Consolidated Interim Financial Results
(April 1 to September 30, 2005)

November 17, 2005

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: Hiroyasu Naito, President
Contact: Tsutomu Miyata, Director; Senior Executive Officer of Administration Headquarters
TEL: (052) 361-8211
Date of the Board of Directors' Meeting on the Settlement of Accounts: November 17, 2005
Application of U.S. Accounting Standards: No

1. Performance for the Six Months Ended September 30, 2005
(April 1 – September 30, 2005; 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, 2005	92,968 (1.8)	2,627 (-25.5)	3,346 (-21.2)
September 30, 2004	91,340 (3.6)	3,527 (-26.3)	4,245 (-8.9)
(Year to) March 31, 2005	202,034	10,822	12,235

	Net income (YOY % change)	Net income per share (¥)	Fully diluted net income per share (¥)
September 30, 2005	1,416 (-44.8)	26.24	—
September 30, 2004	2,568 (-1.5)	47.39	—
(Year to) March 31, 2005	6,577	121.50	—

Notes:
1. Equity in earnings of equity-method affiliates
   Six months to September 30, 2005: ¥11 million
   Six months to September 30, 2004: ¥12 million
   Year to March 31, 2005: ¥17 million
2. Number of average shares outstanding (consolidated)
   Six months to September 30, 2005: 53,971,345 shares
   Six months to September 30, 2004: 54,195,726 shares
   Year to March 31, 2005: 54,116,642 shares
3. Changes in accounting policy: None
4. 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, 2005	206,899	125,862	60.8	2,322.88
September 30, 2004	196,183	120,216	61.3	2,218.26
March 31, 2005	201,737	123,106	61.0	2,292.99

Note:
Number of shares outstanding at interim term-end (consolidated):
September 30, 2005: 54,184,113 shares
September 30, 2004: 54,194,134 shares
March 31, 2005: 53,686,903 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, 2005	(2,718)	(7,754)	4,065	26,813
September 30, 2004	(4,543)	(6,085)	3,870	29,569
March 31, 2005	9,223	(12,890)	75	32,962

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

2. Forecast for Fiscal Year Ending March 31, 2006

(April 1, 2005 – March 31, 2006)

(¥ millions)

