Financial Results for Fiscal 2007

(April 1, 2006 - March 31, 2007)

May 14, 2007

Listed Company Name: Rinnai Corporation

Listings: First Sections of Tokyo and Nagoya Stock Exchanges (Securities Code: 5947)
Website: http://www.rinnai.co.jp
Representative: Hiroyasu Naito, President & Representative Director
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TEL:+81 (52) 361-8211
Date of the General Meeting of Shareholders: June 28, 2007
Anticipated date to begin distributing dividends: June 29, 2007
Anticipated date to release annual security report: June 28, 2007

1. Consolidated Performance for the Year Ended March 31, 2007

(April 1, 2006 to March 31, 2007; Amounts less than one million yen are omitted)

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

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)
2007	**234,797(+10.3)**	**12,739(+24.2)**	**13,521(-15.0)**	**6,283(+19.9)**
2006	212,947 (+5.4)	10,260 (-5.2)	11,756 (-3.9)	5,242 (–20.3)

(Percentage figures in columns indicate increase or decrease from the previous term.)

	Net Income per Share (¥)	Fully Diluted Net Income per Share (¥)	Ratio of Net Income to Equity Capital (%)	Ratio of Ordinary Income to Total Assets (%)	Ratio of Ordinary Income to Net Sales (%)
2007	**115.97**	**—**	**4.7**	**6.1**	**5.4**
2006	96.92	—	4.2	5.7	4.8

Note:Equity in earnings of companies accounted for using the equity method:
Year ended March 31, 2007: ¥276 million Year ended March 31, 2006: ¥45 million

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

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
2007	**226,413**	**140,913**	**59.9**	**2,504.47**
2006	213,777	129,497	60.6	2, 390.05

(Reference) Equity capital : Year ended March 31, 2007; ¥135,683million/ Year ended March 31, 2006: ¥— million

(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 Year
2007	**13,717**	**(14,825)**	**(658)**	**30,034**
2006	12,004	(13,190)	(458)	31,899

2. Dividends

	Dividend per Share				
(Basis date)	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
2006	—	14.00	—	14.00	28.00
2007	**—**	**14.00**	**—**	**16.00**	**30.00**
2008 (anticipated)	—	18.00	—	18.00	36.00

	Total Dividends (Full Year) (¥ millions)	Consolidated Payout Ratio (%)	Consolidated Ratio of Dividends to Net Assets (%)
2006	1,517	28.9	1.2
2007	**1,625**	**25.9**	**1.2**
2008 (forecast)		26.4	

3. Forecast for the Fiscal Year Ending March 31, 2008

(April 1, 2007, to March 31, 2008) (¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Interim	114,000 (+7.4)	5,700 (+69.5)	5,200 (+32.8)	2,500 (+2.2)	46.15
Full year	250,000 (+6.5)	15,000 (+17.7)	15,300 (+13.1)	7,400 (+17.8)	136.59

(Percentage figures in columns indicate increase or decrease from the previous term.)

4. Other

(1) Major changes in Scope of Consolidation and Application of Equity Method: None

* Please refer to "Outline of Rinnai Group Companies" on page 7 for more details.

(2) Major changes in the rules for the preparation of consolidated financial statements

Changes in Significant Accounting Policies of Consolidated Financial Statements

(a) Changes due to the revision of accounting standard: Yes

(b) Other changes than (a): None

* Please refer to "Changes in Significant Accounting Policies of Consolidated Financial Statements" on page 16 for more details.

(3) Number of Outstanding Shares (Common Stock)

(a) Number of outstanding shares at fiscal year-end (including treasury stock)

Year ended March 31, 2007: 54,216,463 Year ended March 31, 2006: 54,216,463

(b) Number of treasury stock at fiscal year-end

Year ended March 31, 2007: 39,967 Year ended March 31, 2006: 35,385

* Please refer to "Per share data" on page 20, regarding number of shares as calculation basis for consolidated net income per share.

References: Summary of Nonconsolidated Results

1. Nonconsolidated Performance for the Year Ended March 31, 2007

(April 1, 2006 to March 31, 2007; Amounts less than one million yen are omitted)

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

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)
2007	**164,189 (+7.2)**	**6,814 (+74.2)**	**8,859 (+48.2)**	**4,060 (+38.8)**
2006	153,166 (+1.2)	3,911 (-28.7)	5,977 (-16.6)	2,924 (-29.5)

(Percentage figures in columns indicate increase or decrease from the previous term.)

	Net Income per Share (¥)	Fully Diluted Net Income per Share (¥)
2007	**74.94**	**—**
2006	54.09	—

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

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
2007	**147,733**	**103,574**	**70.1**	**1,911.80**
2006	141,229	101,108	71.6	1,866.12

(Reference) Equity capital : Year ended March 31, 2007; ¥103,574 million/Year ended March 31, 2006: ¥— million

(3) Forecast for the Fiscal Year Ending March 31, 2008

(April 1, 2007, to March 31, 2008) (¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Interim	78,800 (+4.4)	2,100 (+74.1)	6,400 (+165.6)	4,300(+179.6)	79.37
Full year	171,000 (+4.1)	7,500 (+10.1)	12,400 (+40.0)	7,100 (+74.9)	131.05

(Percentage figures in columns indicate increase or decrease from the previous term.)

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 4 for more information about the above forecasts.

1. Performance and Financial Position

(1) Fiscal Year in Review

(a) Performance

During the fiscal period in review—the year ended March 31, 2007—the Japanese economy continued to expand, supported by growth in private-sector capital spending underpinned by solid corporate performances. This was despite remaining signs of weakness in personal consumption and employee recruiting conditions. The domestic gas appliance industry benefited from the continued trend of strong housing starts, but new demand for gas appliances declined due to the growing share or residences that using only electricity-powered equipment. On the other hand, measures by the entire gas-related sector encouraging replacement of long-used equipment have prompted many users to switch to safer appliances.

The period in review was the first year of the Rinnai Group's V-Shift Plan, a new medium-term business plan covering the three-year period from April 2006 to March 2009. The plan calls for a major shift in the Group's foundation, centering on core restructuring initiatives, with the aim of transforming Rinnai into a comprehensive integrated appliance manufacturer. During the year, we pursued product and sales strategies aimed at realizing safety, peace of mind, and comfort in line with our corporate mission of making people's lives more comfortable. In the second half of the year, in particular, we stepped up efforts to provide better peace of mind and safety for customers through the entire lifecycles of our products—as product safety commands the spotlight in terms of increasing consumer consciousness and tighter government regulations.

On the sales side, we recorded an increase in revenue thanks to increased replacement demand and the effectiveness of our high-value-added product strategy. This was despite the negative impact of a warm winter in Japan. Overseas, we generated solid revenue, owing to steady expansion of our businesses in the North American and Asian markets and the depreciation of the yen.

