

Consolidated Interim Financial Results

(April 1 to September 30, 2004)

November 15, 2004

Listed Company Name: Rinnai Corporation

Listings: First Section of the Tokyo and Nagoya Stock Exchanges

Code No.: 5947 (URL <http://www.rinnai.co.jp>)

Location of Head Office: Aichi, Japan

Representative: Yoshio Yamazaki, President

Contact: Tsutomu Miyata, Managing Director and Manager of Accounting Division

TEL: (052) 361-8211

Date of the Board of Directors' Meeting on the Settlement of Accounts: November 15, 2004

Application of U.S. Accounting Standards: No

1. Performance for the Six Months Ended September 30, 2004

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

(1) Operating Results

(¥ millions)

	Net sales (YOY % change)	Operating income (YOY % change)	Ordinary income (YOY % change)
September 30, 2004	91,340 (3.6)	3,527 (-26.3)	4,245 (-8.9)
September 30, 2003	88,184 (5.3)	4,782 (10.4)	4,659 (15.9)
(Year to) March 31, 2004	200,094	16,272	15,158

	Net income (YOY % change)	Net income per share (¥)	Fully diluted net income per share (¥)
September 30, 2004	2,568 (-1.5)	47.39	—
September 30, 2003	2,607 (31.7)	48.11	—
(Year to) March 31, 2004	8,556	157.01	—

Notes:

- Equity in earnings of equity-method affiliates
Six months to September 30, 2004: ¥12 million
Six months to September 30, 2003: ¥10 million
Year to March 31, 2004: ¥23 million
- Number of average shares outstanding (consolidated)
Six months to September 30, 2004: 54,195,726 shares
Six months to September 30, 2003: 54,199,859 shares
Year to March 31, 2004: 54,199,097 shares
- Changes in accounting policy: None
- Percentage figures for net sales, operating income, ordinary income, and (interim) net income columns indicate increase or decrease from the previous corresponding term.

(2) Financial Position

(¥ millions)

	Total assets	Shareholders' equity	Equity ratio (%)	Equity per share (¥)
September 30, 2004	196,183	120,216	61.3	2,218.26
September 30, 2003	189,179	113,782	60.1	2,099.35
March 31, 2004	194,959	118,677	60.9	2,188.88

Note:

Number of shares outstanding at term-end (consolidated):

September 30, 2004: 54,194,134 shares

September 30, 2003: 54,198,790 shares

March 31, 2004: 54,197,440 shares

(3) Cash Flows

(¥ millions)

	Net Cash Provided by Operating Activities	Net Cash Provided by Investing Activities	Net Cash Provided by Financing Activities	Cash and Cash Equivalents at End of Period
September 30, 2004	(4,543)	(6,085)	3,870	29,569
September 30, 2003	(3,622)	(7,722)	4,824	27,557
March 31, 2004	16,054	(13,192)	(1)	36,493

(4) Scope of Consolidation and Application of Equity Method

Consolidated subsidiaries: 29

Unconsolidated subsidiaries accounted for under the equity method: —

Affiliates accounted for under the equity method: 1

(5) Changes in Scope of Consolidation and Application of Equity Method

Consolidated (new): — (excluded): 1 Equity method (new): — (excluded): —

2. Forecast for Fiscal Year Ending March 31, 2005

(April 1, 2004 – March 31, 2005)

(¥ millions)

	Net sales	Ordinary income	Net income
Year to March 31, 2005	204,000	13,800	7,800

(Reference) Forecast net income per share (full year): ¥143.07

The performance outlook above is based on information available as of the disclosure date for these interim results. A variety of factors may cause actual results for the fiscal year ending March 31, 2005, to differ from these anticipated amounts.

3. Consolidated Interim Financial Statements

(1) Consolidated Balance Sheets (at September 30)

(¥ millions)