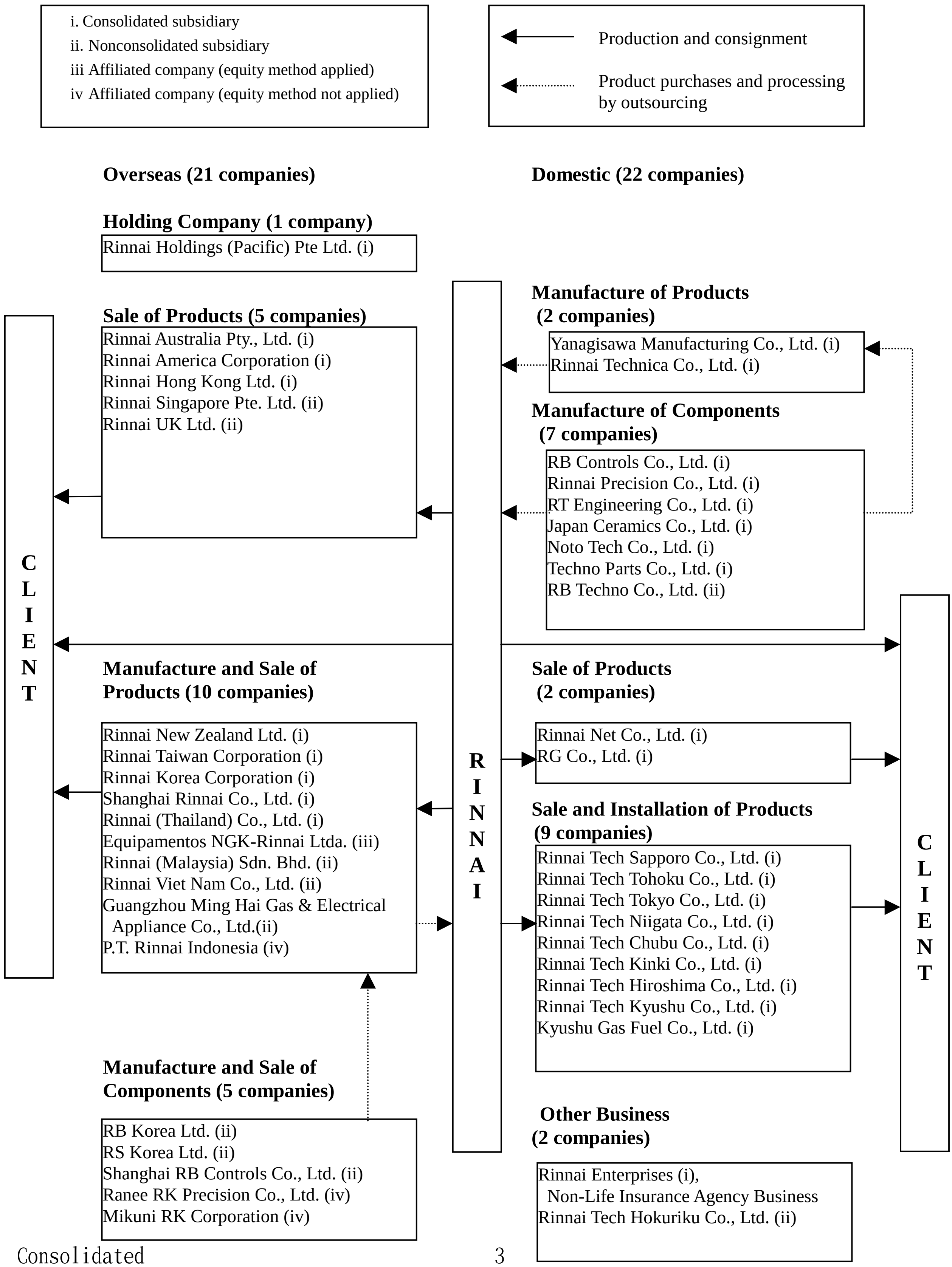
	Net sales	Ordinary income	Net income
Year to March 31, 2006	210,000	10,400	5,000

(Reference) Forecast net income per share (full year): ¥92.28

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 allocate retained earnings to domestic and overseas business development aimed at maximizing future 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 domestic and overseas subsidiaries.

The role of the Board of Directors is to make decisions on important matters, such as items determined by law and fundamental business strategies. The Board also monitors the progress of business execution to ensure optimal operations. In June 2005, the Corporation introduced 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, 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. In the latter half of the current fiscal year, we will establish a Business Ethics Hotline as part of our effort to quickly grasp important information related to compliance and resolve issues as necessary.

With respect to risk management, Rinnai established the Crisis Management Preparation Committee. In addition to meeting every month, the Committee convenes meetings with various departments related to risk. It works to strengthen its ability to prevent incidents from occurring and respond appropriately when incidents occur, in order to minimize risks arising in Japan and overseas.

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 Natsuki Matsui and Kaoru Ogawa.

III. Performance and Financial Position

(1) The Interim Period in Review

During the interim period in review—the six months ended September 30, 2005—the Japanese economy showed a moderate recovery trend, boosted by increased private-sector capital spending in the wake of enhanced corporate earnings, as well as from continued increases in personal consumption amid steady improvements in employment conditions.

The domestic gas appliance industry benefited from an upturn in total housing starts despite some weakness in demand for new housing. However, conditions remained difficult due to the powerful effects of declines in sales prices in the market.

In response, the Rinnai Group strove to develop products that make people's lives more comfortable, with the emphasis on peace of mind, safety, and function. In line with our high-value-added product strategy, we sought to energize mature markets by reorganizing our product lineup. Amid stiff competition in the domestic market due to a shift to electricity-powered appliances, we highlighted the superior attributes of gas appliances to our customers, and we pursued various initiatives with a priority on satisfying customer needs.

On the revenue side, we recorded a decline in unit sales in Japan due to stiff competition for market share. Owing to our high-value-added product strategy, however, sales in value terms declined only slightly. Overseas, we posted an increase in revenue thanks to higher sales of hot-water units in the United States and steady expansion of our business in Asian markets.

