



Rinnai Information
for Shareholders

Vol. 20

Business Results
for the 54th Term

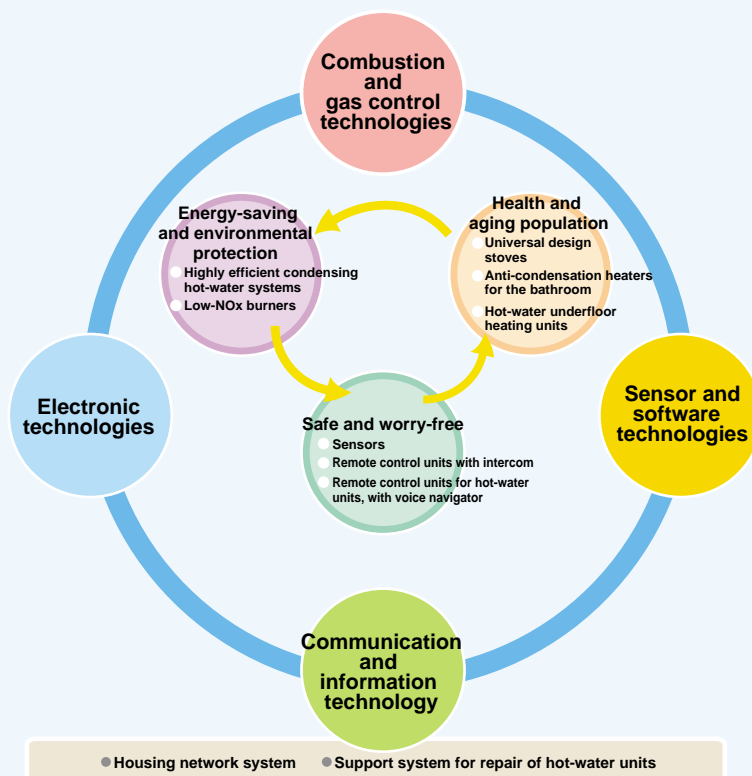
(April 1, 2003, to March 31, 2004)



Rinnai

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

The Rinnai Group serves as a “comprehensive and integrated heating appliance manufacturer.” Our mission is to meet the needs of society by making our products safer and more convenient. Acutely aware of issues facing the 21st century—environmental protection, saving energy, health, and the aging population—we are drawing on our strengths in IT, sales, finance, and other areas to build a stable operating foundation, from which we will develop globally as a “company that creates and promotes interfaces between heat and lifestyles.”



The Rinnai Group supplies convenient, high-value-added products that address social issues related to environmental protection, saving energy, health, and the aging population.

Contents

To Our Shareholders	1
Business Strategies	4
Product Development	5
Global Network	6
Rinnai Topics	7
Consolidated Performance Overview	8
Nonconsolidated Performance Overview	10
Corporate Data	12
Share Information	13

To Our Shareholders



Susumu Naito, Chairman (Right)
Yoshio Yamazaki,
President and Chief Executive Officer



Please describe the business environment and Rinnai's responses in the year under review.

We will address market needs by developing products and technologies ahead of our competitors.

In the following interview, Rinnai's chairman and president answer questions asked by shareholders about the Corporation's performance in the fiscal year ended March 31, 2004, as well as strategies for the future.

The domestic gas appliance industry benefited from an upturn in housing starts, the first in four years. Due to depressed personal consumption, however, replacement demand lacked depth, while competition with electrical product manufacturers intensified. As a result, it was another difficult year for securing market share.

In response, the Rinnai Group demonstrated its strengths as a "comprehensive and integrated heating appliance manufacturer." To this end, we actively developed and proposed products from the customer's perspective. We strove to meet people's needs with respect to product safety, function, and visual appeal, and we stepped up our response to social issues related to the environment and saving energy. On the sales side, we held "Try gas" exhibitions around the nation in cooperation with distributors so that we could get closer to customers when recommending products. At the same time, we pursued Group-wide cost-cutting activities and aggressively invested in high-value-added products in order to enhance profitability.

As a result, we posted a solid business performance, details of which are provided later in this report.

