



Rinnai Information  
for Shareholders

Vol. **19**

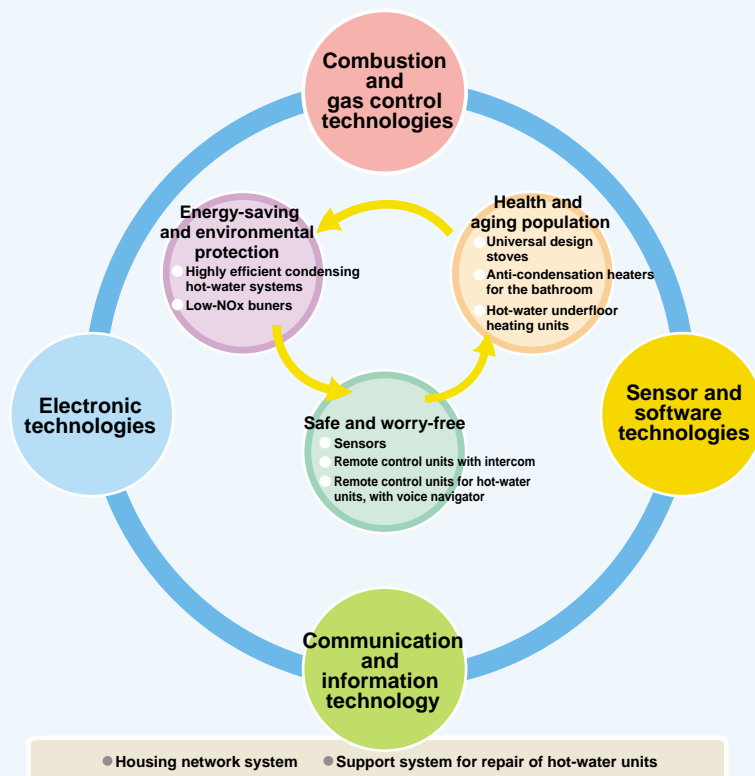
Interim Business Results  
for the 54th Term  
(April 1 to September 30, 2003)



**Rinnai**

<http://www.rinnai.co.jp/>

The Rinnai Group serves as a “comprehensive and integrated heating appliance manufacturer.” Our mission is to meet the needs of society by making our products safer and more convenient. Acutely aware of issues facing the 21st century—environmental protection, saving energy, health, and the aging population—we are drawing on our strengths in IT, sales, finance, and other areas to build a stable operating foundation, from which we will develop globally as a “company that creates and promotes interfaces between heat and lifestyles.”



The Rinnai Group supplies convenient, high-value-added products that address social issues related to environmental protection, saving energy, health, and the aging population.

## Contents

To Our Shareholders	1
Business Lines	2
Strategies and Strengths	3
Product Development	4
Global Network	5
Topics	6
Consolidated Performance Overview	8
Nonconsolidated Performance Overview	10
Corporate Data	12
Share Information	13

## To Our Shareholders

It is a pleasure to report on the Corporation's performance in the six months ended September 30, 2003—the first half of our 54th business term.

During the period under review, the Japanese economy remained in a state of uncertainty despite showing some signs of a moderate upturn, such as improved corporate earnings and a stock market rebound.

For the domestic gas appliance industry, while there was no major year-on-year change in housing starts, replacement demand grew steadily, buoyed by solid demand for home renovation. However, market competition continued to bring prices down, compounding difficulties for the industry.

In response, the Rinnai Group actively developed and proposed products in close communication with its customers. In product development, we thoroughly addressed customer needs with respect to function, operability, and design and worked hard to create products that are appealing from the customer's standpoint. As a new marketing strategy, we hosted "gas trial" exhibitions around the nation together with our distributors, enabling us to be closer than ever to our customers when making product proposals.

As a result, we posted a solid business performance, details of which are provided later in this report.

The Corporation declared an interim dividend of ¥12.00 per share, up ¥2.00 from the previous corresponding period. This decision was based on consideration of many factors, including payout ratio, return on equity, and financial condition, reflecting our basic profit appropriation policy.

Looking ahead, we anticipate a moderate turnaround in the domestic economy owing to improved corporate earnings and a recovery in private-sector capital spending. However, the recent rapid surge in the value of the yen, as well as concerns about the

U.S. and Asian economies, make it difficult to predict how the operating environment will evolve.

Facing these challenges, the Rinnai Group will continue demonstrating its strengths as a "comprehensive and integrated heating appliance manufacturer," developing attractive products that reflect customers' viewpoints and actively proposing products aimed at broadening the Group's customer base. We will also strive to improve earnings through Groupwide cost-cutting activities. At the same time, we will invest in new technological development and nurture human resources in our quest to assure sustained growth in the future.

We look forward to the support and cooperation of all shareholders as we meet the challenges ahead.

