

Social & Environmental Report 2010



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Rinnai Social & Environmental Report 2010

■Scope

Rinnai Group
(Rinnai Corporation and companies under the Rinnai Group umbrella in Japan and overseas)

■Reporting Period

This report focuses on events that occurred in fiscal 2010—April 1, 2009 to March 31, 2010—but also touches upon measures implemented and recent activities undertaken prior to fiscal 2010 as well as future business direction, targets and plans.

■Referenced Guidelines

Sustainability Reporting Guidelines (G3), the third-generation of guidelines by the Global Reporting Initiative (GRI); Environmental Reporting Guidelines (fiscal 2007), issued by Japan's Ministry of the Environment; Environmental Reporting Guidelines (fiscal 2005), issued by Japan's Ministry of the Environment

Note: The GRI comparison table is available on the Corporation's website.

■Publication Schedule

September 2010
Previous: August 2009
Next: September 2011 (planned)

Last *Social and Environmental Report* online version uploaded September 2009

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■Editorial Policy

In 2000, Rinnai began publishing an environmental report, as an indispensable tool in communications activities. In 2006, society-oriented content was added to the report, and in 2007, disclosure was further expanded to create the current *Social & Environmental Report* format.

Social & Environmental Report 2010 spotlights Rinnai's social and environmental activities. The report reaches beyond the financial community to present the Corporation's perspective on social responsibility to a wider audience, promoting mutual trust with all stakeholders and fostering awareness of actual social and environmental activities.

■Booklet and Online Reports

This report contains a selection of pertinent themes that should provide readers with an easy-to-understand, overall picture of the social and environmental activities undertaken by the Rinnai Group.

Specific examples, details, related facts and supplementary content pertaining to certain topics may be found on the Corporation's website under CSR Information.

Look for text tagged with the icon shown below and visit the Rinnai website for expanded disclosure.

■Rinnai Group and Its Stakeholders



Message from the Management

Seeking to be a comprehensive heat-energy appliance manufacturer contributing to society and the global environment

	
<p>Susumu Naito Chairman</p>	<p>Hiroyasu Naito President</p>

Medium-term Business Plan “Reform and Breakthrough”

Rinnai embarked on a new medium-term business plan, “Reform and Breakthrough,” in the fiscal year ended March 31, 2010.

During the previous medium-term business plan, “V-Shift Plan,” we emphasized meticulous elimination of waste and implemented strategies leveraging our manufacturing expertise. Our efforts were rewarded on two fronts—an improvement in the quality of many Rinnai products and significant cost reduction—which underpinned enhanced profitability despite very challenging market conditions. This undoubtedly reflects the success of reforms, based on “V-Shift Plan,” that strengthened the corporate structure.

We aim to apply the management structure built under “V-Shift Plan” to the whole Group and will use “Reform and Breakthrough” to realize two key objectives: reinforce operations from a groupwide perspective and become a comprehensive heat-energy appliance manufacturer.

Meanwhile, the industry perspective is on measures to prevent global warming. The Japan Industrial Association of Gas and Kerosene Appliances, to which gas appliance makers such as Rinnai belong, is aggressively encouraging widespread adoption of *Eco-Jozu* high-efficiency hot-water units. Under a voluntary measure adopted by the association, its member companies will switch production of all hot-water units from conventional models to the *Eco-Jozu* format by March 2013. In line with this measure, Rinnai has energetically advocated the merits of *Eco-Jozu*, a position rewarded with favorable sales of its associated series.

In Japan, bathrooms are designed with a sit-down-style showering area and a deep tub. Soaping up and rinsing take place beside the tub, keeping the hot water in the tub for a relaxing soak only. Typically, therefore, bathroom systems also include a feature for reheating bathwater to the desired temperature. Keen to make not only the supply of hot-water for bathtime washing and rinsing but also the reheating of bathwater more efficient, we launched sales of the RUF-E

Series in February 2010. This series achieves thermal efficiency of 92%—the industry’s top level for bath heating systems—and the water-reheating feature offers both convenience as well as energy savings. The system has received rave reviews ever since it went on sale, which bodes well for wider support of *Eco-Jozu* systems.

World’s First Hybrid Hot-Water Unit Raises Breakthrough Expectations

In 2010, which marks the second year of “Reform and Breakthrough,” we introduced a hybrid hot-water unit—a cutting-edge product with springboard potential to launch us toward our goal of becoming a comprehensive heat-energy appliance manufacturer.

This hybrid hot-water unit effectively utilizes gas- and air-source heat energy in combination to achieve a 121% energy efficiency rating—the highest level in the world. Equipped with a gas-source room-heating function, the unit can also be used for floor heating systems and bathroom heaters, facilitating the creation of living environments that are both pleasant and energy-efficient.

The room-heating function also offers added safety and peace of mind to elderly folks who enjoy the therapeutic effects of a relaxing soak in the tub. Older people, even those in good health, appear to be susceptible to bathtime accidents, especially in winter when the temperature in the room for undressing and drying off is so much colder than the steaming hot water in the tub. With the rising percentage of senior citizens in the population, the number of bathtime accidents has increased, presenting a major social concern.

Many developed nations have announced new energy policies, exemplified by America’s Green New Deal, and are implementing measures to promote effective utilization of various energy sources. Rinnai’s hybrid hot-water unit addresses these evolving trends and should, as a leading example of environment-friendly appliances, attract wider interest.

Group Shares the Head Office Perspective on *Monozukuri*

The products of the Rinnai Group are made and marketed globally, in Japan and 16 other countries, and have steadily established the Rinnai brand as an integral part of comfortable lifestyles around the world. Recently, Rinnai products have garnered numerous compliments, underlining our commitment to “safety and peace of mind,” “comfort” and “the environment.” These comments make staff at our overseas offices immensely proud to be associated with the Rinnai Group.

Our next step will be to acquire a higher worldwide profile for the Rinnai brand. To accomplish this, the Group as a whole must share technologies and techniques—that is, development and production expertise—associated with gas appliance *monozukuri*, which is not simply the process of making things but also the quality, pride and specialization that go into the process, and then solidify these capabilities. An integral component to our success in this effort is the Production Technology Center, which was completed this past spring and will become a hub for training activities. The facility will help us sustain our emphasis on *monozukuri* and enable us expand core capabilities.

All our *monozukuri* know-how will be consolidated at the center, a base from which to pursue research on cutting-edge technologies for the benefit of all companies under the Group umbrella. This will also be a focal point where experienced production engineers offer in-depth

manufacturing-related instruction to staff from domestic and overseas offices and extend concrete technical support.

We will utilize the center as a communications point. From here, we will drive home the “Quality is our destiny” philosophy that guides us in our pursuit of new technologies and techniques. Also from here, we will pass on to each subsequent generation of engineers vital aspects of our corporate culture, especially the open atmosphere in which everyone, regardless of position, may voice opinions and engage in improvements and reforms.

Rinnai Spirit Imbues Commitment to Society and the Environment

Today, critical environmental problems loom ahead, with global warming one of the most pressing concerns worldwide. Consequently, the process of making things with the earth’s limited natural resources is approaching a crossroads, and change is imminent. Consider the fundamental shift in attitudes regarding heat-energy appliances that have traditionally consumed huge amounts of fossil fuel.

Against this backdrop, Rinnai’s products are drawing increasingly wider attention in the global market, not only from a quality perspective but also an environmental perspective, especially in terms of reduced energy consumption.

Governments in a growing number of advanced nations have implemented incentive programs that offer tax breaks for supporting measures to prevent global warming, on the assumption that such initiatives will also inevitably spur recovery. In the United States, for example, the tax-credit system has steered demand away from conventional storage-type hot-water units in favor of high-efficiency tankless water heaters. Rinnai is among those companies benefiting from this shift, substantiated by a significant increase in sales of hot-water units.

Our products are high-value-added, stressing safety and peace of mind, comfort, and the environment. Given heightened interest in energy-saving, planet-friendly products, our products will undoubtedly acquire even wider appeal in environment-oriented Japan and other advanced nations, as well as in newly emerging markets.

Since its establishment, Rinnai has been obsessed, so to speak, with three things: heat and comfortable lifestyles, quality, and contributing to local communities. This enduring emphasis, embodied in the Rinnai Spirit, has sustained corporate growth. It permeates the Rinnai Group and encourages new successes. Moreover, it infuses business activities that showcase the true nature of our dedication to society and the environment.

Rinnai has entered a period in which the Corporation intends to achieve a giant leap forward—the “breakthrough” of the current medium-term business plan—by implementing reforms.

We have accumulated expertise in manufacturing products that offer safety and peace of mind, ensure comfort and minimize negative impact on the environment, in accordance with the Rinnai Spirit. This gas-appliance *monozukuri* promises to cement our position as a comprehensive heat-energy appliance manufacturer, and we firmly believe it will underpin our development into a trusted corporate citizen able to contribute suitably to society and the environment.

July 2010

Summary of Rinnai Group

Heat energy--we can't live without it.

As a comprehensive heat-energy appliance manufacturer, Rinnai and the Group it leads contributes to the realization of sustainable societies and regions by emphasizing safety, peace of mind, comfort and the environment in designing and making its products.

■ Corporate Data

Company name	Rinnai Corporation	Incorporated	September 1, 1920
Head office	2-26, Fukuzumi-cho, Nakagawa-ku, Nagoya 454-0802, Japan	Established	September 2, 1950
Telephone (from outside Japan):	+81-52-361-8211	Paid-in capital	¥6,459,746,974 (As of March 31, 2010)
Chairman	Susumu Naito	Main business	Development, manufacturing and sales of heat-energy appliance
President	Hiroyasu Naito	Number of group companies	43 (domestic 14, overseas 29)

■ Products

Kitchen appliances			Table stoves Built-in-stoves Built-in-range Dishwashers Rice cookers, etc.
Hot-water units			Hot-water units Bath water heater Gas/solar hot-water and heating units, Hybrid hot-water system, Hot-water heaters, etc.
Air- conditioning and heating units			Fan heaters Fan-forced heaters Fan-forced fires Infrared heaters, etc.

<p>Commercial-use equipment</p>			<p>Commercial-use grillers Commercial-use ranges Commercial-use rice cookers</p>
<p>Others</p>			<p>Clothes dryers Infrared burners Components, etc.</p>

■ Rinnai Group Network

■ Factories and related centers

Oguchi Factory, Seto Factory, Asahi Factory, Aichi Factory,
Production Technology Center, Integrated Logistics Center, Components Center

■ Research and Development

Technology Development Center

■ Branches

Tohoku, Kanto, Chubu, Kansai, Kyushu

■ Domestic sales offices

Sapporo, Sendai, Niigata, Tokyo, Kita-Kanto, Higashi-Kanto, Minami-Kanto, Shizuoka, Nagoya,
Osaka, Kyoto, Hyogo, Hiroshima, Takamatsu, Fukuoka

■ Domestic Subsidiaries

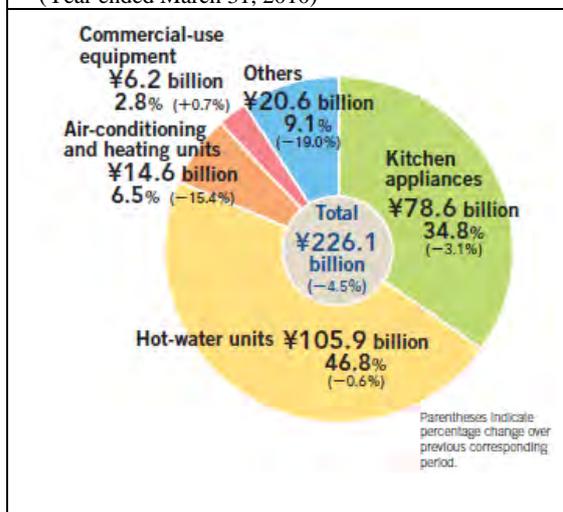
<p><i>Manufacture of Products</i> Yanagisawa Manufacturing Co., Ltd. Rinnai Technica Co., Ltd.</p>	<p><i>Sale of Products</i> Rinnai Net Co., Ltd. RG Co., Ltd.</p>
<p><i>Manufacture of Components</i> RB Controls Co., Ltd. Rinnai Precision Co., Ltd. RT Engineering Co., Ltd. Japan Ceramics Co., Ltd. Noto Tech Co., Ltd. Techno Parts Co., Ltd. RB Techno Co., Ltd.</p>	<p><i>Other Business</i> Rinnai Enterprises Rinnai Tech Hokuriku Co., Ltd. Rinnai Kogyo Co., Ltd.</p>

■ Overseas Subsidiaries and Affiliates

<p>Holding Company/Sale of Products Rinnai Holdings (Pacific) Pte Ltd.</p>	<p>Manufacture and Sale of Products Rinnai New Zealand Ltd.</p>
<p>Sale of Products Rinnai Australia Pty., Ltd. Rinnai America Corporation Rinnai Hong Kong Ltd. Rinnai Canada Holdings Ltd. Rinnai UK Ltd. Guangzhou Rinnai Gas and Electric Appliance Co., Ltd. Rinnai Italia S.r.l. Rinnai SE Corporation Rinnai Plus Corp.</p>	<p>Rinnai Taiwan Corporation Rinnai Korea Corporation Shanghai Rinnai Co., Ltd. Rinnai (Thailand) Co., Ltd. Rinnai Viet Nam Co., Ltd. P.T. Rinnai Indonesia Rinnai Brasil Heating Technology Ltd. Rinnai (Malaysia) Sdn. Bhd. RBS Thermo Technology Co., Ltd. Guangzhou Ming Hai Gas & Electrical Appliance Co., Ltd. RCE Korea Corporation</p>
<p>Manufacture and Sale of Components RB Korea Ltd. RS Korea Ltd. Shanghai RB Controls Co., Ltd. RK Precision Co., Ltd. Mikuni RK Corporation</p>	<p>Other Business Rinnai Services (MS) Corporation Rinnai CS Corporation</p>

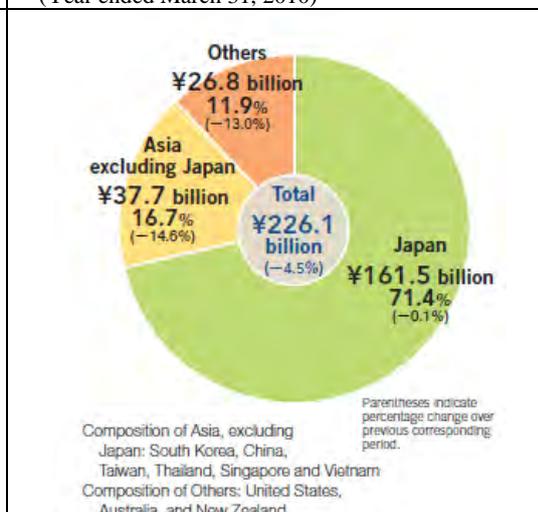
■ Consolidated Net Sales by Product

(Year ended March 31, 2010)



■ Consolidated Net Sales by Region

(Year ended March 31, 2010)



■ Consolidated Financial Data

<p>Net Sales (100 millions of yen)</p> <p>2006 2007 2008 2009 2010</p>	<p>Operating Income (100 millions of yen)</p> <p>2006 2007 2008 2009 2010</p>	<p>Ordinary Income (100 millions of yen)</p> <p>2006 2007 2008 2009 2010</p>
(Fiscal year/Years ended March 31)	(Fiscal year/Years ended March 31)	(Fiscal year/Years ended March 31)
<p>Net Income (100 millions of yen)</p> <p>2006 2007 2008 2009 2010</p>	<p>Total Assets (100 millions of yen)</p> <p>2006 2007 2008 2009 2010</p>	<p>Number of Employees (Number)</p> <p>2006 2007 2008 2009 2010</p>
(Fiscal year/Years ended March 31)	(Fiscal year/Years ended March 31)	(Fiscal year/Years ended March 31)

Corporate Philosophy

At Rinnai, social responsibility means respecting the rules of society, including laws, and fostering community development, while conducting business in a responsible and highly ethical manner. This view takes precedence over all else in every aspect of routine operations.

To realize this level of social responsibility, each and every employee must weigh his or her actions against the intent of the Rinnai Spirit in executing assigned duties. The Rinnai Spirit comes through in the Corporation's long-standing motto "Harmony, Spirit, Sincerity," a moral pillar, and the Rinnai Charter and Rinnai Code of Conduct, which together set out concrete guidelines to be followed in day-to-day activities.

■ Company Motto

和 氣 眞	Harmony: Develop personal character of the highest caliber	
	Spirit: Base your efforts on a consistent philosophy	
	Sincerity: Know the fundamentals and consider issues with precision and clarity	

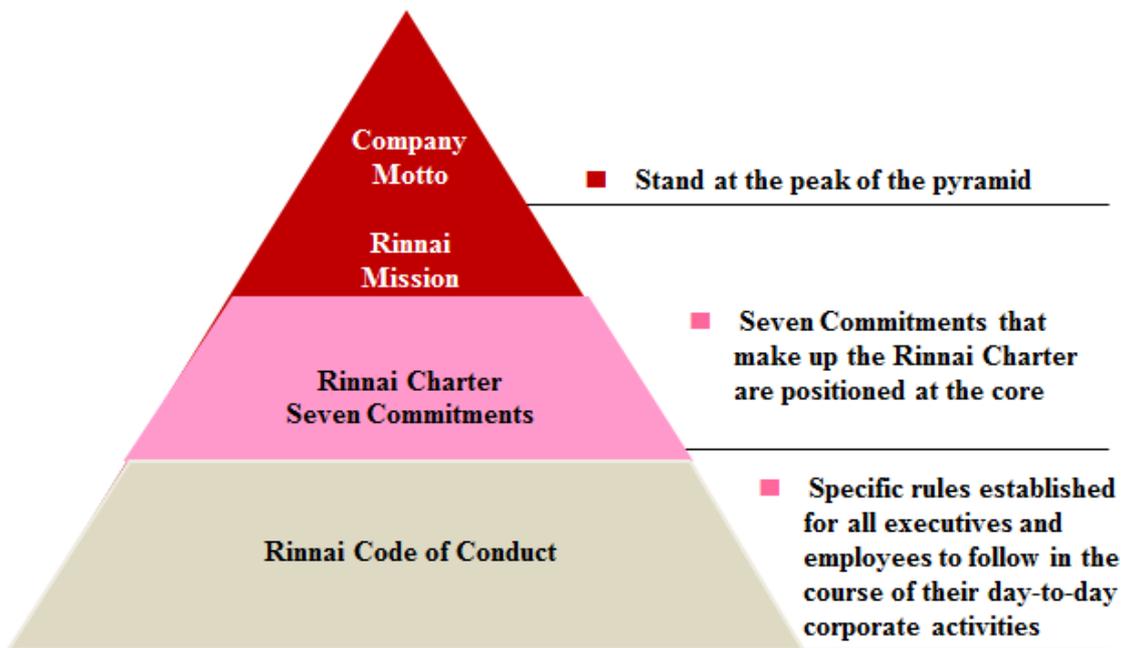
■ Rinnai's Mission

Rinnai utilizes heating to provide society with a comfortable way of life.

■ Rinnai Charter (Seven Commitments)

1. We are committed to keeping our customers first and foremost in our minds with our policy of "Quality is Our Destiny".
2. We are committed to pursuing safety, comfort, and convenience and to providing products that are friendly to the global environment.
3. We are committed to acquiring and utilizing expertise in heating to improve our customers' quality of life.
4. We are committed to strengthening the relationship between Japanese and overseas Rinnai Group members and to working for each other's prosperity.
5. We are committed to enhancing the prosperity of the communities that we belong to and to building a reputation as trustworthy and responsible members of society.
6. We are committed to operating under the principles of harmony, spirit and sincerity, and to growing our company by ensuring the prosperity of society.
7. We are committed to acting in compliance with the law and to adhering to ethics as responsible members of society.

■ Schematic diagram of company ideals



■ Three Key Themes

Since its establishment, Rinnai has grown and developed through an unshakable focus on three themes. Part and parcel of the Rinnai Spirit, these themes are and always will be integral to our success.

Heat and comfortable lifestyles

Rinnai's corporate mission hinges on **the use of "heating" to provide society with "comfortable lifestyles"**. Our strength is in sophisticated heating technologies, and we will utilize this capability to facilitate the creation of pleasant living environments.

Quality

Rinnai's catchphrase—**"Quality is our destiny."**—epitomizes a corporate obsession with quality. So it is only natural that we would keep production and other *monozukuri* efforts in-house to sustain high-level standards. This enables us to deliver safety and peace of mind to our customers.

Contributing to local communities

At Rinnai, we firmly believe that contributing to a better lifestyle culture in local communities is vital to our role as a good corporate citizen. Basic strategies for expanding our presence abroad require that sales and services are executed with local conditions in mind and that manufacturing takes place in the markets where the products will be sold.

Corporate Governance

■ Toward Enhanced Transparency

From the perspective of a sharper competitive edge for the Group and sustained improvement in corporate value, Rinnai has made efforts to augment practices and enrich the scope of corporate governance a top management priority. We aim to reinforce the functions of corporate structures, such as the Board of Directors and the Board of Auditors, and seek a higher level of management transparency, which will be achieved through quick and accurate disclosure of pertinent information to various stakeholder groups and through access to a wide range of information.

■ Basic Principles of the Internal Control System

To reinforce our management structure and fulfill our social responsibilities, we maintain an internal control system with the following objectives and emphasize risk management, internal auditing and other administrative measures to underpin this system.

1. Effective and efficient operations.
2. Reliable financial reporting.
3. Adherence to laws and regulations affecting business activities.
4. Safeguarding assets.

■ Director Compensation

Directors are paid a fixed amount commensurate with assigned duties. Please note that Rinnai terminated the retirement benefit system for directors, following approval of a proposal put forward at the General Meeting of Shareholders on June 27, 2008.

■ Structure for Monitoring Management Performance

Rinnai has four corporate auditors, two of whom are outside auditors.

Corporate auditors attend important meetings, including those of the Board of Directors. They also monitor internal control status—that is, progress on the establishment of internal controls and implementation of associated practices—with a focus on the results achieved by directors and executive bodies, and they check on the status of operations and asset management at the head office and principal branches.

In addition, an external accounting firm undertakes accounting audits and verifies the soundness of accounting-oriented internal controls from a third-party perspective.

■ Board of Directors

The Board of Directors has decision-making authority for important management issues affecting Rinnai and oversees the execution of duties by directors. The Board has seven members and as a rule meets once a month. Some directors below the rank of president hold concurrent positions as executive officers and are responsible for conveying the content of Board decisions to the managers of divisions under their respective supervision and for executing operations. In addition, general groupwide meetings as well as parent-only meetings are held so that directors can pinpoint the status of issues affecting operations and share information on pertinent topics.

Information Disclosure

Rinnai’s internal regulations describe the structure and procedures to facilitate timely disclosure of important internal information, including information concerning subsidiaries. The Information Disclosure Committee ascertains the importance of disclosing certain developments and determines the timing of disclosure, when a public announcement is deemed necessary.

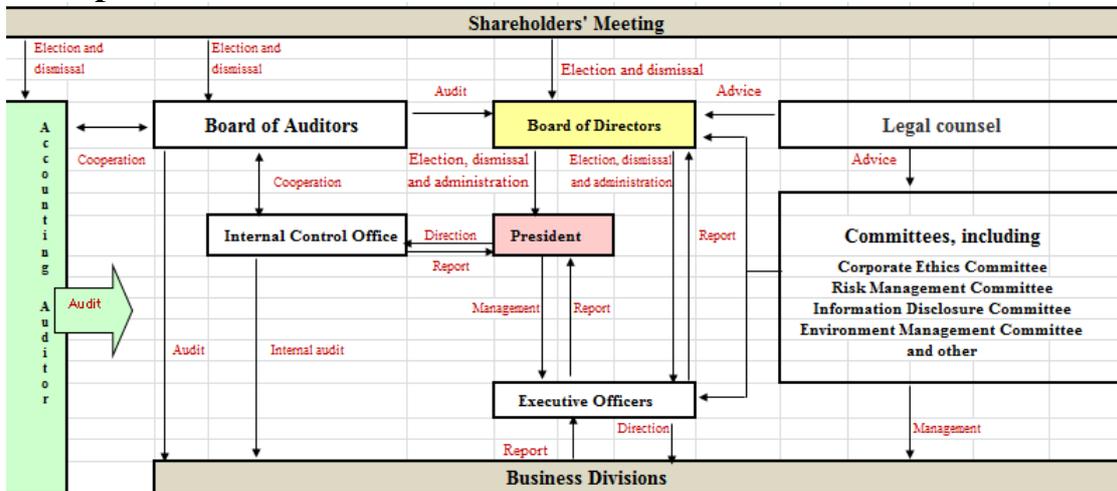
Promoting Risk Management

As social structures become more complex, the risks faced by companies become more diverse. In this operating environment, the Rinnai Group strives to manage existing and emerging risks to support global business development and ensure stable business activities that sustain the trust of customers and society as a whole.

