

Rinnai Information
for Shareholders

Vol. **18**

Business Results for
the 53rd Term
(April 1, 2002 to March 31, 2003)



Rinnai

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

Tips for Better Living Volume 17: Top Priority in the Kitchen is “Have a Fun”

“I love cooking, but cleaning up afterwards makes me depressed.” Sounds familiar? This statement rings true for so many people. For professional chefs, cleaning up pots and pans before the main dish is ready is a basic prerequisite. But such a task is difficult for “mere mortals” like us.

Meanwhile, food is not the only item affected by the kitchen revolution. More and more people are refusing to use chemical-based cleaning agents, so age-old traditions like baking soda, acetic acid, and liquid detergents are facing increased scrutiny. In any case, cleaning up in the kitchen is a regular part of our daily routine.

Rinnai conducted a survey of purchasers of its ceramic glass-top stoves. When asked for reasons for purchase, 22% of respondents cited “seems easy to clean,” while 16% said “seems easy to use thanks to the wide top plate.” This indicates that ease of use is a top priority with many people. When asked for their impressions after having used the product, 26%

said it was “easy to clean” and 24% said “the inner-flame burner make cooking easier.”

The kitchen is crucial to our daily pursuit of a healthy life. So let’s make the kitchen as enjoyable and convenient as possible.



● Product Introduction

EG Top Series: Functionally Beautiful Glass-Top Stoves

The EG Top series derives its name from “E” for “Ecomax” (energy-saving tiny-flame burner), “G” for “glass” (top plate), and “Top” because the product is at the “top” of the range of ceramic glass-surface stoves on the market. The series features Ceramglass, a heat-resistant ceramic glass made by Schott of Germany that is noted for its stylish appearance, durability, and high resistance to heat and impact. Cleaning is also a breeze, as small spills can be easily wiped off with a regular paper towel. In June 2003, the EG Top System Kitchen Stove won a technological award from the Japan Gas Association—testimony to Rinnai’s successful pursuit of functional beauty.

To Our Shareholders

It is a pleasure to report on the Company's performance in the year ended March 31, 2003, our 53rd business term.

Despite some positive export-driven signals in the first half of the year, the Japanese economy slipped further into recession, dragged down by plummeting stock prices. Overseas, economies in Asia were solid, especially in China. However, the U.S. economy slowed down, leading to uncertainty about the future.

For the domestic gas appliance industry, it was another difficult year. Housing starts declined for the third consecutive year. Meanwhile, our markets saw stiff competition for market share from new entrants from non-traditional energy sectors. These included the full-scale entry of induction heating cookers in the kitchen appliance market and electric systems in the hot water system market.

In response, the Rinnai Group demonstrated its strengths as a "comprehensive and integrated heating appliance manufacturer". We worked harder than ever to meet customer needs and address social issues related to environmental protection, saving energy, and health. We also endeavored to build a reliable product quality assurance system to deliver peace of mind and satisfaction to customers, and we pursued Group-wide cost-cutting activities and more rigorous risk management, in order to strengthen our corporation foundation. In addition, we placed high priority on active investments in developing new technologies for the future, and on nurturing our human resources.

As a result, the Company declared a ¥10.00 year-end cash dividend, which, coupled with a similar interim dividend, brought total dividends for the year to ¥20.00 per share.

The future of our operating environment looks increasingly uncertain. We expect domestic deflationary trends to continue for the time being,

while ongoing weakness in personal consumption and capital spending provides little hope for economic recovery. Overseas, the U.S. economy will remain unstable, and the SARS virus is causing economic slowdown in Asia.

The Rinnai Group will respond by reinforcing development and sale of high-value-added products, such as the EG Top series in the Kitchen Appliances segment and product systems in the Hot-Water Units segment. At the same time, we will continue pursuing low-costs activities throughout the Group while striving to improve profitability.

We look forward to your continued support as we embrace the challenges ahead.

June 2003

Susumu Naito
Chairman



Yoshio Yamazaki
President and Chief
Executive Officer



Anticipating domestic and overseas market needs, we will lead the industry in product and sales

Energy Industry Trends and Rinnai's Strategies

Trends in two key markets—energy and housing—are having a significant and growing impact on our company.

In the energy sector, the global environment has become an extremely important focus of attention for many nations in recent years. As of April 30, 2003, natural gas accounted for almost 90% of gas supplied by Japan's 229 gas companies.