On the earnings side, the price of materials remained high throughout the year, pushing up our basic costs. Nevertheless, we suppressed costs by revising our retail prices and effectively allocating our business resources. This, together with higher overseas revenue, enabled us to improve earnings.

As a result, consolidated net sales amounted to ¥234,797 million, up 10.3% from the previous year. Operating income climbed 24.2%, to ¥12,739 million, and ordinary income rose 15.0%, to ¥13,521 million. During the year, we set aside a ¥1,597 million reserve for inspection costs as part of safety measures for our compact water heaters. Net income for the year increased 19.9%, to ¥6,283 million.

Our results by business segment were as follows:

Kitchen Appliances

In Japan, Rinnai reinforced its lineup of built-in gas ranges that conform to the revised Energy Saving Law, which comes into force in 2008. For example, we introduced glass-top cookers equipped with outer-flame burners offering excellent sanitary and economical benefits. However, sales of these products remained mostly unchanged, due to the trend towards all-electric houses and fierce competition from other companies in the industry. By contrast, sales of tabletop stoves were solid thanks to the addition of safety features, including one that prevents cooking oil from overheating. Meanwhile, sales in various Asian nations were strong, due in part to the successful launch of new tabletop stoves in South Korea. Overall sales in this segment totaled ¥74,746 million, up 13.2%.

Hot-Water Units

For the year, Rinnai posted increased domestic sales of its highly efficient "Eco-Jozu" hot water units and hot-water/heating systems, which boast minimal greenhouse gas emissions. Modular bathroom units designed to enhance the bathing experience also performed well. These included a bathroom heater/dryer with bacteria-killing cluster ion technologies and a mist sauna unit, as well as a bathroom television set. Overseas, we reported increased exports to the United States, where demand for instant-heating hot-water units is growing. Our stylishly designed units continued to proliferate in that market. Total segment sales grew 11.0%, to ¥103,087 million.

Air-Conditioning and Heating Units

In Japan, we launched a new gas fan heater model with a voice-message function. However, sales languished due to the warm winter. Overseas, sales in Oceania were solid, but sales in the United States were affected by a warm winter, as in Japan, causing overall sales of heaters to languish. Consequently, total sales in this segment declined 6.7%, to ¥20,961 million.

Commercial-Use Equipment

Sales in Japan increased slightly, but overseas sales grew strongly. Sales in South Korea benefited from the introduction of new commercial-use kitchen appliances, while sales of commercial-use hot water units in Australia were also strong. Total sales in this segment climbed 15.2%, ¥7,371 million.

Others

Total sales in this segment grew 13.7%, to ¥28,629 million. In Japan, we benefited from solid revenue generated by Group manufacturers of electronic materials and components, as well as steady sales from installation services for system-based gas appliances. Overseas, sales of peripheral components increased in the wake of higher sales of Rinnai products.

(b) Outlook for Year Ending March 31, 2008

During the year ahead, the Japanese economy is expected to continue recovering, driven by ongoing strength in private sector demand. Due to a series of product-related accidents, however, the Ministry of Economy, Trade and Industry is instructing manufacturers to entrench a “culture of product safety” while also pursuing related legislation. Meanwhile, companies in our industry have started responding to the upcoming enactment of the revised Consumer Products Safety Law. Some have already launched initiatives to develop and popularize products with top priority on consumer safety.

Rinnai places strong emphasis on a management policy that guarantees safety from the consumer’s perspective. Based on this policy, we will formulate a voluntary product safety action plan and rebuild our quality assurance system. Committed to satisfying customers in terms of peace of mind, comfort, and environmental friendliness, we will work to elevate product safety levels, enhance the comfort of people’s living spaces, and propose optimal ways to protect the global environment. In addition, we will solidify our corporate social responsibility (CSR) framework to further raise our publicly perceived value as a corporation. To this end, we will established a legal affairs department and step up our compliance activities. We will also undertake structural reforms aimed at strengthening risk management and the corporate communications function.

For the fiscal year ending March 2008, the Rinnai Group forecasts net sales of ¥250.0 billion (up 6.5% year-on-year), operating income of ¥15.0 billion (up 17.7%), ordinary income of ¥15.3 billion (up 13.1%), and net income of ¥7.4 billion (up 17.8%).

(2) Financial Position

(a) Cash Flows

Cash and cash equivalents at March 31, 2007, amounted to ¥30,034 million, down ¥1,864 million, or 5.8%, from a year earlier. This was the net result of ¥13,717 million net cash provided by operating activities, ¥14,825 million used in investing activities, and ¥658 million used in financing activities, as well as an ¥84 million increase due to the inclusion of new companies in the scope of consolidation.

Net cash provided by operating activities totaled ¥13,717 million, up ¥1,713million, or 14.3%, from the previous year. This stemmed primarily from a ¥2,455 million (26.0%) increase in income before income taxes.

Net cash used in investing activities amounted to ¥14,825 million, up ¥1,635 million, or 12.4%. Despite a ¥342 million (4.0%) decline in purchases of tangible fixed assets, the sum of transfers to and withdrawals from time deposits resulted in a ¥704 million outflow (¥310 million inflow in the previous fiscal year). There was also a ¥668 million (up 13.3%) net outflow from the purchase and sale of marketable and investment securities.

Net cash provided by financing activities was ¥658 million, up ¥199 million, or 43.5%. Major factors included the absence of proceeds from sales of treasury stock (totaling ¥1,284 million in the previous fiscal year), which largely outweighed a ¥617 million net increase in short- and long-term borrowings by overseas subsidiaries (¥227 million decline in the previous fiscal year).

(b) Cash Flow Indicators

(Years ended March 31)	2005	2006	2007
Equity ratio (%)	61.0	60.6	59.9
Equity ratio based on market price (%)	72.4	89.5	75.1
Interest-bearing debt to cash flows (%)	154.6	134.2	131.3
Interest coverage ratio (times)	15.3	14.1	12.8

Notes: Equity ratio: Equity capital/Total assets
Equity ratio based on market price: Total stock value based on market price/Total assets
Interest-bearing debt to cash flows: Interest-bearing debt/Operating cash flow
Interest coverage ratio: Operating cash flow/Interest paid

1. Each index is calculated based on consolidated financial figures.
2. Market value of total stock is calculated based on the number of shares outstanding at the end of the year (after deducting treasury stock.
3. Operating cash flow is calculated using net cash provided by operating activities.
4. Interest-bearing debt refers to all debt that incurs interest (listed in the Consolidated Balance Sheets).

(3) Basic Policy for Appropriation of Profit

The Company regards stable return of profits to shareholders as an important management policy. Based on this policy, we intend to meet shareholders' expectations based on extensive consideration of various factors, including business performance and payout ratio.

At the same time, we will effectively utilize retained earnings to support various initiatives aimed at raising corporate value over the long term. These include research and development, capital investments, and strategic business investments in Japan and overseas.

