

Financial Results for Fiscal 2008

(April 1, 2007 - March 31, 2008)

May 13, 2008

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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Date of the General Meeting of Shareholders: June 27, 2008

Anticipated date to begin distributing dividends: June 30, 2008

Anticipated date to release annual security report: June 27, 2008

1. Consolidated Performance for the Year Ended March 31, 2008

(April 1, 2007 to March 31, 2008; 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)
2008	248,761(+ 5.9)	15,124(+18.7)	15,398(+13.9)	8,269(+31.6)
2007	234,797(+10.3)	12,739(+24.2)	13,521(+15.0)	6,283 (+19.9)

(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 Operating Income to Net Sales (%)
2008	152.66	—	6.0	6.7	6.1
2007	115.97	—	4.7	6.1	5.4

Note: Equity in earnings of companies accounted for using the equity method:

Year ended March 31, 2008: ¥375 million Year ended March 31, 2007: ¥276 million

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

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
2008	230,923	145,995	61.4	2,615.71
2007	226,413	140,913	59.9	2,504.47

(Reference) Equity capital : Year ended March 31, 2008; ¥141,695 million

Year ended March 31, 2007; ¥135,683 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
2008	23,398	(8,209)	(6,263)	39,178
2007	13,717	(14,825)	(658)	30,034

2. Dividends

(Basis date)	Dividend per Share				
	1st Quarter (¥)	Interim (¥)	3rd Quarter (¥)	Fiscal Year-End (¥)	Full Year (¥)
2007	—	14.00	—	16.00	30.00
2008	—	18.00	—	18.00	36.00
2009 (anticipated)	—	20.00	—	20.00	40.00

	Total Dividends (Full Year) (¥ millions)	Consolidated Payout Ratio (%)	Consolidated Ratio of Dividends to Net Assets (%)
2007	1,625	25.9	1.2
2008	1,950	23.6	1.4
2009 (anticipated)		23.1	

3. Forecast for the Fiscal Year Ending March 31, 2009

(April 1, 2008, to March 31, 2009)

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Interim	113,000 (+1.9)	5,300 (+5.2)	5,600 (+2.8)	3,500 (+10.2)	64.61
Full year	257,000 (+3.3)	18,000 (+19.0)	18,300 (+18.8)	9,400 (+13.7)	173.52

(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 6 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: None

(b) Other changes than (a): Yes

* Please refer to "Changes in Significant Accounting Policies of Consolidated Financial Statements" on page 14 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, 2008: 54,216,463 shares Year ended March 31, 2007: 54,216,463 shares

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

Year ended March 31, 2009: 45,381 shares Year ended March 31, 2007: 39,967 shares

* Please refer to "Per share data" on page 19, 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, 2008

(April 1, 2007 to March 31, 2008; 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)
2008	168,779 (+2.8)	7,719 (+13.3)	12,074 (+36.3)	8,062 (+98.6)
2007	164,189 (+7.2)	6,814 (+74.2)	8,859 (+48.2)	4,060 (+38.8)

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

	Net Income per Share (¥)	Fully Diluted Net Income per Share (¥)
2008	148.83	—
2007	74.94	—

(2) Nonconsolidated Financial Position (at March 31)

(¥ millions)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (¥)
2008	153,367	108,850	71.0	2,009.38
2007	147,733	103,574	70.1	1,911.80

(Reference) Equity capital : Year ended March 31, 2008; ¥108,850 million

Year ended March 31, 2007; ¥103,574 million

(3) Forecast for the Fiscal Year Ending March 31, 2009

(April 1, 2008, to March 31, 2009)

(¥ millions)

	Net Sales (% change)	Operating Income (% change)	Ordinary Income (% change)	Net Income (% change)	Net Income per Share (¥)
Interim	77,700 (+3.2)	2,700 (+7.1)	4,000(-39.8)	2,500 (-53.3)	46.15
Full year	173,000 (+2.5)	9,500 (+23.1)	11,700 (-3.1)	7,000 (-13.2)	129.22

(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) Performance

In the first half of the fiscal period in review, the Japanese economy showed a recovery trend, supported by healthy corporate earnings and increased capital expenditures. In the second half, however, the outlook became increasingly uncertain due to a number of factors. These included a slowdown in the U.S. economy amid the subprime loan crisis in that nation, as well as volatile share and foreign exchange markets and rising prices of crude oil and raw materials. Market conditions in the housing appliance industry became difficult as the impact of the amended Building Standards Law severely dampened housing investments, with new housing starts plummeting around 20%.

The fiscal period under review was the second year of V-Shift Plan, the Rinnai Group's medium-term business plan. During the year, we continued transforming our operations underpinned by structural reforms. At the same time, we concentrated our resources on developing new products reflecting our commitment to safety, comfort, and the environment. In this context, we unveiled the new Delicia Series of built-in gas ranges, featuring advanced safety levels and user-friendly cooking performance, in the domestic market. The popularity of new products and healthy replacement demand compensated for the depressed housing-start situation, leading to a year-on-year revenue increase.

Despite concerns about the effects of the subprime loan problem, there was no major impact on the market for instant-heating hot-water units in North America, where sales remained firm. In Oceania, the markets for hot-water units and heaters expanded, while in Asia we performed generally well, benefiting from economic expansion in various countries.