The so-called "Top Runner" system was introduced following a revision of the Energy

Conservation Law in 1999. Under this system, the weighted average of the top energy-saving products in each market segment, such as air-conditioners, is determined as the standard by which all products in the segment are evaluated. In our own industry, the Top Runner system was enforced in April 2003, applying to natural gas and propane gas equipment. Thanks to our efficient combustion technologies, our products are already close to meeting Top Runner standards. On the environmental front, we lead our competitors in product and technological development as we build a framework for a comprehensive response to the shift to natural gas.

Rinnai's environmental initiatives



Condensing hot water system

With heat efficiency of around 95%, this product received an energy-saving award in 1999.



Ecomax burners

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

To correct price disparities with overseas markets in electricity and gas supply, the Japanese government is promoting legislation aimed at deregulating the market by 2010. At present, natural gas accounts for around 50% of gas energy consumed by the general population, with LP gas representing the remaining 50%. The government's energy policy has differed from those of other countries. For example, we have made oil prices lower than other energy prices as a matter of policy. In the lead-up to 2010, however, we are changing direction to pursue the same course adopted in Europe and North America. Our new policy goes beyond electricity and gas segmentation, instead emphasizing high energy efficiency and low environmental impact.

Looking ahead, we envisage intensified competition as energy companies become more environmentally focused. We also foresee further market liberalization. These and other factors will drive down energy prices in the future. Such conditions bode well for Rinnai, because our products are highly evaluated for their performance.

Housing Industry Trends and Rinnai's Strategies

Responding to demands in housing and related sectors, we are gradually shifting our emphasis from standalone products to systems. To this end, forming alliances with residential construction companies, specialist kitchen creators, and others has become an extremely important part of Rinnai's current product development efforts. Indeed, we supply products to

Top Runner system

The Top Runner system was introduced as part of a revision to the Energy Conservation Law in 1999. Under the system, the weighted average of the top energy-saving products (so-called "top runners") in each market segment (at the time of the law's revision) was determined as the standard by which all products in the segment are evaluated. All companies in the market are obliged to achieve the energy-efficiency levels of the top runners by the fiscal year ending March 2007.

Target heat-efficiency standards for major gas products

Kitchen appliances

Gas stove with griller (bench-top type with 2 burners or less)	56.3%
Gas stove with griller (system-kitchen type with 3 burners or more)	55.6%

Water heaters

Instant-heat gas water heater (natural combustion, discharge type)	83.5%
Gas bathtub with hot-water supply function (forced combustion, forced circulation, externally located unit)	80.4%

Room heaters

Gas heater (closed-type, forced convection)	82.0%
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practically all major manufacturers in our field under OEM agreements. Similarly, in the increasingly “IT-oriented” hot water system market, we develop futuristic system-based products jointly with manufacturers of bathtubs. We are also working together to set up a distribution network.

With the shifting emphasis from standalone to system-based products, there is growing demand in Japan for high-quality housing facilities from the perspectives of saving energy, convenience, and safety. This is partly a reflection of our aging society. In this context, a new market is emerging for products that make people more comfortable, such as bathroom heater/dryers and floor heating systems. Moreover, a revision of the Building Standard Law in July 2002 has led to burgeoning demand for 24-hour ventilation systems.

Recent Rinnai “hit” products highlight the importance the Company places on adopting the customer’s perspective in its product development efforts. In the kitchen appliances segment, for example, our EG Top series of glass-top ranges with inner-flame burners has been highly popular. Since its launch two years ago, around 230,000 units have

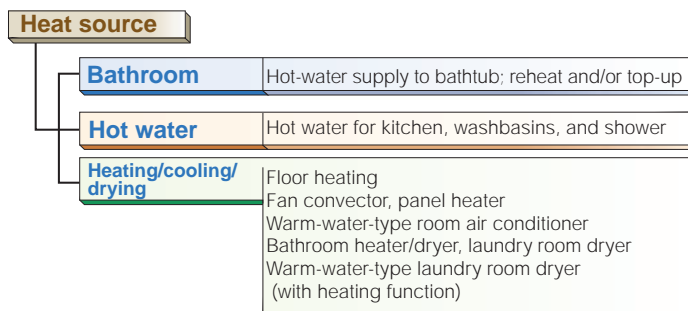
been sold. Our dishwasher/dryers with sliding doors have also done every well. Also, our combined hot-water/room-heating systems, which are no larger than regular hot water system, have scored a major hit in the replacement demand market.