For the year under review, we plan to pay total dividends of ¥30.00 per share (¥14.00 interim and ¥16.00 year-end), up ¥2.00 from the previous fiscal year. For the year ending March 2008, we plan to pay ¥36.00 per share (¥18.00 interim and ¥18.00 year-end), up ¥6.00 year-on-year.

(4) Risk Factors

Items related to the business performance and financial position of the Rinnai Group that have the potential to significantly affect investors' decisions are outlined below.

(a) Competition

The Rinnai Group is primarily engaged in the manufacture and sale of gas appliances and operates in the market for heating appliances. In Japan, that market is already mature, with multiple manufacturers engaged in fierce competition. In China and Southeast Asia, the market consists mainly of small manufacturers, although there is also strong competition on these markets.

There is no guarantee that the Rinnai Group will be able retain its dominance and position in the industry in the future, even if it succeeds in developing new technologies and enhancing its services. Consequently, it is possible that the Group's sales and earnings will decline, which may affect its business performance and financial position.

Products currently manufactured and marketed by Rinnai are powered primarily by gas. Therefore, our kitchen appliances, hot-water units, heaters, and other offerings currently compete with electrically operated appliances.

We are engaged in research and development that takes into account the future use of not only electricity, but other energy sources as well. However, if there are breakthroughs or reforms related to energy sources that we have not anticipated, thus preventing us from responding accordingly with minimum time delays, there may be an impact on the Group's business performance and financial position.

(b) Supply of raw materials and components

When manufacturing our products, we procure raw materials and components from a large number of companies outside the Rinnai Group. To ensure the stable supply of these materials and components, our standard practice is to conclude basic business agreements with such non-Group companies. Nonetheless, there is no guarantee that there will be no shortages of raw materials or components as a result of sharp price rises, shortages caused by changes in market conditions, or unforeseen events at a supplier's end. In such cases, it is possible that resulting increases in the prices of our products and production stoppages may have an impact on our business performance and financial position.

(c) Exchange rate fluctuations

The business activities of the Rinnai Group will continue to develop on a global scale through affiliates in 15 overseas countries, including China—a market with considerable future growth potential—as well as other Asian countries, North America, and Oceania. In the year ended March 31, 2007, overseas sales amounted to ¥83,475 million, or 35.6%, of consolidated net sales, a figure that is expected to increase.

The sales, expenses, assets, and liabilities of these overseas affiliates are converted to Japanese yen for the compilation of the Group's consolidated financial statements. Values of these items after conversion to Japanese yen can possibly be more susceptible to the exchange rate at the time of conversion than fluctuations in the value of the local currency. The Rinnai Group concludes foreign exchange contracts as a means of hedging to avert risk prompted by fluctuations in future exchange rates. However, this method does not guarantee the elimination of all risks. Therefore, it is possible that exchange rate fluctuations may have an effect on the business performance and financial position of the Rinnai Group.

(d) Entering overseas markets

The Rinnai Group has subsidiaries and affiliates in Asia, North America, and Oceania. Risks are inherent when entering an overseas market. Consequently, it is possible that the risks listed below may have an impact on the Group's business performance and financial position.

- Unforeseen laws and regulations and changes to tax systems that have a detrimental effect
- Negative effects on the Group's activities caused by under-developed social infrastructures
- Occurrence of adverse political or economic factors
- Social disruption caused by terrorism, war, and other factors

(e) Product quality

The Rinnai Group undertakes a variety of processes, from product development to production, at its plants around the world. When we manufacture products at these plants, we place safety as the number one priority in accordance with quality control standards recognized internationally by the International Organization for Standardization (ISO) and other entities. We also take utmost care when performing installation and repair of our products. However, there is no guarantee that we will not encounter problems with our products and that there will not be future occasions when a quality-related issue necessitates the recall of products. Although we are covered by product liability insurance, it is possible that compensation may not be sufficient due to the scale of a problem. An event such as a major recall not only incurs considerable costs, but may also lead to a decline in sales stemming from a loss of trust, with the potential for a negative impact on the Group's business performance and financial position.

(f) Natural disasters

When a natural disaster, such as an earthquake, typhoon, or flood, causes damage to a manufacturing plant or facility belonging to the Group, it is possible that operations will be suspended, causing delays to production and shipment. There is no guarantee that such effects can be prevented or mitigated. In the event of a natural disaster, it is possible that there will be an impact on the Group's business performance and financial position.

Note: Forward-looking statements contained in this report were prepared based on information available at the end of the fiscal year under review.

2. Outline of Rinnai Group Companies

The Rinnai Group consists of the parent company, 43 subsidiaries, and four affiliated companies, for a total of 48 companies. These include 29 consolidated subsidiaries and two 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.

CLIENT

RINNAI

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Overseas (26 companies)

Holding Company /Sale of Products (1 company)

Rinnai Holdings (Pacific) Pte Ltd. (i)

Sale of Products (6 companies)

Rinnai Australia Pty., Ltd. (i)
Rinnai America Corporation (i)
Rinnai Hong Kong Ltd. (i)
Rinnai UK Ltd. (ii)
Guangzhou Rinnai Gas and Electric Appliance Co., Ltd. (ii)
Aqua S.r.l. (ii)

Manufacture and Sale of Products (11 companies)

Rinnai New Zealand Ltd. (i)
Rinnai Taiwan Corporation (i)
Rinnai Korea Corporation (i)
Shanghai Rinnai Co., Ltd. (i)
Rinnai (Thailand) Co., Ltd. (i)
Rinnai Viet Nam Co., Ltd. (i)
P.T. Rinnai Indonesia (iii)
Equipamentos NGK-Rinnai Ltda. (iii)
Rinnai (Malaysia) Sdn. Bhd. (ii)
RBS Thermo Technology Co., Ltd. (ii)
Guangzhou Ming Hai Gas and Electrical Appliance Co., Ltd.(ii)

Manufacture and Sale of Components (5 companies)

RB Korea Ltd. (ii)
RS Korea Ltd. (ii)
Shanghai RB Controls Co., Ltd. (ii)
Ranee RK Precision Co., Ltd. (iv)
Mikuni RK Corporation (iv)

Other Business (3 commpanies)

Rinnai Services (MS) Corporation (ii)
Rinnai SM Corporation (ii)
Rinnai Singapore Pte. Ltd. (ii)

Domestic (21 companies)

Manufacture of Products (2 companies)

Yanagisawa Manufacturing Co., Ltd. (i)
Rinnai Technica Co., Ltd. (i)

Manufacture of Components (7 companies)

RB Controls Co., Ltd. (i)
Rinnai Precision Co., Ltd. (i)
RT Engineering Co., Ltd. (i)
Japan Ceramics Co., Ltd. (i)
Noto Tech Co., Ltd. (i)
Techno Parts Co., Ltd. (i)
RB Techno Co., Ltd. (ii)

Sale of Products (2 companies)

Rinnai Net Co., Ltd. (i)
RG Co., Ltd. (i)

Sale and Installation of Products (8 companies)