December 2003

Susumu Naito  
Chairman

内 藤 進



Yoshio Yamazaki  
President and  
Chief Executive Officer

山 崎 善 郎

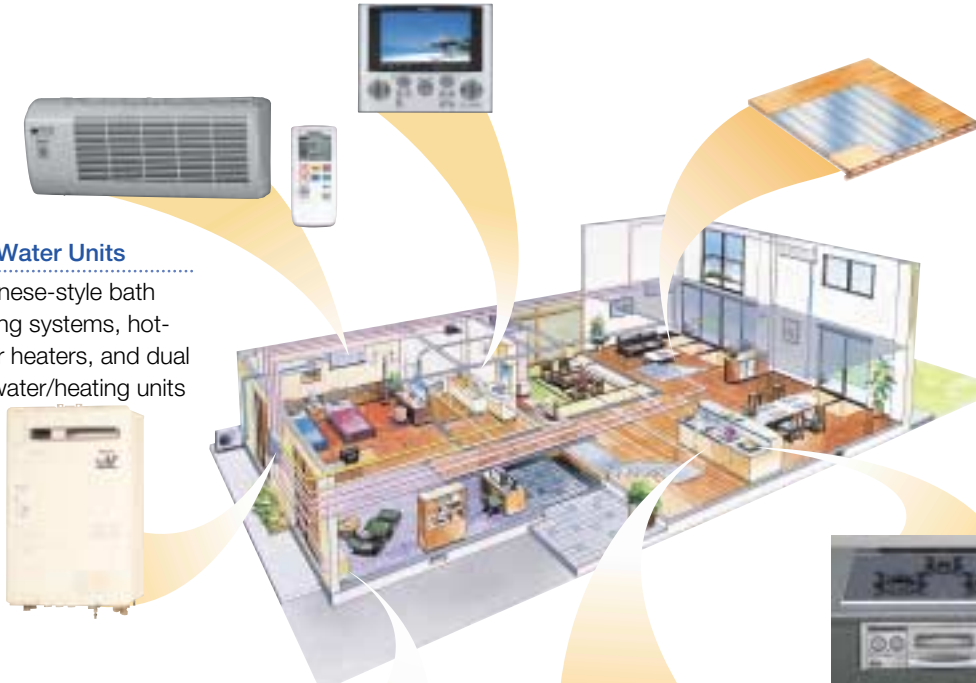


Business Lines

Rinnai is committed to developing high-value-added products, based on the concept of creating “integrated design systems” conducive to comfortable living spaces, rather than standalone products.

**Hot-Water Units**

Japanese-style bath heating systems, hot-water heaters, and dual hot-water/heating units



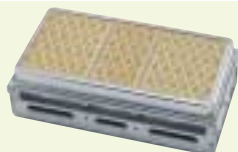
**Air-Conditioning and Heating Units**

Fanheaters, infrared stoves, power flue heaters, and air-conditioning units



**Kitchen Appliances**

Tabletop stoves, built-in ranges, dishwashers/dryers, rice cookers, and ovens



**Commercial-Use Equipment**

Industrial rice cookers, industrial parts, and components

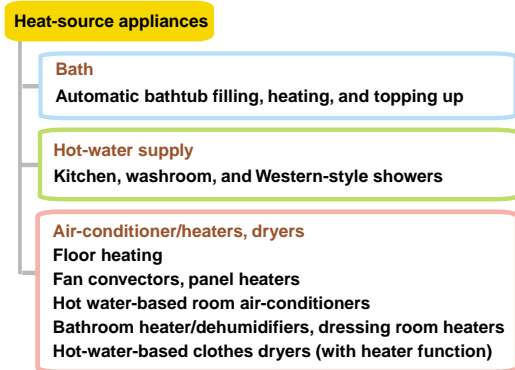
**Other**

Gas clothes dryers, infrared burners, and components

# Strategies and Strengths

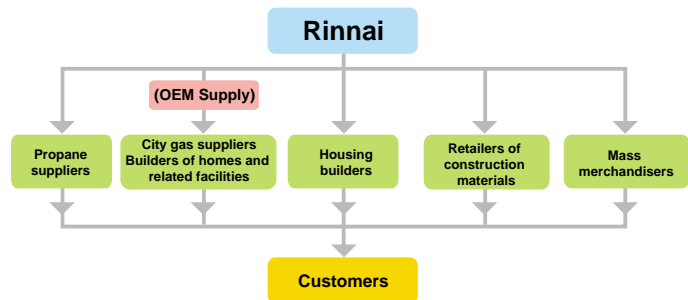
## 1 System-Based Products Hot-water supply and heating for the home—all from a single heat source

Rinnai’s gas dual hot-water/heating system is an integrated system designed to make homes more comfortable. From a single heat source, it delivers such functions as bathtub hot-water supply, floor heating, and bathroom heating/dehumidifying. Today, gas appliances fulfill an important role, fostering comfortable living environments all year round. In developing kitchen appliances, for example, our quest is to create the most user-friendly kitchen spaces possible. To this end, we emphasize joint development and alliances with builders of housing and system kitchens, and we supply many products to major manufacturers.



## 2 Extensive Sales Channels Providing services close to our end users

In addition to supplying products to city gas companies on an OEM basis, we maintain diversified sales channels, including alliances with house builders and building material retailers. Through these channels, we are building a sales, installation, and service network that is close to our customers.



