently, General Manager of Administration Division		
Jun.2003 Managing Director, General Manager of Corporate Planning Division and concurrently General Manager of Administration Division		
No. of Shares Owned: 510,180 shares		
Reason to propose the candidate for election as director:		
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 & 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.		

Candidate Number 3	Tsunenori Narita (Date of Birth: Jun. 15, 1948)	Reappointment
Career Summary and Current Position of the Corporation:		
Apr.1967	Joined Rinnai Corporation	Apr.2010 Representative Director, Executive Vice President; responsible for Research & Development Headquarters, Production Headquarters, Overseas Business Headquarters and Customer Division, and General Manager of Marketing & Sales Headquarters
Jun.1988	Director, General Manager of Technology Research Headquarters and concurrently General Manager of Quality Guarantee Division	
Jun.2001	Managing Director, General Manager of Production Headquarters	
Jun.2005	Director, Managing Executive Officer, and General Manager of Production Headquarters	Oct.2010 Representative Director, Executive Vice President; responsible for Research & Development Headquarters, Production Headquarters, Overseas Business Headquarters, and General Manager of Marketing & Sales Headquarters
Nov.2005	Director, Managing Executive Officer, in charge of domestic business, and concurrently General Manager of Marketing & Sales Headquarters	
Apr.2006	Director, Senior Executive Officer, in charge of domestic business, and concurrently General Manager of Marketing & Sales Headquarters	Apr.2016 Representative Director, Executive Vice President, President's Assistant, In charge of Production Headquarters and Overseas Business Headquarters
Apr.2009	Director, Executive Vice President; responsible for Research & Development Headquarters, Production Headquarters, Overseas Business Headquarters and Customer Division, and General Manager of Marketing & Sales Headquarters	Apr.2018 Representative Director, Executive Vice President, President's Assistant (current)
No. of Shares Owned: 7,471 shares		
Reason to propose the candidate for election as director:		
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 & Development Headquarters) from 1988, and General Manager of Production Headquarters and Marketing & 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.		

Candidate Number 4	Masao Kosugi (Date of Birth: Nov. 2, 1955)	Reappointment
Career Summary and Current Position of the Corporation:		
Apr.1979	Joined Rinnai Corporation	Apr.2010 Director, Managing Executive Officer, General Manager of Administration Headquarters, and concurrently, General Manager of Corporate Planning Division and Information System Division
Jun.1999	General Manager of Information System Division	
Jun.2005	Executive Officer, General Manager of Information System Division and Distribution Control Division	
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	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
Apr.2007	Executive Officer, General Manager of Administration Headquarters and concurrently General Manager of Corporate Planning Division	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
Jun.2007	Director, Executive Officer, General Manager of Administration Headquarters, and concurrently, General Manager of Corporate Planning Division	Apr. 2018 Director, Senior Managing Executive Officer, General Manager of Corporate Planning Headquarters (current)
No. of Shares Owned: 1,677 shares		
Reason to propose the candidate for election as director:		
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, Administration Headquarters, and 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. Kosugi can properly perform his duties as a director. For this reason, management asks shareholders to reelect him to this position.		

Candidate Number 5	Yuji Kondo (Date of Birth: Feb. 6, 1956)		Reappointment
Career Summary and Current Position of the Corporation:			
Apr.1979	Joined Rinnai Corporation	Apr.2010	Director, Managing Executive Officer, General Manager of Research & Development Headquarters and concurrently General Manager of Technology Administration Division
Jul. 2001	Deputy General Manager of Research & Development Headquarters, and concurrently General Manager of Electronic Research & Development Division		
Nov.2005	Executive Officer, General Manager of Research & Development Headquarters and concurrently, General Manager of Technology Development Division	May 2011	Director, Managing Executive Officer, General Manager of Research & Development Headquarters and concurrently General Manager of Electronics Development Division
Jul. 2007	Executive Officer, General Manager in charge of Research & Development Headquarters	Apr.2013	Director, Managing Executive Officer, General Manager of Research & Development Headquarters
Apr.2008	Executive Officer, General Manager of Research & Development Headquarters and concurrently, General Manager of Technology Administration Division	Apr. 2016	Director, Senior Managing Executive Officer, General Manager of Marketing & Sales Headquarters, In charge of Research & Development Headquarters
Jun.2009	Director, Executive Officer, General Manager of Research & Development Headquarters and concurrently General Manager of Technology Administration Division	Apr. 2018	Director, Senior Managing Executive Officer, General Manager of Overseas Business Headquarters, and concurrently, General Manager of Group3 Sales & Marketing Division, and in charge of Business Planning Division (current)
No. of Shares Owned: 1,125 shares			
Reason to propose the candidate for election as director:			
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 & Development Headquarters from 2009, and General Manager of Marketing & Sales Headquarters and Overseas Business 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.			

