



Shareholders' Report Vol. 51 70th Interim Term
(April 1 to September 30, 2019)

Rinnai



Hiroyasu Naito
President

In the first two quarters under review (April 1–September 30, 2019), the world economy was characterized by uncertainty about the future, reflecting economic slowdown in Europe and China and trade issues between the United States and China. This was despite moderate economic recovery in the United States. In Japan, the economy continued recovering, buoyed by improved corporate earnings and employment conditions, as well as an increase in consumption due to a last-minute rush in demand ahead of the consumption tax hike.

The domestic housing industry saw a slowdown in growth of new housing starts, especially for rental properties. However, there was an uptrend in demand for renovation and replacement of housing appliances, reflecting the aforementioned demand rush ahead of the consumption tax hike.

Under these circumstances, the Rinnai Group entered the second year of its medium-term business plan, “G-shift 2020,” which started in April 2018. Under the plan (with the slogans “heat and lifestyles” and “health and lifestyles”), we are striving to help improve living standards in the global market. In addition to existing offerings, in the period under review we pursued initiatives aimed at creating unique products and services by incorporating and applying new technologies into our core technologies.

With respect to revenue, sales of water heaters in China, South Korea, and elsewhere declined year on year. On the earnings side, we posted an increase in operating income thanks to higher domestic sales and cost reductions in Japan. More details of our financial performance are given later in this report. The Company declared an interim cash dividend of ¥48.00 per share, up ¥2.00 from a year earlier.

The Rinnai Group will help realize a sustainable society and comfortable lives for customers while keeping abreast of changes in the business environment. We look forward to the renewed support and cooperation of shareholders as we embrace the challenges of the future.

December 2019

Hiroyasu Naito
President



Consolidated Business Results

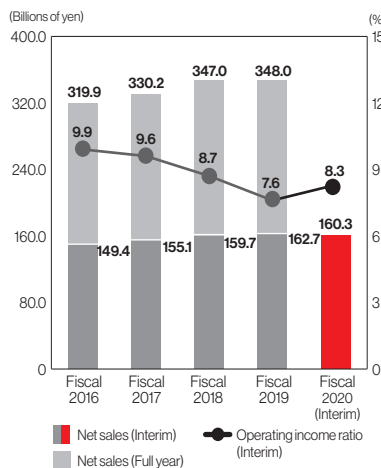
(First Two Quarters of the Fiscal Year ending March 2020)

Financial Data

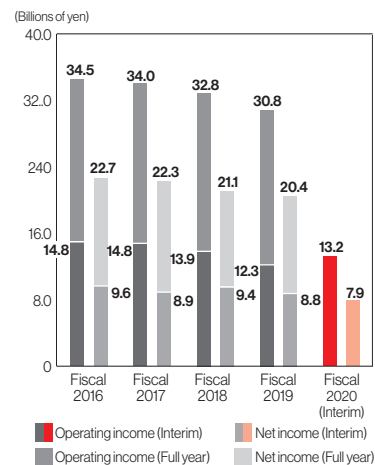
Performance Highlights

- Net sales **down for first time in seven years** due to lower overseas sales, but operating income **up for first time in three years** due to higher sales in Japan and cost-reduction efforts
- Interim cash dividend of ¥48.00 per share, for **10th consecutive year of interim dividend increases**

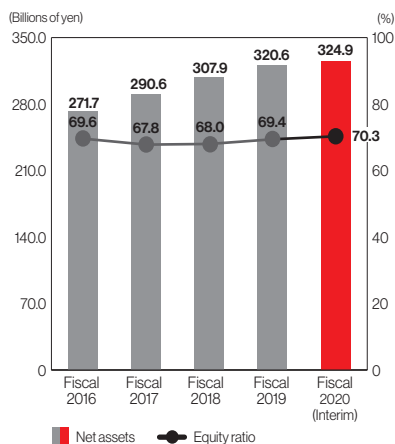
Net sales, operating income ratio



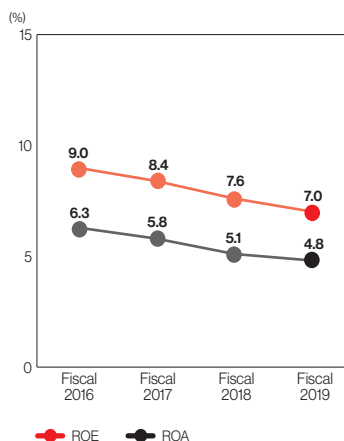
Operating income, net income attributable to owners of the parent company



