

Consolidated Financial Results

First Three Quarters of the Fiscal Year Ending March 2007

(April 1 – December 31, 2006)

February 9, 2007

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: Yes

Consolidated (new): 1 (excluded): — Equity method (new): 1 (excluded): —

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

(April 1 – December 31, 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)
December 2006 Quarter	¥175,686 (+12.0)	¥ 9,852 (+28.9)	¥ 10,586 (+25.2)	¥6,207(+43.2)
December 2005 Quarter	156,822 (+4.2)	7,642 (-2.0)	8,454 (-2.6)	4,335 (-13.4)
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>
December 2006 Quarter	¥ 114.58	—
December 2005 Quarter	80.23	—
Year Ended March 2006 (reference)	96.92	—

Consolidated Performance Progress Report

During the period in review—the nine months ended December 31, 2006—the Japanese economy continued to expand, supported by increases in private-sector capital spending and industrial production underpinned by favorable corporate performances. This was despite sluggish growth in worker incomes, which weakened personal consumption.

In response, the Rinnai Group pursued product and sales strategies aimed at realizing safety, peace of mind, and comfort.

Due to a relatively warm winter, year-on-year sales of certain kitchen appliances and hot-water units declined. Nevertheless, the Group reported an increase in revenue thanks to solid overall demand in Japan and business expansion overseas. On the earnings side, our high-value-added product strategy and structural reforms began to bear fruit, despite the effects of soaring raw materials costs. Consequently, we posted a recovery in earnings.

For the nine-month period, consolidated net sales amounted to ¥175,686 million, up 12.0% from the previous corresponding period. Operating income climbed 28.9%, to ¥9,852 million, and ordinary income rose 25.2%, to ¥10,586 million. Net income jumped 43.2%, to ¥6,207 million.

Sales Composition

(¥ millions/%)

	<i>December 2006 Quarter</i>		<i>December 2005 Quarter</i>		<i>Change</i>		<i>Year Ended March 2006 (reference)</i>	
	<i>Amount</i>	<i>% of total</i>	<i>Amount</i>	<i>% of total</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>% of total</i>
Kitchen appliances	¥57,318	32.6	¥50,587	32.3	¥ 6,731	13.3	¥ 66,049	31.0
Hot-water units	75,003	42.7	65,996	42.1	9,006	13.6	92,860	43.6
Air-conditioning and heating units	18,228	10.4	18,463	11.8	(235)	(1.3)	22,455	10.5
Commercial-use equipment	5,402	3.1	4,528	2.9	873	19.3	6,396	3.0
Others	19,734	11.2	17,246	11.0	2,487	14.4	25,186	11.8
Total	¥175,686	100.0	¥156,822	100.0	¥18,863	12.0	¥212,947	100.0

(2) Consolidated Financial Position

(¥ millions/%)

	<i>Total Assets</i>	<i>Shareholders' Equity</i>	<i>Equity Ratio (%)</i>	<i>Equity per Share (¥)</i>
December 2006 Quarter	¥235,754	¥139,859	57.1	¥2,484.73
December 2005 Quarter	215,938	128,552	59.5	2,372.59
Year Ended March 2006 (reference)	213,777	129,497	60.6	2,390.05

Consolidated Cash Flows

(¥ millions)

	<i>Cash Flows from Operating Activities</i>	<i>Cash Flows from Investing Activities</i>	<i>Cash Flows from Financing Activities</i>	<i>Cash and Cash Equivalents at End of Period</i>
December 2006 Quarter	¥(1,317)	¥(12,860)	¥5,739	¥23,283
December 2005 Quarter	(2,229)	(11,099)	3,080	23,140
Year Ended March 2006 (reference)	12,004	(13,190)	(458)	31,899

Financial Position

At December 31, 2006, total assets amounted to ¥235,754 million, up ¥21,977 million from March 31, 2006. Over the period, total liabilities grew ¥16,277 million, to ¥95,895 million, while net assets (including minority interests) rose ¥5,700 million, to ¥139,859 million. The equity ratio at the end of the period was 57.1%.

Cash and cash equivalents at December 31, 2006, amounted to ¥23,283 million, down ¥8,615 million from March 31, 2006.

Net cash used in operating activities totaled ¥1,317 million. This was mainly due to significant increases in accounts receivable and inventories, which outweighed a year-on-year rise in income before income taxes.

Net cash used in investing activities amounted to ¥12,860 million, stemming primarily from purchases of tangible fixed assets and investments in securities.

Net cash provided by financing activities was ¥5,739 million. Major factors included a net increase in short-term borrowings by overseas subsidiaries.

Forecast for Fiscal Year Ending March 31, 2007

(April 1, 2006 – March 31, 2007)

The Group has not changed its full-year performance forecasts for the fiscal year ending March 31, 2007.

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

1. Consolidated Balance Sheets (Summary)

(¥ millions/%)

