

Consolidated Financial Results

First Quarter of the Fiscal Year Ending March 2008

(April 1 – June 30, 2007)

August 10, 2007

Listed Company Name: Rinnai Corporation

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

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1. Performance in the First Quarter of the Fiscal Year Ending March 31, 2008

(April 1 – June 30, 2007; amounts less than one million yen are omitted)

(1) Consolidated Operating Results

	(¥ millions/%)			
	<i>Net Sales</i> (% change)	<i>Operating Income</i> (% change)	<i>Ordinary Income</i> (% change)	<i>Net Income</i> (% change)
June 2007 Quarter	¥ 49,840 (+ 3.7)	¥ 957 (+131.9)	¥ 1,214 (+22.6)	¥ 47(-92.3)
June 2006 Quarter	48,074 (+13.2)	412 (-41.8)	990 (-11.5)	616(+33.0)
Year Ended March 2007	234,797 (-)	12,739 (-)	13,521 (-)	6,283 (-)

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>
June 2007 Quarter	¥ 0.88	—
June 2006 Quarter	11.38	—
Year Ended March 2007	115.97	—

(2) Consolidated Financial Position

	(¥ millions/%)			
	<i>Total Assets</i>	<i>Net Assets</i>	<i>Equity Ratio (%)</i>	<i>Net Assets per</i> <i>Share (¥)</i>
June 2007 Quarter	¥222,566	¥139,199	60.3	¥2,477.56
June 2006 Quarter	213,998	133,565	60.0	2,465.20
Year Ended March 2007	226,413	140,913	59.9	2,504.47

(3) Consolidated Cash Flows

	(¥ millions)			
	<i>Cash Flows</i> <i>from Operating</i> <i>Activities</i>	<i>Cash Flows</i> <i>from Investing</i> <i>Activities</i>	<i>Cash Flows</i> <i>from Financing</i> <i>Activities</i>	<i>Cash and Cash</i> <i>Equivalents at</i> <i>End of Period</i>
June 2007 Quarter	¥(4,323)	¥ 1,410	¥3,099	¥30,319
June 2006 Quarter	(478)	(3,304)	2,431	30,265
Year Ended March 2007	13,717	(14,825)	(658)	30,034

2. Consolidated forecasts for the fiscal year to March 2008

Rinnai has not changed its consolidated performance forecasts for the fiscal year to March 2008. (Those forecasts were announced on May 14, 2007.)

3. Other

- (1) Changes in scope of consolidation of major subsidiaries during period: None
- (2) Simplified accounting method adopted: Yes
- (3) Changes in accounting treatment since end of most recent fiscal year: None

Note: For more information, please refer to “3. Other” in the “Performance Summary and Financial Statements” section in the following pages.

Note regarding appropriate use of performance forecasts

Performance forecasts and other forward-looking statement contained in this document are based on information available when the document was released. Actual results may differ from such forecasts due to various future circumstances.

Performance Summary and Financial Statements

1. Consolidated Business Results

In the first quarter, ended June 30, 2007, the Japanese economy expanded on the back of improved corporate earnings and increased capital expenditures. In terms of employee recruitment and personal consumption, however, the economy has yet to show a full-scale recovery. Moreover, new housing starts, which were firm in the previous fiscal year, have slowed down, while the prices of raw materials have turned upwards since the start of the current fiscal year. Conditions surrounding the Rinnai Group, therefore, have become more difficult.

The current fiscal period, ending March 2008, is the second year of V-Shift Plan, the Rinnai Group's medium-term business plan. During the quarter under review, we sought to incorporate more advanced safety levels in our products, provide more comfortable living environments, and propose optimal solutions to global environmental issues. These initiatives reflected our ongoing commitment to safety, comfort, and the environment.

For the quarter, the Group posted a year-on-year increase in revenue thanks to a solid overall performance overseas. This was despite sluggish domestic sales due to a slowdown in housing starts. On the earnings side, we reported an increase in operating income owing to the success of strategies to address low-profit products and cost-cutting measures, which compensated for the effects of surging raw materials prices.