However, year-on-year earnings were down as our Group-wide cost-cutting activities failed to fully compensate for such factors as lower sales prices, surging costs of raw materials, and increased depreciation expenses associated with investments in new products.

As a result, consolidated interim net sales amounted to ¥92,968 million, up 1.8% from the previous corresponding period. Operating income fell 25.5%, to ¥2,627 million, and ordinary income slipped 21.2%, to ¥3,346 million. Interim net income dropped 44.8%, to ¥1,416 million.

Our results by business segment were as follows:

Kitchen Appliances

In Japan, Rinnai expanded its line of mainstay built-in cookers with the launch of new models with glass surface plates that conform to the revised Energy Saving Law, which comes into force in 2008. We also strove to enhance the overall safety of our gas cookers, equipping all models with devices to prevent tempura oil from catching fire. In these and other ways, we reinforced our lineup to address customer needs and social issues. However, domestic sales in this segment declined to the onslaught of electricity-powered appliances and sluggish demand. Overseas, sales in various Asian nations recovered, but this was not enough to counter the decline in domestic sales. As a consequence, total segment sales decreased 1.6%.

Hot-Water Units

During the term, we unveiled in Japan the Yukko UFV A28 series of high-performance gas bath-heating/hot-water systems, as well as a bathroom heater/dryer with bacteria-killing cluster ion technologies and a mist sauna unit. Both products were well received in the market. However, domestic sales were weak due to the effects of declines in unit sales prices of heating systems, including bath hot-water units and hot-water/heating systems. By contrast, overseas sales were boosted by strong demand for instant-heating hot-water units in the United States and a solid performance in China. Overall sales in this segment, therefore, rose 1.7%.

Air-Conditioning and Heating Units

In Japan, we launched a new type of gas fan heater with excellent interior-design features and bacteria-killing cluster ion technologies. Our GHP (gas heating products) business also reported increased sales in Japan and South Korea. Consequently, total sales in this segment grew 4.5%.

Commercial-Use Equipment

Domestic sales of large commercial-use cooking ovens, which rose in the previous fiscal year, declined in the interim period under review. As a result, total segment sales fell 5.8% year-on-year.

Others

Total sales in this segment climbed 12.7% thanks to increased domestic sales of components and materials, as well as higher revenue from installation services accompanying the shift to system-based gas appliances.

(2) Cash Dividends

The Corporation plans to declare an interim cash dividend of ¥14.00 per share, up ¥1.00 from the previous interim period.

(3) Financial Position

Cash and cash equivalents at September 30, 2005, amounted to ¥26,813 million, down ¥6,149 million, or 18.7%, from March 31. This was the net result of ¥2,718 million net cash used in operating activities, ¥7,754 million net cash used in investing activities, and ¥4,065 million net cash providing by financing activities.

Despite a ¥1,492 million (36.7%) decline in income before income taxes, net cash used in operating activities totaled ¥2,718 million, down ¥1,825 million, or 40.2%, from the previous corresponding period. This stemmed mainly from an ¥839 million net decrease in notes and accounts receivable (¥1,129 million increase in the previous interim period) and a ¥2,240 million (47.4%) decline in income taxes paid.

Net cash used in investing activities amounted to ¥7,754 million, up ¥1,669 million, or 27.4%. This was principally the result of a ¥677 million (16.3%) increase in purchases of property, plant, and equipment and an ¥854 million (35.1%) increase in the net outflow from purchases/sales of marketable securities and investments in securities.

Net cash provided by financing activities was ¥4,065 million, up ¥195 million, or 5.0%. This was mainly due to ¥1,284 million in proceeds from sales of treasury stock, which outweighed a ¥480 million (12.0%) decline in funds raised due to the net change in short- and long-term borrowings of overseas subsidiaries.

(4) Outlook for Remainder of Year Ending March 31, 2006

For the remainder of the fiscal year, the Japanese economy is expected to follow a course of moderate recovery. However, we must not overlook various destabilizing factors, such as prolonged increases in crude oil prices and the potential for personal consumption to turn downward due to concerns about the cost of social security and government deliberations about raising the consumption tax rate. For these reasons, the situation will remain unpredictable.

