Consolidated Financial Results
(April 1, 2004 - March 31, 2005)

May 17, 2005

Listed Company Name: Rinnai Corporation
Listings: First Sections of Tokyo and Nagoya Stock Exchanges (Securities Code: 5947)
Website: www.rinnai.co.jp
Location of Head Office: Aichi, Japan
Representative: Yoshio Yamazaki, President
Contact: Tsutomu Miyata, Director and Manager of Accounting Division
TEL: (052) 361-8211
Date of the Board of Directors' Meeting on the Settlement of Accounts: May 17, 2005
Application of U.S. Accounting Standards: None

1. Performance for the Year Ended March 31, 2005
(April 1, 2004 to March 31, 2005; Amounts less than one million yen are omitted)

(1) Operating Results (Years ended March 31) (¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)
2005	202,034 (+1.0)	10,822 (-33.5)	12,235 (-19.3)
2004	200,094 (+5.5)	16,272 (+23.5)	15,158 (+19.0)

	Net Income (% change)	Net Income per Share (¥)	Fully Diluted Net Income per Share (¥)	Ratio of Net Income to Shareholders' Equity (%)	Ratio of Ordinary Income to Total Assets (%)	Ratio of Ordinary Income to Net Sales (%)
2005	6,577 (–23.1)	121.50	—	5.4	6.2	6.1
2004	8,556 (–0.5)	157.01	—	7.5	8.0	7.6

Notes:
1.Equity in earnings of companies accounted for using the equity method:
Year ended March 31, 2005: ¥17 million
Year ended March 31, 2004: ¥23 million
2. Average number of outstanding shares for period (consolidated):
Year ended March 31, 2005: 54,116,642
Year ended March 31, 2004: 54,199,097
3. Changes in accounting policies: None
4. Percentage figures in net sales, operating income, ordinary income and net income columns indicate increase or decrease from the previous term.

(2) Consolidated Financial Position (at March 31) (¥ millions)

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Equity per Share (¥)
2005	201,137	123,106	61.0	2,292.99
2004	194,959	118,677	60.9	2,188.88

Note: Number of shares outstanding at year-end (consolidated):
March 31, 2005: 53,686,903
March 31, 2004: 54,197,440

(3) Consolidated Cash Flows (Years ended March 31) (¥ millions)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
2005	9,223	(12,890)	75	32,962
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: None
Affiliates accounted for under the equity method: 1

(5) Changes in Scope of Consolidation and Application of Equity Method
Consolidation:
New: None
Excluded: 1
Equity method:
New: None
Excluded: None

2. Forecast for the Fiscal Year Ending March 31, 2006
(April 1, 2004, to March 31, 2006)

(¥ millions)

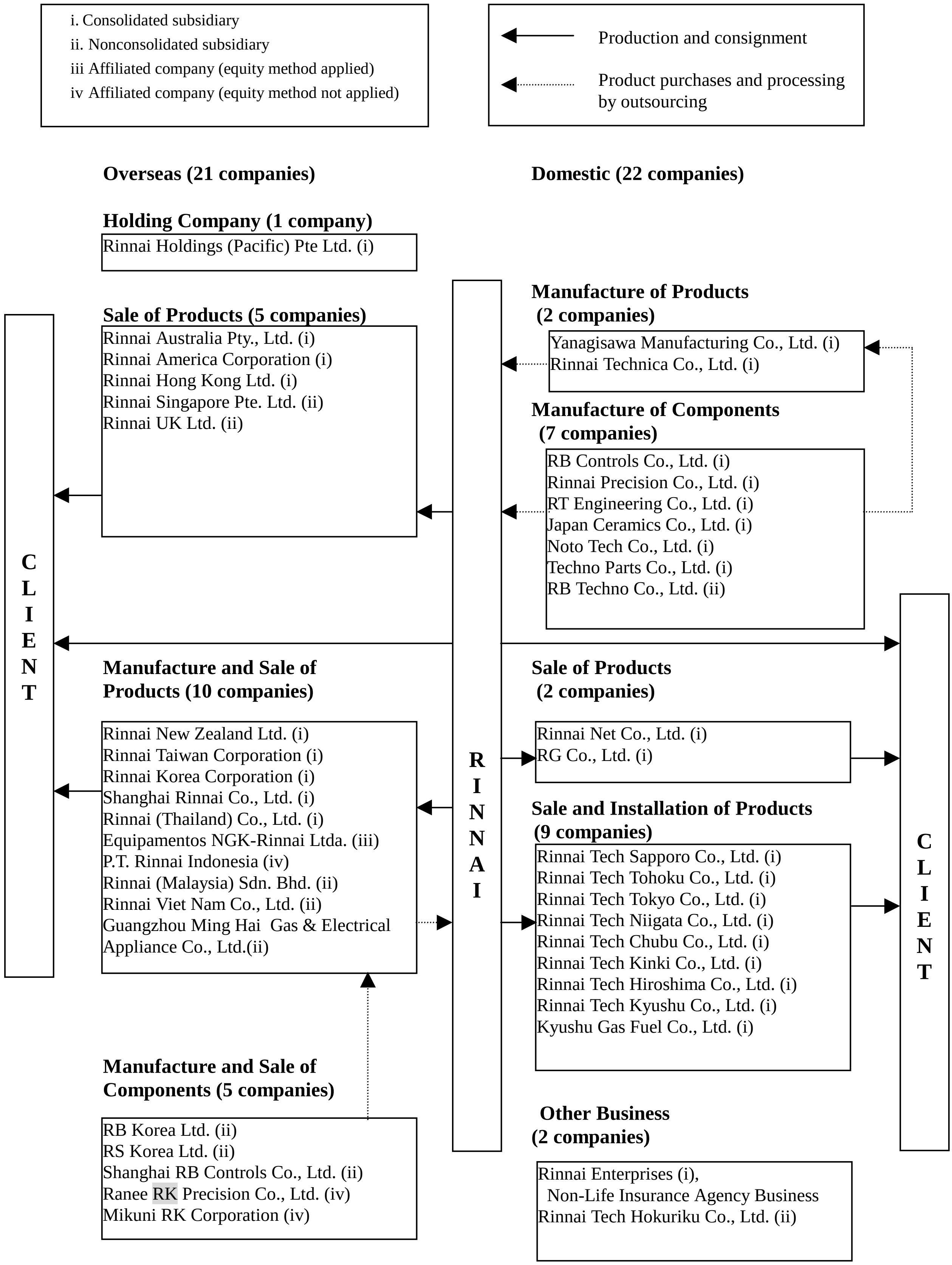
	Net Sales	Ordinary Income	Net Income
Interim	94,200	4,300	2,600
Full year	210,000	13,200	7,300