Candidate Number 6	Nobuyuki Matsui (Date of Birth: May 7, 1943)	Reappointment Outside director Independent officer
Career Summary and Current Position of the Corporation: Apr.1985 Professor at Department of Electrical Engineering in Nagoya Institute of Technology Jun.2012 Professor at Chubu University Jun.2014 Outside director, Rinnai Corporation (current) Jan.2004 President at Nagoya Institute of Technology Apr.2010 Auditor at Aichi University of Education, Adviser of Aichi Prefectural Government Office (Industrial Labor Section)		
Current Representation in Other Companies: Outside director at Fuji Corporation Outside director at Aichi Tokei Denki Co., Ltd		
No. of Shares Owned: 0 shares		
Reason to propose the candidate for election as director: 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.		

Candidate Number 7	Takashi Kamio (Date of Birth: Nov. 27, 1942)	Reappointment Outside director Independent officer
Career Summary and Current Position of the Corporation: Apr. 1965 Joined Toyota Motor Co., Ltd. Jun. 1996 Director at Toyota Motor Corporation Jun. 1999 Managing Director at Toyota Motor Corporation Jun. 2001 Senior Managing Director at Toyota Motor Corporation Jun. 2005 Senior Advisor at Toyota Motor Corporation Jun. 2005 President at Towa Real Estate Co., Ltd. Jun. 2006 Director at Nakanihon Kogyo Co., Ltd. May 2010 Advisor at Toyota Motor Corporation Jun. 2010 Senior Advisor at Towa Real Estate Co., Ltd. Jun. 2011 Audit & Supervisory Board Member at Central Nippon Expressway Company Limited Jun.2016 Outside director, Rinnai Corporation (current)		
Current Representation in Other Companies: Chairman of Sasaeai, specified nonprofit corporation		
No. of Shares Owned: 0 shares		
Reason to propose the candidate for election as director: 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.		

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. Fuji Machine Manufacturing Co., Ltd., for which Mr. Matsui is currently outside director, changed its name to Fuji Corporation effective on April 1, 2018.
4. Mr. Matsui will resign his position of an outside director of Fuji Corporation, at the end of the company's Ordinary General Meeting of Shareholders to be held in June 2018.
5. 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: Four years
 - Takashi Kamio: Two year
6. 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.
7. 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.
8. 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.

Fourth 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.

Yoshirou Ishikawa (Date of Birth: Mar. 22, 1951)		Reappointment
Career Summary and Current Position of the Corporation:		
Jul. 2001 Commissioner's Secretariat at National Tax Agency, Internal Inspector at Nagoya Regional Taxation Bureau	Jul.2009 District Director at Gifu-minami Tax Office	
Jul. 2005 Special Examiner, Large Enterprise Examination Department at Nagoya Regional Taxation Bureau	Aug. 2011 President, Yoshirou Ishikawa certified tax accountant office (current)	
Jul.2008 Appeals Judge at Nagoya National Tax Tribunal	Oct. 2011 Executive director, General incorporated association Nakagawa houjinkai (current)	
No. of Shares Owned: 0 shares		
Reason to propose the candidate for election as director:		
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.		

Notes:

1. Yoshirou 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. 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 -

(Attachments)

Business Report (April 1, 2017, to March 31, 2018)

1. Consolidated Business Overview

(1) Consolidated Business Results

In the fiscal year under review (April 1, 2017–March 31, 2018), the world economy performed favorably overall, reflecting moderate economic recovery in the United States and Europe, as well as a high rate of economic growth in China. In Japan, as well, the economy continued recovering, buoyed by improved corporate earnings and a turnaround in personal consumption.

Although new housing starts were affected by slowdowns in newly built owned and rental homes, the domestic housing appliance industry was steady, benefiting from replacement demand for housing appliances.

