

# Consolidated Financial Results

## First Three Quarters of the Fiscal Year Ending March 2006

(April 1 – December 31, 2005)

February 10, 2006

### Listed Company Name: Rinnai Corporation

Listings: First Sections of Tokyo and Nagoya Stock Exchanges (Securities Code: 5947)

Website: www.rinnai.co.jp

Representative: Hiroyasu Naito, President

Contact: Tsutomu Miyata, Director; Senior Executive Officer of Administration Headquarters

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### 1. Items Relevant to Preparation of Quarterly Results

(1) Simplified accounting method used: Yes

1. Income tax reporting standard: Calculated based on estimated annual rate according to legal tax rates.
2. 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: None

(3) Changes in scope of consolidation and application of equity method: None

### 2. Performance in the First Three Quarters of the Fiscal Year Ending March 31, 2006 (April 1 – December 31, 2005; amounts less than one million yen are omitted)

#### (1) Operating Results

	(¥ millions/%)			
	<i>Net Sales</i> (% change)	<i>Operating Income</i> (% change)	<i>Ordinary Income</i> (% change)	<i>Net Income</i> (% change)
December 2005 Quarter	¥156,822 (+4.2)	¥ 7,642 (-2.0)	¥ 8,454 (-2.6)	¥4,335 (-13.4)
December 2004 Quarter	150,429 (+1.1)	7,799 (-37.8)	8,676 (-28.7)	5,008 (-28.4)
Year Ended March 2005 (reference)	202,034 (+1.0)	10,822 (-33.5)	12,235 (-19.3)	6,577 (-23.1)

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

	(¥)	
	<i>Net Income</i> <i>per Share</i>	<i>Fully Diluted Net</i> <i>Income per Share</i>
December 2005 Quarter	¥ 80.23	—
December 2004 Quarter	92.42	—
Year Ended March 2005 (reference)	121.50	—

### Consolidated Performance Progress Report

In the three-quarter period under review (nine months ended December 31, 2005), the Japanese economy benefited from an increase in capital spending and personal consumption, prompting forecasts of economic recovery, despite disparities among the country's regions and industry sectors.

In response, the Rinnai Group implemented business ideas that met consumer demand for more comfortable lifestyles, mindful of social issues related to product safety, environmental protection and energy saving.

Stable net sales were achieved largely through an increase in sales of heating units, which benefited from cold weather during the third quarter. Resulting earnings are contributing to the recovery trend, in spite of persistently high prices of raw materials and low market prices. This

recovery can be attributed to the emerging effects of the Group's product strategy focusing on high-value added products and cost reductions, as well as favorable overseas business.

As a result, consolidated net sales in the three-quarter period amounted to ¥156,822 million, up 4.2% from the corresponding period in the previous year. Operating income declined 2.0%, to ¥7,642 million, and ordinary income fell 2.6%, to ¥8,454 million. Net income dropped 13.4%, to ¥4,335 million.

A breakdown of results by business segment is shown below.

### Sales Composition

	(¥ millions/%)							
	December 2005 Quarter		December 2004 Quarter		Change		Year Ended March 2005 (reference)	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	¥ 50,587	32.3	¥ 50,303	33.4	¥ 283	0.6	¥ 64,328	31.8
Hot-water units	65,996	42.1	64,530	42.9	1,466	2.3	91,058	45.1
Air-conditioning and heating units	18,463	11.8	15,606	10.4	2,857	18.3	18,679	9.2
Commercial-use equipment	4,528	2.9	4,673	3.1	(145)	(3.1)	5,945	2.9
Others	17,246	11.0	15,315	10.2	1,930	12.6	22,022	10.9
Total	¥156,822	100.0	¥150,429	100.0	¥6,393	4.2	¥202,034	100.0

### (2) Consolidated Financial Position

	(¥ millions/%)			
	Total Assets	Shareholders' Equity	Equity Ratio (%)	Equity per Share (¥)
December 2005 Quarter	¥215,938	¥128,552	59.5	¥2,372.59
December 2004 Quarter	204,277	122,560	60.0	2,261.57
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
December 2005 Quarter	¥(2,229)	¥(11,099)	¥3,080	¥23,140
December 2004 Quarter	(4,684)	(11,258)	3,878	24,481
Year Ended March 2005 (reference)	9,223	(12,890)	75	32,962

### Financial Position

At December 31, 2005, Rinnai had total assets of ¥215,938 million, up ¥14,201 million from March 31, 2005. Total liabilities amounted to ¥82,854 million, up ¥8,481 million, and total shareholders' equity was ¥128,552 million, up ¥5,446 million. The equity ratio was 59.5%.

At December 31, 2005, cash and cash equivalents totaled ¥23,140 million, down ¥9,822 million from March 31, 2005.

For the three-quarter period under review, net cash used in operating activities amounted to ¥2,229 million, due mainly to an increase in inventories and payment of income taxes.