Rinnai has allied with equipment installation specialists to form a nationwide network. This is in response to demand from homeowners who are renovating their houses by installing floor-heating systems and refurbishing bathrooms. We have a highly proactive system in place, developing products and providing services in response to the emerging “age of the customer.”

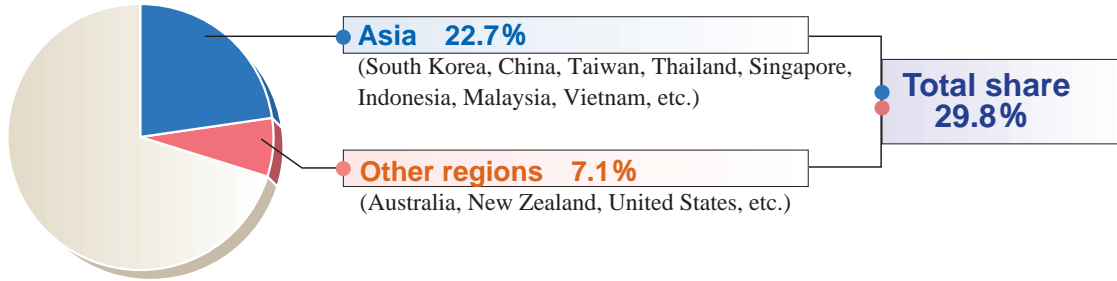


Rinnai's gas hot-water/room-heating system

In a single unit, this revolutionary system takes care of the home’s hot water and space heating needs. This system reflects Rinnai mission to help people live comfortable lives all year round.



Share of overseas sales in consolidated net sales



Rinnai's overseas strategies

After verifying the specific needs and issues of each country, Rinnai reassessed and took steps to improve the product brand and sales capabilities of its overseas affiliates. These actions began to show positive results in the year to March 2003.

Rinnai Korea accounts for a large proportion of the Group's revenues. Although the South Korean economy has slowed since receiving a boost from the World Cup soccer tournament, Rinnai Korea has disposed of bad debt accumulated during that nation's bubble period, and looks forward to contributing to Group profits in the future.

China is another market with huge potential. Due to its huge size, each region has different products and customs. For this reason, we have divided our business there into three groups, each serving a specific region: North, covering Beijing and areas north; Central, centering on Shanghai; and South, including Guangzhou. Urban redevelopment is bustling in China ahead of the 2008 Beijing

Olympics and Expo 2010 Shanghai. The housing sector is also growing rapidly. We will respond by devising and implementing business strategies that fully incorporate such trends.

In the United States, Europe, and other industrialized markets, there is growing anticipation for our products, centering on hot water systems and air conditioners, which incorporate advanced information technologies geared toward the environment, convenience, and comfort.

In addition to implementing these overseas product development and service strategies, since the previous fiscal year we have undertaken a comprehensive review of our cost structure. We are now working to raise cost competitiveness and the productivity of each employee. The Company is targeting consolidated net sales of ¥206.0 billion in the year to March 2004. To reach this goal, we will create new "hit" products in each of our main business segments, and thus build a commanding market lead.

Consolidated Performance Overview

Consolidated Financial Statements (Millions of yen)

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

FY 2001: From April 1, 2001, to March 31, 2002

Consolidated Statements of Income	FY 2002(A)	FY2001(B)	Percentage change (A/B)
Net sales	189,685	178,611	6.2
Cost of sales	136,856	129,931	5.3
Operating income	13,173	11,802	11.6
Ordinary income	12,735	12,519	1.7
Net income	8,603	5,837	47.4
Net income per share (Yen)	154.41	104.64	47.6

Consolidated Balance Sheets	FY 2002(A)	FY2001(B)	Percentage change (A/B)
Total assets	183,872	180,895	1.6
Total liabilities	68,662	69,030	-0.5
Minority interests	4,341	4,228	2.7
Total shareholders' equity	110,868	107,636	3.0

Consolidated Cash Flow Statement	FY 2002(A)	FY2001(B)	Percentage change (A/B)
Net cash provided by operating activities	16,845	8,338	102.0
Net cash provided by investing activities	(10,522)	(4,016)	162.0
Net cash provided by financing activities	(7,005)	1,537	-
Cash and cash equivalents at end of period	33,529	34,415	-2.6

Ratio	FY 2002(A)	FY2001(B)	Percentage point change (A/B)
Return on equity (ROE) (%)	7.87	5.56	2.31
Return on assets (ROA) (%)	4.72	3.29	1.43
Return on sales (%)	6.94	6.61	0.33
Equity ratio (%)	60.30	59.50	0.80

Kitchen Appliances

The EG Top series of glass-top cookers with inner-flame burners were particularly popular, with cumulative sales surpassing 23,000 units since the series was launched about two years ago.