Rinnai Tech Sapporo Co., Ltd. (i)
Rinnai Tech Tohoku Co., Ltd. (i)
Rinnai Tech Tokyo Co., Ltd. (i)
Rinnai Tech Niigata Co., Ltd. (i)
Rinnai Tech Chubu Co., Ltd. (i)
Rinnai Tech Kinki Co., Ltd. (i)
Rinnai Tech Hiroshima Co., Ltd. (i)
Rinnai Tech Kyushu Co., Ltd. (i)

Other Business (2 companies)

Rinnai Enterprises (i), (Non-Life Insurance Agency Business)
Rinnai Tech Hokuriku Co., Ltd. (ii)

i. Consolidated subsidiary
ii. Nonconsolidated subsidiary
iii Affiliated company (equity method applied)
iv Affiliated company (equity method not applied)

← Production and consignment
←······ Product purchases and processing by outsourcing

3. Management Policies

(1) Management Policy at Rinnai

The corporate mission of the Rinnai Group is to use “heat” to enhance the comfort of peoples’ lives. We play close attention to safety, peace of mind, environmental protection, saving energy, health, and the aging population. Our basic management philosophy is founded on four principles: customers’ priority on quality, provision of environmentally friendly products, improving lifestyles, and legal compliance. We are developing our operations globally, building on a stable business foundation supported by advanced heating technologies and sales capabilities. Rinnai is committed to satisfying the needs of customers, shareholders, employees, regional communities, and all other stakeholders. We will target continued steady growth as a comprehensive and integrated heating appliance manufacturer.

(2) Key Financial Indicator

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

(3) Medium- and Long-Term Management Strategy

The fiscal year ending March 31, 2007, was the first year of V-Shift Plan, Rinnai’s medium-term business plan covering the three-year period to March 2009. The plan targets further growth in the future and calls for a major shift in the Group’s foundation, centering on core restructuring initiatives.

The plan, formulated amid an increasingly harsh business environment, positions this three-year period as an important phase for establishing a foundation for renewed growth. It entails “Three Shifts” and “Five Core Reforms” aimed at raising corporate value and improving the Group’s financial performance.

Three Shifts

1. Shift in values
2. Shift in business
3. Shift in personnel

Five Core Reforms

(a) Profit-oriented management

We will establish a Group-wide profit management system targeting consolidated net sales of ¥280.0 billion and operating income of ¥20.0 billion for the year to March 31, 2009. Structural reforms will include measures aimed at reducing the number of unprofitable products and mold type. At the same time, a committee will be established to reduce expenses by implementing cost-cutting initiatives across the entire Group, including reinforcing the cost structure of subsidiaries.

(b) Strengthen new product development

We will create best-selling products by reinforcing our marketing capabilities, so that we can successfully anticipate changes in customer needs and the structure of society, such as the aging population, declining birthrate, and growing awareness of environmental issues. We intend to shorten product lead times by further strengthening our technical capabilities in product development and the process of bringing a new product to market.

(c) Effectively allocate and optimize management resources

We will strategically allocate the human, material, and financial elements of the Group’s management resources by emphasizing investments in markets earmarked for future growth. We will restructure the Group’s companies in Japan and strengthen overseas resources, concentrating on our activities in the United States, China, and Europe. Recognizing that people are our most important and effective management resource, we will organize educational programs to train the next generation of global employees.

(d) Reinforce corporate social responsibility (CSR)

We will reinforce our compliance activities and legal functions in order to fulfill our corporate social responsibilities. We will strengthen the Group’s internal self-monitoring functions and establish a system of internal controls. In addition, we will bolster our public relations and investor relations systems, establish rules for information disclosure, and release information in a timely and appropriate manner.

(e) Construct a new business model

We will continue to target advanced, environmentally friendly heating technologies through the early practical application of a gas-electric co-generation system and the development of hybrid products. We will reform our business processes through a range of measures, including updating core information systems, introducing new methods that make use of the Internet, effectively utilizing information technologies, and pursuing initiatives that cut across the entire Group.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(At March 31)

(¥ millions)

	2007		2006		Change
	Amount	% of total	Amount	% of total	Amount
ASSETS					
Current assets	¥135,863	60.0	¥131,039	61.3	¥4,824
Cash and deposits	22,521		19,029		3,491
Notes and accounts receivable	67,338		63,818		3,520
Marketable securities	15,629		20,845		(5,216)
Inventories	28,164		24,222		3,941
Deferred tax assets	2,611		1,816		795
Other	1,931		2,531		(600)
Less allowance for doubtful accounts	(2,332)		(1,224)		(1,108)
Fixed assets	90,550	40.0	82,737	38.7	7,812
Property, plant and equipment	45,306	20.0	43,611	20.4	1,695
Buildings and structures	15,116		14,928		187
Machinery and vehicles	9,230		8,983		246
Tools and fixtures	6,763		6,297		465
Land	13,483		12,499		984
Construction in progress	712		901		(189)
Intangible fixed assets	1,201	0.5	951	0.4	249
Investments and advances	44,041	19.5	38,173	17.9	5,867
Investments in securities	32,797		25,862		6,934
Investments	964		519		444
Long-term loans	12		17		(5)
Deferred tax assets	1,736		2,635		(898)
Other	9,234		9,391		(157)
Less allowance for doubtful accounts	(702)		(252)		(450)
Total assets	¥226,413	100.0	¥213,777	100.0	¥12,636

(¥ millions)

	2007		2006		Change
	Amount	% of total	Amount	% of total	Amount
LIABILITIES					
Current liabilities	¥79,498	35.1	¥68,644	32.1	¥10,853
Notes and accounts payable	42,552		42,492		59
Short-term debt	17,365		10,844		6,521
Other payables	10,304		8,452		1,851
Accrued consumption taxes	513		344		169
Accrued income taxes	3,418		1,594		1,824
Accrued employee's bonuses	2,290		1,979		311
Allowance for inspection cost	500		—		500
Other	2,553		2,937		(384)
Long-term liabilities	6,002	2.7	10,973	5.1	(4,970)
Long-term debt	647		5,268		(4,620)
Deferred tax liabilities	14		2		12
Accrued employees' retirement benefits	2,781		2,956		(175)
Accrued officers' retirement benefits	1,420		1,736		(315)
Other	1,138		1,009		128
Total liabilities	85,500	37.8	79,617	37.2	5,882
MINORITY INTERESTS	—	—	4,661	2.2	(4,661)
SHAREHOLDERS' EQUITY					
Common stock	—	—	6,459	3.0	(6,459)
Capital surplus	—	—	8,719	4.1	(8,719)
Retained earnings	—	—	112,918	52.8	(112,918)
Unrealized gain on marketable securities	—	—	656	0.3	(656)
Adjustment account for foreign exchange losses	—	—	838	0.4	(838)
Treasury stock	—	—	(94)	(0.0)	94
Total shareholders' equity	—	—	129,497	60.6	(129,497)
Total liabilities, minority interests and shareholders' equity	—	—	213,777	100.0	(213,777)
NET ASSETS:					
Shareholders' equity:					
Common stock	6,459	2.9	—	—	6,459
Capital surplus	8,719	3.9	—	—	8,719
Earned surplus	118,185	52.2	—	—	118,185
Treasury stock	(109)	(0.0)	—	—	(109)
Total shareholders' equity	133,254	58.9	—	—	133,254
Other adjustments:					
Unrealized gain on marketable securities	460	0.2	—	—	460
Adjustment account for foreign exchange losses	1,968	0.9	—	—	1,968
Total other adjustments	2,429	1.1	—	—	2,429
Minority interests	5,229	2.3	—	—	5,229
Total net assets	140,913	62.2	—	—	140,913
Total liabilities and net assets	226,413	100.0	—	—	226,413