## 3 Research and Development Gas-control, combustion, and other leading-edge technologies essential for gas appliances

Rinnai is committed using heat to make people’s lives more comfortable. We draw on a wide range of core technologies in such areas as combustion, electronics, gas control, sensors, software, IT, and communications. Through these activities, we are forging ahead with R&D on environmentally friendly products conducive to recycling and energy and resource conservation.



The heat efficiency of Ecomax burners is more than 50% thanks to their inner-flame configuration.

## Current popular products that meet customer needs

### Bathroom heater/dehumidifiers—four functions in a single unit

Rinnai's "Bath Hot Dry" bathroom heater/dehumidifiers feature four key functions—heating, dehumidification, ventilation, and air-cooling—making the bathroom more comfortable and convenient than ever. Elderly people can use "Bath Hot Dry" with peace of mind, since the system automatically controls bathroom temperature and air-flow speed, thus preventing sudden temperature changes in the winter months, which can cause accidents. The dehumidifying function also prevents the formation of condensation and mold, making the bathroom ideal as a place to hang washing.



Pleasant



### Gas fan heaters with ion function for removing bacteria

Rinnai has incorporated into its gas fan heaters a bacteria-removing ion-release technology called "Plasmacluster," which was developed by Sharp and has proven beneficial in countries around the world. Heaters fitted with this technology help reduce the activity of airborne mold fungus in the room and also suppress the odors that result when mold builds up. Because they make the air cleaner and healthier, these gas fan heaters can be used not only in winter, but all year round.

Environment

### Rinnai in South Korea: Top rank in gas boilers for seventh straight year

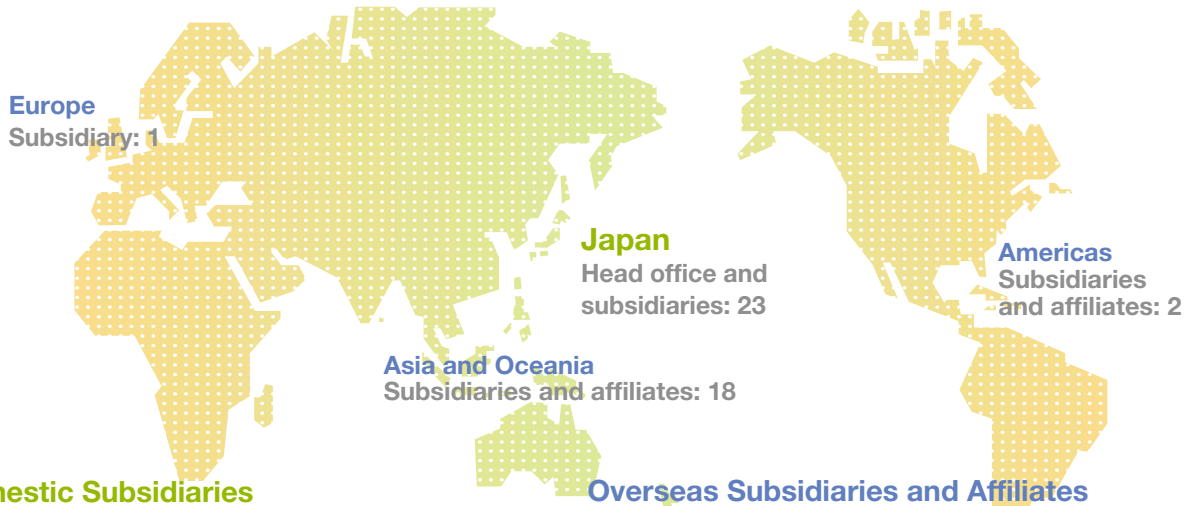
In South Korea, 100% of households have ondol-style floor-heating systems. Demand for gas boilers, used as the heat source for such systems, has expanded dramatically in recent years in line with the shift to using gas as fuel. Using state-of-the-art technologies from Japan, Rinnai Korea has developed products tailored to the South Korean market. Such efforts have won that company widespread acclaim, including various industry awards and the No. 1 customer satisfaction rank from the Korean Management Association for gas boilers for seven consecutive years.



Global

Global Network

As of September 30, 2003, the Rinnai Group consisted of the parent company, 39 subsidiaries (22 domestic and 17 overseas), and four affiliated companies, for a total of 44 companies.



Domestic Subsidiaries

Manufacture of Products

- Yanagisawa Manufacturing Co., Ltd.
- Rinnai Technica Co., Ltd.

Manufacture of Components

- RB Controls Co., Ltd.
- RT Engineering Co., Ltd.
- Noto Tech Co., Ltd.
- RB Techno Co., Ltd.
- Rinnai Precision Co., Ltd.
- Japan Ceramics Co., Ltd.
- Techno Parts Co., Ltd.

Sale of Products

- Rinnai Net Co., Ltd.
- RG Co., Ltd.