As a result, consolidated net sales amounted to ¥49,840 million, up 3.7% from the previous corresponding period. Operating income jumped 131.9%, to ¥957 million, and ordinary income rose 22.6%, to ¥1,214 million. However, net income declined 92.3%, to ¥47 million. This was because certain domestic manufacturing subsidiaries shifted from the simplified method to the principle method for calculating projected retirement benefit obligations, resulting in a retirement benefit expense.

Sales Composition

(¥ millions/%)

	June 2006 Quarter		June 2007 Quarter		Change		Year Ended March 2007 (reference)	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	¥15,927	33.1	¥16,400	32.9	¥472	3.0	¥ 74,746	31.8
Hot-water units	22,024	45.8	22,812	45.8	788	3.6	103,087	43.9
Air-conditioning and heating units	1,975	4.1	2,059	4.1	83	4.2	20,961	8.9
Commercial-use equipment	1,947	4.1	1,815	3.6	(132)	(6.8)	7,371	3.1
Others	6,199	12.9	6,752	13.5	553	8.9	28,629	12.2
Total	¥48,074	100.0	¥49,840	100.0	¥1,765	3.7	¥234,797	100.0

2. Consolidated Financial Position

As of June 30, 2007, total assets stood at ¥222,566 million, down ¥3,847 million from March 31, 2007. For the quarter, total liabilities declined ¥2,133 million, to ¥83,366 million. Net assets were down ¥1,714 million, to ¥139,199 million. Accordingly, the equity ratio was 60.3%.

Cash and cash equivalents at the end of the quarter totaled ¥30,319 million, up ¥285 million from the previous fiscal-year end.

Net cash used in operating activities amounted to ¥4,323 million. This was mainly due to an increase in inventories and a decrease in trade payables, which outweighed a decrease in trade receivables. Other factors included a year-on-year increase in income taxes paid.

Net cash provided by investing activities totaled ¥1,410 million, owing mainly to proceeds from sales of investments in securities. This was despite purchases of tangible fixed assets.

Net cash provided by financing activities was ¥3,099 million, due mainly to a net increase in short-term debt among overseas subsidiaries.

3. Other

(1) Changes in major subsidiaries during period: None

(2) Simplified accounting method used

(a) Income tax reporting standard: Calculated based on estimated annual rate according to legal effective tax rates.

(b) Simplified processes are used for items that have a negligible effect on the Corporation's performance.

(3) Changes in accounting treatment since end of most recent fiscal year: None

4. Consolidated Financial Statements (Summary)
(1) Consolidated Balance Sheets (Summary)

(¥ millions/%)

	June 2006 Quarter	June 2007 Quarter	Change		Year Ended March 2007 (Reference)
			Amount	%	
ASSETS:					
Current assets					
Cash and deposits	¥ 18,020	¥ 21,083	¥ 3,062	17.0	¥ 22,521
Notes and accounts receivable	61,211	62,737	1,526	2.5	67,338
Marketable securities	18,627	16,996	(1,631)	(8.8)	15,629
Inventories	27,458	32,233	4,774	17.4	28,164
Other	3,008	3,259	250	8.3	2,209
<i>Total current assets</i>	123,326	136,309	7,982	6.2	135,863
Fixed assets					
Property, plant and equipment	43,798	45,004	1,205	2.8	45,306
Intangible fixed assets	941	1,151	210	22.3	1,201
Investments and advances					
Investments in securities	28,249	28,781	532	1.9	32,797
Other	12,681	11,318	(1,363)	(10.8)	11,244
Total investments and advances	40,931	40,099	(831)	(2.0)	44,041
<i>Total fixed assets</i>	85,671	86,256	584	0.7	90,550
Total assets	¥213,998	¥222,566	¥8,567	4.0	¥226,413
LIABILITIES:					
Current liabilities					
Notes and accounts payable	¥41,605	¥ 39,459	¥ (2,145)	(5.2)	¥ 42,552
Short-term debt	13,264	15,874	2,610	19.7	17,365
Other payables	6,133	7,465	1,331	21.7	10,304
Other	7,828	9,475	1,647	21.0	9,276
<i>Total current liabilities</i>	68,831	72,274	3,443	5.0	79,498
Long-term liabilities					
Long-term debt	6,047	5,741	(306)	(5.1)	647
Other	5,553	5,350	(202)	(3.6)	5,354
<i>Total long-term liabilities</i>	11,601	11,091	(509)	(4.4)	6,002
Total liabilities	80,433	83,366	2,933	3.6	85,500
NET ASSETS:					
Shareholders' equity:					
Common stock	6,459	6,459	—	—	6,459
Capital surplus	8,719	8,719	0	0.0	8,719
Earned surplus	112,774	117,366	4,591	4.1	118,185
Treasury stock	(96)	(113)	(16)	16.6	(109)
<i>Total shareholders' equity</i>	127,856	132,432	4,575	3.6	133,254
Other adjustments:					
Unrealized gain on marketable securities	132	(211)	(343)	(259.4)	460
Foreign exchange translation adjustments	496	2,002	1,506	303.6	1,968
<i>Total other adjustments</i>	628	1,791	1,162	184.9	2,429
Minority interests	5,080	4,975	(104)	(2.1)	5,229
Total net assets	133,565	139,199	5,633	4.2	140,913
Total liabilities and net assets	213,998	222,566	8,567	4.0	226,413