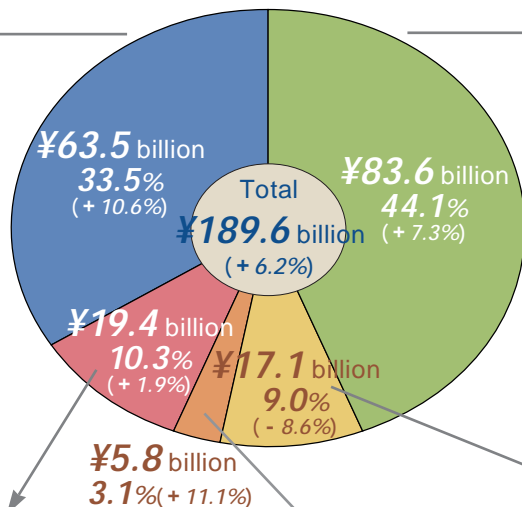
Amid generally sluggish replacement demand, we posted a solid increase in sales of built-in cookers with glass tops, for installation in both new and refurbished kitchens. In the middle of the year under review, we adopted EG Top ceramic glass in our bench-top cookers, which helped energize sales for those products. Sales of dishwasher/dryers also increased. In South Korea, we reported favorable sales of cooking ranges. As a result, segment sales increased 10.6%.

Consolidated accounting comments

In Japan, where housing starts have been weak, the key issue is how well we can serve the market for replacement products. Rinnai is very active in this area, offering products that address social issues, such as the environment, aging population, and the need to recycle.

Sales by business segment

Parenthesis indicate percentage of comparison from preceeding term.



Hot-Water Units

Rinnai's revolutionary dual hot-water/heating system supplies hot water, reheats bathwater, and provides space heating and cooling functions, all powered by a single heat source. The same size as a conventional hot-water unit, it is attracting strong replacement demand.



Sales in this segment increased thanks to proactive marketing aimed at the home refurbishment and equipment replacement markets, as well as the launch of dual hot-water/heating systems that are environmentally friendly and enhance comfort. Overseas, we expanded sales in Australia, North America, South Korea, and China (Shanghai) owing to the proliferation of instant-water-heating units in those markets. As a result, segment sales increased 7.3%.

Others

Sales in this segment edged up 1.9% owing to increased sales of various materials and components, such as electrical and cutting parts.

Commercial-Use Equipment

Despite weakness of the Japanese restaurant industry, we maintained domestic sales in this segment at previous-year levels. Overseas sales grew significantly, boosted by the introduction of new products in South Korea. Overall sales of commercial-use equipment, therefore, jumped 11.1%.

Air-Conditioning and Heating Units

Generally warm winters worldwide caused inventories to pile up, leading a difficult sales situation for heating units. Consequently, segment sales declined 8.6%.

Countries around the world are embracing natural gas as the fuel for their water- and space-heating needs. Thanks to advances in information technology, we can deliver safer and more convenient products to world markets. As a result, Rinnai's overseas affiliates expanded their business, reporting a combined net sales increase of 15%.

Looking at profitability, we

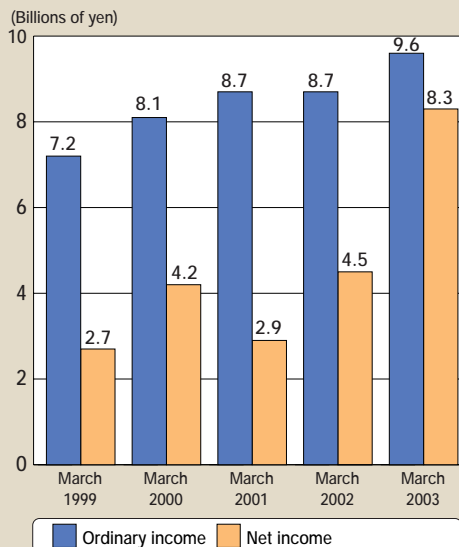
tackled the challenge of deflation-induced price declines by providing high-value-added products while cutting costs through design innovations and the use of new materials. As a result, the gross profit ratio improved. While selling, general, and administrative expenses increased due to high costs associated with our joint R&D program with the BG Group, the

operating income ratio rose slightly. The ordinary income ratio declined in the absence of special factors that pushed up ordinary income in the previous year, namely a major increase in other income due to a foreign exchange gain by Rinnai Korea. In absolute terms, however, ordinary income increased. We also posted an improvement in net income.