The Group's earnings were affected by surging raw materials prices and a decline in domestic unit sales. However, we took measures to address unprofitable products and worked hard to lower costs—key strategies of our medium-term plan. With the added benefit of increased overseas sales, we practically achieved our earnings forecasts.

As a result, consolidated net sales amounted to ¥248,761 million, up 5.9% from the previous year. Operating income climbed 18.7%, to ¥15,124 million, and ordinary income rose 13.9%, to ¥15,398 million. Net income increased 31.6%, to ¥8,269 million.

Our results by business segment were as follows:

Kitchen Appliances

In Japan, we reported an increase in sales of built-in gas stoves due to enhanced safety features, including temperature sensors in all burners, as well as the popularity of the Delicia Series, featuring improved cooking performance, operability, and visual appeal. Overseas, we performed generally well in Asia, maintaining healthy sales of glass-top cookers in South Korea, as well as cookers in China. Overall sales in this segment totaled ¥78,573 million, up 5.1% year-on-year.

Hot-Water Units

For the period, Rinnai posted strong domestic sales of its highly efficient “Eco-Jozu” series of hot-water/heating systems, bath-water heaters, and other heating devices, which are designed to combat global warming. Sales in North America were up, thanks to the popularity of instant-heating hot-water units on the back of growing energy-saving sentiment, together with increased recognition of the Rinnai brand due to aggressive promotional activities. We also posted healthy sales in Australia and China. Total segment sales grew 8.3%, to ¥111,625 million.

Air-Conditioning and Heating Units

Domestic sales of gas fan heaters remained mostly unchanged, but sales of fan-forced heaters in Australia were firm. Consequently, total sales in this segment rose 3.5%, to ¥21,689 million.

Commercial-Use Equipment

Overseas sales in this segment increased, boosted by solid demand for commercial-use kitchen appliances in South Korea and commercial-use hot-water units in Australia. Total segment sales climbed 4.9%, ¥7,729 million.

Others

Total sales in this segment edged up 1.8%, to ¥29,144 million. In Japan, we benefited from solid sales of electronic materials and components. Overseas, we reported increased sales owing to expansion of the markets for solar systems in Australia and commercial-use products in South Korea.

(2) Outlook for the Year Ending March 31, 2009

Despite expectations of a recovery in housing starts, the Japanese economy is showing increased signs of retreat amid concerns about the impact of continued surges in the prices of crude oil and raw materials on final product prices and personal consumption. The year ahead will be characterized by industrywide initiatives that place top priority on customer safety. These include product safety activities targeting proliferation of stoves in which all burners are fitted with silicon sensors. There are also moves to establish a maintenance and inspection system for specified products purchased for long-term use, in the lead-up to an amendment of the Consumer Products Safety Law in April 2009.

Under these conditions, the Rinnai Group will step up product safety initiatives aimed at achieving its targets under the V-Shift Plan, which ends in March 2009. Key themes of the plan are peace of mind, comfort, and the environment. Given growing worldwide environmental awareness and attention to environmental measures taken by various nations, we will focus on expanding sales of energy-saving products and developing new eco-friendly offerings aimed at meeting the environmental needs of people around the world.

For the year ending March 2009, we forecast consolidated net sales of ¥257.0 billion (up 3.3% year-on-year), operating income of ¥18.0 billion (up 19.0%), ordinary income of ¥18.3 billion (up 18.8%), and net income of ¥9.4 billion (up 13.7%).

2. Financial Position

(1) Balance Sheets

As of March 31, 2008, Rinnai had total assets of ¥230,923 million, up ¥4,509 million from a year earlier. The increase stemmed mainly from a rise in securities in current assets.

Total liabilities declined ¥572 million, to ¥84,927 million, due largely to a decrease in short-term loans by overseas subsidiaries.

Net assets rose ¥5,082 million, to ¥145,995 million, owing mainly to an increase in retained earnings, which were boosted by net income.

The equity ratio at fiscal year-end was 61.4%.

(2) Cash Flows

Cash and cash equivalents at March 31, 2008, amounted to ¥39,178 million, up ¥9,144 million, or 30.4%, from a year earlier. This was the net result of ¥23,398 million net cash provided by operating activities, ¥8,209 million net cash used in investing activities, and ¥6,263 million net cash used in financing activities.

Net cash provided by operating activities totaled ¥23,398 million, up ¥9,680 million, or 70.6%, from the previous year. Factors boosting cash flows included ¥14,375 million in income before income taxes, ¥8,354 million in depreciation, and a ¥2,590 million increase in trade payables. These contrasted with ¥6,010 million in income taxes paid.

Net cash used in investing activities amounted to ¥8,209 million, down ¥6,615 million, or 44.6%. The main factor driving down cash flows was ¥8,730 million in purchases of fixed assets, while the main factor boosting cash flows was a ¥525 million decrease in long-term time deposits.

Net cash used in financing activities was ¥6,263 million, up ¥5,604 million, or 851.0%. Major factors included a ¥4,350 million net decrease in short- and long-term borrowings by overseas subsidiaries, as well ¥1,841 million in cash dividends paid.

References: Cash Flow Indicators

(Years ended March 31)	2005	2006	2007	2008
Equity ratio (%)	61.0	60.6	59.9	61.4
Equity ratio based on market price (%)	72.4	89.5	75.1	76.5
Interest-bearing debt to cash flows (%)	154.6	134.2	131.3	55.3
Interest coverage ratio (times)	15.3	14.1	12.8	21.6

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.