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

(¥ millions)

	2007		2006		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	¥234,797	100.0	¥212,947	100.0	¥21,849	10.3
Cost of Sales	172,227	73.4	157,000	73.7	15,227	9.7
Gross Profit	62,569	26.6	55,947	26.3	6,621	11.8
Selling, general and administrative expenses	49,830	21.2	45,686	21.5	4,143	9.1
Operating income	12,739	5.4	10,260	4.8	2,478	24.2
Other income:	2,157	0.9	2,679	1.3	(521)	(19.5)
Interest income	756		546		209	
Dividends received	142		160		(18)	
Equity in earnings of affiliates	276		45		230	
Foreign exchange gain	408		1,393		(984)	
Other	574		533		40	
Other expenses:	1,374	0.6	1,183	0.6	191	16.2
Interest expenses	1,085		855		230	
Loss on sale of notes receivable	251		307		(55)	
Other	37		20		16	
Ordinary income	13,521	5.8	11,756	5.5	1,765	15.0
Extraordinary income:	637	0.3	656	0.3	(19)	(3.0)
Adjustment for prior profits	133		—		133	
Gain on sales of fixed assets	7		118		(110)	
Gain on sales of investments in securities	392		447		(54)	
Reversal from allowance for doubtful accounts	26		86		(59)	
Other	76		4		72	
Extraordinary losses:	2,277	1.0	2,987	1.4	(709)	(23.7)
Income adjustments	—		371		(371)	
Loss on sales of fixed assets	47		247		(199)	
Loss on disposal of fixed assets	423		241		181	
Impairment loss	47		27		20	
Loss on devaluation of investments in securities	91		61		29	
Transfer to allowance for doubtful accounts	4		870		(866)	
After-sales service cost	—		1,030		(1,030)	
Inspection cost	1,097		—		1,097	
Transfer to allowance for inspection cost	500		—		500	
Other	66		136		(70)	
Income before income taxes	11,881	5.1	9,425	4.4	2,455	26.0
Income taxes:						
Current	5,473		3,605		1,867	
Previous Term	—		280		(280)	
Deferred	199		481		(282)	
Minority interests (deduction)	(74)		(184)		109	
Net income	6,283	2.7	5,242	2.5	1,040	19.9

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

(¥ millions)

	2006	
CAPITAL SURPLUS		
I. Capital surplus at beginning of year		8,719
II. Capital surplus at end of year		8,719
RETAINED EARNINGS		
I. Retained earnings at beginning of year		109,184
II. Increase:		
Net income	5,242	5,242
III. Decrease:		
Dividends	1,456	
Board of Directors' bonuses	2	
Loss on disposal of treasury stock	45	
Other	4	1,508
IV. Retained earnings at end of year		112,918

Consolidated Statement of Shareholders' Equity

(¥ millions)

	Total shareholders' equity				
	Common stock	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Balance at March 31, 2006	6,459	8,719	112,918	(94)	128,002
Changes during the fiscal year:					
Retained earnings*			(758)		(758)
Retained earnings			(758)		(758)
Board of Directors' bonuses*			(2)		(2)
Net income			6,283		6,283
Acquisition of treasury stock				(15)	(15)
Disposition of treasury stock		0		0	0
Increase due to newly consolidation			438		438
Other changes			64		64
Net other changes during the fiscal year					
Net changes during the fiscal year	—	0	5,267	(15)	5,251
Balance at March 31, 2007	6,459	8,719	118,185	(109)	133,254

	Other adejustments			Minority interests	Total net assets
	Unrealized gain on marketable securities	Adjustment account for foreign exchange losses	Total		
Balance at March 31, 2006	656	838	1,494	4,661	134,159
Changes during the fiscal year:					
Retained earnings*					(758)
Retained earnings*					(758)
Board of Directors' bonuses*					(2)
Net income					6,283
Acquisition of treasury stock					(15)
Disposition of treasury stock					0
Increase due to newly consolidation					438
Other changes					64
Net other changes during the fiscal year	(195)	1,129	934	568	1,502
Net changes during the fiscal year	(195)	1,129	934	568	6,754
Balance at March 31, 2007	460	1,968	2,429	5,229	140,913

*Appropriation of profit approved at general meeting of shareholders in June 2006.

(4) Consolidated Statements of Cash Flows

(Years end March 31) (¥ millions)

	2007	2006	Change
Cash flows from operating activities			
Income before income taxes	¥11,881	¥9,425	
Depreciation and amortization	7,547	7,665	
Increase (decrease) in accrued employees' bonuses	308	(6)	
(Decrease) in accrued employees' retirement benefits	(499)	(164)	
(Increase) in prepaid pension costs	(978)	(643)	
Increase in allowance for doubtful accounts	1,551	—	
Increase in allowance for inspection cost	500	—	
Interest and dividends income	(898)	(706)	
Interest expenses	1,085	855	
Equity in earnings of affiliates	(276)	(45)	
Loss on disposal of fixed assets	423	241	
(Increase) in trade receivables	(1,825)	(3,057)	
Decrease (Increase) in inventories	(3,243)	705	
Increase (decrease) in trade payables	(424)	3,210	
Increase in accounts payable	1,643	—	
Increase (decrease) in accrued consumption taxes	163	(95)	
Bonuses to officers	(3)	(3)	
Other	409	(692)	
Subtotal	17,365	16,688	677
Interest and dividends received	1,001	762	
Interest paid	(1,073)	(850)	
Income taxes paid	(3,575)	(4,595)	
Net cash provided by operating activities	13,717	12,004	1,713
Cash flows from investing activities			
Transfers to time deposits	(11,745)	(8,810)	
Withdrawals from time deposits	11,040	9,120	
Proceeds from sales of investment securities	3,295	1,205	
Purchases of tangible fixed assets	(8,278)	(8,620)	
Proceeds from sales of tangible fixed assets	81	233	
Purchases of intangible fixed assets	(347)	(323)	
Purchases of investments in securities	(9,316)	(7,554)	
Proceeds from sales of investments in securities	517	1,514	
Proceeds from sales of stock of subsidiary due to change of scope of consolidation	442	—	
Other	(515)	44	
Net cash used in operating activities	(14,825)	(13,190)	(1,635)
Cash flows from financing activities			
Net increase in short-term debt	1,041	1,602	
Increase in long-term debt	1,281	—	
Repayment of long-term debt	(1,706)	(1,830)	
Proceeds from sales of treasury stock	0	1,284	
Purchases of treasury stock	(15)	(16)	
Proceeds from stock issue for minority interests	297	—	
Dividends paid	(1,516)	(1,455)	
Dividends paid to minority shareholders	(41)	(43)	
Net cash used in financing activities	(658)	(458)	(199)
Effect of exchange rate fluctuations on cash and cash equivalents	(183)	581	(764)
Net decrease in cash and cash equivalents	(1,948)	(1,063)	(885)
Cash and cash equivalents at beginning of year	31,899	32,962	(1,063)
Increase in cash and cash equivalents due to newly consolidation	84	—	84
Cash and cash equivalents at end of year	30,034	31,899	(1,864)

