

Consolidated Financial Results

First Three Quarters of the Fiscal Year Ending March 2005

(April 1– December 31, 2004)

February 15, 2005

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 Three Quarters of the Fiscal Year Ending March 31, 2005

(April 1–December 31, 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)
3 Qtrs Ended Dec. 2004	150,429 (+1.1)	7,799 (-37.8)	8,676 (-28.7)	5,008 (-28.4)
3 Qtrs Ended Dec. 2003	148,724 (+6.0)	12,534 (+6.6)	12,171 (+6.7)	6,995 (+7.8)
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 (¥)
3 Qtrs Ended Dec. 2004	92.42	—
3 Qtrs Ended Dec. 2003	129.07	—
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 three-quarter period under review (nine months ended December 31, 2004), the Japanese economy was affected by various factors. In the first half of the period, increases in private-sector capital spending and improved corporate performances reinforced the sentiment of economic recovery, albeit moderate. In the second half, however, uncertainties appeared as the strong yen caused export growth to stall, while persistently high crude oil and raw materials prices affected corporate earnings and personal consumption. These factors strengthened the notion the economy may slow.

In response, the Rinnai Group actively introduced highly functional products that meet

customer needs and address social issues. We also stepped up our sales activities, holding exhibitions around the nation. During the period, we boosted sales of high-value-added products and improved our cost base through extensive rationalization efforts. However, the cost-to-sales ratio increased, due to a decline in sales prices amid fierce market competition, as well as the effects of rising crude oil and raw materials prices. In addition, our sales costs increased as we continued our campaign of strategic spending, conducted since the beginning of the period, in the form of advertising and sales promotion outlays in Japan and overseas.

As a result, consolidated net sales in the three-quarter period amounted to ¥150,429 million, up 1.1% from the previous corresponding period. Operating income fell 37.8%, to ¥7,799 million, and ordinary income declined 28.7%, to ¥8,676 million. Net income was down 28.4%, to ¥5,008 million.

A breakdown of results by business segment is shown below.

Sales Composition

(¥ millions)

	3 Quarters Ended Dec. 2004		3 Quarters Ended Dec. 2004		Change		Year Ended March 2004 (reference)	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	50,303	33.4	51,909	34.9	(1,606)	(3.1)	67,659	33.8
Hot-water units	64,530	42.9	62,561	42.1	1,968	3.1	88,276	44.1
Air-conditioning and heating units	15,606	10.4	15,087	10.1	519	3.4	17,565	8.8
Commercial-use equipment	4,673	3.1	4,490	3.0	182	4.1	6,206	3.1
Others	15,315	10.2	14,674	9.9	640	4.4	20,385	10.2
Total	150,429	100.0	148,724	100.0	1,704	1.1	200,094	100.0

(2) Consolidated Financial Position

(¥ millions)

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Equity per Share (¥)
3 Qtrs Ended Dec. 2004	204,277	122,560	60.0	2,261.57
3 Qtrs Ended Dec. 2003	199,626	117,968	59.1	2,176.61
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
3 Qtrs Ended Dec. 2004	(4,684)	(11,258)	3,878	24,481
Year Ended March 2004 (reference)	16,054	(13,192)	(1)	36,493

Financial Position

At December 31, 2004, Rinnai had total assets of ¥204,277 million, up ¥9,318 million from March 31, 2004. Total liabilities amounted to ¥77,896 million, up ¥5,629 million, and total shareholders' equity was ¥122,560 million, up ¥3,882 million. The equity ratio was 60.0%.

At December 31, 2004, cash and cash equivalents totaled ¥24,481 million, down ¥12,012 million from March 31, 2004.

For the three-quarter period, net cash used in operating activities amounted to ¥4,684 million, due mainly to an increase in notes and accounts receivable and payment of income taxes.

Net cash used in investing activities totaled ¥11,258 million, stemming primarily from purchases of property, plant, and equipment and purchases of investments in securities.

Net cash provided by financing activities was ¥3,878 million, owing principally to increases in short- and long-term borrowings.

