

Social & Environmental Report 2011



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Rinnai Social & Environmental Report 2011

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 2011—April 1, 2010 to March 31, 2011—but also touches upon measures implemented and recent activities undertaken prior to fiscal 2011 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

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Next: August 2012 (planned)

Last Social and Environmental Report online version uploaded September 2010

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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 2011 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.

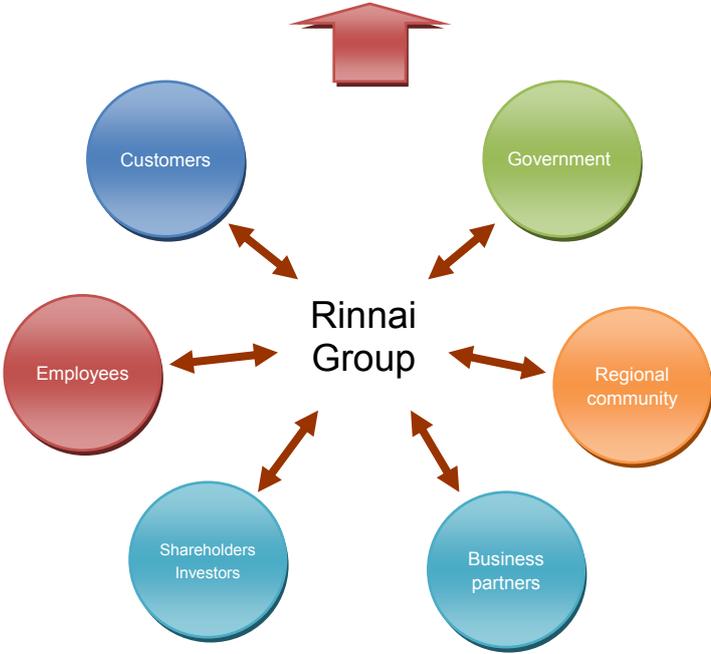
Booklet and Online Reports

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

Sustainability

We will contribute to the realization of a sustainable society and planet as a comprehensive heat-energy appliance manufacturer.



Message from the Management

As a comprehensive heat-energy appliance manufacturer, we propose the ways to utilize new energy.



Susumu Naito
Chairman



Hiroyasu Naito
President

The Medium-term Business Plan, “Reform and Breakthrough”, Making Steady Progress

Since its establishment, Rinnai Corporation has been operating its businesses under the Rinnai Spirit: "Heat and comfortable lifestyles", "Quality" and "Contributing to local communities." Starting as a kerosene cooking stove manufacture, we have grown into a comprehensive heat-energy appliance manufacturer which handles various products including gas kitchen appliances, heater and hot-water units as well as system products. We established our Group companies in Japan and 16 overseas countries and areas to practice business activities based on the lives of local people.

Fiscal year 2010 marked the second year of our medium-term business plan, “Reform and Breakthrough”. Among the focused policies, we relentlessly promoted waste-elimination activities, activated the development of manufacturing technologies and product planning through the cooperation between departments and Group companies both in Japan and overseas. As the result, the Group operation was reinforced.

Full Support for the Recovery from the Great East Japan Earthquake Giving the First Priority to the Manufacturing of Products for the Rehabilitation

Our Group considers the base for "corporate social responsibility" is compliance. Compliance is translated as "observance to laws and regulations" in Japanese. However, it is common sense to obey laws and regulations, so it shall include the abidance by ethics in addition to laws and regulations. Each management members and employees shall enforce the compliance while they perform their duties and maintain the purity of workplace. By doing so, we believe we will gain the power to provide satisfaction to our employees through their work and fulfill the expectations from communities as well as the trust from stakeholders.

On March 11, 2011, the Great East Japan Earthquake hit Japan. We would like to express our sincerest sympathy to people affected by the disaster. Our Group companies suffered some building damage in some of sales offices; however, there were no casualties. In addition, the impact on the production wasn't

significant.

We, at the early stages, decided to donate about 10,000 units of products (cooking stoves, rice cookers and stoves) and 50 million yen. Moreover, responding to the requests from gas companies, we secured the staff for the gas facility recovery activities and dispatched them to affected areas. We also received orders for products for temporary housings and gave priorities to the production of these products.

Development and Sales of Environmentally-friendly Products at Home and Abroad, Endeavoring to Improve the Technologies in Overseas Operations

In 2010, we celebrated our 90th anniversary and introduced the world's first gas/solar hybrid hot-water system for home-use application. This hybrid hot-water system combines thermal energy of gas and air and achieved the first energy efficiency of 107%. Moreover, we participated in the promotional activity of "Eco-Jozu", the high-efficiency gas hot-water units, executed by the gas industry and related industries. We also focus on the sales of Eco-Jozu E Series which achieve higher heat efficiency than that of conventional hot-water units, smaller size, lighter weight and excellent design. Thus, we believe that is our mission to develop and sell environmentally-friendly products as a comprehensive heat-energy appliance manufacturer. We don't restrict such measures only to the Japan market. We also present products that satisfy laws and regulations of each country and area and needs of people in developed countries as well as emerging countries with strong economic growth. Especially Australia which is regarded as one of environmentally advanced countries implements various environment-protection measures such as the regulations on the sales of electric storage-type (tank-based) hot-water units. On the other hand, emerging countries give priority to gas, rather than electricity which requires massive construction investment. The popularization of gas is expected to reduce the usage of fire woods and result in the conservation of forests.

Along with the expansion of overseas sales, we also focused on the manufacturing at our overseas facilities. We set up a production line which will be used in our factory in Indonesia in Japan to invite staff at our Indonesian factory for training. After our Indonesian staff acquired skills, we send the production line and system to Indonesia to start the local production. This aims to bring Japanese manufacturing quality as it is to the local facility.

Information Disclosure and Thorough Reoccurrence Prevention for Our Customers' Safety and Peace of Mind

Although we have a basic policy for quality management as "Quality is our destiny", we created two recall accidents in fiscal 2011. We deeply apologize to our customers and strive to prevent a reoccurrence.

Aiming to develop new thermal energy appliances assuming any kinds of energy

Our Group considers that continuously tackling with environmental problems including global warming issue is one of the main pillars for us to perform social responsibilities as a company. In particular, both in Japan and overseas, there is heated argument over the review of Japan's energy policy which heavily relies on nuclear power plants triggered by the accident at a nuclear power plant occurred right after the outbreak of the Great East Japan Earthquake. We regard it is one of our missions to develop thermal energy appliances assuming all kinds of energy resources including natural resources, instead of selecting only from two choices of "electricity" or "gas". As a comprehensive heat-energy appliance manufacturer, we will contribute for the diversification of energy recourses as required both in Japan and overseas.

August 2011

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

Harmony

Develop personal character of the highest caliber

Spirit

Base your efforts on a consistent philosophy

Sincerity

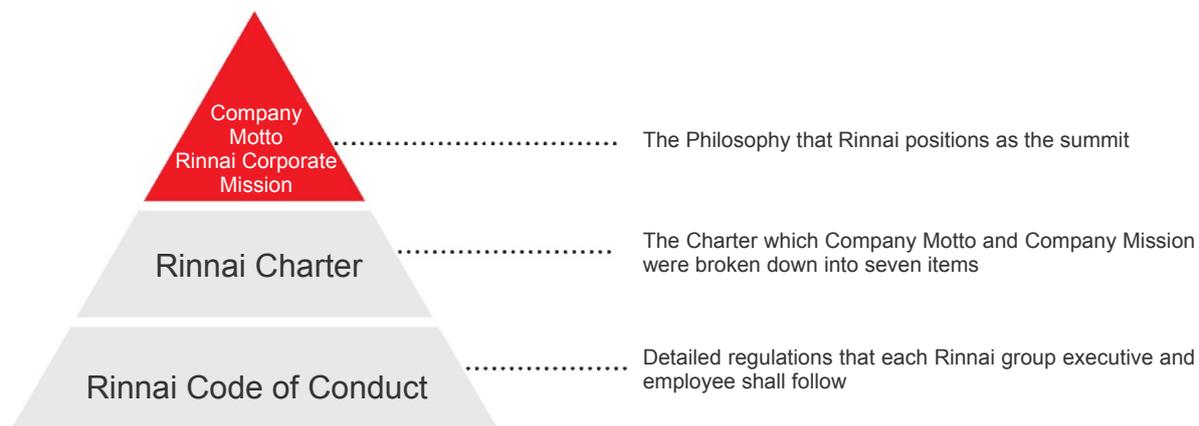
Know the fundamentals and consider issues with precision and clarity



Rinnai's Corporate Mission

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

Schematic diagram of company ideals



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.

Rinnai Code of Conduct

Rinnai Code of Conduct (Total contents)

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
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

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.

Management Vision

Our attitude toward CSR

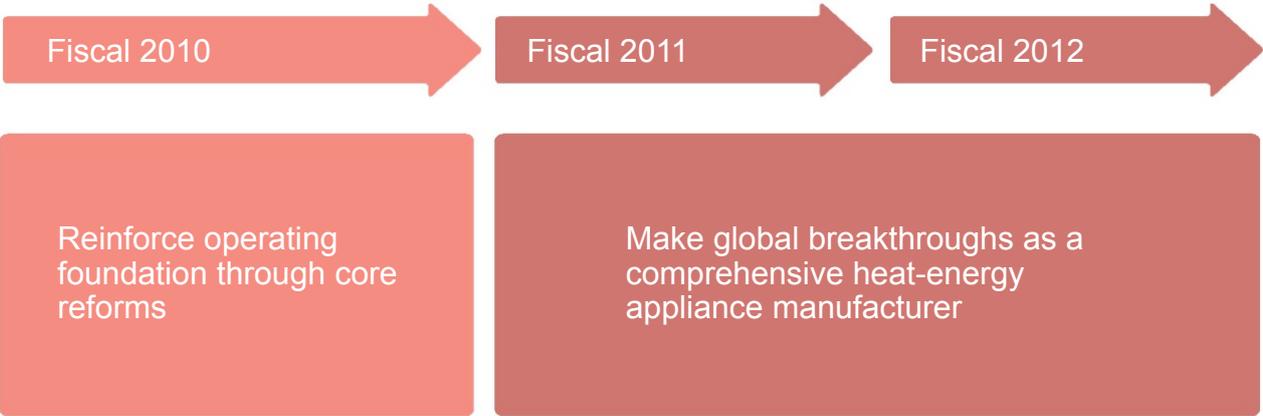
As our corporate mission, Rinnai utilizes heating to provide society with a comfortable way of life. By proposing thermal energy appliances which are high grade in terms of "safety and peace of mind", "comfort" and "the environment", we would like to contribute to a better lifestyles culture of people in the world and for the future of the earth.

Rinnai has been promoting CSR activities through our core businesses groupwide under the Three Key Themes of "Heat and comfortable lifestyles", "Quality", and "Contributing to local communities", which we have been focusing on since our establishment, as well as a newly added fourth theme, "Environment".

The medium-term business plan, "Reform and Breakthrough"

Amid a persistently gloomy outlook for the world economy, the Rinnai Group is focusing 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.

Medium-Term Business Plan, "Reform and Breakthrough" (Fiscal 2010 to Fiscal 2012)



Product vision

Comprehensive heating appliance manufacturer that delivers environmentally responsible products

Regional vision

Global company that improves the lifestyles of people all over the world

Business vision

Company with a unique business model that attracts people and business partners



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	¥248.0 billion yen
Operating income	¥27.0 billion yen
Operating margin	10.9%

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

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 six 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 every three months so that directors can pinpoint the status of issues affecting operations and share information on pertinent topics. Moreover, to clarify the management responsibilities of each business year and gain trust from shareholders, Rinnai regulates the term of director to be one year.

Director Compensation

The limits of compensation for Directors and Auditors are determined in accordance with the resolution of the general meeting of shareholders. Moreover, the Rinnai's internal regulations stipulate fundamental matters related to Directors' compensations including the method of determination, revision and reduction. Based on these, the amounts of compensation for Directors are resolved at the Board of Directors and the amounts of compensation for Auditors are determined through the deliberations by Auditors. 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.

Information Disclosure

For timely and appropriate disclosure of important information on the Group, we facilitated the internal regulations and established "Disclosure Policy", which is listed on our website, as the guidelines for information disclosure.

Corporate Governance Structure



Risk Management

Risk Management Promotion System

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.

Information Securities Measures

While society becomes more demanding toward company's security reinforcement issues, our Group as a whole promotes the adequate management of security systems by strengthening the awareness for proper information handling through the establishment of the rules for confidential information management and the personal information management. User authentication technology was adopted company-wide to manage accesses to IT system and an entry/withdrawal management system with ID cards has been introduced to various business locations including Technology Development Center one by one.

In addition, to avoid information leakage, we have been enforcing a strict management of the external use of personal computers, encryption of data stored in media to be used outside of the office, unauthorized access by outsiders and virus countermeasures.

Promotion of Businesses Continuity Plan

When companies have no sufficient measures for natural disasters such as earthquakes and storms and the prevalence of infectious diseases, the business operations may be suspended for a long time, result in a significant damage and give a serious impact on stakeholders. As a company which produces thermal energy appliance to support people's lifestyles, we believe it is our responsibility to maintain the stable supply of our products even under such circumstances.

In anticipation of large-scale disasters with highly possibilities, we positioned the business continuity management as one of our critical management issues to achieve early recovery of key businesses in a crisis and are working on the establishment and review of business continuity plans mainly for domestic production departments.

Compliance

Compliance Promotion System

To remain a sound corporate group which wins the trust of society, it is inevitable to reinforce compliance. For the prevalence of compliance as part of our corporate culture and the further infusion and reinforcement of corporate ethics in the entire Group, all employees strive to perform social responsibilities and promote the creation of workplace that encourages people to actively engage in their work.