(3) Basic Profit Appropriation Policy; Cash Dividends

The Corporation 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 consolidated business performance and payout ratio.

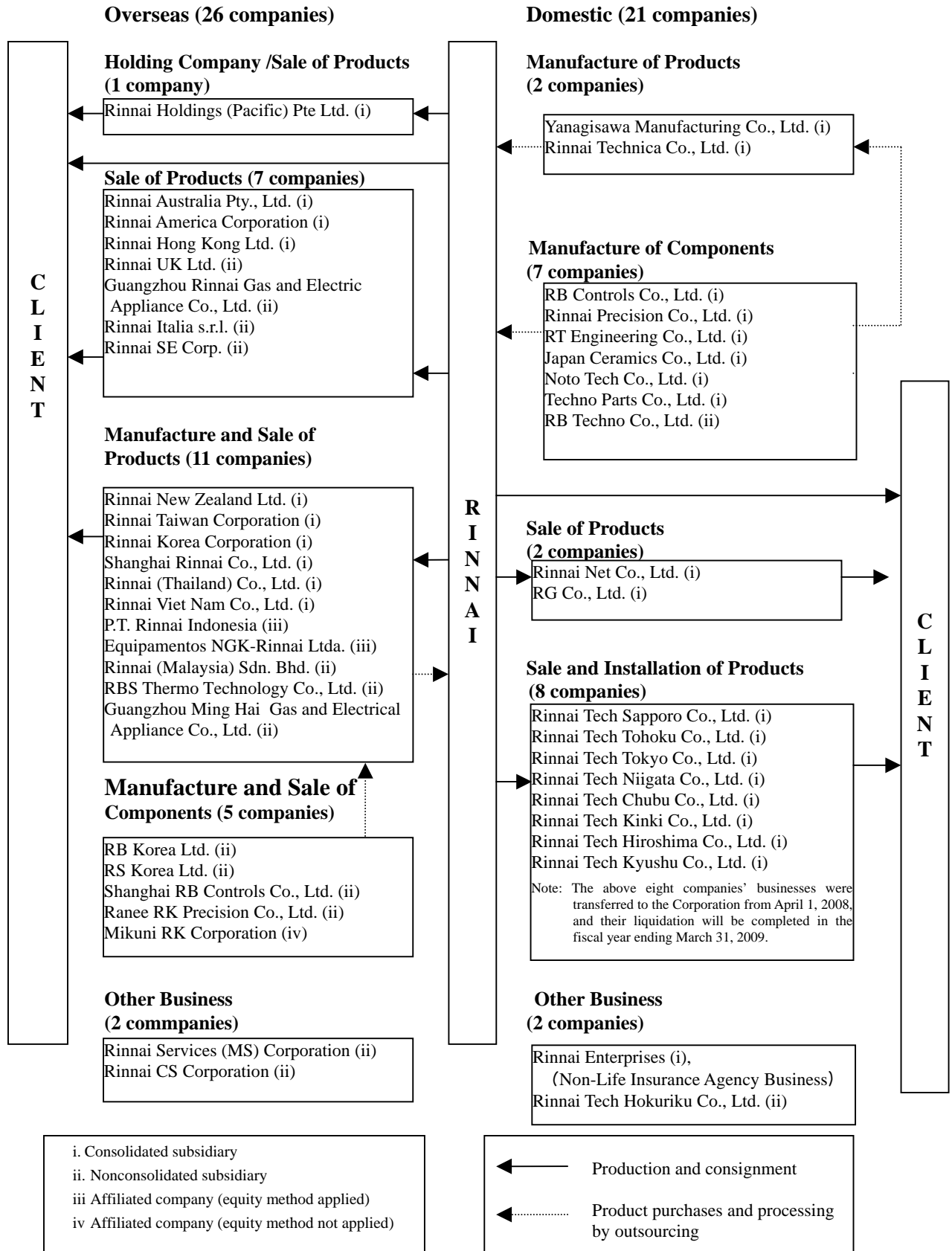
At the same time, we will effectively utilize retained earnings to support various initiatives aimed at raising corporate value over the long term. These include research and development, capital investments, and strategic business investments in Japan and overseas.

For the fiscal year under review, we plan to raise the year-end dividend by ¥2.00, to ¥18.00 per share. Earlier in the year, we paid an interim dividend of ¥18.00, up ¥4.00 year-on-year. This will bring total annual dividends to ¥36.00 per share, up ¥6.00.

For the year ending March 2009, we plan a further ¥4.00 increase in cash dividends, to ¥40.00 per share (¥20.00 interim dividend and ¥20.00 year-end dividend).

2. Outline of Rinnai Group Companies

The Rinnai Group consists of the parent company, 44 subsidiaries, and three affiliated companies, for a total of 48 companies. These include 29 consolidated subsidiaries and two companies 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.



Because Rinnai has not made any major changes to its Subsidiaries, which were described in security report (released on June 28, 2007), it's subsidiary information is omitted.

3. Management Policies

Rinnai has not made any major changes to its Management Policies, which were described in “Financial Results for Fiscal 2007” (released on May 14, 2007). To view that document, please check the following websites.