Reference: Forecast net income per share (full year):¥134.72

Note: 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. Please refer to page 6 for more information about the above forecasts.

I. Outline of Rinnai Group Companies

The Rinnai Group consists of the parent company, 39 subsidiaries, and four affiliated companies, for a total of 44 companies. These include 29 consolidated subsidiaries and one company to which the equity method is applied. The Group is primarily engaged in the manufacture and sale of gas appliances and related businesses. The Group’s structure and business flow are shown below.



II. Management Policies

(1) Management Policy at Rinnai

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."

(2) Basic Policy for Appropriation of Profit Dividend Policy

The Company regards stable return of profits to shareholders as an important management policy. Based on this policy, we intend to pay stable dividends that reflect our business performance, financial position, and other factors.

At the same time, we will allocated retained earnings to domestic and overseas business development aimed at maximizing corporate value, as well as to research and development, capital investment, and reinforcement of marketing activities, in order to strengthen our corporate foundation.

(3) Key Financial Indicator

By raising our competitiveness as a Group and improving capital efficiency, we are working to attain an ROE of 8% in the long term.

(4) Medium- and Long-Term Management Strategy

As a "comprehensive and integrated heating appliance manufacturer," the Rinnai Group develops products and components that meet the needs of clients in such fields as kitchen appliances, hot-water systems, air-conditioners, and commercial-use equipment, while aggressively expanding its sales activities targeting the global market. In these ways, we are targeting a flexible management approach to addressing dramatic changes in the economic environment.

In Japan, where the population is aging, there are growing calls for "high-quality housing facilities" with respect to energy efficiency, convenience, and safety. Rather than standalone gas appliances, meanwhile, people are demanding system-based products incorporating software. In response, we are reinforcing our ability to make products that people trust, while actively developing and proposing products in closer proximity to our clients. We are also expanding our market share, drawing on our nationwide network of installation and after-sales services operations. At the same time, we are stepping up overseas production, especially in Asia, and promoting two-way supply of products and components among our overseas facilities. We are also aggressively developing our sales capabilities in Southeast Asia, Europe, and North America.

(5) Corporate Governance

Rinnai recognizes the importance of reinforcing and upgrading corporate governance as a key management priority from the perspectives of strengthening the Group's competitiveness and achieving sustained increases in corporate value. For this reason, we are fortifying the functions of the Board of Directors and the Board of Auditors. We are also striving to assure swift and accurate information disclosure to shareholders and other investors, while raising transparency through broader disclosure.

The Corporation has a corporate auditor system. The Board of Auditors consists of four members, including two external auditors, who monitor enforcement of business by the Board of Directors, as well as the business and financial status of the parent company and its subsidiaries.

Following its annual General Meeting of Shareholders in June 2006, the Corporation will introduce a corporate officer system, with the aim of speeding up management decision-making and business execution and raising operating efficiency.

Based on the spirit of legal compliance, Rinnai set up the Business Ethics Committee in 2004, which holds companywide meetings every month to ensure that compliance awareness—as detailed in the Business Behavioral Standards—are fully ingrained in the minds of all employees.

With respect to risk management, Rinnai established the Crisis Management Preparation Committee. To minimize the diverse risks it faces in Japan and overseas, the Corporation continues to reinforce its responsiveness to unprecedented situations.

The Corporation entrusts Deloitte Touche Tohmatsu Japan as its certified public accounting firm. The certified public accountants in charge of the Corporation's accounting audits are Masato Nishimatsu, Natsuki Matsui, and Kaoru Ogawa. Mr. Nishimatsu has been conducting audits for 10 years.

III. Performance and Financial Position

(1) The Year in Review

In the first half of the year under review, the Japanese economy showed a recovery pattern, benefiting from solid exports and private-sector capital spending. In the latter half, however, a slowdown gradually took hold due to softer exports stemming from the yen's appreciation, as well as increased prices of crude oil and raw materials.

The domestic gas appliance industry was boosted by the second consecutive year-on-year rise in housing starts in the wake of economic recovery. However, conditions remained difficult as the growing onslaught of electricity-powered equipment led to stiffer competition in the markets for kitchen appliances and hot-water units.

In response, the Rinnai Group demonstrated its strengths as a "comprehensive and integrated heating appliance manufacturer." Specifically, we closely monitored market changes and customer needs, and developed appealing products accordingly—with the emphasis on safety, stability, environmental friendliness, and energy efficiency. We also upgraded our lineup of modular products and used our domestic and overseas networks to actively develop new businesses.