■ Corporate Ethics Committee

To enforce the compliance, Corporate Ethics Committee headed by our President as its chairman was established in April 2004. It is periodically held to conduct activities as follows:

1. Establishment, revision, training and enforcement of "Code of Ethics"
2. Establishment and operation of "Corporate Ethics Helpline"
3. Investigation of violation of "Code of Ethics"



Rinnai Group "Code of Ethics"

"Code of Ethics" is a small booklet which combined "Corporate Philosophy" and "Rinnai Code of Conduct" which is the detailed behavior standards that all executives and employees shall obey.

The first edition was issued in 2004 and its scope of application was extended to whole domestic Group companies by 2007. In 2007, "Code of Ethics English version" was issued and distributed among overseas Group companies. Since 2009, the scope of application was further enlarged covering non-English speaking overseas Group companies issuing local language version in China, Korea, Thailand, Vietnam, Brazil and Indonesia.

At Group companies in Japan, Compliance Committee member allocated each workplace conduct "Code of Ethics" training every year for its enforcement. In 17 overseas Group companies, staff in charge of training every year implements education of employees. Furthermore, in 2011, "Rinnai Code of Conduct" was revised to meet with the changes in the requests from society and the changes in our businesses. Along with the changes, "Code of Ethics" was amended and issued as version 3.



Booklets of "Code of Ethics" of various countries

Promotion of compliance activities

■ Compliance education activities

In our company, president himself takes an initiative sending messages on corporate ethics to employees to improve the employees' awareness towards compliance.

Moreover, regarding the laws that each department has deep relationship with, legal department is taking a lead to provide legal education every year. For example, at Research and Development Headquarters, the training on "Unfair Competition Prevention Law (Management of Confidential Information)" and "Non Disclosure Agreement" which were requested one of the most at the questionnaires of last year were provided. In fiscal 2011, total 1,229 people in our company took the training and deepened their knowledge in the laws.

Other training courses include compliance committee member training for committee members of each department and ethics education for each layer.

Fiscal 2011, Actual of number of training attendants

Name of course	Number of attendants
Legal education	1,229 people
Compliance committee member training	41 people
Ethic education by layer	287 people



Legal education



Compliance committee member training

■ Information Distribution to 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 a law-oriented frequently-asked-questions corner to send various kinds of information to the employees in our domestic Group companies.



The Intranet
“Legal Matter FAQ Corner”



Compliance education poster

■ Confirmation and Modification of 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.

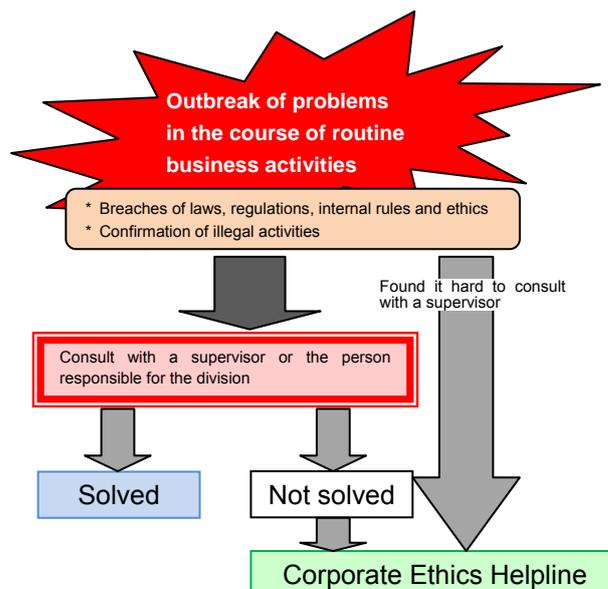
Breaking down the penetration rate for each component of our corporate philosophy, we found that 99.6% (last year: 99.6%) of respondents were familiar with the corporate motto and 97.0% (last year: 97.0%) recognized our corporate mission. From a management perspective, these rates are rewarding. We will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

■ Facilitation of Internal Reporting System

If, in the course of business activities, an employee at a domestic company under the Group umbrella suspects possible breach of laws or the internal rules or unfair practices, 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 this system, we stipulated that the person who reported the incident will not receive any unfair treatment by the fact that he/she consulted the matter and we also pay a full attention to the protection of privacy of the person who made the report.

In fiscal 2011, the helpline received 20 calls for consultation and report. Appropriate measures have been taken, including investigation and confirmation of the facts in these cases of alleged misconduct.



■ Reward and Disciplinary Committee

To maintain fair working environment, we apply strict measures to an employee who breached the internal rules, Code of Ethics or committed unfair practices based on the working rules under the guidance of the Reward and Disciplinary Committee.

■ Protecting Personal Information

Rinnai applies internal rules based on the Act on the Protection of Personal Information. In addition, "Privacy Policy" was stipulated as guidelines for the handling of personal information and posted on our website. Utilizing these, we strive 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 for the education of the internal rules for employees who handle personal information, and the establishment of physical and technical system to insure the safe management of personal information in each workplace.

We implement internal audits once a year on the handling of personal information to ascertain the level of security achieved and strive to reinforce capabilities.

In fiscal 2011, there was no incidence of personal information leakage.

CSR Special Contents

Environment

For the future of earth and better lifestyles of people, we promote the development of efficient energy appliances.

Emphasizing “safety and peace of mind”, “comfort” and “environment”, Rinnai promotes product development as a comprehensive heat-energy appliance manufacturer.

While global warming becomes a worldwide problem, aiming to reduce energy consumption at home, we place our focus on the development of appliances that efficiently utilize energy.

We would like to introduce how Rinnai views the environmental issues and the future product development in the following section.



■ While the industrial sector demonstrate substantial progress, the key is the households sector

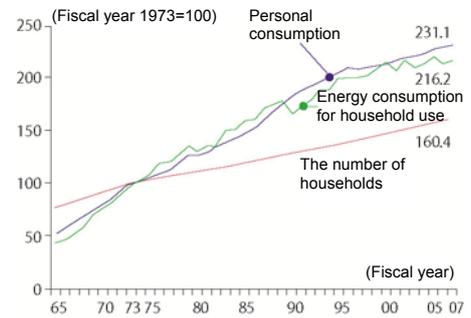
Our company has been manufacturing safe products, with "combustion technology" "heat exchange technology" "electronic control technology" and "fluid-control technologies used for gas and water" as the core technologies. We believe that our Group's mission is, based on our core technologies which handle "heat" which we accumulated over the long time, to contribute to the lives of people in the world and the environment of the earth as "a comprehensive heat-energy appliance manufacturer".

For Japan with scarce natural resources to realize a sustainable society in the future, it is an imminent task to pursue the most appropriate way to utilize energy.

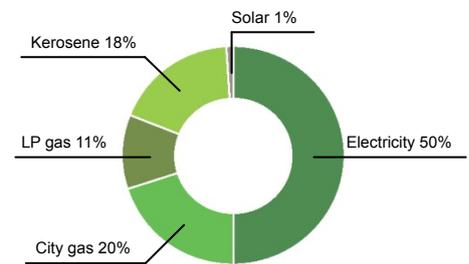
About 40% of Japan's energy is consumed by the industrial sector. The industrial sector already achieved a substantial level of efficient energy usage due to companies' effort for cost reduction and the strengthened environmental regulations by the central and local governments. It is unlikely that the sector will further realize the drastic reduction of CO₂ emission by reducing energy usage.

On the other hand, the energy consumption of the household sector is increasing every year due to the increase in the number of households and the changes in lifestyles pursuing abundance and comfort despite rising awareness of people for the earth environment protection. (Figure 1) In addition, 50% of energy source of households is electricity. (Figure 2) Since the outbreak of the Great East Earthquake, the power generation at nuclear power plants decreased and the dependence on thermal power generation which emits a large volume of CO₂ increased more than ever. Under these circumstances, the increase in the demand of electricity is estimated to further expand the emission of CO₂.

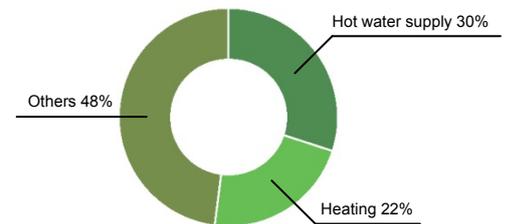
For the prevention of global warming in the future, the key is "how to promote energy conservation at the household sector".



Trend of energy consumption at the household sector (Figure 1)



Energy source at the household sector (Figure 2)



Energy consumption by usage at the household sector (Figure 3)

Source: "White Paper on Energy 2010" by Agency for Natural Resources and Energy

■ Combination of Heat-pump Technology and Gas Combustion Technology Utilizing Each Energy Attribute



Hybrid hot-water unit, "ECO ONE"

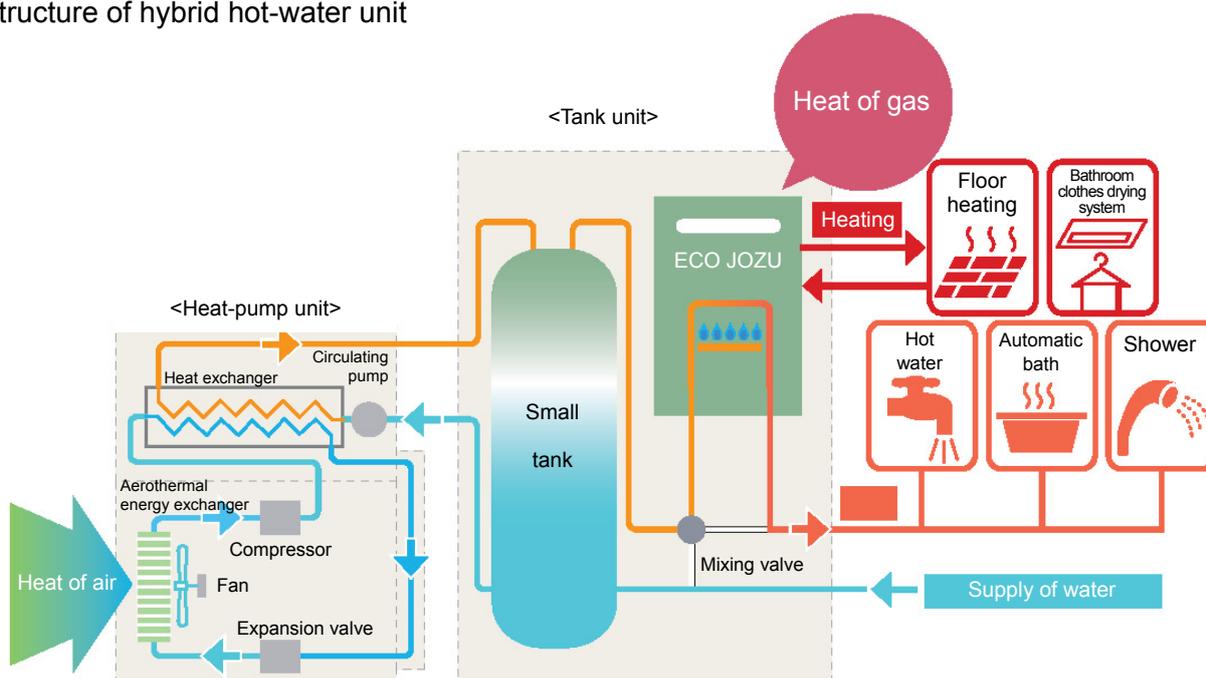
The breakdown of energy consumption by usage at households shows 30% for hot water, 22% for room heating and 48% for others. (Figure 3) It is important to reduce CO₂ emission by conserving energy for hot water and heating.

Each energy source has its own attributes and there are appropriate and inappropriate areas in terms of the application. For example, gas is suitable for "something to utilize heat". What gas can do well is "instantly making hot water" and "heating up rooms". It is important to select the best source through the comparison between a usage purpose and attributes of energy source.

So far, we have been selling highly efficient gas hot-water units including "Eco-Jozu". Meanwhile, it is not an absolute requirement for an appliance to use only one energy resource. For some cases, it is effective to combine multiple energy sources. Inspired by this idea, we developed, "ECO ONE", a gas/solar hybrid hot-water system which combined highly-efficient gas hot-water unit technology and heat-pump technology.

■ Highly efficient environmentally friendly products to enrich people's lifestyles

Structure of hybrid hot-water unit



Gas/solar hybrid hot-water system utilizes the heat of air infused with a heat pump unit while highly-efficiently combusting gas. The first energy efficiency marked 107% showing tremendous improvement compared to conventional gas hot-water units and electric hot-water units.

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 a bathroom with just one unit. It has a small internal tank to save hot water made with a heat pump. There is no anticipation for hot water shortage even when a large volume of hot water is needed such as for a bath tub since the highly efficient gas hot-water unit instantly makes hot water.

Moreover, the utilization of aerothermal energy enables to halve the running cost of hot water unit compared to that for conventional gas hot-water units. 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. Our hot-water unit with the gas/solar hybrid system was accredited for its efficiency by the top-runner standards managed by Institute for Building Environment and Energy Conservation. (Please refer to the column below.)

The energy conservation at the household sector is not only an issue in Japan. In the households in the world, more than half of energy consumption is for hot-water units and air-conditioners. We believe that the role of our company in the area of energy conservation in the world households (the reduction of CO₂ emission) would be tremendous. We will continue promoting hot-water units with the gas/solar hybrid system by increasing variety of the products such as those with a large hot water production capacity and a strong heating capability and product sizes including that can be installed in apartment buildings, as well as developing new products that respond to the needs of the world.

Column

Hybrid hot-water unit, "ECO ONE", accredited by the top-runner standards for its energy efficiency

In April 2011, a hot-water unit with the gas/solar hybrid system, "ECO ONE" was accredited by the top-runner standards (the evaluation standards for housing constructors) managed by Institute for Building Environment and Energy Conservation and recognized as a hot-water unit with top-level energy efficiency. This is the result of the evaluation for decreased energy consumption, lower hot-water running cost and drastically reduced CO₂ emission through optimal combination of gas and athermal energy.

