

# Rinnai

## Shareholders' Report

Vol. 49

### 69th Interim Term

(April 1 to September 30, 2018)





Hiroyasu Naito  
President

In providing this interim report on the first two quarters (April 1 – September 30, 2018) of the fiscal year ending March 31, 2019, despite moderate economic recovery in the United States and Europe, a sense of uncertainty permeated the world economy, largely due to a slowdown in China and trade issues centered on the United States and China. In Japan, the economy maintained its recovery tone, sustained by an improvement in corporate earnings and a rally in personal consumption.

The domestic housing sector was affected by sluggish growth in construction of new housing, especially condominiums, and conditions in the housing appliance industry remained weak in the absence of robust replacement demand.

Against this backdrop, the Rinnai Group embarked on a new medium-term business plan, “G-shift 2020,” in April 2018. Guided by this plan—which features the slogans “heat and lifestyles” and “health and lifestyles”—we pursued approaches to improve living standards in the global market and embraced new initiatives going beyond the sale of existing products and services to the creation of unique products and services that integrate new technologies and our own core technologies. On the sales front, we marked an increase thanks to brisk overseas business, particularly in China and the United States. But on the profit front, consolidated operating income decreased, owing to sluggish demand for high-value-added products in Japan. Consequently, performance for the first two quarters of the fiscal year ending March 31, 2019, is as presented on the next page. The interim cash dividend was raised ¥2.00, year on year, to ¥46.00 per share.

The Rinnai Group will strive to make a great leap forward in turning Rinnai into a global brand by anticipating various changes in the business environment, enhancing technological innovation for the next generation and strengthening overseas growth strategies. I ask you, our valued shareholders, for your continued support and cooperation as we work toward these goals together.

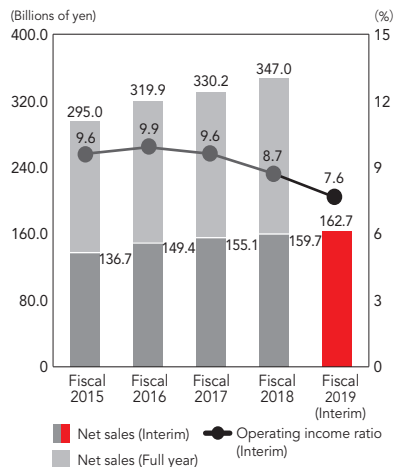
December 2018

Hiroyasu Naito  
President

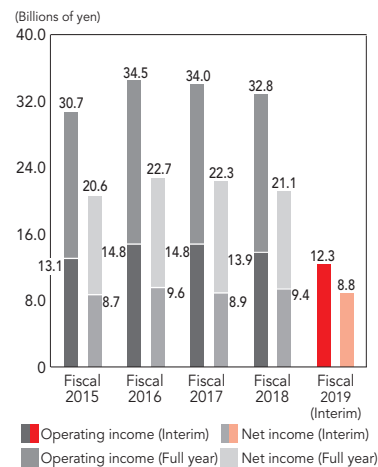
## Performance Highlights

- Net sales broke **past records**
- Net sales marked **sixth consecutive year-on-year increase**, driven by brisk demand for water heaters in China and the United States
- Marked **ninth consecutive year of interim dividend increase** with payout of ¥46.00 per share

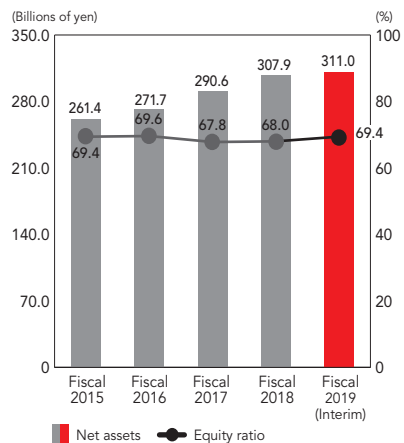
## Net sales, operating income ratio



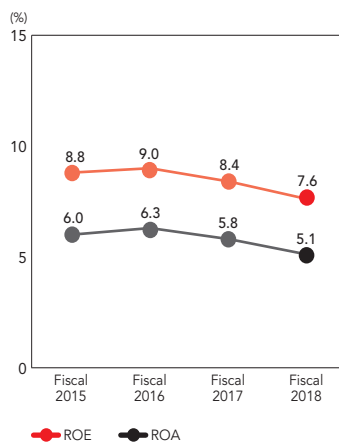
## Operating income, net income attributable to owners of the parent company