(2) Consolidated Statements of Income (Summary)

(¥ millions/%)

	<i>June 2006 Quarter</i>	<i>June 2007 Quarter</i>	<i>Change</i>		<i>Year Ended March 2007 (Reference)</i>
			<i>Amount</i>	<i>%</i>	
Net sales	¥48,074	¥49,840	¥1,765	3.7	¥234,797
Cost of sales	35,992	37,108	1,115	3.1	172,227
Gross profit	12,082	12,732	650	5.4	62,569
Selling, general and administrative expenses	11,669	11,775	105	0.9	49,830
Operating income	412	957	544	131.9	12,739
Other profit	863	587	(275)	(32.0)	2,157
Other expenses	285	330	44	15.7	1,374
Ordinary income	990	1,214	223	22.6	13,521
Extraordinary income	309	83	(226)	(73.1)	637
Extraordinary loss	25	657	632	2,495.4	2,277
Income before income taxes	1,274	639	(635)	(49.8)	11,881
Income taxes	603	790	187	31.1	5,672
Minority interests in earnings (losses) of affiliates	54	(198)	(253)	(464.6)	(74)
Net income	¥ 616	¥ 47	¥568	(92.3)	¥ 6,283

(3) Consolidated Statements of Cash Flows (Summary)

(¥ millions)

	<i>June 2006 Quarter</i>	<i>June 2007 Quarter</i>	<i>Year Ended March 2007 (Reference)</i>
Cash flows from operating activities			
Income before income taxes	¥1,274	¥ 639	¥11,881
Depreciation and amortization	1,637	1,779	7,547
Increase in accrued employees' bonuses	1,405	1,531	308
Decrease (increase) in trade receivables	2,947	4,237	(1,825)
(Increase) in inventories	(3,273)	(4,116)	(3,243)
(Decrease) in trade payables	(976)	(3,011)	(424)
Income taxes paid	(1,398)	(3,075)	(3,575)
Other	(2,094)	(2,309)	3,049
Net cash provided by (used in) operating activities	(478)	(4,323)	13,717
Cash flows from investing activities			
Proceeds from sales of securities	1,499	0	3,295
Purchases of tangible fixed assets	(1,813)	(1,676)	(8,278)
Purchases of investments in securities	(3,325)	(90)	(9,316)
Proceeds from sales of investment securities	163	2,960	517
Other	171	217	(1,043)
Net cash provided by (used in) investing activities	(3,304)	1,410	(14,825)
Cash flows from financing activities			
Net increase in short-term debt	2,217	3,990	1,041
Dividends paid	(758)	(866)	(1,516)
Other	972	(23)	(183)
Net cash provided by (used in) financing activities	2,431	3,099	(658)
Effect of exchange rate fluctuations on cash and cash equivalents	(282)	99	(183)
Net increase (decrease) in cash and cash equivalents	(1,633)	285	(1,948)
Cash and cash equivalents at beginning of term	31,899	30,034	31,899
Increase in cash and cash equivalents due to newly consolidation	—	—	84
Cash and cash equivalents at end of term	30,265	30,319	30,034