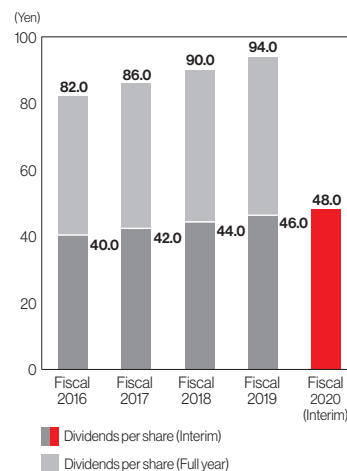
Net assets, equity ratio



ROE, ROA



Dividends per share (annual)





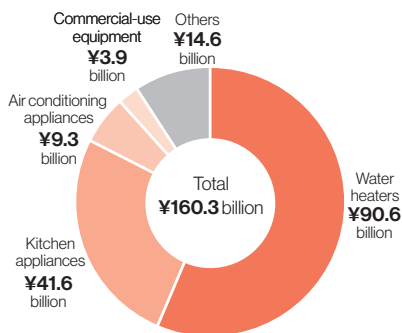
Consolidated Business Results

(First Two Quarters of the Fiscal Year ending March 2020)

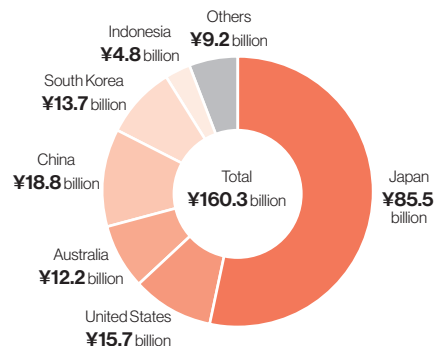
Highlights by Product Segment

- Water heaters: **Sales down** due to lower sales of boilers and water heaters in China and South Korea
- Kitchen appliances: **Increase in sales** thanks to rise in last-minute demand in Japan ahead of the consumption tax hike, despite increased competition for tabletop stoves in South Korea
- Sales of air conditioning appliances, commercial-use equipment, and others: Growth in demand for gas clothes dryers in led to **increase in segment sales**

Net sales by product

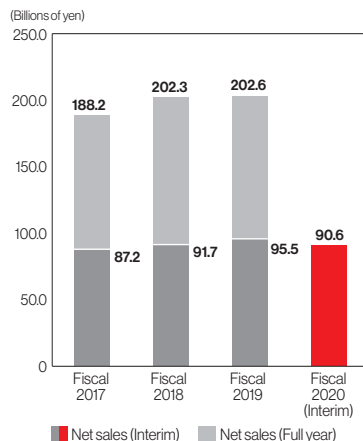


Net sales by region

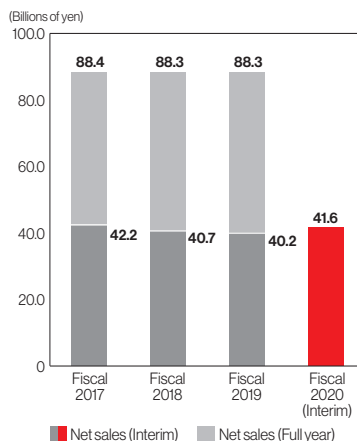


| Product segment | Principal products |
|-----------------------------|---|
| Water heaters | Tankless water heater with basic functions, bath-filling systems, heating systems, and hybrid water heater with heating systems |
| Kitchen appliances | Tabletop cookers, built-in hobs (stovetops), ovens, dishwashers,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