	2004		2003		Change	March 31, 2004	
	Amount	% of total	Amount	% of total	Amount	Amount	% of total
ASSETS							
Current assets							
Cash and deposits	¥19,199		¥19,139		¥60	¥24,155	
Notes and accounts receivable	55,852		54,874		978	54,300	
Marketable securities	15,719		12,382		3,336	17,184	
Inventories	27,352		25,538		1,814	23,043	
Others	4,227		3,918		308	3,969	
Allowance for doubtful accounts	(297)		(236)		(60)	(230)	
Total current assets	122,054	62.2	115,616	61.1	6,438	122,423	62.8
Fixed assets							
Tangibles							
Buildings and structures	14,376		14,150		225	14,287	
Machinery and vehicles	8,358		8,492		(133)	8,532	
Tools and fixtures	6,364		5,613		751	5,636	
Land	11,950		11,913		37	11,665	
Construction in progress	1,124		1,469		(344)	693	
Total tangibles	42,174	21.5	41,638	22.0	536	40,815	20.9
Intangibles	783	0.4	727	0.4	56	717	0.4
Investments and other assets							
Investments in securities	19,385		17,809		1,576	18,304	
Others	12,339		14,015		(1,676)	13,260	
Allowance for doubtful accounts	(554)		(627)		73	(561)	
Total investments and other assets	31,170	15.9	31,197	16.5	(26)	31,003	15.9
Total fixed assets	74,128	37.8	73,563	38.9	565	72,536	37.2
Total assets	¥196,183	100.0	¥189,179	100.0	¥7,004	¥194,959	100.0

(At September 30)

(¥ millions)

	2004		2003		Change	March 31, 2004	
	Amount	% of total	Amount	% of total	Amount	Amount	% of total
LIABILITIES							
Current liabilities							
Notes and accounts payable	¥37,188		¥34,805		¥2,382	¥37,758	
Short-term debt	9,985		11,005		(1,020)	4,247	
Accrued income taxes	1,842		2,372		(529)	4,396	
Reserve for bonus payments	2,297		2,335		(38)	1,962	
Others	9,602		9,521		80	10,528	
Total current liabilities	60,915	31.1	60,041	31.7	874	58,894	30.2
Long-term liabilities							
Long-term debt	5,561		4,535		1,025	6,347	
Reserve for employees' retirement benefits	3,078		4,165		(1,086)	4,399	
Reserve for directors' retirement benefits	1,696		1,674		22	1,713	
Others	993		983		9	911	
Total long-term liabilities	11,330	5.7	11,359	6.0	(29)	13,372	6.9
Total liabilities	72,245	36.8	71,400	37.7	845	72,266	37.1
MINORITY INTERESTS	3,721	1.9	3,996	2.2	(275)	4,014	2.0
SHAREHOLDERS' EQUITY							
Common stock	6,459	3.3	6,459	3.4	—	6,459	3.3
Capital reserve	8,719	4.4	8,719	4.6	—	8,719	4.5
Earned surplus	109,911	56.0	102,773	54.3	7,137	108,070	55.5
Other differences in valuation of marketable securities	784	0.4	613	0.3	170	824	0.4
Adjustment account for foreign exchange losses	(1,442)	(0.7)	(582)	(0.3)	(860)	(1,190)	(0.6)
Treasury stock	(4,215)	(2.1)	(4,201)	(2.2)	(14)	(4,205)	(2.2)
Total shareholders' equity	120,216	61.3	113,782	60.1	6,434	118,677	60.9
Total liabilities, minority interests and shareholders' equity	196,183	100.0	189,179	100.0	7,004	194,959	100.0

(2) Consolidated Statements of Income
(Six months ended September 30)

(¥ millions)

	2004		2003		Change		Year to March 31, 2004	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Net sales	¥91,340	100.0	¥88,184	100.0	¥3,155	3.6	¥200,094	100.0
Cost of sales	66,891	73.2	63,714	72.3	3,177	5.0	143,048	71.5
Gross profit	24,449	26.8	24,470	27.7	(21)	(0.1)	57,045	28.5
Selling, general and administrative expenses	20,921	22.9	19,687	22.3	1,234	6.3	40,773	20.4
Operating income	3,527	3.9	4,782	5.4	(1,255)	(26.3)	16,272	8.1
Other income:	1,138	1.2	385	0.4	752	195.1	1,020	0.5
Interest received	159		98		60		290	
Dividends received	251		131		120		283	
Earnings from investments in equity-method affiliates	12		10		1		23	
Foreign exchange gain	492		—		492		—	
Other	222		144		77		423	
Other expenses:	421	0.5	508	0.5	(87)	(17.3)	2,134	1.0
Interest paid	285		301		(16)		645	
Foreign exchange loss	—		77		(77)		1,171	
Loss on sale of notes	132		111		20		274	
Other	3		18		(15)		43	
Ordinary income	4,245	4.6	4,659	5.3	(414)	(8.9)	15,158	7.6
Extraordinary income:	42	0.0	113	0.1	(71)	(62.8)	341	0.2
Gain on sales of investments in securities	1		27		(25)		38	
Insurance money received	40		78		(38)		259	
Other	0		7		(6)		43	
Extraordinary losses:	217	0.1	399	0.4	(182)	(45.6)	674	0.4
Loss on sales of fixed assets	—		0		(0)		2	
Loss on disposal of fixed assets	152		68		83		329	
Loss on devaluation of investments in securities	—		97		(97)		114	
Loss on devaluation of golf club memberships	2		93		(90)		58	
Prior patent usage fees	—		57		(57)		60	
Employees' retirement benefits due to completion of benefit system	30		—		30		—	
Other	31		82		(50)		109	
Income before income taxes	4,069	4.5	4,373	5.0	(303)	(6.9)	14,824	7.4
Income taxes	2,110	2.3	2,513	2.9	(402)	(16.0)	6,998	3.5
Income taxes (deferred)	(230)	(0.2)	(519)	(0.6)	289	(55.7)	(912)	(0.5)
Minority interests in earnings of affiliates	(379)	(0.4)	(227)	(0.3)	(151)	66.6	182	0.1
Net income	2,568	2.8	2,607	3.0	(39)	(1.5)	8,556	4.3

