

# Consolidated Financial Results

## First Three Quarters of the Fiscal Year Ending March 2008

(April 1 – December 31, 2007)

February 12, 2008

### 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 Three Quarter of the Fiscal Year Ending March 31, 2008

(April 1 – December 31, 2007; amounts less than one million yen are omitted)

#### (1) Consolidated Operating Results

(¥ millions/%)

	<i>Net Sales</i> <i>(% change)</i>	<i>Operating Income</i> <i>(% change)</i>	<i>Ordinary Income</i> <i>(% change)</i>	<i>Net Income</i> <i>(% change)</i>
December 2007 Quarter	¥ 184,554 (+ 5.0)	¥12,311 (+25.0)	¥ 12,497 (+18.0)	¥7,173(+15.6)
December 2006 Quarter	175,686 (+12.0)	9,852 (+28.9)	10,586 (+25.2)	6,207(+43.2)
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>
December 2007 Quarter	¥132.42	—
December 2006 Quarter	114.58	—
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>
December 2007 Quarter	¥235,202	¥146,279	60.0	¥2,605.58
December 2006 Quarter	235,754	139,859	57.1	2,484.73
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>
December 2007 Quarter	¥ 3,513)	¥ (2,874)	¥516	¥ 31,557
December 2006 Quarter	(1,317)	(12,860)	5,739	23,283
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 November 13, 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: Yes

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

During the period under review—the nine months ended December 31, 2007—the Japanese economy expanded, supported by increases in capital spending and industrial production, as well as growth in exports to China underpinned by the continual expansion of that nation's economy. However, uncertainty mounted due to higher risks associated with exchange rate fluctuations and the slump in the U.S. economy resulting from financial instability. The gas appliance industry faced a challenging operating environment stemming from a drop in investment in housing due to soaring crude oil and raw material prices, as well as the impact of revisions to the Building Standards Law.

In response, the Rinnai Group sought to incorporate more advanced safety levels in its 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.

In Japan, the market launch of the new Delicia Series of built-in gas stoves contributed to an increase in sales in the third quarter, the domestic peak sales period. This was despite a difficult climate due to a slump in new housing starts and the push toward electric appliances. Overseas sales increased owing to solid performances in North America and Oceania, as well as China and other Asian countries, with the added benefit of a weak yen.

On the earnings side, we reported an increase in operating income thanks to the success of our high-value-added product strategy, which compensated for the surge in raw materials prices.

As a result, consolidated net sales for the nine-month period amounted to ¥184,554 million, up 5.0% from the previous corresponding period. Operating income climbed 25.0%, to ¥12,311 million, and ordinary income rose 18.0%, to ¥12,497 million. Net income grew 15.6%, to ¥7,173 million.

### Sales Composition

(¥ millions/%)

	December 2006 Quarter		December 2007 Quarter		Change		Year Ended March 2007 (reference)	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	¥57,318	32.6	¥59,507	32.2	¥2,189	3.8	¥ 74,746	31.8
Hot-water units	75,003	42.7	79,034	42.8	4,030	5.4	103,087	43.9
Air-conditioning and heating units	18,228	10.4	18,899	10.2	671	3.7	20,961	8.9
Commercial-use equipment	5,402	3.1	5,822	3.2	420	7.8	7,371	3.1
Others	19,734	11.2	21,290	11.5	1,556	7.9	28,629	12.2
Total	¥175,686	100.0	¥184,554	100.0	¥8,868	5.0	¥234,797	100.0

## 2. Consolidated Financial Position

At December 31, 2007, total assets amounted to ¥235,202 million, up ¥8,788 from March 31, 2007. Over the period, total liabilities grew ¥3,422 million, to ¥88,922 million, and net assets rose ¥5,366 million, to ¥146,279 million. The equity ratio at the end of the period was 60.0%.

Cash and cash equivalents at December 31, 2007, amounted to ¥31,557 million, up ¥1,523 million from March 31, 2007.

Net cash provided by operating activities totaled ¥3,513 million. This was mainly attributable to a year-on-year rise in income before income taxes, which contrasted with an increase in accounts receivable and an increase in income taxes paid.

