

Consolidated Financial Results

First Quarter of the Fiscal Year Ending March 2007

(April 1 – June 30, 2006)

August 10, 2006

Listed Company Name: Rinnai Corporation

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

Website: www.rinnai.co.jp

Representative: Hiroyasu Naito, President

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1. Items Relevant to Preparation of Quarterly Results

(1) Simplified accounting method used: Yes

1. Income tax reporting standard: Calculated based on estimated annual rate according to legal tax rates.
2. Simplified procedures are used for items deemed to have a negligible effect on the Corporation's performance.

(2) Changes in accounting methods since most recent consolidated accounting year: None

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

2. Performance in the First Quarter of the Fiscal Year Ending March 31, 2007

(April 1 – June 30, 2006; amounts less than one million yen are omitted)

(1) Operating Results

	(¥ millions/%)			
	<i>Net Sales</i> (% change)	<i>Operating Income</i> (% change)	<i>Ordinary Income</i> (% change)	<i>Net Income</i> (% change)
June 2006 Quarter	¥ 48,074 (+13.2)	¥ 412 (-41.8)	¥ 990 (-11.5)	¥ 616 (+33.0)
June 2005 Quarter	42,450 (+ 0.7)	709 (-60.7)	1,119 (-50.5)	462 (-63.0)
Year Ended March 2006 (reference)	212,947 (+ 5.4)	10,260 (- 5.2)	11,756 (- 3.9)	5,242 (-20.3)

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 2006 Quarter	¥ 11.38	—
June 2005 Quarter	8.60	—
Year Ended March 2006 (reference)	96.92	—

Consolidated Performance Progress Report

In the first quarter of the fiscal year ending March 31, 2007, the Japanese economy continued along the recovery road, fueled by improved corporate earnings and higher demand, which underpinned greater capital investment, and by better a employment environment, which gave consumers more disposable income. The quarter also saw an increase in housing starts, supported by expanded interest in houses for rent and for sale.

Against this backdrop, the Rinnai Group worked to satisfy market interest in products that contribute to comfortable lifestyles, from perspectives of safety, environmental friendliness and energy saving features. The Group also implemented measures to enhance business results, with a focus on raising the value-added quality of products

still higher and making the most efficient use of management resources.

While brisk domestic demand and solid results in overseas markets buoyed net sales, the sudden ascent of nonferrous material prices at the start of the quarter squeezed operating income and ordinary income.

For the first quarter, consolidated net sales climbed 13.2% over the corresponding period a year earlier, to ¥48,074 million, but operating income tumbled 41.8%, to ¥412 million and ordinary income fell 11.5%, to ¥990 million. Nevertheless, net income jumped 33.0%, to ¥616 million.

A breakdown of results by business segment is shown below.

Sales Composition

	June 2006 Quarter		June 2005 Quarter		Change		Year Ended March 2006 (reference)	
	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Kitchen appliances	¥ 15,927	33.1	¥ 14,033	33.1	¥1,894	13.5	¥ 66,049	31.0
Hot-water units	22,024	45.8	19,885	46.8	2,138	10.8	92,860	43.6
Air-conditioning and heating units	1,975	4.1	1,742	4.1	233	13.4	22,455	10.5
Commercial-use equipment	1,947	4.1	1,528	3.6	419	27.4	6,396	3.0
Others	6,199	12.9	5,260	12.4	938	17.8	25,186	11.8
Total	¥48,074	100.0	¥42,450	100.0	¥5,623	13.2	¥212,947	100.0

(2) Consolidated Financial Position

	Total Assets	Shareholders' Equity	Equity Ratio (%)	Equity per Share (¥)
June 2006 Quarter	¥213,998	¥133,565	60.0	¥2,465.20
June 2005 Quarter	202,691	124,684	61.5	2,301.05
Year Ended March 2006 (reference)	213,777	129,497	60.6	2,390.05

Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
June 2006 Quarter	¥ (478)	¥(3,304)	¥2,431	¥30,265
June 2005 Quarter	(1,990)	(6,444)	3,604	27,741
Year Ended March 2006 (reference)	12,004	(13,190)	(458)	31,899

Financial Position

At June 30, 2006, Rinnai had total assets of ¥213,998 million, up ¥221 million from March 31, 2006. Total liabilities amounted to ¥80,433 million, up ¥815 million, and total shareholders' equity, including minority interests, was ¥133,565 million, down ¥593 million. The equity ratio was 60.0%.