The Risk Management Committee, chaired by the president, meets regularly. The committee assigns a division to oversee each risk with the potential to influence our corporate survival, credibility, business pursuits and assets and is also tasked with risk-lowering duties, such as formulating preventative measures, resolving issues before they turn into crises, minimizing losses and defining strategies to avert the reoccurrence of any risks that became a reality.

Methods for hedging risk are promoted laterally throughout the Group.

Corporate Governance Structure



Compliance

■ Promoting Compliance Practices

For a corporate group to maintain its health and the trust of society, thorough compliance is an absolute necessity. To raise awareness of compliance as part of the corporate culture, we support the creation of environments in which employees share the burden of social responsibility and tackle business activities with a forward-looking attitude.

Fiscal 2010 Target	Fiscal 2010 Results	Fiscal 2011 Target
Enrich compliance promotion measures	<ul style="list-style-type: none"> • Implemented Code of Ethics course using visual teaching materials • Translated <i>Code of Ethics</i> and distributed copies to Group companies overseas 	Develop compliance courses at Group companies overseas

■ Widespread “Code of Ethics” Awareness

The “Code of Ethics,” a booklet compiling all aspects of our corporate philosophy, features specific standards of behavior that all executives and employees must follow. It was published in 2004 for use at the head office, but its scope of application was expanded in 2007 to include domestic subsidiaries.

Compliance committees at each workplace conduct “Code of Ethics” courses for employees every year to instill a thorough understanding of acceptable corporate behavior. In fiscal 2010, visual teaching materials were prepared for the course to enhance the learning process and give participants a deeper appreciation of the corporate perspective on ethical behavior.

An English version was printed in 2007 and distributed to Group companies overseas. Then in 2009, paralleling expansion of the Rinnai Group outside the sphere of English-speaking countries, the booklet was translated into five more languages, including Chinese, Korean and Vietnamese, for local distribution.



“Code of Ethics” booklets in various languages.

■ Rinnai Code of Conduct (Key Points)

<ol style="list-style-type: none"> 1. General Provisions 2. Range of Application 3. Compliance with Laws 4. Safety of Product and Services 5. Environmental Protection 6. Contributing to the Local Society 7. Relationships with Shareholders and Investors 	<ol style="list-style-type: none"> 8. Relations with Customers 9. Relations with Politicians and Local Governments 10. Safety and Health 11. Respect for Human Rights and Beliefs 12. Protection of Company Assets 13. Dealing with Anti-Social Forces
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■ Compliance Education

On the initiative of the president himself, Rinnai issues a corporate ethics message to boost awareness of compliance among employees.

For background on laws closely connected to the activities undertaken by Rinnai divisions, seminars are organized, mainly by the Legal Division, to ensure legal compliance. These events are currently conducted only in Japanese. Themes in fiscal 2010 included contract basics and Japan’s law on labor standards. Overall, these learning opportunities attracted 1,415 participants.

We also direct concerted effort toward preventing harassment in the workplace. We bring in legal advisors to provide guidance to the Compliance Committee and run level-specific in-house programs on the topic as well.



At a training event to learn about laws



At a Compliance Committee training event

■ Internal Reporting System

If, in the course of routine business activities, an employee at a domestic company under the Group umbrella suspects possible wrongdoing, from a legal, ethical or moral perspective, or that in-house rules have been broken, and it is difficult to approach a superior or the person responsible for the division with such suspicions, the employee may report the perceived infraction to the Corporate Ethics Helpline. In fiscal 2010, the helpline received 20 calls. Appropriate measures have been taken, including investigation and confirmation of the facts in these cases of alleged misconduct.

■ Information for All Employees

Every October is designated Corporate Ethics Month, and we promote activities to enhance awareness of ethics in the workplace. A message on corporate ethics from the president himself is uploaded to an intranet, and compliance-themed posters are displayed in all offices.

We also run a series of legal compliance columns in *Rinnai Life*, an in-house publication, and post to our intranet information on revised laws affecting operations as well as a law-oriented frequently-asked-questions corner. Currently, this information is only available in Japanese.



A compliance-themed poster



Intranet information on a law-oriented frequently-asked-questions corner.

■ Checks and Improvement in Compliance Activities

In fiscal 2010, we sent out a questionnaire to employees on the *Code of Ethics* to determine how deeply ingrained the corporate philosophy had become and to ascertain latent risk in all offices. We are implementing measures, based on questionnaire results, to encourage greater awareness of compliance issues.

Breaking down the penetration rate for each component of our corporate philosophy, we found that 99.6% of respondents were familiar with the corporate motto and 97.0% recognized our corporate mission. From a management perspective, these rates are rewarding. We will continue to actively promote compliance activities to maintain these high levels.

■ Protecting Personal Information

Rinnai applies internal rules based on the Act on the Protection of Personal Information to ensure appropriate storage and handling of customer data and protection thereof.

Accordingly, we established the position of Chief Privacy Officer at the head office and require privacy officers at all workplaces, including the offices of Group companies in Japan, to support measures that safeguard personal information and to get across to employees the importance of protecting personal information. We implement internal audits on the handling of personal information to ascertain the level of security achieved and strive to reinforce capabilities.

In the unlikely event of an information leak, we will act expeditiously and disclose the situation.

Management Vision

Amid a persistently gloomy outlook for the world economy, the Rinnai Group is focused on measures to deal with heightened management risks and spur medium- to long-term growth. Efforts are being directed into “Reform and Breakthrough,” a three-year business plan launched in fiscal 2010.

Through this plan, we will rebuild our operating platform. The heat-energy appliance segment, which supports comfortable lifestyles, will remain our core business as we work toward our ultimate goal to be a comprehensive heat-energy appliance maker delivering environment-friendly heating solutions perfectly suited to local requirements. The pillar of “Reform and Breakthrough” is a three-point set of core policies.

Rinnai Group Medium-Term Business Plan



Three core policies

1	Relentlessly promote waste-elimination activities
2	Reinforce Group operations
3	Solidify our position as a comprehensive heating appliance manufacturer

Consolidated targets

(By March 31, 2012)

Net sales	¥257.0 billion
Operating income	¥24.0 billion
Operating margin	9.3%

90th Anniversary Special Feature: The Past

Supporting comfortable lifestyles for 90 years



Chapter 1: It started with a moment of inspiration for Hidejiro Naito
 “I want to make a cooking stove like that.”

On a November day back in 1918, Hidejiro Naito, then 25, stood mesmerized in front of a shop making *imagawayaki*, a traditional Japanese bun usually filled with adzuki bean paste. He was intrigued by the unusual blue flame that came from the imported oil-burning cooking stove over which the molded *imagawayaki* pan had been placed.

Keen to try his hand at making a stove like that, he convinced the shopowner to part with one of its pressurized oil stoves. Using this model as a source of reference, he diligently pursued his project and successfully brought a model—*Prince*—to market.

Prince epitomized the pioneering spirit of a man who would become one of Rinnai’s founders.

Hidejiro worked at Nagoya Gas (now, Toho Gas Co., Ltd.) but left the company to go into business for himself, joined by Kanekichi Hayashi, whom he had met at the company dormitory. On September 1, 1920, they established Rinnai & Co.—the forerunner of today’s Rinnai Corporation. The company name was coined from characters in the two men’s last names. “Rin” is another way to read “hayashi”, and “nai” comes from “naito.” Hidejiro was in charge of technology and Kanekichi handled marketing.



Chapter 2: Rinnai's start traced back to oil-burning appliances

“Fire” meets “comfortable lifestyle”

In those early days, the oil stove was seen as a revolutionary product drawing on the benefits of fire—that is, heat—to make life easier and more comfortable. Gradually, the public came to see the oil stove as a fuel-burning appliance at the cutting edge of a new era, and slowly but surely orders increased.

Initially, Rinnai focused on production and sale of oil-burning appliances. But in 1921, the year after its establishment, the company entered into production and sale of gas appliances, an area the founders had considered and where accumulated combustion technology could be utilized. The most common gas appliances at that time were kitchen-use *shichirin* stoves and pots for cooking rice, but they were perceived as luxury items, too exclusive for the average citizen.

In 1923, Rinnai was asked by the local gas company to develop an inexpensive space heater in a sheet-metal enclosure. It was a difficult process, characterized by repeated trial-and-error, but eventually there was success. The heater was well received, its popularity leading to a predominant place among home-use gas room heaters at that time.

Rinnai launched other innovative products, such as a Violet-ray gas stove and a Junker high-heat gas stove using white gasoline for fuel. Innovative ideas in the development of cooking stoves earned the company a solid reputation for its contribution to the modernization of the Japanese kitchen.



Publicity photo for oil stove

Chapter 3: Alliance with Schwank GmbH a wager for corporate survival

The cornerstone of today's Rinnai

In 1948, freshly graduated from Tokyo University with a degree in mechanical engineering, Hidejiro's second son, Akito (currently, Rinnai chairman; changed his name to Susumu), joined the company. He had imagined a different career path, but with the wartime death of his older brother, who would have followed in his father's footsteps, he assumed the role. He had his father's determination and firmly pledged to turn Rinnai into the world's top gas appliance maker.

In 1955, Akito went on a site inspection tour to Europe in search of overseas technology applicable to Rinnai's activities. By chance, the European Gas Conference coincided with the tour schedule, and Akito decided to drop in. He was listening to presentations from industry members when Germany's Günter Schwank took to the stage and began talking about gas infrared ceramic heaters—new technology that converted gas heat into infrared. Akito was thrilled, silently screaming “This is it!”.

What Rinnai and gas companies had jointly tackled for many years without success, Schwank had brilliantly achieved by applying heat through a different medium. Heat passes evenly through infrared waves, making it perfect for heating and cooking. Akito was convinced

that infrared technology would become the de facto standard for gas appliances and asked Schwank for access to the patent.

An answer came the next day. Schwank was amenable to licensing the technology, but his price was equivalent to ¥200 million. Back then, Rinnai was only making ¥600 million a year, and such an application of funds would have severely strained the company's finances. But Akito believed the technology was worth the cost.

Japan's first Schwank infrared gas heater, realized through a technology tie-up with Schwank GAS-GERATE GmbH, became hugely popular, transforming the way people heated rooms.

Combustion technology is the lifeblood of gas appliances, so this chance encounter with Schwank and subsequent access to infrared technology for gas heaters marked the historical starting point for growth at Rinnai. It laid the cornerstone for the business foundation of today's Rinnai.



Rinnai representatives visit Schwank GAS-GERATE



Gas infrared heater catalog

Chapter 4: Rinnai, a household name

Meeting small kitchen requirements

From around 1950, liquefied petroleum (LP) gas consumption in Japan began to increase, prompting Rinnai to embark on the development of LP gas appliances.

In most households of the day, cooking was done on cast-iron stoves. Grilled fish was a common meal, and smoke would inevitably engulf the kitchen and leave a lingering odor due to insufficient ventilation. Rinnai had a two-element grill-equipped cooking stove that allowed effectively limited the release of smoke. But at 70cm wide, this stove was too big for the small kitchens typical of apartments built in this era.

To meet small kitchen specifications, Rinnai reduced the size of the components in its two-element grill-equipped cooking stove, and in 1963, debuted the 56cm-wide R-2G. Riding the housing boom that characterized high economic growth in Japan at this time, the apartment-oriented R-2G was a huge hit. We had to expand our sales network nationwide to keep up with demand, and for a long time the R-2G dominated the market. Rinnai became a household name, predictably associated with the kitchen.

The catchphrase at the time was “One appliance, three uses—simmer, grill and warm all at once. Enjoy fish without a kitchen full of smoke.”

The following year, 1964, Rinnai stopped making oil-burning products and started afresh, specializing as a manufacturer of gas appliances.



Gas cooking stove R-2G

Chapter 5: Testing hot waters

Turning hot-water units into a pillar of business

Rinnai had pursued operations with an emphasis on stoves and space heaters and did not make a full-scale entry into the hot-water unit market until 1979.

The ability to turn hot-water units into a pillar of business came mainly from burgeoning demand for gas hot-water units in the 1970s and industry-leading efforts to incorporate electronic control technology into gas appliances.

We established the Seto Factory to anchor our hot-water heater production system and embarked on manufacturing operations in earnest.

In 1983, it was still common for households to use a small hot-water heater when hot water was needed in the kitchen. These appliances were quite prevalent, with Rinnai alone supplying 600,000 gas-powered units a year. But patterns of hot water usage were gradually changing, and single, exterior-placed hot-water units supplying hot water for both bath and kitchen were beginning to appear on the market.

With the growing popularity of hot-water heaters came increasingly higher demand for larger capacity. Even while the No. 16 hot-water heater was widely available, Rinnai was working to develop a high-quality, low-priced product. The result was *Bikkuri Yukko*, a hot-water heater boasting No. 20 capacity for roughly the same price as a No. 16 model, thanks to a more compact body and exhaustive efforts to realize a design that kept manufacturing costs down.

Bikkuri Yukko was well received for its economical, space-saving features as well as the ready supply of hot water it provided.



Gas hot-water heater *Bikkuri Yukko*

Chapter 6: Rinnai brand gains worldwide profile

Youism—Assume a position of coexistence, empathizing with others and promoting shared prosperity

Rinnai's first step abroad was through exports to the United States in 1967. Then in the 1970s, the company kicked off overseas manufacturing with the establishment of Rinnai Taiwan Corporation. The factory network continued to grow, with locations in such markets as Australia, South Korea, the United States and Brazil. Through local production and sales as well as exports from Japan, we energetically promoted the Rinnai brand around the world.

From early on, our overseas expansion policy stressed consideration of local preferences in food and residential customs and culture, efforts to respect the values and insights of our local partners, and a desire to prosper together.



Rinnai Vietnam opening ceremony.

Chapter 7: From separate combustion appliances to system products

Maximizing the inherent qualities of gas

In the 1980s, qualitative improvements in general housing in Japan buoyed consumer interest in home fixtures intended to make living spaces more comfortable.

The hot-water unit market saw the debut of models for hot-water/heating that utilized the hot water made by the hot-water heater to warm rooms to a cozy temperature. Efforts were directed toward hot-water/heating systems that not only supplied hot water for bath and kitchen use but also supported whole-house heating, including heated floors and an invitingly warm bathroom.

Maximizing the high-capacity feature of gas, Rinnai directed concerted energy into commercializing *System Hot 21*, a hot-water heater/heating system, and moved ahead with development of a hot-water terminal.

All of a sudden, the bathroom became much more than a place to bathe. It became a place to relax, and consumers readily embraced innovative bathroom concepts, such as the mist sauna and micro air bubble bath and even the installation of a bathroom television set, in the pursuit of relaxation.

In the kitchen appliance market, table stoves were prevalent. But the classy design of system kitchens appealed to women, who generally had the last word in kitchen matters, and this decision-making power fueled demand for built-in stoves. To meet consumer requirements, Rinnai enriched its lineup of built-in stoves with models stressing ease-of-use, enhanced safety features, attractive design, and quick and simple cleaning.

Changing lifestyles precipitated interest in ovens, which enabled preparation of more adventurous meals, and dishwashers, which eliminated the drudgery of washing dishes by hand. These appliances were installed in the space beneath the built-in stove.



System Hot 21, a hot-water heater/heating system

Romantic Realism

“Artists, such as van Gogh, were 70% romanticist and 30% realist. Me, as a businessman, I’m more or less the opposite—60% realist, 40% romanticist. I aim for a balance. Corporate management is not a one-man show. It’s a mix of people, things, money and time, all tied to profit in the end. School grades reflect whatever effort you put into the subject. Take math; it’s a one-dimensional world. But management requires solutions to multidimensional issues, and that’s the joy of business. That’s what I live for.



Susumu Naito
Chairman

	1920	1930	1938-1944
Kitchen appliances	<ul style="list-style-type: none"> ● Rinnai-type oil gas stoves ● Cast-iron charcoal stoves ● Kitchen stove-compound-type heaters 	<ul style="list-style-type: none"> ● Flower-shaped charcoal stoves ● Drop-type stoves with two burners ● Violet-ray gas stoves 	<ul style="list-style-type: none"> ● Rinnai-type Prince gas generator ● Junker high-heat gas stoves
Hot-water units	<ul style="list-style-type: none"> ● Cup-shaped hot-water heater ● Round bath-heating system 	<ul style="list-style-type: none"> ● Automatic hot-water heater 	<p>During the Pacific War, when industry efforts were diverted to reinforcing Japan's military arsenal, the production and sale of fuel-burning equipment was prohibited by law and factories turned out weapons and military equipment instead.</p>
Air-conditioning and heating	<ul style="list-style-type: none"> ● Oil gas heater with reflector ● Round reflector heater ● Square iron-sheet heater 	<ul style="list-style-type: none"> ● Violet-ray gas heater (Compound-type, oil and stoves) ● Junker high-heat gas heater 	
World events	<p>1923: The Great Kanto Earthquake</p> <p>1926: Changed era from Taisho to Showa</p>	<p>1929: World crisis</p>	

1950		1960		
<ul style="list-style-type: none"> ■ Restarted manufacturing of oil stoves ● Table charcoal stove with two burners  	<ul style="list-style-type: none"> ● Grill-equipped table charcoal stoves 	<ul style="list-style-type: none"> ● Gas-infrared top-flamed griller 	<ul style="list-style-type: none"> ● 56cm-wide grill-equipped gas table stoves (R-2G) 	<ul style="list-style-type: none"> ● Gas table stoves with thin two burners (R-2K) ● Gas-infrared lower-flamed griller (Araiso) 
<ul style="list-style-type: none"> ● Drinking hot-water heaters  ● Wall-hung hot water heaters 	<ul style="list-style-type: none"> ● Instant-heating hot-water units 	<ul style="list-style-type: none"> ● Second-grade instant-heating hot-water units ● Schwank infrared gas heater  ● Infrared gas heater (wall-hung type) 	<ul style="list-style-type: none"> ● Gas instant-heating hot-water units 	<ul style="list-style-type: none"> ● Gas bath heating system ● Central heating ● Balance-type gas bath heating system
<ul style="list-style-type: none"> ● Vulcan-type heater 		<ul style="list-style-type: none"> ● Infrared gas paint-drying stoves 	<ul style="list-style-type: none"> ● Porable dryer 	<ul style="list-style-type: none"> ● Reflective infrared gas heater ● Fan-forced gas hot-air heaters
1947: The Constitution of Japan went into effect	1957: The world-first artificial satellite launching by Soviet	1964: Held the Tokyo Olympic Games, opened the Tokaido Shinkansen		
1953: Started TV broadcasting service	1958: Completed Tokyo Tower	1959: The Ise Bay Typhoon's onslaught	1967: Exceeded 100 million people of Japan's population	1969: Apollo 11 moon landing

	1970	1980	1990	
Kitchen appliances	<ul style="list-style-type: none"> ● High-speed gas convection oven  ● Grill-equipped gas-infrared table stoves (R-3G) 	<ul style="list-style-type: none"> ● Combination range, electoron-convection oven ● Gas table stoves with two-side griller (RT-3GV) ● Built-in-stoves 	<ul style="list-style-type: none"> ● Microcomputer-controlled rice cooker  ● Rice cooker with timer function, aKamado-daki ● Gas table stoves with oil overheating prevention device 	
Hot-water units	<ul style="list-style-type: none"> ● Balance-type gas bath heating system with shower 	<ul style="list-style-type: none"> ● Compact gas hot-water units, Yukko ● Gas instant-hot-water heater, Yutee  	<ul style="list-style-type: none"> ● Ultra-compact gas hot-water units, Super Yukko  ● Gas hot-water units, <i>Bikkuri Yukko</i> 	<ul style="list-style-type: none"> ● Gas hot-water and heating units
Air-conditioning and heating	<ul style="list-style-type: none"> ● Drum-type clothes dryer 	<ul style="list-style-type: none"> ● Gas fan heaters  ● Gas hot-air heaters with microcomputer-controlled timer function 	<ul style="list-style-type: none"> ● Gas fan heaters with timer function 	<ul style="list-style-type: none"> ● Gas hot-water-based air conditioner
World events	<p>1970:Held the Osaka Expo 1973:Oil shock</p> <p>1972:Held the Sapporo Winter Olympics</p>	<p>1980:The Iran-Iraq War broke out</p> <p>1985:JAL airplane crash</p>	<p>1991:The Gulf War broke out</p> <p>1969:Changed era from Showa to Heis</p>	<p>1993:Started European Union (EU)</p> <p>1995:The Great Hanshin-Awaji Earthquake occurrence</p>

2000		2009	
<ul style="list-style-type: none"> ● Dishwasher ● Built-in-stoves with inner-flame burner 	<ul style="list-style-type: none"> ● Cera mic glass ● Glass-top table stoves 	<ul style="list-style-type: none"> ● Built-in-stoves, <i>Delicia</i> series ● Built-in-stoves, <i>Mytone</i> series 	<ul style="list-style-type: none"> ● Dishwasher with baking soda wash mode ● Drop-in-stoves
<ul style="list-style-type: none"> ● Highly efficient condensing hot-water units ● Commercial-use hot-water heating circulation system <i>DECA-QV</i> 	<ul style="list-style-type: none"> ● "Eco-Jozu" hot-water and heating units 		<ul style="list-style-type: none"> ● "Eco-Jozu" hot-water and heating unit lightweight "E series "
<ul style="list-style-type: none"> ● Bathroom heater/dryer ● Gas fan heaters with full-scale air purifier 	<ul style="list-style-type: none"> ● Gas fan heaters with plasma cluster ion function 	<ul style="list-style-type: none"> ● Newly designed gas fan heater ● Bathroom heater/dryer with Mist Sauna 	<ul style="list-style-type: none"> ● Fan-forced fireplace ● Gas fan heater with Eco-mode function

2001:Attacks of Sept. 11, 2001 in United States

2005: Held the Aichi Expo, effectuation of Kyoto Protocol

2003: Severe Acute Respiratory Syndrome (SARS) epidemic

2007:Financial crisis triggered by defaults on US subprime loan

90th Anniversary Special Feature: The Present

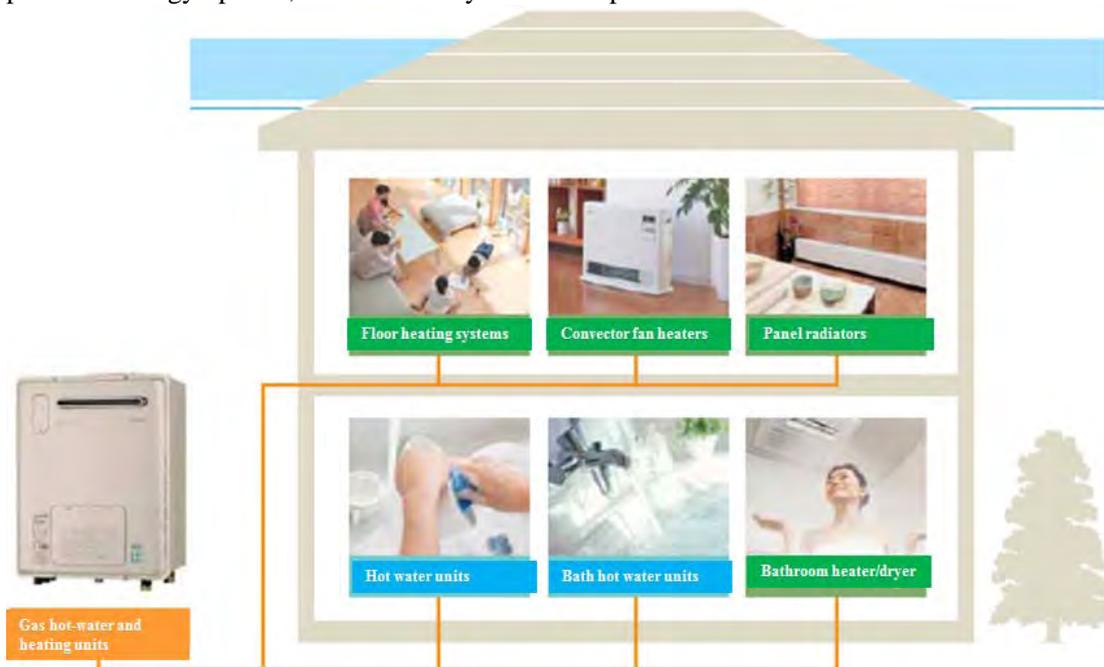
The Rinnai Spirit

Our priority. Our most valued asset. For 90 years.