A newly built house which facilitates equipment accredited by the top-runner standards is certified as a "top-runner standards quality housing" and is entitled to receive benefits such as "Flat 35S (20 years reduced interest rates type)", which is a low-rate housing loan.



Interview

—About Rinnai Product development—

We are promoting product development which is environment-friendly and enriches people's lifestyles.

The base for the development is "safety and peace of mind" and newly added "environment".

The base for the development of Rinnai products is "safety and peace of mind", however, we believe that "environment" shall be newly added to the standard. Gas appliances naturally emit CO₂. The theme of development is how to contain CO₂ emission and increase heat efficiency.

Japan Industrial Association of Gas and Kerosene Appliances is driving the promotion to switch all hot-water units to be produced to highly efficient gas hot-water units, "Eco-Jozu", by the end of March 2013 and we are also contributing for the promotion of the product. More advanced product is hot-water unit that utilizes gas and other energy source. Lately, renewable energy is receiving people's attention and the hybrid hot-water unit that utilizes athermal energy, one of renewable energy, is just a gas appliance of the new age.



Yuji Kondo

Director, Managing Executive Officer, General Manager of Research & Development Headquarters and General Manager of Research & Development Division

Develop products that meet the condition of local communities utilizing technologies accumulated in Japan

It is our policy to deploy Japanese technology which is safe, environment-friendly and convenient, in the overseas markets as well.

The conditions of overseas markets vary depending on countries and areas: Australia has one of the most strict environment policies and emerging countries are increasing their energy consumption. Therefore, it is important to understand how heating appliances are used at local markets. We develop products that fulfill needs addressed by our sales departments and local markets.

While improving our combustion technology, we try to integrate technologies of other areas.

The core of our technology remains as "combustion". However, while improving our combustion technology, we would also like to integrate technologies of other areas.

For example, one of the major characteristics of our company is the large number of electronics engineers. Ahead of competitors, we could introduce potting to protect electronic components as widely used for micro-computer control and washing machine because we had engineers who are strong in the area of electronics. Currently, many electricity smart grid operation tests are under progress in various locations and we are also participating in such tests.

Through the integration with other areas and energy sources as seen in this case, we would like to promote the development of products which are environment-friendly and enrich people's life.

Interview

—About the birth of hybrid hot-water unit—

Best mix of gas and other energy sources; aiming to produce products that meet the needs of society



Hiroaki Sasaki

Manager Engineering Development Division,
Research & Development Headquarters

The hot-water unit with the gas/solar hybrid system is a product combined "a heat pump and a highly efficient gas hot-water unit" which goes beyond the stereo-type ideas. Since engineers with abundant experience in mass production design handled the design, the structure of the appliance itself is quite simple. Since it is easy to manufacture and process, the burden on the manufacturing department is relatively light. This is another major characteristic of our hot-water unit with the gas/solar hybrid system.

What we struggled during the development was to achieve our targeted heat efficiency. A hot-water unit with the gas/solar hybrid system is supplemented with aerothermal energy for the amount larger than lost calories due to gas emission, etc. However, one of the major issues was that calculated efficiency didn't match with actual efficiency. Later, we modified the product and cleared the target at the end achieving a satisfactory value. After the introduction of this product, a house maker commented, "We are looking forward to the future of the gas/solar hybrid hot-water system."

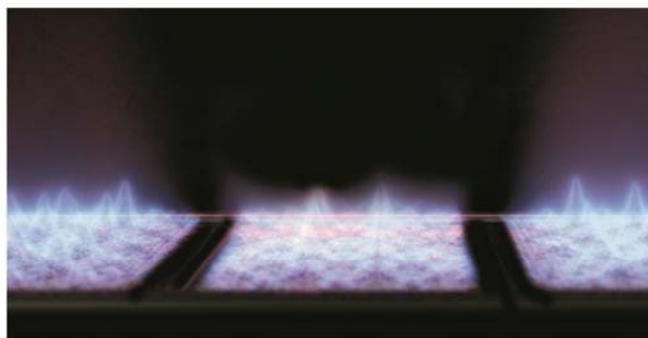
To promote the hot-water unit with the gas/solar hybrid system, it is inevitable to improve energy and cost efficiencies and increase the choices that consumers can pick. We would like to further improve heat efficiency and reduce cost while increasing the variety of products. By seeking the best mix of gas and other energy sources, we would like to develop environment-friendly products with excellent energy and cost efficiencies.

Featured article 1: “Heat and Comfortable Lifestyles”

To achieve rich and comfortable lifestyles which are environmentally friendly - “Combustion” expert’s passion and dream -

For “the realization of rich lifestyles utilizing heat”, we have been conducting a research on “combustion”, which is one of our core technology, for a long time.

We requested our combustion experts who are tackling the issues such as “safe and efficient combustion” and “the reduction of burden on environment” to talk about their thought on their research and development.



■ Developing products that match with the country and region considering the food culture and climate



Hideo Okamoto
Head of Combustion Technology
Development Office
Element Development Division
Research & Development Headquarters

What is “Combustion Technology Development Office”?

Okamoto: It is the division to develop burners used in gas appliances including hot-water units, kitchen appliances and heaters and research combustion control. Not only the gas appliances used in Japan, we also develop gas appliances produced overseas and provide technical support to overseas local development staff.

What are the issues in the kitchen appliance area?

Takemoto: While safety, assurance and high efficiency are minimum requirements, kitchen appliances are required to provide usability being easy to cook and clean. What people seek for “usability” can be significantly different in Japan and overseas. For example, highly efficient small burners have high demand in Japan while big burners are popular depending on countries due to the difference in food cultures. It is important to propose products that meet the local food cultures.

Akagi: Although there are difference in cultures, gas has a merit that does not restrict users how to use. For example, IH heaters limits the pots that can be used with, however, any pots can be utilized with a gas stove. It is more desirable that appliances do not restrict tools to be used with.

Takemoto: Another merit of gas is that users can visually check the strength of power. Moreover, a grill stove heats up a ceramic plate to use radiant heat to grill fish, it will be close to char-grilling due to its far-infrared radiation effect. With electricity, it takes 20 minutes to grill fish, but 13 minutes with gas. Gas is superior in terms of power and speed as well.

Okamoto: In short, it is important to first understand the environment and food culture of a consumption area and then propose a product that fits in the local market utilizing the merit of gas. It is crucial how to grasp the local needs.



Far-infrared grill burner

■ Coping with strict environment regulations pursuing economic efficiency

How about the hot-water unit area?

Akagi: The challenges for hot-water units are high energy efficiency and low nitrogen oxide (NOx). Since there are regulations for NOx emission in various areas of the world, we have to clear such rules.

Okamoto: Particularly in California State, the U.S.A., has strict regulations on NOx emission.

Akagi: We are developing a large capacity hot-water unit with a burner which uses different method to infuse air from that used in Japan. However, this hot-water unit makes a resonance sound during its operation, so we need to first solve this issue. In addition, cost reduction is another important theme. Users give a priority to cost efficiency. So, even after achieving low NOx emission, we shouldn't be increasing the price, but rather should reduce the cost, which we found difficult.

Takemoto: Cost down is also crucial in the area of kitchen appliances. However, it is easier for users to understand added value such as "easy to clean". So, it tends to be able to gain users' understanding although the cost goes up. On the other hand, the hot-water unit area is difficult to make people realize added value.



Kazuyuki Akagi
Chief in charge of hot-water units,
Combustion Technology Development
Office, Element Development Division,
Research & Development Headquarters

■ Measures to reduce "the scope which is out of our imagination" for our products

How do you see the assurance of safety as a maker's responsibility?

Okamoto: It is important to develop environment-friendly energy efficient products, however, our fundamental policy is to provide "safe and secure gas appliances" to the world. For our customers to safely use our products until the last minute before the product breaks down, we practice tests assuming various usages.

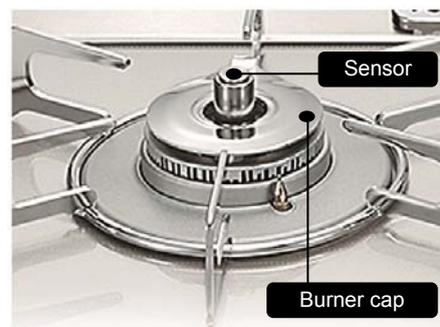
Akagi: For example, there is a case that a hot-water unit is covered by walls after the installation. This is out of our expectation, however, even in such a case, I think it is important to fully assure the safety.

Takemoto: As for gas stoves, although gas stoves with Si sensors are common nowadays, right after the introduction, there were cases that users didn't notice that they had installed burner caps upside down after removing them for cleaning. Therefore, we changed the configuration of burner caps and made them touch a pot if it is installed upside down to give a sense of oddness. I think it is important to design products in the way that lets users know when they were using the products with a wrong method.

Okamoto: It is one of our advantages that the measures against users' mishandling are addressed globally. By learning various cultures and common sense of countries and areas, it is important to reduce the scope of "out of our imagination" by executing various tests for the cases including "the usages that cannot be imagined at all". By implementing tests based on various scenarios and assumptions of abnormal uses which cannot be usually thought of, we will make efforts to assure safety by modifying our products or implementing measures, if necessary.



Yasunobu Takemoto
Manager in charge of kitchen
appliances, Combustion Technology
Development Office, Element
Development Division, Research &
Development Headquarters



Si Sensor stove

At the end, please tell us your dream and goals as a combustion specialist.

Takemoto: Japan's technology on kitchen appliances is at the top level of the world. Although there are differences in food culture, it is the same recognition that energy conservation is important. We would like to promote Japan's high technology on combustion technology.

Akagi: The environmental regulations will likely become more severe in the future. We would like to develop low priced and compact hot-water units with excellent functions such as low NOx emission and play a part of role in the conservation of the environment of the earth.

Okamoto: In the world, there are countries of which gas price is low and/or water is precious. It must be possible to come up with a various solutions to meet the local conditions of each country and area. Utilizing its own technology, we would like to become No.1 and only one comprehensive heat-energy appliance manufacturer in each country and area in the world.



Featured article 2: "Quality"

Rinnai Group's passion for manufacturing which cares about "quality", "safety and peace of mind" and "comfort"

Since the establishment, Rinnai has been manufacturing high quality products. We believe the measures for "quality" is the most important to insure that our customers use our product "safely and with peace of mind". We would like to introduce our passion for quality and activities.

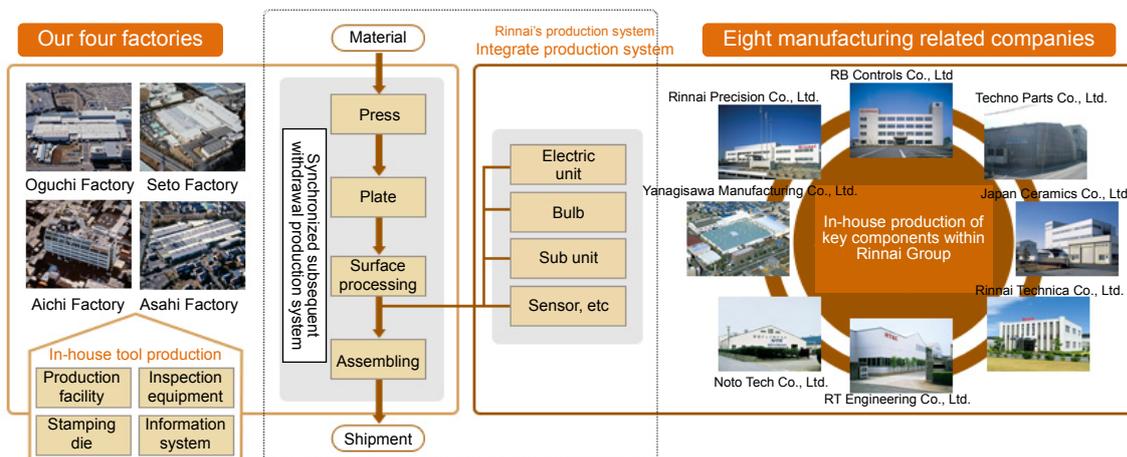
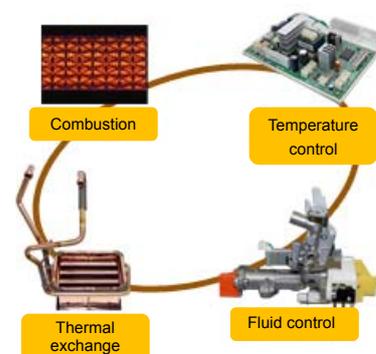


■ In-house development and manufacturing of critical security components to provide safe and satisfying products

Posing "Quality is our destiny (our livelihood depends on the quality of our products)" as our basic policy for quality management, we are conducting business activities with strong passion for quality.

Under the quality policy of "Providing safe and satisfying products to our customers", we strive to arrange "the provision of safe and secure products", "stable product supply" and "the establishment of high quality service system". Considering that "not to release any defect products to a market" leads "to provide safe and secure gas appliances" to customers, we give importance to the achievement of Zero defect (ZD)* By introducing an integrated manufacturing system, Rinnai (4 factories) and Group companies (8 manufacturing related companies) process in-house development and manufacturing of critical security parts such as gas and water control components and control board.

*Zero defect: No failure, no defect products and no fault



■ High quality, not only suggesting the quality of products, but also implying the influence of our products

The "quality" that we think of is not only "no failure" "no defect products" and "good functionality". We believe "the creation of comfortable life" is a part of "quality" There is no doubt that it is important to provide gas appliances with good durability and functionality. In addition, we need to manufacture goods that we can offer "safety and peace of mind" and "comfort" to our customers.



We care about the quality of product. Furthermore, we pay attention to how our products can affect the lives of our customers as "the final results" of our production. We would like to improve the final results as well and this is part of our passion for manufacturing.