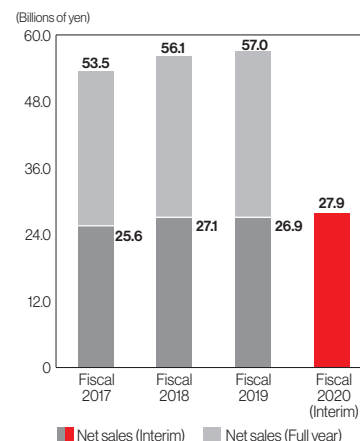
Sales of water heaters



Sales of kitchen appliances



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

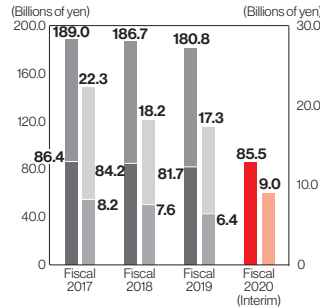


Highlights by Regional Segment

Japan



Eco Jozu highly efficient water heater
Range hood Built-in hobs (stovetops)
Clothe dryers



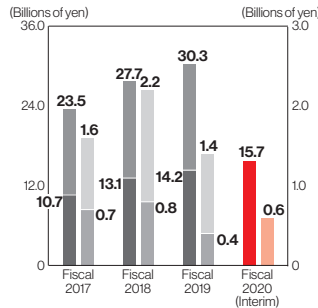
Increases in sales and income owing to growth in sales of built-in stovetops and gas clothes dryers, as well as rush in demand ahead of consumption tax hike

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

United States



Tankless water heater
Gas fan-forced heater



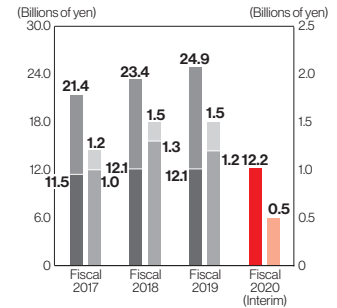
Growing recognition of highly convenient tankless water heaters, as well as an increase the proportion of high-grade, high-efficiency water heaters sold, led to **higher sales and income**

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

Australia



Tankless water heater
Electric tank-based water heater
Duct-type air-conditioning and heating system



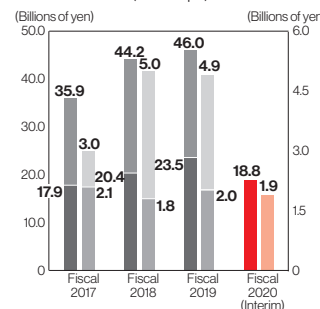
Increase in sales thanks to healthy demand for tankless water heaters and air conditioners, but **decrease in income** due to higher purchasing costs stemming from weak local currency

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

China



Tankless water heater
Built-in hobs (stovetops)
Range hood



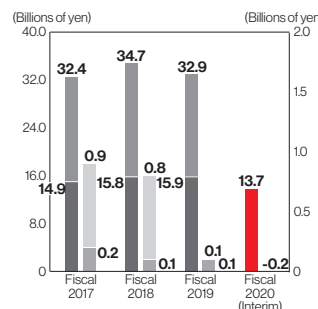
Sales and income down due to fall in sales of water heaters amid economic slowdown, as well as weakening demand for boilers in rural areas

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

South Korea



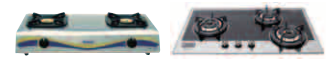
Tabletop cooker
Gas boiler
Commercial-use steam oven



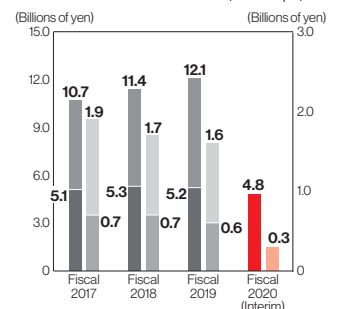
Deteriorating conditions in the housing appliance market, as well as lower demand for gas stoves and boilers, led to **decrease in sales and an operating loss**

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

Indonesia



Tabletop cooker
Built-in hobs (stovetops)



Sales and income down due to lack of strength in the market for tabletop stoves, as well as adjustment of distribution inventories

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



Connected in passion for the next 100 year

100th Anniv.

On September 1, 2020, Rinnai will celebrate its 100th anniversary. The Rinnai Group has consistently provided diverse products and services that reflect the needs of the times and contribute to people's daily lives.