At June 30, 2006, cash and cash equivalents totaled ¥30,265 million, down ¥1,633 million from March 31, 2006.

For the first quarter, net cash used in operating activities came to ¥478 million, largely reflecting skyrocketing prices of nonferrous materials and an increase in inventories, which exceeded the decrease in trade receivables.

Net cash used in investing activities reached ¥334 million, primarily stemming from purchases of property, plant and equipment and purchases of investments in securities.

Net cash provided by financing activities was ¥2,431 million, principally owing to net increases in short-term borrowings by overseas subsidiaries.

Forecast for Fiscal Year ending March 31, 2007

(April 1, 2006 - March 31, 2007)

The first quarter presented us with several challenges, the most profit-impacting of which was soaring prices on nonferrous materials. Costs are likely to stay high in the second quarter and beyond. However, higher sales volume and revised prices on some of our products, effective July 1, should keep consolidated performance on track. Therefore, no adjustments are necessary to projected interim and full-year results announced May 15, 2006.

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

1. Consolidated Balance Sheets (Summary)

(¥ millions/%)

	June 2006 Quarter	June 2005 Quarter	Change		Year Ended March 2006 (Reference)
			Amount	%	
ASSETS					
Current assets					
Cash and deposits	¥18,020	¥ 16,415	¥ 1,604	9.8	¥ 19,029
Notes and accounts receivable	61,211	54,432	6,779	12.5	63,818
Marketable securities	18,627	18,601	25	0.1	20,845
Inventories	27,458	27,408	50	0.2	24,222
Other	3,008	4,544	(1,535)	(33.8)	3,123
<i>Total current assets</i>	128,326	121,402	6,924	5.7	131,039
Fixed assets					
Property, plant and equipment	43,798	42,963	835	1.9	43,611
Intangible fixed assets	941	885	55	6.3	951
Investments and advances					
Investments in securities	28,249	25,626	2,623	10.2	25,862
Other	12,681	11,813	868	7.4	12,311
Total investments and advances	40,931	37,439	3,492	9.3	38,173
<i>Total fixed assets</i>	85,671	81,288	4,383	5.4	82,737
Total assets	¥213,998	¥202,691	¥11,307	5.6	¥213,777
LIABILITIES					
Current liabilities					
Notes and accounts payable	¥ 41,605	¥ 35,296	¥ 6,309	17.9	¥ 42,492
Short-term debt	13,264	11,527	1,736	15.1	10,844
Other payables	6,133	7,100	(966)	(13.6)	8,452
Other	7,828	7,965	(137)	(1.7)	6,855
<i>Total current liabilities</i>	68,831	61,890	6,941	11.2	68,644
Long-term liabilities					
Long-term debt	6,047	5,894	153	2.6	5,268
Other	5,553	5,737	(183)	(3.2)	5,704
<i>Total current liabilities</i>	11,601	11,631	(30)	(0.3)	10,973
Total liabilities	80,433	73,522	6,911	9.4	79,617
MINORITY INTERESTS	—	4,484	—	—	4,661
SHAREHOLDERS' EQUITY					
Common stock	—	6,459	—	—	6,459
Capital surplus	—	8,719	—	—	8,719
Retained earnings	—	108,901	—	—	112,918
Unrealized gain on marketable securities	—	1,016	—	—	656
Adjustment account for foreign exchange losses	—	(331)	—	—	838
Treasury stock	—	(81)	—	—	(94)
Total shareholders' equity	—	124,684	—	—	129,497
Total liabilities, minority interests and shareholders' equity	¥—	¥202,691	¥—	¥—	¥213,777