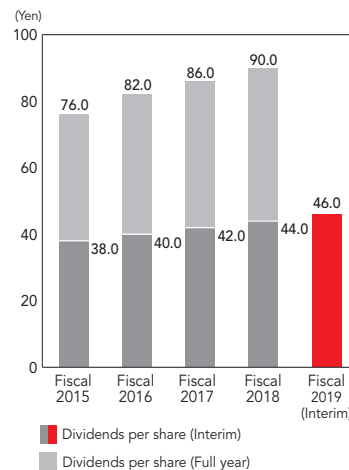
## Net assets, equity ratio



## ROE, ROA



## Dividends per share



\* From this consolidated accounting period, Rinnai has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting," and amounts have been retroactively adjusted for past fiscal years.

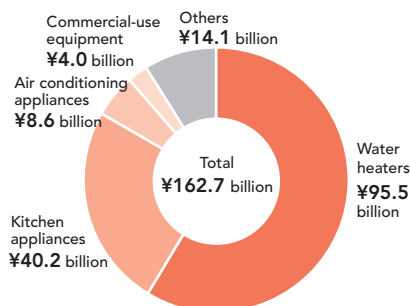
# Consolidated Business Results

(First Two Quarters of the Fiscal Year ending March 2019)

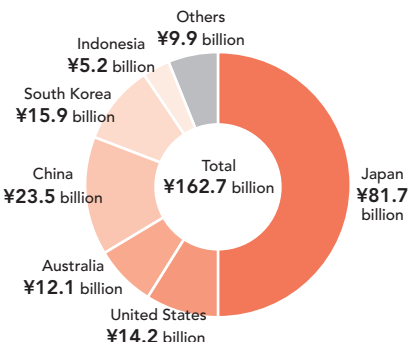
## Highlights by Product Segment

- Water heaters: **Higher sales** thanks to healthy overseas demand in China and United States
- Kitchen appliances: **Lower sales** due to shrinking tabletop cookers market and heightened competition on built-in hobs (stovetops) in Japan
- Air conditioning appliances, commercial-use equipment, and others: **Lower sales** due to drop in demand for air conditioning appliances in Australia

Net sales by product

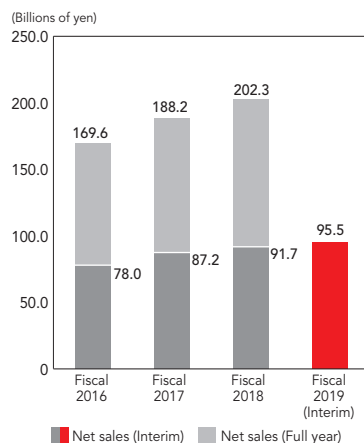


Net sales by region

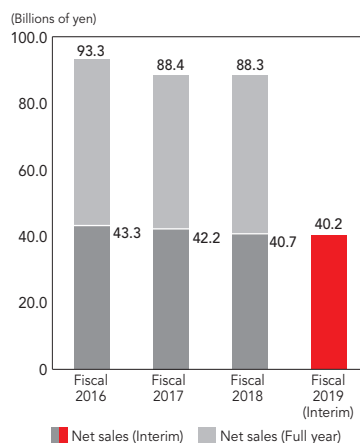


Product segment	Principal products
Water heaters	Tankless water heater with basic functions, bath-filling systems, heating systems, and hybrid water heater with heating systems
Kitchen appliances	Tabletop cookers, built-in hobs (stovetops), ovens, dishwashers, range hoods and rice cookers
Air conditioning appliances	Fan heaters, fanned flue heaters and infrared heaters
Commercial-use equipment	Commercial-use ceramics griller, ranges and rice cookers
Others	Clothes dryers, infrared burners and components