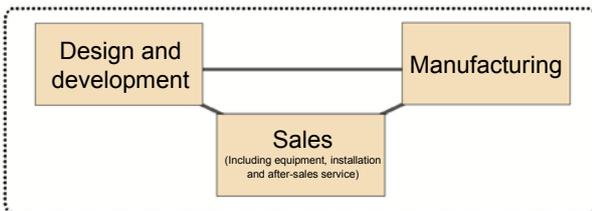
■ Establishment of system which is defect product free due to the perfection of quality in each process

To achieve zero defect day, it is necessary to establish a system. Therefore, in order "not to produce defective products through each department's operations" and "to provide 100% good quality products to our customers", we adopted "a self-completing production system", which each department uses to perfect the quality of products.

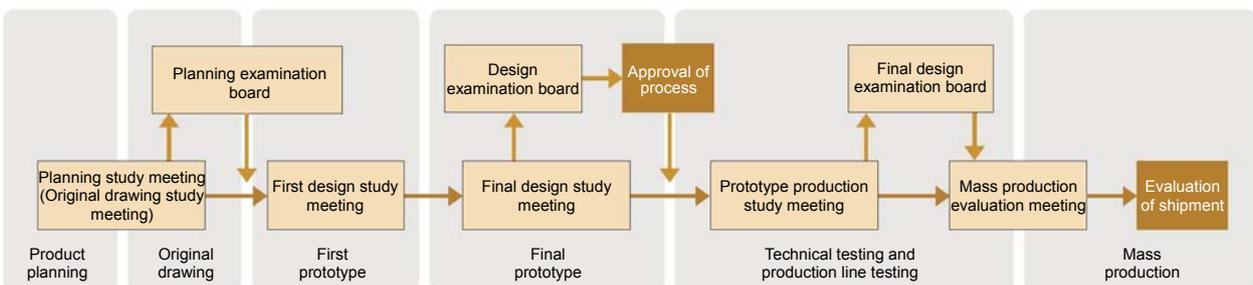
Moreover, we also focus on design quality improvement activity. We verify the design from planning phase to a trial-run of mass production, hold mass-production evaluation meetings and implement mass production verification before allowing shipment. During the processes, the results are reflected to the design. By repeating prototype production and testing, we conduct thorough verification and check to produce good quality products.

Furthermore, when a defect product is found, the actual product and production site will be used to assure identifying the cause. Then, we will solve the issue and conduct appropriate disclosure of information which is centrally controlled. When the matter is serious, we will immediately report to concerned government agencies. We will discover the cause, prevent the expansion of damage and implement preventative measures for similar issues. In addition, we will identify risks in each product life cycle from planning, production, sales and maintenance to solve the issues.

<Self-completing Production System>



<Design quality improvement activities (Application of new design inspection system)>



Column

1. Information disclosure and voluntary inspection for “safety and peace of mind”

We promptly disclose product safety information to our customers to call for their attention and immediately provide measures such as fixing and checking products. In fiscal 2011, the following information was disclosed and voluntary inspection and maintenance was conducted.

[Notification of the free parts replacement for a gas rice cooker]

"α Kamado daki" which is a gas rice cooker with an electronic rice jar, observed accidents that part of product is burnt and damaged due to the corrosion occurred with alkali cleaner penetrated into a gas connecting area. While warning to our customers, we provided product check and component replacement.

(July 13, 2010, a company notice was publicized.)

[Implementation of voluntary inspection and maintenance for hot-water and heating units]

Rinnai discovered that there are cases that the temperature of hot water produced with some of our hot-water and heating units abnormally increases from time to time due to the malfunction of its circuit components. We disclosed the information and executed voluntary inspection and maintenance for the products.

(February 3, 2011, a company notice was publicized.)

2. Environment conservation in manufacturing processes, as part of quality improvement measures

We are considering the reduction of the burden on environment during our manufacturing processes is part of our measures for high quality. For example, Registration, Evaluation, Authorization and Restriction of Chemicals (Reach)* requires to study and measure the chemical contents in advance. We allocated three chemical substance measuring instruments in three locations in our Group companies and each location of Group companies is strengthening environment conservation measures.

* Registration, Evaluation, Authorization and Restriction of Chemicals (Reach): European Union (EU)'s new chemical substance regulation which enforce the registration, evaluation and permission for the chemical substances produced in or import to EU. Enforced in June 2007



Measurement at Oguchi
Factory



Measurement at Shanghai
Rinnai

Featured article 3: Contributing to Local Communities

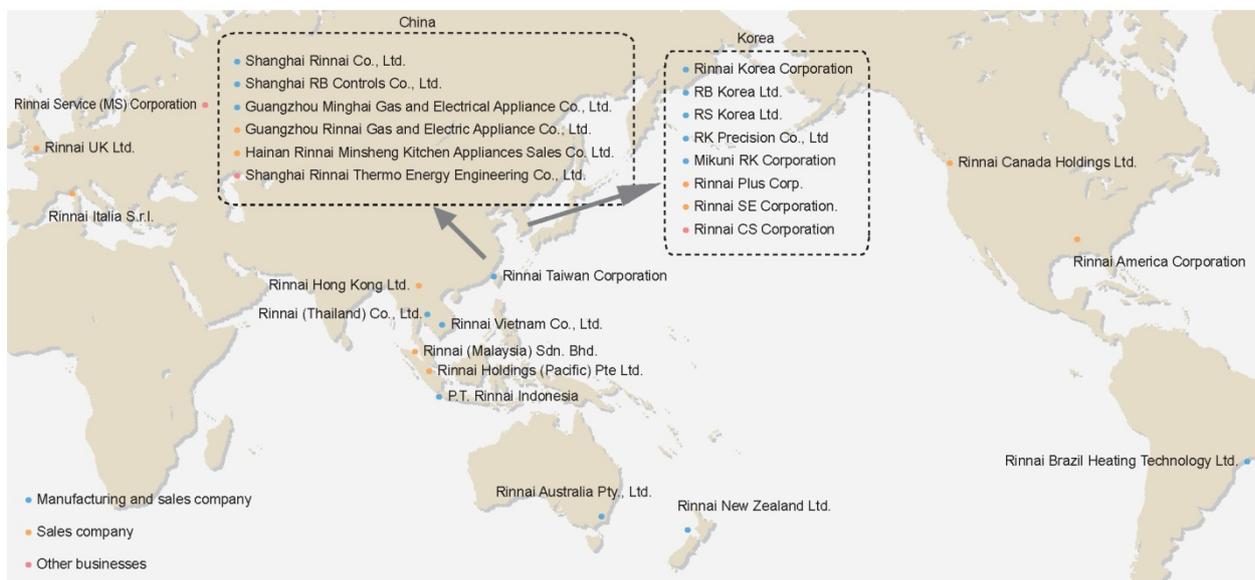
Our fundamental policy is to locally produce the products to be sold in the local market.

As a global company, we aim to contribute to local communities.

The Rinnai Group, as a global company, strives to provide the products that satisfy the characteristics of each market in the world.

Rinnai's fundamental stance toward overseas development and the current status of Rinnai Australia Pty Ltd which celebrated its 40th anniversary in 2011 are introduced in the following sections:

■ Actively promoting "localization" providing products to support the lives of the countries and regions



Our group company has a policy, through the production and sales of thermal energy appliances, to contribute for the improvement of food culture and living culture of people who live there. Based on this policy, we established Group companies in 16 countries and areas and started local production in 9 countries and areas among them to provide products and services that satisfy the local needs.

Our attitude toward manufacturing is something common in the world; however, in the countries and areas with different culture and customs from those of Japan, our products and services which are sold in Japan cannot be always supported if they were brought to the markets as they are.

Moreover, workers also have different ways of thinking from those of Japanese. Therefore, we actively assign local staff to executive positions to promote the management structure headed by the people in the region. In addition, through our operations, we are doing our best to conduct product development and provide services that meet the climate, culture and energy policy of each country/area. Moreover, utilizing the Japan's technology for gas appliances which is considered high in the world, we develop products that are suitable to the country and area and promote the alliances with Research and Development Headquarters in Japan. Having the development of lives and culture of the countries and areas as our mission, we deploy "Rinnai" brand and receive high reputation among overseas customers.

■ Rinnai Australia Pty., Ltd. which Celebrated its 40th Anniversary in 2011



Rinnai Australia Pty., Ltd.

We have been actively promoting overseas operations since the 1970s. Rinnai Australia Pty., Ltd. which celebrated its 40th anniversary in 2011 took over a local subsidiary of Perkinson Stove Co., a British gas appliance maker which Rinnai used to form an alliance with. Its initial focus was the sales of heater, however, in 1993, it started the sales of instant-heating (tankless) gas hot-water heaters. Electric storage-type (tank-based) hot-water units used to be the major product in the hot-water unit market, however, now instant-heating (tankless) gas hot-water heaters consists of about 30% of the market share.

Australia has strong awareness towards environmental issues and has been promoting advanced environmental measures, and Rinnai Australia implements product development and sales which match with the needs of the local market.

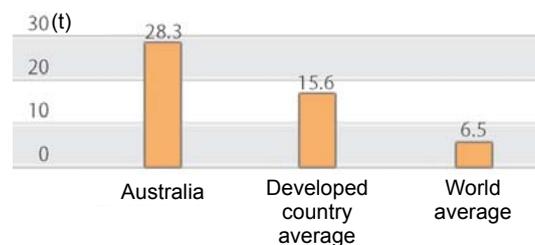
■ Various Climate Issues in Australia and its Advanced Environmental Measures

The climate of Australia, which has a vast land of about 7.7 million m² in the Southern hemisphere, varies significantly even within the country. The northern area belongs to savanna climate recording over 30°C of the highest temperature of the day throughout a year and has relatively abundant precipitation, however, the central area has little rainfall and is dry of which temperature during summer may exceed 45°C. The eastern and southern areas where major cities concentrate are hot during summer however their climates are overall mild. In addition, there are about 12,000 islands around the Australian continent demonstrating various climates. In these years, the fluctuation of precipitation is severe and Australia often suffers from droughts causing water shortage in some areas. In cities, water consumption restriction is often imposed. Therefore, it is said that citizens have very high awareness for water conservation.



Flood in Queensland

On the other hand, there are areas which are hit by flood. Particularly, a record rain which started in the end of 2010 caused a large scale flood in the eastern part of Queensland resulting in serious damages. Afterwards, while water started withdrawing in Queensland, another flood was reported in Victoria of southeast Australia.



Annual amount of greenhouse effect gas emission per capita (Converted into CO₂)

Source: JETRO "Awareness of citizens and environment related measures in Australia"

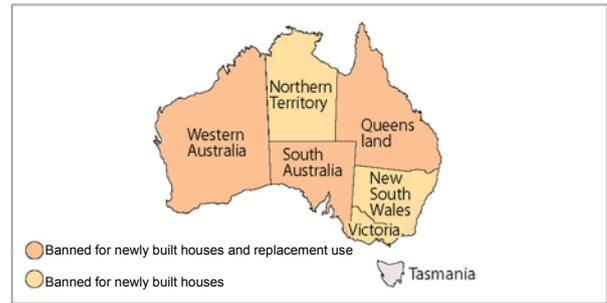
Moreover, the annual amount of greenhouse effect gas emission per capita is 28.3 tons as converted into CO₂, which is higher than the world average of 6.5 tons and the average of developed countries of 15.6 tons. One of the main reasons is that the country's dependency on coal fired power generation for its electricity production. Although the country has one of the highest uranium production levels in the world, there is no nuclear power plant of which CO₂ emission level is low. This is due to the strong resistance of people and the condition that coal fired power generation can assure sufficient electricity without relying on nuclear power plants.

Australia with abundant coal and natural gas used to have low interest in energy efficiency improvement and energy resources with less CO₂ emission. However, due to the fear for the climate change and rising awareness towards global environment protection, it has become one of the countries which adopted advanced environmental policies in the world.

■ Prohibition of the use of electric storage-type (tank-based) hot-water units expecting for gas and/or solar system units

The examples of numerical goals of Australia's environmental policy include; (1) To increase the ratio of renewable energy to 20% by 2020. (Currently it's about 5%), and (2) To reduce CO₂ emission by 60% by 2050.

To achieve the goals, various political measures are implemented. With regards to Rinnai Australia's business, there is promotion to restrict the sales of electric storage-type (tank-based) hot-water units. Currently, both electric storage-type (tank-based) hot-water units and gas hot-water units have about 40% of market share. This regulation is to reduce the electric storage-type (tank-based) hot-water units which are less environment-friendly. In Tasmania, all the sales for newly built houses are already banned and the replacement sales will be also completely prohibited starting from 2012.



Status of the restriction of electric storage-type (tank-based) hot-water units

On the other hand, as a renewable energy promotional measure, houses which employed solar hot-water systems from February 2009 to June 2012 are granted 1,000 Australian dollar of subsidy. In addition, houses which adopted electric heat pump hot-water systems also receive 600 Australian dollar of subsidy. To cope with the demand to replace electric storage-type (tank-based) hot-water units, Rinnai Australia is increasing the product lineup for gas hot-water units and solar hot-water systems.

Rinnai Australia continue to develop and sell the products which meet the natural environment, political measures and needs of people in Australia and contribute for the improvement of lives and culture.

Column

1. Instant-heating (tankless) gas hot-water heaters

Although instant-heating (tankless) gas hot-water heaters are common in Japan, electric storage-type (tank-based) hot-water units used to be the standard products in Australia because of its low electricity cost. However, electric storage-type (tank-based) hot-water units have issues such as that the saved hot water cools down due to heat radiation loss and the amount of hot water becomes short. Furthermore, coal fired power plants have been receiving criticism as being harmful to environment because they emit enormous amount of CO₂ and there is loss in power transmission between power plants and consumed places.

Rinnai Australia has been promoting the convenience (no hot water shortage) and the environment-friendly attribute (no heat radiation loss) of instant-heating (tankless) gas hot-water heaters. Currently about 30% of its sales of total hot-water units is from instant-heating (tankless) gas hot-water heaters.