Our emphasis on the Rinnai Spirit has underpinned corporate growth and development since our establishment 90 years ago. The Rinnai Spirit reflects an enduring obsession, so to speak, with three things: heat and comfortable lifestyles, quality, and contributing to local communities. These themes are and always will be integral to our success.

Heat and comfortable lifestyles

Rinnai's corporate mission hinges on the use of heat to enable society to live in comfort. Our strength is in sophisticated heating technologies, and we utilize this capability to facilitate the creation of pleasant living environments. We develop high-quality space heaters/heating systems perfectly matched to geographic and demographic characteristics, from climate to lifestyle and preferred energy options, in each country where our products are sold.

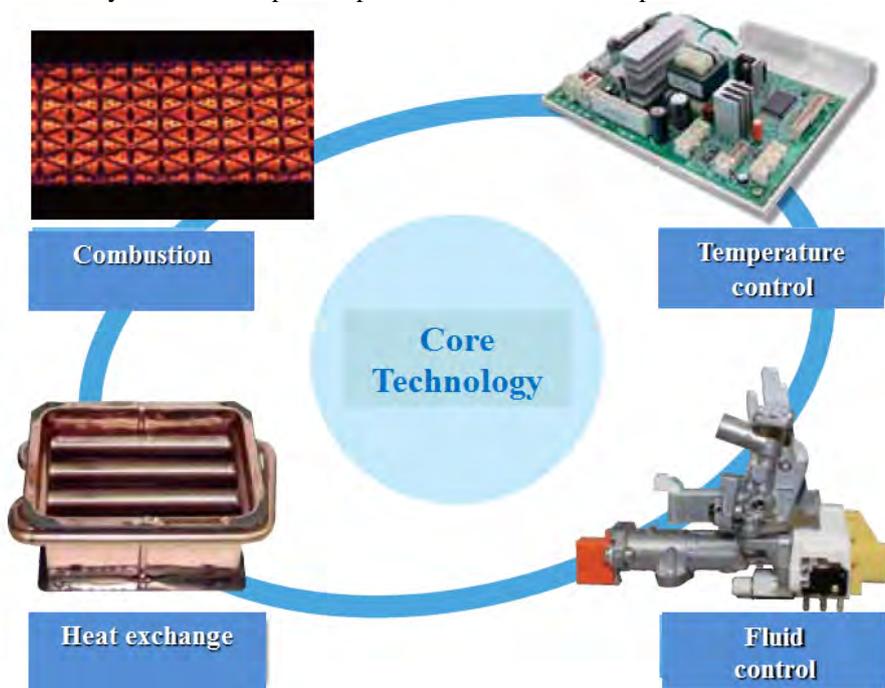


Quality

Core Technology *Monozukuri* ~ Quality is our destiny. ~

Our basic philosophy on quality is epitomized by the catchphrase “Quality is our destiny” and evident in the outstanding quality of our products. We emphasize core technologies—combustion, heat conversion, electronic control and gas and water fluid control—that create heat and regulate it, and we keep production of key components in-house, at four of our own factories and seven manufacturing companies under the Group umbrella.

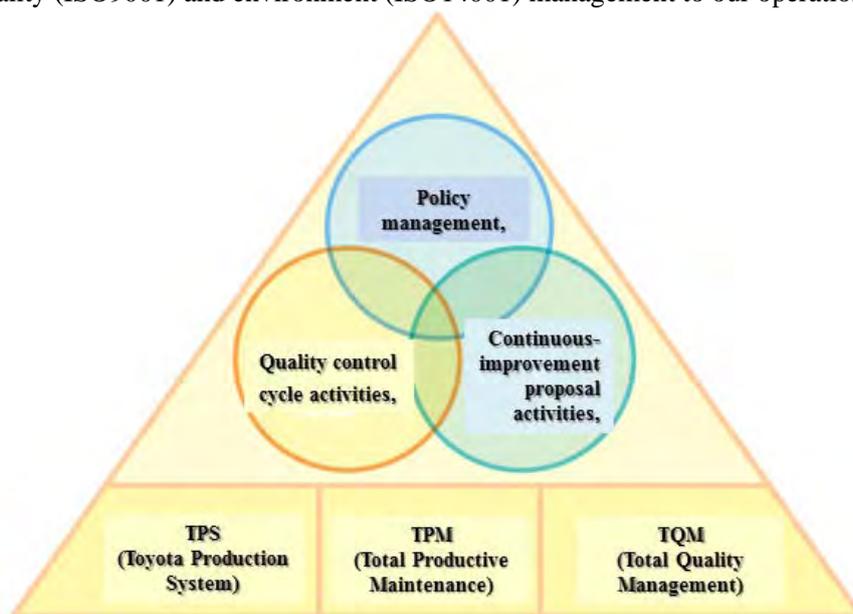
By realizing a high in-house production ratio, we have control over quality. We strive for zero-defect status and will sustain the level of excellence demanded by our commitment to the themes that embody the Rinnai Spirit to provide consumers with products of outstanding quality.



***Monozukuri* ~ Market-oriented production system**

The basis for manufacturing and all aspects of the process—collectively, *monozukuri*—at Rinnai is to think and act from a scientific perspective. We strive to maximize management resources while applying equipment with operating and judgment functions that contribute to people-friendly environments and offer customers peace of mind.

Toward this end, we are building a market-oriented production system that combines policy management, the quality control cycle and continuous-improvement proposal activities, based on a bottom-up approach hinging on lean production espoused under the Toyota Production System, Total Productive Maintenance and Total Quality Management. We are also organically applying quality (ISO9001) and environment (ISO14001) management to our operations.



Providing consumers with heat-energy equipment is our business but making high-quality products is essential to corporate longevity.

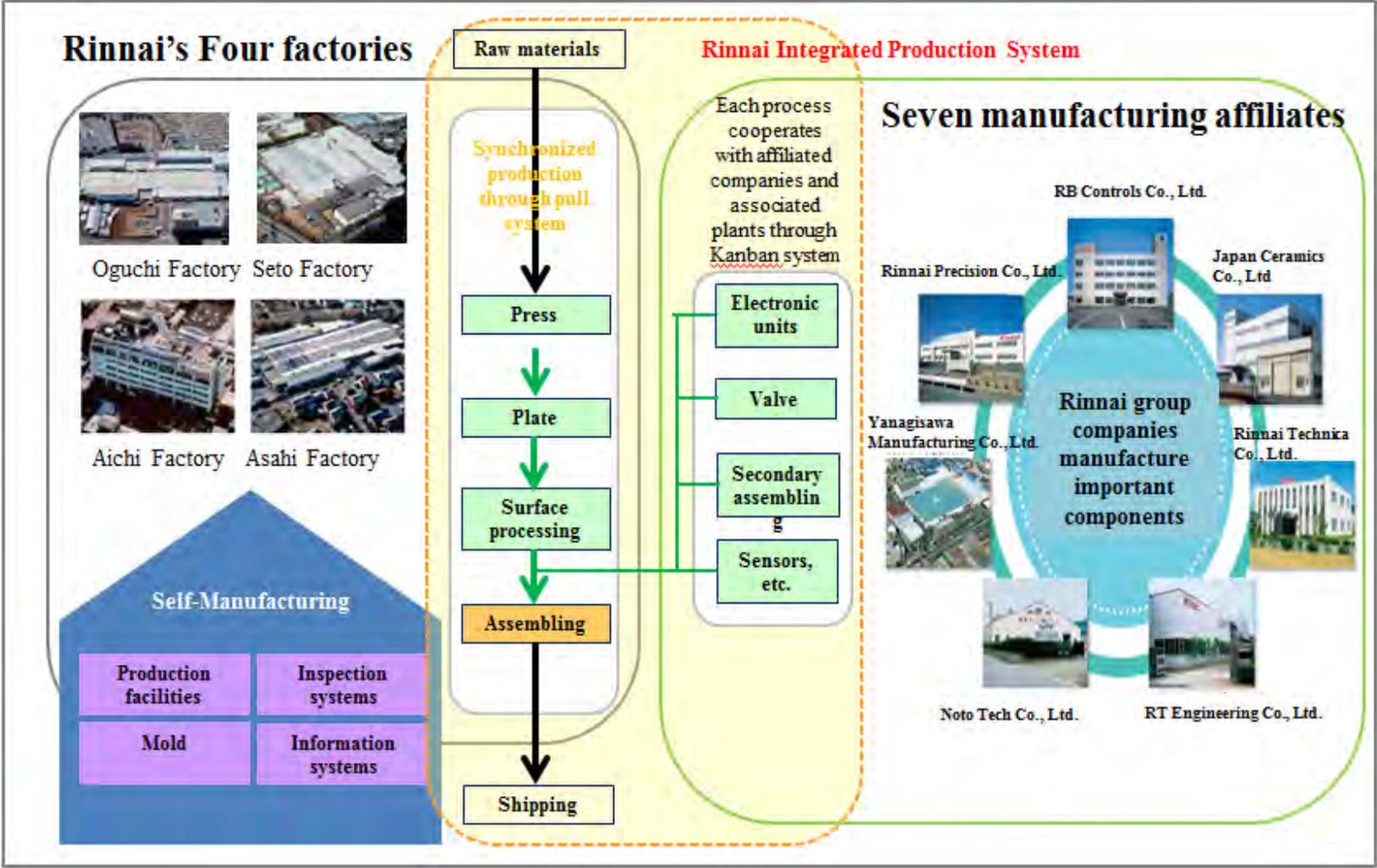
Our dedication to quality is the reason we are so passionate about *monozukuri*. It is why we take an integrated approach to manufacturing that addresses all stages, from upstream processing to final assembly, why we keep production of key units within the Group, and why we make our own tools, including the equipment, dies and information systems used in critical manufacturing stages.

In addition, all employees participate in improvement and productive maintenance efforts and are actively engaged in *monozukuri*.

In manufacturing, we maintain a multiproduct, mixed-flow production system based on actual demand to ensure that each item rolling off the line receives suitable attention. Through our own logistics network, we realize timely delivery. The key components that go into all products are meticulously monitored on an individual basis, and unit history, from production to shipment, is carefully tracked to maintain traceability.

At the Production Technology Center, which opened in April 2010, engineers pursue leading-edge *monozukuri* themes, such as the development of high-precision processing technologies and advanced automated technologies. This is also a place of training, where skilled personnel from throughout Rinnai's global network come to upgrade their capabilities.

■ Domestic *Monozukuri* (Manufacturing within the Group)



Contributing to Local Communities as a Global Enterprise

At Rinnai, we firmly believe contributing to a better culture of living for people in the communities where we operate is a vital part of being a good corporate citizen. We pursue local production and conduct sales and service activities fine-tuned to each market through a 16-country network comprising production and sales subsidiaries in 10 countries and sales-only subsidiaries in seven countries. It is our practice to hire locally, even for executive positions, and control over business activities is left in the capable hands of these individuals. Embracing the Japanese concept of *monozukuri* laterally, our overseas subsidiaries apply technologies accumulated in Japan to the development of products perfectly suited to the cooking and residential customs of each market and support our corporate mission to improve the culture of home life in those countries. These efforts reinforce the Rinnai brand.



90th Anniversary Special Feature: The Future

New Challenges on the Road to Our 100th Anniversary

Through the years, Rinnai has focused on core technologies, accurately pinpointed consumer needs, and developed products that offer customers safety and peace of mind, comfort and eco-minded choices.

In this tradition, we marked our 90th anniversary in 2010 with the debut of a hybrid hot-water unit that runs on gas and electricity. The system uses the most efficient energy for the required hot-water application to realize the world's highest environmental performance.

Our goal, as a comprehensive heat-energy appliance maker, is to contribute to the creation of better living environments for people around the world and to address environmental concerns. We have embarked on a new journey heading toward our 100th anniversary but our goal remains the same. We will strive to build a future for our planet and earnestly pursue new *monozukuri* through cutting-edge technology.

For the future of our planet, Rinnai challenges new product development maximizing our cutting-edge technology.

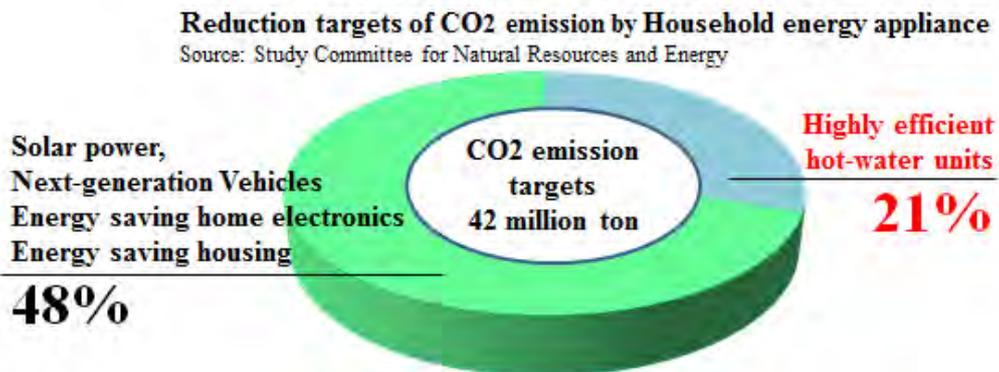
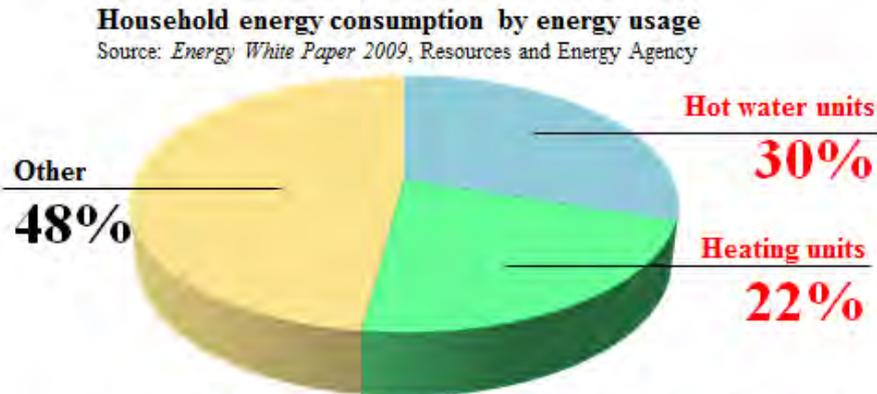
Gas/solar hybrid hot-water system



Lower CO₂ from Hot-Water/Heating System Is Key to Comfortable, Energy-Saving Lifestyle

A look at household energy consumption in Japan shows that hot water and space heating account for more than half of the energy bill. Annual use continues to climb nationwide, due to an increasing preference for lifestyle options that provide greater convenience and comfort and also due to changes in social infrastructure, including a rising number of households. To reverse this rising consumption trend, families need to review their energy usage.

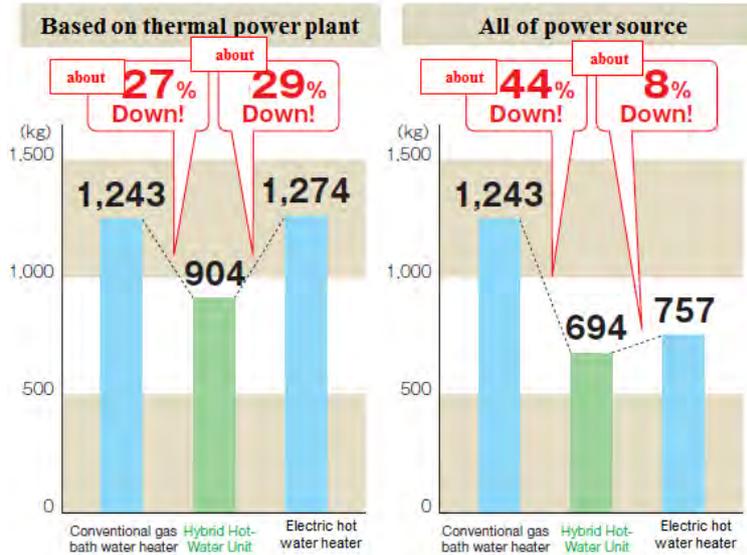
The Japanese government has established a CO₂ reduction target for households and is encouraging homeowners to install energy-saving products and switch to natural energy appliances. About nine million tons, or 21%, of the target will be met by high-efficiency hot-water/heating systems, giving these appliances a significant part to play in Japan's efforts to cut CO₂ emissions.



Achieving a Comfortable, Energy-Saving Lifestyle

In combination, the highly efficient *Eco-Jozu* hot-water unit and a heat pump running at optimum temperature greatly surpasses conventional gas bath water heaters and electric models in primary energy efficiency, reaching 121%, because the hybrid system uses just the right amount of gas and electric power needed for the application. Thanks to its high energy-saving capability, the hybrid system releases about 27% less CO₂ than conventional gas bath water heaters and about 29% less than electric models, substantiating the high environmental performance gained through the optimum mix of energy sources.

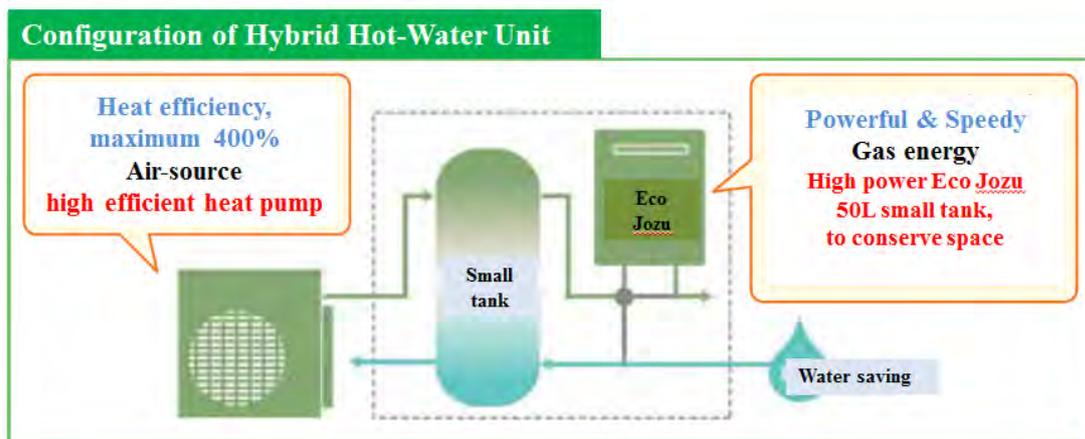
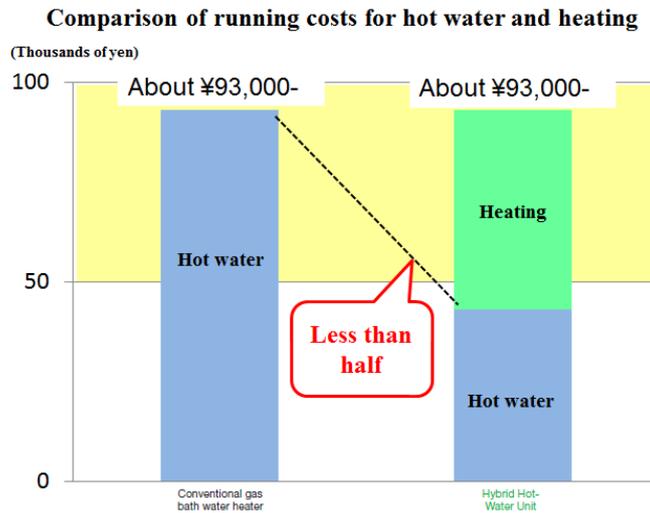
Comparison of annul CO₂ emission



Supporting Better Heating Culture in Japan

The hybrid hot-water/heating system ensures an ample supply of hot water not only for use in the kitchen and bath but also for space heating, including heated floors and an invitingly warm bathroom during the cold winter months—with just one unit. Households can enjoy the comforts of hot water anytime at all, without worrying about when to use it or how much is available, because the supply of hot water is on-demand and will not run out.

In addition, the hybrid system consumes much less energy than typically required, cutting running costs by more than half, compared with conventional gas bath water heaters. The energy savings can be directed to hot-water heating for heated floors and bathroom heating to create a comfortable living environment throughout the entire home at a cost that previously covered only hot water.



Developer's Thoughts

We started from zero. We didn't give up until we had succeeded.

Takeshi Kato, Technology Chief, Engineering Development Division, Research & Development Headquarters

In 2005, we turned our attention to the hybrid format as a possible new type of hot-water unit and that's how the development concept was born. Rinnai had always been a gas appliance maker so there was some in-house opposition to the use of an electric heat pump in the system. But enthusiasm, mostly, overcame that hurdle because we were keen to create the world's most eco-minded product.



Expert Opinion

Live an environment-friendly life with wise energy choices.

Kae Takase, Director, World Mamenergy Fund

If households in Japan installed whole-home hybrid hot-water/heating systems, the impact would be to cut CO₂ emissions by 30.89 million tons. This would be equivalent to about 3% of the CO₂ released through energy consumption, which represents 90% of Japan's overall greenhouse gas emissions. Hybrid hot-water/heating systems are energy-saving, CO₂-reducing and, from an installation perspective, relatively cost-competitive among low-carbon technologies pegged for mainstream application.



Social Report

With Our Customers

To enable customers to achieve comfortable lifestyles, we strive to provide products and services that they can use with peace of mind.

Fiscal 2010 Goals	Fiscal 2010 Achievements	Fiscal 2011 Goals
Disclose product malfunction information in accordance with the Consumer Product Safety Law.	Details of critical product malfunctions appearing in Ministry of Economy, Trade and Industry announcement posted to Rinnai website.	Strengthen reporting of product malfunctions to the Consumer Affairs Agency in accordance with the Consumer Product Safety Law.
Boost inquiry rate on incoming calls from customers with questions.	Enhanced call response during peak periods by anticipating number of inquiries; rate reached 87%.	Standardize inquiry response, establish call-answering system, and push response rate above 90%.
Enrich selection of universal design products.	Debuted <i>Udea éf</i> , a universal design cooking stove.	Add product improvements from a customer perspective.

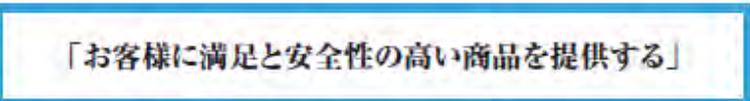
Improved Technological Capabilities and Unquestionable Quality Control

Basic Stance on Quality

At Rinnai, we have always been passionate about technology and quality in our development and manufacturing activities. Indeed, our policy on quality—infused by the corporate philosophy “Quality is our destiny”—stresses efforts to provide customers with highly safe and satisfactory products. This enduring commitment gives customers complete peace of mind in selecting and using Rinnai products.

Voluntary Action Plan for Product Safety

In June 2007, we formulated a voluntary action plan for product safety along with a promotion strategy that would give substance to activities based on the action plan. We encouraged divisions to embrace the action plan and its associated promotion strategy, confirmed that divisions were on board, and wrapped up the process in February 2008. Currently, the Customer Service Division and the Quality Assurance Headquarters oversee the voluntary action plan for product safety, verify implementation status as appropriate, and guide efforts to uphold our policy on quality day in and day out.