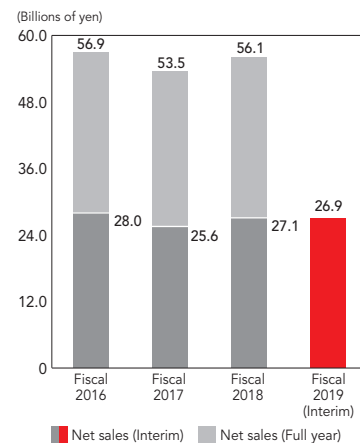
Sales of water heaters



Sales of kitchen appliances

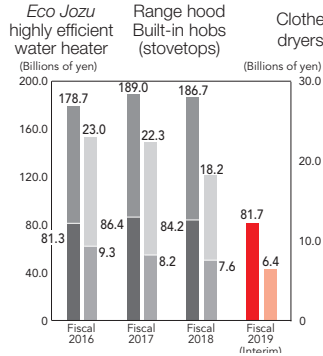


Sales of air conditioning appliances, commercial-use equipment, and others



## Highlights by Regional Segment

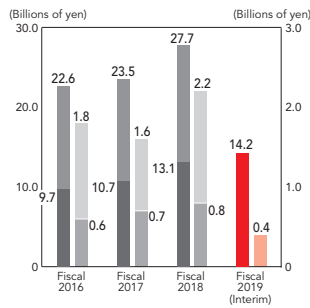
### Japan



**Lower sales and income** due to decrease in sales of mainstay water heaters, bath-filling systems and built-in hobs (stovetops)

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

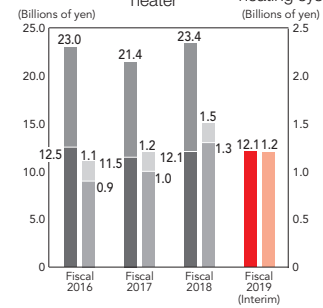
### United States



**Sales up**, thanks to favorable demand for tankless water heaters, but **income down**, owing to **higher sales** promotion expenses

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

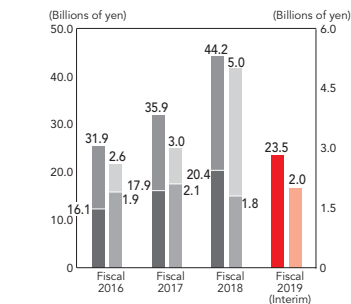
### Australia



**Higher sales**, reflecting brisk replacement demand for fan-forced room heaters, but **lower income**, due to deterioration in product mix

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

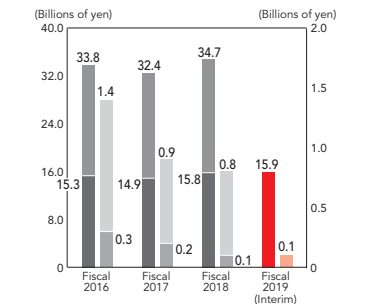
### China



**Higher sales and income**, as government-driven environmental policy promoting shift from coal to gas as fuel source led to brisk demand for boilers

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

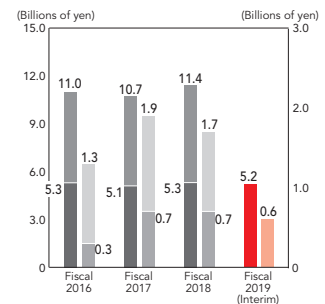
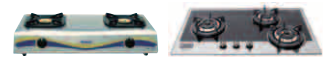
### South Korea



**Higher sales and income**, owing to increased sales of gas stoves as well as steady expansion of electric stove lineup

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

### Indonesia



Despite **higher sales** on a local-currency basis, a high yen led to lower sales on a yen basis. **Income down**, mainly due to skyrocketing cost of raw materials.

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



## Rinnai's *Rakukaji+*

Offering additional value to make life easier

**Popular  
Rakukaji+**

**Delicia Series**  
**Total sales hit 600,000 units\*2**

Delicia series built-in gas stoves boast stylish design and have gained popularity as cooking appliances that create sophisticated dishes and make cleanup a breeze.