Sale and Installation of Products

- Rinnai Tech Sapporo Co., Ltd.
- Rinnai Tech Tokyo Co., Ltd.
- Rinnai Tech Chubu Co., Ltd.
- Rinnai Tech Kinki Co., Ltd.
- Rinnai Tech Kyushu Co., Ltd.
- Rinnai Tech Tohoku Co., Ltd.
- Rinnai Tech Niigata Co., Ltd.
- Rinnai Tech Hokuriku Co., Ltd.
- Rinnai Tech Hiroshima Co., Ltd.
- Kyushu Gas Fuel Co., Ltd.

Non-Life Insurance Agency Business

- Rinnai Enterprises

Holding Company

- Rinnai Holdings (Pacific) Pte Ltd.

Sale of Products

- Rinnai Australia Pty., Ltd.
- Rinnai Hong Kong Ltd.
- Rinnai UK Ltd.
- Rinnai America Corporation
- Rinnai Singapore Pte. Ltd.

Manufacture and Sale of Products

- Rinnai New Zealand Ltd.
- Rinnai Korea Corporation
- Rinnai (Thailand) Co., Ltd.
- P.T. Rinnai Indonesia
- Rinnai Viet Nam Co., Ltd.
- Rinnai Taiwan Corporation
- Shanghai Rinnai Co., Ltd.
- Equipamentos NGK-Rinnai Ltda.
- Rinnai (Malaysia) Sdn. Bhd.
- Guangzhou Ming Hai Co., Ltd.

Manufacture and Sale of Components

- RB Korea Ltd.
- Shanghai RB Controls Co., Ltd.
- Mikuni RK Corporation
- RS Korea Ltd.
- Rancee Precision Co., Ltd.

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

### Rinnai's Gas Fan Heater Wins Good Design Award

**R**ecently, one of Rinnai's gas fan heaters (model RC-291NP/RC-390NP/RC-590NP) received a 2003 Good Design Award from the Japan Industrial Design Promotion Organization (JIDPO). The reasons for choosing our product are given below.

1. Design form is simple, yet modern and stylish
2. Front display panel notifies user when machine is in Plasma Cluster Operation mode (blue light) or Plasma Ion Control mode (green light)
3. Metallic color of main unit is accentuated by the blue display portion.

Good Design Awards recognize not only appearance but also quality, ease of use, and overall balance as a product. In addition to being functional, our gas fan heater was regarded as having a high-quality design that enhances the comfort of the living environment.



RC-291NP/RC-390NP/RC-590NP

### Rinnai Receives Good Packaging Award

**I**n its 2003 Japan Packaging Contest, the Japan Packaging Institute bestowed a Good Packaging award to Rinnai. This was in recognition of the environmentally friendly packaging of our glass-top, built-in-burner stoves. The objective of the contest is to “contribute to the development and diffusion of superior packaging and related technologies that reflect the times and social issues and benefit lifestyles and cultures.” Our product received the award in the Electric Equipment Packaging Category for “having made a considerable contribution to streamlined and improved packaging.” Previously, our system-kitchen-use glass-top stoves, which weigh more than 20 kilograms, were packaged in veneer board and polystyrene. Now, they are packaged entirely in cardboard, which is more friendly to the environment.





## All Domestic Plants Certified under ISO14001

**T**he basic commitment behind Rinnai's environmental activities is to embrace advanced technologies that are friendly to humans and the earth, as well as to develop, make, sell, and provide services for products that make people's lives more fulfilling. On doing so, we seek to protect the environment on a global scale and thus benefit society. By pursuing environmentally friendly product development and manufacturing activities, we have sought to obtain ISO14001 certification for environmental management systems. In 1997, our Oguchi factory (factory and Technology Development Center) was certified, followed by the Seto factory in 2000 and the Aichi and Asahi factories in 2003. As a result, all of Rinnai's domestic manufacturing facilities are now certified. We are also working to help all Rinnai Group companies, both in Japan and overseas, receive certification. Rinnai Korea has already been certified.



## Our Website

**R**innai constantly updates its website in order to maximize communication with customers, as well as shareholders and other investors. Recently, we made it possible for people to request catalogs directly via the website. We invite you to access the site and view the latest information in the following areas.

- **Catalog requests**

[https://secure.rinnai.co.jp/catalog\\_form/index\\_catalog.html](https://secure.rinnai.co.jp/catalog_form/index_catalog.html)  
Allows domestic customers to request product catalogs

- **FAQ**

[http://www.rinnai.co.jp/product/qa/q\\_all/index\\_faq.html](http://www.rinnai.co.jp/product/qa/q_all/index_faq.html)  
Responds to frequently asked questions, such as who to contact for repairs and general gas appliance information

- **IR information**

[http://www.rinnai.co.jp/ir/index\\_ir.html](http://www.rinnai.co.jp/ir/index_ir.html)  
Provides the latest information for shareholders and other investors, including financial figures, flash reports, and share prices