Net cash used in investing activities totaled ¥11,099 million, stemming primarily from purchases of property, plant and equipment, and purchases of investments in securities.

Net cash provided by financing activities was ¥3,080 million, owing principally to increases in short-term borrowings by overseas subsidiaries and proceeds from sales of treasury stock.

## **2. Forecast for Fiscal Year Ending March 31, 2006**

(April 1, 2005 – March 31, 2006)

No adjustments have been made to the full-year forecasts announced on November 17, 2005.

Note: The above forecast was made based on information available at the time of the announcement of the Corporation's financial results. Actual results may differ from such forecasts due to various future factors.

## 1. Consolidated Balance Sheets (Summary)

(¥ millions/%)

	<i>December 2005 Quarter</i>	<i>December 2004 Quarter</i>	<i>Change Amount</i>	<i>Change %</i>	<i>Year Ended March 2005 (Reference)</i>
<b>ASSETS</b>					
Current assets					
Cash and deposits	¥ 19,427	¥ 19,604	¥ (177)	(0.9)	¥ 20,772
Notes and accounts receivable	70,732	67,714	3,017	4.5	57,933
Marketable securities	11,762	9,871	1,890	19.2	17,601
Inventories	25,023	25,253	(230)	(0.9)	24,006
Other	6,701	3,866	2,835	73.3	3,554
<i>Total current assets</i>	133,647	126,311	7,335	5.8	123,869
Fixed assets					
Property, plant and equipment	43,373	42,556	817	1.9	42,130
Intangible fixed assets	892	778	114	14.8	809
Investments and advances					
Investments in securities	26,512	22,696	3,816	16.8	23,020
Other	11,510	11,935	(424)	(3.6)	11,907
Total investments and advances	38,023	34,631	3,391	9.8	34,928
<i>Total fixed assets</i>	82,290	77,965	4,324	5.5	77,868
<b>Total assets</b>	¥215,938	¥204,277	¥11,660	5.7	¥201,737
<b>LIABILITIES</b>					
Current liabilities					
Notes and accounts payable	¥ 40,950	¥ 39,984	¥ 965	2.4	¥ 38,284
Short-term debt	12,270	10,465	1,805	17.2	8,213
Other payables	8,609	8,441	168	2.0	7,833
Other	8,890	7,133	1,757	24.6	8,223
<i>Total current liabilities</i>	70,720	66,024	4,696	7.1	62,555
Long-term liabilities					
Long-term debt	6,434	6,048	386	6.4	6,047
Other	5,699	5,823	(124)	(2.1)	5,769
<i>Total long-term liabilities</i>	12,133	11,872	261	2.2	11,817
<b>Total liabilities</b>	82,854	77,896	4,958	6.4	74,372
<b>MINORITY INTERESTS</b>	4,530	3,820	710	18.6	4,258
<b>SHAREHOLDERS' EQUITY</b>					
Common stock	6,459	6,459	—	—	6,459
Capital surplus	8,719	8,719	—	—	8,719
Retained earnings	112,011	111,647	364	0.3	109,184
Unrealized gain on marketable securities	1,163	790	373	47.2	917
Adjustment account for foreign exchange losses	289	(835)	1,125	(134.7)	(766)
Treasury stock	(91)	(4,220)	4,129	(97.8)	(1,408)
<b>Total shareholders' equity</b>	128,552	122,560	5,992	4.9	123,106
<b>Total liabilities, minority interests and shareholders' equity</b>	¥215,938	¥204,277	¥11,660	5.7	¥201,737

## 2. Consolidated Statements of Income (Summary)

	(¥ millions)				
	<i>December</i>	<i>December</i>	<i>Change</i>		<i>Year Ended</i>
	<i>2005</i>	<i>2004</i>	<i>Amount</i>	<i>%</i>	<i>March 2005</i>
	<i>Quarter</i>	<i>Quarter</i>			<i>(Reference)</i>
Net sales	¥156,822	¥150,429	¥6,393	4.2	¥202,034
Cost of sales	115,174	110,469	4,705	4.3	148,439
Gross profit	41,647	39,959	1,687	4.2	53,595
Selling, general and administrative expenses	34,005	32,160	1,844	5.7	42,772
Operating income	7,642	7,799	(156)	(2.0)	10,822
Other profit	1,649	1,554	94	6.1	2,354
Other expenses	837	677	160	23.7	941
Ordinary income	8,454	8,676	(222)	(2.6)	12,235
Extraordinary income	576	49	526	1,070.6	46
Extraordinary loss	1,379	263	1,115	423.3	1,174
Income before income taxes	7,651	8,462	(811)	(9.6)	11,107
Income taxes	3,375	3,811	(436)	(11.5)	4,488
Minority interests in earnings (losses) of affiliates	(59)	(357)	298	(83.4)	40
Net income	¥ 4,335	¥ 5,008	¥ (673)	(13.4)	¥ 6,577