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SHAREHOLDERS' EQUITY						
I. Shareholders' Equity						
Common stock	6,459	—	—	—	—	—
Capital surplus	8,719	—	—	—	—	—
Retained earnings	112,774	—	—	—	—	—
Treasury stock	(96)	—	—	—	—	—
<i>Total shareholders' equity</i>	127,856	—	—	—	—	—
II. Other Adjustments						
Unrealized gain on marketable securities	132	—	—	—	—	—
Adjustment account for foreign exchange losses	496	—	—	—	—	—
<i>Total other adjustments</i>	628	—	—	—	—	—
III. Minority Interests	5,080	—	—	—	—	—
Total Shareholders' Equity	¥133,565	—	—	—	—	—
Total liabilities and shareholders' equity	¥213,998	—	—	—	—	—

2. Consolidated Statements of Income (Summary)

(¥ millions)

	<i>June 2006 Quarter</i>	<i>June 2005 Quarter</i>	<i>Change</i>		<i>Year Ended March 2006 (Reference)</i>
			<i>Amount</i>	<i>%</i>	
Net sales	¥48,074	¥42,450	¥5,623	13.2	¥212,947
Cost of sales	35,992	31,407	4,584	14.6	157,000
Gross profit	12,082	11,043	1,039	9.4	55,947
Selling, general and administrative expenses	11,669	10,333	1,336	12.9	45,686
Operating income	412	709	(296)	(41.8)	10,260
Other profit	863	734	129	17.6	2,679
Other expenses	285	324	(38)	(11.9)	1,183
Ordinary income	990	1,119	(128)	(11.5)	11,756
Extraordinary income	309	126	183	145.5	656
Extraordinary loss	25	26	(1)	(6.1)	2,987
Income before income taxes	1,274	1,218	56	4.6	9,425
Income taxes	603	687	(84)	(12.3)	4,367
Minority interests in earnings (losses) of affiliates	54	67	(13)	(19.5)	(184)
Net income	¥ 616	¥ 462	¥ 153	33.3	¥ 5,242

(4) Consolidated Statements of Cash Flows (Summary)

(¥ millions)

	<i>June 2006 Quarter</i>	<i>June 2005 Quarter</i>	<i>Year Ended March 2006 (Reference)</i>
Cash flows from operating activities			
Income before income taxes	¥1,274	¥1,218	¥9,425
Depreciation and amortization	1,637	1,667	7,665
Increase (decrease) in accrued employees' bonuses	1,405	1,419	(6)
Decrease (increase) in trade receivables	2,947	4,412	(3,057)
Decrease (increase) in inventories	(3,273)	(3,094)	705
Increase (decrease) in trade payables	(976)	(3,280)	3,210
Income taxes paid	(1,398)	(2,161)	(4,595)
Other	(2,094)	(2,171)	(1,343)
<i>Net cash (used in) provided by operating activities</i>	(478)	(1,990)	12,004
Cash flows from investing activities			
Proceeds from sales of investment securities	1,499	—	1,205
Purchases of tangible fixed assets	(1,813)	(2,318)	(8,620)
Purchases of investments in securities	(3,325)	(3,869)	(7,554)
Other	335	(256)	1,779
<i>Net cash used in investing activities</i>	(3,304)	(6,444)	(13,190)
Cash flows from financing activities			
Net increase in short-term debt	2,217	3,047	1,602
Dividends paid	(758)	(702)	(1,455)
Other	972	1,258	(606)
<i>Net cash provided by (used in) financing activities</i>	2,431	3,604	(458)
Effect of exchange rate fluctuations on cash and cash equivalents	(282)	(390)	581
Net (decrease) in cash and cash equivalents	(1,633)	(5,221)	(1,063)
Cash and cash equivalents at beginning of term	31,899	32,962	32,962
Cash and cash equivalents at end of term	30,265	27,741	31,899