However, since gas including natural gas is also fossil fuel, people started paying attention to more environment-friendly heating appliances- to be more specific, solar hot-water systems which utilize solar heat (Please refer to the next section.) and athermal energy heat-pump system hot water units.



Instant-heating (tankless) gas hot-water heaters

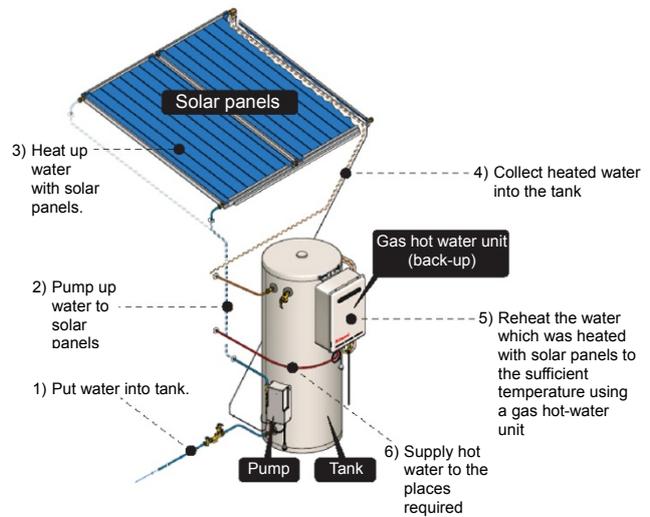


Solar hot-water systems

2. Solar hot-water systems

Solar hot-water systems utilizes renewable energy, solar heat, to produce hot water. Rinnai Australia proposed a system combining a solar panel and a gas hot-water unit and is receiving strong support from many consumers.

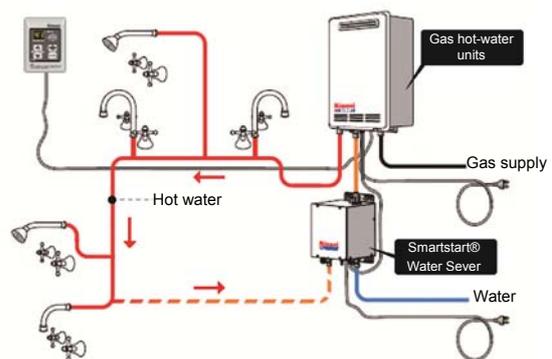
The fundamental structure of this system is to run water in solar panels to heat up and save heated water in a tank. When the temperature of the hot water isn't high enough, a gas hot-water unit is used to heat up the water. There are a tank and panels combined type and a tank and panels separate type.



3. Smartstart® Water Sever

Conventional gas hot-water units take some time to get hot water after a user turns on a faucet, so some water becomes waste. Therefore, Rinnai Australia sells "Smartstart®WaterSever" to reduce the amount of water to be wasted. After turning on the unit, hot water circulates through a loop of pipes. So after turning on a faucet, hot water which was running near the faucet comes out.

For the countries which are highly aware of water conservation, we believe it is important to develop and sell products to reduce the amount of water to be wasted.



Interview

Rinnai Australia Pty., Ltd.

As a leading company in the industry, we would like to create a market by providing highly efficient and environment-friendly products.

Rinnai Australia Pty., Ltd. is a company established in 1971 and currently grew into a company with about 250 employees and about 200 million Australian dollars of sales.

Australia relies on coal fired power generation and the reduction of CO₂ is a huge issue. Therefore, Rinnai Australia would like to contribute for the reduction of green house gas emission by promoting gas hot-water units and heaters. Meanwhile, we would like to provide gas appliances that meet the geographical conditions and energy supply status of the region. We present a wide range of hot-water units including highly efficient gas appliances as well as water-conserving system, the combination of solar water-heating system and electric heat pump hot-water systems. Moreover, we have been focusing on the program to convert heating systems of primary schools in Australia into Rinnai's gas heating systems which have superior energy efficiency compared to the conventional products.

The regulations on energy and environment conservation are expected to become more rigorous. Coping with such changes, Rinnai Australia would like to introduce highly efficient environment-friendly products ahead of competitors. As a company which leads the industry, we would like to create a market and produce products that are closely linked to people's lives.

Furthermore, we are also active in community activities. We support sports promotion for young generations and provide support for a large-scale bush fire and flood in the country.



Greg Robert Ellis
CEO, Rinnai Australia Pty., Ltd.

Interview

Rinnai Australia Pty., Ltd.

Developing products which utilize renewable energy and products with high heat efficiency

Developing products which utilize renewable energy and products with high heat efficiency

As the head of Adelaide Factory, I conduct the management of factory assuring the daily production of Rinnai products with high quality and energy efficiency to be on schedule through the cooperation with staff in each department.

Along with the rising awareness of people towards environment conservation and the application of more strict environmental regulations, it is expected that the environmental requirements on Rinnai products will become more severe. In the future, we would like to continue developing new products which utilize renewable energy and products that realize higher heat efficiency.



Heinrich Hofer
General Manager of Adelaide Factory,
Rinnai Australia Pty., Ltd.



With Our Customers

Measures for Quality

■ Basic Stance on Quality

Since our establishment, at Rinnai, we have always been executing our business operations being passionate about quality for our customers to safely use our products with peace of mind. 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.

Basic Philosophy on Quality
"Quality is our destiny"

Policy on Quality
**We provide highly safe products
 that meet customers' requirements.**

* 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 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.

■ Product Development in Pursuit of Safety and Peace of Mind

The nature of our business-making and marketing gas appliances-demands *monozukuri* (manufacturing) prioritizing safety. We 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.

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.

The Seven Key Elements of Quality

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

■ *Monozukuri* which assures high quality

* In-house development of core technology

To assure our products to achieve high quality and safety, we pay considerable attention to our core technology including "combustion control technology", "heat exchange technology" and "fluid-control technologies used for gas and water" and critical security components are developed and manufactured by our group companies. By achieving high-precision heat control using sensors and electronic units, we are pursuing absolute safety and zero defects.*

*Zero defects: No failure, no defect products and no fault

*** Integrated production system**

Critical security components which affect the quality of products are manufactured with an integrated production system from a raw material processing phase to an assembling phase paying extra-attention to manufacturing technique. Moreover, important production equipment, dies and IT system are all developed within the Group. We have been manufacturing high quality products by arranging the production of both critical security components and manufacturing tools within our group companies.

■ Information disclosure on "Safety and Peace of Mind"

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.

■ Invigorating Quality Improvement Activities

Seeking to enhance the problem-solving skills of each and every employee and invigorate the organization, we began promoting small group quality control circles. Involving our group companies, we are actively promoting this QC program. We award to the best circles at the company-wide QC circle conference in September.



Company-wide QC circle conference

CS Policy

Based on our corporate philosophy "Quality is our destiny", we "sincerely, promptly and adequately handle our customers' requests and offer consultation" and "provide satisfying, assuring and reliable services to our customers" as our policy.

Fundamental Policy

1. We, any departments of our company, identify comments and requests from our customers as our top priority.
2. We understand that customers' complaints are addressed to the entire Company and the whole organization shall be responsible for them until the cases are closed.
3. We take customers' comments seriously and share them within the Company to utilize as the precious information to improve our products and services.
4. We always abide by laws and regulations and we don't give in to unreasonable demand.
5. We strictly protect the personal information of our customers by observing related laws, regulations and Rinnai's Personal Information Protection Regulations.

Inquiry Response and Support System

■ Customer Center

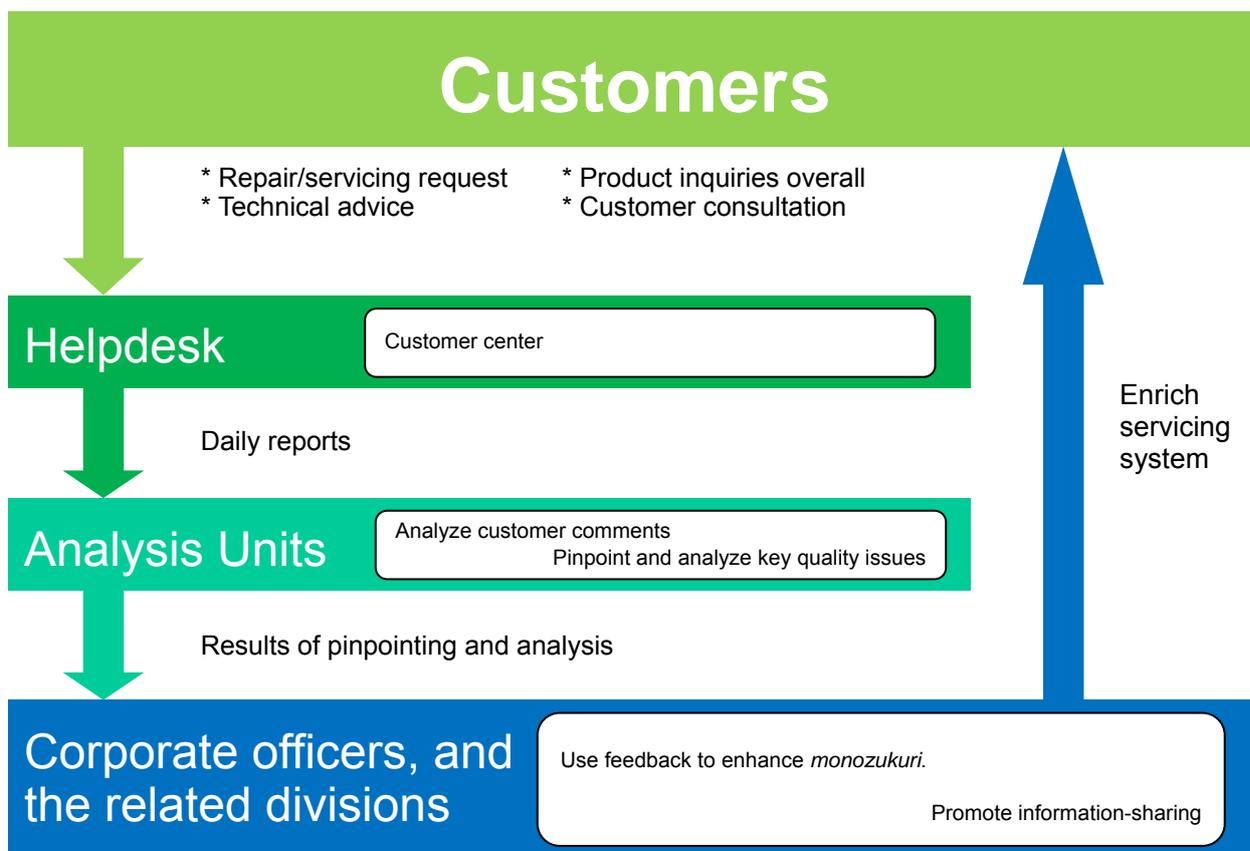
We established the Customer Center to receive any inquiries, comments, requests and complaints by phone. Valuable comments from our customers are shared with our product development, sales and service departments as feedback and utilized to further improve our customers' satisfaction. In fiscal 2011, about 1 million calls were made to our toll-free number and about 5,000 comments were forwarded through our website.



In May 2011, "Rinnai West Japan Customer Center" started its operation. Currently, we are shifting the functions from four customer centers in the Western Japan (Chubu, Kansai, Hiroshima and Kyushu) to the newly opened center step by step targeting to complete the process by fiscal 2012. Our customer service capability will be reinforced by having two centralized customer service centers including the "East Japan Customer Center" which started its operation in 2009.

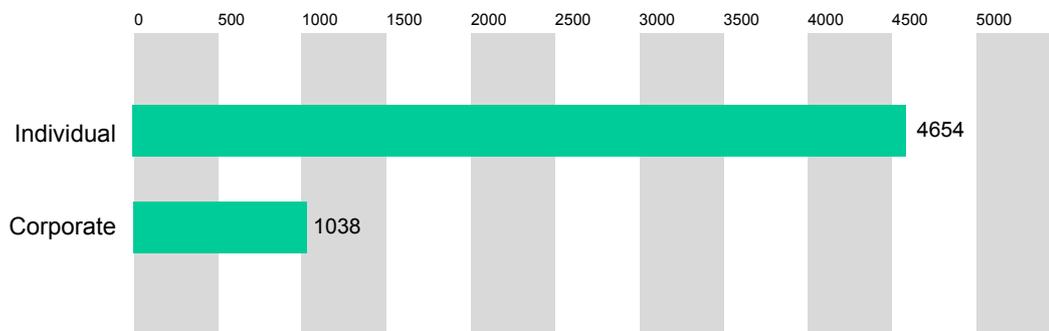
* We strive to reflect upon our customers' feedback on our products and services day in day out.