Under these conditions, the Rinnai Group will stand united as it pursues ongoing strategies emphasizing high-value-added products and targets structural reforms aimed at a recovery in earnings.

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 ¥10.4 billion, down 15.0%; and net income of ¥5.0 billion, down 24.0%.

IV. Consolidated Interim Financial Statements

(1) Consolidated Balance Sheets (At September 30)

(¥ millions)

	2005		2004		Change	March 31, 2005	
	Amount	% of total	Amount	% of total	Amount	Amount	% of total
ASSETS							
Current assets							
Cash and deposits	¥ 17,336		¥19,199		¥(1,863)	¥20,772	
Notes and accounts receivable	58,357		55,852		2,504	57,933	
Marketable securities	15,803		15,719		84	17,601	
Inventories	27,607		27,352		254	24,006	
Deferred income taxes	2,561		2,434		126	2,166	
Other	3,388		1,792		1,596	1,687	
Less allowance for doubtful accounts	(655)		(297)		(358)	(299)	
Total current assets	**124,400**	**60.1**	**122,054**	**62.2**	**2,345**	**123,869**	**61.4**
Fixed assets							
Property, plant and equipment							
Buildings and structures	14,896		14,376		520	14,353	
Machinery and vehicles	8,820		8,358		461	8,580	
Tools and fixtures	6,945		6,364		580	6,336	
Land	11,975		11,950		24	11,768	
Construction in progress	1,060		1,124		(64)	1,091	
Total Property, plant and equipment	**43,698**	**21.1**	**42,174**	**21.5**	**1,523**	**42,130**	**20.9**
Intangibles fixed assets	**892**	**0.4**	**783**	**0.4**	**108**	**809**	**0.4**
Investments and advances							
Investments in securities	25,919		19,385		6,533	23,020	
Investments	440		428		12	376	
Long-term loans	20		30		(9)	26	
Deferred income taxes	2,417		2,380		36	2,523	
Other	9,527		9,499		27	9,543	
Less allowance doubtful accounts	(417)		(554)		136	(561)	
Total investments and advances	**37,908**	**18.3**	**31,170**	**15.9**	**6,737**	**34,928**	**17.3**
Total fixed assets	**82,498**	**39.9**	**74,128**	**37.8**	**8,369**	**77,868**	**38.6**
Total assets	**¥206,899**	**100.0**	**¥196,183**	**100.0**	**¥10,715**	**¥201,737**	**100.0**

(At September 30)

(¥ millions)

	2005		2004		Change	March 31, 2005	
	Amount	% of total	Amount	% of total	Amount	Amount	% of total
LIABILITIES							
Current liabilities							
Notes and accounts payable	¥37,137		¥37,188		¥(50)	¥38,284	
Short-term debt	12,357		9,985		2,371	8,213	
Other payables	7,148		6,308		840	7,833	
Accrued consumption taxes	200		196		3	436	
Accrued income taxes	1,430		1,842		(412)	2,253	
Accrued employee’s bonuses	2,319		2,297		22	1,985	
Reserve for after-sales service	1,160		—		1,160	360	
Other	2,875		3,097		(221)	3,187	
Total current liabilities	**64,628**	**31.2**	**60,915**	**31.1**	**3,713**	**62,555**	**31.0**
Long-term liabilities							
Long-term debt	6,367		5,561		806	6,047	
Deferred income taxes	2		126		(124)	2	
Accrued employees’ retirement benefits	3,036		3,078		(41)	3,078	
Accrued officers’ retirement benefits	1,700		1,696		3	1,761	
Unamortized excess of equity over investment	—		6		(6)	—	
Other	1,013		859		153	927	
Total long-term liabilities	**12,120**	**5.9**	**11,330**	**5.7**	**790**	**11,817**	**5.9**
Total liabilities	**76,749**	**37.1**	**72,245**	**36.8**	**4,503**	**74,372**	**36.9**
MINORITY INTERESTS	**4,286**	**2.1**	**3,721**	**1.9**	**565**	**4,258**	**2.1**
SHAREHOLDERS’ EQUITY							
Common stock	6,459	3.1	6,459	3.3	—	6,459	3.2
Capital surplus	8,719	4.2	8,719	4.4	—	8,719	4.3
Retained earnings	109,851	53.1	109,911	56.0	(59)	109,184	54.1
Unrealized gain on marketable securities	994	0.5	784	0.4	210	917	0.5
Adjustment account for foreign exchange losses	(76)	(0.0)	(1,442)	(0.7)	1,366	(766)	(0.4)
Treasury stock	(85)	(0.0)	(4,215)	(2.1)	4,129	(1,408)	(0.7)
Total shareholders’ equity	**125,862**	**60.8**	**120,216**	**61.3**	**5,646**	**123,106**	**61.0**
Total liabilities, minority interests and shareholders’ equity	**209,899**	**100.0**	**196,183**	**100.0**	**10,715**	**201,737**	**100.0**