The Company declared a ¥12.00 year-end cash dividend, the same level as the interim dividend, bringing total dividends for the year to ¥24.00 per share, up ¥4.00 from the previous year. This decision was based on consideration of many factors, including payout ratio, return on equity, and financial condition, reflecting our basic profit appropriation policy.



Please describe your medium-term strategies for the Japanese market.

In recent years, the new housing market has been favorable, and the renovation market has generally been brisk. Our medium-term strategy in this situation is to accurately grasp and meet replacement demand. In an era in which households use multiple gas appliances, the emphasis is shifting from standalone products to integrated systems. Taking the lead in the industry, we have set up a nationwide network of Rinnai Tech offices, which handle sales and installation of our products. This is part of our effort to quickly establish a framework to meet the needs for integrated systems, including built-in cookers, oven ranges, and dishwasher/dryers for system kitchens, as well as floor heating systems and bathroom heater/dehumidifiers.



What kind of products have been “market hits” in recent times?



Given Japan’s aging population, there is growing demand for high-quality household equipment that is energy-efficient, convenient, and safe to use. Since our foundation, “safety” has always been a core focus of our product development efforts. Based on this focus, we have incorporated various safety functions into our products and developed numerous offerings that address the aging population trend, including a hot-water unit remote control with voice navigation capability. Recent hits in the kitchen appliances segment include the EG Series of glass-top cookers with inner-flame burners, as well as dishwasher/dryers with sliding doors. In the hot-water units segment, popular products include floor heating systems and bathroom heater/dehumidifiers with a clothes-drying function. In the air-conditioning and heating units segment, we have gas fan heaters with a bacteria-removing ion-release function. These and other high-value-added products are not only safe and efficient but also meet customers’ needs for functional beauty, ease of use, and health. They also help us maintain profitability and enhance price competitiveness in the market.



What is Rinnai doing with respect to addressing environmental issues?

Development of products that are friendly to the environment has been a central R&D theme at Rinnai from an early stage. As a result, many of our gas cookers, hot-water units, and other products have achieved 2006 targets under the “Top Runner” system—part of the Energy Conservation Law—for their excellent energy efficiency. Moreover, our high-heat-efficiency condensing hot-water units and glass-top cookers with inner-flame burners have received energy-saving awards. In Europe, where environmental awareness is even stronger than in Japan, our low-NOx-emitting DECS ceramic burners for incineration use are widely used. These factors underscore the high acclaim Rinnai has earned at home and abroad for its environmental technologies.



What issues is Rinnai focusing on in its overseas activities?



Shanghai Rinnai's Pudong plant.

The Rinnai Group is targeting consolidated net sales of ¥290 billion over the medium term—by the year to March 2008 or beforehand. To reach this target, we are focusing on China as a key strategic market, in addition to Japan and South Korea. China is currently witnessing rapidly progress in urban infrastructural development and housing starts in the lead-up to the 2008 Olympics in Beijing and the 2010 Expo in Shanghai. Like Japan, natural gas is steadily proliferating in China, where energy supply lines are being built in a plan to make natural gas a mainstay energy source by 2010. With the full-scale introduction of gas appliances in China, Rinnai has split the market into three regions—Huabei (north of Beijing), Huazhong (central China, centering on Shanghai), and Huanan (Guangzhou and other southern areas). We will establish separate business groups for each region, offering products with specifications tailored to regional attributes and cultures. Shanghai Rinnai Co., Ltd., a consolidated subsidiary, has a production facility that mainly makes hot-water units. In December 2003, Shanghai Rinnai completed construction of its second production line, which makes kitchen appliances. In July 2003, it also established Guangzhou Ming Hai Co., Ltd., in a joint venture with a local gas appliance manufacturer.



Please describe some of Rinnai's technological initiatives for the future.

In our quest to ensure stable supplies of energy, we believe that providing an optimal mix of both electricity and gas—not one at the exclusion of the other—is the best way to meet modern needs. Renowned worldwide for its combustion-related technological capabilities, Rinnai participates in R&D projects in Japan and overseas aimed at fostering the emergence of a cogeneration-based society. At our technical center in Aichi Prefecture, 500 R&D specialists are developing technologies and products for Rinnai Group companies in Japan and abroad. They are also developing fuel cell, cogeneration, and other technologies that will lead us into the future.