To boost earnings, we aggressively launched high-value-added products on the market and focused on expanding our overseas business, especially in the United States and China. Net sales increased slightly, but operating income declined due to a higher cost-of-sales ratio stemming from declining market prices amid tough competition, as well as the effects of higher raw materials prices.

As a result, consolidated net sales amounted to ¥202.0 billion, up 1.0% from the previous year. Operating income fell 33.5%, to ¥10.8 billion, and ordinary income slipped 19.3%, to ¥12.2 billion. Net income was down 23.1%, to ¥6.5 billion.

Our results by business segment were as follows:

Kitchen Appliances

In Japan, we adopted new designs for our built-in cookers with glass surface plates. We also expanded sales of high-value-added products following the introduction of offerings with improved safety and energy efficiency. However, overall sales of kitchen appliances were weakened by sluggish personal consumption. Overseas, sales of bench-top cookers and ovens declined amid weak demand and falling prices in South Korea. Total sales in this segment decreased 4.9%.

Hot-Water Units

During the year, Rinnai upgraded its lineup of modular products for the domestic market. These included hot-water units with improved efficiency thanks to condensing technologies; bathroom heater/dryers with bacteria-killing cluster ion technologies; a bathroom-use television set with a 12.1-inch screen; and a mist sauna unit that helps relax the body. Overseas, sales of instant-heating hot-water units picked up in the growing U.S. market. Benefiting also from solid demand in Australia and China, overall sales in this segment grew 3.2%.

Air-Conditioning and Heating Units

This segment benefited from favorable overall domestic demand. Overseas, we enjoyed solid sales of FF-type heaters in Australia and increased sales of our new GHP (gas heating products) business in South Korea. Total sales in this segment rose 6.3%.

Commercial-Use Equipment

The first half of the period saw favorable overseas sales of commercial-use equipment, particularly in South Korea. This trend dissipated in the latter half, however, causing overall segment sales to decline 4.2%.

Others

Total sales in this segment climbed 8.0% thanks to increased sales of components and revenue from installation services in Japan. The segment also benefited from higher sales of new items in South Korea.

(2) Cash Dividends

The Corporation plans to declare a ¥13.00 year-end cash dividend, bringing total dividends for the year to ¥26.00 per share, up ¥2.00 from the previous year.

(3) Cash Flows

Cash and cash equivalents at the end of the year under review amounted to ¥32.9 billion, down ¥3.5

billion, or 9.7%, from a year earlier, due to a decline in operating cash flows.

Net cash provided by operating activities totaled ¥9.2 billion, down ¥6.8 billion, or 42.5%. This stemmed mainly from a ¥5.4 billion (33.5%) drop in operating income, as well as a ¥1.9 billion (9.1%) drop in increase in notes and accounts payable.

Net cash used in investing activities amounted to ¥12.8 billion, down ¥301 million, or 2.3%. Despite a 159.5% or ¥5.6 billion jump in purchases of investments in securities, major factors boosting cash flows included ¥2.9 billion in proceeds from sales of investments in securities (up 431.6%) and ¥179 million in increase of time deposits (¥1.2 billion in decrease of time deposits in the previous fiscal year). Also, the Corporation suppressed its capital spending, which led to an 8.2% decline in purchases of property, plant and equipment, to ¥712 million.

Net cash provided by financing activities was ¥75 million, compared with ¥1 million used in such activities in the previous year. This was mainly due to a ¥1.5 billion net increase in long-term debt (net of long-term borrowings and debt repayments by overseas subsidiaries), up 125.5%, which offset ¥1.3 billion in purchases of treasury stock, up from ¥8 million in the previous fiscal year.

(4) Outlook for Year Ending March 31, 2006

The Japanese economy is expected to follow a course of moderate recovery. However, we must not overlook various destabilizing factors, such as prolonged stagnation of personal consumption, rising crude oil prices, and foreign exchange fluctuations. For these reasons, the situation will remain unpredictable.

Under these conditions, the Rinnai Group will continue developing attractive products from the customer’s perspective, reinforce its business in growth markets overseas, and target structural reforms aimed at raising earnings. By pursuing these and other actions with increased speed, we will strive to improve our operations.

For the year ending March 31, 2006, we forecast consolidated net sales of ¥210.0 billion, up 3.9% over the preceding fiscal year; ordinary income of ¥13.2 billion, up 7.9%; and net income of ¥7.3 billion, up 11.0%.

IV. Consolidated Financial Statements

(1) Consolidated Balance Sheets
(At March 31)

(¥ millions)

	2005		2004		Change
	Amount	% of total	Amount	% of total	Amount
ASSETS					
Current assets	¥123,869	61.4	¥122,423	62.8	¥1,445
Cash and deposits	20,772		24,155		(3,383)
Notes and accounts receivable	57,933		54,300		3,632
Marketable securities	17,601		17,184		417
Inventories	24,006		23,043		962
Deferred income taxes	2,166		2,301		(135)
Other	1,687		1,667		20
Less allowance for doubtful accounts	(299)		(230)		(68)
Fixed assets	77,868	38.6	72,536	37.2	5,332
Property, plant and equipment	42,130	20.9	40,815	20.9	1,315
Buildings and structures	14,353		14,287		65
Machinery and vehicles	8,580		8,532		48
Tools and fixtures	6,336		5,636		700
Land	11,768		11,665		102
Construction in progress	1,091		693		398
Intangible fixed assets	809	0.4	717	0.4	92
Investments and advances	34,928	17.3	31,003	15.9	3,925
Investments in securities	23,020		18,304		4,715
Investments	376		456		(80)
Long-term loans	26		34		(7)
Deferred income taxes	2,523		2,262		261
Other	9,543		10,507		(963)
Less allowance for doubtful accounts	(561)		(561)		0
Total assets	¥201,737	100.0	¥194,959	100.0	¥6,778