(2) Consolidated Statements of Income

(Six months ended September 30) (¥ millions)

	2005		2004		Change		Year to March 31, 2005	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Net sales	**¥92,968**	**100.0**	**¥91,340**	**100.0**	**¥1,627**	**1.8**	**¥202,034**	**100.0**
Cost of sales	68,410	73.6	66,891	73.2	1,519	2.3	148,439	73.5
Gross profit	24,557	26.4	24,449	26.8	108	0.4	53,595	26.5
Selling, general and administrative expenses	21,930	23.6	20,921	22.9	1,008	4.8	42,772	21.1
Operating income	**2,627**	**2.8**	**3,527**	**3.9**	**(900)**	**(25.5)**	**10,822**	**5.4**
Other income:	1,253	1.3	1,138	1.2	115	10.1	2,354	1.2
Interest income	238		159		79		480	
Dividends received	89		251		(162)		376	
Amortization of excess of equity over investment	—		6		(6)		13	
Equity in earnings of affiliate	11		12		(1)		17	
Foreign exchange loss	678		492		186		914	
Other	235		215		19		551	
Other expenses:	534	0.6	421	0.5	113	26.8	941	0.5
Interest expenses	406		285		121		620	
Loss on sale of notes receivable	126		132		(5)		309	
Other	0		3		(2)		11	
Ordinary income	**3,346**	**3.6**	**4,245**	**4.6**	**(898)**	**(21.2)**	**12,235**	**6.1**
Extraordinary income:	575	0.6	42	0.0	532	1,262.8	46	0.0
Gain on sales of fixed assets	110		—		110		—	
Gain on sales of investments in securities	437		1		436		4	
Insurance money received	—		40		(40)		40	
Other	26		0		25		1	
Extraordinary losses:	1,344	1.4	217	0.1	1,127	518.3	1,174	0.6
Loss on sales of fixed assets	—		—		—		86	
Loss on disposal of fixed assets	72		152		(79)		362	
Impairment losses	27		—		27		—	
Loss on devaluation of investments in securities	37		—		37		18	
Loss on devaluation of golf club memberships	—		2		(2)		—	
Transfer to allowance for doubtful accounts	330		—		330		262	
Transfer to allowance for after-sales service	800		—		800		360	
Employees' retirement benefits due to completion of benefit system	—		30		(30)		30	
Other	76		31		45		53	
Income before income taxes	2,577	2.8	4,069	4.5	(1,492)	(36.7)	11,107	5.5
Income taxes	1,667	1.8	2,110	2.3	(443)	(21.0)	4,686	2.3
Income taxes (deferred)	(313)	(0.3)	(230)	(0.2)	(83)	36.4	(197)	(0.1)
Minority interests in earnings of affiliates	(193)	(0.2)	(379)	(0.4)	186	(49.0)	40	0.0
Net income	**1,416**	**1.5**	**2,568**	**2.8**	**(1,151)**	**(44.8)**	**6,577**	**3.3**

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

(¥ millions)