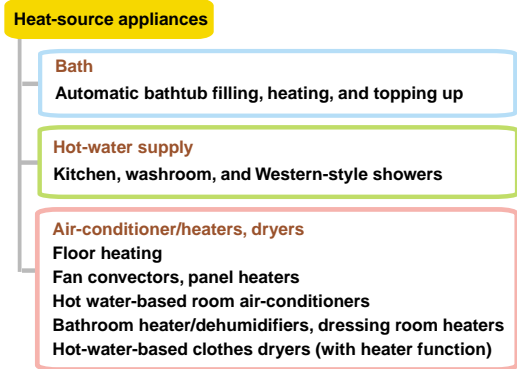
Going forward, we at the Rinnai Group will continue developing attractive products from the customer's perspective while undertaking proactive sales efforts aimed at expanding our customer base and pursuing low-cost Group-wide activities. In these ways, we will strive to improve profitability.

We look forward to the ongoing support of shareholders in these endeavors.

Strategies and Strengths

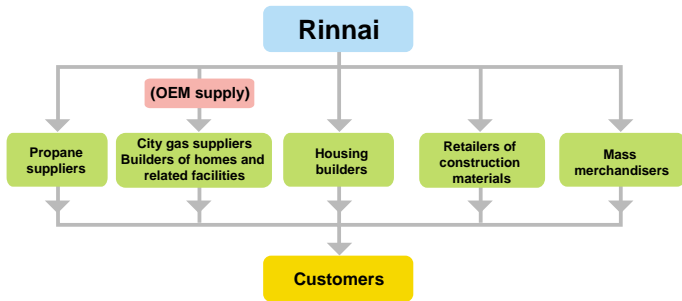
1 System-Based Products Hot-water supply and heating for the home—all from a single heat source

Rinnai’s gas dual hot-water/heating system is an integrated system designed to make homes more comfortable. From a single heat source, it delivers such functions as bathtub hot-water supply, floor heating, and bathroom heating/dehumidifying. Today, gas appliances fulfill an important role, fostering comfortable living environments all year round. In developing kitchen appliances, for example, our quest is to create the most user-friendly kitchen spaces possible. To this end, we emphasize joint development and alliances with builders of housing and system kitchens, and we supply many products to major manufacturers.



2 Extensive Sales Channels Providing services close to our end users

In addition to supplying products to city gas companies on an OEM basis, we maintain diversified sales channels, including alliances with house builders and building material retailers. Through these channels, we are building a sales, installation, and service network that is close to our customers.



3 Research and Development Gas-control, combustion, and other leading-edge technologies essential for gas appliances

Rinnai is committed using heat to make people’s lives more comfortable. We draw on a wide range of core technologies in such areas as combustion, electronics, gas control, sensors, software, IT, and communications. Through these activities, we are forging ahead with R&D on environmentally friendly products conducive to recycling and energy and resource conservation.



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

Recent popular products that meet customer needs

Efficiency

Stylish cooker that fits into all types of kitchens

The RSK-N78W4GD10X-SV is a square-shaped built-in cooker designed to fit into all types of kitchens, from traditional to modern. Its new, high-heat-efficiency inner-flame burner enables shorter cooking times and lower gas costs. The area around the ignition knob lights up in red when the user ignites the flame, making it easier to confirm if the burner is on or off. The cooker also features a sleek, slide-out control panel that allows temperature adjustment and timer operation to be handled at a push of a button.



RSK-N78W4GD10X-SV



MV-S1200

Sleekly designed bathroom television with attractive 12-inch screen

Rinnai has developed the world's largest bathroom television, with a wide 12-inch screen. Thanks to its visually appealing backlit TFT LCD screen, the television can be easily viewed, even in broad daylight. With its simple appearance, it has been well received by customers seeking to add a design aspect to their bathrooms. It also features an FM radio and surround-sound compatibility, enabling users to enjoy a powerful sound experience according to the acoustic characteristics of their bathrooms. Input ports for DVD and video are also included.