(¥ millions)

	2005		2003		Change
	Amount	% of total	Amount	% of total	Amount
LIABILITIES					
Current liabilities	¥62,555	31.0	¥58,894	30.2	¥3,661
Notes and accounts payable	38,284		37,758		525
Short-term debt	8,213		4,247		3,966
Other payables	7,833		7,506		327
Accrued consumption taxes	436		514		(77)
Accrued income taxes	2,253		4,396		(2,142)
Accrued employee's bonuses	1,985		1,962		22
Other	3,547		2,507		1,039
Long-term liabilities	11,817	5.9	13,372	6.9	(1,554)
Long-term debt	6,047		6,347		(300)
Deferred income taxes	2		120		(118)
Accrued employees' retirement benefits	3,078		4,399		(1,320)
Accrued officers' retirement benefits	1,761		1,713		47
Unamortized excess of equity over investment	—		13		(13)
Other	927		777		150
Total liabilities	74,372	36.9	72,266	37.1	2,106
MINORITY INTERESTS	4,258	2.1	4,014	2.0	243
SHAREHOLDERS' EQUITY					
Common stock	6,459	3.2	6,459	3.3	—
Capital surplus	8,719	4.3	8,719	4.5	—
Retained earnings	109,184	54.1	108,070	55.5	1,113
Unrealized gain on marketable securities	917	0.5	824	0.4	93
Adjustment account for foreign exchange losses	(766)	(0.4)	(1,190)	(0.6)	424
Treasury stock	(1,408)	(0.7)	(4,205)	(2.2)	2,797
Total shareholders' equity	123,106	61.0	118,677	60.9	4,428
Total liabilities, minority interests and shareholders' equity	201,737	100.0	194,959	100.0	6,778

(2) Consolidated Statements of Income
(Years ended March 31)

(¥ millions)

	2005		2004		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	¥202,034	100.0	¥200,094	100.0	¥1,940	1.0
Cost of Sales	148,439	73.5	143,048	71.5	5,390	3.8
Gross Profit	53,595	26.5	57,045	28.5	(3,450)	(6.0)
Selling, general and administrative expenses	42,772	21.2	40,773	20.4	1,999	4.9
Operating income	10,822	5.4	16,272	8.1	(5,449)	(33.5)
Other income:	2,354	1.2	1,020	0.5	1,333	130.6
Interest income	480		290		190	
Dividends received	376		283		92	
Amortization of excess of equity over investment	13		—		13	
Equity in earnings of affiliate	17		23		(5)	
Foreign exchange loss	914		—		914	
Other	551		423		127	
Other expenses:	941	0.5	2,134	1.0	(1,193)	(55.9)
Interest expenses	620		645		(25)	
Foreign exchange loss~~es~~	—		1,171		(1,171)	
Loss on sale of notes receivable	309		274		35	
Other	11		43		(32)	
Ordinary income	12,235	6.1	15,158	7.6	(2,922)	(19.3)
Extraordinary income:	46	0.0	341	0.2	(295)	(86.4)
Gain on sales of investments in securities	4		38		(33)	
Insurance money received	40		259		(219)	
Other	1		43		(41)	
Extraordinary losses:	1,174	0.6	674	0.4	499	74.0
Loss on sales of fixed assets	86		2		83	
Loss on disposal of fixed assets	362		329		32	
Loss on devaluation of investments in securities	18		114		(95)	
Loss on devaluation of golf club memberships	—		58		(58)	
Prior patent usage fees	—		60		(60)	
Transfer to allowance for doubtful accounts	262		—		262	
Transfer to allowance for after-sales service	360		—		360	
Other	84		109		(24)	
Income before income taxes	11,107	5.5	14,824	7.4	(3,717)	(25.1)
Income taxes:						
Current	4,686	2.3	6,998	3.5	(2,312)	(33.0)
Deferred	(197)	(0.1)	(912)	(0.5)	715	(78.4)
Minority interests in earnings of consolidated subsidiaries	40	0.0	182	0.1	(141)	(77.8)
Net income	6,577	3.3	8,556	4.3	(1,978)	(23.1)

(3) Consolidated Statements of Retained Earnings
(Years ended March 31)

(¥ millions)

	2005		2004	
CAPITAL SURPLUS				
Capital surplus at beginning of year		8,719		8,719
Capital surplus at end of year		8,719		8,719
RETAINED EARNINGS				
Retained earnings at beginning of year		108,070		100,754
Increase:				
Net income	6,577		8,556	
Adjustments deferred taxes of overseas subsidiaries	63		—	
Revaluation of overseas subsidiaries' assets and other	61	6,702	—	8,556
Decrease:				
Dividends	1,354		1,192	
Board of Directors' bonuses	46		46	
Retirement of treasury stock	4,156		—	
Exclusion of scope of consolidation	27		—	
Other	3	5,589	1	1,240
Retained earnings at end of year		109,184		108,070

(4) Consolidated Statements of Cash Flows
(Years end March 31)

(¥ millions)