Significant Accounting Policies of Consolidated Financial Statements

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")

1. Scope of Consolidation

Consolidated subsidiaries: 29 Companies

Please see the page of "1. Outline of Rinnai Group Companies."

From the fiscal year ended March 31, 2007, Rinnai Viet Nam Co., Ltd. is newly included in the scope of consolidation because it's activities are deemed material.

From the fiscal year ended March 31, 2007, Kyushu Gas Fuel Co., Ltd. is excluded from the scope of consolidation, because the Corporation sold the company's stock.

2. Application of Equity Method

Two affiliated company for which the equity method is applied:

From the fiscal year ended March 31, 2007, P.T. Rinnai Indonesia is newly included in the application under the equity method because it's activities are deemed material.

Other information than the above "Scope of Consolidation" and "Application of Equity Method" was omitted, because there are no significant changes from annual security report released on June 29, 2006.

Changes in Significant Accounting Policies of Consolidated Financial Statements

Accounting standard for presentation of net assets on consolidated balance sheets

From the fiscal year ended March 31, 2007, the Corporation applied accounting standard in accordance with Report No. 5, "Accounting Standard for Presentation of Net Assets on the Balance Sheet," issued by the Accounting Standards Board (ASB) on December 9, 2005, and Guidance No. 8, "Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet," also issued by ASB on the same date.

The amount corresponding to shareholders' equity under the previous accounting treatment is ¥135,683 million.

In accordance with revised rules for consolidated financial statements, the Corporations has prepared net assets on consolidated balance sheets for the fiscal year ended March 31, 2007, in line with post-revision rules for such reporting. .

Changes in Presentation

Consolidated Statements of Cash Flows

1. From the fiscal year ended March 31, 2007, the Corporations has present "Increase in allowance for doubtful accounts" in Cash flows from operation activities, because it is significant amount. At the previous fiscal year, "Increase in allowance for doubtful accounts" which was included in "Other" amounted to ¥582 million.
2. From the fiscal year ended March 31, 2007, the Corporations has present "Increase in accounts payable" in Cash flows from operation activities, because it is significant amount. At the previous fiscal year, "Increase in accounts payable" which was included in "Other" amounted to ¥294 million.

Notes to Financial Statements

Notes to Consolidated Balance Sheets

(¥ millions)

	March 31, 2007	March 31, 2006
1. Accumulated depreciation of property, plant, and equipment	71,802	66,901
2. Items related to unconsolidated subsidiaries and affiliates		
Investments in securities	1,643	1,025
Investments	936	485
3. Assets pledged as collateral and related liabilities		
Pledged assets:		
Time deposits	2,031	1,879
Buildings and others	4,185	3,902
Machinery	710	611
Land	3,688	2,945
Total	10,614	9,338
Liabilities related to pledged assets:		
Trade notes discounted	6,345	7,114
Short-term debt	2,707	2,694
Long-term debt	290	431
4. Liability for guarantee	689	466
5. Trade notes receivable discounted	7,814	7,274
6. Trade notes receivable transferred by endorsement	1,486	1,722
7. Number of shares issued of the Corporation		
Common stock (shares)	54,216,463	54,216,463
8. Number of treasury stock of the Corporation		
Common stock (shares)	39,967	35,385

9. Notes and bills matured at the fiscal year-end

Notes and bills matured at the fiscal year-end are redeemed at the date of clearance. The following amounts are included in the balances at the fiscal year-end, March 31, 2007, because it fell on holiday for financial institutions.

(¥ millions)

	March 31, 2007	March 31, 2006
Notes received	2,092	-
Notes payable	193	-

Notes to Consolidated Statements of Income

(¥ millions)

	March 31, 2007	March 31, 2006
1. Expenses for research and development included in general and administrative expenses and production costs in the current term	6,547	6,779

2. Impairment Loss

The Corporations recorded impairment losses for the current fiscal year under the following asset group.

Location	Purpose	Category	Amounts (¥ millions)
Kanto Branch of the Corporation (Shinagawa-ku, Tokyo)	Sales office (scheduled for reconstruction)	Building and structrue	¥47 million

In principle, the Corporations consider business property in management accounting, and leased assets and unutilized assets individually in grouping assets.

Regarding Consolidated Statements of Changes in Shareholders' Equity

For the fiscal year ended March 31, 2007

1. Types of Stock and Number of Shares

(Thousands of shares)

	Number of Shares at March 31, 2006	Increase in Number of Shares during the Fiscal Year	Decrease in Number of Shares during the Fiscal Year	Number of Shares at March 31, 2007
Number of shares issued				
Common stock	54,216	—	—	54,216
Treasury stock				
Common stock (Note)	35	4	0	39

Note: The increase in number of shares comes from 4,000 shares added through the buyback of shares less than one *tangen* unit. And, the decrease in number of shares comes from 0 thousand shares dropped through requests to add onto shares less than one *tangen* unit.

2. Dividends

(1) Dividend paid

Resolution	Type of stock	Total Dividends	Dividend per Share	Record Date	Effective Date
General shareholders' meeting on June 29, 2006	Common stock	¥ 758 million	¥ 14	March 31, 2006	June 29, 2006
Director's meeting on November 13, 2006	Common stock	¥ 758 million	¥ 14	September 30, 2006	December 8, 2006

(2) The effective date for dividends with a record date of March 31, 2007, shall be a date after the close of books for said consolidated period.

It's resolution is schedule as follows:

Resolution	Type of Stock	Total Dividends	Source of Dividends	Dividend per share	Record Date	Effective Date
General shareholders' meeting at June 28, 2007	Common stock	¥ 866 million	Earned surplus	¥ 16	March 31, 2007	June 29, 2007

Notes to Statements of Cash Flows

(¥ millions)

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

	March 31, 2007	March 31, 2006
Cash and deposits	22,521	19,029
Securities	15,629	20,845
Time deposits exceeding 3 months	(6,518)	(4,672)
Liabilities exceeding 3 months to maturity	(1,597)	(3,303)
Cash and cash equivalents at end of year	30,034	31,899

Segment Information

1. 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.