Special  
feature  
**1**

### Cocotte series synonymous with no-mess cooking

Proprietary technology obviates need for grill wash-up and eliminates odors within grill chamber



Drips and splatters are less likely to burn on, so the grill does not require washing.



Special  
feature  
**2**

### Delicia-specific Delicia app pairs excellent cooking features and delicious recipes

App sends recipe to gas stove and automatically adjusts intensity of flame and heating time!

More than 200 recipes!  
Number of users tops 35,000!\*3



### August 2018 Delicia gets updated

**DELICIA**

Comes with cocotte dutch oven that locks in delicious flavors of ingredients\*4

Cooks up beautiful dishes, easy to use  
2.4-liter capacity allows for big-cut ingredients

Various ways to use dutch oven, from ordinary fare to authentic cuisine



\*1 Share of households in which both the husband and wife work as non-agricultural employees to total number of households. Source: Labor Force Survey (detailed tally) by Statistics Bureau of Ministry of Internal Affairs and Communications (2017 average). Does not include husband and wife if both are part of non-workforce population.

## Making daily routine more enjoyable with IoT technology

## Launched Service for Voice-Activated Smart Speaker Operation

Today, the application of digital technology, hinging on IoT, is expanding in the housing industry. Against this backdrop, Rinnai is working to promote services that enable customers to operate appliances from various devices as a way to make lives more comfortable.

In 2017, we debuted a smartphone app that controls water- and room-heating, and in October 2018, we enhanced the service by enabling voice-activated operation using smart speakers. Customers can control their water- and room-heating systems simply by saying “run the bath,” “reheat” or “floor heating on” or “off.” Going forward, we will continue to enhance services to meet the varied needs of our customers.

In Japan, the number of double-income households is increasing and, as of 2016, comprised 60%\*1 of all households that did not include seniors. Through its products, Rinnai strives to lessen the drudgery of household chores for people with a busy schedule using *Rakukaji+* features that promote a sense of relaxation and enjoyment in daily at-home routines.



## Popular *Rakukaji+*

## Gas-powered *Kanta-kun* is perfect solution to laundry-washing/drying worries

This appliance has gained favor because it dries laundry at times, such as the rainy season and in the winter, when laundry typically does not dry well and obviates the need to hang laundry outside even on nice-weather days if the air is heavy with pollen.

Special feature  
1

### Shortens time spent on housework, and uses the power of gas to dry laundry quickly

Dries 5kg of laundry in about 52 minutes.

#### *Kanta-kun*

Electric heat pump-style fully automatic washer/dryer  
Electric heater-style fully automatic washer/dryer

About **52** minutes

About **162** minutes

About **281** minutes

● Gas clothes dryer (*Kanta-kun*): Rinnai, electric heat pump-style dryer, electric heater-style dryer

Tests run by: Rinnai Corporation

● Conditions: 5kg of everyday clothing (50% cotton/50% synthetic), spin-dry rate 70%, RDT-54S-SV, standard setting  
Gas type: If using LPG, about 52 minutes

### New *Kanta-kun* model launched October 2018

乾太くん

Soft-line styling and clean, fresh color scheme

Newly added drum sanitizing cycle

Special feature  
2

### Constant use year-round, regardless of the weather, makes daily laundry a pleasant task

Powerful flow of hot air typical of gas-driven appliances eliminates bacteria that causes sour odor of still-damp laundry

Bacteria-reduction rate with *Kanta-kun*  
**99.9%\*5**

\*5 Testing organization: School of Pharmacy at Aichi Gakuin University

Test subject: *Moraxella osloensis*

Testing method: Titration of viable cell count on bacteria-contaminated cloth. Wash bacteria out in buffer solution, then cultivate on agar plate

\*2 Total number of units sold between 2007 and November 2017. \*3 As of July 2018. \*4 Partial, some lineups do not include the cocotte dutch oven.

Run the bath

Turn on floor heating



Control water- and room-heating systems just by calling out "run the bath," "reheat" or "floor-heating on" or "off."



Service uses the *Docodemo Rinnai* app and a smart speaker\*6 featuring Google Assistant or Amazon Alexa.