## Consolidated Performance Overview

### Consolidated Financial Statements (Millions of yen)

Sept. 30, 2003: From April 1, 2003, to September 30, 2003

Sept. 30, 2002: From April 1, 2002, to September 30, 2002

March 31, 2003: From April 1, 2002, to March 31, 2003

Consolidated Statements of Income	Sept. 30, 2003 (A)	Sept. 30, 2002 (B)	March 31, 2003	Percentage Change (A/B)
Net sales	88,184	83,742	189,685	5.3
Cost of sales	63,714	60,655	136,856	5.0
Operating income	4,782	4,332	13,173	10.4
Ordinary income	4,659	4,021	12,735	15.9
Net income	2,607	1,979	8,603	31.7
Net income per share (Yen)	48.11	35.49	154.41	35.6

Consolidated Balance Sheets	Sept. 30, 2003 (A)	Sept. 30, 2002 (B)	March 31, 2003	Percentage Change (A/B)
Total assets	189,179	180,810	183,872	4.6
Total liabilities	71,400	68,026	68,662	5.0
Minority interests	3,996	3,993	4,341	0.1
Total shareholders' equity	113,782	108,790	110,868	4.6

Consolidated Statements of Cash Flow	Sept. 30, 2003 (A)	Sept. 30, 2002 (B)	Percentage Change (A/B)
Net cash provided by operating activities	(3,622)	1,155	—
Net cash provided by investing activities	(7,722)	(4,804)	—
Net cash provided by financing activities	4,824	2,812	71.6
Cash and cash equivalents at end of period	27,557	33,377	(17.4)

Ratios	Sept. 30, 2003 (A)	Sept. 30, 2002 (B)	Percentage Point Change (A/B)
Return on equity (ROE) (%)	2.32	1.83	0.49
Return on assets (ROA) (%)	1.40	1.09	0.31
Return on sales (%)	5.42	5.17	0.25
Equity ratio (%)	60.15	60.17	(0.02)

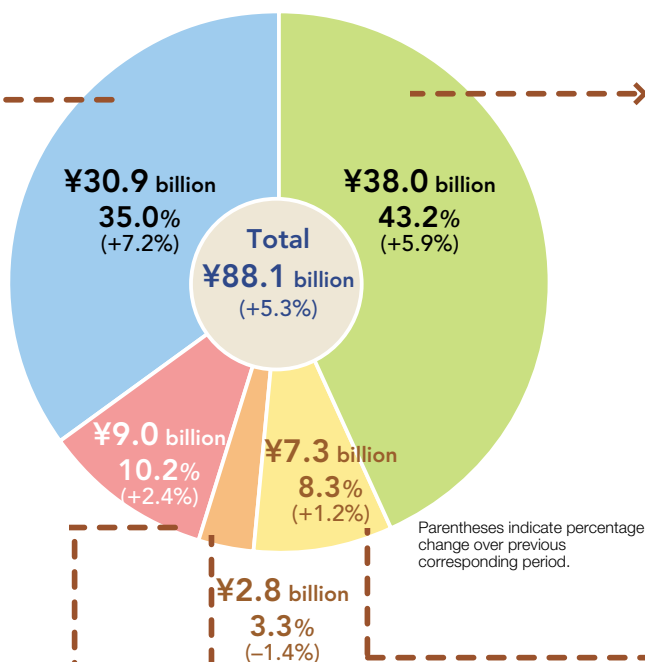
### Kitchen Appliances

The EG Top Series of stoves with heat-resistant ceramic glass top plates and inner-flame burners have earned Rinnai widespread praise for their good looks, function, durability, and excellent heat efficiency.



In Japan, stoves with glass top plates and inner-flame burners continued to earn strong demand, both from the new housing and replacement markets. Domestic sales of sliding-drawer dishwasher/dryers were also healthy. Overseas, sales in China were up over the previous interim period, owing to active efforts to expand our market presence there. As a result, sales of kitchen appliances increased 7.2%.

## Interim sales by business segment



## Hot-Water Units

Rinnai has revamped its line of bathroom hot-water units. Seeking to help protect the environment, we have developed a low-nitrogen-dioxide-emitting burner system that reduces emissions of air-polluting nitrogen dioxide. Both our hot-water units and bathwater reheaters are now equipped with this burner system.



In Japan, our hot-water and heating systems, which enhance comfort and are environmentally friendly, proved popular in both the new housing and replacement markets, with sales rising accordingly. Also, our composite-type hot-water units accurately reflected replacement demand. Overseas, we generated higher year-on-year sales in Oceania and Southeast Asia. Consequently, segment sales rose 5.9%.

## Others

In Japan, sales of standalone clothes dryers declined due largely to the expanding market for bathroom heater/dehumidifiers. Despite challenging conditions overseas, domestic Group manufacturing companies reported increased sales of various materials and components. Segment sales, therefore, rose 2.4%.

## Commercial-Use Equipment

Conditions in both domestic and overseas markets were difficult, especially in the depressed Japanese restaurant industry. As a consequence, sales of commercial-use equipment slipped 1.4%.