(Rinnai corporate website)

http://www.rinnai.co.jp/ir/main_ir.html

(Tokyo Stock Exchange website)

<http://www.tse.or.jp/listing/compsearch/index.html>

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(At March 31)

(¥ millions)

	2007		2008		Change
	Amount	% of total	Amount	% of total	Amount
ASSETS					
Current assets	135,863	60.0	147,077	63.7	11,213
Cash and deposits	22,521		24,217		1,696
Notes and accounts receivable	67,338		65,811		(1,527)
Marketable securities	15,629		28,144		12,515
Inventories	28,164		26,388		(1,776)
Deferred tax assets	2,611		3,426		815
Other	1,931		2,387		455
Less allowance for doubtful accounts	(2,332)		(3,299)		(966)
Fixed assets	90,550	40.0	83,846	36.3	(6,703)
Property, plant and equipment	45,306	20.0	45,224	19.6	(82)
Buildings and structures	15,116		14,279		(837)
Machinery and vehicles	9,230		9,841		611
Tools and fixtures	6,763		6,486		(277)
Land	13,483		13,304		(179)
Construction in progress	712		1,312		599
Intangible fixed assets	1,201	0.5	1,447	0.6	245
Investments and advances	44,041	19.5	37,174	16.1	(6,866)
Investments in securities	32,797		25,319		(7,477)
Investments	964		1,121		157
Long-term loans	12		7		(4)
Deferred income taxes	1,736		1,884		148
Other	9,234		9,574		340
Less allowance for doubtful accounts	(702)		(733)		(30)
Total assets	226,413	100.0	230,923	100.0	4,509

(¥ millions)

	2007		2008		Change
	Amount	% of total	Amount	% of total	Amount
LIABILITIES					
Current liabilities	79,498	35.1	73,973	32.0	(5,524)
Notes and accounts payable	42,552		44,873		2,321
Short-term debt	17,365		7,574		(9,790)
Other payables	10,304		10,530		225
Accrued consumption taxes	513		565		51
Accrued income taxes	3,418		4,340		921
Accrued employee's bonuses	2,290		2,263		(26)
Allowance for inspection cost	500		585		85
Other	2,553		3,240		687
Long-term liabilities	6,002	2.7	10,954	4.7	4,951
Long-term debt	647		5,360		4,713
Deferred tax liabilities	14		4		(10)
Accrued employees' retirement benefits	2,781		3,016		234
Accrued officers' retirement benefits	1,420		1,485		65
Other	1,138		1,087		(50)
Total liabilities	85,500	37.8	84,927	36.8	(572)
NET ASSETS:					
Shareholders' equity:					
Common stock	6,459	2.9	6,459	2.8	—
Capital surplus	8,719	3.9	8,719	3.8	0
Earned surplus	118,185	52.2	124,609	54.0	6,424
Treasury stock	(109)	(0.0)	(129)	(0.1)	(19)
Total shareholders' equity	133,254	58.9	139,659	60.5	6,404
Other adjustments:					
Unrealized gain on marketable securities	460	0.2	(466)	(0.2)	(927)
Foreign exchange translation adjustment	1,968	0.9	2,502	1.1	534
Total other adjustments	2,429	1.1	2,036	0.9	(392)
Minority interests	5,229	2.3	4,299	1.9	(929)
Total net assets	140,913	62.2	145,995	63.2	5,082
Total liabilities and net assets	226,413	100.0	230,923	100.0	4,509

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

(¥ millions)

	2007		2008		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	¥234,797	100.0	¥248,761	100.0	¥13,964	5.9
Cost of Sales	172,227	73.4	181,089	72.8	8,862	5.1
Gross Profit	62,569	26.6	67,671	27.2	5,102	8.2
Selling, general and administrative expenses	49,830	21.2	52,547	21.1	2,717	5.5
Operating income	12,739	5.4	15,124	6.1	2,385	18.7
Other income:	2,157	0.9	2,328	0.9	170	7.9
Interest income	756		901		145	
Dividends received	142		240		98	
Equity in earnings of affiliates	276		375		99	
Foreign exchange gain	408		—		(408)	
Other	574		809		235	
Other expenses:	1,374	0.6	2,054	0.8	679	49.4
Interest expenses	1,085		1,125		39	
Loss on sale of notes receivable	251		263		12	
Foreign exchange loss	—		624		624	
Other	37		40		3	
Ordinary income	13,521	5.8	15,398	6.2	1,876	13.9
Extraordinary income:	637	0.3	918	0.4	281	44.2
Adjustment for prior profits	133		495		362	
Gain on sales of fixed assets	7		288		280	
Gain on sales of investments in securities	392		0		(392)	
Reversal from allowance for doubtful accounts	26		89		63	
Other	76		44		(31)	
Extraordinary losses:	2,277	1.0	1,940	0.8	(337)	(14.8)
Loss on sales of fixed assets	47		61		13	
Loss on disposal of fixed assets	423		256		(166)	
Impairment loss	47		6		(41)	
Loss on devaluation of investments in securities	91		228		136	
Retirement benefit expenses	—		604		604	
Transfer to allowance for doubtful accounts	4		—		(4)	
Inspection cost	1,097		119		(977)	
Transfer to allowance for inspection cost	500		585		85	
Other	66		78		12	
Income before income taxes	11,881	5.1	14,375	5.8	2,494	21.0
Income taxes:						
Current	5,473		5,827		354	
Previous Term (overseas subsidiaries)	—		1,080		1,080	
Deferred	199		(334)		(534)	
Minority interests (deduction)	(74)		(467)		(392)	
Net income	6,283	2.7	8,269	3.3	1,986	31.6

(3) Consolidated Statement of Shareholders' Equity

For the fiscal year ended March 31, 2007

(¥ 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 period:					
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 period					
Net changes during period	—	0	5,267	(15)	5,251
Balance at March 31, 2007	6,459	8,719	118,185	(109)	133,254

	Other adjustments			Minority interests	Total net assets
	Unrealized gain on marketable securities	Foreign exchange translation adjustment	Total		
Balance at March 31, 2006	656	838	1,494	4,661	134,159
Changes during period:					
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 period	(195)	1,129	934	568	1,502
Net changes during period	(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.