Basic Philosophy on Quality	
	Quality is our destiny.
Policy on Quality	
	We provide highly safe products that meet customers' requirements.

Monozukuri in Pursuit of Safety and Peace of Mind

The nature of our business—making and marketing gas appliances—demands *monozukuri* prioritizing safety. Since we are so totally committed to excellence in *monozukuri*, customers can rest assured that we will deliver products developed and manufactured in accordance with industry specifications and safety standards. Safety is ensured through assessments specific to each stage of the commercialization process, including design reviews that evaluate product performance and reliability.

The Seven Key Elements of Quality	
1. Good function and performance	5. Reliable
2. Easy to use	6. Environmentally compatible
3. Safe	7. Up to legal and self-imposed standards
4. Nice exterior features	

Measures to Ensure the Safety of Gas Appliances

For Safety and High Quality Products

To ensure safety and high quality, we strive for outstanding precision in manufacturing. This is achieved through an integrated production format whereby each factory undertakes all aspects of manufacturing, from raw material processing to product assembly, and the production of key safety components is kept within the Group.

Issues that crop up on a day-to-day basis are communicated to the relevant divisions and resolved. However, issues of a particularly serious nature are reported to the president and executive officers at the monthly meeting of the Quality Committee along with associated updates on response measures and other actions taken to address problems.

Disclosure of Product Safety Information

In the event, however remote, that a Rinnai product malfunctions during use or an accident results from a defective Rinnai product or insufficient service thereof, we promptly report the details to the competent authorities in accordance with prevailing laws and regulations. Even when it is unclear whether or not an accident is attributable to one of our products, we still provide pertinent information on our website to alert customers and appliance installation and repair providers to a potential safety issue.



Information related to product accident (Homepage)

Invigorating Quality Improvement through Small Groups

Seeking to enhance the problem-solving skills of each and every employee and invigorate the organization, we began promoting small group quality control circles in 1979. Currently, we have 245 domestic circles. In Japan, back-office sections, including those at Group companies, also get actively involved, and we award prizes to the best circles at the annual quality-control conference in November.

An overseas highlight was the first place award presented to Shanghai Rinnai Co., Ltd., at the July 2009 Public Works Processing and Construction Excellence in Quality Circle Conference, sponsored by the Public Works Process Association of China. Shanghai Rinnai took top spot among a China-wide candidate pool of 83 urban development-related companies.



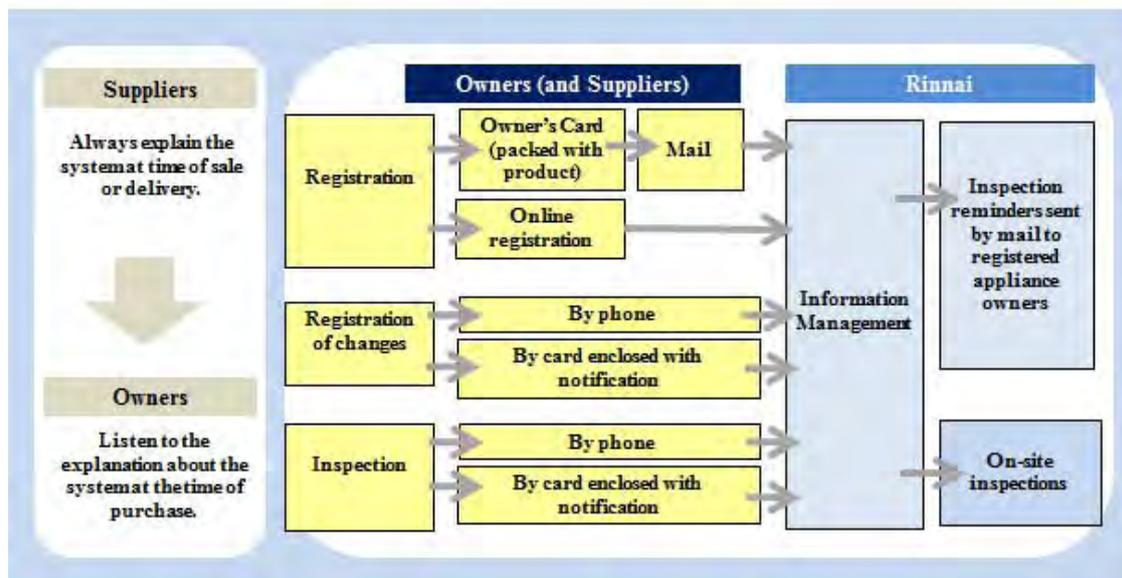
Shanghai Rinnai quality control circle excellence recognized.

Safety and Peace of Mind ~ Inspections like a yearly medical for appliances

Accidents linked to the deterioration of home appliances over long-term use have been reported. In April 2009, the Consumer Products Safety Act was revised and a safety inspection system for products in long-term use went into effect. To make customers realize that appliances, like most products, have a particular service life and to encourage customers to have their Rinnai products inspected regularly, we send out the necessary information and extend advice through the Product Inspection Center. These efforts are aimed at preventing unforeseen accidents.

Rinnai products corresponding to safety inspection system		
Indoor-type gas instant hot water heaters (for city gas, and LP)	Indoor-type bath water heaters with gas burners (for city gas, and LP)	Dishwashers (built-in)
		

● Flow of Safety Inspection System for Products in Long-term Use



The seven products* that fall outside the scope of the safety inspection system are still supported, but under Rinnai's own services, such as product safety inspections by duly certified professionals and three-year warranties on hot-water units.

Customers turn on a Rinnai appliance every day. To ensure that they feel comfortable using our products, we strive to enhance our after-sales services to facilitate a swift response in the event, however remote, that a product does not function as it should.

*** The seven products not subject to mandatory inspection are gas fan heaters, gas clothes dryers, fan-forced gas heaters, built-in gas stoves, gas stoves, gas hot-water units and gas hot-water bath boilers.**

Inspection and Repair Services Underpin Peace of Mind

Following the March 2009 establishment of the Customer Service Division, we opened the Product Inspection Center, which addresses issues associated with the safety inspection system for products in long-term use. We deploy members from a nationwide team of about 500 inspection professionals and about 700 service specialists as part of our commitment to reliable and accessible inspection and repair services.

In addition, we post detailed information on product inspection fees on our website so that customers are aware of the costs involved in checking the condition of appliances in use.



Service Shop Proficiency Olympics

In July 2009, Rinnai opened the Service Shop Proficiency Olympics, a national contest to improve servicing techniques. The event pits some 700 service specialists nationwide against each other in a friendly competition aimed at motivating participants to upgrade their skills.



Customer Surveys

We send out questionnaires to customers who have had servicing done on their Rinnai products. The responses allow us to gauge customer satisfaction, including assessment of on-site servicing, and comments, good and bad, are passed to key divisions as food for thought in developing products and improving services.

Free Inspection of Instantaneous Gas Water Heaters

Three years ago, in 2007, one of our small, open-type water heaters malfunctioned and caused an accident. Back then, we implemented measures to reassure the market of our commitment to safety and quality, and today, to prevent a reoccurrence of this kind of accident, we continue to offer free inspections to customers using small, open-type water heaters, including the RUS-5RX, produced between July 1991 and January 1995, and the RUS-51BT, produced between May 1994 and January 1997.



Responding to Customers' Needs, Providing Support

Through Customer Centers

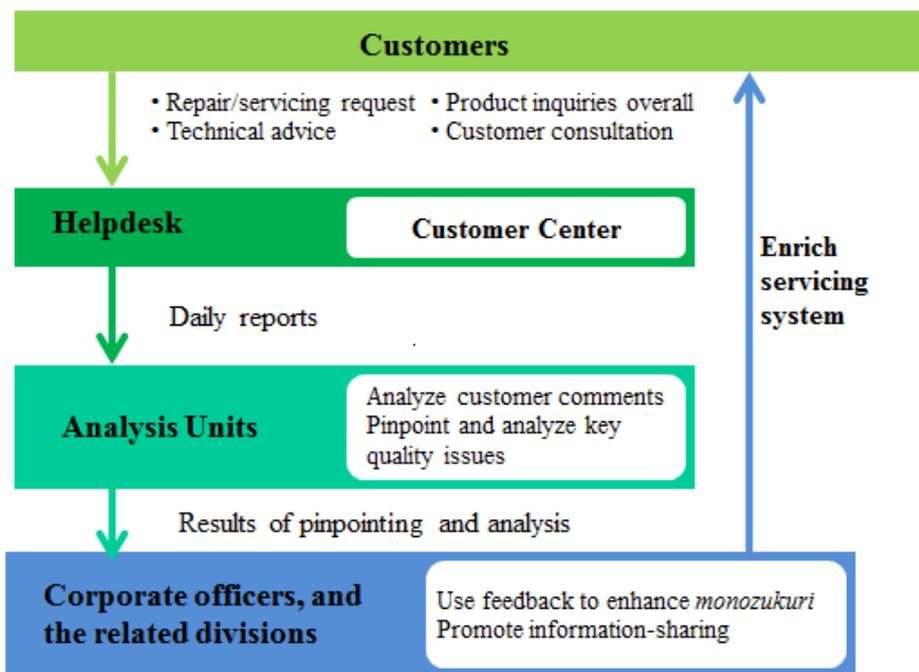
Rinnai maintains five customer centers in Japan. Staff at these customer centers deal with questions, requests and complaints received from customers by phone, through a toll-free number, and by email, forwarded through our website.

Customer centers are our only direct line of communication to customers. Valuable comments collected through customer centers are passed on to product development, sales and service divisions on a daily basis. This feedback provides clues that we can follow to higher levels of customer satisfaction.

In fiscal 2010, our customer centers logged about 800,000 calls and about 5,000 emails.



●Applying customer comments to products and services



Enhanced Response to Customer Requests for Assistance

Some customers are keen to troubleshoot problems on their own, with a little guidance from Rinnai experts. For these people, we created a page on our Japanese website for frequently asked questions—the ubiquitous FAQs page—concerning Rinnai appliances. The questions—numbering 253 at last count—and their answers are arranged by product type.



Attending Consumer Discussion Groups

Between August 2009 and February 2010, at the request of consumer groups in Aichi Prefecture, Rinnai representatives attended informal dialogues to talk about the safety inspection system for products in long-term use. Meetings were held at four locations and attracted about 180 people who participated in question-and-answer sessions and opinion exchange on such topics as the system's connection to the Product Liability Law and the process of inspections and notifications for products already on the market.



Helping Customers Use Gas Appliances Properly and Maximize Comfort and Convenience

Dedicated Site for Sale of Replacement Parts

To ensure that Rinnai products are used properly and continue to provide maximum comfort and convenience to customers for many years, we launched a website, dubbed R.style—short for Rinnai Style—for online purchase of parts, primarily for replacement and repair, so that customers can change out components on their own. This site lists more than 3,800 consumable parts and service parts, including gas stove grates, grills and top plates, and has been warmly received by customers for the ease of ordering over the Internet to make gas cooking stoves shine like new.



Rinnai Wins 2009 CRM Best Practice Award

In November 2009, Rinnai received a 2009 CRM Best Practice Award from CRM Association Japan. The award recognizes the high value of our joint research with the Graduate School of Business Administration at Keio University on a model for quantifying customer loyalty and configuring a framework for collecting customer comments via a direct-sales site.

We will treat this model as a key strategic tool in our e-business and consistently strive to enrich capabilities while providing services fine-tuned to customer needs.



(Right) Masao Kosugi, Managing Executive Office of Rinnai Corporation

*** The CRM Best Practice Award is given by CRM Association Japan to companies, government agencies and organizations utilizing the latest in information technology and making a concerted effort to implement leading-edge client resource management programs with success. The award serves as a case model for promoting CRM.**

Saving Energy, Reducing Greenhouse Gases Depends on Customers Knowing Optimal Hot Water Volume and Pursuing No-Waste Eco-Programs

In February 2010, we debuted the combi-boiler *RUF-E Series* as the second wave in the evolution of our *Eco-Jozu E Series*, the highly efficient, environment-friendly hot water/heating system.

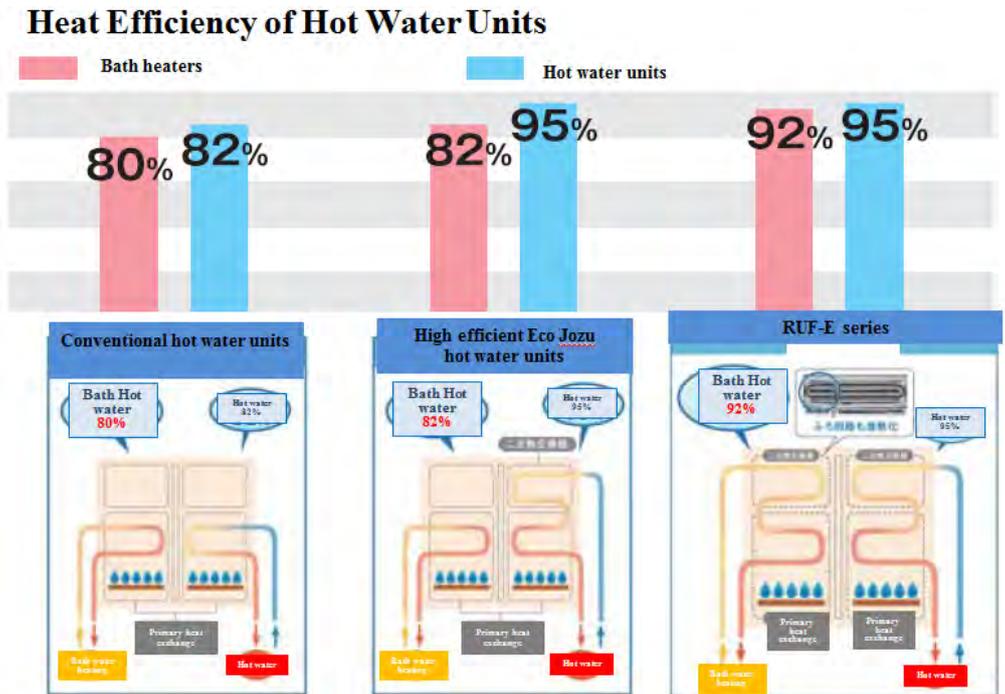
We worked to raise the heat-efficiency of the existing *Eco-Jozu* system by reusing waste heat from hot-water heater circuitry and, with the *RUF-E Series* we realized high thermal efficiency through the reuse of waste heat from bath boiler circuitry as well.

As an option, we offer the Eco-Signal Remote Control, which displays helpful information, such as the right amount of hot water coming through the tap. We also suggest eco-programs that are a snap to implement.



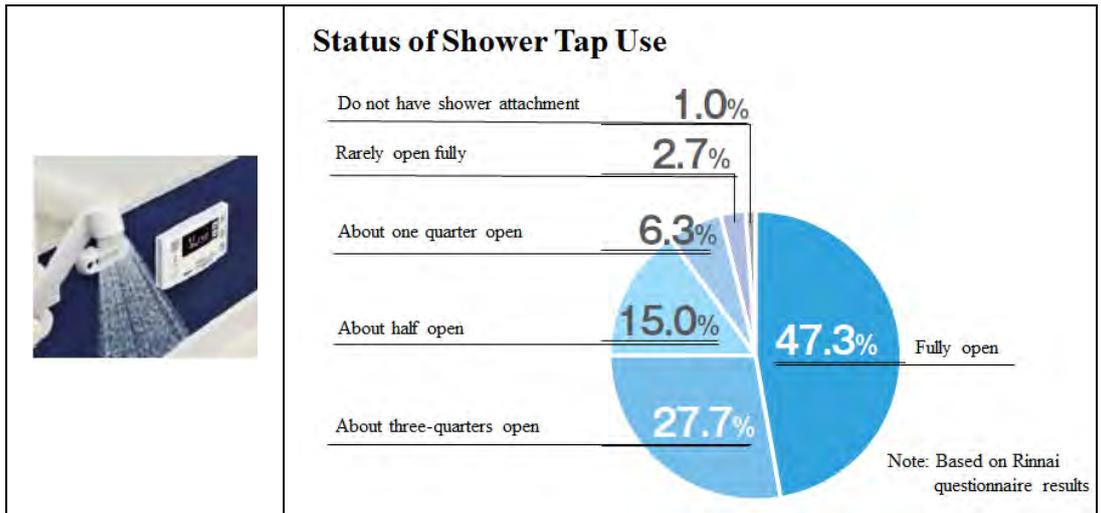
RUF-E Series Maximizes Waste Heat from Bath Boiler

The bathwater reheating function in hot-water systems is getting more use these days, due to the prevalence of smaller households and a growing tendency to allocate a longer portion of the evening to bath time. We successfully built into the hot-water heater circuitry a secondary heat exchanger for latent heat recovery of waste heat, and then realized thermal efficiency of 92%—the industry’s highest level for bath heating system—by applying the same design to bath boiler circuitry.



Eco-Signal Remote Control Born from Eco-Conscious Perspective

Through a customer questionnaire, we learned that about half the respondents turn the tap for the shower attachment to a fully open position when showering. But using just the right amount of water instead of more than necessary will reduce water consumption and energy costs. To help people know how much is the right amount, we developed the Eco-Signal Remote Control. This device does not require any special operation nor does it forcibly limit the amount of hot water used. Rather, it provides information so that customers can make the choice to be eco-friendly on their own.



Promoting *Eco-Jozu* as De Facto Standard

Rinnai offers conventional hot-water units and high-efficiency *Eco-Jozu* hot water/heating systems, which reaply waste heat. Naturally, the thermal efficiency of *Eco-Jozu* hot water/heating systems is higher, at 95%, compared with about 80% for conventional hot-water units.

Eco-Jozu hot water/heating systems deliver high energy savings, trimming gas consumption 12% over conventional hot-water and heating units, and curb CO₂ emissions by 12% as well.

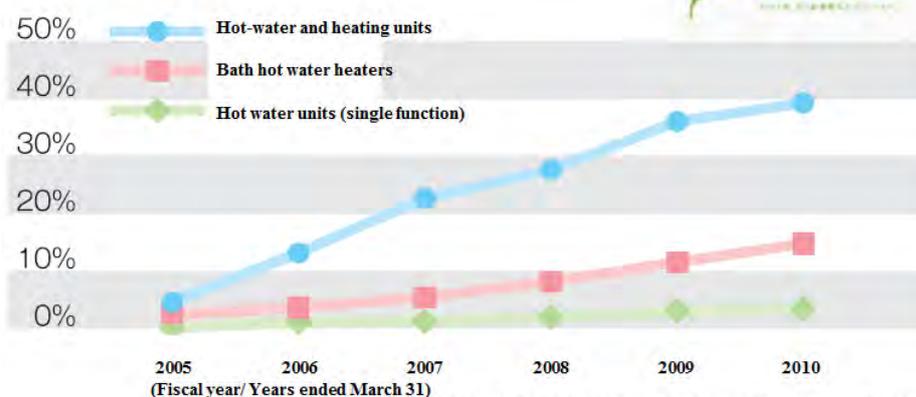
Rinnai was one of the first gas appliance manufacturers to integrate energy-saving features into its hot-water units. It has been 10 years since *Eco-Jozu* hot water/heating systems appeared on the market under the Rinnai label.

In 2009, we began selling the *Eco-Jozu E series* and through expansion of the lineup we are contributing to efforts aimed at combating global warming and realizing the April 2013 industry goal to make *Eco-Jozu* the de facto standard*.

*In principle, the gas appliance industry will switch production of all hot-water units to the *Eco-Jozu* format by the end of March 2013.



Percentage of *Eco Jozu*, High Efficient Hot Water Units



Universal Design—Easy-to-Use Products that Offer All Customers Peace of Mind

It has always been our goal to create products from a customer perspective. We want as many customers as possible, regardless of age, gender or physical ability, to feel comfortable using our gas appliances and find them easy to operate. Toward this end, we have been working on products under the universal design concept.

Udea Tabletop Gas Stove Reflects Customer Input

The 21st century dawned with the rising percentage of elderly in Japan's population beginning to have a significant impact on society and lifestyles. The concept of universal design is therefore more important than ever as it addresses the need for products and services suited to an increasingly diverse customer base.



—Kitchen Appliances that Make Cooking Enjoyable at Any Age—

Udea is the result of a joint development project with Osaka Gas Co., Ltd., that began in June 2005. During the process of developing an easy-to-use tabletop gas stove, we conducted interviews with many individuals, including senior citizens and people with disabilities, to gain greater insight into the little oddities and inconveniences they encounter during routine cooking activities.

We applied the thoughts and impressions gathered from these customers to the development of a tabletop gas stove with a straightforward operating format and a design that does not force the user into a posture that is uncomfortable or impossible to achieve. Our efforts led to the debut of *Udea* in October 2007 and *Udea éf*, with simplified features, in March 2010.

****Udea* is a registered trademark of Osaka Gas. *Udea éf* is a registered product of Osaka Gas.**

Udea Features

Easy access for all users makes cooking a pleasure

- The control panel is located topside to facilitate operation without the user having to hunch over or bend at the knees.
- Heating and operation controls for each burner are placed in pairs so it is easy to keep track of which burner is in use.
- The topside operation panel is tilted at 10° and features touch keys that can be activated with minimal pressure for easy operation, whether the cook is sitting in a wheelchair or standing 180cm tall.



Key Size, Labeling and Color Scheme Are Simple and Straightforward

- The layout is self-explanatory: easy to remember and use.
- The size of the keys is suitable for a wide range of people.
- The control panel is surface-treated to keep the keys in good condition in any environment.



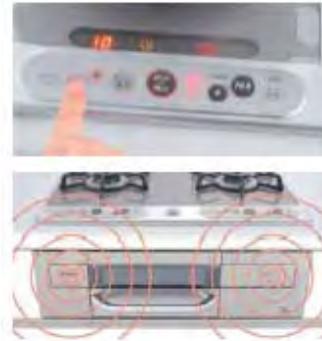
Use with Peace of Mind

- Each burner is equipped with a sensor that knows if a pot is there or not and will not light unless a pot is in place. Also, if a pot is lifted away after a flame is lit, the burner will automatically reduce the size of the flame so that the cook can move pots around safely.
- This tabletop gas stove is equipped with a sensor that automatically extinguishes the flame if vibration exceeding a certain level is detected, ensuring safety even in the event of an earthquake.



Safety and Convenience Features Are a Cut Above

- Cooks in a hurry can pick a menu category from the icons right above the topside control panel to expedite their tasks. The icon will illuminate to confirm selection.
- When the burner itself heats up, a lamp comes on as a warning that the metal is hot enough to cause a burn.
- Speakers are installed at the front of the appliance, on either side of the grill door, for clear, intelligible voice guidance.



Enhancing Tabletop Gas Stove Design

The design of our built-in stoves, which garnered a Good Design Award in 2008 and 2009, was applied to tabletop gas stoves, which appeared on the market first in the glass-top series and then in the pearl crystal series. Also, in an industry first, we introduced non-drip tray construction into our metal-top series for easy cleanup. In addition, for people with diminished dexterity and eyesight, we made the switches bigger and label lettering larger.

Glass Top series	Metal Top series
 <p>DERAN® はショット日本(株)の登録商標です。</p>	
Pearl Crystal series	<p>Market first Drip-tray-free configuration (Launched in May 2009)</p>  <p>Old type New Products</p>

The Value of Close Contact with Customers

We hold exhibitions all over Japan where the public can get a closer look at the excellent features of our products. For customers, these exhibitions are opportunities to try out top-of-the-line products—to experience the safety of “Si” sensor-equipped tabletop gas stoves and other features that make cooking and cleanup less of a chore, and to realize the energy savings afforded by hot-water/heating systems and the comfort of floor heating. For us, these exhibitions open lines of communication to customers wider.

In addition to exhibitions of our own, we participate in events that highlight regional characteristics, such as joint fairs sponsored by retailers who sell our products. Our presentations are interesting but also provide customers with ideas on how gas appliances can make life more comfortable.



Customer Comment Provides Hint for Product Development

An option that has proven particularly popular with our customers is the three-cup rice cooker used in conjunction with a tabletop gas stove.

A customer commented, “The rice cooker is easy to use and cooks up delicious rice. But the design of the pot is rather drab. Couldn’t you make it a little prettier?” And we did. Using color enamel technology, we created a series of rice cookers in shades that match our gas cooking stove top plates.