	2005		2004		Change	Year to March 31, 2005	
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		109,184		108,070	1,113		108,070
Increase in earned surplus							
Net income	¥1,416		¥2,568			¥6,577	
Adjustment of deferred tax accounts for subsidiary outside Japan	—		—			63	
Revaluation of assets of subsidiary outside Japan	—	1,416	—	2,568	(1,151)	61	6,702
Decrease in earned surplus							
Dividends	697		650			1,354	
Board of Directors' bonuses	2		46			46	
Retirement of treasury stocks	—		—			4,156	
Loss on sale of treasury stock	45		—			—	
Decrease due to exclusion of subsidiary from scope of consolidation	—		27			27	
Other	3	749	3	727	22	3	5,589
Earned surplus at end of term		**109,851**		**109,911**	**(59)**		**109,184**

(4) Consolidated Statements of Cash Flows

(Six months ended September 30)

(¥ millions)

	2005	2004	Change	Year to March 31, 2005
Cash flows from operating activities				
Income before income taxes	¥2,577	¥4,069		11,107
Depreciation and amortization	3,442	3,172		7,016
Amortization of excess of investment over equity	—	(6)		(13)
Increase in accrued employees' bonuses	334	334		22
(Decrease) in accrued employees' retirement benefits	(109)	(1,339)		(1,277)
Decrease (increase) in prepaid pension costs	(257)	1,369		1,403
Interest and dividends income	(328)	(411)		(857)
Interest expenses	406	285		620
Equity in earnings of affiliates	(11)	(12)		(17)
Loss on disposal of fixed assets	72	152		362
Decrease (Increase) in trade receivables	839	(1,129)		(2,441)
(Increase) in inventories	(3,116)	(4,228)		(654)
Increase (decrease) in trade payables	(1,578)	(740)		189
(Decrease) in accrued consumption taxes	(240)	(312)		(77)
Bonuses to officers	(3)	(49)		(49)
Other	(2,313)	(1,132)		655
Subtotal	(285)	22	(307)	15,989
Interest and dividends received	412	421		771
Interest paid	(354)	(256)		(600)
Income taxes paid	(2,490)	(4,731)		(6,937)
Net cash provided by operating activities	(2,718)	(4,543)	1,825	9,223
Cash flows from investing activities				
Transfers to time deposits	(3,082)	(3,303)		(7,560)
Withdrawals from time deposits	3,290	3,720		7,740
Proceeds from sales of securities	1,099	—		99
Purchases of tangible fixed assets	(4,829)	(4,151)		(7,990)
Proceeds from sales of tangible fixed assets	225	12		612
Purchases of intangible fixed assets	(184)	(163)		(230)
Purchases of investments in securities	(5,052)	(4,734)		(9,111)
Proceeds from sales of investments in securities	664	2,300		3,639
Other	112	234		(90)
Net cash used in operating activities	(7,754)	(6,085)	(1,681)	(12,890)
Cash flows from financing activities				
Net increase (net decrease) in short-term debt	4,475	3,989		1,879
Decrease in long-term debt	(966)	—		—
Proceeds from sales of treasury stock	1,284	—		—
Dividends paid	(697)	(650)		(1,355)
Dividends paid to minority shareholders	(22)	(14)		(44)
Other	(7)	545		(404)
Net cash provided by (used in) financing activities	4,065	3,870	195	75
Effect of exchange rate fluctuations on cash and cash equivalents	257	(117)	387	108
Net increase (decrease) in cash and cash equivalents	(6,149)	(6,875)	726	(3,482)
Cash and cash equivalents at beginning of year	32,962	36,493	2,964	36,493
Decrease in cash and cash equivalents due to exclusion of subsidiary from consolidation	—	(48)	48	(48)
Cash and cash equivalents at end of year	26,813	29,569	(2,756)	32,962

Significant Accounting Policies of Consolidated Interim 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."

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.

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.

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

C. Interim Period-End of Consolidated Subsidiaries
Subsidiaries for which the closing date of the interim period differs from the date of the consolidated term:
10 companies (interim closing date: June 30)
In preparing its consolidated financial statements, the Corporation has used data as of June 30. Major translations that occurred during the period to the consolidated interim period-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
Property, plant and equipment
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.

Reserve for after-sales service
Reserve for after-sales service is provided for possible losses at the term-end, which are to be incurred on the voluntary inspections for specific heating source equipment of hot-water/heating systems.

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.