Applying customer comments to products and services



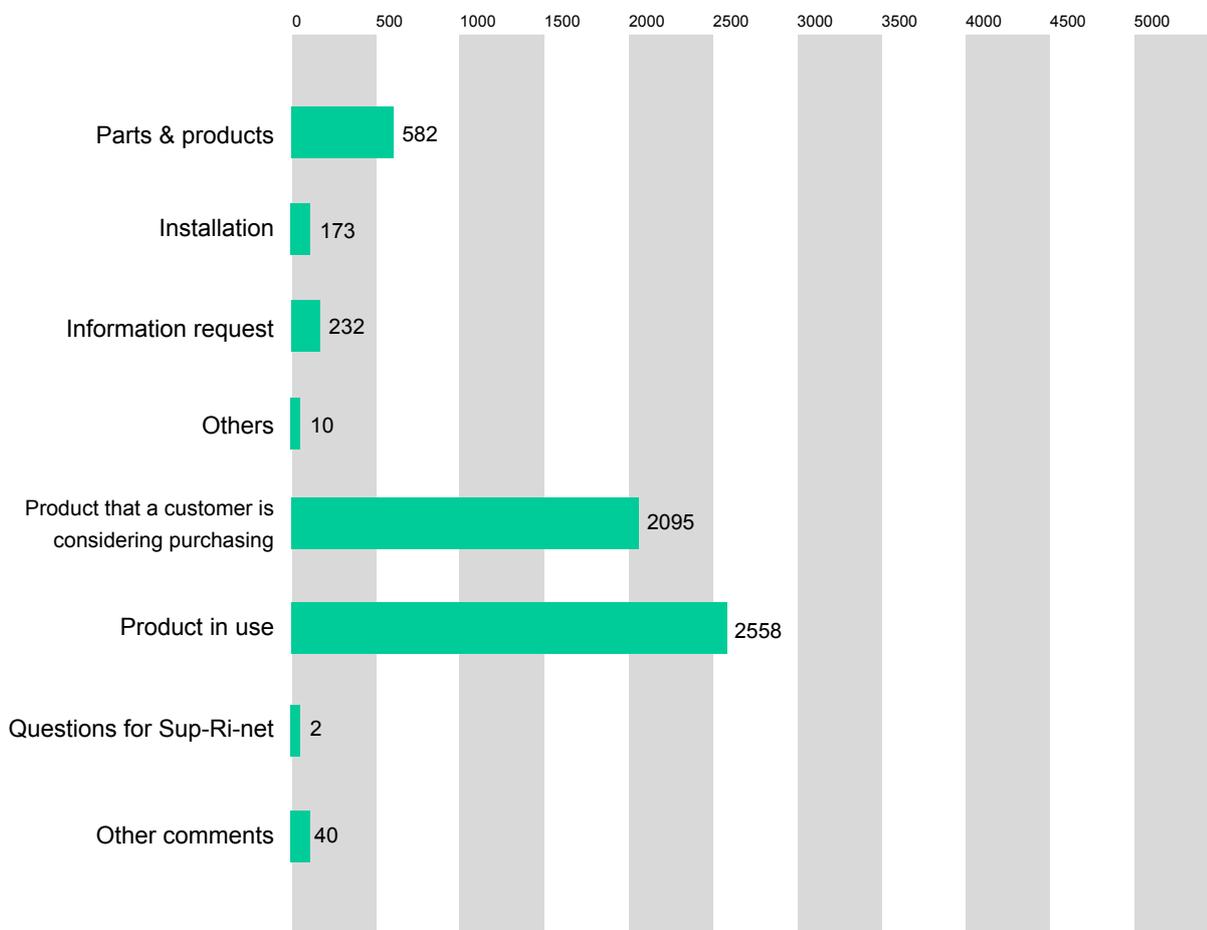
■ Our Customers' Comments (Introduction of customers' comments and inquiries forwarded through our website in fiscal 2011)

1. By customer



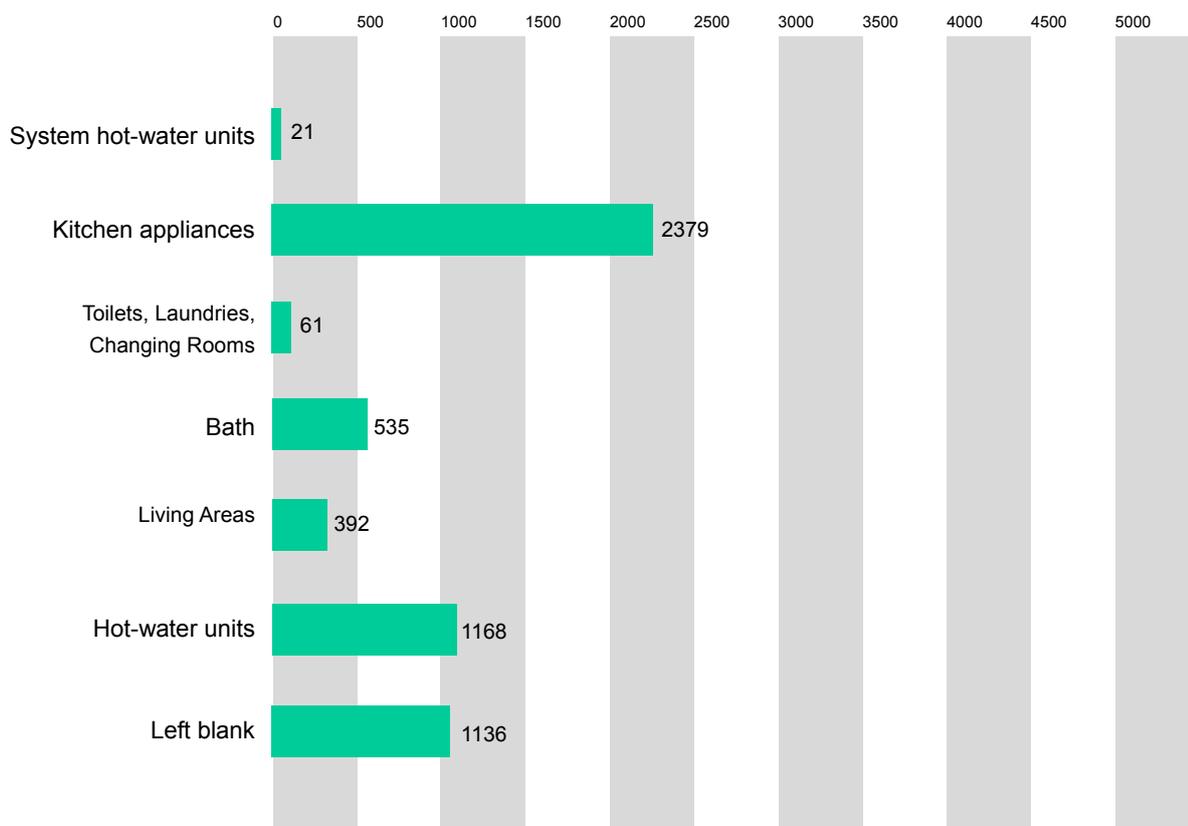
The breakdown of inquiries from customers is 82% from individuals and 18% from companies.

2. By content



(1) Product in use: 45%
 (2) Product that a customer is considering purchasing: 37%
 (3) Parts & products: 10%
 There are the three major topics.

3. By model



(1) Kitchen appliances: 42%
 (2) Hot-water units: 21%
 Many inquiries were kitchen appliances-related.

■ Strengthening our capability to respond to our customers

Responding to our customers' request who would like to solve their issues by themselves, "FAQ" is listed on our website.

In fiscal 2011, we increased the number of FAQ information by product type to 323 this year from 253 of the last year.

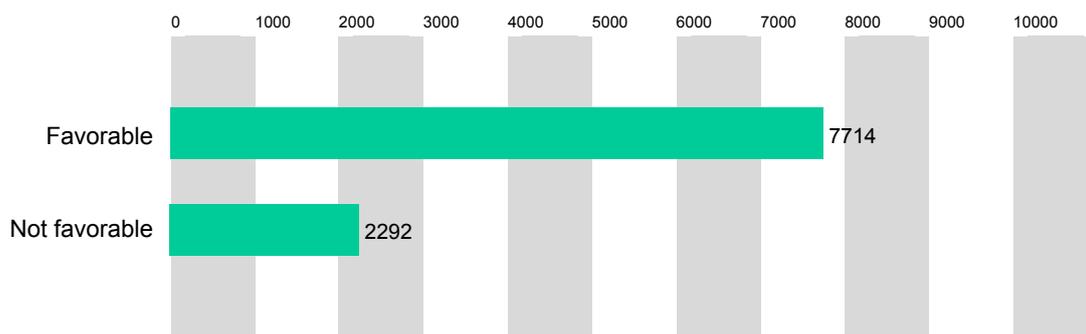
In addition, we listed more information on our new product, hot-water unit with the gas/solar hybrid system, to strengthen our customer service.

*FAQ: Frequently Asked Questions

In fiscal 2011, 77% people gave a favorable evaluation on our FAQ section.

We continue adding the contents to the section to be more useful to our customers.

- Evaluation on our inquiry handling



Inspection and Repair Services

■ For a long-term use without accidents - Inspections like a yearly medical check-up for appliances -

In April 2009, Consumer Product Safety Act was revised and a safety inspection system for products in long-term use went into effect.

Some accidents linked to the deterioration of our products over long-term use have been reported. 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.

We enhance our maintenance inspection system with our qualified service specialists. In addition, we provide our original services extending a warranty period to three years for the customers who purchased our home-use hot-water unit and completed customer registration.

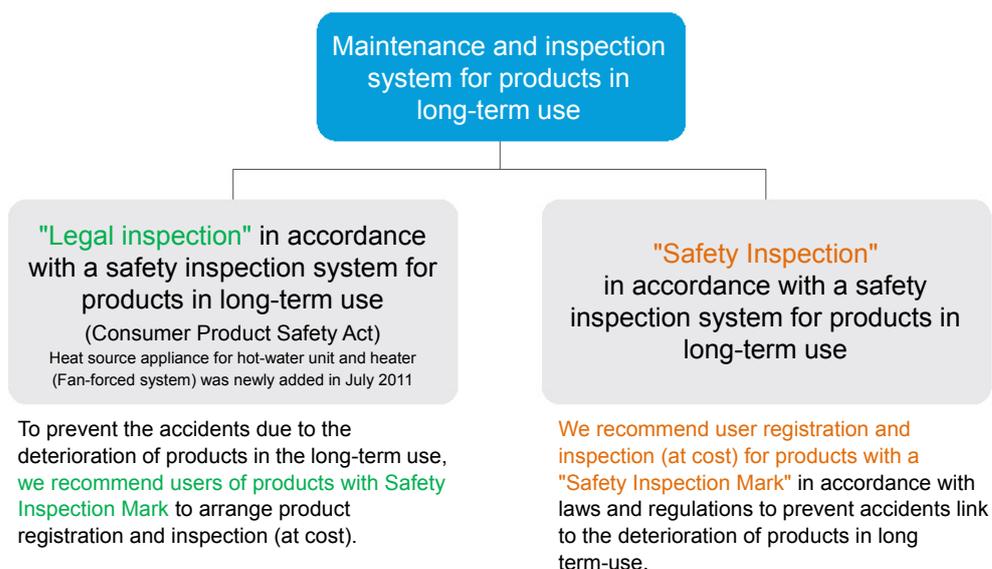
■ Fundamental stance toward inspection

Through inspections, we will enhance our customer support services.

Five focused points of our fundamental stance

1. Good inspection (Good inspector, good handling, legal knowledge, and inspector report)
2. Look through our customer's eyes (Usage of aged products, and reflection of customers' comments on products)
3. Customer satisfaction (Appropriate and caring information offering)
4. Proposal to assure peace of mind (Proposal to bring peace of mind before a product breaks, not after it broke)
5. Trust building (On our appreciation for our customers' long patronage)

■ Overview of our maintenance and inspection system



For the safe use of products, we recommend an inspection in 9 - 11* years after the production.

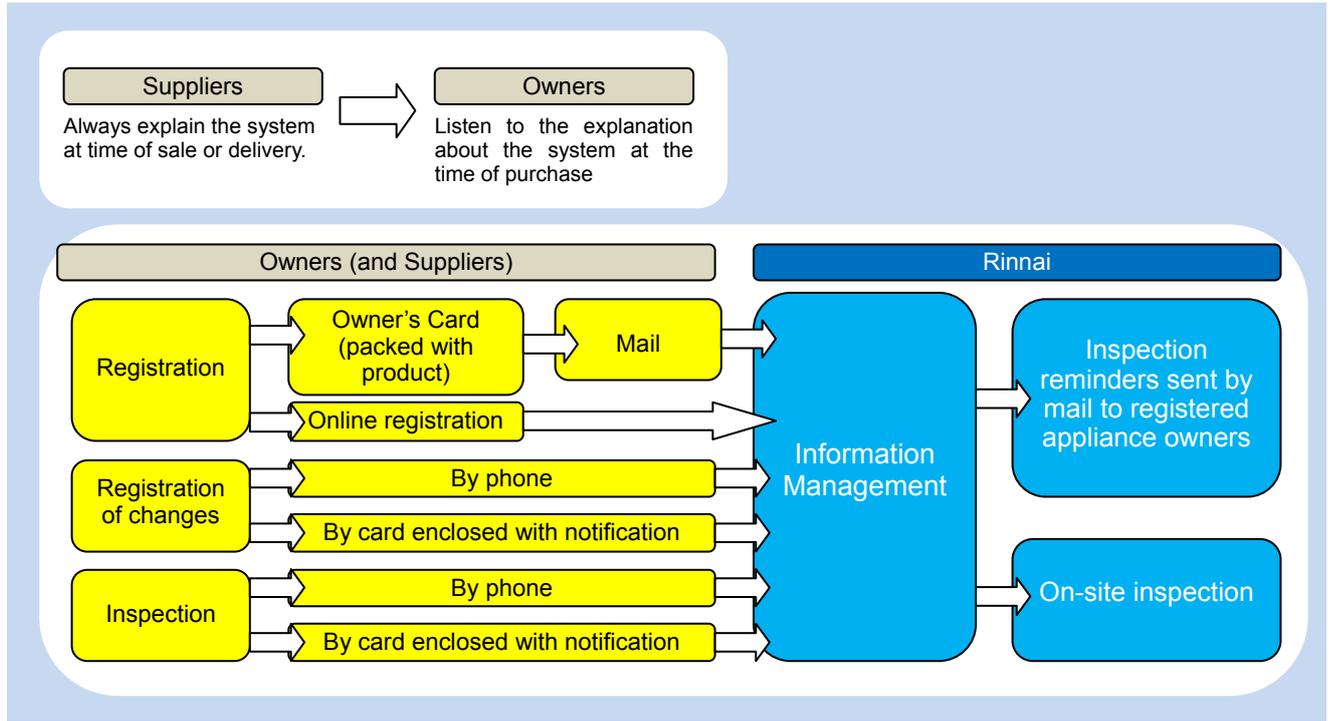
*For home-use appliances (Professional use: 2.5 to 4.5 years)

■ What is the "safety inspection system for products in long-term use"?