2. Geographic segment information

Year ended March 31, 2007 (¥ millions)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
I. Net sales and operating results						
(1) Sales for clients	157,181	51,798	25,816	234,797	—	234,797
(2) Intersegment sales	16,914	2,139	554	19,608	(19,608)	—
Total	174,095	53,938	26,371	254,405	(19,608)	234,797
Operating expenses	164,280	53,675	23,723	241,679	(19,621)	222,057
Operating income	9,815	262	2,647	12,726	13	12,739
II. Assets	176,365	42,673	19,018	238,057	(11,644)	226,413

Year ended March 31, 2006 (¥ millions)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
II.Net sales and operating results						
(1) Sales for clients	149,346	42,021	21,579	212,947	—	212,947
(2) Intersegment sales	13,390	1,914	471	15,776	(15,776)	—
Total	162,737	43,935	22,050	228,724	(15,776)	212,947
Operating expenses	155,984	43,244	19,402	218,632	(15,945)	202,687
Operating income	6,752	691	2,647	10,091	168	10,260
II. Assets	168,534	40,789	15,319	224,642	(10,865)	213,777

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

3. Overseas sales

Year ended March 31, 2007 (¥ millions)

	Asia	Other regions	Total
I. Overseas sales	55,901	27,574	83,475
II. Consolidated net sales	—	—	234,797
III. Composition ratio of overseas sales to consolidated net sales	23.8%	11.7%	35.6%

Year ended March 31, 2006 (¥ millions)

	Asia	Other regions	Total
I. Overseas sales	46,903	23,109	70,012
II. Consolidated net sales	—	—	212,947
III. Composition ratio of overseas sales to consolidated net sales	22.0%	10.9%	32.9%

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 indicate sales of the Corporations in overseas countries or regions.

Per Share Data

	March 31, 2007	March 31, 2006
1. Net income per assets	¥2,504.47	¥2,390.05
2. Net income per share	115.97	96.92

Fully Diluted Net Income per share is not indicated because there is no residual equity.

Note: Net income per share is calculated based on the following amounts.

	March 31, 2007	March 31, 2006
Net income	¥6,283 million	¥5,242 million
Amounts not attribute to common shares	—	2 million
(Directors bonuses due to appropriation of profits)	(—)	(2 million)
Net income related to common shares	¥6,283 million	¥5,240 million
Average number of shares during the term	54,179 thousand shares	54,068 thousand shares

Subsequent Events

There is no significant information.

Other

Notes regarding lease transaction, tax-effect accounting, securities, derivatives, and retirement benefits, are omitted because they are not deemed material in this summary financial report.

5. Production and Sales Information

(1) Production value (¥ millions)

Division	Year ended March 31, 2007		Year ended March 31, 2006		Increase (Decrease)	
	Amount	% of total	Amount	% of total	Amount	% change
Kitchen appliances	73,105	37.8	63,842	36.3	9,262	14.5
Hot-water units	86,831	45.0	80,124	45.5	6,707	8.4
Air-conditioning and heating units	17,141	8.9	16,365	9.3	776	4.7
Commercial-use equipment	2,303	1.2	2,723	1.5	(420)	(15.4)
Others	13,789	7.1	12,974	7.4	814	6.3
Total	193,170	100.0	176,030	100.0	17,140	9.7

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, 2007		Year ended March 31, 2006		Increase (Decrease)	
	Amount	% of total	Amount	% of total	Amount	% change
Kitchen appliances	3,607	8.5	3,559	9.6	48	1.3
Hot-water units	15,561	36.8	14,287	38.4	1,273	8.9
Air-conditioning and heating units	3,122	7.4	3,355	9.0	(233)	(7.0)
Commercial-use equipment	4,881	11.5	3,758	10.1	1,123	29.9
Others	15,102	35.7	12,202	32.8	2,900	23.8
Total	42,275	100.0	37,164	100.0	5,111	13.8

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, 2007		Year ended March 31, 2006		Increase (Decrease)	
	Amount	% of total	Amount	% of total	Amount	% change
Kitchen appliances	74,746	31.8	66,049	31.0	8,697	13.2
Hot-water units	103,087	43.9	92,860	43.6	10,227	11.0
Air-conditioning and heating units	20,961	8.9	22,455	10.5	(1,493)	(6.7)
Commercial-use equipment	7,371	3.1	6,396	3.0	974	15.2
Others	28,629	12.2	25,186	11.8	3,443	13.7
Total	234,797	100.0	212,947	100.0	21,849	10.3

Note: Above amounts do not include consumption tax.

6. Nonconsolidated Financial Statements

(1) Nonconsolidated Balance Sheets

(At March 31)

(¥ millions)

	2007		2006		Change
	Amount	% of total	Amount	% of total	Amount
ASSETS					
Current Assets	¥81,109	54.9	¥80,371	56.9	¥ 737
Cash and Deposits	2,687		959		1,728
Notes receivable, trade	16,410		14,776		1,634
Accounts receivable, trade	28,685		27,387		1,297
Marketable securities	15,428		20,574		(5,146)
Products	11,674		9,938		1,736
Raw materials	3,877		3,830		47
Stores	123		282		(159)
Prepaid expenses	1		20		(18)
Deferred tax assets	1,745		1,042		703
Accrued income	688		1,438		(749)
Other	210		278		(68)
Less allowance for doubtful accounts	(425)		(157)		(268)
Fixed Assets	66,623	45.1	60,858	43.1	5,765
Property, plant and equipment	21,184	14.3	22,173	15.7	(988)
Buildings	6,692		7,131		(439)
Structures	259		281		(22)
Machinery, equipment	3,766		4,041		(274)
Vehicles and delivery equipment	22		20		1
Tools, furniture and fixture	3,560		3,929		(369)
Land	6,696		6,545		150
Construction in progress	187		222		(35)
Intangible fixed assets	689	0.5	615	0.4	74
Leaseholds	9		9		—
Water supply facility utilization rights	12		16		(3)
Telephone subscription rights	52		52		0
Software	551		434		117
Other	63		102		(38)
Investments and advances	44,749	30.3	38,070	27.0	6,679
Investments in securities	25,082		18,050		7,032
Stocks of affiliated companies	6,250		5,770		480
Long-term advances	9		9		(0)
Investments in affiliated companies	1,128		837		291
Long-term loans to affiliated companies	4,800		4,800		—
Reorganization credit	27		1		26
Long-term prepaid expense	150		124		25
Deferred tax liabilities	1,006		2,019		(1,012)
Guaranty money deposited	616		609		7
Long-term guaranty money	2,000		3,000		(1,000)
Prepaid pension expenses	3,159		2,303		856
Other	598		621		(22)
Less allowance for doubtful accounts	(81)		(77)		(4)
Total Assets	¥147,733	100.0	¥141,229	100.0	¥6,503