## Air-Conditioning and Heating Units

Domestic sales of heaters were weak, due to diversification in available products and generally warmer weather, which caused difficulties in shipments. However, sales in Australia, the United States, and elsewhere increased. As a result, segment sales edged up 1.2%.

## Nonconsolidated Performance Overview

### Nonconsolidated Balance Sheets (Millions of yen)

Sept. 30, 2003: As of September 30, 2003

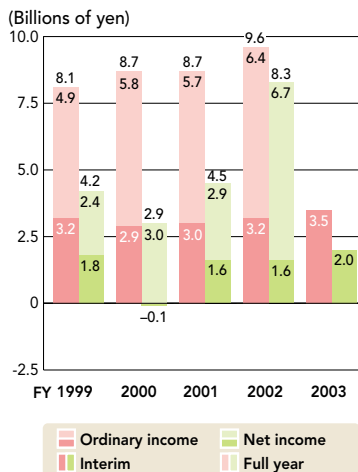
Assets	Sept. 30, 2003	Liabilities	Sept. 30, 2003
<b>Current assets</b>	<b>71,870</b>	<b>Current liabilities</b>	<b>33,027</b>
Cash and deposits	3,636	Accounts payable, trade	24,242
Notes and accounts receivable, trade	38,712	Accrued payables	4,095
Marketable securities	11,563	Accrued corporate taxes	1,545
Inventories	15,986	Accrued bonus payments	1,631
Others	2,035	Others	1,513
Allowance for doubtful accounts	(63)	<b>Long-term liabilities</b>	<b>4,621</b>
<b>Fixed assets</b>	<b>59,280</b>	Reserve for retirement benefits	2,851
<b>Property, plant and equipment</b>	<b>22,147</b>	Reserve for directors' retirement benefits	1,603
Buildings and structures	7,390	Others	166
Machinery and equipment	4,192	<b>Total liabilities</b>	<b>37,649</b>
Tools, furniture and fixtures	3,615		
Land	6,351	<b>Shareholders' equity</b>	Sept. 30, 2003
Others	598	<b>Common stock</b>	<b>6,459</b>
<b>Intangible fixed assets</b>	<b>425</b>	<b>Capital reserve</b>	<b>8,719</b>
<b>Investments and advances</b>	<b>36,707</b>	<b>Other reserve</b>	<b>81,933</b>
Investments in securities	15,258	<b>Other differences in valuation of marketable securities</b>	<b>591</b>
Shares of subsidiaries	5,181	<b>Treasury stock</b>	<b>(4,201)</b>
Others	16,846	<b>Total shareholders' equity</b>	<b>93,501</b>
Less: Allowance for doubtful accounts	(578)	<b>Total liabilities, and shareholders' equity</b>	<b>131,151</b>
<b>Total assets</b>	<b>131,151</b>		

### Nonconsolidated Statements of Income (Millions of yen)

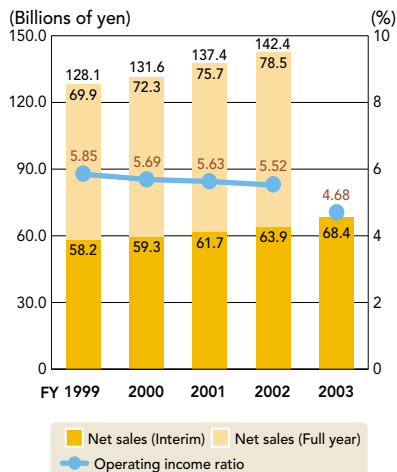
Sept. 30, 2003: From April 1, 2003, to September 30, 2003

Ordinary income (loss)	Sept. 30, 2003
<b>Net sales</b>	<b>68,419</b>
Cost of sales	53,123
Selling, general and administrative expenses	12,095
<b>Operating income</b>	<b>3,201</b>
Nonoperating income	569
Nonoperating expenses	210
<b>Ordinary income</b>	<b>3,559</b>
<b>Extraordinary income (loss)</b>	Sept. 30, 2003
Extraordinary income	10
Extraordinary expenses	281
Income before income taxes	3,289
Corporate, inhabitants and enterprise taxes	1,615
Corporate tax adjustment	(385)
<b>Net income</b>	<b>2,059</b>

