



MEMBERSHIP

May 8, 2015

(Translated from the Japanese original)

Company Name	Rinnai Corporation 2-26, Fukuzumi-cho, Nakagawa-ku, Nagoya 454-0802, Japan
Representative	Hiroyasu Naito, President & Representative Director
Listings:	First Sections of Tokyo and Nagoya Stock Exchanges (Securities Code: 5947)
Contact:	Masao Kosugi, Director and Managing Executive Officer, General Manager, Administration Headquarters
TEL:	+81 (52) 361-8211

Revisions to Basic Policy for the Development of an Internal Control System

The Board of Directors at Rinnai Corporation (the “Corporation”) resolved this day to revise its “Basic Policy for the Development of an Internal Control System”. These revisions are described below.

Details

Systems to Ensure Appropriateness of Business Activities

(1) System to ensure that execution of duties by directors and employees at the Corporation and its subsidiaries conform to legal regulations and the Articles of Incorporation

- To ensure that directors and employees are constantly aware of the need to observe legal regulations and the Articles of Incorporation when executing their duties, the Corporation and its subsidiaries follow the established Rinnai Group Code of Ethics, which consists of the Company Motto, the Rinnai Corporate Mission, the Rinnai Charter, the Rinnai Ethical Rules, and the Rinnai Code of Conduct. The Corporation and its subsidiaries shall work to ensure that all directors and employees of said companies are fully familiarized with the Rinnai Group Code of Ethics.
- In addition to establishing the Business Ethics Committee to build, maintain and improve its internal control system, the Corporation shall build and maintain an effective compliance system.

- If a director becomes aware of an incident in which there is suspicion of a major legal violation, he or she shall immediately report the incident to the Audit & Supervisory Board and the Board of Directors.
- The Corporation has set up a business ethics hotline as an internal reporting system to handle incidents in which there is suspicion of a major legal violation. Operation of the hotline is based on the Corporation's business ethics manual.
- If a member of the Audit & Supervisory Board believes there is a problem with the Corporation's legal compliance system or internal hotline, he or she shall convey his or her opinion and seek measures to correct the situation.

(2) System for storing and managing information related to the execution of duties by directors

- Information related to the execution of duties by directors shall be stored and managed appropriately according to the Corporation's internal procedures for managing paper and electronic documents, in a form that is appropriate to its storage medium easily retrievable.

(3) Regulations and other systems for managing the risk of loss at the Corporation and its subsidiaries

- As part of its risk management system, the Corporation shall determine risk management regulations and promote internal checks and awareness activities to prevent the occurrence of risk on a groupwide basis, under the Risk Management Committee chaired by the president. Risk managers shall be assigned to deal with specific types of risk, and a risk management system shall be set up according to the relevant provisions.

(4) System to ensure efficient execution of duties by directors and others at the executive level within the Corporation and at its subsidiaries

- To ensure that directors execute their duties in an efficient manner, meetings of the Board of Directors shall be held on a regular basis to discuss and debate important matters and make executive decisions.
- Management strategies shall be drafted and progress on management plans shall be monitored through annual management meetings held at companies under the Group umbrella.
- Execution of business based on decisions made at Board of Directors meetings shall be performed by the relevant director according to the Corporation's rules and procedures.

- The Corporation formulates the management direction of the Group, the management plan and management numerical targets in each fiscal year, based on the medium-term management plan, consolidated medium-term numerical targets, and management indicators. Each department formulates an action plan, according to the Corporation-wide plan and targets for each fiscal year, and the Corporation ensures that all departments are on the same track.

(5) System to ensure appropriate operations in the corporate group (the Corporation and its subsidiaries)

- To ensure that business at Rinnai Group companies is conducted appropriately, the Corporation shall formulate a Code of Ethics for Rinnai Group Companies to serve as a behavioral guide for Group members. Based on the Charter, the Corporation and its subsidiaries shall create their own specific regulations.
- Business control of Rinnai Group companies shall be based on procedures and reporting rules determined by provisions for controlling Rinnai Group companies.
- The Internal Control Office and relevant departments shall undertake internal audits within the Group, including subsidiaries, according to business content and scale of operations.

(6) System for employees when requested to support the Audit & Supervisory Board, and matters related to ensuring independence from directors and effectiveness of instructions from members of the Audit & Supervisory Board to employees asked to support audits

- If a member of the Audit & Supervisory Board makes a request for an employee to provide support, an employee from the Internal Control Office shall be assigned to concurrently provide such support to the member of the Audit & Supervisory Board, and the assigned person shall also be responsible for duties within Office of the Audit & Supervisory Board. However, the assigned person's priority shall be to support the member of the Audit & Supervisory Board in executing auditing duties. Moreover, the assigned person shall not accept instructions or commands orders related to said support duties from superior officers in the department from which he or she was assigned.
- Changes in personnel and assessment of performance of assigned persons from the Internal Control Office serving concurrently as support staff for an Audit & Supervisory Board Member shall require the consent of the Audit & Supervisory Board.

(7) Other system for the Corporation's directors and employees and the directors, members of the Audit & Supervisory Board and employees at the Corporation's subsidiaries, or individuals who receive reports from these people, to report to the Corporation's Audit & Supervisory Board, and other system to ensure effective execution of duties by Audit & Supervisory Board Members

- Directors and employees of the Corporation and its subsidiaries shall report immediately to the Audit & Supervisory Board incidents that could cause significant damage to the Corporation's operations or its business performance. Moreover, members of the Audit & Supervisory Board can request reports from directors and employees at any time, as required.
- The Audit & Supervisory Board shall hold regular meetings with the Board of Directors, Internal Control Office, and independent auditor to exchange opinions and ensure proper communication of intentions.

(8) System to ensure that individuals who have made reports to the Audit & Supervisory Board as described in (7) above will not be treated unfavorably (put at a disadvantage) on the basis of such reports

- Every effort shall be made to ensure that directors and employees of the Corporation and its subsidiaries, who report information to a member of the Audit & Supervisory Board, will not be treated unfavorably on the basis of the report given.

(9) Matters concerning procedures for advance payment or reimbursement of expenses incurred by a member of the Audit & Supervisory Board in the process of executing duties and any other policy for processing costs and obligations

- Costs incurred in the process of executing duties by a member of the Audit & Supervisory Board shall be covered by the Corporation.

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