Non-Consolidated Performance Overview

Ordinary income, net income

Net non-operating income increased year-on-year, due to a gain in dividend income from affiliated companies. As a result, ordinary income rose 10.2%, to ¥9,635 million, or 6.8% of net sales. Net income jumped 84.7%, to ¥8,366 million, or 5.9% of net sales. This stemmed from an extraordinary gain in the form of a ¥5,315 million return of contributions to the Employees' Pension Fund.



Non-Consolidated Statements of Income (Millions of yen)

FY 2002: From April 1, 2002, to March 31, 2003
FY 2001: From April 1, 2001, to March 31, 2002

Ordinary income (loss):	FY 2002	FY2001
Net sales	142,471	137,434
Cost of sales	109,976	106,748
Selling, general and administrative expenses	24,636	22,950
Operating income	7,858	7,735
Non-operating income	2,083	1,115
Non-operating expenses	306	109
Ordinary income	9,635	8,741
Extraordinary income (loss):	FY 2002	FY2001
Extraordinary income	5,347	53
Extraordinary expenses	797	464
Income before income taxes	14,185	8,331
Corporate, inhabitants and enterprise taxes	4,571	4,302
Corporate tax adjustment	1,247	(500)
Net income	8,366	4,529

Appropriation of Profits (Millions of yen)

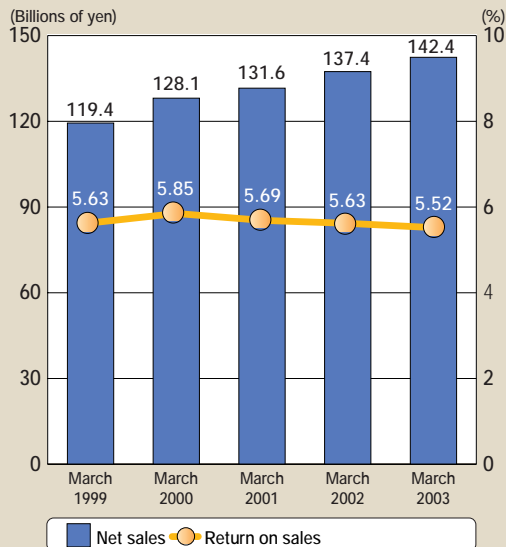
FY 2002: From April 1, 2002, to March 31, 2003
FY 2001: From April 1, 2001, to March 31, 2002

	FY 2002	FY2001
Unappropriated retained earnings brought forward from the previous term	9,444	5,180
The profits were disposed as follows:		
Dividends (Per share)	542 (Ordinary dividend ¥10)	502 (Ordinary dividend ¥9)
Cumulative effect of adapting deferred tax accounting		
Bonuses for directors	43	43
General reserve	3,000	3,000
Balance to be carried forward	5,859	1,635

Sales, expenses, operating income ratio

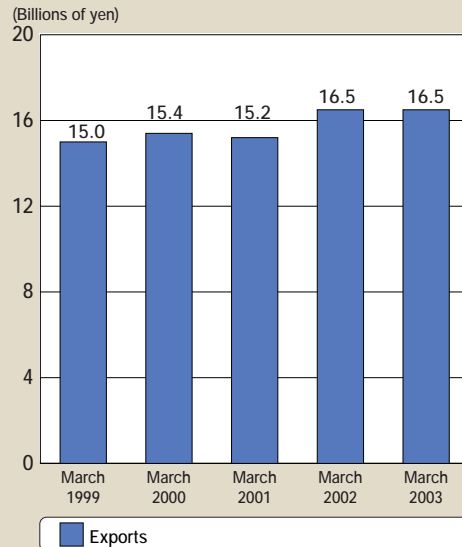
Amid falling prices caused by deflation, Rinnai emphasized sales of high-value-added products and implemented various cost-cutting measures. As a result, we reduced the cost of sales ratio by 0.5

point. However, the ratio of selling, general, and administrative expenses to net sales climbed 0.6 point. Operating income grew 1.6%, to ¥7,858 million, or 5.5% of net sales.