1980

Started selling built-in appliances amid proliferation of system kitchens



1971

Name changed to Rinnai Corporation

リンナイ 株式会社

1983

Launched UT (compact gas water heater fitted with device to prevent incomplete combustion)



1964

Opened Oguchi Factory (Aichi Prefecture)



1970

Established Rinnai Taiwan Corporation; engaged in full-scale overseas expansion under policy of contributing to local communities



1920

New style of Rinnai-type Kerosene gas stove registered



Incorporated as Rinnai & Co. by founders, Hidejiro Naito (first president) and Kanekichi Hayashi (second president); started manufacturing Kerosene gas stoves



Hidejiro Naito



Kanekichi Hayashi

1950

Reorganized as a corporation, name changed to Rinnai Seisakusho

株式会社 林内製作所

Rising demand for heating appliance
as daily necessities

1945

Major business contraction in war aftermath; workforce down from around 500 to 55

1938

Started making aircraft parts as factory supervised by army; name changed to Rinnai Aircraft Parts Manufacturing in 1940

Founded
1920

Growing need for safety
and security

First in
the world



1971

Developed and launched Convec (high-speed, direct-flame, forced-convection gas oven)

First in
Japan

1957

Formed technological tie-up with German Schwank GmbH and began sales of Schwank-designed standing-type infrared gas heaters



2017

Unveiled *G Line* of kitchen appliances (flagship category targeting highest levels of quality and luxury)

First in the world

2008

Released dishwasher/dryer with baking soda wash mode



September 1, 2020

100th anniversary of founding

1999

Released high-efficiency condensing gas water heater with thermal efficiency of 95%; received Energy Conservation Grand Prize from Minister for International Trade and Industry (in 2000)



Growing need for faster and easier housekeeping

2019

Renewed the Rinnai logomark in pursuit of global brand status

Rinnai

Year ended March 2016
Reached ¥300 billion in consolidated net sales

Addressing demand related to environment and energy efficiency

Year ended March 2004
Reached ¥200 billion in consolidated net sales



Year ended March 1989
Reached ¥100 billion in consolidated net sales

2013

Opened Seto Akatsuki Factory (now Akatsuki Factory) in Aichi Prefecture



First in the world

2010

Commercialized home-use hybrid water heater (combining heat pump and gas water heater)

Year ended March 2019
Overseas sales ratio surpasses
50% (50.4%)



2007

Unveiled *DELICIA* series of built-in hobs (stovetops)

Year ended March 2006
Overseas sales ratio surpasses
30% (32.9%)



1979

Opened Seto Factory; started full-scale production of water heaters (now main business)

1983

Listed on First Sections of Tokyo Stock Exchange and Nagoya Stock Exchange



1999

Launched gas fan heaters with air purifying function

Currently, the Rinnai Group has operations in 17 countries and regions and sells its products in more than 80 nations worldwide. With the "heat and lifestyles" and "health and lifestyles" as our slogans, we are committed to providing original products and services to the global market.

Full model change of *DELICIA* Series (3V dry cell type)

Rinnai has undertaken a full model change of its flagship *DELICIA* Series (3V dry cell type) of built-in hobs (stovetops), first released in 2007. It features DELICIAPP, enabling you to do everything from hands-on daily menu creation to automatic cooking, guaranteeing delicious results every time. The new models are also extremely easy to clean, which helps reduce the burden of cooking, from initial preparation to final cleanup, making housekeeping easier than ever.

Features of new models

- Includes "The Cocotte," which can be placed atop the grill or inside the oven for more diverse cooking options
- External design highlights refined, yet simple, modern beauty
- Stove heating indicator located on top surface, providing excellent visibility of flame

DELICIA

Launched in August 2019



New factory building completed at Rinnai Brasil Tecnologia de Aquecimento Ltda. (Rinnai Brazil)

August 2019 saw the completion of a new factory building at Rinnai Brasil Tecnologia de Aquecimento Ltda. (Rinnai Brazil, headquartered in Mogi das Cruzes, São Paulo) and a completion ceremony. In Brazil, a large portion of electricity is generated by hydropower, so changing climatic conditions can affect the stability of power supply. Accordingly, there are growing expectations for gas as a reliable energy source.

Rinnai Brazil was established in 1975 and its main products are gas water heaters. The new factory building has a total floor space of around 4,900m², resulting in two-fold increase in entire factory's production space. Going forward, in addition to improving its production capacity for water heaters, Rinnai Brazil will promote in-house production of heat exchangers and other important components.