Net cash used in investing activities amounted to ¥2,874 million. This stemmed primarily from purchases of tangible fixed assets, which outweighed proceeds from the sale of investment securities.

Net cash provided by financing activities was ¥516 million. Major factors included a net increase in short-term borrowings by overseas subsidiaries, which contrasted with an increase in dividend payments.

## 3. Other

(1) Changes to major subsidiaries during the period (changes to specific subsidiaries pursuant to changes in scope of consolidation)

None

(2) Use of simplified accounting method

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.

(3) Changes in accounting methods since most recent consolidated accounting year (method of depreciating tangible fixed assets)

Pursuant to an amendment to the Company Tax Law, the Corporation and its domestic consolidated subsidiaries have shifted to the declining-balance method for depreciating tangible fixed assets (except buildings and attachments) acquired on or after April 1, 2007.

Following the amendment to the Company Tax Law, the Corporation reassessed its method of depreciating buildings (except attachments) to better reflect actual circumstances. Consequently, assets acquired on or after April 1, 2007 are now depreciated using the straight-line method.

## 1. Consolidated Balance Sheets (Summary)

(¥ millions/%)

	December 2006 Quarter	December 2007 Quarter	Change		Year Ended March 2007 (Reference)
			Amount	%	
<b>ASSETS:</b>					
Current assets					
Cash and deposits	¥ 22,703	¥ 25,186	¥ 2,482	10.9	¥ 22,521
Notes and accounts receivable	78,783	77,250	(1,532)	(1.9)	67,338
Marketable securities	8,595	13,733	5,137	59.8	15,629
Inventories	32,057	27,589	(4,468)	(13.9)	28,164
Other	3,081	3,736	654	21.3	2,209
<i>Total current assets</i>	145,223	147,496	2,273	1.6	135,863
Fixed assets					
Property, plant and equipment	45,488	45,480	(7)	(0.0)	45,306
Intangible fixed assets	1,115	1,280	165	14.8	1,201
Investments and advances					
Investments in securities	32,914	29,185	(3,728)	(11.3)	32,797
Other	11,012	11,758	746	6.8	11,244
Total investments and advances	43,927	40,944	(2,982)	(6.8)	44,041
<i>Total fixed assets</i>	90,531	87,706	(2,825)	(3.1)	90,550
<b>Total assets</b>	<b>¥235,754</b>	<b>¥235,202</b>	<b>¥(551)</b>	<b>(0.2)</b>	<b>¥226,413</b>
<b>LIABILITIES:</b>					
Current liabilities					
Notes and accounts payable	¥49,670	¥ 44,967	¥ (4,702)	(9.5)	¥ 42,552
Short-term debt	17,440	16,564	(876)	(5.0)	17,365
Other payables	9,123	9,099	(24)	(0.3)	10,304
Other	7,666	9,442	1,775	23.2	9,276
<i>Total current liabilities</i>	83,900	80,073	(3,827)	(4.6)	79,498
Long-term liabilities					
Long-term debt	6,704	3,453	(3,251)	(48.5)	647
Other	5,290	5,396	106	2.0	5,354
<i>Total long-term liabilities</i>	11,994	8,849	(3,144)	(26.2)	6,002
<b>Total liabilities</b>	<b>95,895</b>	<b>88,922</b>	<b>(6,972)</b>	<b>(7.3)</b>	<b>85,500</b>
<b>NET ASSETS:</b>					
<b>Shareholders' equity:</b>					
Common stock	6,459	6,459	—	—	6,459
Capital surplus	8,719	8,719	—	—	8,719
Earned surplus	118,042	123,513	5,471	4.6	118,185
Treasury stock	(105)	(126)	(21)	20.7	(109)
<b>Total shareholders' equity</b>	<b>133,116</b>	<b>138,565</b>	<b>5,449</b>	<b>4.1</b>	<b>133,254</b>
<b>Other adjustments:</b>					
Unrealized gain on marketable securities	458	(71)	(529)	(115.6)	460
Foreign exchange translation adjustment	1,042	2,654	1,611	154.5	1,968
<b>Total other adjustments</b>	<b>1,501</b>	<b>2,583</b>	<b>1,081</b>	<b>72.1</b>	<b>2,429</b>
<b>Minority interests</b>	<b>5,241</b>	<b>5,130</b>	<b>(110)</b>	<b>(2.1)</b>	<b>5,229</b>
<b>Total net assets</b>	<b>¥139,859</b>	<b>¥146,279</b>	<b>¥6,420</b>	<b>¥4.6</b>	<b>¥140,913</b>
<b>Total liabilities and net assets</b>	<b>¥235,754</b>	<b>¥235,202</b>	<b>¥(551)</b>	<b>¥(0.2)</b>	<b>¥226,413</b>