For the fiscal year ended March 31, 2008

(¥ millions)

	Total shareholders' equity				
	Common stock	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Balance at March 31, 2007	6,459	8,719	118,185	(109)	133,254
Changes during period:					
Retained earnings			(1,841)		(1,841)
Net income			8,269		8,269
Acquisition of treasury stock				(20)	(20)
Disposition of treasury stock		0		0	0
Other changes			(3)		(3)
Net other changes during period					
Net changes during period	—	0	6,424	(19)	6,404
Balance at March 31, 2008	6,459	8,719	124,609	(129)	139,659

	Other adjustments			Minority interests	Total net assets
	Unrealized gain on marketable securities	Foreign exchange translation adjustment	Total		
Balance at March 31, 2007	460	1,968	2,429	5,229	140,913
Changes during period:					
Retained earnings					(1,841)
Net income					8,269
Acquisition of treasury stock					(20)
Disposition of treasury stock					0
Other changes					(3)
Net other changes during period	(927)	534	(392)	(929)	(1,322)
Net changes during period	(927)	534	(392)	(929)	5,082
Balance at March 31, 2008	(466)	2,502	2,036	4,299	145,995

(4) Consolidated Statements of Cash Flows

(Years end March 31)

(¥ millions)

	2007	2008	Change
Cash flows from operating activities			
Income before income taxes	11,881	14,375	
Depreciation and amortization	7,547	8,354	
Increase (decrease) in accrued employees' bonuses	308	(26)	
(Decrease) in accrued employees' retirement benefits	(499)	318	
(Increase) in prepaid pension costs	(978)	(291)	
Increase in allowance for doubtful accounts	1,551	695	
Increase in allowance for inspection cost	500	85	
Interest and dividends income	(898)	(1,142)	
Interest expenses	1,085	1,125	
Equity in earnings of affiliates	(276)	(375)	
Loss on disposal of fixed assets	423	256	
Decrease(increase) in trade receivables	(1,825)	684	
Decrease (increase) in inventories	(3,243)	1,688	
Increase (decrease) in trade payables	(424)	2,590	
Increase in accounts payable	1,643	—	
Increase (decrease) in accrued consumption taxes	163	48	
Bonuses to officers	(3)	—	
Other	409	927	
Subtotal	17,365	29,314	11,949
Interest and dividends received	1,001	1,178	
Interest paid	(1,073)	(1,084)	
Income taxes paid	(3,575)	(6,010)	
Net cash provided by operating activities	13,717	23,398	9,680
Cash flows from investing activities			
Transfers to time deposits	(11,745)	(9,946)	
Withdrawals from time deposits	11,040	10,472	
Purchase of investment securities	—	(5,188)	
Proceeds from sales of investment securities	3,295	1,593	
Purchases of tangible fixed assets	(8,278)	(8,730)	
Proceeds from sales of tangible fixed assets	81	633	
Purchases of intangible fixed assets	(347)	(641)	
Purchases of investments in securities	(9,316)	(4,112)	
Proceeds from sales of investments in securities	517	7,789	
Proceeds from sales of stock of subsidiary due to change of scope of consolidation	442	—	
Other	(515)	(77)	
Net cash used in operating activities	(14,825)	(8,209)	6,615
Cash flows from financing activities			
Net increase (decrease) in short-term debt	1,041	(3,122)	
Increase in long-term debt	1,281	5,232	
Repayment of long-term debt	(1,706)	(6,461)	
Proceeds from sales of treasury stock	0	0	
Purchases of treasury stock	(15)	(20)	
Proceeds from stock issue for minority interests	297	—	
Dividends paid	(1,516)	(1,841)	
Dividends paid to minority shareholders	(41)	(51)	
Net cash used in financing activities	(658)	(6,263)	(5,604)
Effect of exchange rate fluctuations on cash and cash equivalents	(183)	219	402
Net decrease in cash and cash equivalents	(1,948)	9,144	11,093
Cash and cash equivalents at beginning of year	31,899	30,034	(1,864)
Increase in cash and cash equivalents due to newly consolidation	84	—	(84)
Cash and cash equivalents at end of year	30,034	39,178	9,144

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 collectively referred to as the “Corporations”)

1. Method of Depreciating Tangible

Fixed Assets

The parent company and domestic consolidated subsidiaries use the declining balance method for depreciating tangible fixed assets (but the straight line method for buildings, not including attachments, acquired on or after April 1, 2007). Overseas subsidiaries use the straight line method.

(Change in Accounting Policy)

Effective the period under review, the Corporation and its domestic consolidated subsidiaries have changed to the declining balance method for depreciating buildings (except attachments) acquired on or after April 1, 2007, pursuant to an amendment to the Corporation Tax Law.