	December 2006 Quarter	December 2005 Quarter	Change		Year Ended March 2006 (Reference)
			Amount	%	
ASSETS:					
Current assets					
Cash and deposits	¥ 22,703	¥ 19,427	¥ 3,276	16.9	¥ 19,029
Notes and accounts receivable	78,783	70,732	8,051	11.4	63,818
Marketable securities	8,595	11,762	(3,166)	(26.9)	20,845
Inventories	32,057	25,023	7,034	28.1	24,222
Other	3,081	6,701	(3,619)	(54.0)	3,123
<i>Total current assets</i>	145,223	133,647	11,575	8.7	131,039
Fixed assets					
Property, plant and equipment	45,488	43,373	2,114	4.9	43,611
Intangible fixed assets	1,115	892	222	24.9	951
Investments and advances					
Investments in securities	32,914	26,512	6,401	24.1	25,862
Other	11,012	11,510	(498)	(4.3)	12,311
Total investments and advances	43,927	38,023	5,903	15.5	38,173
<i>Total fixed assets</i>	90,531	82,290	8,240	10.0	82,737
Total assets	¥235,754	¥215,938	¥19,816	9.2	¥213,777
LIABILITIES:					
Current liabilities					
Notes and accounts payable	¥49,670	¥ 40,950	¥ 8,720	21.3	¥ 42,492
Short-term debt	17,440	12,270	5,170	42.1	10,844
Other payables	9,123	8,609	513	6.0	8,452
Other	7,666	8,890	(1,224)	(13.8)	6,855
<i>Total current liabilities</i>	83,900	70,720	13,180	18.6	68,644
Long-term liabilities					
Long-term debt	6,704	6,434	269	4.2	5,268
Other	5,290	5,699	(408)	(7.2)	5,704
<i>Total long-term liabilities</i>	11,994	12,133	(139)	(1.2)	10,973
Total liabilities	95,895	82,854	13,040	15.7	79,617
MINORITY INTERESTS	—	4,530	(4,530)	—	4,661
SHAREHOLDERS' EQUITY:					
Common stock	—	6,459	(6,459)	—	6,459
Capital surplus	—	8,719	(8,719)	—	8,719
Retained earnings	—	112,011	(112,011)	—	112,918
Unrealized gain on marketable securities	—	1,163	(1,163)	—	656
Adjustment account for foreign exchange losses	—	289	(289)	—	838
Treasury stock	—	(91)	91	—	(94)
Total shareholders' equity	—	128,552	(128,552)	—	129,497
Total liabilities, minority interests and shareholders' equity	¥ —	¥215,938	¥(215,938)	—	¥213,777

(Continued)

NET ASSETS:					
Shareholders' equity:					
Common stock	6,459	—	6,459	—	—
Capital surplus	8,719	—	8,719	—	—
Earned surplus	118,042	—	118,042	—	—
Treasury stock	(105)	—	(105)	—	—
<i>Total shareholders' equity</i>	133,116	—	133,116	—	—
Other adjustments:					
Unrealized gain on marketable securities	458	—	458	—	—
Adjustment account for foreign exchange losses	1,042	—	1,042	—	—
<i>Total other adjustments</i>	1,501	—	1,501	—	—
Minority interests	5,241	—	5,241	—	—
Total net assets	139,859	—	139,859	—	—
Total liabilities and net assets	¥ 235,754	¥ —	¥ 235,754	¥ —	¥ —

2. Consolidated Statements of Income (Summary)

(¥ millions/%)

	<i>December 2006 Quarter</i>	<i>December 2005 Quarter</i>	<i>Change</i>		<i>Year Ended March 2006 (Reference)</i>
			<i>Amount</i>	<i>%</i>	
Net sales	¥175,686	¥156,822	¥18,863	12.0	¥212,947
Cost of sales	128,346	115,174	13,171	11.4	157,000
Gross profit	47,339	41,647	5,691	13.7	55,947
Selling, general and administrative expenses	37,486	34,005	3,481	10.2	45,686
Operating income	9,852	7,642	2,209	28.9	10,260
Other profit	1,695	1,649	45	2.8	2,679
Other expenses	960	837	123	14.7	1,183
Ordinary income	10,586	8,454	2,132	25.2	11,756
Extraordinary income	316	576	(259)	(45.1)	656
Extraordinary loss	327	1,379	(1,051)	(76.2)	2,987
Income before income taxes	10,575	7,651	2,924	38.2	9,425
Income taxes	4,355	3,375	980	29.0	4,367
Minority interests in earnings (losses) of affiliates	11	(59)	71	(120.2)	(184)
Net income	¥ 6,207	¥ 4,335	¥1,872	43.2	¥ 5,242

3. Consolidated Statements of Cash Flows (Summary)

(¥ millions)

	<i>December 2006 Quarter</i>	<i>December 2005 Quarter</i>	<i>Year Ended March 2006 (Reference)</i>
Cash flows from operating activities			
Income before income taxes	¥10,575	¥7,651	9,425
Depreciation and amortization	5,423	5,559	7,665
Decrease in accrued employees' bonuses	(1,180)	(1,260)	(6)
Increase in trade receivables	(13,655)	(11,187)	(3,057)
Decrease (increase) in inventories	(7,372)	(388)	705
Increase in trade payables	6,806	2,103	3,210
Income taxes paid	(3,187)	(3,816)	(4,595)
Other	1,274	(889)	(1,343)
Net cash provided by (used in) operating activities	(1,317)	(2,229)	12,004
Cash flows from investing activities			
Proceeds from sales of securities	3,095	1,099	1,205
Purchases of tangible fixed assets	(6,399)	(6,613)	(8,620)
Purchases of investments in securities	(9,404)	(6,922)	(7,554)
Other	(151)	1,337	1,779
Net cash used in operating activities	(12,860)	(11,099)	(13,190)
Cash flows from financing activities			
Net increase in short-term debt	6,601	4,268	1,602
Dividends paid	(1,517)	(1,456)	(1,455)
Other	655	268	(606)
Net cash provided by (used in) financing activities	5,739	3,080	(458)
Effect of exchange rate fluctuations on cash and cash equivalents	(261)	425	581
Net (decrease) in cash and cash equivalents	(8,699)	(9,822)	(1,063)
Cash and cash equivalents at beginning of term	31,899	32,962	32,962
Increase in cash and cash equivalents due to newly consolidation	84	—	—
Cash and cash equivalents at end of term	23,283	23,140	31,899