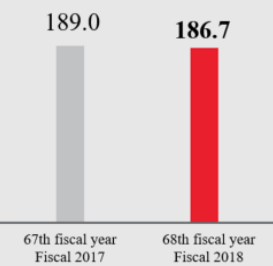
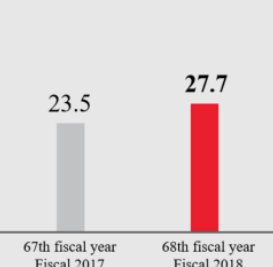
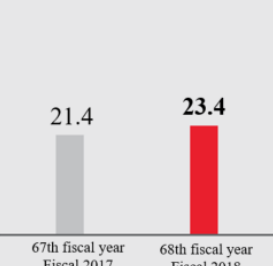
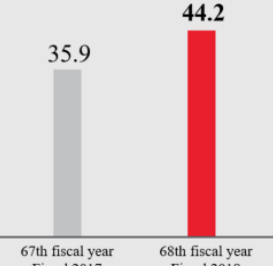
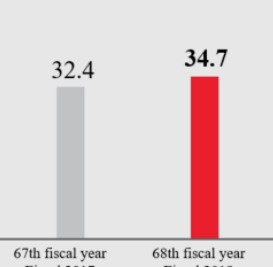
Under these conditions, the Rinnai Group completed the final year of its medium-term business plan, entitled “Evolution and Succession 2017”, which began in April 2015. Under the plan, we sought to ensure the “succession” of our corporate culture and spirit, while emphasizing “evolution” of our business model so we can create new products and services that benefit society.

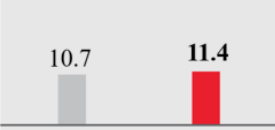
With respect to revenue, we reported a year-on-year increase in net sales thanks to healthy sales of water heaters in the United States and China. On the earnings side, however, the Group posted a year-on-year decline in operating income. This was due to surging prices of raw materials, as well as sluggish domestic sales of high-value-added products and inspection costs associated with bathroom heater/dryers.

As a result, consolidated net sales for the year amounted to ¥347,071 million, up 5.1% from the previous year. Operating income declined 3.5% year on year, to ¥32,849 million, and ordinary income slipped 2.8%, to ¥34,286 million. Net income attributable to owners of the parent company was down 5.1%, to ¥21,194 million.

	67th fiscal year (Year ended March 31, 2017)	68th fiscal year (Year ended March 31, 2018)	YOY changes	
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	330,256	347,071	16,815	5.1%
Operating income	34,056	32,849	(1,206)	-3.5%
Ordinary income	35,280	34,286	(994)	-2.8%
Net income attributable to owners of the parent company	22,322	21,194	(1,128)	-5.1%

Our results by geographical segment were as follows:

<p>Japan</p> <p>Net sales ¥186,779 million (YOY change: -1.2%)</p>	<p>In Japan, our performance was affected by contraction of the market for tabletop cookers and a decrease in sales of built-in hobs (stove-tops) due to intensified competition, as well as lower sales of water heaters via some sales channels. Accordingly, sales in Japan edged down 1.2% year on year, to ¥186,779 million, and operating income declined 18.3%, to ¥18,228 million.</p>	<p>Net Sales (Billions of yen)</p>  <table><tr><th>Fiscal Year</th><th>Net Sales (Billions of yen)</th></tr><tr><td>67th fiscal year Fiscal 2017</td><td>189.0</td></tr><tr><td>68th fiscal year Fiscal 2018</td><td>186.7</td></tr></table>	Fiscal Year	Net Sales (Billions of yen)	67th fiscal year Fiscal 2017	189.0	68th fiscal year Fiscal 2018	186.7
Fiscal Year	Net Sales (Billions of yen)							
67th fiscal year Fiscal 2017	189.0							
68th fiscal year Fiscal 2018	186.7							
<p>United States</p> <p>Net sales ¥27,738 million (YOY change: +18.0%)</p>	<p>In the United States, where the market for housing appliances remained steady, sales of highly convenient tankless water heaters were healthy, and we posted sales growth for high-efficiency models. As a result, sales in the United States increased 18.0%, to ¥27,738 million, and operating income climbed 32.9%, to ¥2,207 million.</p>	<p>Net Sales (Billions of yen)</p>  <table><tr><th>Fiscal Year</th><th>Net Sales (Billions of yen)</th></tr><tr><td>67th fiscal year Fiscal 2017</td><td>23.5</td></tr><tr><td>68th fiscal year Fiscal 2018</td><td>27.7</td></tr></table>	Fiscal Year	Net Sales (Billions of yen)	67th fiscal year Fiscal 2017	23.5	68th fiscal year Fiscal 2018	27.7
Fiscal Year	Net Sales (Billions of yen)							
67th fiscal year Fiscal 2017	23.5							
68th fiscal year Fiscal 2018	27.7							
<p>Australia</p> <p>Net sales ¥23,479 million (YOY change:+9.4%)</p>	<p>In Australia, we enjoyed healthy sales of mainstay tankless water heaters, as well as higher sales of ducted heating/cooling systems and air conditioners. As a result, sales in Australia rose 9.4%, to ¥23,479 million, and operating income grew 26.5%, to ¥1,580 million.</p>	<p>Net Sales (Billions of yen)</p>  <table><tr><th>Fiscal Year</th><th>Net Sales (Billions of yen)</th></tr><tr><td>67th fiscal year Fiscal 2017</td><td>21.4</td></tr><tr><td>68th fiscal year Fiscal 2018</td><td>23.4</td></tr></table>	Fiscal Year	Net Sales (Billions of yen)	67th fiscal year Fiscal 2017	21.4	68th fiscal year Fiscal 2018	23.4
Fiscal Year	Net Sales (Billions of yen)							
67th fiscal year Fiscal 2017	21.4							
68th fiscal year Fiscal 2018	23.4							
<p>China</p> <p>Net sales ¥44,294 million (YOY change:+23.2%)</p>	<p>In China, we posted steady sales of water heaters thanks to expansion of gas infrastructure and rising living standards. Sales of boilers also increased, due to government environmental policies promoting a shift in fuel from coal to gas in cold regions. Consequently, sales in China increased 23.2%, to ¥44,294 million, and operating income jumped 64.4%, to ¥5,045 million.</p>	<p>Net Sales (Billions of yen)</p>  <table><tr><th>Fiscal Year</th><th>Net Sales (Billions of yen)</th></tr><tr><td>67th fiscal year Fiscal 2017</td><td>35.9</td></tr><tr><td>68th fiscal year Fiscal 2018</td><td>44.2</td></tr></table>	Fiscal Year	Net Sales (Billions of yen)	67th fiscal year Fiscal 2017	35.9	68th fiscal year Fiscal 2018	44.2
Fiscal Year	Net Sales (Billions of yen)							
67th fiscal year Fiscal 2017	35.9							
68th fiscal year Fiscal 2018	44.2							
<p>Korea</p> <p>Net sales ¥34,739 million (YOY change:+7.0%)</p>	<p>In South Korea, we enjoyed healthy sales of boilers owing to a rise in the number of newly built small-scale condominium buildings, as well as higher replacement demand. As a result, sales climbed 7.0%, to ¥34,739 million. However, operating income declined 11.9%, to ¥811 million, due to intensified competition in the tabletop cooker market and surging raw materials costs.</p>	<p>Net Sales (Billions of yen)</p>  <table><tr><th>Fiscal Year</th><th>Net Sales (Billions of yen)</th></tr><tr><td>67th fiscal year Fiscal 2017</td><td>32.4</td></tr><tr><td>68th fiscal year Fiscal 2018</td><td>34.7</td></tr></table>	Fiscal Year	Net Sales (Billions of yen)	67th fiscal year Fiscal 2017	32.4	68th fiscal year Fiscal 2018	34.7
Fiscal Year	Net Sales (Billions of yen)							
67th fiscal year Fiscal 2017	32.4							
68th fiscal year Fiscal 2018	34.7							

<div>Indonesia</div> <div>Net sales ¥11,486 million (YOY change:+7.0%)</div>	<div>In Indonesia, a gradual increase in replacement demand led to recovery in sales of tabletop cookers. Accordingly, sales increased 7.0% year on year, to ¥11,486 million. Due to surging raw materials costs, however, operating income declined 5.4%, to ¥1,799 million.</div>	<div>Net Sales (Billions of yen)</div> <div><table><tr><th>Fiscal Year</th><th>Net Sales (Billions of yen)</th></tr><tr><td>67th fiscal year Fiscal 2017</td><td>10.7</td></tr><tr><td>68th fiscal year Fiscal 2018</td><td>11.4</td></tr></table></div>	Fiscal Year	Net Sales (Billions of yen)	67th fiscal year Fiscal 2017	10.7	68th fiscal year Fiscal 2018	11.4
Fiscal Year	Net Sales (Billions of yen)							
67th fiscal year Fiscal 2017	10.7							
68th fiscal year Fiscal 2018	11.4							

