

Consolidated Financial Results

First Quarter of the Fiscal Year Ending March 2005

(June 2004 quarter: April 1–June 30, 2004)

August 9, 2004

Listed Company Name: Rinnai Corporation

Listings: First Sections of Tokyo and Nagoya Stock Exchanges (Securities Code: 5947)

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1. Items Relevant to Preparation of Quarterly Results

(1) Simplified accounting method used: Yes

- Income tax reporting standard: Calculated based on estimated annual rate according to legal tax rates.
- Simplified procedures are used for items deemed to have a negligible effect on the Corporation's performance.

(2) Changes in accounting methods since most recent consolidated accounting year: No

(3) Changes in scope of consolidation and application of equity method: Yes

- 1 company removed from scope of consolidation (Rinnai Tech Hokuriku Co., Ltd.)

2. Performance in the First Quarter of the Fiscal Year Ending March 31, 2005

(April 1–June 30, 2004; amounts less than one million yen are omitted)

(1) Operating Results

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)
June 2004 Quarter	42,163 (+5.7)	1,806 (-1.5)	2,262 (+42.0)	1,252 (+51.0)
June 2003 Quarter	39,908 (+5.5)	1,834 (+16.5)	1,593 (+14.7)	829 (+35.5)
Year Ended March 2004 (reference)	200,094 (+5.5)	16,272 (+23.5)	15,158 (+19.0)	8,556 (-0.5)

	Net Income Per Share (¥)	Fully Diluted Net Income Per Share (¥)
June 2004 Quarter	23.10	—
June 2003 Quarter	15.30	—
Year Ended March 2004 (reference)	157.01	—

Note: Percentage figures in net sales, operating income, ordinary income, and net income columns indicate increase or decrease from the previous term.

Consolidated Performance Progress Report

In the quarter under review (three months ended June 30, 2004), the Japanese economy benefited from improved performances in the corporate sector. This had a positive effect on household finances and further reinforced the feeling that the economy is recovering, driven by internal demand. However, despite growth in personal consumption, centering on digital home electronic appliances, demand trends across sectors showed marked differences. In the housing equipment industry, Rinnai's main sector, both new and replacement demand failed to achieved a full-scale recovery.

In response, the Rinnai Group actively introduced highly functional products that meet customer needs. We also continued holding exhibitions around the nation and working in other

ways to generate demand. However, our earnings were affected by increased costs stemming from severe conditions in the materials market, as well as future-oriented investments in the form of overseas sales promotion expenses. To alleviate the situation, we pursued a companywide campaign to lower cost of sales and other outlays.

As a result, consolidated net sales in the quarter amounted to ¥42,163 million, up 5.7% from the previous corresponding period. Operating income slipped 1.5%, to ¥1,806 million, while ordinary income jumped 42.0%, to ¥2,262 million, and net income surged 51.0%, to ¥1,252 million.

A breakdown of results by business segment is shown below.

Sales Composition

(¥ millions)

	June 2004 Quarter		June 2003 Quarter		Change		Year Ended March 2004 (reference)	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	14,695	34.9	14,452	36.2	243	1.7	67,659	33.8
Hot-water units	19,277	45.7	17,904	44.9	1,373	7.7	88,276	44.1
Air-conditioning and heating units	1,843	4.4	1,738	4.4	105	6.1	17,565	8.8
Commercial-use equipment	1,530	3.6	1,419	3.6	110	7.8	6,206	3.1
Others	4,816	11.4	4,393	10.9	422	9.6	20,385	10.2
Total	42,163	100.0	39,908	100.0	2,255	5.7	200,094	100.0

(2) Consolidated Financial Position

(¥ millions)

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Equity per Share (¥)
June 2004 Quarter	193,363	119,227	61.7	2,199.95
June 2003 Quarter	182,757	111,303	60.9	2,053.57
Year Ended March 2004 (reference)	194,959	118,677	60.9	2,188.88

(3) Consolidated Cash Flows

(¥ millions)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
June 2004 Quarter	(2,838)	(2,064)	1,780	33,317
Year Ended March 2004 (reference)	16,054	(13,192)	(1)	36,493

Financial Position

At June 30, 2004, Rinnai had total assets of ¥193,363 million, down ¥1,596 million from March 31, 2004. Total liabilities amounted to ¥70,301 million, down ¥1,964 million, and total shareholders' equity was ¥119,227 million, up ¥549 million. The equity ratio was 61.7%.

At June 30, 2004, cash and cash equivalents totaled ¥33,317 million, down ¥3,176 million from March 31, 2004.