Exports

Exports remained almost unchanged from the previous year as overseas affiliates increased production while exports declined. Exports of kitchen appliances declined 17.7%, to ¥2,188 million, due to lower sales in Southeast Asia. Exports of hot-water units, mainly to Oceania and North America, climbed 9.3%, to ¥7,283 million. Exports of air-conditioning and heating units climbed 4.9%, to ¥3,064 million, and exports of commercial-use equipment and others fell 6.0%, to ¥4,045 million. As a result, overall exports edged up 0.2%, to ¥16,582 million.



Non-consolidated Balance Sheets (Millions of yen)

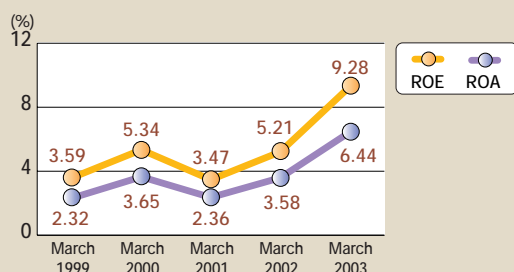
FY 2002: As of March 31, 2003
 FY 2001: As of March 31, 2002

Assets	FY 2002	FY 2001	Liabilities:	FY 2002	FY 2001
Current assets	76,046	77,876	Current liabilities:	35,711	33,562
Cash and deposits	4,436	12,186	Accounts payable, trade	25,322	23,621
Notes and accounts receivable, trade	40,378	41,713	Accrued amount payable	4,870	4,150
Marketable securities	14,962	9,357	Accrued corporate taxes	2,593	2,869
Inventories	14,319	13,254	Accrued bonuses payment	1,431	1,449
Others	2,009	1,384	Accrued equipment costs payable	563	517
Allowance for doubtful accounts	(60)	(20)	Others	929	955
Fixed assets	56,088	49,778	Fixed liabilities:	4,606	5,531
Property, plant and equipment	20,297	20,876	Reserve for retirement benefits	2,831	3,816
Buildings, structures	7,478	7,741	Reserve for retirement allowance	1,601	1,517
Machinery, equipment	4,239	4,405	Others	173	197
Tools, furniture and fixtures	2,718	2,900	Total liabilities	40,317	39,093
Land	5,567	5,487			
Others	293	341			
Intangible fixed assets	418	328			
Investments and advances	35,373	28,574			
Investments in securities	13,250	9,987			
Investments in subsidiaries	5,161	5,161			
Long-term advances	941	949			
Long-term loans to subsidiaries	4,800	4,800			
Others	11,777	7,881			
Less: Allowance for doubtful accounts	(558)	(206)			
Total assets	132,134	127,655			

Shareholders' equity:	FY 2002	FY 2001
Common stock	6,459	6,459
Legal reserve	8,719	8,719
Retained earnings	80,459	73,195
[Net income included above]	(8,366)	(4,529)
Other difference in valuation of marketable securities	375	191
Treasury stock	(4,197)	(4)
Total shareholders' equity	91,816	88,561
Total liabilities and shareholders' equity	132,134	127,655



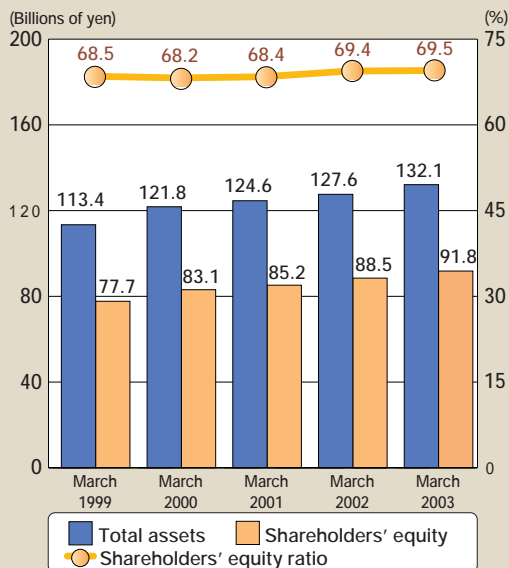
ROE and ROA are key management indices that reflect net income as a percentage of shareholders' equity and total capital (total assets), respectively. ROE represents the profitability level of a company, whereas ROA shows how effectively management resources are used to generate earnings. Both indices are important indicators of a company's financial status.