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

	67th fiscal year (previous fiscal year) (April 1, 2016, to March 31, 2017)		68th fiscal year (current fiscal year) (April 1, 2017, to March 31, 2018)		YOY change	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Japan	189,036	22,305	186,779	18,228	(1.2)%	(18.3)%
United States	23,504	1,661	27,738	2,207	18.0	32.9
Australia	21,468	1,249	23,479	1,580	9.4	26.5
China	35,962	3,069	44,294	5,045	23.2	64.4
South Korea	32,455	920	34,739	811	7.0	(11.9)
Indonesia	10,737	1,901	11,486	1,799	7.0	(5.4)
Others	17,090	2,712	18,553	2,878	8.6	6.1
Adjustments	—	234	—	297	—	—
Net sales on the consolidated statements of income	330,256	34,056	347,071	32,849	5.1	(3.5)

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 ¥202,387 million, up 7.5% year-on-year; kitchen appliances, ¥88,364 million, down 0.1%; Air conditioning appliances, ¥19,084 million, up 6.3%; commercial-use equipment, ¥ 9,499 million, up 4.1%; other products, ¥27,735 million, up 4.6%.

Net sales by product

(Millions of yen)

	67th fiscal year (previous fiscal year) (April 1, 2016, to March 31, 2017)		68th fiscal year (current fiscal year) (April 1, 2017, to March 31, 2018)		YOY Change
	Amount	% of total	Amount	% of total	(%)
Water heaters	188,202	57.0	202,387	58.3	7.5
Kitchen appliances	88,456	26.8	88,364	25.5	(0.1)
Air conditioning appliances	17,952	5.4	19,084	5.5	6.3
Commercial-use equipment	9,122	2.8	9,499	2.7	4.1
Others	26,521	8.0	27,735	8.0	4.6
Total	330,256	100.0	347,071	100.0	5.1

(2) Consolidated Capital Expenditures

In the period under review, the Group's total capital expenditures amounted to ¥16,105 million. Funds were applied primarily to investments in 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 2019, we expect the world economy to maintain its moderate recovery tone. In Japan, as well, we forecast economic growth backed by turnarounds in personal consumption and employment conditions in the wake of improved corporate performances.

Under these conditions, the Rinnai Group will work to increase recognition of its brand and products in China, the United States, and other overseas markets by emphasizing the comfort and environmental performance of its water heaters.

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 further strengthen sales of highly distinctive products, such as gas clothes dryers, dishwasher/dryers, and range hoods. We will also enhance our consulting capabilities for new lifestyle scenarios and distinguish our business by proposing combinations of built-in hobs (stovetops) and other existing products.

For the year ending March 2019, we forecast consolidated net sales of ¥360.0 billion (up 3.7% year on year), operating income of ¥36.0 billion (up 9.6%), ordinary income of ¥37.3 billion (up 8.8%), and net income attributable to owners of the parent company of ¥23.0 billion (up 8.5%).

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

(5) Changes in Performance and Assets

(¥ millions / except where noted)

	65th fiscal year (Year ended March 31, 2015)	66th fiscal year (Year ended March 31, 2016)	67th fiscal year (Year ended March 31, 2017)	68th fiscal year (Year ended March 31, 2018) (current fiscal year)
Net sales	295,022	319,935	330,256	347,071
Ordinary income	32,938	35,807	35,280	34,286
Net income attributable to owners of the parent company	20,647	22,710	22,322	21,194
Net income per share (yen)	397.03	436.71	429.27	410.41
Total assets	357,506	370,246	404,325	424,740
Net assets	261,414	271,709	290,638	307,965
Net assets per share (yen)	4,742.42	4,924.24	5,245.62	5,589.17

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, 2018)

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, 2018)

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
Air conditioning appliances	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, 2018)

(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
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, 2018)

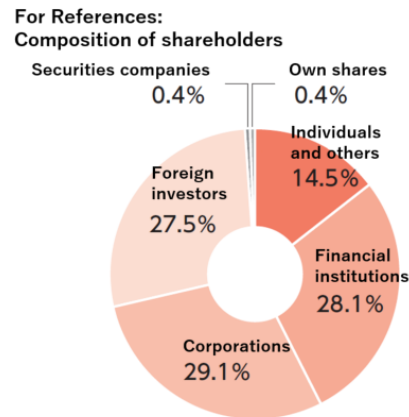
Number of employees	Increase (decrease) from previous fiscal year-end
10,571	+59

Notes: The above figures do not include temporary employees.