Comfort

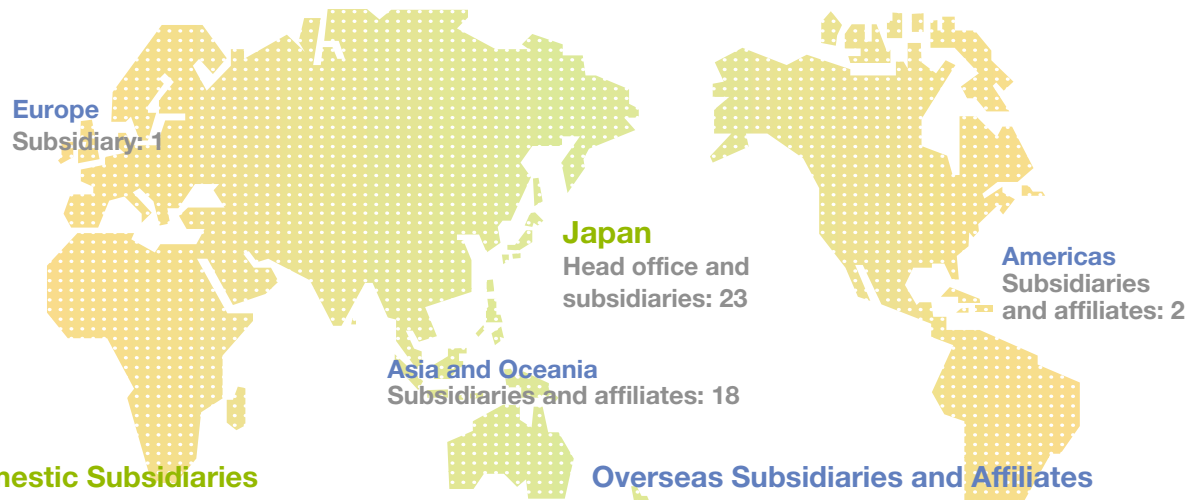
Overseas

Heavy duty combustion-type hot-water units gaining popularity in China

In China, gas appliances normally center around a water heating system, and practically all such appliances are made in that nation. Recent years, however, have seen a proliferation of Japanese-style systems with instant-heating heavy duty combustion functions, especially along coastal areas. In the northern Huabei region, households are beginning to install combined hot-water and space heating systems. Positioning China as a medium-term strategic market, Rinnai has classified the nation into three regions—Huabei in the north, Huazhong in the center, and Huanan in the south—and is developing products tailored to the differing culinary tastes of each region.



As of March 31, 2004, the Rinnai Group consisted of the parent company, 39 subsidiaries (22 domestic and 17 overseas), and four affiliated companies, for a total of 44 companies.



Domestic Subsidiaries

Manufacture of Products

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

Manufacture of Components

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

Sale of Products

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

Sale and Installation of Products

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

Non-Life Insurance Agency Business

- Rinnai Enterprises

Overseas Subsidiaries and Affiliates

Holding Company

- Rinnai Holdings (Pacific) Pte Ltd.

Sale of Products

- Rinnai Australia Pty., Ltd.
- Rinnai Hong Kong Ltd.
- Rinnai UK Ltd.
- Rinnai America Corporation
- Rinnai Singapore Pte. Ltd.

Manufacture and Sale of Products

- Rinnai New Zealand Ltd.
- Rinnai Korea Corporation
- Rinnai (Thailand) Co., Ltd.
- P.T. Rinnai Indonesia
- Rinnai Viet Nam Co., Ltd.
- Rinnai Taiwan Corporation
- Shanghai Rinnai Co., Ltd.
- Equipamentos NGK-Rinnai Ltda.
- Rinnai (Malaysia) Sdn. Bhd.
- Guangzhou Minghai Gas & Electrical Appliance Co., Ltd.

Manufacture and Sale of Components

- RB Korea Ltd.
- Shanghai RB Controls Co., Ltd.
- Mikuni RK Corporation
- RS Korea Ltd.
- Rancee R·K Precision Co., Ltd.