Total assets, shareholder equity, equity ratio

Total current assets at fiscal year-end were 2.3%, or ¥1,830 million, lower than a year earlier as the Corporation shifted some of its funds to medium-term investments in response to falling interest rates and the removal of the cap on deposits guaranteed under the revised Deposit Insurance

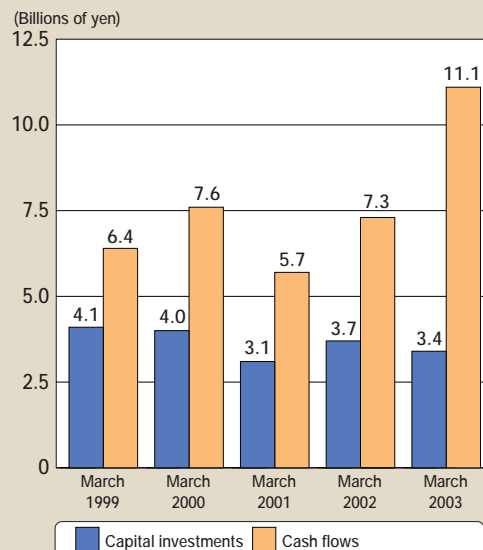
Law. Property, plant, and equipment decreased 2.8%, or ¥578 million, as the Corporation pursued a renewal-oriented capital investment policy. Total investments and other assets jumped 23.8%, or ¥6,799 million, due to a shift to a medium-term asset management policy and increased prepaid pension costs associated with the return of contributions to the Employees' Pension Fund. Consequently, total fixed assets rose 12.6%, or ¥6,310 million. Total liabilities climbed 3.1%, or ¥1,224 million, due to an increase in notes and accounts payable, as well as a decline in the reserve for employees' retirement benefits associated with the return of contributions to the Employees' Pension Fund. Total shareholders' equity increased 3.6%, or ¥3,255 million, and the equity ratio was 69.5%. Total assets at fiscal year-end amounted to ¥132,134 million, up 3.5% from a year earlier.



Capital investments, cash flows

In the year under review, Rinnai's capital investments amounted to ¥3,428 million, down 9.4% from the preceding year. The Corporation

invested mainly in machinery renewal, new-product molds, and construction of a new training center in Kansai. Real cash flow (sum of net income and depreciation and amortization, minus outflows, such as directors' profit-sharing bonuses and dividend payments) totaled ¥11,196 million. This amount exceeded total capital investments, with the difference allocated to in-house capital.



Rinnai Topics

Rinnai works constantly to raise the value-added component of its products. To this end, we are focusing on products that are environmentally friendly, energy-saving, safe, and offer peace of mind. We are also emphasizing health and ease of operation for the elderly. Reflecting our policy, we plan to roll out a succession of new products fitted with a bacteria-killing ion technology that makes the air cleaner.

Eliminates 90% of a room's mold bacteria 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.

Our gas fan heaters also feature a number of innovative functions that reflect Rinnai's commitment to comfort. For example, there is a "tempered operation" mode that automatically turns the flame on or off according to the temperature setting, thus keeping the room at a comfortable temperature without getting too hot. Another mode, called "swing control," precisely controls both the combustion and air-flow volumes to keep the temperature as low as possible without reducing the effective temperature. The "auto save" mode automatically adjusts the temperature and minimizes the combustion volume without losing the right comfort level. Other functions include a 24-hour timer, a sign that appears when the filter needs cleaning, automatic gas shut-off if the unit falls over, and a faulty ignition prevention device. Because they make the air cleaner and healthier, these gas fan heaters can be used not only in winter, but all year round.



Fitted with bacteria-resistant, air-freshening functions Bathroom heater/dryers with bacteria-removing ion technology

Rinnai has incorporated a "Plasmacluster" ionization device, developed by Sharp, into its wall-mounted bathroom heater/dryers. By switching to the "ion" mode in the drying cycle, the units discharge bacteria-dissolving ions into the air, thus suppressing mold buildup. The "ion control" mode raises the ratio of negative ions' the basis for "good-tasting air"—during the heating or fan-cooling cycles, thus creating a comfortable bathing environment.

In addition to the heating, fan-cooling, and exhaust functions, there is also a drying mode that expedites the drying time of clothes hanging in the room. We have also made our bathroom heater/dryers quieter and more seamless than ever before. Their compact design means they occupy minimal space, and they can be installed easily without the need to remove wall panels.