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) Accounting for consumption taxes
Consumption taxes are not included in revenues and expenses.

E. 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.

Change of Accounting Policies

Accounting standard on impairment losses on fixed assets

From the current period, the Corporations applied accounting standard on impairment losses of fixed assets based on “Opinion for accounting standard related to impairment losses on fixed assets (Business Accounting Council, August 9, 2002)”, and “Guideline for application of impairment losses on fixed assets (guideline for business accounting standard, No.6, October 31, 2003).Due to the application of new accounting standard, income before income taxes decreased ¥27 million. Amounts of accumulated impairment losses are deducted from amount of relevant assets, in accordance with revised rule of consolidated interim financial statements.

Notes to Financial Statements

1. Notes to Consolidated Balance Sheets

(¥ millions)

	Sept. 30, 2005	Sept. 30, 2004	March 31, 2005
(1) Accumulated depreciation of property, plant, and equipment	68,086	63,242	64,494
(2) Assets pledged as collateral and related liabilities			
Pledged assets:			
Time deposits	1,732	1,433	1,629
Buildings and others	3,965	3,743	3,358
Machinery	429	358	398
Land	2,202	2,388	2,392
Total	8,329	7,924	7,779
Liabilities related to pledged assets:			
Trade notes discounted	5,316	5,330	7,646
Short-term debt	2,299	2,707	2,894
Long-term debt	419	—	391
(3) Liability for guarantee	561	541	541
(4) Trade notes receivable discounted	5,334	5,460	7,728
(5) Trade notes receivable transferred by endorsement	856	762	1,311

2. Notes to Consolidated Statements of Income

Impairment Losses

During the interim period, the Corporation and group companies posted impairment losses as follows:

Intended purposes	Category	Location	Amount
Unemployed assets (Two sites of the Corporation)	Land	Kashima-gun, Ishikawa Prefecture Iwate-gun, Iwate Prefecture	¥27 million

The Corporations apply impairment loss accounting standard by grouping all fixed assets into minimum asset category, in which cash flows are independent from other assets or other asset group category. Due to the decline in land prices, the book value amounts of unemployed assets were reduced to the collectable amounts and the impairment losses of ¥27 million were recorded as extraordinary losses.

Collectable amounts correspond to net realizable value, which were computed based on Land Prices Published by the Government in consideration of insignificance of the amounts.

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

	Sept. 30, 2005	Sept. 30, 2004	March 31, 2005
Cash and deposits	17,336	19,199	20,772
Securities	15,803	15,719	17,601
Time deposits exceeding 3 months	(4,120)	(3,845)	(4,210)
Liabilities exceeding 3 months to maturity	(2,206)	(1,504)	(1,201)
Cash and cash equivalents at end of year	26,813	29,569	32,962

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

Six months ended September 30, 2005 (¥ millions)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
I. Net sales and operating results						
(1) Sales for clients	66,257	16,713	9,997	92,968	—	92,968
(2) Intersegment sales	5,953	921	303	7,178	(7,178)	—
Total	72,210	17,635	10,301	100,147	(7,178)	92,968
Operating expenses	70,358	18,177	9,037	97,573	(7,232)	90,340
Operating income	1,852	(542)	1,263	2,574	53	2,627

Six months ended September 30, 2004 (¥ millions)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
II.Net sales and operating results						
(1) Sales for clients	67,787	14,731	8,821	91,340	—	91,340
(2) Intersegment sales	5,063	1,012	306	6,382	(6,382)	—
Total	72,851	15,743	9,128	97,723	(6,382)	91,340
Operating expenses	70,113	16,518	7,532	94,165	(6,352)	87,813
Operating income	2,737	(774)	1,595	3,558	(30)	3,527

Year ended March 31, 2005 (¥ millions)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
III.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

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

Six months ended September 30, 2005 (¥ millions)

	Asia	Other regions	Total
I. Overseas sales	19,087	10,821	29,908
II. Consolidated net sales	—	—	92,968
III. Composition ratio of overseas sales to consolidated net sales	20.5%	11.6%	32.2%

Six months ended September 30, 2004 (¥ millions)