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

Glass-top cooker wins energy conservation award

Rinnai's glass-top gas cookers with inner-flame burners, which meet energy efficiency guidelines for 2006 mandated under the Energy Conservation Law, have received the Energy Conservation Center Chairman's Award for 2003. The awards are hosted annually by the Energy Conservation Center. With Rinnai's inner-flame burner, the flame emerges from beneath the glass top-plate and forms an inward-focused tornado-like motion, which quickly heats the entire area under the pan. Thanks to improved heat distribution, a smaller amount of gas is required to achieve the same cooking time provided by traditional external-flame burners—meaning a significant saving of gas. Also, the cooker features an “ultraslow fire” function, which by increasing the distance between the pan and the burner provides ideal conditions for simmering. Rinnai will continue developing products allowing gas to be used to maximum effect.



Zero emissions achieved at Oguchi plant

In the year to March 2004, Rinnai achieved its zero emission goal—more than 99% recycling of industrial and general waste—at its Oguchi plant, which includes the Oguchi factory and technical center. Having started our zero emission offensive in the previous fiscal year, we have since been separating waste, studying recycling legislation, and investigating recycling vendors, and the program is proceeding as planned. We have placed particular emphasis on separating rubber, resins, and sludge. Through thermal recycling, we have converted such waste into cement additives and ingredients. Going forward, we will continue cutting waste emission volume and, using the Oguchi plant as a model, we plan to achieve similar goals at other facilities and Rinnai Group companies in the year to March 2005.



Consolidated Performance Overview

Consolidated Financial Statements (Millions of yen)

March 31, 2004: From April 1, 2003, to March 31, 2004

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

Consolidated Statements of Income	March 31, 2004 (A)	March 31, 2003 (B)	Percentage Change (A/B)
Net sales	200,094	189,685	5.5
Cost of sales	143,048	136,856	4.5
Operating income	16,272	13,173	23.5
Ordinary income	15,158	12,735	19.0
Net income	8,556	8,603	(0.5)
Net income per share (Yen)	157.01	154.41	1.7

Consolidated Balance Sheets	March 31, 2004 (A)	March 31, 2003 (B)	Percentage Change (A/B)
Total assets	194,959	183,872	6.0
Total liabilities	72,266	68,662	5.2
Minority interests	4,014	4,341	(7.5)
Total shareholders' equity	118,677	110,868	7.0

Consolidated Statements of Cash Flow	March 31, 2004 (A)	March 31, 2003 (B)	Percentage Change (A/B)
Net cash provided by operating activities	16,054	16,845	(4.7)
Net cash provided by investing activities	(13,192)	(10,522)	25.4
Net cash provided by financing activities	(1)	(7,005)	(100.0)
Cash and cash equivalents at end of period	36,493	33,529	8.8

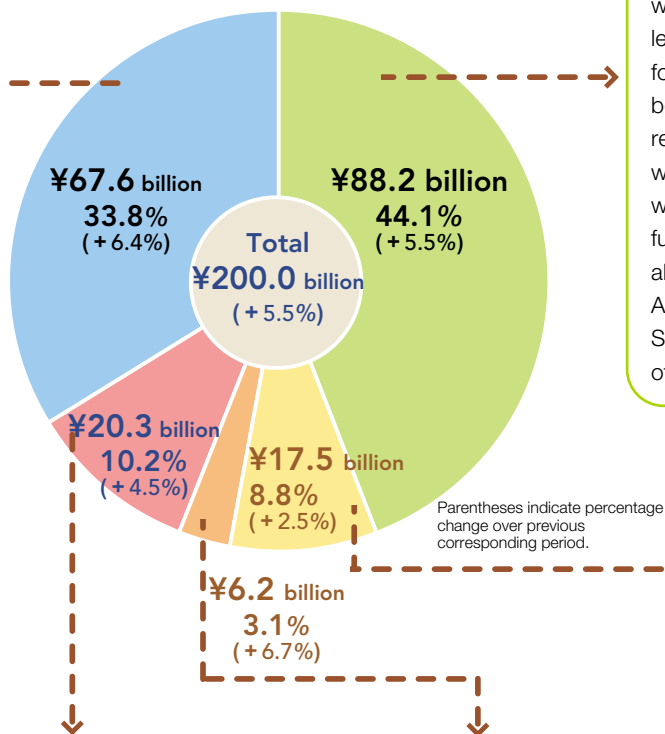
Ratios	March 31, 2004 (A)	March 31, 2003 (B)	Percentage Point Change (A/B)
Return on equity (ROE) (%)	7.46	7.87	(0.41)
Return on assets (ROA) (%)	4.52	4.72	(0.20)
Return on sales (%)	8.13	6.94	1.19
Equity ratio (%)	60.87	60.30	0.57