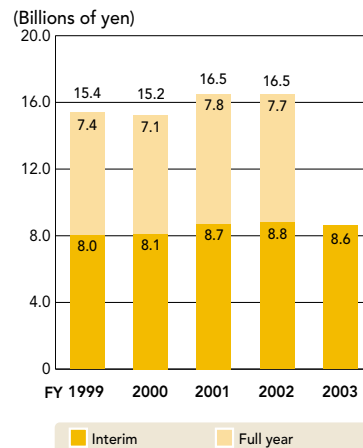
## Ordinary income, net income



## Sales, operating income ratio

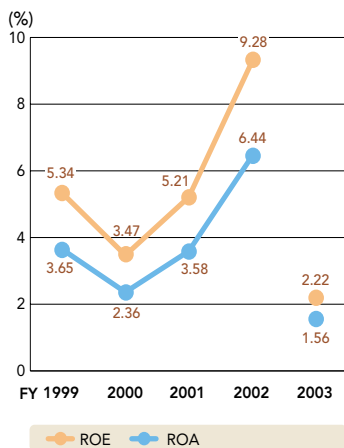


## Exports



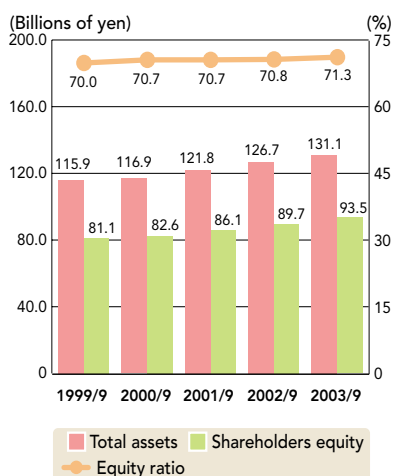
Note: Operating income ratio of FY2003 indicates percentage at interim term-end.

## ROE, ROA

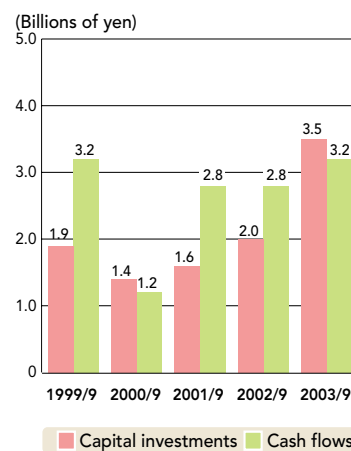


Note: ROE/ROA figures for FY2003 are based on annual projections of interim results.

## Total assets, shareholders equity, equity ratio



## Capital investments, cash flows



Note: Cash flows indicate the sum of net income and depreciation and amortization, minus outflows, such as directors' profit-sharing bonuses and dividend payments.

## Corporate Data (As of September 30, 2003)

### Directory

<b>Incorporated</b>	September 1, 1920
<b>Established</b>	September 2, 1950
<b>Paid-in capital</b>	¥6,459,746,974
<b>Head office</b>	2-26, Fukuzumi-cho, Nakagawa-ku, Nagoya 454-0802 TEL: +81-52-361-8211
<b>Number of employees</b>	3,129

### Domestic Network

#### Factories

Oguchi Factory, Seto Factory, Asahi Factory, Aichi Plant, Components Center

#### Research centers

Technology Development Center

#### Branches

Higashi-Nihon Sales Department, Tohoku, Chubu, Kansai Sales Department, Kyushu

#### Domestic sales offices

Sapporo, Sendai, Niigata, Tokyo, Kita-Kanto, Higashi-Kanto, Minami-Kanto, Shizuoka, Nagoya, Osaka, Hiroshima, Takamatsu, Fukuoka

#### Domestic satellite offices

Kitami, Kushiro, Obihiro, Asahikawa, Hakodate, Aomori, Hachinohe, Akita, Morioka, Hirosaki, Yamagata, Sakata, Koriyama, Iwaki, Fukushima, Joetsu, Nagaoka, Mito, Tsuchiura, Chiba, Matsudo, Tama, Utsunomiya, Saitama, Tokorozawa, Koshigaya, Takasaki, Ota, Tokyo, Yokohama, Atsugi, Yokohama-kita, Yamanashi, Numazu, Hamamatsu, Nagano, Matsumoto, Ueda, Toyama, Kanazawa, Fukui, Toyohashi, Okazaki, Aichi, Takayama, Tono, Gifu, Mie, Yokkaichi, Shiga, Nara, Wakayama, Kyoto, Fukuchiyama, Kobe, Himeji, Okayama, Tottori, Yonago, Matsue, Hiroshima, Fukuyama, Yamaguchi, Shimonoseki, Takamatsu, Matsuyama, Kochi, Tokushima, Kitakyushu, Saga, Nagasaki, Sasebo, Oita, Kumamoto, Miyazaki, Kagoshima, Osumi, Okinawa

### Board of Directors

Chairman	<b>Susumu Naito</b>
President	<b>Yoshio Yamazaki</b>
Managing Director	<b>Tsunenori Narita</b>
Managing Director	<b>Kozo Masuoka</b>
Managing Director	<b>Tsutomu Miyata</b>
Managing Director	<b>Kenji Hayashi</b>
Managing Director	<b>Hiroyasu Naito</b>
Director	<b>Yutaka Morita</b>
Director	<b>Takeshi Iwata</b>
Director	<b>Takashi Nagasaka</b>
Director	<b>Masao Kosugi</b>
Director	<b>Yuzo Yoshida</b>
Director	<b>Toshinori Kozawa</b>
Director	<b>Tadanobu Netsu</b>
Director	<b>Tomohiko Kitagawa</b>
Director	<b>Shizuo Sasaki</b>
Director	<b>Katsushi Minoura</b>
Corporate Auditor	<b>Katsuhiko Warita</b>
Corporate Auditor	<b>Yasuhiko Goto</b>
Corporate Auditor	<b>Kiyoshi Hori</b>
Corporate Auditor	<b>Ken Yazaki</b>

Ken Yazaki (Corporate Auditor) serves as an outside auditor.