Board of Directors

Chairman	Susumu Naito	Director	Yutaka Morita	Director	Takashi Sonoda
President	Yoshio Yamazaki	Director	Takeshi Iwata	Corporate Auditor	Kiyoshi Hori
Managing Director	Tsunenori Narita	Director	Takashi Nagasaka	Corporate Auditor	Masao Ichioka
Managing Director	Kozo Masuoka	Director	Masao Kosugi	Corporate Auditor	Yasuhiro Irie
Managing Director	Tsutomu Miyata	Director	Yuzo Yoshida	Corporate Auditor	Ken Yazaki
Managing Director	Kenji Hayashi	Director	Toshinori Ozawa		
Director	Hiroyasu Naito	Director	Katsushi Minoura		

Directory

Incorporated	September 1, 1920
Established	September 2, 1950
Paid-in capital	¥6,459,746,974
Head office	2-26, Fukuzumi-cho, Nakagawa-ku, Nagoya 454-0802 TEL: +81-52-361-8211
Number of employees:	3,166

Factories

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

Research centers

Technology Development Center

Branches

Higashi-nihon sales department, Tohoku, Chubu, Kansai, Kyushu

Domestic sales offices

Sapporo, Sendai, Niigata, 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

Domestic subsidiaries

Yanagisawa Manufacturing Co., Ltd.
Rinnai Technica Co., Ltd.
RB Controls Co., Ltd.
Rinnai Precision Co., Ltd.
RT Engineering Co., Ltd.
Japan Ceramics Co., Ltd.
Noto Tech Co., Ltd.
Techno Parts Co., Ltd.
Rinnai Net Co., Ltd.

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

Overseas subsidiaries and affiliates

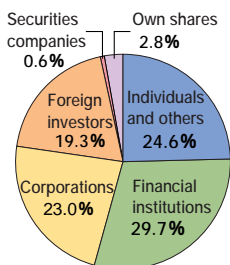
Rinnai Australia Pty., Ltd.
Rinnai New Zealand Ltd.
Rinnai America Corporation
Rinnai Taiwan Corporation
Rinnai Hong Kong Ltd.
Rinnai Holdings (Pacific) Pte. Ltd.
Rinnai Korea Corporation
Rinnai (Thailand) Co., Ltd.
Shanghai Rinnai Co., Ltd.
Equipamentos NGK-Rinnai Ltda.
Rinnai Industries (UK), Ltd.
Rinnai Malaysia Shd. Bhd.
Rinnai Singapore Pte. Ltd.
P. T. Rinnai Indonesia
Rinnai Vietnam Co., Ltd.
RB Korea Co., Ltd.
R. S. Korea Corporation
Shanghai RB Controls Co., Ltd.

Memorandum for Shareholders

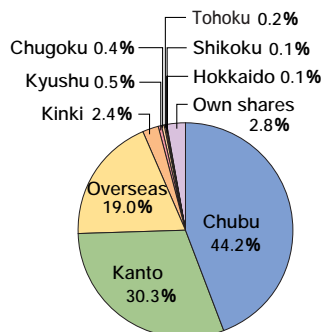
Number of shares: (As of March 31, 2003)

Authorized:	200,000,000
Outstanding:	55,787,463
Number of shareholders:	4,427

Composition of Shareholders



Shareholders by Region



Effects of Commercial Code amendments to handling of Rinnai shares

1. Share certificate forfeiture system

Previously, shareholders who lost their share certificates could apply for a reissue of certificates after obtaining a judgment of exclusion following a public preemptory notice. Due to an amendment of the Commercial Code on April 1, 2003, however, share certificates are no longer subject to the public preemptory notice system. Instead, a new "share certificate forfeiture system" has been set

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.

Date of record

(1) March 31

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

Minimum trading unit:

100 shares

Notices appear in:

Nihon Keizai Shimbun

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

http://www.rinnai.co.jp/ir/main_ir.html

Transfer agent:

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

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

Transfer agency offices:

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

Stock Listings:

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

up, through which holders of lost shares certificates can apply for reissue.

For more details, please contact the Corporation's transfer agent.

2. System for purchasing fractional shares

Following an amendment to the Commercial code, the Corporation amended its Articles of Incorporation and share-handling provisions, introducing a system allowing shareholders to purchase fractional shares (not exact multiples of the set unit). Holders of fractional shares may request that the Corporation buy

back a certain number of shares so that their remaining holdings are equivalent to one unit or multiples of same. The Corporation will stop receiving such requests 12 working days prior to and including its fiscal year-end (March 31) and interim term-end (September 30) dates. (The Corporation may change the no-reception period in special circumstances.) For more details, please contact the transfer agent. Those seeking to use the custody transfer system are asked to contact a securities company.