	Asia	Other regions	Total
I. Overseas sales	17,257	9,333	26,590
II. Consolidated net sales	—	—	91,340
III. Composition ratio of overseas sales to consolidated net sales	18.9%	10.2%	29.1%

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%

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.Securities

As of September 30, 2005

(1) Securities with market value (¥ millions)

	Acquisition cost	Balance sheet amount	Unrealized gain (loss)
(1) Stocks	2,339	4,559	2,220
(2) Bonds	20,173	19,616	(556)
(3) Others	3,003	2,999	(4)
Total	25,516	27,175	1,659

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

	Balance sheet amount
Securities:	
Unlisted stocks (excluding over-the counter transactions)	2,889
Money management fund and others	10,597

As of September 30, 2004

(1) Securities with market value (¥ millions)

	Acquisition cost	Balance sheet amount	Unrealized gain (loss)
(1) Stocks	2,334	3,635	1,301
(2) Bonds	13,358	13,337	(20)
(3) Others	79	113	34
Total	15,771	17,086	1,315

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

	Balance sheet amount
Securities:	
Unlisted stocks (excluding over-the counter transactions)	2,852
Unlisted foreign bonds	6
Money management fund and others	14,214

As of March 31, 2005

(1) Securities with market value (¥ millions)

	Acquisition cost	Balance sheet amount	Unrealized gain (loss)
(1) Stocks	2,372	4,097	1,724
(2) Bonds	16,123	15,905	(218)
(3) Others	79	119	40
Total	18,574	20,121	1,547

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

(2) 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

4. Derivative Transactions

Details of derivative transactions are disclosed on EDINET.

V. Production and Sales Information

(1) Production value (¥ millions)

Division	Six months ended September 30, 2005		Six months ended September 30, 2004		Increase (Decrease)		Year ended March 31 2005	
	Amount	% of total	Amount	Amount	Amount	% of total	Amount	% of total
Kitchen appliances	29,599	36.8	30,225	37.3	(625)	(2.1)	63,529	37.8
Hot-water units	35,785	44.5	35,440	43.7	345	1.0	77,236	46.0
Air-conditioning and heating units	7,929	9.9	9,090	11.2	(1,160)	(12.8)	14,159	8.4
Commercial-use equipment	1,276	1.6	1,394	1.7	(117)	(8.4)	2,667	1.6
Others	5,866	7.3	4,926	6.1	940	19.1	10,265	6.1
Total	80,457	100.0	81,076	100.0	(619)	(0.8)	167,858	100.0

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

(2) Product purchases (¥ millions)

Division	Six months ended September 30, 2005		Six months ended September 30, 2004		Increase (Decrease)		Year ended March 31 2005	
	Amount	% of total	Amount	Amount	Amount	% of total	Amount	% of total
Kitchen appliances	1,691	10.5	1,262	8.7	428	34.0	2,786	7.9
Hot-water units	6,542	40.7	6,585	45.4	(43)	(0.7)	14,875	42.3
Air-conditioning and heating units	1,003	6.2	455	3.1	547	120.2	2,237	6.4
Commercial-use equipment	1,724	10.7	1,663	11.5	61	3.7	3,195	9.1
Others	5,127	31.9	4,524	31.3	602	13.3	12,080	34.3
Total	16,088	100.0	14,490	100.0	1,597	11.0	35,174	100.0

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	Six months ended September 30, 2005		Six months ended September 30, 2004		Increase (Decrease)		Year ended March 31 2005	
	Amount	% of total	Amount	Amount	Amount	% of total	Amount	% of total
Kitchen appliances	30,113	32.4	30,600	33.5	(486)	(1.6)	64,328	31.8
Hot-water units	40,579	43.6	39,887	43.7	691	1.7	91,058	45.1
Air-conditioning and heating units	8,211	8.8	7,854	8.6	356	4.5	18,679	9.2
Commercial-use equipment	2,997	3.2	3,182	3.5	(185)	(5.8)	5,945	2.9
Others	11,066	11.9	9,815	10.7	1,251	12.7	22,022	10.9
Total	92,968	100.0	91,340	100.0	1,627	1.8	202,034	100.0

Note: Above amounts do not include consumption tax.