The Corporation and its domestic consolidated subsidiaries reassessed its method of depreciating buildings (except attachments) due to an amendment to the Corporation Tax Law in the fiscal year ended March 2007. As a result of the reassessment, the Corporation, having completed major capital investments in its domestic manufacturing facilities (including four factories), anticipates a shift toward investments in overseas manufacturing subsidiaries. Investments in domestic manufacturing facilities should therefore stabilize. To ensure long-term and uniform recovery of invested capital and more appropriately match revenue and expenses, the Corporation changed its depreciation method to better reflect actual circumstances. Consequently, assets acquired on or after April 1, 2007 are now depreciated using the straight line method.

As a result of this change, operating income, ordinary income, and income before income taxes each declined ¥591 million.

(Supplementary Information)

Pursuant to an amendment to the Corporation Tax Law, the Corporation and its domestic consolidated subsidiaries, effective the period under review, depreciate the residual value of buildings (except attachments) acquired on or before March 31, 2007 uniformly over a five-year period, starting the year following the fiscal year in which the residual value of said assets reaches 5% of the acquisition price. The Corporation has also reassessed the residual values of buildings (except attachments) acquired on or before March 31, 2007, taking into consideration the condition of each asset.

As a result of this change, operating income, ordinary income, and income before income taxes each declined ¥200 million.

2. Standards for Providing Major Reserves

Accrued Employees’ Retirement Benefits (Supplementary Information)

Effective the fiscal year under review, one domestic consolidated subsidiary has shifted from the simplified method to the principle method for accounting for accrued employees’ retirement benefits. The change was made to ensure more appropriate accounting treatment of accrued employees’ retirement benefits in line with an increase in the number of employees.

The difference arising from the shift from the simplified method to the principle method at the beginning of the period is treated as “Retirement benefit expense” (amounting to ¥604 million) in the “Extraordinary loss” column.

Compared with the previous accounting treatment, retirement benefit expense increased ¥622 million, while operating income and ordinary income both declined ¥18 million, and income before income taxes declined ¥622 million.

Apart from the aforementioned shift in accounting treatment, there were no major changes to the Corporation’s most recent Securities Report (released on June 28, 2007).

Notes to Financial Statements

Notes to Consolidated Balance Sheets

	March 31, 2007	(¥ millions) March 31, 2008
1. Accumulated depreciation of property, plant, and equipment	71,802	72,095
2. Items related to unconsolidated subsidiaries and affiliates		
Investments in securities	1,351	1,623
Investments	936	1,079
3. Assets pledged as collateral and related liabilities		
Pledged assets:		
Time deposits	2,031	1,507
Buildings and structures	4,185	3,948
Machinery and delivery equipment	710	787
Land	3,688	3,099
Total	10,614	9,343
Liabilities related to pledged assets:		
Trade notes discounted	6,345	3,117
Short-term debt	2,707	1,011
Long-term debt	290	-
4. Liability for guarantee	689	136
5. Trade notes receivable discounted	7,814	6,620
6. Trade notes receivable transferred by endorsement	1,486	587
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	45,381

Notes to Consolidated Statements of Income

	March 31, 2007	(¥ millions) March 31, 2008
1. Expenses for research and development included in general and administrative expenses and production costs in the current term	6,547	7,131

2. Adjustment for prior profits:

Adjustment at overseas subsidiary due to the tax examination; ¥495 million (at March 31, 2008)

3. Impairment Loss

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

Location	Purpose	Category	Amounts (¥ millions)
Chita-gun, Aichi prefecture	Training and resort facility (unutilized)	Building	¥6 million

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

Total book value of the above assets is included in the extraordinary loss as impairment loss, because the Corporation does not have any plan to utilize the facility in the future, and it's also difficult to reuse or sale it.

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

For the fiscal year ended March 31, 2008

1. Types of Stock and Number of Shares

(Thousands of shares)

	Number of Shares at March 31, 2007	Increase in Number of Shares during the Fiscal Year	Decrease in Number of Shares during the Fiscal Year	Number of Shares at March 31, 2008
Number of shares issued				
Common stock	54,216	—	—	54,216
Treasury stock				
Common stock (Note)	39	5	0	45

Note: The increase in number of shares comes from 5,000 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 28, 2007	Common stock	¥ 866 million	¥ 16	March 31, 2007	June 29, 2007
Director's meeting on November 13, 2007	Common stock	¥ 975 million	¥ 18	September 30, 2007	December 10, 2007

(2) The effective date for dividends with a record date of March 31, 2008, 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 27, 2008	Common stock	¥ 975 million	Earned surplus	¥ 18	March 31, 2008	June 30, 2008

Notes to Statements of Cash Flows

(¥ millions)

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

	March 31, 2008	March 31, 2008
Cash and deposits	22,521	24,217
Securities	15,629	28,144
Time deposits exceeding 3 months	(6,518)	(5,912)
<u>Liabilities exceeding 3 months to maturity</u>	<u>(1,597)</u>	<u>(7,272)</u>
Cash and cash equivalents at end of year	30,034	39,178

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, 2008

(¥ millions)

	Japan	Asia	Others	Total	Inter-regional or corporate	Consolidated total
II. Net sales and operating results						
(1) Sales for clients	159,080	56,531	33,150	248,761	—	248,761
(2) Intersegment sales	18,271	2,350	413	21,034	(21,034)	—
Total	177,351	58,881	33,563	269,796	(21,034)	248,761
Operating expenses	167,499	57,373	30,079	254,951	(21,314)	233,637
Operating income	9,852	1,508	3,484	14,844	279	15,124
II. Assets	182,968	40,504	19,890	243,363	(12,440)	230,923

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. Please refer to “Change in accounting policy” on page 14.