\*6 Includes Google Home smart speaker with Google Assistant, and Amazon Echo series smart speaker with Amazon Alexa. This function can be accessed with compatible MBC-301 and 302 series remote controls. Google, Google Assistant and Google Home are trademarks of Google LLC.



New, high-efficiency tankless water heater model for North American market goes on sale

## Rinnai America Completes Headquarters Expansion

In September 2018, Rinnai America Corporation completed its headquarters expansion project. Anticipating an increase in demand for gas tankless water heaters in the United States, Rinnai America began local production of tankless water heaters at a facility in Griffin, Georgia, in April 2018. The company launched sales of the SENSEI series, a new, high-efficiency tankless water heater for the North American market, in May 2018.



Rinnai America headquarters  
(Peachtree City, Georgia)



SENSEI series, new high-efficiency tankless water heater

250 million people and more than 60 million households—huge market continues to grow

## 30th Anniversary Ceremony at Rinnai Indonesia

In August 2018, P.T. Rinnai Indonesia celebrated its 30th anniversary at Holiday Inn Jakarta Kemayoran. As of the fiscal year ended March 31, 2018, the company has sold more than 6.3 million tabletop stoves—a mainstay product—and enjoys top share in the local market. The company enjoys a high brand profile, substantiated by best brand awards in Indonesia. Going forward, Rinnai Indonesia will reinforce its line-up of built-in hobs and strive to expand exports.



Rinnai Indonesia 30th anniversary ceremony

Comprising companies that lead in areas of recruiting, retaining and elevating women and promoting diversity

## Selected for Inclusion in “MSCI Japan Empowering Women Index (WIN)”

Rinnai was selected for the first time as a corporate stock in the “MSCI Japan Empowering Women Index (WIN),” created to promote ESG (environment, social and governance) investments. This index was developed by MSCI Inc., a provider of investment information for investors, and is one of the ESG indexes used by Japan’s Government Pension Investment Fund (GPIF) as a benchmark for its asset management activities. Rinnai is also included in the “FTSE Blossom Japan Index” and the “MSCI Japan ESG Select Leaders Index,” which the GPIF refers to as well in its ESG investments.



2018 Constituent  
MSCI Japan Empowering  
Women Index (WIN)

Build production points emphasizing connection to society

## Completed Welfare Building at Oguchi Factory

In September 2018, construction of a welfare building—a two-story, above-ground structure with floor space of 3,248m<sup>2</sup>—wrapped up at the Oguchi Factory, a key facility for kitchen appliance production in Niwa-gun, Aichi Prefecture. This welfare building benefits employees as well as customers and local citizens, as it features extra seating—expanded to 400—in the employee cafeteria as well as a larger product display corner and a new cooking demonstration corner to promote greater interaction and communication with the community.



Local elementary school children, on social studies field trip, visit for factory tour



## Consolidated Balance Sheets (Millions of yen)

Current Term (As of September 30, 2018)

Previous Term (As of March 31, 2018)

	Current Term	Previous Term
<b>Assets</b>		
Current assets	270,021	263,462
Fixed assets	149,736	158,960
Property, plant and equipment	83,237	83,415
Intangible fixed assets	5,929	6,350
Investments and advances	60,569	69,194
<b>Total assets</b>	<b>419,758</b>	<b>422,422</b>
<b>Liabilities</b>		
Current liabilities	86,725	92,905
Long-term liabilities	21,942	21,551
<b>Total liabilities</b>	<b>108,668</b>	<b>114,457</b>
<b>NET ASSETS:</b>		
Shareholders' equity:	280,182	272,170
Common stock	6,459	6,459
Capital surplus	8,756	8,756
Earned surplus	266,829	258,814
Treasury stock	(1,863)	(1,860)
Other comprehensive income:	11,092	15,112
Minority interests	19,815	20,682
<b>Total net assets</b>	<b>311,089</b>	<b>307,965</b>
<b>Total liabilities and net assets</b>	<b>419,758</b>	<b>422,422</b>

\* From this consolidated accounting period, Rinnai has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting," and amounts have been retroactively adjusted for past fiscal years.