(3) Consolidated Statements of Retained Earnings
(Six months ended September 30)

(¥ millions)

	2004		2003		Change	Year to March 31, 2004	
CAPITAL SURPLUS							
Capital surplus at beginning of term		¥8,719		¥8,719	—		¥8,719
Capital surplus at end of term		8,719		8,719	—		8,719
EARNED SURPLUS							
Earned surplus at beginning of year		108,070		100,754	7,315		100,754
Increase in earned surplus							
Net income	¥2,568	2,568	¥2,607	2,607	(39)	¥8,556	8,556
Decrease in earned surplus							
Dividends	650		542			1,192	
Board of Directors' bonuses	46		46			46	
Decrease due to exclusion of subsidiary from scope of consolidation	27		—			—	
Other	3	727	0	588	139	1	1,240
Earned surplus at end of term		109,911		102,773	7,137		108,070

(4) Consolidated Statements of Cash Flows
(Six months ended September 30)

(¥ millions)

	2004	2003	Change	Year to March 31, 2004
Cash flows from operating activities:				
Income before income taxes	¥4,069	¥4,373		14,824
Depreciation and amortization	3,172	2,916		6,407
Amortization of excess of cost over net assets	(6)	41		80
Increase (decrease) in employee bonuses	334	275		(97)
Increase (decrease) in reserve for retirement benefits	(1,339)	(29)		245
Decrease (increase) in prepaid pension costs	1,369	(316)		660
Interest and dividend income	(411)	(230)		(574)
Interest expenses	285	301		645
Dividends from equity-method affiliates	(12)	(10)		(23)
Loss on disposal of tangible fixed assets	152	68		328
Increase in receivables	(1,129)	(2,528)		(3,030)
Increase in inventories	(4,228)	(3,111)		(903)
Increase (decrease) in payables	(740)	(1,246)		2,104
Decrease in accrued consumption taxes	(312)	(237)		(35)
Bonuses to directors	(49)	(49)		(49)
Others	(1,132)	127		1,935
Subtotal	22	344	(322)	22,520
Interest and dividends received	421	236		567
Interest paid	(256)	(282)		(652)
Income taxes paid	(4,731)	(3,920)		(6,381)
Net cash provided by (used in) operating activities	(4,543)	(3,622)	(921)	16,054
Cash flows from investing activities:				
Transfers to time deposits	(3,303)	(4,934)		(10,464)
Withdrawals from time deposits	3,720	4,590		9,188
Purchases of tangible fixed assets	(4,151)	(4,618)		(8,703)
Proceeds from sales of tangible fixed assets	12	17		40
Purchase of intangible fixed assets	(163)	(92)		(271)
Purchase of investments in securities	(4,734)	(2,732)		(3,510)
Proceeds from sales of investment securities	2,300	107		684
Other	234	(59)		(155)
Net cash used in operating activities	(6,085)	(7,722)	1,636	(13,192)
Cash flows from financing activities:				
Increase in short-term debt	3,989	5,416		693
Repayment of long-term debt	-	(11)		(605)
Dividends paid	(650)	(542)		(1,192)
Dividends paid to minority shareholders	(14)	(13)		(39)
Other	545	(25)		1,142
Net cash provided by (used in) financing activities	3,870	4,824	(953)	(1)
Translation differential for cash and cash equivalents	(117)	547	(665)	104
Net increase (decrease) in cash and cash equivalents	(6,875)	(5,972)	(903)	2,964
Cash and cash equivalents at beginning of term	36,493	33,529	2,964	33,529
Decrease of cash and cash equivalents due to exclusion of consolidated subsidiary	(48)	-	(48)	-
Cash and cash equivalents at end of term	29,569	27,557	2,012	36,493