The average number of temporary employees during the fiscal year was 3,856.

2. Stock Information (As of March 31, 2018)

- (a) Number of authorized shares: 200,000,000
 (b) Number of issued shares: 51,400,059
 (Excluding 216,404 shares of treasury stock)
 (c) Number of shareholders: 3,750



(d) Major shareholders (top 10)

Name of shareholders	Number of shares (thousand)	Shareholding ratio (%)
Naito Co., Ltd.	6,215	12.09
Yoshikane Shoji Co., Ltd.	4,002	7.78
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,688	7.17
Kenji Hayashi	2,454	4.77
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,394	4.65
Japan Trustee Services Bank, Ltd. (Trust Account)	1,961	3.81
Tokyo Gas Company, Limited	784	1.52
HSBC-FUND SERVICES CLIENTS A/C 500	768	1.49
Nippon Life Insurance Company	720	1.40
Japan Trustee Services Bank, Ltd. (Trust Account 5)	673	1.31

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

(e) Other significant items regarding stock

On August 25, 2017, the Corporation executed the retirement of treasury stock, which was resolved at the Board of Director's Meeting held on August 7, 2017. As a result, the total balance of issued shares decreased by 600,000 shares compared with the balance at March 31, 2017.

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, 2018)

Position	Name	Position at Other Institutions or Major Profession
Representative Director, and 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	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
Standing Audit & Supervisory Board Member	Takashi Sonoda	
Standing Audit & Supervisory Board Member	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.

(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)	7 (2)	285 (14)
Audit & Supervisory Board Members (including outside members)	4 (2)	44 (10)
Total	11	329

- Notes: 1. Remuneration for directors does not include the employee portion in the case of directors who serve concurrently as employees.
2. 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).
3. 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.
4. As of March 31, 2018, 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 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 fifteen (15) of the 17 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 sixteen (16) of the 17 Board of Directors' meetings held during the year, 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 fifteen (15) of the 17 Board of Directors' meetings and thirteen (13) of the 14 the Audit & Supervisory Board held during the year, 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 fifteen (15) of the 17 Board of Directors' meetings and all meetings of the Audit & Supervisory Board (14 times) held during the year, providing impartial advice mainly from legal perspectives.

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	48
Total monetary and other financial profits paid by the Corporation and its subsidiaries	54

- 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, 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, the Corporation ensured deeper awareness of the Rinnai Code of Conduct and appropriate conduct to all employees. 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 with an 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.
- The Corporation formulated Rinnai Group Information Security Policy to improve the Group-wide information security's level.

(c) Matters related to execution of duties by directors

- During the current fiscal year, the Board of Directors met 17 times including Extraordinary Board of Directors, to discuss and approve key agenda items and to receive business reports.
- 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, outside directors 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.

Consolidated Balance Sheets

(As of March 31, 2018)

(Millions of yen)

ASSETS		LIABILITIES	
Current assets	266,978	Current liabilities	92,905
Cash and deposits	124,771	Notes and accounts payable	22,953
Notes and accounts receivable	66,341	Electronically recorded monetary claims	32,771
Electronically recorded monetary claims	8,858	Other payables	14,265
Marketable securities	17,920	Accrued consumption taxes	761
Products	27,330	Accrued income taxes	4,843
Raw materials and stores	16,014	Accrued employees' bonuses	4,676
Deferred tax assets	3,516	Allowance for product guarantee	4,602
Other	3,438	Other	8,031
Less allowance for doubtful accounts	(1,213)	Long-term liabilities	23,869
Fixed assets	157,761	Deferred tax liabilities	8,707
Property, plant and equipment	83,415	Allowance for environmental measures	2,255
Buildings and structures	33,511	Net defined benefit liabilities	10,466
Machinery and vehicles	18,111	Other	2,441
Tools and fixtures	5,536	Total liabilities	116,775
Land	23,346	NET ASSETS	
Leased assets	189	Shareholders' equity	272,170
Construction in progress	2,719	Common stock	6,459
Intangible fixed assets	6,350	Capital surplus	8,756
Investments and advances	67,995	Earned surplus	258,814
Investments in securities	46,067	Treasury stock	(1,860)
Net defined benefit assets	17,390	Other accumulated comprehensive income	15,112
Deferred income taxes	1,995	Unrealized gain on marketable securities	6,583
Other	2,611	Foreign exchange translation adjustment	4,682
Less allowance for doubtful accounts	(68)	Remeasurements of defined benefit plans	3,846
		Non-controlling interests	20,682
		Total net assets	307,965
Total assets	424,740	Total liabilities and net assets	424,740