New factory building at Rinnai Brazil (right, at back)



Completion ceremony, attended by mayor of Mogi das Cruzes and other local guests

**Consolidated Balance Sheets** (Millions of yen)

Current Term (As of September 30, 2019)

Previous Term (As of March 31, 2019)

| | Current Term | Previous Term |
|---|----------------|----------------|
| Assets | | |
| Current assets | 280,221 | 280,891 |
| Fixed assets | 150,540 | 149,993 |
| Property, plant and equipment | 84,666 | 82,854 |
| Intangible fixed assets | 3,727 | 5,743 |
| Investments and advances | 62,146 | 61,395 |
| Total assets | 430,762 | 430,885 |
| Liabilities | | |
| Current liabilities | 83,901 | 88,350 |
| Long-term liabilities | 21,947 | 21,838 |
| Total liabilities | 105,849 | 110,188 |
| NET ASSETS: | | |
| Shareholders' equity: | 296,052 | 289,495 |
| Common stock | 6,459 | 6,459 |
| Capital surplus | 8,756 | 8,756 |
| Earned surplus | 282,704 | 276,143 |
| Treasury stock | (1,868) | (1,864) |
| Other comprehensive income: | 6,633 | 9,640 |
| Minority interests | 22,226 | 21,560 |
| Total net assets | 324,913 | 320,696 |
| Total liabilities and net assets | 430,762 | 430,885 |

Consolidated Statements of Income (Millions of yen)

Current Term (From April 1, 2019, to September 30, 2019)

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

| | Current Term | Previous Term |
|--|----------------|----------------|
| Net sales | 160,361 | 162,750 |
| Cost of sales | 108,508 | 109,507 |
| Gross profit | 51,853 | 53,242 |
| Selling, general and administrative expenses | 38,613 | 40,904 |
| Operating income | 13,240 | 12,338 |
| Other income | 1,188 | 1,882 |
| Other expenses | 578 | 75 |
| Ordinary income | 13,849 | 14,145 |
| Extraordinary income | — | 69 |
| Extraordinary loss | 712 | 69 |
| Income before income taxes | 13,137 | 14,145 |
| Income taxes | 3,835 | 3,867 |
| Net income | 9,301 | 10,277 |
| Net income attributable to non-controlling interests | 1,310 | 1,475 |
| Net income attributable to owners of the parent company | 7,990 | 8,802 |

Consolidated Statements of Cash Flows (Millions of yen)

Current Term (From April 1, 2019, to September 30, 2019)

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

| | Current Term | Previous Term |
|--|----------------|----------------|
| Cash flows provided by operating activities | 8,586 | 8,334 |
| Cash flows provided by investing activities | 4,827 | (367) |
| Cash flows provided by financing activities | (3,460) | (3,771) |
| Cash and cash equivalents at end of term | 125,725 | 104,592 |



Corporate Data

Directory (As of September 30, 2019)

| | |
|----------------------------|---|
| 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 | 10,459 (Consolidated) 3,709 (Nonconsolidated) |

Domestic Network (As of September 30, 2019)

Factories and related centers Technology Development Center, Production Technology Center, Integrated Logistics Center, East Japan Logistics Center, Parts Center, Oguchi Factory, Seto Factory, Asahi Factory, Akatsuki Factory

Branches Tohoku, Kanto, Chubu, Kansai, Kyushu

Domestic sales offices Hokkaido, Kita-Tohoku, Sendai, Niigata, Tokyo, Kita-Kanto, Higashi-Kanto, Minami-Kanto, Tokai, Shizuoka, Hokuriku, Nagano, Osaka, Keji, Hyogo, Chugoku, Shikoku, Fukuoka

Domestic satellite offices (94 offices)

Other domestic offices 11 Training Centers, Customer Center

Board of Directors (As of September 30, 2019)