Kitchen Appliances



Domestic revenues exceeded our initial forecasts thanks to continued strong sales of cookers incorporating glass surface plates and new inner-flame burners. Overseas sales declined, however, due to weak personal consumption in South Korea. Sales of dishwasher/dryers and other new products were also solid. As a result, sales of kitchen appliances grew 6.4%.

Sales by business segment



Hot-Water Units

In Japan, our environmentally friendly gas bath-heating/hot-water systems, featuring high levels of efficiency and comfort, were well received by both new home builders and renovators. Sales of hot-water heating systems, which we have made lighter, more compact, and more functional, also rose favorably. Overseas sales were also strong, thanks to increased sales in Southeast Asia, which offset declines in Oceania, the United States, and South Korea. Consequently, overall sales of hot-water units rose 5.5%.



Air-Conditioning and Heating Units

This segment benefited from favorable sales of new fan heaters equipped with plasma cluster ion technologies. Due to generally warm weather, however, domestic shipments were weak. By contrast, sales in Australia and the United States were strong. Overall sales of air-conditioning and heating units grew 2.5%.



Others

Domestic sales of clothes dryers remained mostly unchanged, but sales of components made by various domestic manufacturers improved. Sales in various overseas markets, however, were weak. As a consequence, segment sales climbed 4.5%.

Commercial-Use Equipment

While domestic demand remained largely unchanged, overseas sales increased thanks to the success of newly launched products in South Korea. Overall sales in this segment grew 6.7%.

Nonconsolidated Performance Overview

Nonconsolidated Balance Sheets (Millions of yen)

March 31: As of March 31, 2004

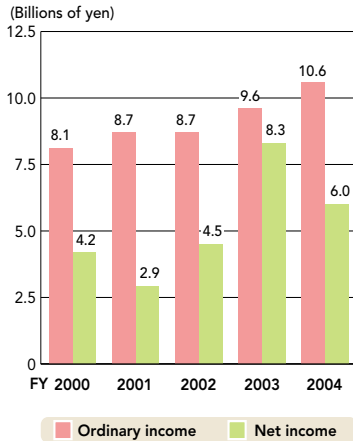
Assets	March 31, 2004	Liabilities	March 31, 2004
Current assets	81,020	Current liabilities	38,498
Cash and deposits	4,997	Accounts payable, trade	27,251
Notes and accounts receivable, trade	42,068	Accrued payables	4,991
Marketable securities	16,364	Accrued corporate taxes	3,413
Inventories	15,368	Accrued bonus payments	1,358
Others	2,290	Others	1,483
Allowance for doubtful accounts	(68)	Long-term liabilities	4,742
		Reserve for retirement benefits	2,912
		Reserve for directors' retirement benefits	1,650
Fixed assets	59,275	Others	180
Property, plant and equipment	22,274	Total liabilities	43,241
Buildings and structures	7,727		
Machinery and equipment	4,327	Shareholders' equity	March 31, 2004
Tools, furniture and fixtures	3,576	Common stock	6,459
Land	6,397	Capital reserve	8,719
Others	244	Other reserve	85,303
Intangible fixed assets	446	[Net income]	[6,079]
Investments and advances	36,554	Other differences in valuation of marketable securities	777
Investments in securities	15,463	Treasury stock	(4,205)
Shares of subsidiaries	5,490	Total shareholders' equity	97,054
Others	16,116		
Allowance for doubtful accounts	(515)	Total liabilities, and shareholders' equity	140,296
Total assets	140,296		