	2005	2004	Change
Cash flows from operating activities			
Income before income taxes	¥11,107	¥14,824	
Depreciation and amortization	7,016	6,407	
Amortization of excess of investment over equity	(13)	80	
Increase (decrease) in accrued employees' bonuses	22	(97)	
Increase (decrease) in accrued employees' retirement benefits	(1,277)	245	
Decrease (increase) in prepaid pension costs	1,403	660	
Interest and dividends income	(857)	(574)	
Interest expenses	620	645	
Equity in earnings of affiliates	(17)	(23)	
Loss on disposal of fixed assets	362	328	
Decrease (Increase) in trade receivables	(2,441)	(3,030)	
(Increase) in inventories	(654)	(903)	
Increase in trade payables	189	2,104	
(Decrease) in accrued consumption taxes	(77)	(35)	
Bonuses to officers	(49)	(49)	
Others	655	1,935	
Subtotal	15,989	22,520	(6,530)
Interest and dividends received	771	567	
Interest paid	(600)	(652)	
Income taxes paid	(6,937)	(6,381)	
Net cash provided by operating activities	9,223	16,054	(6,830)
Cash flows from investing activities			
Transfers to time deposits	(7,560)	(10,464)	
Withdrawals from time deposits	7,740	9,188	
Purchases of tangible fixed assets	(7,990)	(8,703)	
Proceeds from sales of tangible fixed assets	612	40	
Purchases of intangible fixed assets	(230)	(271)	
Purchases of investments in securities	(9,111)	(3,510)	
Proceeds from sales of investments in securities	3,639	684	
Other	9	(155)	
Net cash used in operating activities	(12,890)	(13,192)	301
Cash flows from financing activities			
Net increase (net decrease) in short-term debt	1,879	693	
Increase in long-term debt	957	1,171	
Decrease in long-term debt	—	(605)	
Purchases of treasury stock	(1,360)	(8)	
Dividends paid	(1,355)	(1,192)	
Dividends paid to minority shareholders	(44)	(39)	
Other	(1)	(19)	
Net cash provided by (used in) financing activities	75	(1)	77
Effect of exchange rate fluctuations on cash and cash equivalents	108	104	4
Net increase (decrease) in cash and cash equivalents	(3,482)	2,964	(6,446)
Cash and cash equivalents at beginning of year	36,493	33,529	2,964
Decrease in cash and cash equivalents due to exclusion of subsidiary from consolidation	(48)	—	(48)
Cash and cash equivalents at end of year	32,962	36,493	(3,531)

Significant Accounting Policies of Consolidated Financial Statements

A. Scope of Consolidation

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Rinnai Corporation (the "Corporation") and its consolidated subsidiaries (the "Corporation" and its consolidated subsidiaries are hereinafter collectedly referred to as the "Corporations")

Consolidated subsidiaries: 29 Companies

Please see the page of "I. Outline of Rinnai Group Companies."

Rinnai Tech Hokuriku Co., Ltd., a consolidated subsidiary in the previous fiscal year, integrated its business with Rinnai Tech Chubu Co., Ltd. Because of its consequent loss of importance, Rinnai Tech Hokuriku was excluded from the scope of consolidation in the fiscal year ended March 31, 2005.

Major unconsolidated subsidiary: Rinnai (Malaysia) Sdn. Bhd.

The above unconsolidated subsidiary is excluded from the scope of consolidation, because its activities have not been deemed material, and assets, net sales, net income, and retained earnings of the unconsolidated company are not significant compared to the consolidated amounts.

B. Application of Equity Method

One affiliated company for which the equity method is applied:

Equipamentos NGK-Rinnai Ltda.

Because the fiscal year-end date of the above affiliate differs from the parent company, the financial statements pertaining to the business year of that company are used in the preparation of these financial statements.

Major unconsolidated subsidiary or affiliate for which the equity method was not applied:

Rinnai (Malaysia) Sdn. Bhd.; P.T. Rinnai Indonesia

The above company is excluded from application under the equity method because its net income and retained earnings are not significant compared with the consolidated amounts and its activities are not deemed material.

C. Fiscal Year-End of Consolidated Subsidiaries

Subsidiaries for which the closing date of the fiscal year differs from the date of the consolidated term: 10 companies (annual closing date: December 31)

In preparing its consolidated financial statements, the Corporation has used data as of December 31. Major translations that occurred during the period to the consolidated fiscal year-end have been reconciled appropriately in the consolidated accounts.

D. Significant Accounting Policies

(1) Valuation standards and calculation methods for significant assets

(a) Securities

- Of marketable securities and investments in securities, listed securities are stated at market value, based on the fair market value at the end of the period. (Unrealized gain or loss, net of income taxes is reported in shareholders' equity, while any cost of sales is calculated based on a moving-average cost method).
- Non-marketable securities are stated at cost or amortized cost using the moving-average cost method.

(b) Inventories

- Finished goods: Valued at cost using the first-in, first-out method
- Raw materials and supplies: Valued at cost using the last purchase price method

(2) Depreciation of fixed assets

<u>Property, plant and equipment</u>

The Corporation and its domestic consolidated subsidiaries use the declining-balance method.
Consolidated subsidiaries outside Japan use the straight-line method.
Estimated useful lives of principal items are as follows:

Buildings: 7-50 years
Machinery: 10-17 years
Tools, furniture, and fixtures: 2-15 years

(3) Reporting standards for major accruals

Allowance for doubtful accounts:

The Corporations provides for possible loan losses and records on the books the amounts that are unlikely to be recovered. Primarily, this consists of an allowance for general claims, calculated according to historical loss ratios, and an allowance for specific claims, such as bankrupted or doubtful loans calculated based on the potential to recover respective credits.

Accrued employees' bonuses:

Accrued employees' bonuses are provided for at the estimated amounts, which are to be paid for services rendered prior to the term-end.

Accrued employees' retirement benefits:

Pension costs for employees are accrued based on the projected benefit obligations and pension assets at the term-end. The unrealized past employment obligation is expensed as incurred using the straight-line method, over a specified period (5 years) within the average remaining employee work period. Actuarial losses are deferred and amortized, using the straight-line method, over a specified period (10 years) within the average remaining years of service for employees subsequent to the year of occurrence.