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, 2008

(¥ millions)

	Asia	Other regions	Total
I. Overseas sales	60,598	35,602	96,201
II. Consolidated net sales	—	—	248,761
III. Composition ratio of overseas sales to consolidated net sales	24.4%	14.3%	38.7%

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, 2008
1. Net assets per share	¥2,504.47	¥2,615.71
2. Net income per share	115.97	152.66

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, 2008
Net income	¥6,283 million	¥8,269 million
Amounts not attribute to common shares	—	— million
Net income related to common shares	¥6,283 million	¥8,269 million
Average number of shares during the term	54,179 thousand shares	54,173 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, 2008		Increase (Decrease)	
	Amount	% of total	Amount	% of total	Amount	% change
Kitchen appliances	73,105	37.8	74,677	36.8	1,572	2.2
Hot-water units	86,831	45.0	94,023	46.4	7,192	8.3
Air-conditioning and heating units	17,141	8.9	16,843	8.3	(298)	(1.7)
Commercial-use equipment	2,303	1.2	2,207	1.1	(95)	(4.2)
Others	13,789	7.1	15,017	7.4	1,228	8.9
Total	193,170	100.0	202,769	100.0	9,598	5.0

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, 2008		Increase (Decrease)	
	Amount	% of total	Amount	% of total	Amount	% change
Kitchen appliances	3,607	8.5	3,479	8.2	(128)	(3.6)
Hot-water units	15,561	36.8	15,187	36.0	(373)	(2.4)
Air-conditioning and heating units	3,122	7.4	2,571	6.1	(550)	(17.6)
Commercial-use equipment	4,881	11.5	5,400	12.8	519	10.6
Others	15,102	35.7	15,600	36.9	497	3.3
Total	42,275	100.0	42,239	100.0	(35)	(0.1)

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, 2008		Increase (Decrease)	
	Amount	% of total	Amount	% of total	Amount	% change
Kitchen appliances	74,746	31.8	78,573	31.6	3,826	5.1
Hot-water units	103,087	43.9	111,625	44.9	8,537	8.3
Air-conditioning and heating units	20,961	8.9	21,689	8.7	727	3.5
Commercial-use equipment	7,371	3.1	7,729	3.1	357	4.9
Others	28,629	12.2	29,144	11.7	515	1.8
Total	234,797	100.0	248,761	100.0	13,964	5.9

Note: Above amounts do not include consumption tax.

6. Nonconsolidated Financial Statements

(1) Nonconsolidated Balance Sheets

(At March 31)

(¥ millions)

	2007		2008		Change
	Amount	% of total	Amount	% of total	Amount
ASSETS					
Current Assets	81,109	54.9	89,288	58.2	8,178
Cash and Deposits	2,687		2,011		(676)
Notes receivable, trade	16,410		12,465		(3,945)
Accounts receivable, trade	28,685		31,730		3,044
Marketable securities	15,428		26,945		11,516
Products	11,674		9,035		(2,639)
Raw materials	3,877		3,969		91
Stores	123		121		(1)
Prepaid expenses	1		4		2
Deferred tax assets	1,745		2,618		872
Accrued income	688		640		(47)
Other	210		91		(118)
Less allowance for doubtful accounts	(425)		(347)		78
Fixed Assets	66,623	45.1	64,079	41.8	(2,544)
Property, plant and equipment	21,184	14.3	21,082	13.7	(102)
Buildings	6,692		6,356		(335)
Structures	259		246		(12)
Machinery and equipment	3,766		3,878		111
Vehicles and delivery equipment	22		78		56
Tools, furniture and fixture	3,560		3,364		(195)
Land	6,696		6,701		4
Construction in progress	187		457		270
Intangible fixed assets	689	0.5	960	0.6	270
Leaseholds	9		10		1
Water supply facility utilization rights	12		9		(3)
Telephone subscription rights	52		52		—
Software	551		555		3
Other	63		332		268
Investments and advances	44,749	30.3	42,036	27.4	(2,712)
Investments in securities	25,082		21,217		(3,865)
Stocks of affiliated companies	6,250		6,321		71
Long-term advances	9		9		—
Investments in affiliated companies	1,128		1,128		—
Long-term loans to affiliated companies	4,800		4,800		—
Reorganization credit	27		12		(15)
Long-term prepaid expense	150		178		27
Deferred income taxes	1,006		1,168		161
Guaranty money deposited	616		750		133
Long-term guaranty money	2,000		2,000		—
Prepaid pension expenses	3,159		3,959		799
Other	598		568		(30)
Less allowance for doubtful accounts	(81)		(77)		4
Total Assets	147,733	100.0	153,367	100.0	5,634

(¥ millions)