Nonconsolidated Statements of Income (Millions of yen)

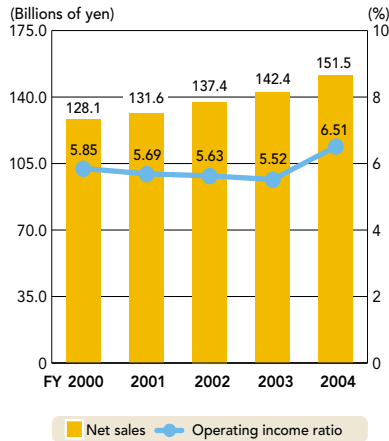
March 31, 2004: From April 1, 2003, to March 31, 2004

Ordinary income (loss)	March 31, 2004
Net sales	151,558
Cost of sales	116,435
Selling, general and administrative expenses	25,256
Operating income	9,866
Nonoperating income	1,124
Nonoperating expenses	339
Ordinary income	10,651
Extraordinary income (loss)	March 31, 2004
Extraordinary income	203
Extraordinary expenses	473
Income before income taxes	10,381
Corporate, inhabitants and enterprise taxes	5,057
Corporate tax adjustment	(755)
Net income	6,079

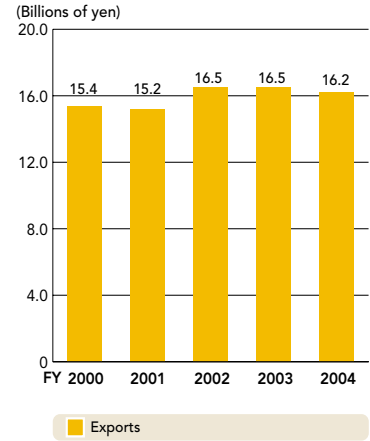
Ordinary income, net income



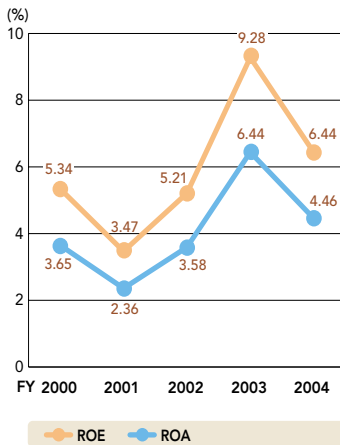
Sales, operating income ratio



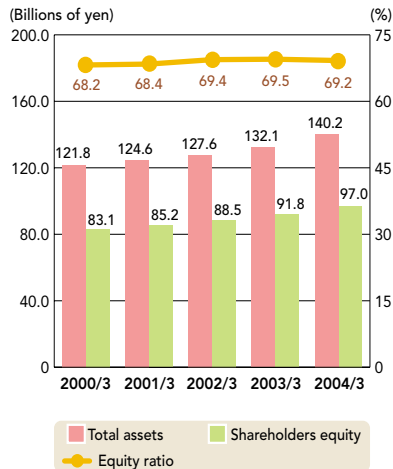
Exports



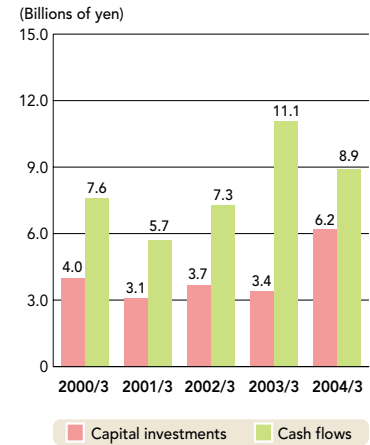
ROE, ROA



Total assets, shareholders equity, equity ratio



Capital investments, cash flows



Note: Cash flows indicate the sum of net income and depreciation and amortization, minus outflows, such as directors' profit-sharing bonuses and dividend payments.