Additional Information

The Corporation and some of its domestic consolidated subsidiaries have provided as defined benefits systems an Employee's Pension Fund, a Tax-Qualified Pension Fund and a lump-sum retirement program. On May 1, 2004, they transformed the Employee's Pension Fund into a Defined Contribution Corporate Pension Fund, and integrated the Tax-Qualified Pension Fund into that fund.

At the same time, the Corporation shifted to a cash balance plan.

Under the new scheme, retiring employees with three or more years of service will receive 90% of their retirement benefit from Defined Contribution Corporate Pension Fund and 10% from the lump-sum retirement program.

In certain cases, employees will receive an additional payment upon retirement, which is not calculated arithmetically based on retirement benefit accounting standards.

This change of the systems led to a ¥30 million extraordinary loss in the fiscal year ended March 31, 2005.

In line with the enactment of the Defined Contribution Pension Law, on December 1, 2002, the Corporation and some of its domestic consolidated subsidiaries received an approval of the release from the future substitutional portion of the Government's Welfare Pension Insurance, from the Minister for Health, Labor and Welfare, and applied interim measures pursuant to Article 47-2 of Enforcement Guidelines Concerning Retirement Benefit Accounting (Japan CPA Association Accounting System Committee Report No. 13). As a result, their retirement benefit obligations and the repayment equivalent of their pension assets pertaining to their contributions to the employees' pension fund were regarded as extinguished. On May 1, 2004, they received an approval from the Minister for the release from the prior year substitutional portion. The repayment amount (minimum obligation) was transferred to the national government on September 9, 2004.

This repayment led to a ¥16 million extraordinary loss in the fiscal year ended March 31, 2005.

Accrued officers' retirement benefits:

Accrued officers' retirement benefits are provided for the amount required at the term-end under each Group company's bylaws to prepare for payment to retiring officers.

(4) Translation of major foreign-currency assets and liabilities

Claims and credits denominated in foreign currencies are translated into yen at spot market exchange rates prevailing on the term-end, and gains or losses are credited or charged to income as incurred. The assets and liabilities of overseas subsidiaries, etc., are translated into yen at the spot rates prevailing at the term-end, while earnings and expenditures are translated into yen amounts at the average exchange rate of the term. Differences arising from translation are recorded in minority interests and in the adjustment account for foreign exchange losses under shareholders' equity on the consolidated financial statements.

(5) Accounting for leasing transactions

Finance leasing transactions other than those of which ownership is fully transferred to the lessee are treated in the same way as ordinary leasing transactions.

(6) Major hedge-accounting methods

(a) Hedge-accounting method

As for operating debts and credits denominated in foreign currencies with exchange contracts, gains or losses are deferred until maturity of the exchange contracts. Exchange contracts on transactions undertaken among consolidated companies are accounted for at fair value and gains or losses are recognized as incurred. There were no applicable items at the end of the fiscal year ended March 31, 2005.

(b) Hedging method and hedging objective

Hedging method: Derivatives transactions (exchange contract transactions)

Hedging objective: To avert possible losses incurred through exchange rate fluctuations.

(c) Hedging policy

The purpose is to avert risk prompted by fluctuating exchange rates and no speculative trading is conducted.

(d) Method for effectively assessing hedge transactions

The Corporations utilize exchange rate contract transactions that ensure effective hedging.

(e) Other

The Corporations execute derivative transactions within limits determined by their corporate rules.

(7) Another important accounting policy

Accounting for consumption taxes

Consumption taxes are not included in revenues and expenses.

E. Evaluation of assets and liabilities in consolidated subsidiaries

All subsidiary assets and liabilities are marked to fair value at the time of acquisition of control.

F. Amortization of excess of investment over equity

The Corporation amortizes the excess of investment over equity at the time of acquisition equally over five years.

G. Appropriation of retained earnings

Appropriation of retained earnings or disposition of deficit of the Corporations are recorded in the financial term that a proposed appropriation or disposition is approved by the general meeting of shareholders.

H. Scope of funds in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows comprise cash on hand, demand deposits and short-term investments that are readily convertible into cash, are exposed to insignificant risk of changes in value and are redeemable in three months or less.

Notes to Financial Statements

1. Notes to Consolidated Balance Sheets

(¥ millions)

	March 31, 2005	March 31, 2004
(1) Accumulated depreciation of property, plant, and equipment	64,494	60,674
(2) Items related to unconsolidated subsidiaries and affiliates		
Investments in securities	953	914
Investments	353	338
(3) Assets pledged as collateral and related liabilities		
Pledged assets:		
Time deposits	1,629	1,388
Buildings and others	3,358	3,247
Machinery	398	331
Land	2,392	2,294
Total	7,779	7,262
Liabilities related to pledged assets:		
Trade notes discounted	7,646	7,582
Short-term debt	2,894	2,793
Long-term debt	391	—
(4) Liability for guarantee	541	446
(5) Trade notes receivable discounted	7,728	7,563
(6) Trade notes receivable transferred by endorsement	1,311	1,056
(7) Shares issued		
Common stock (shares)	54,216,463	55,787,463
(8) Treasury stock		
Common stock (shares)	529,560	1,590,023

2. Notes to Consolidated Statements of Income

(¥ millions)

	March 31, 2005	March 31, 2004
(1) Expenses for research and development included in general and administrative expenses and production costs in the current term	6,345	5,776

3. Amounts less than one million yen are omitted on the consolidated financial statements,

Notes to Statements of Cash Flows

(¥ millions)

Reconciliation of cash and cash equivalents, and balance-sheet items at end of terms

	March 31, 2005	March 31, 2004
Cash and deposits	20,772	24,155
Securities	17,601	17,184
Time deposits exceeding 3 months	(4,210)	(4,746)
Liabilities exceeding 3 months to maturity	(1,201)	(99)
Cash and cash equivalents at end of year	32,962	36,493

1. Segment Information

A. Business segment information

The Corporations are engaged in the manufacturing and marketing of gas appliances. In consideration of similarity in product type, characteristics, production method and sales market, the business segment information was omitted.