For the quarter, net cash used in operating activities amounted to ¥2,838 million, due mainly to an increase in inventories and payment of income taxes.

Net cash used in investing activities totaled ¥2,064 million, stemming primarily from purchases of property, plant, and equipment.

Net cash provided by financing activities was ¥1,780 million, owing principally to increases in short- and long-term borrowings.

Attachments: Summaries of first quarter Balance Sheets and Statements of Income

Reference: Forecast for the Fiscal Year Ending March 31, 2005

(April 1, 2004–March 31, 2005)

	(¥ millions)		
	Net Sales	Ordinary Income	Net Income
Interim	92,500	5,000	2,900
Full year	211,000	17,300	9,500

Since the Corporation is generally performing according to plan, it has not changed its original forecasts for the interim period ending September 2004 or the fiscal year ending March 2005.

The above forecasts were prepared based on information available at the time of the Corporation's financial results announcement. Actual results may differ from such forecasts due to various future factors.

(1) Consolidated Balance Sheets (Summary)

(¥ millions)

	June 2004 Quarter	June 2003 Quarter	Change		Year Ended March 2004 (Reference)
			Amount	%	
ASSETS					
Current assets					
Cash and deposits	18,956	22,326	(3,369)	(15.1)	24,155
Notes and accounts receivable	51,134	48,848	2,285	4.7	54,300
Marketable securities	18,814	12,377	6,436	52.0	17,184
Inventories	27,220	25,718	1,501	5.8	23,043
Others	3,744	4,705	(960)	(20.4)	3,738
Total current assets	119,869	113,975	5,894	5.2	122,423
Fixed assets					
Property, plant and equipment	41,115	39,846	1,268	3.2	40,815
Intangibles	685	696	9	1.4	717
Investments and other assets					
Investments in securities	18,794	15,876	2,917	18.4	18,304
Others	12,898	12,383	515	4.2	12,698
Total investments and other assets	31,692	28,259	3,433	12.1	31,003
Total fixed assets	73,493	68,782	4,711	6.8	72,536
Total assets	193,363	182,757	10,605	5.8	194,959
LIABILITIES					
Current liabilities					
Notes and accounts payable	36,097	33,689	2,407	7.1	37,758
Short-term debt	6,215	7,116	(901)	(12.7)	4,247
Accrued amounts payable	6,224	5,511	712	12.9	7,506
Others	7,541	8,044	(502)	(6.2)	9,381
Total current liabilities	56,078	54,363	1,715	3.2	58,894
Long-term liabilities					
Long-term debt	6,978	5,837	1,140	19.5	6,347
Others	7,244	7,358	(113)	(1.5)	7,024
Total long-term liabilities	14,223	13,195	1,027	7.8	13,372
Total liabilities	70,301	67,558	2,743	4.1	72,266
MINORITY INTERESTS	3,833	3,895	(61)	(1.6)	4,014
SHAREHOLDERS' EQUITY					
Common stock	6,459	6,459	—	—	6,459
Capital reserve	8,719	8,719	—	—	8,719
Retained earnings	108,598	100,960	7,637	7.6	108,070
Other differences in valuation of marketable securities	849	524	324	61.7	824
Adjustment account for foreign exchange losses	(1,187)	(1,162)	(24)	2.1	(1,190)
Treasury stock	(4,211)	(4,198)	(13)	0.3	(4,205)
Total shareholders' equity	119,227	111,303	7,923	7.1	118,677
Total liabilities, minority interests and shareholders' equity	193,363	182,757	10,605	5.8	194,959

(2) Consolidated Statements of Income (Summary)

(¥ millions)

	June 2004 Quarter	June 2003 Quarter	Change		Year Ended March 2004 (Reference)
			Amount	%	
Net sales	42,163	39,908	2,255	5.7	200,094
Cost of sales	30,479	28,681	1,798	6.3	143,048
Gross profit	11,684	11,227	456	4.1	57,045
Selling, general and administrative expenses	9,877	9,392	484	5.2	40,773
Operating income (loss)	1,806	1,834	(27)	(1.5)	16,272
Other income	660	334	326	97.7	1,020
Other expenses	204	575	(370)	(64.4)	2,134
Ordinary income	2,262	1,593	669	42.0	15,158
Extraordinary income	14	17	(2)	(16.2)	341
Extraordinary losses	92	96	(3)	(3.5)	674
Income before income taxes	2,184	1,515	669	44.2	14,824
Income taxes	1,121	1,005	116	11.6	6,085
Minority interests in earnings (losses) of affiliates	(189)	(319)	130	(40.9)	182
Net income	1,252	829	422	51.0	8,556