The "safety inspection system for products in long-term use" started in April 2009 is a system to encourage the registration of users and charged inspection for "Specified Maintenance Products" that may cause problems due to the age-related deterioration and may damage and may give serious damage to the life or health of consumers.



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



■ Recommendation of "Safety Inspection"

In consideration of the safety inspection system for products in long-term use, we recommend "Safety Inspection" for products that fall outside the scope of the system.

The scope of the safety inspection		
<ul style="list-style-type: none"> Outdoor-type gas hot water heaters and bath water heaters (Including hot-water and heating units, and heat sources only for heaters) <ul style="list-style-type: none"> Gas hot-water units Gas bath heating systems Gas heat source for hot-water units and heaters Gas heat source only for heaters 	<ul style="list-style-type: none"> Gas heaters <ul style="list-style-type: none"> Gas fan heaters Gas fan-forced heaters Gas stove Gas dryer 	<ul style="list-style-type: none"> Built-in-stoves <ul style="list-style-type: none"> Built-in-gas-stoves Built-in-gas-oven

* Some products are out of scope.

■ First step is user registration

User registration is the important “first step” to connect customers with Rinnai. When there is a user registration card attached to a product, please make sure to register. Information regarding inspections is detailed in our catalogs and on our website. We also actively request that customers register with us during maintenance visits and other such situations in which our staff have the opportunity for face-to-face interaction with customers.

[Activity to promote user registration]

Action items	Status
Notification at retail location	At locations such as mass retailers, we post the information of the safety inspection system for products in long-term use.
Extension of warranty	<p>For the user who registered, we extend a warranty period to three years. Subject: Home-use gas appliances (Excluding business-use appliances and electronic appliances)</p>  <p>An example of POP at a store</p>
Notification utilizing maintenance and installation opportunities	<p>The staffs provide user registration information to our customers utilizing maintenance and installation opportunities.</p>  <p>Leaflet</p>
Notification of the completion of registration	<p>To a customer who registered, we send a registration completion notice to his/her registered address.</p> 

■ Flow after user registration until an inspection

Based on the user registration information, we mail notifications to designated addresses when an inspection period approaches. Moreover, we provide inspections to our products which are already in use.

[Establishment of inspection period]



* "Designed standard service life" is a period that a product should be safely used without any problems under the normal circumstances with proper handling and maintenance. This is defined for each appliance. Please note that this is not the same as free warranty period. In addition, products that fall outside the scope of legal inspection (specific maintenance products) use the terminology, "Standard service life as designed".

■ Efforts to coordinate an inspection system

To adequately implement inspection, Product Inspection Center keeps improving its inspection system. In addition to the legally required check points of an inspection system, we also set up voluntary monitoring items to facilitate a reliable inspection system.

[Legally required check points of an inspection system and the current status of our company]

*In this context, the applicable law and ministerial ordinance are "Consumer Product Safety Act" and "Ordinance of Ministry of Economy, Trade and Industry for specific products that require maintenance", respectively. (As of March 31, 2011)

[Voluntary system action items and the current status]

Action items	Rinnai's current status
Enhancement of provision of information	We post the detailed information on maintenance and inspection system for our products for a long period of time on our website. The information includes the products that are out of scope of legally mandatory products (specific products that require maintenance).
Enhancement of items to be inspected	In addition to the items of which inspection is legally required (specific products that require maintenance), we set safety inspection products including home-use outdoor gas hot-water units, built-in-stoves and gas fan heaters.
Inspection quality improvement	The inspection results of all items are checked to see if there is any judgment error to assure the technology standards. The inspection completion rate is monitored all the time not to delay the inspection schedule.
Warning after the inspection	When an inspection result concluded the prohibition of the use of a product, we will provide the follow-up of the inspection by calling or writing to the user.

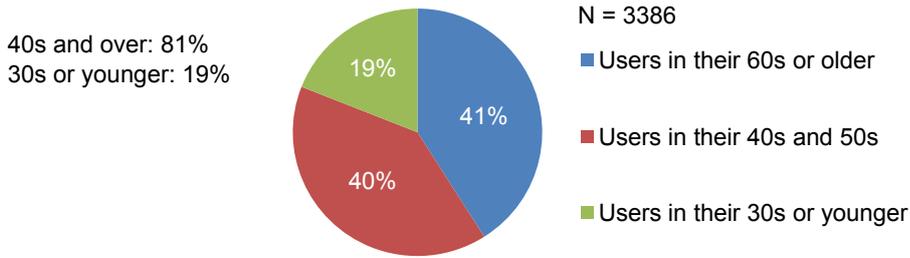
■ Trend of users who arranged inspection

Through inspection, we try to improve our customer support.

Aiming at further improvement, we will keep searching the best way to execute inspection using questionnaire results obtained from users during inspection as reference.

Source: Questionnaire survey for users who arranged inspection of small hot-water heaters (Researched from June 2009 to April 2011)

- Users who arranged an inspection by generation
The ratio of young generation is low.

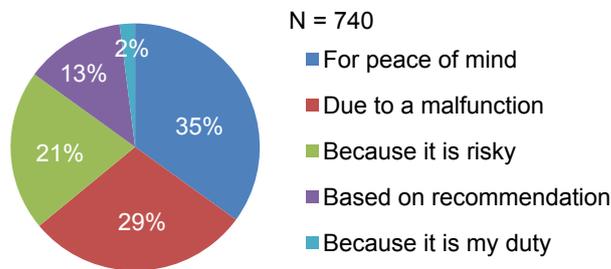


- Reason to arrange an inspection

While some people seek for peace of mind, many arrange an inspection after their product experienced a malfunction.

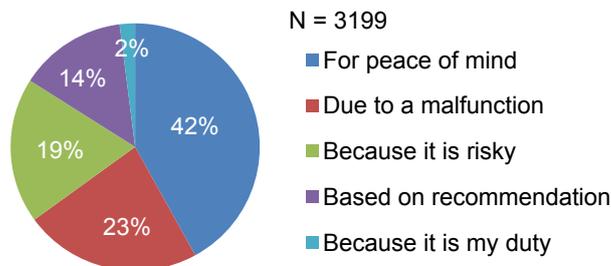
[Users in their 30s or younger]

The ratio of users who experienced a malfunction is relatively big.



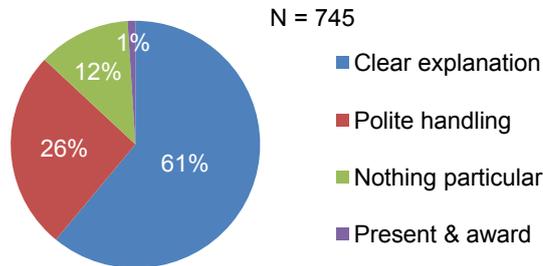
[Users in their 40s or over]

The ratio of users who seek for peace of mind increases while the ratio of users who experienced a malfunction is still high.

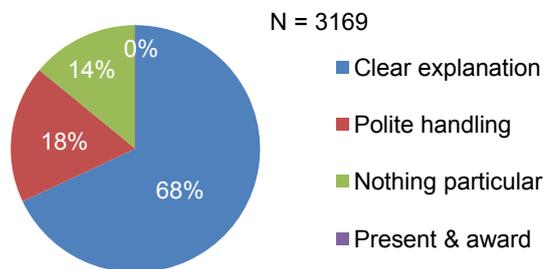


- What users expect to an inspection
All generations expect for clear explanation.

[Users in their 30s or younger]

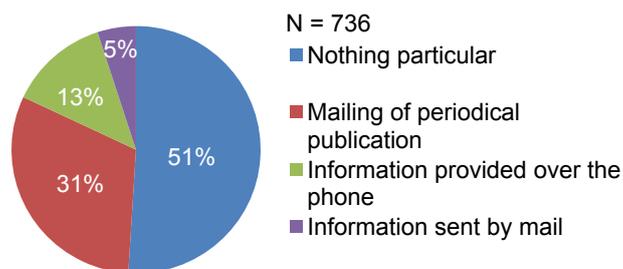


[Users in their 40s or over]

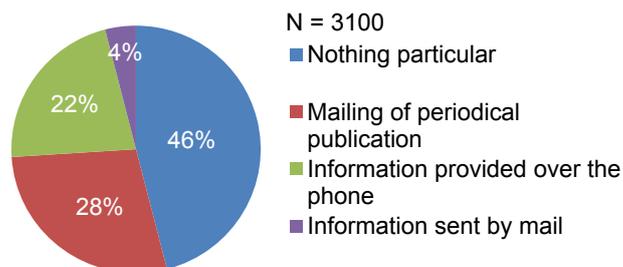


- The way of communication that users expect
Users are divided into two groups: one thinks mailing is sufficient and the other expects for periodical publication and phone calls.

[Users in their 30s or younger]



[Users in their 40s or over]



To realize our customers' "comfortable lifestyle" we are doing our best to provide services that customers can trust and use.

■ Free inspection of small, open-type water heaters

In 2007, one of our small, open-type water heaters malfunctioned and caused an accident. 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.

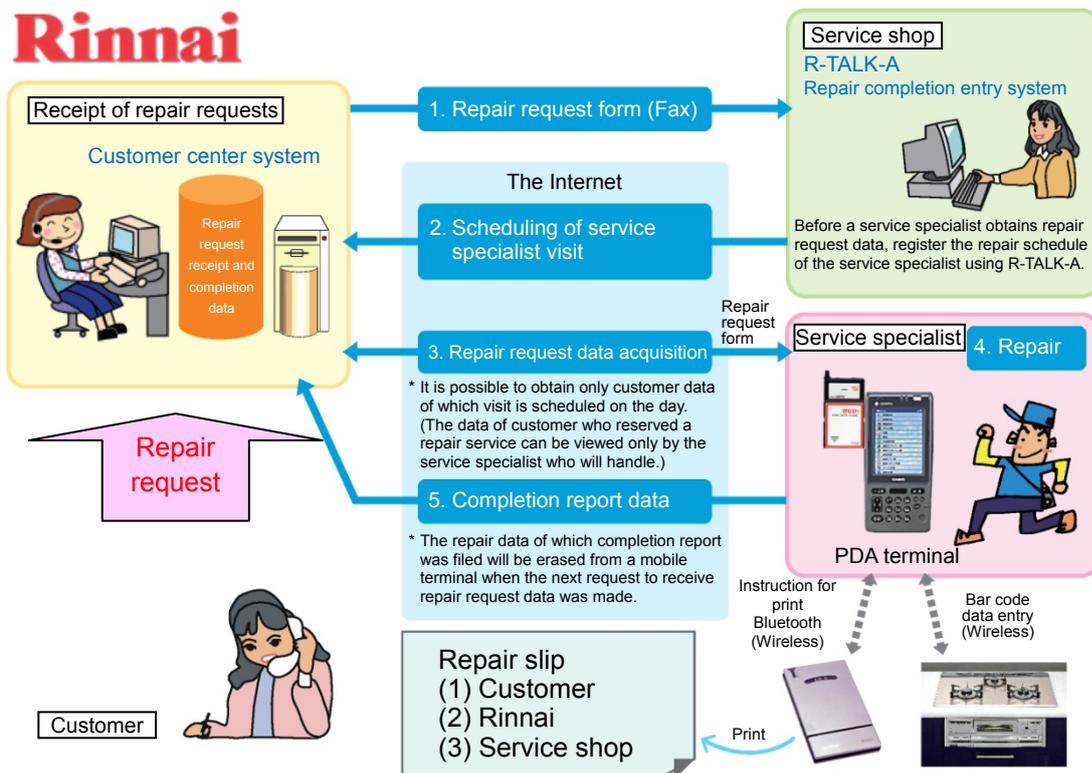
<Example of information on our website>



■ Immediate offering of after-sales service

About 700 service specialists provide repair service nationwide every day. To realize "comfortable lifestyle", we are trying to complete an after-sales service inspection on the day or by the next day.

To improve operational skills of service specialists, we introduced a mobile information terminal which allows them to confirm order status on site at the early stage and facilitate immediate service to our customers who requested for repair services.



■ Training of service specialists

* Annual training plan

We provide training to nationwide service specialists throughout year at Training Center in Nagoya area.

1	Explanation of specifications focusing on new products, cautions for installation and service points
2	Product development staff train area service managers or training managers first. Then, the employees who received the training will provide training to service specialists in their area.
3	Each area will host a CS improvement training session inviting external instructors.



* Special training for focused products

First, we ask opinions from our service specialists for the service for focused products. Then, collecting and reflecting comments from onsite staff, staff in charge of development and manufacturing at factory perform as instructors at a training session.

Moreover, after a training session, the confirmation test is provided to see the degree of understanding of service specialists, check and follow insufficient areas to nurture our service specialists.

■ Pursuing the higher customer satisfaction towards our services

We conduct "Voice of Customer Questionnaire" to our customers who received our repair service requesting them to evaluate the satisfaction rate for our repair visit. Customers' evaluation results will be shared internally to efficiently utilize the questionnaire results.

In fiscal 2011, total 10,000 customers answered the questionnaire and gave high evaluation on our services.

Communication with Our 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.



Exhibition for users in Kyoto



Exhibition for business partners in Kitakyushu

Products Born with our Customers' Comments

To provide "The products needed by customers", our product planning staff directly visit the houses of our customers to listen to their requests and complaints about our products. By reflecting the voice of customers in the planning of new products, we're trying to develop new products which satisfy the needs of customers.

■ Upgraded "DELICIA"

"DELICIA", a built-in-stove of which sales started in 2007, was further improved and reborn as a new product in 2010. The design, which has been popular, was further fine-tuned from the original model and various modifications were made in the hidden parts.

Gathered our customers' comments

- Glass-top made it easier to clean up, however, areas around burners get burned.
- I don't use a grill to cook fish because I don't want a mess and smell.
- I wish Dutch oven could be bigger.
- The letters on the control board are too small and dark to read.
- It is hard to clean the mesh for grill.