(¥ millions)

	2007		2006		Change
	Amount	% of total	Amount	% of total	Amount
LIABILITIES					
Current liabilities	¥40,946	27.7	¥36,470	25.8	¥4,476
Accrued payable, trade	29,411		28,311		1,099
Other payables	6,015		4,812		1,203
Accrued expenses	496		486		9
Accrued consumption taxes	267		152		114
Accrued income taxes	2,203		752		1,450
Advances by customers	0		5		(5)
Deposits payable	66		76		(10)
Accrued employees' bonus	1,596		1357		238
Allowance for inspection cost	500		—		500
Accrued equipment costs payable	388		512		(124)
Other	1		2		(0)
Long-term liabilities	3,211	2.2	3,650	2.6	(438)
Accrued employees' retirement benefits	1,580		1,741		(160)
Accrued officers' retirement benefits	1,344		1,645		(301)
Other	285		262		23
Total liabilities	¥44,158	29.9	¥40,121	28.4	¥4,037
SHAREHOLDERS' EQUITY					
Common stock	—	—	6,459	4.6	(6,459)
Capital surplus	—	—	8,719	6.2	(8,719)
Capital reserve	—	—	8,719		(8,719)
Retained earnings	—	—	85,317	60.4	(85,317)
Legal reserve	—	—	1,614		(1,614)
Voluntary reserve	—	—	80,400		(80,400)
Unappropriated retained earnings at the end of the period	—	—	3,302		(3,302)
Unrealized gain on marketable securities	—	—	707	0.5	(707)
Treasury stock	—	—	(94)	(0.1)	94
Total shareholders' equity	¥—	—	¥101,108	71.6	¥(101,108)
Total liabilities, and shareholders' equity	¥—	—	¥141,229	100.0	¥(141,229)
NET ASSETS:					
Shareholders' equity					
Common stock	6,459	4.4	—	—	6,459
Capital surplus					
Capital reserve	8,719		—		8,719
Other	0		—		0
Total Capital surplus	8,719	5.9	—	—	8,719
Earned surplus					
Legal reserve	1,614		—		1,614
Other legal reserve:					
Voluntary reserve	81,900		—		81,900
Unappropriated retained earnings	4,345		—		4,345
Total earned surplus	87,860	59.5	—	—	87,860
Treasury stock	(109)	(0.1)	—	—	(109)
Total Shareholders' equity	102,929	69.7	—	—	102,929
Other adjustments					
Unrealized gain on marketable securities	645		—		645
Total other adjustments	645	0.4	—	—	645
Total net assets	¥103,574	70.1	¥—	—	¥103,574
Total liabilities and net assets	¥147,733	100.0	¥—	—	¥147,733

(2) Consolidated Statements of Income

(Years ended March 31) (¥ millions)

	2007		2006		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	¥164,189	100.0	¥153,166	100.0	¥11,023	7.2
Cost of Sales	130,164	79.3	122,709	80.1	7,454	6.1
Gross Profit	34,025	20.7	30,457	19.9	3,568	11.7
Selling, general and administrative expenses	27,210	16.6	26,545	17.3	664	2.5
Operating income	6,814	4.2	3,911	2.6	2,903	74.2
Other income:	2,111	1.3	2,135	1.4	(24)	(1.1)
Interest income	139		144		(5)	
Interest on securities	385		204		181	
Dividends received	793		861		(68)	
Foreign exchange loss	0		166		(165)	
Royalty fee	295		239		56	
Other	496		518		(22)	
Other expenses:	66	0.0	69	0.0	(2)	(3.6)
Interest expenses	2		1		0	
Depreciation	58		66		(8)	
Other	6		1		5	
Ordinary income	8,859	5.4	5,977	3.9	2,881	48.2
Extraordinary income:	715	0.4	539	0.4	175	32.6
Adjustments of loss at prior term	133		—		133	
Gain on sales of fixed assets	2		30		(27)	
Gain on sales of securities	558		441		116	
Reversal from allowance for doubtful accounts	—		67		(67)	
Other	21		—		21	
Extraordinary losses:						
Loss on disposal of fixed assets	2,083	1.3	1,413	0.9	670	47.4
Impairment loss	354		201		152	
Loan losses	47		27		20	
After-sales service cost	—		1,030		(1,030)	
Inspection cost	1,097		—		1,097	
Transfer to allowance for inspection cost	500		—		500	
Transfer to allowance for doubtful accounts	4		—		4	
Other	80		154		(74)	
Income before income taxes						
Income taxes:	7,491	4.6	5,103	3.3	2,387	46.8
Current	3,080		1,614		1,465	
Previous Term	—		198		(198)	
Deferred	350		364		(14)	
Net income	4,060	2.5	2,924	1.9	1,135	38.8

(3) Nonconsolidated Statements of Appropriation of Profits

(Year ended March 31)

(¥ millions)

	2006	
Unappropriated retained earnings at end of term		3,302
		3,302
Appropriation of profits		
Cash dividends	758	
Other reserves	1,500	2,258
Balance carried forward		1,043

(3) Nonconsolidated Statement of Shareholders' Equity

(¥ millions)

	Shareholders' equity							
		Total capital surplus			Earned surplus			
						Other		
	Common stock	Capital reserve	Other	Total Capital Surplus	Legal reserve	Voluntary reserve	Unappropriated retained earnings	Total earned surplus
Balance at March 31, 2006	6,459	8,719		8,719	1,614	80,400	3,302	85,317
Change during the fiscal year:								
Retained earnings paid*							(758)	(758)
Retained earnings paid							(758)	(758)
Transfer to voluntary reserve*						1,500	(1,500)	—
Net income							4,060	4,060
Acquisition of treasury stock								
Disposition of treasury stock			0	0				
Net other changes during the fiscal year								
Net changes during the fiscal year	—	—	0	0	—	1,500	1,043	2,543
Balance at March 31, 2007	6,459	8,719	0	8,719	1,614	81,900	4,345	87,860

(¥ millions)

	Shareholders' equity		Other adjustments		Total Net assets
	Treasury stock	Total shareholders' equity	Unrealized gain On marketable securities	Total other adjustments	
Balance at March 31, 2006	(94)	100,401	707	707	101,108
Change during the fiscal year:					
Retained earnings paid*		(758)			(758)
Retained earnings paid		(758)			(758)
Transfer to voluntary reserve*		—			—
Net income		4,060			4,060
Acquisition of treasury stock	(15)	(15)			(15)
Disposition of treasury stock	0	0			0
Net other changes during the fiscal year			(61)	(61)	(61)
Net changes during the fiscal year	(15)	2,527	(61)	(61)	2,466
Balance at March 31, 2007	(109)	102,929	645	645	103,574

*Appropriation of profit approved at general meeting of shareholders in June 2006.