## Consolidated Statements of Income (Millions of yen)

Current Term (From April 1, 2018, to September 30, 2018)

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

	Current Term	Previous Term
<b>Net sales</b>	<b>162,750</b>	<b>159,752</b>
Cost of sales	109,507	107,039
Gross profit	53,242	52,713
Selling, general and administrative expenses	40,904	38,785
<b>Operating income</b>	<b>12,338</b>	<b>13,927</b>
Other income	1,882	1,233
Other expenses	75	162
<b>Ordinary income</b>	<b>14,145</b>	<b>14,998</b>
Extraordinary income	69	291
Extraordinary loss	69	—
Income before income taxes	14,145	15,290
Income taxes	3,867	4,357
Net income	10,277	10,933
Net income attributable to non-controlling interests	1,475	1,498
<b>Net income attributable to owners of the parent company</b>	<b>8,802</b>	<b>9,435</b>

## Consolidated Statements of Cash Flows (Millions of yen)

Current Term (From April 1, 2018, to September 30, 2018)

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

	Current Term	Previous Term
Cash flows provided by operating activities	8,334	4,699
Cash flows provided by investing activities	(367)	(5,514)
Cash flows provided by financing activities	(3,771)	(9,388)
<b>Cash and cash equivalents at end of term</b>	<b>104,592</b>	<b>84,836</b>

# Corporate Data

## Directory (As of September 30, 2018)

<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>	10,588 (Consolidated) 3,658 (Nonconsolidated)

## Domestic Network (As of September 30, 2018)

<b>Factories and related centers</b>	Technology Development Center, Production Technology Center, Integrated Logistics Center, East Japan Logistics Center, Parts Center, Oguchi Factory, Seto Factory, Asahi Factory, Akatsuki Factory
<b>Branches</b>	Tohoku, Kanto, Chubu, Kansai, Kyushu
<b>Domestic sales offices</b>	Hokkaido, Kita-Tohoku, Sendai, Niigata, Tokyo, Kita-Kanto, Higashi-Kanto, Minami-Kanto, Tokai, Shizuoka, Hokuriku, Nagano, Osaka, Keji, Hyogo, Chugoku, Shikoku, Fukuoka
<b>Domestic satellite offices</b>	(89 offices)
<b>Other domestic offices</b>	11 Training Centers, 2 Customer Centers

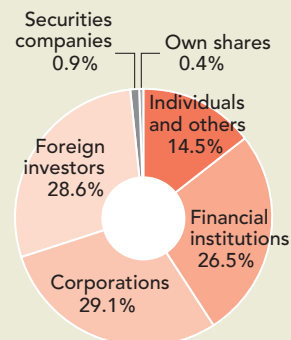
## Board of Directors (As of September 30, 2018)

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

## Share Composition (As of September 30, 2018)

<b>Number of shares</b>	
<b>Authorized:</b>	200,000,000
<b>Outstanding:</b>	51,616,463 (Including treasury stock)
<b>Number of shareholders:</b>	4,112

### Composition of shareholders



## Rinnai Group (As of September 30, 2018)

### 15 Domestic Subsidiaries

#### Manufacture and Sale of Products

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

#### Manufacture and Sale of Components

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

#### Sale of Products

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

#### Other Business

- Rinnai Enterprises
- Other three companies

### 31 Overseas Subsidiaries and Affiliates

#### Holding Company/Sale of Products

- Rinnai Holdings (Pacific) Pte Ltd.

#### Sale of Products

- Rinnai Hong Kong Ltd.
- Rinnai Italia S.r.l.
- Rinnai Canada Holdings Ltd.
- Shanghai Rinnai Thermo Energy Engineering Co., Ltd.

- Rinnai UK Ltd.

- Rinnai (Malaysia) Sdn. Bhd.

- Guangzhou Rinnai Gas and Electric Appliance Co., Ltd.

- Rinnai Plus Corp.

- Hainan Rinnai Minsheng Kitchen Appliances Sales Co., Ltd.

#### Manufacture and Sale of Products

- Rinnai America Corporation
- Rinnai Australia Pty., Ltd.

- Shanghai Rinnai Co., Ltd.
- Rinnai Korea Corporation
- P.T. Rinnai Indonesia
- Rinnai New Zealand Ltd.
- Rinnai Taiwan Corporation
- Rinnai (Thailand) Co., Ltd.
- Rinnai Brasil Heating Technology Ltd.
- Rinnai Viet Nam Co., Ltd.

