

# Consolidated Financial Results

## First Quarter of the Fiscal Year Ending March 2006

(June 2005 quarter: April 1–June 30, 2005)

August 11, 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: No

### 2. Performance in the First Quarter of the Fiscal Year Ending March 31, 2006

(April 1–June 30, 2005; amounts less than one million yen are omitted)

#### (1) Operating Results

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)
June 2005 Quarter	42,450 (+0.7)	709 (−60.7)	1,119(−50.5)	462 (−63.0)
June 2004 Quarter	42,163 (+5.7)	1,806 (−1.5)	2,262 (+42.0)	1,252 (+51.0)
Year Ended March 2005 (reference)	202,034 (+1.0)	10,822 (−33.5)	12,235(−19.3)	6,577 (−23.1)

	Net Income Per Share (¥)	Fully Diluted Net Income Per Share (¥)
June 2005 Quarter	8.60	—
June 2004 Quarter	23.10	—
Year Ended March 2005 (reference)	121.50	—

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

### Consolidated Performance Progress Report

In the quarter under review (first quarter period ended June 30, 2005), the Japanese economy benefited from an increase in capital spending and a turnaround in personal consumption, prompting forecasts of moderate economic recovery. However, full-scale recovery failed to take hold due to various lingering concerns, including a slowdown in exports and high crude oil and raw materials prices. Despite solid housing starts and healthy replacement demand, housing-related sectors were affected significantly by falling prices, leading to a very difficult market environment.

In response, the Rinnai Group strove to build a highly profitable business foundation by rearranging its product lineup and stepping up investments in new products. Overall sales increased slightly as expansion of our overseas business compensated for a decline in domestic sales volume. However, year-on-year earnings were down due to lower sales prices amid

intense competition, as well as surging prices of raw materials.

As a result, consolidated net sales in the quarter amounted to ¥42,450 million, up 0.7% from the previous corresponding period. Operating income declined 60.7%, to ¥709 million, and ordinary income fell 50.5%, to ¥1,119 million. Net income dropped 63.0%, to ¥462 million.

A breakdown of results by business segment is shown below.

### **Sales Composition**

(¥ millions)

	June 2005 Quarter		June 2004 Quarter		Change		Year Ended March 2005 (reference)	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	14,033	33.1	14,695	34.9	(662)	(4.5)	64,328	31.8
Hot-water units	19,885	46.8	19,277	45.7	608	3.2	91,058	45.1
Air-conditioning and heating units	1,742	4.1	1,843	4.4	(201)	(5.5)	18,679	9.2
Commercial-use Equipment	1,528	3.6	1,530	3.6	(1)	(0.1)	5,945	2.9
Others	5,260	12.4	4,816	11.4	444	9.2	22,022	10.9
Total	42,450	100.0	42,163	100.0	286	0.7	202,034	100.0

### **(2) Consolidated Financial Position**

(¥ millions)

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Equity per Share (¥)
June 2005 Quarter	202,691	124,684	61.5	2,301.05
June 2004 Quarter	193,363	119,227	61.7	2,199.95
Year Ended March 2005 (reference)	201,737	123,106	61.0	2,292.99

### **[ Consolidated Cash Flows ]**

(¥ millions)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
June 2005 Quarter	(1,990)	(6,444)	3,604	27,741
June 2004 Quarter	(2,838)	(2,064)	1,780	33,317
Year Ended March 2005 (reference)	9,223	(12,890)	75	32,962

### **Financial Position**

At June 30, 2005, Rinnai had total assets of ¥202,691 million, up ¥953 million from March 31, 2005. Total liabilities amounted to 73,522 million, down ¥850 million, and total shareholders' equity was ¥124,684 million, up ¥1,578 million. The equity ratio was 61.5%.

At June 30, 2005, cash and cash equivalents totaled ¥27,741 million, down ¥5,221 million from March 31, 2005.

For the quarter under review, net cash used in operating activities amounted to ¥1,990 million, due mainly to an increase in inventories, a decrease in notes and accounts payable, and payment of income taxes.

Net cash used in investing activities totaled ¥6,444 million, stemming primarily from purchases of property, plant, and equipment and purchases of investments in securities.

Net cash provided by financing activities was ¥3,604 million, owing principally to increases in short-term borrowings by overseas subsidiaries and proceeds from sales of treasury stock.

### 3. Forecast for the Fiscal Year Ending March 31, 2006

(April 1, 2005–March 31, 2006)

#### (1) Consolidated

	(¥ millions)		
	Net Sales	Ordinary Income	Net Income
Interim	93,500	3,000	1,100
Full year	210,000	10,400	5,000

#### (2) Nonconsolidated

	(¥ millions)		
	Net Sales	Ordinary Income	Net Income
Interim	68,600	2,300	1,000
Full year	152,000	6,000	2,800

#### *Note on Forecasts*

In light of its performance in the quarter period under review and its business trends going forward, Rinnai revised its consolidated and nonconsolidated forecasts for the interim period ending September 30, 2005, and the fiscal year ending March 31, 2006 (forecasts initially announced on May 17, 2005), as shown in the above tables.