B. Geographic segment information

Year ended March 31, 2005 (¥ millions)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
I. Net sales and operating results						
(1) Sales for clients	148,956	35,414	17,663	202,034	—	202,034
(2) Intersegment sales	10,832	2,170	358	13,360	(13,360)	—
Total	159,788	37,584	18,022	215,395	(13,360)	202,034
Operating expenses	152,233	37,027	15,339	204,599	(13,387)	191,212
Operating income	7,555	557	2,683	10,796	26	10,822
II. Assets	164,084	35,944	11,785	211,814	(10,077)	201,737

Year ended March 31, 2004 (¥ millions)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
I. Net sales and operating results						
(1) Sales for clients	149,874	34,715	15,504	200,094	—	200,094
(2) Intersegment sales	9,464	1,907	302	11,674	(11,674)	—
Total	159,338	36,623	15,806	211,768	(11,674)	200,094
Operating expenses	146,873	34,817	13,781	195,472	(11,650)	183,822
Operating income	12,464	1,806	2,025	16,296	(24)	16,272
II. Assets	165,292	30,059	9,631	204,983	(10,023)	194,959

Notes: 1. Classification of the above regions is based on geographical proximity.
2. Composition of Asia, excluding Japan: South Korea, China, Taiwan, Thailand, and Singapore
Composition of Others: Australia, New Zealand, and United States.

C. Overseas sales

Year ended March 31, 2005 (¥ millions)

	Asia	Other regions	Total
I. Overseas sales	40,524	18,552	59,076
II. Consolidated net sales	—	—	202,034
III. Composition ratio of overseas sales to consolidated net sales	20.1%	9.2%	29.2%

Year ended March 31, 2004 (¥ millions)

	Asia	Other regions	Total
I. Overseas sales	40,190	16,462	56,653
II. Consolidated net sales	—	—	200,094
III. Composition ratio of overseas sales to consolidated net sales	20.1%	8.2%	28.3%

Notes: 1. Classification of the above regions is based on geographical proximity.
2. Composition of Asia: South Korea, China, Taiwan, Thailand, Singapore, Indonesia, Malaysia, and Vietnam
Composition of Others: Australia, New Zealand, and United States.
3. Net sales of the above indicates sales of the Corporations in overseas countries or regions.

2. Lease transactions

Details of lease transactions are disclosed on EDINET.

3. Transactions with affiliates

No applicable transactions.

4. Tax-effect accounting

Composition of assets and liabilities of deferred income taxes：

(¥ millions)

	March 31, 2005
Deferred income tax assets:	
Non-deductible valuation loss on inventories	434
Overdepreciation of fixed assets	613
Accrued enterprise taxes	234
Accrued employees’ bonuses	785
Accrued employees’ retirement benefits	1,551
Accrued officer’s retirement benefits	712
Elimination between consolidated companies	341
Other	753
Sub-total	5,426
Loss allowance	(68)
Total	5,358
Deferred income tax liabilities:	
Unrealized gain on marketable securities	642
Other	28
Total	670
Deferred income taxes (Net)	4,687

(2) Reason for difference in legal effective tax rate and corporate tax rate after applying tax-effect accounting

This note has been omitted because the difference between the legal effective tax rate and corporate tax rate after applying tax-effect accounting was less than 5%.

5.Securities

As of March 31, 2005

(1) Securities with market value (¥ millions)

		Acquisition cost	Balance sheet amount	Unrealized gain (loss)
Where balance-sheet amounts exceed acquisition costs	(1) Stocks	2,270	4,033	1,763
	(2) Bonds	9,518	9,579	61
	(3) Others	79	119	40
	Total	11,867	13,732	1,865
Where balance-sheet amounts do not exceed acquisition costs	(1) Stocks	102	63	(38)
	(2) Bonds	6,605	6,325	(279)
	(3) Others	—	—	—
	Total	6,707	6,389	(318)
Total		18,574	20,121	1,547

Note: The Corporations recorded a valuation loss of ¥18 million in the consolidated fiscal year ended March 31, 2005.

(2) Securities sold during the year (¥ millions)

Sales Amount	Gain on sale	Loss on sale
3,639	4	0

(3) Major non-marketable securities (¥ millions)

	Balance sheet amount
Securities:	
Unlisted stocks (excluding over-the counter transactions)	2,881
Money management fund and others	16,599
Total	19,481

(4) Redemption schedule of securities with maturities (¥ millions)

	Less than 1 year	1-5 years	5-10 years	More than 10 years
Bonds:				
Corporate bonds	1,201	8,552	723	5,627

As of March 31, 2004

(1) Securities with market value (¥ millions)

		Acquisition cost	Balance sheet amount	Unrealized gain (loss)
Where balance-sheet amounts exceed acquisition costs	(1) Stocks	2,222	3,590	1,368
	(2) Bonds	6,601	6,634	32
	(3) Others	79	117	38
	Total	8,903	10,342	1,438
Where balance-sheet amounts do not exceed acquisition costs	(1) Stocks	101	71	(30)
	(2) Bonds	4,134	4,108	(26)
	(3) Others	—	—	—
	Total	4,236	4,179	(56)
Total		13,139	14,521	1,382

Note: The Corporations recorded a loss of ¥16 million in the consolidated fiscal year ended March 31, 2004.