## 2. Consolidated Statements of Income (Summary)

(¥ millions/%)

	<i>December 2006 Quarter</i>	<i>December 2007 Quarter</i>	<i>Change</i>		<i>Year Ended March 2007 (Reference)</i>
			<i>Amount</i>	<i>%</i>	
Net sales	¥175,686	¥184,554	¥8,868	5.0	¥234,797
Cost of sales	128,346	134,431	6,084	4.7	172,227
Gross profit	47,339	50,122	2,783	5.9	62,569
Selling, general and administrative expenses	37,486	37,811	324	0.9	59,830
Operating income	9,852	12,311	2,458	25.0	12,739
Other profit	1,695	1,569	(125)	(7.4)	2,157
Other expenses	960	1,383	422	44.0	1,374
Ordinary income	10,586	12,497	1,910	18.0	13,521
Extraordinary income	316	374	58	18.5	637
Extraordinary loss	327	1,512	1,184	361.3	2,277
Income before income taxes	10,575	11,359	784	7.4	11,881
Income taxes	4,355	4,226	(129)	(3.0)	5,672
Minority interests in earnings (losses) of affiliates	11	(40)	(52)	(435.3)	(74)
Net income	¥ 6,207	¥ 7,173	¥965	15.6	¥ 6,283

### 3. Consolidated Statements of Cash Flows (Summary)

(¥ millions)

	<i>December 2006 Quarter</i>	<i>December 2007 Quarter</i>	<i>Year Ended March 2007 (Reference)</i>
<b>Cash flows from operating activities</b>			
Income before income taxes	¥10,575	¥11,359	¥11,881
Depreciation and amortization	5,423	6,078	7,547
Decrease in accrued employees' bonuses	(1,180)	(1,494)	308
Increase in trade receivables	(13,655)	(10,237)	(1,825)
Decrease (increase) in inventories	(7,372)	582	(3,243)
Increase in trade payables	6,806	2,531	(424)
Income taxes paid	(3,187)	(5,599)	(3,575)
Other	1,274	293	3,049
<b>Net cash provided by (used in) operating activities</b>	<b>(1,317)</b>	<b>3,513</b>	<b>13,717</b>
<b>Cash flows from investing activities</b>			
Proceeds from sales of securities	3,095	99	3,295
Purchases of tangible fixed assets	(6,399)	(6,297)	(8,278)
Purchases of investments in securities	(9,404)	(2,602)	(9,316)
Proceeds from sales of investments in securities	522	5,475	517
Other	(674)	450	(1,043)
<b>Net cash used in operating activities</b>	<b>(12,860)</b>	<b>(2,874)</b>	<b>(14,825)</b>
<b>Cash flows from financing activities</b>			
Net increase in short-term debt	6,601	3,448	1,041
Dividends paid	(1,517)	(1,842)	(1,516)
Other	655	(1,089)	(183)
<b>Net cash provided by financing activities</b>	<b>5,739</b>	<b>516</b>	<b>(658)</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>(261)</b>	<b>367</b>	<b>(183)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(8,699)</b>	<b>1,523</b>	<b>(1,948)</b>
<b>Cash and cash equivalents at beginning of term</b>	<b>31,899</b>	<b>30,034</b>	<b>31,899</b>
<b>Increase in cash and cash equivalents due to newly consolidation</b>	<b>84</b>	<b>—</b>	<b>84</b>
<b>Cash and cash equivalents at end of term</b>	<b>23,283</b>	<b>31,557</b>	<b>30,034</b>