Live Demonstrations of New Products

Recently, more gas cooking stoves have come on the market with rice-cooking capabilities and a Dutch oven feature in the grill section. This has expanded the repertoire of adventurous cooks. Our life creators are busy every day, offering explanations, especially to retailers, on the diversifying range of gas cooking stoves available today and demonstrating products to end users as well.

We established hands-on facilities under the banner “Hot.Lab Training Center” in 10 locations around Japan. Here, visitors can try out new products, including gas cooking stoves, floor heating and bathroom heater/dryer systems, and attend lectures to enhance their understanding of our products.



Social Report

With Our Business Partners

Guided by a principle emphasizing fair-and-square transactions with all our suppliers, we undertake various activities to reinforce the existing structure of trust and cooperation and promote stable, long-term growth on both sides of the business table.

Fiscal 2010 Goal	Fiscal 2010 Achievement	Fiscal 2011 Goal
Strengthen connections with suppliers.	Held regular meetings of the Supplier Liaison Group and opportunities for suppliers to improve operations.	Continue to support activities that enable suppliers to improve operations.

Fair-and-Square Materials Purchasing and Procurement Activity

Our suppliers provide us with the raw materials and many of the components that go into the products we make. They are business partners indispensable to the creation of products that attract consumers to the Rinnai name.

To grow along with our suppliers, we emphasize transactions based on a fair and impartial assessment and selection process and respect for laws and regulations and corporate principles, in accordance with the Rinnai Group Purchasing Policy. We also work to establish bonds of trust.

Rinnai Group Purchasing Policy

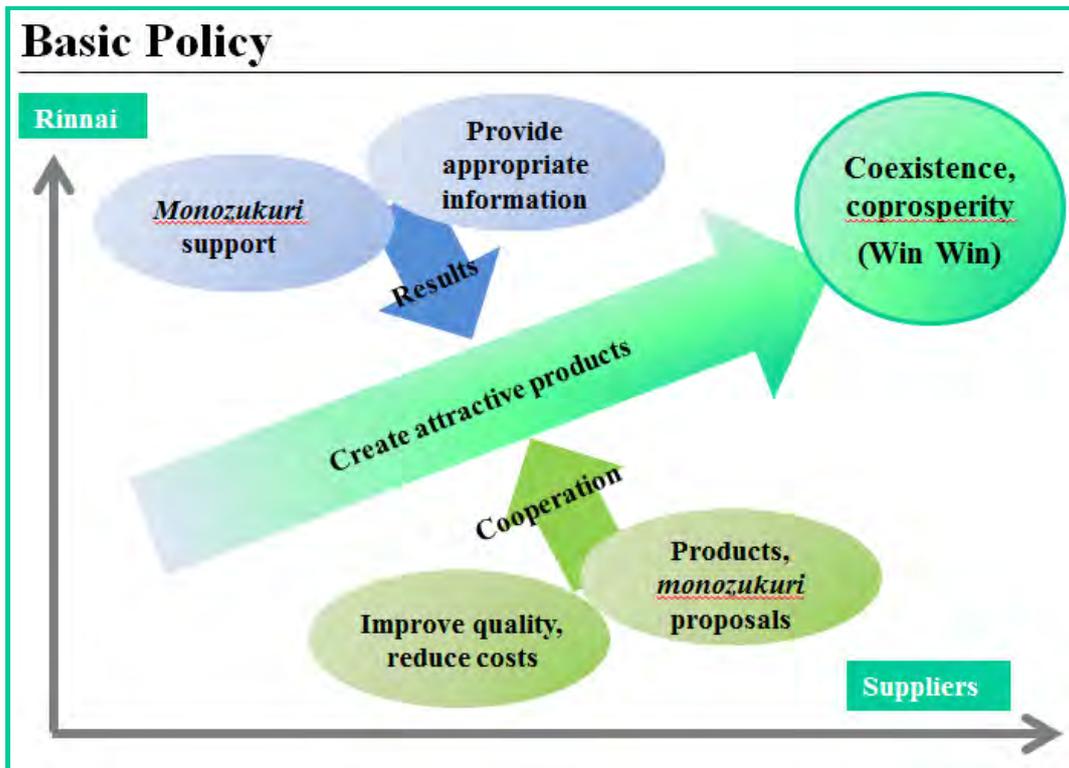
“We will give equal opportunity to all companies at home and abroad and undertake fair evaluations to procure excellent parts that meet our requirements.”

Coexistence and Coprosperity with Business Partners

At Rinnai, we believe that building stable, long-term relationships with our suppliers and growing with them as they grow with us is vital to the creation of better products.

We have made efforts to “provide highly safe and satisfactory products to our customers” the foundation of our quality principle, and we strive to achieve and maintain zero-defect status. But our dedication to this goal is only one side of the quality coin. Suppliers are also integral to this ongoing objective, and so we ask our suppliers to institute voluntary quality assurance systems and make a concerted effort to implement and adhere to associated measures.

We enthusiastically support our suppliers in their quality-oriented efforts and create opportunities for contact, including a get-together at the beginning of the year as well as policy information meetings to explain our purchasing policy. These occasions help foster mutual trust.



Fair Selection of Business Partners

Our supplier acceptance process is applied uniformly, whether the company is an old-time supplier or seeking to become a supplier. Our evaluations are fair, giving equal opportunity to any and all companies with the right stuff, whether at home or abroad.

Essentially, the divisions involved in procurement—that is, divisions responsible for technology, quality and purchasing—consider all factors, including quality, price and delivery as well as the potential supplier’s technological capabilities and its environment-oriented activities, in reaching an impartial, well-considered decision.

Efforts to Enhance the Teamwork Perspective

We hold regular meetings of the Supplier Liaison Group, an opportunity for suppliers to learn more about our perspective on quality and the basis of *monozukuri* at Rinnai. These meetings are also ideal for providing updates, such as evolving production trends, and for gathering information through suggestions from suppliers and dialogue based on submitted questions. Indeed, these meetings promote a stronger commitment to teamwork.

In other activities, we combine corporate heads, so to speak, drawing on the wisdom of both ourselves and suppliers to boost productivity and product quality. Specifically, we send representatives to visit supplier production sites, identify excess or problem points in their manufacturing processes, and discuss approaches that might remedy concerns and improve operations.

On an environmental theme, we promote green procurement processes with an emphasis on supply chain management.

We formulated E-Procurement Standards and work along with our suppliers to pursue *monozukuri* with an environmental conscience. This includes the implementation of proper environment management and environment-friendly approaches toward materials and parts production and use.

In addition, we have introduced controls for chemical substances contained in materials and parts, in accordance with Chemical Substance Management Rank Guidelines for Products*. The management of chemical substances encompasses many issues, but we have prioritized the health of humans and reduced environmental impact. Along with our suppliers, we will strive to improve management capabilities while growing our businesses together.

To sustain a sharp competitive edge amid the dizzying pace of change that characterizes the business environment, the Supplier Liaison Group in fiscal 2010 we resolved issues that suppliers have in common and strengthened contact among suppliers to address shared concerns. This led to improvements in *monozukuri* technologies and quality.

*Policy to eliminate or reduce the use of 19 substances, including six substances listed in the Reduction of Hazardous Substances (RoHS) Directive.



Policy information meeting with suppliers



Supplier quality and on-site improvement session

Pursuing ISO9001 and ISO14001 Certification

We substantiate our commitment to high quality and environmentally conscious products with ISO9001 certification (quality management system), obtained in 1995, and ISO14001 certification (environment management system), acquired in 2003, for all domestic factories. We constantly strive to improve quality and environment-oriented responses through the implementation of associated management systems.

We encourage suppliers and logistics partners to embrace the same perspective on quality and the environment. We actively encourage them to follow our example in establishing management system structures based on ISO9001 and ISO14001—or alternative certification if it meets the requirements of these international standards—and we support them in their efforts to implement these structures.

Adhering to the Dispatched Workers Law

The revised Dispatched Workers Law promulgated in March 2004 partially lifted, with certain conditions, the restriction preventing the dispatch of temporary workers to manufacturing jobs. Rinnai is one of many companies employing temporary workers, and close contact with agencies involved in temporary staffing services is indispensable to the Corporation's activities.

In fiscal 2010, we executed audits to ensure appropriate onsite contracting and temporary staffing practices and made the results widely known to all factories. We will continue to ensure strict adherence to the Dispatched Workers Law, primarily through audits.

Working with Logistics Partners

We totally revamped our logistics system, in line with a companywide logistics reform process launched in 2004, and centralized the products of four principal factories at the newly opened Integrated Logistics Center in April 2008.

At this facility, we also pursue production and layout design as well as information system development on our own to promote streamlined operations finely matched to our *monozukuri* concept.

Enhanced Communication with Logistics Partners

We hold regular quality-oriented discussions with all logistics partners.

Also, every April, we hold a logistics policy information meeting to help service providers gain deeper insight into our logistics policy, which defines numerical targets and the direction of logistics improvements. We evaluate logistics quality and improvements to the system, based on the existing policy, and single out service providers who have demonstrated particularly excellent results.

We arrange factory tours so that service providers can see our emphasis on *monozukuri* and quality in action and to enable them to visualize the factory floor when related discussions arise.



Logistics Policy Information Meeting



Factory tour

Traceability Through Item-by-Item Control

We print a quick response—QR—code directly on our appliances or on product labels affixed to packaging materials to track each product from the manufacturing line to shipment stage. When scanned, the QR code confirms product history, such as the production date and the production line that turned out that product.



Product Label

Information includes

Product code, gas type, production number, production date, production line

Working with Logistics Partners to Improve Logistics

We make a concerted effort to listen to our service providers and improve efficiency by making opportunities to talk with our partners. Through this process, we have adopted approaches to confirm the company providing service and make sorting operations more efficient, such as including provider-specific codes on the printed shipping labels affixed to products.



Shipping Label

(also functions as shipping tag)

Information includes

Product code, gas type, shipping information

Seeking Comfortable Lifestyles for People All Around the World
Business development hinges on production, sales and services fine-tuned to each region



Our business history in Hong Kong spans more than 50 years, supported by bread-and-butter product development fine-tuned to the local market and high-quality production technologies and manufacturing capabilities. We sell a variety of items, including tabletop gas stoves, hot-water units and hot water/heating systems, to major gas companies in the area on an original equipment manufacture basis.

In September 2009, Rinnai welcomed representatives from 10 gas companies in China and Hong Kong. They visited the head office and the Production Technology Center and toured factories, coming away with a solid appreciation for the comprehensive factory management, rigorous stance on quality control and portfolio of leading-edge technologies that Rinnai has established through its emphasis on the “Quality is our destiny” slogan.

Social Report

With Our Employees

We strive to create an atmosphere in which employees can be happy and productive—a corporate climate that motivates each and every employee to do well and enables individuals to demonstrate their full potential. We also seek to maintain workplace environments that keep employees safe and healthy, both physically and mentally.

Fiscal 2010 Goals	Fiscal 2010 Achievements	Fiscal 2011 Goals
Improve skills by position and responsibility through rank-specific training programs.	<ul style="list-style-type: none"> Implemented rank-specific training programs for all employees promoted to manager level. 	<ul style="list-style-type: none"> Select leaders to take each corporate structure forward and enhance capabilities through training programs.
Promote workplace safety and activities to maintain good health.	<ul style="list-style-type: none"> Executed occupational health and safety rotation. Offered mental health workshop with lecture by outside expert. 	<ul style="list-style-type: none"> Boost divisional energy through mental health workshops for managers and their staff.

Basic Concept

Efforts to develop business are guided by respect for our human resources, based on the long-standing corporate philosophy embodied in our corporate motto “Harmony, Spirit and Truth.” Every workplace prominently displays this motto as a constant reminder of universal goals.

We offer employees numerous opportunities in their work that enable them to fully demonstrate the capabilities they have acquired and to grow as individuals. In addition, we seek to cultivate workplace environments imbued with a corporate atmosphere that keeps employees happy and properly challenged so that they will embrace respective responsibilities, great and small, with passionate determination.

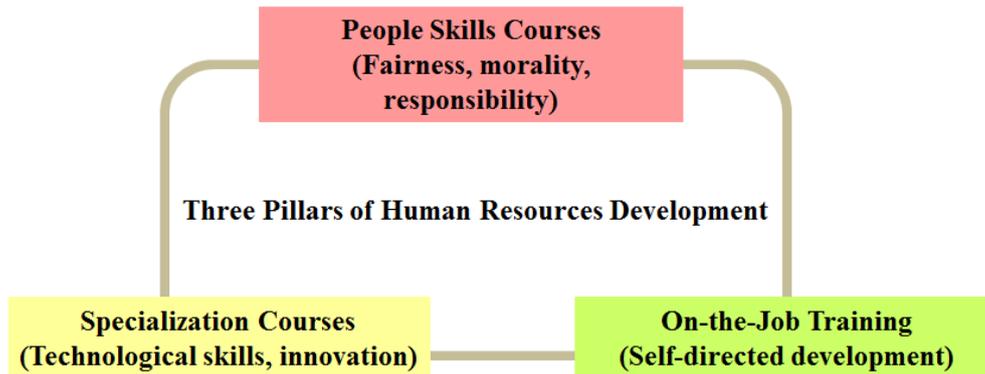
● Number of employees (Years ended March 31)

(Fiscal year)		2007	2008	2009	2010
Number of employees	Men	2,156	2,163	2,305	2,373
	Female	1,043	1,076	1,129	1,134
	Total	3,199	3,239	3,434	3,507
Average age		36.5	36.1	34.5	35.6
Average service years		14.5	14.3	13.6	13.6
Number of employees (consolidated)		7,368	7,390	7,772	8,206

Human Resource Development Activities

On-the-Job Training: Platform for Human Resources Development

At Rinnai, human resources are our greatest asset. With this in mind, we promote human resources development that brings out the talents in each and every employee.



We subscribe to the idea that suitable training and positive work environments are the building blocks of a personnel structure in which employees can demonstrate individual capabilities through their jobs. Based on this concept, we have established three pillars to support human resources development: 1) people skills courses, through rank-specific training; 2) specialization courses, through function-specific training; and 3) on-the-job training covering routine operations in various settings.

From fiscal 2011, we also offer programs to upgrade the skills of people responsible for structural administration and aim to boost the quality of training.

Support for Self-Directed Development

For young employees keen to hone their skills as well as for older employees looking to acquire greater specialized knowledge and techniques, broaden their horizons and become better human beings, we advocate personnel exchanges with companies in other industries and encourage employees to take language and communications training.

In addition, we introduced a rotation training program for employees with an interest in improving skills and techniques overseas. This is a win-win program since employees gain work experience at offices and factories abroad and the Corporation cultivates human resources capable of playing an active role anywhere in the world.

Voice	
<p>Comment from an Employee on Rotation Training</p> <p>It's been one year since I came to Rinnai America. My primary job is to share information, such as new products and quality updates, with several divisions on a daily basis to facilitate smooth operations between Japan and the United States.</p> <p>When I first arrived, everything was so different. My job here and in Japan are quite different. I have to interact in a different language. And the lifestyle is, yes, different. It was all so bewildering in the beginning. Thankfully, everyone in Japan and here at Rinnai America have been so helpful. But even a year into this rotation, I find that every day brings a new challenge.</p> <p>I intend to make the most of this opportunity that the Corporation has given me. I will pick up a little about a lot of things that I'd never be able to learn anywhere else, and I will strive to put this experience to its best use when I return to Japan.</p>	 <p>Daiki Uegaki, Rinnai America Corporation</p>

Hiring with Tomorrow's Leaders in Mind

We maintain fair and equitable hiring practices, in line with prevailing business plans and recruitment needs.

Job opportunities are listed on our website. We also attend job fairs to raise our profile and maintain an internship program for interested individuals. In addition, we actively engage in mid-career hiring to capitalize on the accumulated experience and knowledge of individuals who showed they can make a contribution to our success.

● Recruit results (Number of people) (Years ended March 31)

		(Fiscal year)	2008	2009	2010
Recruits	College/graduate school		107	130	92
	High school/technical school		115	118	151
	Mid-career		50	147	46
Total			272	395	289

Developing Global Talent and the Technology Group to Support *Monozukuri*

In March 2010, we opened the Production Technology Center to consolidate efforts to establish constituent technologies for *monozukuri* and develop global talent. These are vital keys in our plan for worldwide development of production technology as a comprehensive heat-energy appliance manufacturer.

The center is a place to pursue leading-edge *monozukuri*, particularly development of high-precision fabrication technology and sophisticated automation technology, and an emphasis is placed on delving into core technologies. It is also a hub for developing human resources involved in *monozukuri* activities at Group companies at home and abroad.



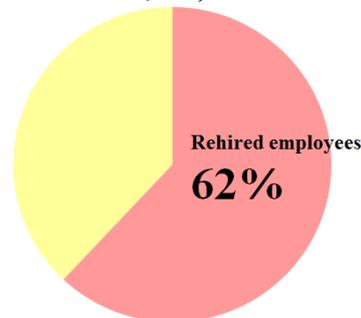
Passing “Rinnai Expertise” to the Next Generation

We continue to utilize the skills of veteran engineers even in retirement through a rehiring system. Access to the experience and knowledge of individuals who have reached mandatory retirement age ensures that accumulated expertise and the Rinnai Spirit are passed smoothly from one generation of Rinnai engineer to the next.

In fiscal 2010, we rehired 58 of 93 people who had reached retirement age, and as of April 2010, we have put 173 retired individuals back on the payroll. This rehiring system is a win-win opportunity for retired employees as well as Rinnai. Individuals keen to remain in the workforce can do so, and their enthusiasm injects vitality into our operations.



● **Rehiring Ratio of Retired Rinnai Employees**
(Year ended March 31, 2010)



Strengthen Human Resources at Overseas Group Companies

Since our establishment, we have made the catchphrase “Quality is our destiny” the foundation of our policy on quality. We have emphasized *monozukuri*, in particular, in our commitment to quality and have encouraged companies throughout the Group to embrace the goals—integrated production and zero defects—that are so integral to the *monozukuri* ideal.

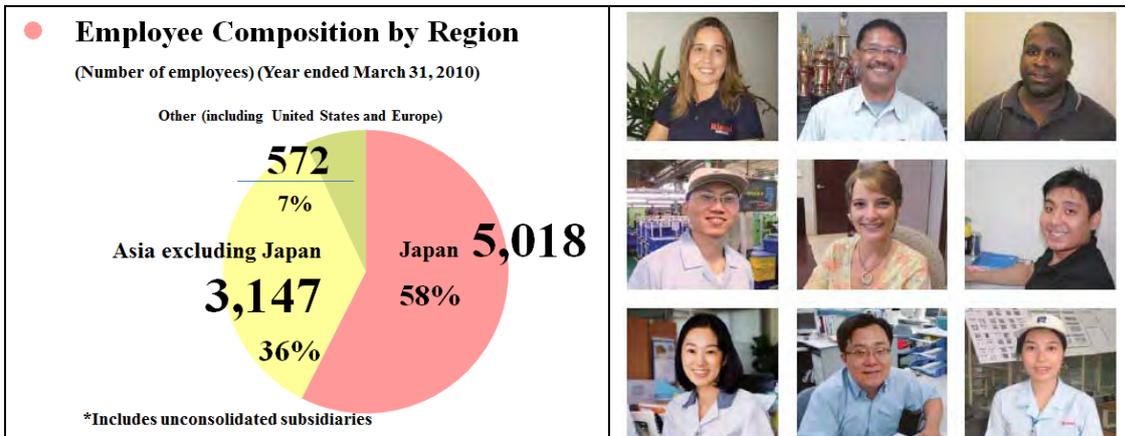
We invite employees from overseas subsidiaries to visit Japan for training to enhance their skills and thereby fortify our pool of excellent human resources. Training goes beyond the simple presentation of techniques from one generation of engineer to another to encompass the principles inherent in the Rinnai Spirit—our corporate philosophy—and nurture global talent for tackling business from a unified, groupwide perspective.

● Key Activities in Fiscal 2010

Training in Japan for engineers at overseas subsidiaries	21 people
 <p data-bbox="635 976 1289 1010">AOTS* overseas engineers' training at Seta Factory</p> <p data-bbox="233 1010 1023 1041">*AOTS is the Association for Overseas Technical Scholarship.</p>	

Creating Comfortable Work Environments Worldwide

Rinnai maintains an international presence through subsidiaries in 16 countries. To create comfortable lifestyles for customers in all regions, we must promote manufacturing, sales and service activities matched to local culture, customs and traditions. Therefore, the president and executive officers at each Group company are hired to these positions because they are qualified and capable. Nationality is not a factor. It is these individuals, with locally based knowledge and skills perfect for local operations, who run each company.



Creating Comfortable Workplace Environments

Good Labor Relations

We have concluded a collective agreement with the Rinnai Employees' Association—the union that acts on behalf of our employees—and regular negotiations and dialogue with executives through the Labor-Management Council and with the Personnel Affairs Division through the Personnel-Association Meeting on such issues as stable hiring, labor conditions, efforts to improve the workplace environment, and execution of such plans.

With mutual respect for each other's role and position and acknowledgement of the potential for differences of opinion, we—Rinnai and the Rinnai Employees' Association—resolve issues together and strive to sustain and promote good labor-management relations.

Support for Work-Life Balance

We strive to enrich our support for employees throughout their respective careers at Rinnai so that each person can balance work and private life according to personal lifestyle while actively traveling their chosen career path with a sense of fulfillment.

● Key Programs

In-house recruitment	Childcare leave
Disabled persons employment	Family-care leave
Come Back Program	Volunteering program

Voice

Childcare Leave Program Participant

I was conflicted for days before returning to work. I wanted to go to the office and get back to work, yet I felt lonely at the thought of being separated from my child. I was encouraged by friends who had been in the same boat, and when my child turned one and I returned to work, I did so with a new outlook.

I am eligible for the shortened work hours program and concentrate on my work in the daytime. This leaves my evenings and weekends free to make up for the time I am away from home, and my child and I have a wonderful time together.

I have so much to be thankful for: the support of my boss and my colleagues, the community of working mothers at Rinnai and the mechanisms, such as childcare leave and shortened work hours, that the Corporation has put in place to enable employees to manage work and family obligations. I also have the support of my family.



Kumiko Okada, Research & Development Headquarters

● **Key Program Participation in Fiscal 2010**

Childcare leave	22
Family-care leave	1
Shortened work hours	14
Work from home	1

Safeguarding the Personal Information of Employees

The personal information of employees is acquired and used, with consent, mainly for a specific purpose, and kept under lock and key, primarily by the Personnel Affairs Division. The personal information of job applicants is appropriately protected and used over a certain period of time, with consent, for a specific purpose.

Higher Pay for Employees on Overseas Assignments

To promote the creation of productive work environments, in fiscal 2010 we surveyed and interviewed employees who had been sent abroad to gather opinions on the personnel system and the salary and employment benefits system. Based on questionnaire and interview results, project teams have been set up in the Personnel Affairs Division and the Overseas Business Headquarters and a new salary and employment benefits system is being prepared.

Workplaces Welcoming to Women

A woman's perspective is indispensable to product development at Rinnai, and as a company, we truly value input from female employees. Women are actively involved in various corporate activities, including product development, design, manufacturing and marketing as well as management. We evaluate capabilities fairly and strive to shape business models and cultivate workplace environments that capitalize on traits typically associated with men or with women.

In recent years, more female employees are taking advantage of our job switch program to find an approach to work that fits their lifestyle.

We endeavor to create environments in which women can tackle their workplace responsibilities with determination and a positive attitude.



● **Key Program Participation in Fiscal 2010**

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Female ratio	47%	57%	36%	64%
Technical job	4 people	4 people	4 people	3 people
Marketing	3	15	11	3
Clerical job	52	49	21	32
Craft	35	58	49	69
Total	94 people	126 people	85 people	107 people

More-Rewarding Family Life

The Rinnai Employees' Association is the lead organizer of courses for employees on the themes "Education for the Soul" and "Passion for Life." These courses are intended to prepare people for the different stages that life will take them through, with a focus on ethics, communication skills, life planning and money matters.