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	3,132

Domestic Network

Factories

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

Research centers

Technology Development Center

Branches

Higashi-Nihon Sales Department, Tohoku, Chubu,
Nishi-Nihon Sales Department, Kansai, Kyushu

Domestic sales offices

Sapporo, Sendai, Niigata, Tokyo, 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, Tanabe, 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

Board of Directors

Chairman	Susumu Naito
President	Yoshio Yamazaki
Managing Director	Tsunenori Narita
Managing Director	Kozo Masuoka
Managing Director	Tsutomu Miyata
Managing Director	Kenji Hayashi
Managing Director	Hiroyasu Naito
Director	Yutaka Morita
Director	Takeshi Iwata
Director	Takashi Nagasaka
Director	Masao Kosugi
Director	Yuzo Yoshida
Director	Toshinori Kozawa
Director	Tadanobu Netsu
Director	Tomohiko Kitagawa
Director	Shizuo Sasaki
Director	Katsushi Minoura
Corporate Auditor	Katsuhiro Warita
Corporate Auditor	Yasuhiko Goto
Corporate Auditor	Kiyoshi Hori
Corporate Auditor	Ken Yazaki

Ken Yazaki (Corporate Auditor) serves as an outside auditor.

Share Information (As of March 31, 2004)

Share Composition

Number of shares

Authorized:

200,000,000

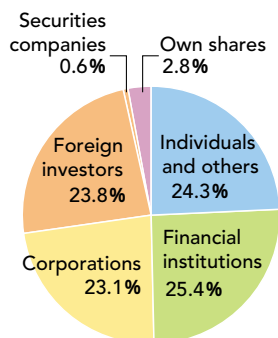
Outstanding:

55,787,463

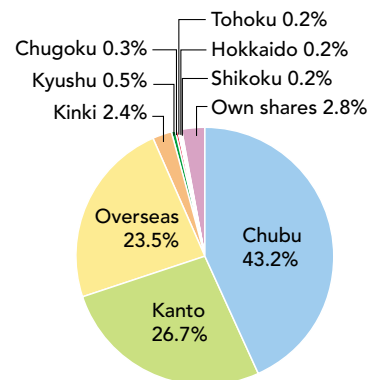
Number of shareholders:

4,282

Composition of shareholders



Shareholders by region

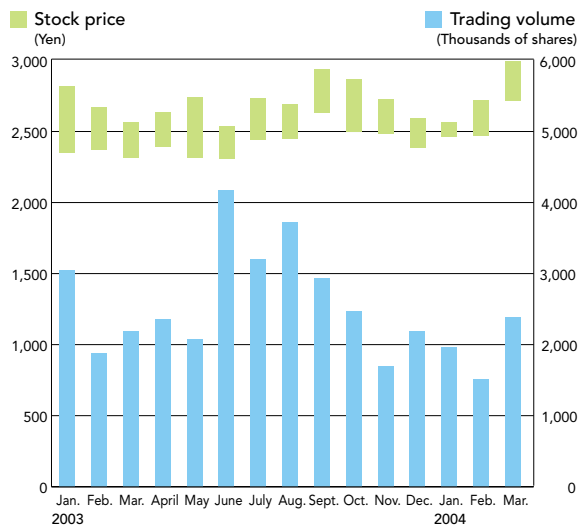


Major Shareholders

Name	Shares held (Thousands)
Naito Co., Ltd.	5,415
Yoshikane Shoji Co., Ltd.	4,002
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,667
Northern Trust Company (AVFC) Sub-Account American Client	3,106
Susumu Naito	2,777
Kenji Hayashi	2,752
Japan Trustee Service Bank, Ltd. (Trust Account)	2,742
Mellon Bank Treaty Client Omnibus	1,631
Noriko Naito	1,060
Nippon Life Insurance Company	1,033

Note: The Corporation also holds 1,590 thousand shares of treasury stock, which is not included in the above list.

Stock Price Range



Memorandum for Shareholders

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
15-33, Sakae 3-chome, Naka-ku, Nagoya 460-8685
Tel: +81-52-262-1520

Transfer agency offices:

The Chuo Mitsui Trust & Banking Company, Limited.
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

Our Website

• IR information

http://www.rinnai.co.jp/en/ir/index_ir.html

Provides the latest information for shareholders and other investors, including financial figures and flash reports.