Consolidated Forecast for the Fiscal Year Ending March 31, 2005

(April 1, 2004–March 31, 2005)

(¥ millions)

	Net Sales	Ordinary Income	Net Income
Full year	204,000	12,500	7,300

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

(April 1, 2004–March 31, 2005)

(¥ millions)

	Net Sales	Ordinary Income	Net Income
Full year	152,000	8,000	4,600

Note on Forecasts

In light of its performance in the three-quarter period under review, Rinnai has revised both its consolidated and nonconsolidated forecasts for the fiscal year ending March 31, 2005 (forecasts initially announced on November 15, 2004).

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.

Attachments: Summaries of Balance Sheets and Statements of Income for the three quarters ended December 31, 2004.

(1) Consolidated Balance Sheets (Summary)

(¥ millions)

	3 Quarters Ended Dec. 2004	3 Quarters Ended Dec. 2003	Change		Year Ended March 2004 (Reference)
			Amount	%	
ASSETS					
Current assets					
Cash and deposits	19,604	20,659	(1,054)	(5.1)	24,155
Notes and accounts receivable	67,714	66,361	1,353	2.0	54,300
Marketable securities	9,871	9,883	(11)	(0.1)	17,184
Inventories	25,253	24,641	611	2.5	23,043
Others	3,866	4,269	(403)	(9.5)	3,738
Total current assets	126,311	125,815	495	0.4	122,423
Fixed assets					
Property, plant and equipment	42,556	41,185	1,370	3.3	40,815
Intangibles	778	645	132	20.5	717
Investments and other assets					
Investments in securities	22,696	19,007	3,688	19.4	18,304
Others	11,935	12,971	(1,036)	(8.0)	12,698
Total investments and other assets	34,631	31,979	2,652	8.3	31,003
Total fixed assets	77,965	73,810	4,155	5.6	72,536
Total assets	204,277	199,626	4,651	2.3	194,959
LIABILITIES					
Current liabilities					
Notes and accounts payable	39,984	39,053	930	2.4	37,758
Short-term debt	10,465	9,375	1,089	11.6	4,247
Accrued amounts payable	8,441	7,830	610	7.8	7,506
Others	7,133	7,996	(863)	(10.8)	9,381
Total current liabilities	66,024	64,256	1,767	2.8	58,894
Long-term liabilities					
Long-term debt	6,048	6,185	(136)	(2.2)	6,347
Others	5,823	7,164	(1,341)	(18.7)	7,024
Total long-term liabilities	11,872	13,350	(1,478)	(11.1)	13,372
Total liabilities	77,896	77,607	289	0.4	72,266
MINORITY INTERESTS	3,820	4,050	(229)	(5.7)	4,014
SHAREHOLDERS' EQUITY					
Common stock	6,459	6,459	—	—	6,459
Capital reserve	8,719	8,719	—	—	8,719
Retained earnings	111,647	106,508	5,138	4.8	108,070
Other differences in valuation of marketable securities	790	654	135	20.8	824
Adjustment account for foreign exchange losses	(835)	(170)	(665)	390.8	(1,190)
Treasury stock	(4,220)	(4,203)	(17)	0.4	(4,205)
Total shareholders' equity	122,560	117,968	4,591	3.9	118,677
Total liabilities, minority interests and shareholders' equity	204,277	199,626	4,651	2.3	194,959

(2) Consolidated Statements of Income (Summary)

(¥ millions)

	3 Quarters Ended Dec. 2004	3 Quarters Ended Dec. 2003	Change		Year Ended March 2004 (Reference)
			Amount	%	
Net sales	150,429	148,724	1,704	1.1	200,094
Cost of sales	110,469	106,657	3,812	3.6	143,048
Gross profit	39,959	42,067	(2,107)	(5.0)	57,045
Selling, general and administrative expenses	32,160	29,532	2,627	8.9	40,773
Operating income (loss)	7,799	12,534	(4,735)	(37.8)	16,272
Other income	1,554	739	815	110.4	1,020
Other expenses	677	1,102	(425)	(38.6)	2,134
Ordinary income	8,676	12,171	(3,494)	(28.7)	15,158
Extraordinary income	49	123	(74)	(60.2)	341
Extraordinary losses	263	509	(245)	(48.2)	674
Income before income taxes	8,462	11,785	(3,323)	(28.2)	14,824
Income taxes	3,811	4,795	(983)	(20.5)	6,085
Minority interests in earnings (losses) of affiliates	(357)	(5)	(352)	—	182
Net income	5,008	6,995	(1,986)	(28.4)	8,556