Of the firm belief that a positive perspective on work is essentially a reflection of a happy home life, we encourage employees to take advantage of opportunities, such as barbecues and sports days, where they can gather as families with families. These events foster a sense of harmony among colleagues.



Sports festival in Chubu

Peace of Mind—Working in Safe and Secure Surroundings

Ensuring health and safety in the workplace is a top priority at Rinnai. All employees strive to maintain clean and safe office and factory environments and contribute to a vibrant atmosphere that is good for both body and soul.

Creating Safe Workplaces

Workplace safety is of paramount importance, taking precedence over all else. The safety of employees is our No. 1 priority and we have implemented several initiatives to ensure their well-being on site.

With the rising frequency of large-scale disasters at home and abroad, the Rinnai Group knows the importance of building a strong corporate structure to withstand crisis situations. Business continuity plans have been formulated and discussed, mainly by the Risk Management Committee, and efforts have been directed into disaster-prevention schemes, hinging on safety checks and enhanced maintenance of such environmental safety equipment as gas feeders and furnaces.

We require offices and factories throughout Japan to plan and implement safety programs, such as disaster prevention and evacuation drills, premised on scenarios of fire and explosions. We also constantly stress the importance of being prepared, especially efforts to anticipate potential crisis situations before they can happen and minimize damage and injury in the event they do transpire, as well as to avert a reoccurrence of accidents that have occurred.

Fiscal 2010 Basic Policy on Safety and Hygiene

- Make safety the top priority.
- Adhere to laws and in-house rules.
- Enrich health management and promote industrial health activities.

Fiscal 2010 Slogan

**You can make the workplace safer.
Learn to spot potential hazards to achieve zero accident status.**



Disaster prevention and evacuation drill at a factory

Status of On-the-Job Accidents and Injuries

In fiscal 2010, a total of 40 on-the-job accidents were reported. Many of these accidents involved employees with less than three years of work experience, so we shared the facts with the Safety and Health Committee and initiated measures to improve safety awareness among employees.

Information about accidents is provided to domestic Group companies as a way to prevent similar situations from arising.

Traffic Safety

Traffic rules simply must be observed, and we conduct various courses and awareness campaigns to—pardon the pun—drive home the importance of appropriate on-the-road behavior. We also have a driver certification program to license employees using company-owned vehicles and obligate drivers to report incidents, such as traffic accidents and violations, in an effort to raise safety awareness and put a end to traffic accidents. We take a particularly rigorous view of serious accidents and violations, disclosing details on our in-house portal site and implementing measures to ensure safe operation of vehicles.

Earthquake Response

To prepare for the possibility of a large-scale earthquake in Japan, we established Digital Numazu, an emergency earthquake warning system, and at least once a year we run a safety confirmation drill using telephone message services available through local telecommunications carriers.

We produced an action agenda for employees that describes the steps to take when an earthquake strikes. Copies have been distributed to all employees in Japan. The pocket-sized convenience of this action agenda makes it easy to carry around.



Support for Improved Health

We assume that all employees want to be more health-conscious and at least want to maintain if not improve their health. To assist employees in their respective approaches to good health, we provide regular checkups as well as annual physicals to catch illnesses as early as possible and embark on courses of treatment quickly if a health problem is discovered. We also cover specialized screening for lifestyle-related diseases and insurance for certain medical situations.

Lifestyle-related diseases appear to be on an increase. As a way to forestall—or better yet, prevent—the development of such ailments, we offer group classes on wholesome diets and good habits that boost a sluggish metabolism.

● Number of Participants at Key Workshops in Fiscal 2010

Workshop on lifestyle-related diseases	35 people
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Mental Health Care

A survey by Japan's Ministry of Health, Labor and Welfare revealed an upward trend over the last few years in the number of workers who feel considerable job-related anxiety, worry and stress. At Rinnai, we strive to cultivate a positive atmosphere in the workplace by caring for the mental health of employees as well as their physical well-being. This effort focuses on early stress detection and preventative measures.

In fiscal 2010, we held a mental health care workshop. The key objectives were to help employees recognize the stressors in their daily routines and become familiar with effective approaches to de-stress.



Workshop by occupational health officer

● Number of Participants at Key Workshops in Fiscal 2010

Workshop on mental health care	405 people
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Social Report

With Our Shareholders and Investors

We disclose fair and impartial information in a timely and appropriate manner, and through open channels to shareholders and investors we pursue investor relations (IR) activities that foster greater trust.

Fiscal 2010 Goals	Fiscal 2010 Achievements	Fiscal 2011 Goals
<ul style="list-style-type: none"> • Ensure appropriate information disclosure for shareholders and investors. 	<ul style="list-style-type: none"> • Implemented IR information meeting in the Kanto and Chubu districts, centered on Tokyo and Nagoya, respectively. • Uploaded information to the Rinnai website in a timely manner. 	<ul style="list-style-type: none"> • Enhance information access and maintain continuous disclosure of pertinent information to shareholders and investors.

Basic Concept

The underlying policy that guides us in our IR pursuits is to accurately and impartially provide pertinent information about Rinnai to shareholders and investors whenever necessary.

Naturally, this policy applies to the disclosure of business results and financial information. It also underpins efforts to provide information on other aspects of business, including expansion abroad, environmental activities and future growth strategies.

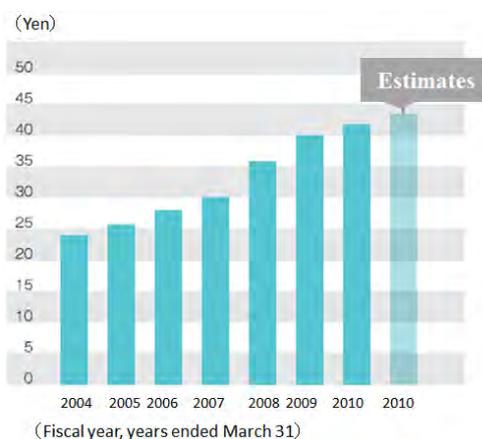
In addition, we feel communication with shareholders and investors is essential to deepen stakeholders' understanding of our business pursuits and reinforce our stellar reputation in the market. Toward this end, we utilize such conduits as general shareholders' meetings and investor information meetings to lay the groundwork for good communication.

Emphasis on Stable Dividend

One of our top management priorities is to sustain a stable return of profits to shareholders. Several factors play into the calculation of dividends, such as consolidated performance, return on equity and financial status.

Seeking to enhance corporate value, management looks at retained earnings with a view to the long term, effectively applying this source of capital toward R&D, capital spending and investments accompanying the expansion of sales at home and abroad.

The annual dividend for fiscal 2010 was ¥42 per share, up ¥2 per share from fiscal 2009. This marked the seventh consecutive year of higher dividends.



Timely, Fair Disclosure

We produce various IR tools and disclose assorted information to broaden shareholder and investor perceptions about our operations and our results.

We issue press releases that are picked up by mass media, and we publish shareholder-oriented documents, such as *Jigyō Hokokusho*—a Japanese-language business report.

We keep adding to the IR menu on our website, updating with the right materials at the right time. Visitors to the website will find financial statements, shareholder notices and other results-related materials, many of which have been translated into English as well.

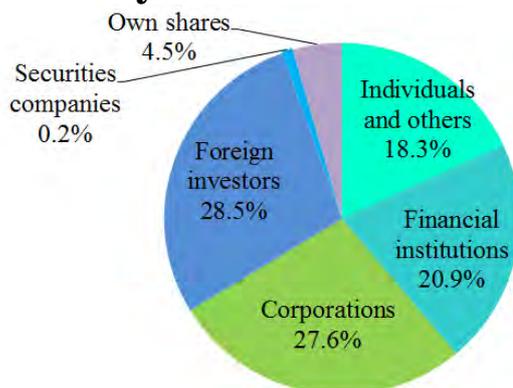


General Shareholders' Meetings

To encourage more shareholders to get fully involved in discussions about agenda items put before the general shareholders' meeting and to draw more shareholders to the meetings, we send out the convocation notice three weeks in advance of each annual meeting.

In addition, since the foreign shareholding ratio is close to 30%, we upload an English-language translation of the convocation notice to our website on the same day that the Japanese original is released to ensure that all shareholders have equitable and expeditious access to pertinent information. Resolutions achieved at the general meeting of shareholders are also available on our website, in both English and Japanese.

Shares by shareholder



Share Information

(As of March 31, 2010)

Number of authorized shares:

200,000,000 shares

Number of outstanding shares:

54,216,463 (Including treasury stock)

Number of shareholders: 3,757

Communication Practices that Deepen Trust and Understanding

Communication with Global Institutional Investors and Analysts

Twice a year, for the announcement of second-quarter and fiscal year-end settlements, the president and other executive officers lead debriefings for institutional investors and analysts.

We also hold information meetings for overseas investors and actively promote events, such as factory tours, that allow participants to learn more about the Rinnai Group. Keeping lines of communication open on a smaller scale, we accept requests for story interviews and meetings with institutional investors and analysts.

We also disclose information to the media and utilize these conduits as supplementary access routes to shareholders and investors.

● Principal IR activities in Fiscal 2010

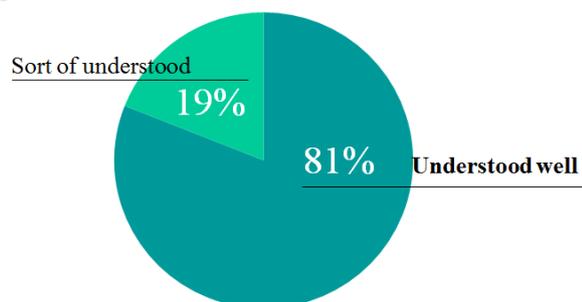
IR activities	Number of activities held	Total number of attendance
Information meeting	2 times	176 persons
Individual meeting	77	127
Interview	31	35
Telephone meeting	12	14
Small meeting	10	69
Analyst IR events	1	11
Total	133	432

Factory Tours

To enable individual investors to see what takes place on the factory floor, we joined Toho Gas Co., Ltd., in holding a factory tour combined with an IR presentation. These double-feature events have taken place since 2007 and are always well-received. A prime example of the positive participant reactions we receive is this comment: “Very informative. I came away with first-hand visuals of the manufacturing processes and overall quality control that goes into products I use on a daily basis as well as facts, such as performance figures and management plans.”



Combined Factory Tour and Information Meeting
Questionnaire Results in December 2009



Note: The questionnaire did not include the response “Did not understand.”

Communication with Individual Investors

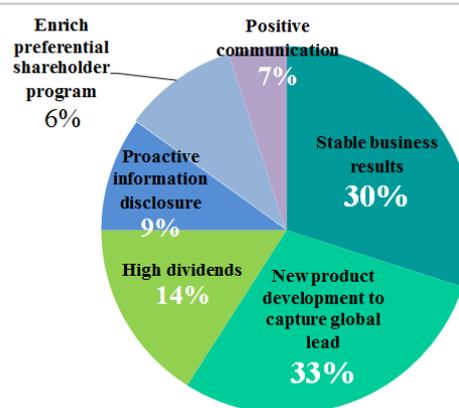
We promote IR activities highlighting direct contact with individual investors. In fiscal 2010, we participated in IR fairs for individual investors in two cities, Tokyo and Nagoya. These events provided opportunities for explaining business results and management strategies. In addition, through question-and-answer dialogue prompted by new products on display and panels showcasing overseas operations, a wide range of investors were able to learn more about our activities.



Questionnaires for Individual Investors

We send out questionnaires to individual investors who have attended an information meeting. The responses—valuable sources of insight into how Rinnai is perceived by this investor segment—are objectively analyzed and the results used as a guide to reinforce corporate value in line with the expectations of all shareholders.

Questionnaire Results in December 2009



Tapped for the FTSE4Good Index Series

In the operation of funds, such as investment trusts, socially responsible investment (SRI) has attracted considerable attention. SRI managers not only assess a target company's financial conditions and growth prospects but also its ability to meet globally recognized corporate responsibility standards in such areas as the environment, the community and human rights.

The FTSE4Good Index Series is one of the world's most widely known SRI indices and facilitates investment in companies that satisfy established CSR standards. Rinnai has been selected for inclusion in this series every year since 2004.



Social Report

Corporate Citizenship

Corporate philanthropy is a global pursuit at Rinnai, with activities closely tied to the communities in which we maintain a presence.

Positive Learning Environment for the Leaders of Tomorrow



Construction of Rinnai Xiwang Elementary School in China's Anhui Province

As a participant in the Shanghai City Xiwang (Wish) Project, Shanghai Rinnai Co., Ltd., sponsored construction of the Rinnai Xiwang Elementary School. The school-building project was undertaken with a 500,000 yuan contribution from Shanghai Rinnai and a grant from the Huoshan County, where the school is located.

Construction, which began in September 2009, wrapped up in spring 2010. Representatives from Shanghai Rinnai attended the opening ceremony on April 13, 2010, and handed out learning-oriented presents, such as school supplies for the children and teaching materials for the instructors

The investment provides a wonderful improvement in the learning environment for the local children. The school has seating for about 300 students. The building also features a dormitory, with space for more than 100 children, as well as a cafeteria, library and an IT classroom with computers, projectors and other equipment.

We will continue to support the development of children wherever the right opportunity presents itself because children ensure the world's tomorrow.

Support for Victims of Disaster

Donations

We promote fund-raising activities at Rinnai locations around the world in support of Red Cross programs that contribute to relief efforts benefitting victims of disaster. Rinnai (Thailand) Co., Ltd., raised 100,000 baht in a local donation drive for the Red Cross to help the many people of Haiti left injured and homeless by the massive earthquake on January 12, 2010.



Help in Italy

A devastating earthquake hit the region of Abruzzo in central Italy in April 2009, and Rinnai Italia S.r.l. responded with a No. 24 condensing hot-water unit for a temporary shelter set up to accommodate those left homeless by the disaster.

We maintain contact with industry organizations in all regions where we have a presence so that when disaster strikes we are able to assist in relief efforts.



Communicating with Students

Technology and Vocational Studies

Representatives from Rinnai America were invited to a local high school to give a presentation to the vocational studies class on tankless technology and energy-efficient water heating.



Factory Tour for Elementary School Students

To encourage interaction with the local community, we invite school children to visit a nearby Rinnai factory for a tour. This is a wonderful opportunity for youngsters to see a manufacturing facility up close and learn about the products coming off the production lines. Teachers use the tour as part of the social studies class.



In Touch with the Community

Through regular meetings with citizens living near our factories and participation in events organized by the local government, we open lines of communication with our neighbors.



Taking Part in Disaster-Prevention Activities

All places of business pursue various activities designed to show Rinnai's helping hand in fire- and disaster-prevention initiatives within the communities where the Corporation operates.

In May 2009, an apartment fire broke out near our office in the city of Akita, Akita Prefecture, and employees responded quickly to give first-aid and douse the flames. These efforts were credited with keeping damage to a minimum and honored with a commendation from the Akita Fire Department.



In-house fire-fighting team at the Kanto Branch.



Commendation received from Akita Fire Department.
Photo courtesy of Akita Sakigake Shimpo.

Support for Sports and Culture

Rinnai supports events that foster international exchange in the arts and culture, including co-sponsorship of the Nagoya Philharmonic Orchestra and the Nagoya Boys and Girls Invention Club, and sports, including sponsorship of a local soccer team.



Going Green

Rinnai has promoted the Home Greening Project since 2008 as a way to curb global warming. The project, now in its third year, attracts the interest of many people every year.

Under this project, we present a set of two blueberry bushes to 3,000 individuals selected from all over Japan. Growing blueberries together, we can reduce carbon dioxide in the atmosphere.

身近なところからストップ温暖化

Home 緑化
プロジェクト 2010



Environmental Report

Environmental Policy

Mindful of the fact that the world's environmental problems are a priority for management at any company these days, Rinnai leads the Rinnai Group in pursuing business activities that will support social sustainability through concurrent efforts to protect the environment and generate public good.

Toward this end, we set specific targets to gauge the success of our environmental policy, emphasizing environmentally conscious product development and *monozukuri*, and strive to reinforce environment-oriented activities.

Basic Philosophy on the Environment

Rinnai's basic philosophy is to embrace environmental protection on a global scale and contribute to society through the pursuit of excellent, people- and planet-friendly technology, and product development, production, sales and service infused with a sense of humanity.

Environmental Slogan

“Our actions are imbued by the wisdom of many and undertaken with due consideration to the sustainability of a people- and earth-friendly environment.”

Basic Environmental Policy	
1. Provide environmentally conscious products that have minimal impact on the environment.	Through the diligent pursuit of product development stressing reduced consumption of resources and energy and higher recycling rates as well as eco-minded materials procurement (E-Procurement), we will provide environmentally conscious products (E-Products) that have minimal impact on the environment and contribute to a healthier planet.
2. Create green factories and offices with the environment in mind.	We will emphasize activities that save energy, reduce waste and limit or eliminate hazardous chemical substances, and we will work toward the establishment of environmentally sustainable factories and offices—E-Factory and E-Office—that fit in with the natural surroundings.
3. Consider how sales and service activities might affect the environment.	We will reduce the impact that sales (E-Marketing), services (E-Service) and other business activities in general might have on the environment.
4. Formulate an environmental management system and continuously improve it.	We will formulate an environmental management system and continuously enhance its scope through the establishment and management of appropriate environmental objectives and targets.
5. Ensure activities are in compliance with regulations and restrictions, including laws, and self-established standards.	Obviously, we will abide by laws, ordinances, agreements and other regulations and restrictions, but we will also set and adhere to self-established standards corresponding to social demands. We will always strive to enhance our response to meet revised regulations and evolving standards.
6. Raise environmental awareness among employees and work with communities to contribute to society.	We will raise environmental awareness among all employees through environment-themed training, and we will promote activities undertaken jointly with regional communities and other groups to achieve public good. This perspective is called e-mind.
7. Disclose information to employees and the communities in which we work.	We will disclose environment-related information, such as policies and strategies, to keep employees and society at large in the loop about our perspectives and actions on environmental issues.

Basic Environmental Activities

“7E” Strategic Initiatives

Green Activities Involving All Employees in All Business Areas

A green perspective infuses our actions. Under the Rinnai umbrella, employees with a high sense of environmental awareness uphold a corporate mission to create environmentally conscious products at green factories and provide these products to customers confident that every effort has been made to protect the environment.

As a *monozukuri*-driven company with a long history in manufacturing operations, we apply this green perspective to the entire lifecycle of our products—from product development to procurement of materials and components and on through production and then sales, use and disposal—through fine-tuned “7E” strategic initiatives.

These 7Es are E-Procurement; E-Factory, which engage in *monozukuri* activities; E-Products, made at these factories; E-Marketing, the sale of products; E-Service, of products used by customers; E-Office, where administration activities take place; and E-Mind, that is, our employees, without whom the business would not run.



<p>1. E-Products • Priority Focus Develop environmentally conscious products.</p>	
<p>2. E-Procurement • Priority Focus Promote green procurement.</p>	
<p>3. E-Factory • Priority Focus Promote activities with reduced environmental impact.</p>	
<p>4. E-Marketing • Priority Focus Sell environmentally conscious products. Encourage customers to be more environmentally aware.</p>	
<p>5. E-Service • Priority Focus Emphasize environmentally conscious service activities.</p>	
<p>6. E-Office • Priority Focus Promote office activities that are friendly to the environment.</p>	
<p>7. E-Mind • Priority Focus Initiate environmental education and awareness programs. Distribute environment-themed information. Get involved in activities that contribute to the community.</p>	

Environment-Oriented Activities

Takashi Hasegawa, Chief Manager, Environment Division

The Environment Division came to life in 1999, and the 11 years since then have passed so quickly. I recall the division's early days with such a sense of nostalgia. I was assigned to get the division up and running, frame a concept for the division, and present a direction for environmental activities at Rinnai to the directors, including the current president, who were responsible for the Corporation's environmental responses.

To give environment management tangible form, I pushed for ISO 14001 certification for the whole company and expanded the scope of strategic activities from the initial 3Es to 7Es, covering all areas of corporate activity.

Lately, I often hear top management say that environmental activities "are vital in fulfilling social responsibilities but also offer tremendous business potential, and so we must enthusiastically engage in such activities." I am keenly aware of the responsibility.

With global warming at the top of the list of environmental issues growing more serious with every passing day, the Environment Division's role seems to be expanding to ensure Rinnai can contribute to effective solutions. Taking a corporate perspective, all employees naturally feel that corporate growth is the No. 1 priority, but I'm sure they also take pride in the environmental activities undertaken by their company. This is especially true with environmental issues, such as global warming, which demand measures transcending national, corporate and personal interests and require corporate citizens to do as much as possible to address these issues.

How long can Japan—a country reliant upon other countries for energy and natural resources—survive if the people don't acquire environmentally sound habits? To ensure Japan's continued existence and a future for our children, society must welcome change. People must significantly modify their lifestyles.

For myself, my young grandchildren are a constant reminder to me about the future. I watch them grow and wonder what kind of world they will inherit. So I will work along with everyone in the Environment Division to raise the quality of environmental activities at Rinnai and help the Corporation make the kind of contribution that a company, trusted by customers and society as a whole, is expected to make for a sustainable future.



Environmental Management System

Rinnai maintains an environmental management system based on ISO 14001.

We effectively utilize this management system and constantly strive to promote environment management practices aimed at environmentally conscious *monozukuri* and to raise environmental performance. Our goal is to contribute to the formation of a society capable of sustainable development.

The Rinnai Group maintains an environmental management system.

To underpin the systematic and continuous development of environment-oriented activities in line with our stated basic environmental policy, we encourage all members of the Rinnai Group to embrace efforts to acquire and maintain ISO 14001 certification. Most recently, in May 2010 the Kansai Branch, a marketing and sales division, and the Logistics Control Office, which coordinates product distribution, obtained certification. We will encourage other domestic marketing and sales offices as well as overseas subsidiaries to work toward certification, which will serve to reinforce our environmental résumé still further.

● Newly certified for ISO 14001 status



● ISO 14001 Environmental management system Certification Status

Certified offices	Certificated year/month	Certified offices	Certificated year/month
Rinnai Corporation		Domestic Group Companies	
Research & Development Headquarters	Oct. 1997	Rinnai Technica Co., Ltd.	Dec. 2003
Production Engineering Division	Oct. 1997	Yanagisawa Manufacturing Co., Ltd.	June 2004
Oguchi Factory	Oct. 1997	Rinnai Precision Co., Ltd.	Dec. 2005
Seto Factory	Dec. 2000	Japan Ceramics Co., Ltd.	Jan. 2006
Environment Division	Dec. 2000	RT Engineering Co., Ltd.	Mar. 2006
Aichi Factory	Nov. 2003	RB Controls Co., Ltd.	Mar. 2006
Asahi Factory	Nov. 2003	Noto Tech Co., Ltd.	Jan. 2007
Quality Assurance Headquarters	Nov. 2003	Overseas Group Companies	
Head Office	Dec. 2008	Rinnai Korea Corporation	July 1997
Kansai Branch	May 2010	RB Korea Ltd.	Oct. 2006
Logistic Control Office	May 2010	Shanghai Rinnai Co., Ltd.	Dec. 2008

Environmental Activities Structure

The Environment Management Committee guides corporate efforts to achieve targets based on environmental policy. This committee is chaired by the executive officer responsible for the environment and has the participation of representatives from all divisions. Its mandate is to promote environment-oriented activities from a big-picture view.



Environment Management Activities

The Environment Management Committee spreads the word about environmental policy and medium- to long-term objectives at Rinnai. In line with annual plans, we promote concrete activities. We review our objectives as necessary and diligently strive to meet our targets.

Each division has a liaison group and holds routine meetings to discuss environment-related themes and make issues known to everyone in the respective division.



Environment Management Committee



Environment Meeting (Seto Factory)

Environmental Audits

External Audits

The ISO 14011 Certification Division undergoes a routine audit, once a year, by an external screening/registration body to verify that the environmental management system is being properly applied. The routine audit in fiscal 2010 did not turn up any major non-conformances.



External audit

Internal Audits

Auditing team, comprising impartial internal auditors chosen from within the Corporation who have no direct connection to the division under audit, assess conformity to the established environmental management system and review division activities. Auditors visit worksites of divisions tapped for an audit and perform detailed inspections. Direct contact between auditors and divisions facilitates greater understanding of division activities and auditor concerns.