\*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 first quarter Balance Sheets and Statements of Income

## 1. Consolidated Balance Sheets (Summary)

(¥ millions)

	June 2005 Quarter	June 2004 Quarter	Change		Year Ended March 2005 (Reference)
			Amount	%	
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and deposits	16,415	18,956	(2,540)	(13.4)	20,772
Notes and accounts receivable	54,432	51,134	3,297	6.4	57,933
Marketable securities	18,601	18,814	(212)	(1.1)	17,601
Inventories	27,408	27,220	188	0.7	24,006
Other	4,544	3,744	800	21.4	3,554
<b>Total current assets</b>	<b>121,402</b>	<b>119,869</b>	<b>1,533</b>	<b>1.3</b>	<b>123,869</b>
<b>Fixed assets</b>					
Property, plant and equipment	42,963	41,115	1,848	4.5	42,130
Intangible fixed assets	885	685	200	29.2	809
Investments and advances					
Investments in securities	25,626	18,794	6,831	36.4	23,020
Other	11,813	12,898	(1,085)	(8.4)	11,907
Total Investments and advances	37,439	31,692	5,746	18.1	34,928
<b>Total fixed assets</b>	<b>81,288</b>	<b>73,493</b>	<b>7,795</b>	<b>10.6</b>	<b>77,868</b>
<b>Total assets</b>	<b>202,691</b>	<b>193,363</b>	<b>9,328</b>	<b>4.8</b>	<b>201,737</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Notes and accounts payable	35,296	36,097	(801)	(2.2)	38,284
Short-term debt	11,527	6,215	5,312	85.5	8,213
Other payables	7,100	6,224	876	14.1	7,833
Other	7,965	7,541	423	5.6	8,223
<b>Total current liabilities</b>	<b>61,890</b>	<b>56,078</b>	<b>5,811</b>	<b>10.4</b>	<b>62,555</b>
<b>Long-term liabilities</b>					
Long-term debt	5,894	6,978	(1,083)	(15.5)	6,047
Other	5,737	7,244	(1,507)	(20.8)	5,769
<b>Total long-term liabilities</b>	<b>11,631</b>	<b>14,223</b>	<b>(2,591)</b>	<b>(18.2)</b>	<b>11,817</b>
<b>Total liabilities</b>	<b>73,522</b>	<b>70,301</b>	<b>3,220</b>	<b>4.6</b>	<b>74,372</b>
<b>MINORITY INTERESTS</b>	<b>4,484</b>	<b>3,833</b>	<b>651</b>	<b>17.0</b>	<b>4,258</b>
<b>SHAREHOLDERS' EQUITY</b>					
Common stock	6,459	6,459	—	—	6,459
Capital surplus	8,719	8,719	—	—	8,719
Retained earnings	108,901	108,598	303	0.3	109,184
Unrealized gain on marketable securities	1,016	849	167	19.8	917
Adjustment account for foreign exchange losses	(331)	(1,187)	855	(72.1)	(766)
Treasury stock	(81)	(4,211)	4,130	(98.1)	(1,408)
<b>Total shareholders' equity</b>	<b>124,684</b>	<b>119,227</b>	<b>5,457</b>	<b>4.6</b>	<b>123,106</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>202,691</b>	<b>193,363</b>	<b>9,328</b>	<b>4.8</b>	<b>201,737</b>

## 2. Consolidated Statements of Income (Summary)

(¥ millions)

	June 2005 Quarter	June 2004 Quarter	Change		Year Ended March 2005 (Reference)
			Amount	%	
Net sales	42,450	42,163	286	0.7	202,034
Cost of sales	31,407	30,479	927	3.0	148,439
Gross profit	11,043	11,684	(640)	(5.5)	53,595
Selling, general and administrative expenses	10,333	9,877	456	4.6	42,772
Operating income	709	1,806	(1,097)	(60.7)	10,822
Other profits	734	660	73	11.1	2,354
Other expenses	324	204	119	58.5	941
Ordinary income	1,119	2,262	(1,143)	(50.5)	12,235
Extraordinary income	126	14	111	750.4	46
Extraordinary loss	26	92	(65)	(70.9)	1,174
Income before income taxes	1,218	2,184	(966)	(44.2)	11,107
Income taxes	687	1,121	(434)	(38.7)	4,488
Minority interests in earnings (losses) of affiliates	67	(189)	256	(135.9)	40
Net income	462	1,252	(789)	(63.0)	6,577