(2) Securities sold during the year (¥ millions)

Sales Amount	Gain on sale	Loss on sale
684	38	—

(3) Major non-marketable securities (¥ millions)

	Balance sheet amount
Securities:	
Unlisted stocks (excluding over-the counter transactions)	2,862
Unlisted foreign bonds	5
Money management fund and others	17,184
Total	20,052

(4) Redemption schedule of securities with maturities (¥ millions)

	Less than 1 year	1-5 years	5-10 years	More than 10 years
Bonds:				
Corporate bonds	2,126	7,709	907	—
Unlisted foreign bonds	5	—	—	—
Total	2,131	7,709	907	—

6. Derivative Transactions

Details of derivative transactions are disclosed on EDINET.

7. Retirement Benefits

(a) Summary of the Corporations' Retirement Benefits Programs

The Corporation and some of its domestic consolidated subsidiaries have provided as defined benefits systems an Employee's Pension Fund, a Tax-Qualified Pension Fund and a lump-sum retirement program. On May 1, 2004, they transformed the Employee's Pension Fund into a Defined Contribution Corporate Pension Fund, and integrated the Tax-Qualified Pension Fund into that fund.

At the same time, the Corporation shifted to a cash balance plan.

Under the new scheme, retiring employees with three or more years of service will receive 90% of their retirement benefit from Defined Contribution Corporate Pension Fund and 10% from the lump-sum retirement program.

In certain cases, employees will receive an additional payment upon retirement, which is not calculated arithmetically based on retirement benefit accounting standards.

(b) Retirement Benefits Obligation (¥ millions)

	March 31, 2005	March 31, 2004
(1) Retirement benefit obligation	(25,712)	(27,255)
(2) Pension assets (market value)	23,193	22,513
(3) Unfunded retirement benefits obligation (1+2)	(2,518)	(4,742)
(4) Unrealized actuarial loss	1,645	4,035
(5) Unrealized obligation for past employment	82	—
(6) Net amount recognized on the balance sheets (3+4+5)	(790)	(707)
(7) Prepaid pension costs	2,288	3,691
(8) Accrued retirement benefits (6–7)	(3,078)	(4,399)

Notes: Consolidated subsidiaries apply simplified method to calculate pension benefits obligation.

(c) Expenses for Pension Benefits (¥ millions)

	March 31, 2005	March 31, 2004
(1) Service cost	1,725	2,043
(2) Interest expenses	482	525
(3) Projected investment income	(36)	(235)
(4) Amortization of unrealized actuarial loss	528	698
(5) Amortization of unrealized past employment obligation	18	—
(6) Additional supplementary severance payments	32	10
(7) Retirement benefit expenses (1+2+3+4+5+6)	2,751	3,041

Notes: Expenses for pension benefits of consolidated subsidiaries applying simplified method are included in employment expenses.

(d) Calculation Basis for Retirement Benefits Obligation

	March 31, 2005	March 31, 2004
(1) Distribution method of projected amount of retirement benefits	Fixed Amount	Fixed Amount
(2) Discount rate	2.0%	2.0%
(3) Ratio of projected investment income	—	—
(4) Amortization of prior service obligation	5 years	—
(5) Amortization of unrealized actuarial loss	10 years	10 years

V. Production and Sales Information

(1) Production value (¥ millions)

Division	Year ended March 31, 2005		Year ended March 31, 2004		Increase (Decrease)	
	Amount	% of total	Amount	% of total	Amount	% change
Kitchen appliances	63,529	37.8	66,900	40.2	(3,370)	(5.0)
Hot-water units	77,236	46.0	73,753	44.4	3,483	4.7
Air-conditioning and heating units	14,159	8.4	13,719	8.3	439	3.2
Commercial-use equipment	2,667	1.6	2,541	1.5	125	4.9
Others	10,265	6.1	9,332	5.6	932	10.0
Total	167,858	100.0	166,247	100.0	1,610	1.0

Notes: 1. Above amounts are based on sales prices.
2. Above amounts do not include consumption tax.

(2) Product purchases (¥ millions)

Division	Year ended March 31, 2005		Year ended March 31, 2004		Increase (Decrease)	
	Amount	% of total	Amount	% of total	Amount	% change
Kitchen appliances	2,786	7.9	2,701	7.9	84	3.1
Hot-water units	14,875	42.3	15,908	46.2	(1,032)	(6.5)
Air-conditioning and heating units	2,237	6.4	1,595	4.6	641	40.2
Commercial-use equipment	3,195	9.1	3,336	9.7	(141)	(4.2)
Others	12,080	34.3	10,875	31.6	1,204	11.1
Total	35,174	100.0	34,418	100.0	756	2.2

Notes: 1. Above amounts are based on sales prices.
2. Above amounts do not include consumption tax.

(3) Order status

The Group practices a production method based on order projections. Therefore, no order status is available for the current term.

(4) Sales performance (¥ millions)

Division	Year ended March 31, 2005		Year ended March 31, 2004		Increase (Decrease)	
	Amount	% of total	Amount	% of total	Amount	% change
Kitchen appliances	64,328	31.8	67,659	33.8	(3,331)	(4.9)
Hot-water units	91,058	45.1	88,276	44.1	2,782	3.2
Air-conditioning and heating units	18,679	9.2	17,565	8.8	1,113	6.3
Commercial-use equipment	5,945	2.9	6,206	3.1	(260)	(4.2)
Others	22,022	10.9	20,385	10.2	1,637	8.0
Total	202,034	100.0	200,094	100.0	1,940	1.0

Note: Above amounts do not include consumption tax.