Consolidated Statements of Income

(Year ended March 31, 2018)

(Millions of yen)

Net sales		347,071
Cost of sales		234,996
Gross profit		112,074
Selling, general and administrative expenses		79,225
Operating income		32,849
Other income		
Interest income	952	
Dividends received	509	
Other	698	2,160
Other expenses		
Foreign exchange loss	220	
Loss on retirement of fixed assets	280	
Other	223	723
Ordinary income		34,286
Extraordinary income		
Insurance income	293	
Subsidy income	762	1,056
Extraordinary losses		
Loss on reduction of fixed assets	762	762
Income before income taxes		34,580
Income taxes (current)	9,708	
Income taxes (deferred)	96	9,805
Income before minority interests		24,775
Net income attributable to non-controlling interests		3,581
Net income attributable to owners of the parent company		21,194

Nonconsolidated Balance Sheets

(As of March 31, 2018)

(Millions of yen)

ASSETS		LIABILITIES	
Current assets	135,178	Current liabilities	44,313
Cash and deposits	59,060	Accrued payable	13,269
Notes receivable	5,876	Electronically recorded monetary claims	18,527
Accounts receivable	33,362	Lease obligations	63
Electronically recorded monetary claims	7,081	Other payables	4,247
Marketable securities	16,715	Accrued expenses	667
Products	6,977	Accrued income taxes	2,921
Raw materials and stores	3,486	Deposits payable	145
Deferred tax assets	1,627	Accrued employees' bonus	2,443
Other	1,011	Allowance for product guarantees	1,138
Less allowance for doubtful accounts	(22)	Other	889
Fixed assets	119,008	Long-term liabilities	7,507
Property, plant and equipment	36,916	Lease obligations	59
Buildings	16,021	Accrued employees' retirement benefits	2,832
Structures	967	Other	4,614
Machinery, equipment	5,446	Total liabilities	51,820
Vehicles and delivery equipment	37	NET ASSETS	
Tools, furniture and fixtures	2,166	Shareholders' equity	195,991
Land	10,997	Common stock	6,459
Leased assets	102	Capital surplus	8,719
Construction in progress	1,175	Capital reserve	8,719
Intangible fixed assets	1,291	Earned surplus	182,673
Software	1,011	Legal reserve	1,614
Lease assets	11	Other legal reserve:	181,058
Other	268	Voluntary reserve	160,000
Investments and advances	80,800	Unappropriated retained earnings	21,058
Investments in securities	43,675	Treasury stock	(1,860)
Stocks of affiliated companies	23,035	Other adjustments	6,374
Investments in affiliated companies	1,870	Unrealized gain on marketable securities	6,374
Prepaid pension expenses	11,034	Total net assets	202,365
Other	1,211	Total liabilities and net assets	254,186
Less allowance for doubtful accounts	(27)		
Total assets	254,186		

Nonconsolidated Statements of Income

(Year ended March 31, 2018)

(Millions of yen)

Net sales		201,936
Cost of sales		154,931
Gross profit		47,005
Selling, general and administrative expenses		31,626
Operating income		15,378
Other income		
Interest income and dividends received	2,717	
Other	880	3,598
Other expenses		511
Ordinary income		18,466
Extraordinary income		
Subsidy income	762	762
Extraordinary losses		
Loss on reduction of fixed assets	762	762
Income before income taxes		18,466
Income taxes		
Current	4,804	
Deferred	(188)	4,615
Net income		13,850

(Translation)

INDEPENDENT AUDITOR'S REPORT

May 9, 2018

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: Kouji Kitaoka

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, 2018, namely, consolidated balance sheets, consolidated statements of income, consolidated statements of changes in shareholders’ equity, notes 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, 2018, 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.

(Translation)

INDEPENDENT AUDITOR'S REPORT

May 9, 2018

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: Kouji Kitaoka

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, 2018, namely, balance sheets, statements of income, statements of changes in shareholders’ equity, notes to 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, 2018, 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.

(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, 2017, through March 31, 2018. 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 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, 2018.

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.

(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 11, 2018

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.

Rinnai Corporation
Notice of Convocation of the 68th 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