#### Manufacture and Sale of Components

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

#### Other Business

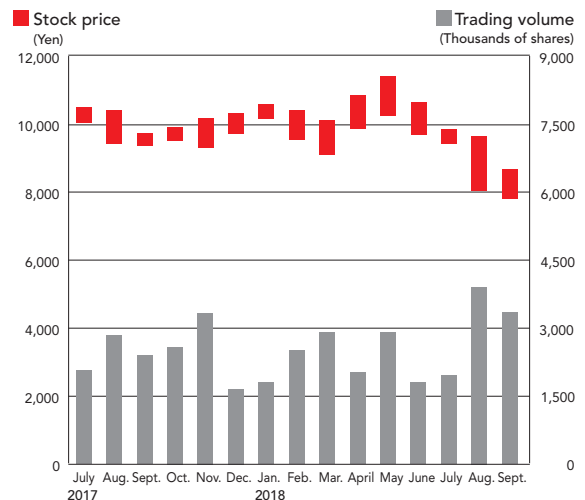
- Gas Appliance Services Pty., Ltd.
- Other six companies

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

## Major Shareholders (As of September 30, 2018)

Name	Shares held (Thousands)
Naito Co., Ltd.	6,215
Yoshikane Shoji Co., Ltd.	4,002
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,340
Kenji Hayashi	2,454
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,173
Japan Trustee Services Bank, Ltd. (Trust Account)	1,867
MISAKI ENGAGEMENT MASTER FUND	1,278
HSBC-FUND SERVICES CLIENTS A/C 500	902
Tokyo Gas Company, Limited	784
THE BANK OF NEW YORK MELLOW 140044	730

## Stock Price Range



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**Financial year**

From April 1 to March 31

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**Annual meeting of shareholders**

Every June

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**Dates of record**

Annual meeting of shareholders,

year-end dividend: March 31

Interim dividend: September 30

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**Minimum trading unit**

100 shares

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**Public notice**

Public notices by the Company will be announced online.

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

However, if due to accident or some other unavoidable reason that prevents the Company from completing an online announcement should arise, a public notice will be made by posting in the *Nihon Keizai Shimbun*.

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**Transfer agent**

Sumitomo Mitsui Trust Bank, Limited

4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005

**Special account administrator**

Sumitomo Mitsui Trust Bank, Limited

4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005

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**Mailing and contact**

Sumitomo Mitsui Trust Bank, Limited

Stock Transfer Agency Department

8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063

**(Telephone)**

Freedial 0120-782-031(9:00 am~17:00 pm on weekdays)

Transfer administration offices:

Sumitomo Mitsui Trust Bank, Limited

Head office, and branches throughout Japan

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**Stock Listings:**

Tokyo Stock Exchange, First Section

Nagoya Stock Exchange, First Section

## Inquiries Pertaining to Share-Related Procedures

### 1. Non-Payment of Dividends

Please contact the transfer agent (Sumitomo Mitsui Trust Bank, Limited; contact details above).

### 2. Change of address, purchases (or increases in purchases) of fractional shares, designation of dividend payment method, etc.

#### (1) Shareholders with account at a securities company

Please contact the securities company handling your account.

#### (2) Shareholders with a special account opened due to absence of account at a securities company

Please contact Sumitomo Mitsui Trust Bank, Limited

## Dividend Calculation Notice

The Dividend Calculation Notice, sent to shareholders at the time of dividend payment, also functions as the Payment Notice according to regulations under the Act on Special Measures Concerning Taxation. This document can be used as a reference attachment when preparing final tax returns. For shareholders who have chosen to receive dividends by the allocation based on the number of shares method, a withholding tax amount are calculated by security companies. For inquiries about a reference attachment when preparing final tax returns, please contact your securities company. The Company will issue a Dividend Calculation Notice to shareholders who receive dividends by presenting the Year-End Dividend Receipt.

\* Shareholders who prepare their own final tax returns are asked to keep the Dividend Calculation Notice in a safe place.