Internal audits in fiscal 2010 found no major non-conformances. There were 13 opportunities for improvement and 51 observations. We swiftly addressed these areas to ensure that they would not develop into problems later on.



Start of an internal audit

Environmental Training

Internal Auditor Training

Internal auditors play a significant role over and above their efforts to continuously improve the environmental management system. To upgrade the skills of internal auditors, we conduct regular training by in-house instructors on such topics as laws and ordinances, internal regulations, internal audit observations and improvement measures, and environment-oriented trends. In fiscal 2010, the courses drew 81 participants.



Internal auditor training

Eco-Leader Course

In every divisions, we offer an eco-leader course aimed at developing the skills of environment managers who independently and energetically promote environmental activities. The one-day course is presented by in-house and guest instructors and covers a wide range of points, from environmental management basics to concrete examples. In fiscal 2010, the course was attended by 21 people, including employees from affiliated companies.



Environment basics course by an in-house instructor



Environment game led by a guest instructor

Enhancing Global Environment Management: Creating an environmental management system with our business partners	
Chemical Management Project	
<p>All over the world, governments are implementing tougher restrictions on chemicals, and manufacturers are increasingly required to monitor their use of chemicals used during production stages and the chemical content in finished products. Chemical substances are known to present certain risks, depending on the harm they could inflict. It is important to identify such information.</p> <p>In Europe, especially, manufacturers must adhere to strict regulations, such as the Reduction of Hazardous Substances (RoHS) Directive and Registration, Evaluation, Authorisation and restriction of CHEMicals (REACH).</p> <p>As a collection of companies, the Rinnai Group must assumed a unified approach in managing information on the chemicals contained in its products. We must properly address laws and regulations at home and abroad and respond accurately to requests from customers on the chemicals found in our products.</p> <p>Chemical substances are a critical key component of quality control. They are unseen yet require monitoring. Members of the Chemical Management Project promote activities to establish and further strengthen the platform for chemical management.</p>	
Information Meeting	
<p>Everything, from components made in-house and externally to purchased products, is subject to chemical management, and the process requires close contact between suppliers and members of the Rinnai Group. To facilitate efforts, we hold information meetings and encourage opportunities to strengthen our cooperative relationship.</p>	 <p>Information meeting for suppliers run by the Chemical Management Project</p>
<p><small>*RoHS Directive: A European Union-initiated directive calling for the near-elimination of certain hazardous substances found in electrical and electronic equipment. Since July 1, 2006, restrictions have been placed on electrical and electronic equipment entering EU markets, effectively banning products that contain more than the permitted levels of lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls and polybrominated diphenyl ethers. *REACH: Rules that obligate industry to register, evaluate and authorize chemicals manufactured in the member nations of the European Union or imported to these nations.</small></p>	

Fiscal 2010 Environmental Action Plan and Results

Rinnai lists herewith the targets for key activities—environment management and the 7Es (E-Products, E-Procurement, E-Factory, E-Marketing, E-Service, E-Office and E-Mind)—and the results achieved, as well as an assessment of progress toward respective goals.

Activity	Fiscal 2010 Target	Fiscal 2010 Achievement	Progress	Related Content
Environmental management system	<ul style="list-style-type: none"> • ISO 14001 certification for two divisions—a marketing and sales office and the Logistics Control Office (Logistics Center). 	<ul style="list-style-type: none"> • ISO 14001 certification obtained for two divisions—Kansai Branch and Logistics Control Office (Logistics Center). 	○	P37

E-Products

Prevent global warming	<ul style="list-style-type: none"> • Ongoing development of products exceeding energy-saving standard. - Condensing hot-water units (for overseas) - Table stoves - Built-in stoves • Development of fan-forced gas heater for overseas market. 	<ul style="list-style-type: none"> • Developed products exceeding energy-saving standard. - Table stoves, built-in stoves - Condensing hot-water units (for overseas) - Commercial-use stoves • Developed fan-forced gas heater for overseas market. 	○	P15 P16 P22 P42 P43
Prevent air pollution	<ul style="list-style-type: none"> • Continue development of low-NOx hot-water units. 	<ul style="list-style-type: none"> • Developed low-NOx condensing hot-water unit. 	○	P42 P43
Reduce resource consumption, promote recycling	<ul style="list-style-type: none"> • Implement product assessments. • Develop lighter-weight condensing bath water unit. 	<ul style="list-style-type: none"> • Implemented product assessments. • Developed lighter-weight condensing bath water unit. 	○	P22 P42 P43

E-Procurement

Green procurement	<ul style="list-style-type: none"> • Develop green products. (Promote use of materials conforming to E-Procurement Standard.) • Enhance green procurement management (chemical management). 	<ul style="list-style-type: none"> • Procured and used materials in accordance with E-Procurement Standard. • Strengthened platform through chemical management project activities. 	○	P25 P26 P38
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E-Factory

Prevent global warming	<ul style="list-style-type: none"> • Push total CO₂ emissions below 93% of fiscal 1999 level. 	<ul style="list-style-type: none"> • CO₂ emissions reached 92.2% of fiscal 1999 level. Total CO₂ emissions down 6.8% over previous year. 	○	P45 P47
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Reduce waste	<ul style="list-style-type: none"> • Sustain/improve zero emission status to boost recycling rate above 99.5%. • Promote strategies in line with waste reduction plans at each location. 	<ul style="list-style-type: none"> • Zero emissions: Average recycling rate hit 99.9%. • Waste: Aggregate amount from all facilities down by 536 tons. 	○	P45 P48
Reduce hazardous chemical substances	<ul style="list-style-type: none"> • Promote strategies in line with hazardous chemical reduction plans at each location. 	<ul style="list-style-type: none"> • Aggregate amount from all facilities down by 23 tons. 	○	P48

E-Marketing, E-Service

Expand sales of high-efficiency products	<ul style="list-style-type: none"> • Aim to sell 160,000 <i>Eco-Jozu</i> high-efficiency hot-water units, which would contribute to CO₂ emission decrease of about 23,000t-CO₂/year. 	<ul style="list-style-type: none"> • Sold 145,000 <i>Eco-Jozu</i> high-efficiency hot-water units, contributing to a CO₂ emission decrease of 21,000t-CO₂/year. 	△	P22
Provide information on environmentally conscious products	<ul style="list-style-type: none"> • Showcase such products at trade shows. • Create and distribute catalogs, flyers and pamphlets. 	<ul style="list-style-type: none"> • Introduced and developed awareness of such products at trade shows. • Created and distributed catalogs, flyers and pamphlets. 	○	P24

E-Office

Green purchasing	<ul style="list-style-type: none"> • Sustain green purchasing rate above 95% for office supplies and office automation equipment. 	<ul style="list-style-type: none"> • Achieved green purchasing rate of 98.9%. 	○	—
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E-Mind, Other

Environmental information disclosure	<ul style="list-style-type: none"> • Issue Social & Environmental Report for fiscal 2010. • Post environment-oriented information on the Rinnai website. 	<ul style="list-style-type: none"> • Issued Social & Environmental Report for fiscal 2010 in September 2010. • Uploaded environment-oriented information on the Rinnai website in September 2010. 	○	P1 P2
Environmental education and awareness	<ul style="list-style-type: none"> • Promote various educational activities in line with fiscal 2010 plans for the Corporation and all its places of business. 	<ul style="list-style-type: none"> • Implemented several programs, including class for new employees, classes geared to job position, and internal auditor-oriented classes not only to develop the skills of people new to this process but also for experienced auditors and chief auditors. 	○	P27 P28 P38

*Progress rating ○: Achieved △: Not achieved X: Not implemented

Fiscal 2011 Environmental Action Plan

We always assume a new perspective in working toward new targets. In fiscal 2011, all head office divisions and all companies under the Group umbrella will promote environmental activities designed to take us further ahead on the environmental road. We aim to expand our environmental management system and enhance our environmental performance.

Activity	Basic Action Plan	Fiscal 2011 Target
Environmental management system	<ul style="list-style-type: none"> • Build a groupwide environmental management system and improve environmental performance through cooperative activities. 	<ul style="list-style-type: none"> • Acquire ISO 14001 certification for one branch and one sales office as well as three parts centers.

E-Products

Prevent global warming	<ul style="list-style-type: none"> • Push <i>Eco-Jozu</i> as the de facto standard, emphasize measures to reduce stand-by and in-use power consumption, and constantly develop energy-saving, industry-leading products. 	<ul style="list-style-type: none"> • Develop high-efficiency appliances. <ul style="list-style-type: none"> - Condensing heat source products for the domestic and overseas markets - Remote controls with energy-saving display function • Reduce stand-by power consumption. <ul style="list-style-type: none"> - <i>Yukko Eco-Jozu</i>, and full-scale <i>Eco-Jozu</i> hot-water and heating system
Prevent air pollution	<ul style="list-style-type: none"> • Develop low-NOx products. 	<ul style="list-style-type: none"> • Develop low NOx condensing hot-water heater for overseas markets.
Reduce resource consumption, promote recycling	<ul style="list-style-type: none"> • Save resources by making products and components smaller and more lightweight, and strive to develop products conducive to resource-recycling. 	<ul style="list-style-type: none"> • Implement product assessments. • Develop lightweight condensing products. <ul style="list-style-type: none"> - <i>Yukko Eco-Jozu</i>, and full-scale <i>Eco-Jozu</i> hot-water and heating system • Develop products that conserve water and cut running costs.

E-Procurement

Green procurement	<ul style="list-style-type: none"> • Work with suppliers and Group companies and promote procurement of parts with an environmental perspective highlighting resource-saving, energy-saving and recycling potential. 	<ul style="list-style-type: none"> • Green product development. (Promote use of materials conforming to E-Procurement Standard) • Enhance green procurement management (chemical management).
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E-Factory

Prevent global warming	<ul style="list-style-type: none"> • Reduce total CO₂ emissions more than 10%, based on fiscal 1999 level, by March 31, 2011. 	<ul style="list-style-type: none"> • Push total CO₂ emissions below 90% of fiscal 1999 level.
Reduce waste	<ul style="list-style-type: none"> • Sustain zero emission status and reduce total waste output by more than 15%, based on fiscal 2003 level, by March 31 2011. 	<ul style="list-style-type: none"> • Sustain/improve zero emission status to boost recycling rate above 99.5%. • Promote strategies in line with waste reduction plans at each location.
Reduce hazardous chemical substances	<ul style="list-style-type: none"> • Continuously strive to enhance the management system for chemicals used in manufacturing processes and ban or at least reduce the use of hazardous chemical substances. 	<ul style="list-style-type: none"> • Reduce volume of hazardous chemical substances—as listed on the Pollutant Release and Transfer Register—by 50%, based on the fiscal 2002 level.

E-Marketing, E-Service

Expand sales of high-efficiency products	<ul style="list-style-type: none"> Expand sales of high-efficiency products. Cut CO₂ emissions from hot-water units between fiscal 2009 and fiscal 2011 by an aggregate 68,000t-CO₂/year through use of <i>Eco-Jozu</i> and hybrid hot-water units. 	<ul style="list-style-type: none"> Cut CO₂ emissions from hot-water units by 31,000t-CO₂/year.
Provide information on environmentally conscious products	<ul style="list-style-type: none"> Provide information at trade shows and in printed materials, such as catalogs, flyers and pamphlets. 	<ul style="list-style-type: none"> Introduce and promote awareness of environmentally conscious products at trade shows. Create and distribute catalogs, flyers and pamphlets.

E-Office

Green purchasing	<ul style="list-style-type: none"> Set green purchasing rate above 95% for office supplies and office automation equipment. 	<ul style="list-style-type: none"> Sustain green purchasing rate above 95% for office supplies and office automation equipment.
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E-Mind, Other

Environmental information disclosure	<ul style="list-style-type: none"> Utilize Social & Environmental Report and Rinnai website to spotlight environmental activities and present environment-oriented information. 	<ul style="list-style-type: none"> Issue Social & Environmental Report for fiscal 2011. Upload environment-oriented information to the Rinnai website.
Environmental education and awareness	<ul style="list-style-type: none"> Enthusiastically promote environmental education and awareness activities to employees and continuously enhance environmental consciousness. 	<ul style="list-style-type: none"> Promote various educational activities in line with fiscal 2011 plans for the Corporation and all its places of business.

Environmental Accounting

To realize continuous growth while promoting environmental management, we must accurately quantify the cost of environmental protection and the results achieved. We must also ensure that our approaches are effective through appropriate allocation of management resources. We utilize guidelines set by Japan's Ministry of the Environment as the tools in executing these tasks.

We offer environmental accounting on the cost of environmental protection, the results achieved and the value of economic benefit derived.

- (1) Scope of accounting Rinnai Corporation
 (2) Period of accounting April 1, 2009 to March 31, 2010

(Unit: Ten thousand yen)

Breakdown of Costs for Environmental Protection		Key Activities	Costs
In the scope of operations	Pollution prevention	Mainly efforts to prevent air and water pollution	3,473
	Environmental protection	Mainly efforts to save energy	1,153
	Resource recycling	Recycling as well as treatment and disposal of industrial waste	3,174
Upstream/downstream		Collection/recycling and volume/weight reduction of materials such as product packaging	425
Management activities		Mainly monitoring and surveillance of environmental impact	7,692
Research and development		R&D on environmentally conscious products addressing energy- and resource-saving features and reduction and/or elimination of hazardous chemical substances	116,846
Community efforts		Mainly community activities and beautification/greening at places of business and surrounding areas	199
Total			132,962

- About environmental protection costs**
- R&D costs are associated with the development of environment-related, leading-edge technologies and products for the gas appliance market as well as products that, based on Rinnai's standards, mark an improvement over existing products.
 - Costs covering other applications, which include non-environment-oriented activities, are apportioned according to internal rules.
 - The calculations above exclude depreciation and amortization expense.

Success of Environmental Protection Efforts	Item		Content	Environmental Impact Reduction
	On-site results		Saving energy reduced greenhouse gases	504t-CO ₂ /year
	Upstream/downstream results	Environmental impact reduction through use of products	Low-NOx products reduced NOx	45t/year
			High-efficiency products reduced CO ₂	79,519t-CO ₂ /year

About success of environmental protection efforts

- The success of environmental protection efforts through energy-saving efforts and waste reduction is not a change in overall volume but rather the assumed effect achieved through associated activities.
- The success of environmental protection efforts through the use of products with the capacity to reduce environmental impact is not an industry result but rather a year-on-year comparison based on Rinnai's sales of such products. We determined these estimates based on annual volume over normal usage.

(Unit: Ten thousand yen)

Economic Effects Accompanying Environmental Protection Measures	Item	Economic Effect
	Costs cut through energy-savings and waste reduction	1,950

Economic effect

- The economic effects achieved through energy-savings and waste reduction are not increases or decreases in overall costs but rather an effective amount regarded for its economic benefit through the associated activities.
- Deemed effects, such as avoiding risks and enhanced product sales, fall outside the scope of economic effects because the standard for evaluation is too vague.
- External economic effects, derived mainly through products that reduce environmental impact, also fall outside the scope of economic effects because the results are too difficult to pinpoint.

Topics Rinnai Group Environment Awards Programs	
<p>Seeking to invigorate environmental protection and resource conservation activities and promote access to excellent approaches within the Group, we established the Environment Prize and the Environment Contribution Prize, effective from fiscal 2011. These awards programs recognize activities undertaken by domestic companies under the Rinnai umbrella to protect the environment and conserve resources over a one-year period.</p>	
<p>Environment Prize In-house environmental activities</p>	<p>Environment Contribution Prize External environmental activities</p>
<p>A total of 62 entries have been submitted by domestic Group companies for the inaugural Environment Prize and Environment Contribution Prize. They include approaches that contribute to reduced environmental impact, primarily by decreasing the amount of water and energy consumed by products in use at the consumer level, as well as social philanthropy emphasizing joint efforts with non-profit organizations and other like-minded partners. All highlight activities that deliver environment-friendly results on a daily basis.</p> <p style="text-align: center;">The screening process, now under way, will narrow the nomination pool to 15 entries, from which the grand prize winner will be selected.</p>	



Developing Environmentally Conscious Products

Product Development

Environmentally conscious design addresses such issues as measures to prevent global warming, to facilitate resource recycling, and to reduce the use of substances that have a negative impact on the environment. Based on this perspective and guided by the keywords safety, peace of mind, comfort and convenience, we pursue the development and design of products that contribute to comfortable lifestyles for our customers.

Efforts to Save Energy and Resources

Hybrid Hot-Water/Heating Unit 	
<ul style="list-style-type: none"> ● Optimum energy mix ● Energy efficiency ratio of 121% 	
High-efficiency gas hot-water/heating unit <i>Eco-Jozu</i> (Efficiency ratio: 90%)	+ Air-source heat pump (Actual operating efficiency: 400%)
<p>*The combination of <i>Eco-Jozu</i> and a heat pump delivers a primary energy efficiency ratio of 121%, marking the industry's first hot-water/heating system surpassing energy efficiency of 100%.</p>	

Eco-Jozu Series 			
Hot-water/heating unit RVD-E Series		Combi boiler RUF-E Series	
			
RVD-2400AW2-1		RUF-E2400AW	
Lighter weight	45kg → 34kg	Bathwater heating efficiency	82% → 92%
Smaller (height) Stand-by power consumption	75cm → 60cm	Lighter weight	Hot-water heating efficiency: 95%
	About 50% reduction (compared with existing Rinnai products)		35kg → 31kg (compared with existing Rinnai products)

<p>Bathroom Heater/Dryers</p> 	
<p><i>RBHM-C415K3U</i> Added an eco-dryer function to the bathroom heater/dryer that detects bathroom humidity, determines drying time and stops automatically. *Eco-dryer function: Reduces energy consumption by drying clothes slowly in cool-breeze mode and then finishing off in dryer mode.</p>	

<p>Commercial-Use High-Speed Oven</p> 	<p>Commercial-Use Tabletop Gas Stove</p> 
<p><i>RCK-10AS</i></p>	<p><i>RSB-096SV/127SV</i></p>
<p>Stand-by power consumption</p>	<p>Energy efficiency ratio</p>
<p>0W (4W with conventional model)</p>	<p>38% (compared with 34% for conventional model)</p>
<p>* First commercial appliance featuring an indicator light showing the next operation.</p>	<p>Lighter weight Grate (change in material and shape) 5.9kg (compared with 8.5kg for conventional model)</p>

Safety and Peace of Mind, Comfort and Convenience

<p>Good Design Awards</p>  <p>GOOD DESIGN</p>	
<p>Built-in Gas Stove My Tone Series</p> 	
<p>In October 2009, Rinnai received Good Design 2009 awards from the Japan Industrial Design Promotion Organization for six products, including the built-in gas stove <i>My Tone Series</i>. These six products were recognized for environmentally conscious features that save energy and resources.</p>	

<p>Encouraging Customers to Be More Energy-Aware by Visualizing Water Volume Eco-Signal Remote Control</p>	
<p>Bathroom remote control</p> 	<p>Kitchen remote control</p> 

<p>In Use</p>	
<p>Optimum amount of water</p>  <p>Lights up/ Flashes</p>	<p>Not optimum amount of water</p>  <p>Unlit</p>

*The Eco-Signal light goes on to indicate that just the right amount of water is running through the shower or kitchen sink tap.

Products for Overseas Markets

Forced-Fan Heaters for Australia and New Zealand

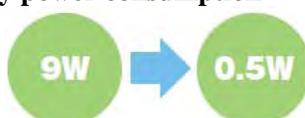
RHFE-559FT Series



RHFE-309FT Series



Stand-by power consumption



8.5W energy-savings over existing Rinnai models

*Fan-forced heaters pull in air from outside the combustion chamber and then push the warmed air out of the chamber after combustion.

Built-in Gas Stoves for Taiwan



RB-27F (37F)



RB-27GF (37GF)



Taiwan's mark of good design

*These products also won Good Design awards in Japan in 2009.

Four products—*RB-27F* and *37* and *RB-27GF* and *37GF*—were recognized under Taiwan's Good Design Product program.

- Lighter weight and longer life: Switch to stainless steel burner trimmed about 2kg of product weight, compared with existing gas stoves featuring cast-iron burners.
- Energy-savings: Heating efficiency of 50%, compared with 45% for existing Rinnai models.
- Easier cleaning: Stove top is fully sealed.

Voice

The environment and saving energy are two themes taking on greater importance in Asia, particularly China, Taiwan, Indonesia, Thailand and Vietnam. Increasingly, equipment, like gas appliances, must deliver high heating efficiency. Moreover, Asian cuisine, notably Chinese dishes, typically requires cooking over high heat, which means stoves with high-heat burners are essential. I know how essential it is to develop products that meet diverse lifestyles in every country while ensuring that these products are environmentally friendly and energy-saving. I will enthusiastically pursue the development of environmentally conscious products that fit the lifestyle choices of customers in every market.



Sadamoto Kato, Kitchen Design Office, Research and Development Headquarters

Topics Silver at the 2010 Aichi Environmental Awards		
<p>The 2010 Aichi Environmental Awards, sponsored by Aichi Prefecture to promote resource recycling and reduced environmental impact, took place in February 2010. Rinnai took silver at the event for global business expansion of high-efficiency combustion appliances and systems, including latent heat recovery hot-water units.</p>	<p>Winning Point</p> <p>Rinnai was recognized for its ability, as a comprehensive heat-energy appliance maker, to contribute significantly toward reduced residential consumption of gas in Japan and around the world, especially efforts to encourage widespread acceptance of high-efficiency tankless hot-water units in the United States where storage-type water heaters are prevalent.</p>	
 <p>Hiroyasu Naito, Rinnai President, with award</p>	 <p>Wider sales of high-efficiency latent heat recovery hot-water unit <i>Eco-Jozu</i></p>	 <p>Tankless hot-water units for U.S. market</p>  <p>Solar water-heating system for Australian market</p>
<p>*Aichi Environmental Awards: This program invites entries from companies and organizations and recognizes the most excellent examples of pioneering and successfully implemented technologies, businesses, activities and training. By showcasing these achievements, new production styles and new lifestyle choices will take root in consumer culture and underpin the formation of a recycling-oriented society.</p>		

Packing

Reduce Use of Containers and Packaging

● **Packaging Technology and Stronger Products Lessen Need—and Weight—of Packing**

<p>Hot-water unit <i>Yukko</i> We switched from cardboard to pulp molds for the top cushioning material to reduce weight.</p> <p>1.55kg → 1.48kg (down 4.5%)</p>	 <p>Top cushioning material</p>
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<p>Dishwashers We switched from a double structure to single structure cardboard box format to reduce weight.</p> <p>3.3kg → 3.0kg (down 9.1%)</p>	 <p>Cardboard box</p>
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● **Reuse Packing Materials**

To conserve resources, we collect used packing materials. We are also expanding our use of returnable packing, which can be reused again and again.



Dishwasher

Packing Form

	
<p>At shipment</p>	<p>At collection</p>

Recycle Containers and Packaging

The Containers and Packaging Recycling Law obligates manufacturers and user businesses to recycle product containers and packaging discarded by households in an effort to make more effective use of resources. In accordance with the law, Rinnai has contracted a designated corporation that recycles containers and packaging on the Corporation's behalf.

Home Appliance Recycling Law

Japan's Home Appliance Recycling Law went into effect April 2001 with the goals to reduce the amount of waste going to landfills and incinerators and to promote more effective use of resources. Since then, appliances that consumers no longer want to use have been recycled into new products. Additional appliances came under the scope of this recycling law from April 2009, and Rinnai now has two products—a unit-style air-conditioner and a clothes dryer—that can be redirected from the waste pile.

● Rinnai Products Subject to the Home Appliance Recycling Law and Guideline Values

Product	Recycling Rate Statutory Guideline Value
Unit-style air-conditioner	70%
Clothes dryer	65%

● Fiscal 2010 Results (April 1, 2009 - March 31, 2010)

Product	Unit-style air-conditioner	Clothes dryer
Number of units brought to designated collection points	3,858 units	789 units
Number of units processed for recycling	3,731 units	759 units
Weight of units processed for recycling	154.0 tons	25.6 tons
Weight of recycled materials	139.5 tons	22.8 tons
Recycling rate	90%	89%

*Rinnai's bathroom and kitchen televisions are incorporated into the building architecture. Consequently, they fall outside the liquid-crystal television receiver category added to the national recycling law in April 2009.