# Share Information (As of September 30, 2003)

## Share Composition

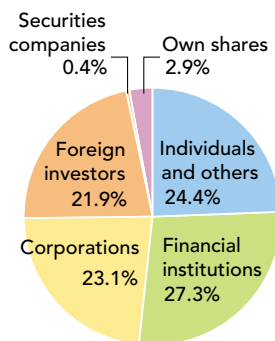
### Number of shares:

**Authorized:**  
200,000,000

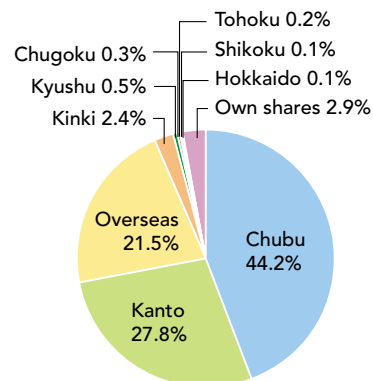
**Outstanding:**  
55,787,463

**Number of shareholders:**  
4,274

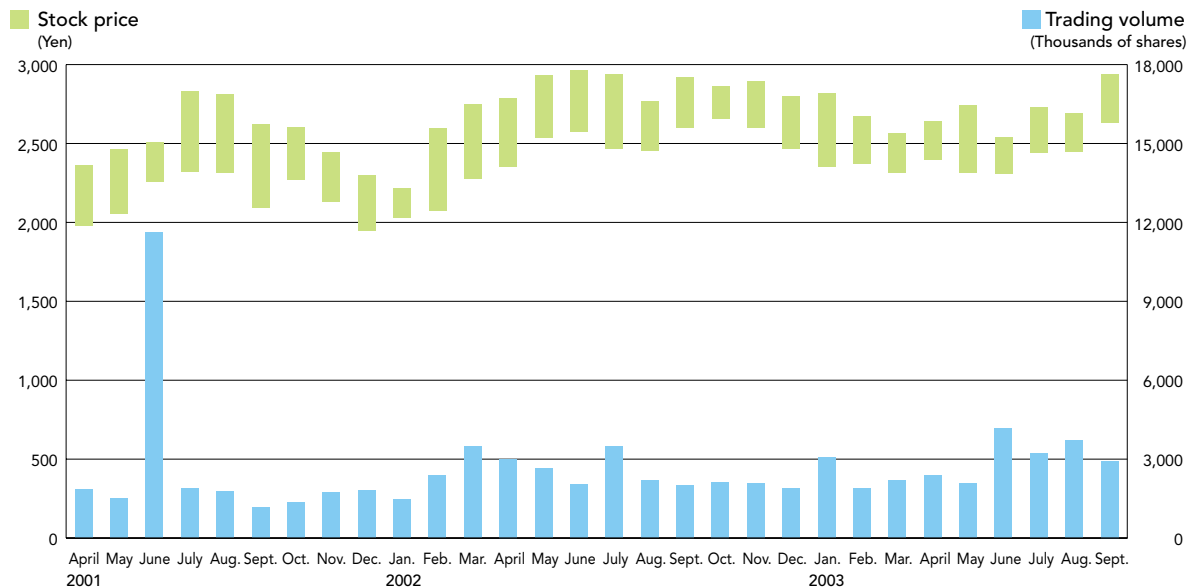
### Composition of shareholders



### Shareholders by region



## Stock Price Range



## Memorandum for Shareholders

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### Financial year-end

March 31

Year-end dividends are paid to shareholders as of March 31; interim dividends are paid to shareholders as of September 30.

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### Date of record

(1) March 31

(2) Other dates if necessary, of which advance notice is given.

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### Minimum trading unit

100 shares

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### Notices appear in

Nihon Keizai Shimbun

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### Balance sheets and statements of income on Rinnai's web site:

[http://www.rinnai.co.jp/ir/main\\_ir.html](http://www.rinnai.co.jp/ir/main_ir.html)

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### Transfer agent

The Chuo Mitsui Trust & Banking Company, Limited.  
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574

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### Transfer administration office

The Chuo Mitsui Trust & Banking Company, Limited.  
Nagoya Branch, Stock Transfer Agency Department  
3-6, Sakae 2-chome, Naka-ku, Nagoya 460-8685  
Tel: +81-52-231-1145

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### Transfer agency offices:

Chuo-Mitsui Trusting & Banking Co., Ltd.  
Head office and branches throughout Japan

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### Japan Securities Agents, Ltd.

Head office, branches and regional offices

#### ● Notice

If you are in Japan, you can request the standard forms for address changes, the purchase of shares fewer than the minimum trading unit, or the designation of a bank account for the transfer of dividends around the clock at the toll-free service of the transfer agent (0120-87-2031).

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### Stock Listings:

Tokyo Stock Exchange, First Section  
Nagoya Stock Exchange, First Section