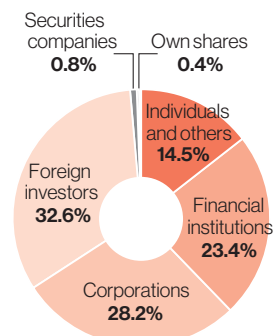
| | | | | | |
|---|--|-----------------------------|---|--|---|
| Chairman | Kenji Hayashi | Managing Executive Officers | Terumasa Kaneko | Standing Audit & Supervisory Board Members | Haruhiko Ishikawa Katsuhiko Shinji |
| President and Executive Officer | Hiroyasu Naito | | Kinji Mori Yasuo Koketsu Greg Ellis | | |
| Director and Executive Vice President | Tsunenori Narita | Executive Officers | Chuji Nakashima Hirohisa Ooi Kazuhiko Matsumoto Masanori Shimizu Kazuto Inoue Hideyuki Shiraki Koji Fujioka Fuminobu Ishikawa Kenji Endo | Audit & Supervisory Board Members | Masaaki Matsuoka Ippei Watanabe |
| Director and Senior Managing Executive Officers | Masao Kosugi Yuji Kondo | | | 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 | Nobuyuki Matsui Takashi Kamio | | | | |

Share Composition (As of September 30, 2019)

Number of shares

| | |
|--------------------------------|---------------------------------------|
| Authorized: | 200,000,000 |
| Outstanding: | 51,616,463 (Including treasury stock) |
| Number of shareholders: | 4,218 |

Composition of shareholders



Rinnai Group (As of September 30, 2019)

15 Domestic Subsidiaries

Manufacture and Sale of Products

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

Sale of Products

- Rinnai Net 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.

Other Business

- Rinnai Enterprises
- Other four companies

32 Overseas Subsidiaries and Affiliates

Holding Company/Sale of Products

- Rinnai Holdings (Pacific) Pte Ltd.

Manufacture and Sale of Products

- Rinnai America Corporation
- Rinnai Australia Pty., Ltd.
- Shanghai Rinnai Co., Ltd.
- Rinnai Korea Corporation
- PT. Rinnai Indonesia
- Rinnai New Zealand Ltd.
- Rinnai Taiwan Corporation
- Rinnai (Thailand) Co., Ltd.
- Rinnai Brasil Heating Technology Ltd.
- Rinnai Viet Nam Co., Ltd.

Sale of Products

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

- Rinnai Italia S.r.l.
- Rinnai Canada Holdings Ltd.
- Shanghai Rinnai Thermo Energy Engineering Co., Ltd.
- Rinnai UK Ltd.
- Rinnai (Malaysia) Sdn. Bhd.
- Rinnai Plus Corp.
- Central Heating New Zealand Ltd.
- Hainan Rinnai Minsheng Kitchen Appliances Sales Co., Ltd.

Manufacture and Sale of Components

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

Other Business

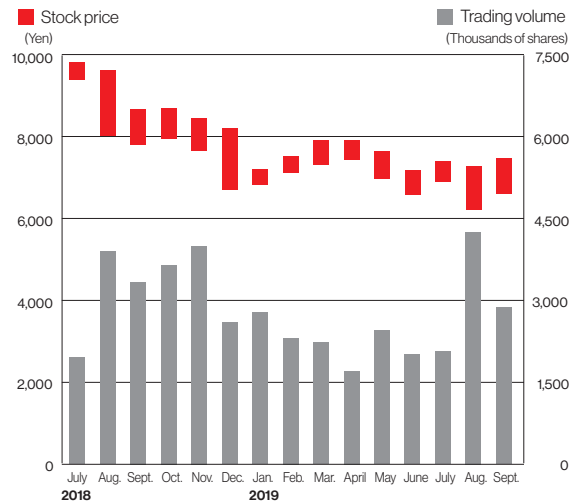
- Gas Appliance Services Pty., Ltd.
- Other six companies

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

Major Shareholders (As of September 30, 2019)

| Name | Shares held (Thousands) |
|--|-------------------------|
| Naito Co., Ltd. | 6,215 |
| Yoshikane Shoji Co., Ltd. | 4,002 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 2,818 |
| Kenji Hayashi | 2,454 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1,944 |
| Japan Trustee Services Bank, Ltd. (Trust Account 9) | 1,645 |
| MISAKI ENGAGEMENT MASTER FUND | 1,437 |
| BNY MAS AGT/CLTS 10 PERCENT | 1,025 |
| Tokyo Gas Company, Limited | 784 |
| Japan Trustee Services Bank, Ltd. (Trust Account 5) | 747 |

Stock Price Range





Financial year

From April 1 to March 31

Annual meeting of shareholders

Every June

Dates of record

Annual meeting of shareholders,

year-end dividend: March 31

Interim dividend: September 30

Minimum trading unit

100 shares

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*.

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

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

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.