	2007		2008		Change
	Amount	% of total	Amount	% of total	Amount
LIABILITIES					
Current liabilities	40,946	27.7	41,248	26.9	301
Accrued payable, trade	29,411		29,510		99
Other payables	6,015		5,987		(28)
Accrued expenses	496		509		12
Accrued consumption taxes	267		415		147
Accrued income taxes	2,203		1,800		(402)
Advances by customers	0		0		0
Deposits payable	66		93		27
Accrued employees' bonus	1,596		1,558		(37)
Allowance for inspection cost	500		585		85
Accrued equipment costs payable	388		786		398
Other	1		1		(0)
Long-term liabilities	3,211	2.2	3,268	2.1	56
Accrued employees' retirement benefits	1,580		1,592		12
Accrued officers' retirement benefits	1,344		1,400		55
Other	285		275		(10)
Total liabilities	44,158	29.9	44,516	29.0	358
NET ASSETS:					
Shareholders' equity					
Common stock	6,459	4.4	6,459	4.2	—
Capital surplus					
Capital reserve	8,719		8,719		—
Other	0		0		0
Total Capital surplus	8,719	5.9	8,719	5.7	0
Earned surplus					
Legal reserve	1,614		1,614		—
Other legal reserve:					
Voluntary reserve	81,900		83,900		2,000
Unappropriated retained earnings	4,345		8,565		4,220
Total earned surplus	87,860	59.5	94,080	61.3	6,220
Treasury stock	(109)	(0.1)	(129)	(0.1)	(19)
Total Shareholders' equity	102,929	69.7	109,130	71.2	6,200
Other adjustments					
Unrealized gain on marketable securities	645		(279)		(924)
Total other adjustments	645	0.4	(279)	(0.2)	(924)
Total net assets	103,574	70.1	108,850	71.0	5,276
Total liabilities and net assets	147,733	100.0	153,367	100.0	5,634

(2) Nonconsolidated Statements of Income

(Years ended March 31)

(¥ millions)

	2007		2008		Change	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	164,189	100.0	168,779	100.0	4,590	2.8
Cost of Sales	130,164	79.3	132,906	78.7	2,741	2.1
Gross Profit	34,025	20.7	35,873	21.3	1,848	5.4
Selling, general and administrative expenses	27,210	16.6	28,154	16.7	943	3.5
Operating income	6,814	4.2	7,719	4.6	904	13.3
Other income:	2,111	1.3	5,334	3.2	3,223	152.7
Interest income	139		224		85	
Interest on securities	385		393		7	
Dividends received	793		3,843		3,050	
Foreign exchange gain	0		—		(0)	
Royalty fee	295		256		(39)	
Other	496		616		120	
Other expenses:	66	0.0	979	0.6	912	—
Interest expenses	2		2		(0)	
Foreign exchange loss	—		917		917	
Depreciation	58		58		0	
Other	6		1		(4)	
Ordinary income	8,859	5.4	12,074	7.2	3,215	36.3
Extraordinary income:	715	0.4	82	0.0	(632)	(88.5)
Adjustments of loss at prior term	133		—		(133)	
Gain on sales of fixed assets	2		—		(2)	
Gain on sales of securities	558		—		(558)	
Reversal from allowance for doubtful accounts	—		82		82	
Other	21		—		(21)	
Extraordinary losses:	2,083	1.3	1,179	0.7	(904)	(43.4)
Loss on disposal of fixed assets	—		4		4	
Disposition of fixed assets	354		204		(150)	
Impairment loss	47		6		(41)	
Loss on devaluation of investments in securities	—		228		228	
Inspection cost	1,097		119		(977)	
Transfer to allowance for inspection cost	500		585		85	
Transfer to allowance for doubtful accounts	4		—		(4)	
Other	80		31		(48)	
Income before income taxes	7,491	4.6	10,978	6.5	3,487	46.5
Income taxes:						
Current	3,080		3,327		247	
Deferred	350		(411)		(762)	
Net income	4,060	2.5	8,062	4.8	4,002	98.6

(3) Nonconsolidated Statement of Shareholders' Equity

For the fiscal year ended March 31, 2007

(¥ millions)

	Shareholders' equity							
	Common stock	Total capital surplus			Legal reserve	Earned surplus		Total earned surplus
		Capital reserve	Other	Total capital surplus		Other	Unappropriated retained earnings	
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.

For the fiscal year ended March 31, 2008

(¥ millions)

	Shareholders' equity							
	Common stock	Total capital surplus			Earned surplus			
		Capital reserve	Other	Total capital surplus	Legal reserve	Other		Total earned surplus
						Voluntary reserve	Unappropriated retained earnings	
Balance at March 31, 2007	6,459	8,719	0	8,719	1,614	81,900	4,345	87,860
Change during the fiscal year:								
Retained earnings paid							(1,841)	(1,841)
Transfer to voluntary reserve						2,000	(2,000)	—
Net income							8,062	8,062
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	—	2,000	4,220	6,220
Balance at March 31, 2008	6,459	8,719	0	8,719	1,614	83,900	8,565	94,080

(¥ 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, 2007	(109)	102,929	645	645	103,574
Change during the fiscal year:					
Retained earnings paid		(1,841)			(1,841)
Transfer to voluntary reserve		—			—
Net income		8,062			8,062
Acquisition of treasury stock	(20)	(20)			(20)
Disposition of treasury stock	0	0			0
Net other changes during the fiscal year			(924)	(924)	(924)
Net changes during the fiscal year	(19)	6,200	(924)	(924)	5,276
Balance at March 31, 2008	(129)	109,130	(279)	(279)	108,850