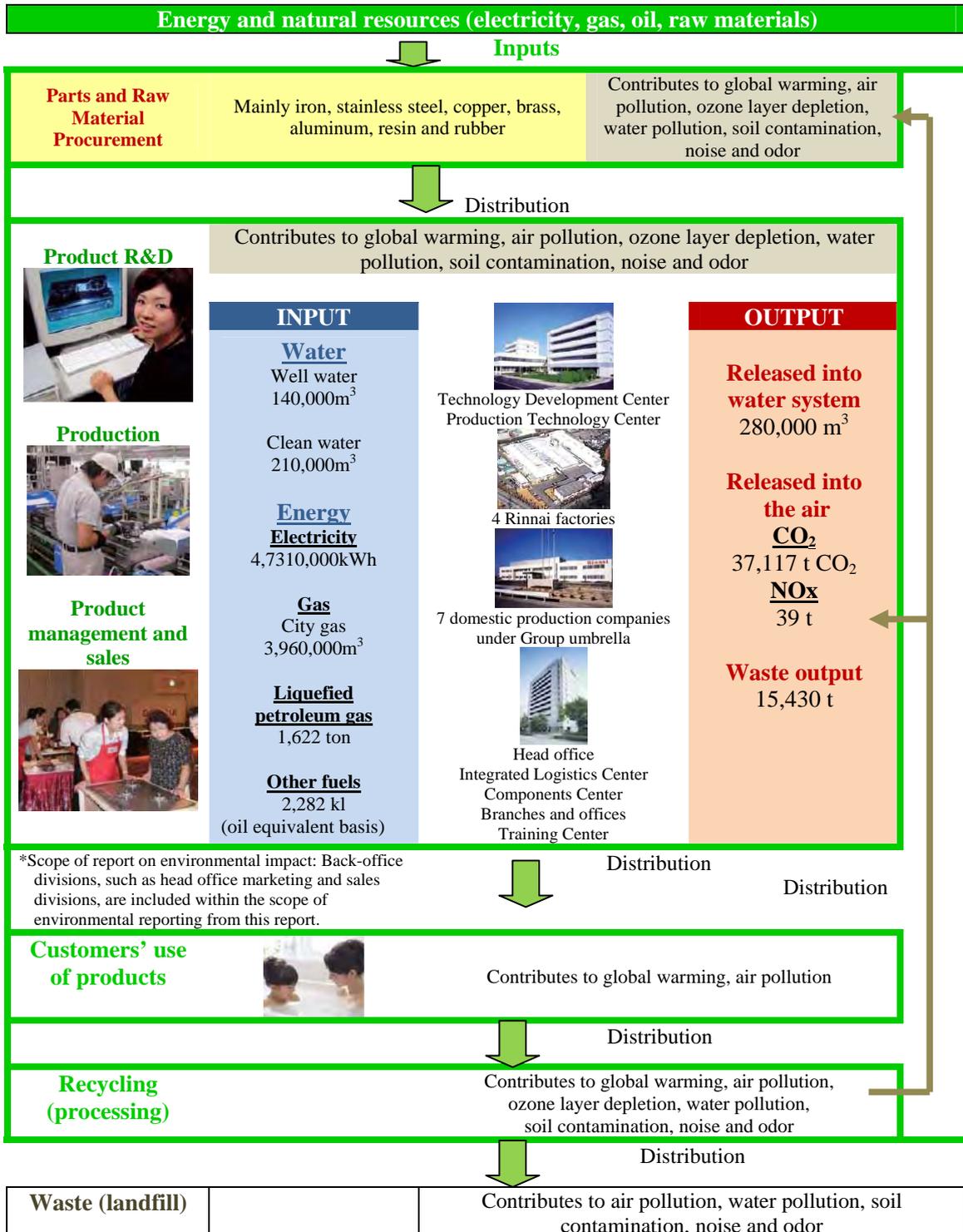
Unit-style air-conditioner



Clothes dryer

Environment-Conscious *Monozukuri*

Environmental Footprint in *Monozukuri*



Pursuit of *Monozukuri* Reforms (Quality No. 1)

Production Technology Center (*Monozukuri* Center)

Paralleling business expansion overseas, we opened the Production Technology Center to global development of technologies, especially efforts to build on the repertoire of *monozukuri* technologies we have accumulated since our establishment and enhance the precision of processing and automation technologies. The center also functions as a place where staff from domestic and overseas Group companies can upgrade their skills.

We will energetically promote environment-conscious business activities through the center and the pursuit of innovative technologies. We will achieve this goal by encouraging widespread adherence to excellent *monozukuri* practices, such as stated approaches to work that employees at companies under the Group umbrella are expected to follow.



Production Technology Center

Monozukuri

Optimizing Production Lines

We constantly keep a eye on production lines to pinpoint inefficiencies, such as energy loss, and we strive to optimize the production system, matched to production volume, based on such factors as assembly time and the status of products-in-process.

More compact production lines, shift to cell-based production system

Approaches to reduce products-in-process between operators and to bring about production maximizing operator expertise have a ripple effect that fosters higher energy-efficiency in such products as air compressors.



Cell-based production (Oguchi Factory)

Facility Surveillance System

We introduced a computer-based surveillance system that constantly tracks operating status at facilities. Through a companywide intranet, divisions can also keep up on the status of operations. This facilitates a quick response in the event of equipment trouble or some other facility issue. The collection and analysis of data, such as facility operating performance, also contributes to preventative maintenance activities.

(At Rinnai Precision Co., Ltd.)



Screen shot of facility operation status



Collected data

Education

Perpetuating the *Monozukuri* Spirit

At every factory, we have set up a “*monozukuri* legacy station,” which accumulates and maintains accumulated process technologies and new techniques as well as intangible assets, essentially, the insights gained on-site by experienced employees. This station is a place where newly assigned employees can acquire *monozukuri* basics. It is also a place for conveying the essence of *monozukuri* and training employees in such areas as improved efficiency and enhanced production management.



Training room at the Oguchi Factory



Soldering practice space at the Aichi Factory

Boosting Production System Efficiency

At Rinnai, *monozukuri* hinges on consistent efforts to achieve improvement. Naturally, production divisions are in the spotlight, but the scope of strategies to achieve excellence in *monozukuri* extends beyond operating proficiency. To prevent losses, especially those caused by accidents, product defects and equipment malfunctions, and thereby sustain zero status in such problem categories, we strive to acquire specialized manufacturing techniques and the capacity to enhance operating methods and processes, which reinforce our ability to eliminate excess in *monozukuri*, effectively utilize resources and energy, and minimize impact on the environment. In this multi-objective effort, we promote Total Productive Maintenance for greater efficiency in production systems.



Scene of TPM activity

Voice

In the Stamping Department, in the Production Engineering Division, we work on stamping dies and molds keeping in mind yield improvement in the raw materials for press working of sheet metal as a step toward reduced environmental impact. Specifically, we aim to minimize the amount of scrap that gets discarded, so we put a lot of effort into stamping processes and mold construction and utilize computer-aided-engineering and other computer-based techniques, and we strive to trim the dimensions of the materials used. We will continue to seek greater yield improvement while entertaining new approaches for application.



Kenji Inaba, Manager,
Stamping Department,
Production Engineering
Division

Efforts to Prevent Global Warming

From “Team Minus 6%” to “Challenge 25”

Team Minus 6%, a national project introduced in 2005 to fight global warming, was revamped into a program to curb CO₂ emissions and relaunched in January 2010 as the Challenge 25 Campaign with suggestions aimed primarily for implementation at homes and offices. The Rinnai Group was quick to get involved in this revitalized initiative and is aggressively promoting activities to curb global warming.

Participation in Turn-the-Lights-Off Initiatives

We participated in two events—Black Illumination 2009, on June 21, and Tanabata Lights Down, on July 7—which called on corporate citizens to turn off night-time lights, especially at factories, to conserve energy and thereby reduce downstream emissions that contribute to global warming. We switched off exterior lighting, mainly signboards and outdoor lights, and interior lights, primarily showrooms and offices, for two hours from 8pm to 10pm on those two days, as our contribution to reduced electricity consumption.

Green Curtain

We have created green curtains out of morning glories and goya (bitter melon) over portions of exterior wall surfaces at factories and offices. The plants not only absorb CO₂ through photosynthesis but also prevent direct sunlight from pouring in through the windows during the hot summer months. This keeps inside temperatures down and reduces the need for air-conditioning, which in turn decreases energy consumption.



Yanagisawa Manufacturing Co., Ltd.



RB Controls Co., Ltd.

● Improvement Highlights

Lighting at the Head Office Showroom

In a move to cut energy consumption at the head office showroom, we switched from halogen lights to low energy consumption LED lights.



Head office showroom

Reduction in electricity consumption

21,000kWh/year

CO₂ emission impact reduction

About 8t-CO₂/year

Halogen light



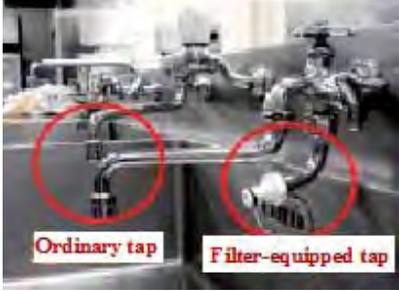
LED light



● **Improvement Highlights**

<p>Rooftop Thermal Barrier A thermal barrier coating was applied to the roof of the south test building at the Technology Development Center to keep the roof temperature cooler in summer. A lower rooftop temperature prevents the temperature inside from rising so high and limits consumption of energy for running air-conditioners.</p>	 <p>Technology Development Center</p>
<p>Reduction in electricity consumption</p>	<p>1,620kWh/year</p>
<p>Reduction in gas consumption</p>	<p>1,580m³/year</p>
<p>CO₂ emission impact reduction</p>	<p>About 6.6t-CO₂/year</p>

<p>Change in Lighting We switched from mercury vapor lamp lighting fixtures to ceramic metal halide lamps at the Aichi Factory to lower electricity consumption.</p>	
<p>Reduction in electricity consumption</p>	<p>5,600kWh/year</p>
<p>CO₂ emission impact reduction</p>	<p>About 2.1t-CO₂/year</p>

<p>Conserving Water To ensure effective use of water, we attached water-saving devices to taps at the Oguchi Factory and reduced water consumption.</p>	
 <p>Ordinary tap Filter-equipped tap</p>	 <p>Water-saving device</p>
<p>Amount of water saved 5,280m³/year</p>	

<p>Improving Logistics Responding to new requirements associated with the amended energy conservation law, which went into force in April 2006, Rinnai has promoted improvements based on a rationalization plan for energy used in logistics activities that was formulated from the perspective of an owner of goods. We properly monitor the status of energy used in procurement and product shipment activities, and work with our logistics partners to reduce the amount of energy consumed.</p>	
<p>CO₂ emission impact reduction achieved through improved logistics in fiscal 2010 About 100t-CO₂/year</p>	

Efforts to Reduce Waste

Zero Emissions

We strive to maintain zero emissions and reduce waste output.

Fiscal 2010 Results

Waste output: 94.9% of the previous year

*Definition of zero emissions: More than 99.5% of waste is recycled, leaving just 0.5% or less in waste destined for the landfill.

Efforts to Curb Generation of Waste

Reduce Waste

- Don't buy something that will end up as garbage.
- Don't make waste.
- Return reusable items to respective point of purchase.
- Reuse.
- Recycle.

Process Waste Economically

- Reduce volume.
- Cut unit cost of processing fees.
- Turn waste into a valuable commodity.
- Boost the value of valuable commodities.

Example of Preventing Waste

Solder gas adversely impacts product quality and turns into waste, so RB Controls Co., Ltd., introduced a nitrogen gas generator into its soldering tank to reduce the amount of solder gas created in the soldering process. Additionally, this had a positive cost effect in that less solder had to be procured.

Solder gas impact reduction 500kg/year



Soldering tank

Industrial Waste Disposal

Before outsourcing waste to a business specializing waste processing, we run meticulous backchecks, including business status, and make on-site visits to confirm conditions. To ensure that waste is being properly disposed of by contracted providers, we send representatives annually to the sites for visual confirmation and to exchange information with service providers. In fiscal 2010, we verified that 30 providers were performing waste management operations in an appropriate manner.



Facility rounds.

Chemical Substances

Reduce/Eliminate Hazardous Chemical Substances

We are working to reduce, or eliminate altogether, hazardous chemical substances used in our productions processes so as to minimize the impact of our operations on the environment. We place the chemicals we use into three categories—eliminate, reduce and monitor—and formulate strategies to limit our use of hazardous chemical substances. We have achieved good results through such approaches as a review of materials containing chemicals subject to restrictions and enhancements to processing equipment.

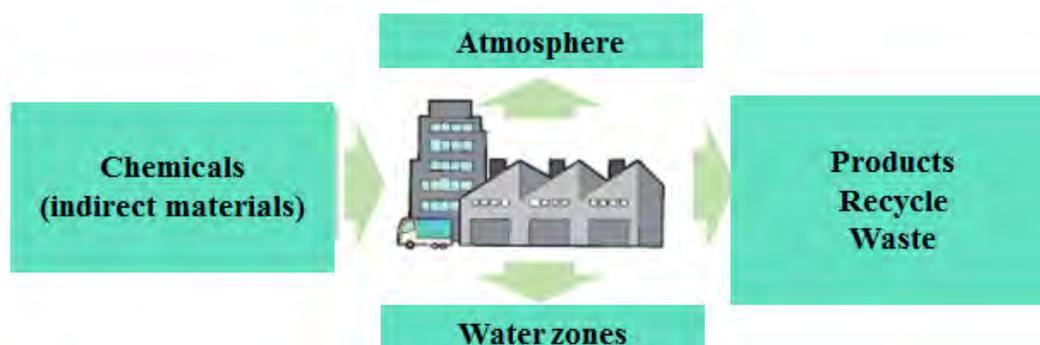
Our target in fiscal 2010 was to bring the use of hazardous chemical substances down at least 50%, based on the fiscal 2002 level. We exceeded this goal with a decrease of 57%.

Also, enforcement of an amended version of the Pollutant Release and Transfer Register Law (PRTR Law) as of April 2010 expanded the list of chemicals that require responses, such as confirmation of released amounts and transfer volume.

Class I Designated Chemical Substances	354 → 462
Class II Designated Chemical Substances	81 → 100

We will continue to apply approaches that decrease the amount of hazardous chemicals we use, and our focus will be on further reviews of the materials we use and more improvements to processing equipment.

● **Flow of Chemical Release and Transfer**



Example of Reduction in Hazardous Chemicals

Powder-Coating for Applying Color to Small-Lot Products

Since the installation of powder-coating equipment in fiscal 2009, the Seto Factory has steadily shifted from solvent-based paints to powder-based alternatives as a way to trim its use of volatile organic solvents, such as xylene. In fiscal 2010, the factory's focus was on pure white, a paint color that contains minimal amounts of volatile organic solvents.

Use of solvent-based paints	About 260kg/year
Volatile organic compound impact reduction	Xylene: About 30kg/year
	Ethylbenzene: About 15kg/year

Polychlorinated Biphenyl Waste Management

Polychlorinated biphenyls (PCB), used primarily in the insulating oils of electrical transformers, capacitors and ballasts, are subject to the Law Concerning Special Measures for Promotion of Proper Treatment of PCB Waste (PCB Special Measures Law), which makes rules on the storage of PCB-containing equipment tougher and gives companies until July 2016 to safely dispose of PCB waste or consign the duty to a certified service provider.

Rinnai is moving to address its responsibilities as quickly as possible. PCB-containing equipment in storage is kept under lock-and-key to prevent loss or damage, and equipment still in use is carefully monitored, mainly through tagging, so that we can respond appropriately in the event of equipment failure, however remote that may be.

Treatment of high-concentration PCB waste stored at Rinnai and RT Engineering Co., Ltd., was completed as of March 2009.

Efforts to Prevent Pollution

Preparing for Emergencies

To minimize environmental risk and stop pollution and accidents before they can happen, we have implemented a number of preventative measures.

All offices run annual drills premised on adverse events, such as environmental accidents. We have also reviewed procedures setting out actions to take in the even of a crisis and have prepared emergency provisions. In addition, we perform regular environmental monitoring to verify the status environmental conditions, such as air and water pollution.



Emergency response drill at the Seto Factory.

Environment-Focused Equipment Inspection

We identify equipment with the potential to adversely affect the environment and run concerted environment-focused inspections on these pieces of equipment on an annual basis. We strive to prevent the occurrence of serious accidents with environmental repercussions through such approaches as independent inspections of equipment, operating tests for measuring instruments, and emergency simulations.



Biodiversity

Our use of various resources and the release of chemicals and waste from our operations into the environment give us a connection to biodiversity.

We must understand the natural environment and fully appreciate the importance of sustaining biodiversity in order to protect it. We are enthusiastically involved in the activities of the Environmental Partnership Organizing Club and all prefectural clean-up campaigns supported by private and corporate citizens of Aichi Prefecture to promote development of our home base as a region befitting the title of host for the 10th meeting of the Conference of the Parties to the Convention on Biological Diversity—COP 10—which was held in October 2010 in Nagoya, Aichi Prefecture.

As a company and as people associated with a company, we must think about biodiversity and seek to sustain a harmonious coexistence with the natural world around us. We will continue to lower the impact our operations have on the environment and strive to do our part to sustain and protect the rich biodiversity of our planet.

Status of Legal Compliance

Monitoring Compliance by Self-Set Standards

Naturally, we comply with laws and regulations, but we seek to do better than the minimum required and have set our own benchmarks as targets to achieve. We also perform checks, mainly daily monitoring, routine evaluations and environmental audits, and strive to reduce the release of hazardous chemicals and other pollutants into the air and local water systems. We reinforce equipment operation and maintenance practices and take preemptive action if facility status looks as though it may exceed the level we deem permissible. If we can meet our own tough standards, we will surely meet the levels required by government.

Issues and Principal Associated Laws	
Air pollution	Air Pollution Control Law
Water pollution	Water Pollution Control Law, Sewage Law
Ground subsidence	Industrial Water Law
Noise, odor	Noise Regulation Law, Vibration Regulation Law, Offensive Odor Control Law
Dangerous or hazardous substances	Poisonous and Deleterious Substances Control Law
Worker safety	Industrial Safety and Health Law (Chemicals designated by Ordinance on Prevention of Organic Solvent Poisoning and Ordinance on Prevention of Hazards Due to Specified Chemical Substances), Fire Defense Law (related to dangerous articles)
Waste	Waste Management and Public Cleansing Law
Ecosystem	PRTR Law, PCB Special Measures Law

Soil Surveys

Seto Factory

A soil contamination survey required under the Soil Contamination Countermeasures Law was undertaken in September 2009 at the Seto Factory, following partial amendment of the land-use plan for this facility. All measurements were within established environmental standards.

Aichi Factory

A soil contamination survey required under the Soil Contamination Countermeasures Law and a municipal ordinance enforced by Nagoya concerning environmental protection was undertaken in March 2010 at the Aichi Factory, following partial amendment of the land-use plan for this facility. The survey revealed boron compounds and fluorine compounds exceeding allowable levels. A groundwater survey was also undertaken. Readings met the established criteria, indicating that the compounds found at the surface had not leached down to the water table.

● Soil Contamination Survey

Survey location	South Wing	East-Side Parking Lot
Number of points checked	23	7
Number of points showing contamination	4	4

● Soil Content Survey Results

Name of place where contamination found	South Wing	East-Side Parking Lot
Contaminants exceeding environmental standards	Boron and its compounds	Fluorine and its compounds
Maximum concentration exceeding environmental standards	3.5mg/l	3.1mg/l
Soil concentration standard	0.8mg/l	0.8mg/l
Times over standard	3.5 times	3.9 times

● Responses

Because the soil survey found values exceeding allowable limits, we duly submitted a soil survey report to the city of Nagoya in March 2013.

The contaminated soil at the South Wing was excavated and removed in June 2010, and soil status has been returned to normal.

The east-side parking lot is asphalt-paved, so the fluorine compounds can not fly away or otherwise impact the surrounding area. A look at the geography and history of the location would indicate that the contamination did not originate from our business activities.

Chronology of Environmental Activities at Rinnai

1993	March	Drafted Environmental Preservation Action Plan; established Environment Committee
	December	Won prize at 4th Energy Conservation Vanguard 21 for gas-blast-type high heat griller <i>RGM-4, 6, 8</i> .
1994	July	Market debut: low-NOx burner built-in hot-water unit (NOx at less than 60ppm)
1996	March	Won top prize at 1st Eco-Design Awards, sponsored by Tokyo Gas, Osaka Gas and Toho Gas for hot-water unit, fan heater and small hot-water heater.
1997	March	Won special prize at 2nd Eco Design Awards for tabletop cooking stove.
	June	Market debut: absorption-type gas air-conditioner (non-CFC)
	October	Oguchi site acquired ISO 14001 certification covering factory, Production Engineering Division and Research & Development Headquarters.
	December	Won prize at 8th Energy Conservation Vanguard 21 for tabletop oven <i>RSBN-096</i> .
1998	April	Won grand prize for gas clothes dryer and special awards for small hot-water heater and for absorption-type gas air-condition at 3rd Eco-Design Awards.
	September	Market debut: fan heater with air-purifier that traps dust and removes odors.
	October	Market debut: <i>Yukko V Series</i> , featuring no styrene packing, low stand-by power consumption and low NOx emissions.
1999	April	Oguchi Factory (approved facility under revised Energy Conservation Law) registered as type 2 designated energy management factory.
	July	Established Environment Division.
	September	Market debut: Ecomax burner and Eco burner-equipped gas cooking stove.
	October	Market debut: condensing hot-water unit boasting 95% heat efficiency and NOx emissions under 30ppm.
2000	February	Won Minister of Economy, Trade and Industry award for condensing hot-water unit at ministry's 10th Energy Conservation Awards.
	May	Drafted Rinnai Environmental Action Principles.
	August	Published inaugural issue of Environmental Report.
	December	Seto Factory Environment Division acquired ISO 14001 certification.

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2001	January	Won Chunichi Newspaper Prize portion of Chunichi Industrial Technology Awards for condensing hot-water unit.
	June	Won top technology prize from Japan Gas Association for condensing hot-water unit.
2003	June	Won technology award from Japan Gas Association for condensing hot-water unit.
	October	Won Electric Equipment Packaging Category Award in Good Packaging division at 2003 Japan Packaging Contest for built-in 75cm-wide glass-top gas cooking stove.
	November	Quality assurance divisions at Aichi Factory and Asahi Factory acquired ISO 14001 certification.
2004	October	Won Logistics Award at Japan Packaging Contest 2004 for bathroom heater/dryer.
2005	June	Won top technology prize from Japan Gas Association for development of latent heat recovery high-efficiency hot water/heating unit.
	September	Got involved in Team Minus 6%, a national movement to prevent global warming.
2006	October	Won Electric Equipment Packaging Category Award in Good Packaging division at Japan Packaging Contest 2006 for gas fan heater.
2008	September	Gas tankless water heater sold in the United States captured 2008 Super Nova Star Award (Stars of Energy Efficiency) in the United States from the Alliance to Save Energy.
	October	Won Electric Equipment Packaging Category Award in Good Packaging division at Japan Packaging Contest 2008 for gas fan heater.
	December	Head office acquires ISO 14001 certification.
2009	February	Market debut: <i>Eco-Jozu</i> condensing hot-water/heating unit <i>RVD-E Series</i> .
2010	January	Market debut: <i>Eco-Jozu</i> condensing combi boiler <i>RUF-E Series</i> boasting bathwater heating efficiency rate of 92%.
	February	Took silver at Aichi Environment Awards, sponsored by Aichi Prefecture, for global promotion of high-efficiency combustion appliances and systems, including latent heat recovery hot-water units.
	April	Market debut: high-efficiency <i>Hybrid Hot-Water Unit ECO ONE</i> .