Advantage of new "DELICIA"

- "Heat-off glass-top" that controls the increase in the temperature of glass-top and makes it hard to burn
- "Smoke-off grill" that drastically reduces the smoke and smell while cooking fish
- A Dutch oven with 1.5 times larger capacity
- A control panel with a back light
- "Ra-Clean Grill" which is easy to clean partially due to a flat mesh



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.

For our employees to be able to work with a sense of achievement and accomplishment, we provide support through our personnel system as well as various welfare programs to take care of employees' health and cater for their families. Moreover, for each employee to fully demonstrate his/her capability, we try to create a family-like office culture, and improve and maintain our workplace to be safe, secure and healthy. We believe that the source of motivation for employees to grow and fully demonstrate their skills is "the provision of the opportunities to improve" and "the sense of achievement and accomplishment". To increase the satisfaction level of our employees, we are promoting the following four items as our foundation:

- (1) Provision of opportunities for our employees to grow [Rank-specific training programs, specialization courses, On-the-Job Training (OJT) guidance, appropriate staff allocation and rotation]
- (2) Evaluation and reward which is fair and convincing (Performance appraisal, interview system, salary increase and benefit improvement)
- (3) Creation of family-like working environment (Improvement of office building, working environment and facilities, annual events, club activity support, and interdepartmental cooperation)
- (4) Welfare program for employees and their families (Welfare program options, health support, corporate pension and events with the Rinnai Employees' Association)

Personnel Training

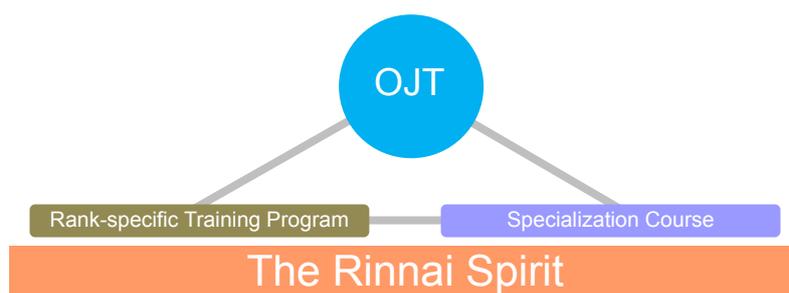
We defined our fundamental human resources policy as "Nurture and encourage our employees to have a high level of morality and keep challenging their own goals continuously making effort." We guide and train our employees to be able to demonstrate their initiative to drive the Company while giving priority to our Corporate Philosophy embodied in our Company Motto, "Harmony, Spirit and Sincerity", which Rinnai has been pursuing since its establishment in 1920, and our Corporate Mission, "Rinnai utilizes heating to provide society with a comfortable way of life."

We provide our employees with numerous opportunities to grow as an individual such as rank-specific training programs, specialization courses, OJT trainings and a rotation training program, which covers workplaces at home and abroad.

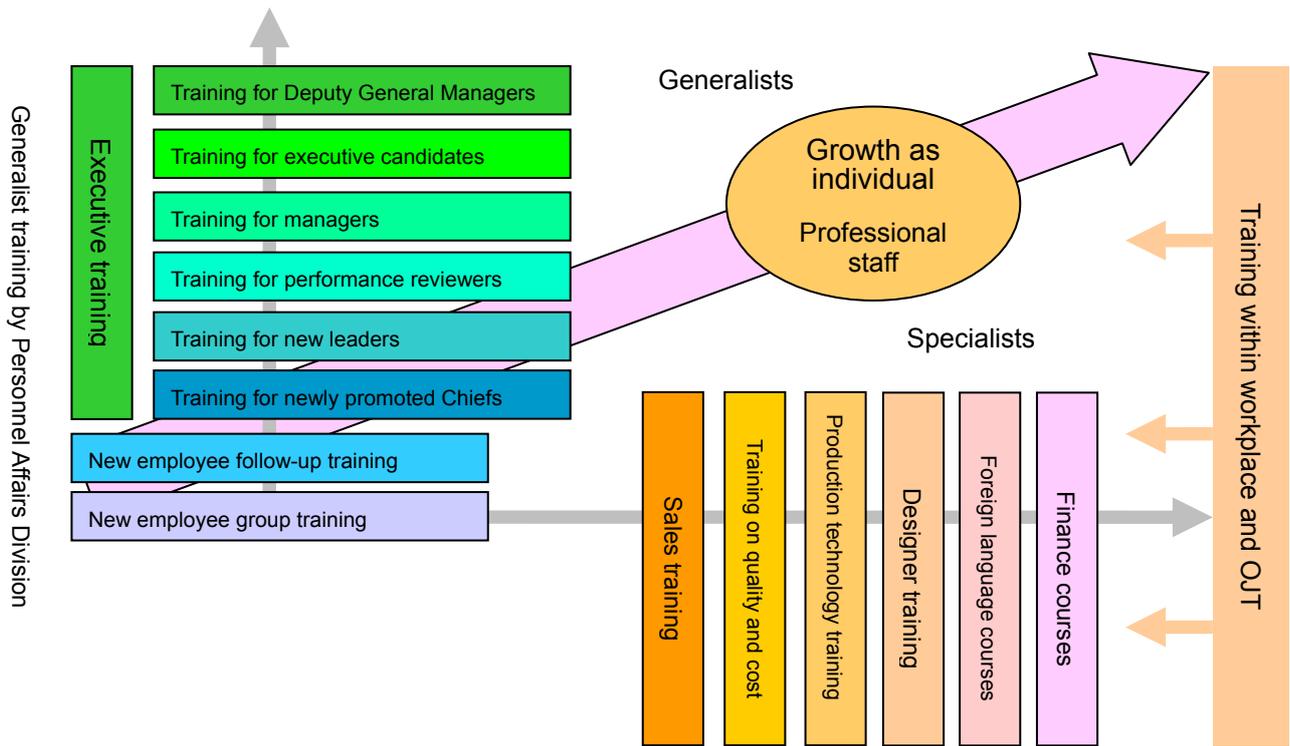
■ OJT Personnel Training

We position human resources as our most important management resource and we offer personnel training to assist employees to fully demonstrate their capabilities. Our main training is "OJT (On-the-Job Training)" wherein a supervisor guides his/her team member through an actual job. In addition, we provide a rank-specific training program, which supports the improvement of each employee as an individual by grouping them according to job responsibility, and a specialization course, which promotes our employees to be highly specialized in their area. These three programs form three pillars of Rinnai's training system. Moreover, we are conducting a level-up training program for group leaders who have been promoting our business plan since fiscal 2011. We plan and provide high quality internal training programs.

Three Pillars of Rinnai's Training System



* Personnel training and program system



Specialization Courses of each department

<Major Rank-specific Training Programs in Fiscal 2011>

Training	Subject	Content	Number of trainees
New employee training program	New employees	Basic training for professionals (manners, awareness as a professional), Fundamental training for Rinnai employees (company overview, the Rinnai Spirit, corporate ethics, personnel system, and policy on quality and environment), IT skills, mental health and factory onsite training	148 people
Follow-up training	Generalists in their 1st or 2nd year	Identification of items for self-improvement and goal setting through the review of previous year, mind-set as senior employees and communication skills	69 people
S4 training	S4 level qualified employees	Reconsolidation of fundamentals (corporate ethics and management policy), Recognition of his/her characteristics (to improve the strength) and the reinforcement of awareness of management	98 people
M6 training	M6 level qualified employees	Reconsolidation of fundamentals that M6 qualified employees/managers should know (corporate ethics, management policy, policy on quality and environment, labor management and working rules)	53 people
Performance reviewer training	Managers who need to review/interview their team members	Reconsolidation of personnel system, objectives of performance review and its method, and actual interview sessions (coaching and listening)	68 people
Recruiter training	Young employees (Research and Development Headquarters and Production Engineering Division)	Reconsolidation of the attractiveness of Rinnai and motivation for work, and role-play of interview with students (candidates)	18 people



New employee training program



S4 training (President's speech)



Performance reviewer training

■ Career Development Review

Evaluation through an Interview with a Supervisor: Feedback and Growth Navigation

For each training program to effectively function, it is essential to match the capability required by the organization and the goals set by the employees.

Therefore, Rinnai prepares a "Skill Map" and a "Capability Evaluation Sheet" to define the skills and capabilities required by each department and clarify the goals and capabilities the company expects to the employees to achieve. Based on these, our employees understand their current roles and responsibilities. Employees also have a one-on-one interview with their supervisor, wherein they receive the results of their performance evaluation and are informed of the company's future expectations of them. Then, they set up their own goals to challenge every year.

Supervisors, to actively perform the responsibility to navigate the growth of their staff, carefully review each staff's progress and contribution (performance evaluation) and adequately inform the evaluation results to the staff through "One-on-one interview" or "Performance appraisal feedback meeting".

■ Support for Self-Directed development

To support each employee to acquire higher specialist knowledge, skills and culture and support their growth as an individual, we actively provide programs including foreign language education, correspondence courses, external open seminars, technical proficiency examinations, license acquisition courses, and communication with people in different companies/industries.

In addition, for the young employees who have a strong desire to work overseas, we arrange and operate a short-term overseas working and training program that is available for them via application. This is to develop human resources that can globally demonstrate their capabilities working at our overseas locations.

■ Development of Global Human Resources

We believe that our success and development lies with how we empower all employees in the Rinnai Group, not only locally but also in our offices abroad without being restricted by international borders. Based on this belief, the management divisions, the product development divisions and the manufacturing divisions are developing their own training courses including overseas onsite programs.

(1) Management Department

To improve adjustment skills to foreign culture and international business sense through their actual overseas working experience in their 20s, it is mandatory for employees assigned to Overseas Business Headquarters to complete an OJT training program at an overseas Group company sometime during their third year of employment at Rinnai. (Assignment period: 2-3 years)

Moreover, we invite executive candidates of overseas Group companies to Japan for training. Rinnai actively passes Japanese/Rinnai-style management and planning method, accounting and sales know-how as well as Rinnai's corporate DNA to overseas employees.

(2) Product Development Department

We arrange and operate "Short-term overseas working and training program" for young employees who have strong desire to work overseas. This is to develop human resources who can globally demonstrate their capabilities through working experience engaging in areas including product marketing and quality issue handling.

We actively participate in international exhibitions for housing appliances in Europe and Asia to acquire the latest information on housing environment, local situation and the cutting-edge technologies.

(3) Production Department

Production Engineering Division in Japan drives the development of high and latest technology and engineers, while International Technology Support Department executes bottom-up plans for global talents. Production Technology Center in Japan invites total about 20 candidates for leaders to head their country production site of our Group companies for a 6 to 12 month training program. They will thoroughly learn "Rinnai's Japanese way of production system" and quality control method and will be ingrained "our passion" which is our corporate culture.

For particularly important overseas production Group companies, middle-ranked engineers are dispatched from Japan to station at the local sites and act as a trainer's trainer giving guidance on Japanese-style production and quality assurance know-how to local managers.

Comment from an Employee Stationed Overseas

It's been one and a half year since I was stationed in Rinnai America. My primary job is to communicate the instructions and information from Overseas Business Headquarters to local staff, gather and report the feedback from local staff and support alliances to develop new products.

I find every day exciting finding differences in the way that people handle work and business customs which are impossible to learn in Japan. I am gradually getting used to American culture and started acting based on deeper understanding situations including their background. Just like Rinnai America, which has been rapidly expanding in the large market of the United States, I would like to grow further through my efforts and globally utilize my experience finding new challenges.



Atsuki Taguchi, Rinnai America Corporation

■ Succession of *Monozukuri*, the Spirit of Manufacturing
 * Training at Production Technology Center (*Monozukuri* Center)

"Production Technology Center" established in March 2010 is a place to pursue leading-edge *monozukuri*, 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.

To pass Rinnai's *monozukuri* to the next generation, over 30 booklets of "Visual manual" were produced as a talent developing support tool. Utilizing this tool, our staff qualified in various technical areas provides detailed training on Rinnai's manufacturing technique accumulated from the past, for employees including trainees from overseas Group companies.



Training



Visual manual

* Training at Each Location

Each location has set up a "*monozukuri* legacy station", which accumulates and maintains stored 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 sharing and conveying the essence of *monozukuri* and training employees in such areas as improved efficiency and enhanced production management.



"Level-up Station" (Aichi Factory)



"Coating training station" (Seto Factory)

* New Engineer Training

New employees who are assigned technical jobs at the Technology Center and Production Technology Center, before their actual allocation to each department, receive onsite training at the Research and Development Headquarters and Production Engineering Division as well as practical manufacturing training at factories and production Group companies to learn about the importance of *monozukuri* including product and technology development.



Studying the structure of dish washer



Studying the structure of plug of gas appliances



Studying about gas combustion

Work-life Balance

■ Support for Work-life Balance

For all Rinnai employees to perform well attaining the sense of accomplishment and fulfillment balancing work and personal life for each lifestyle, we continue to enhance our personnel system to support all employees of any gender and nationality through their lives.

< Major Programs and Measures in Fiscal 2011 >

Program and measure	Content	Number of users
Childcare leave	An employee who lives with and is the caretaker of a child younger than 12 months of age can take leave until the child turns 1, or alternatively until the child is aged 1 year and two months.	31
Nursing leave and Family-care leave	Maximum 5 days of leave may be granted per year.	2 (Nursing)
Family-care long leave	In principle, total 93 days of leave may be granted per one family member who falls in to the subject of the care.	1
Come Back program	The program offers an employment opportunity to our former employees who had to leave the Company for unavoidable reasons such as marriage, child-care and family-care, or on his/her discretion.	3 registered
Volunteering support system	This is to support our employees' volunteer activities as a part of social responsibility activities to contribute for communities as a good corporate citizen.	0
Club activity support system	The Company supports the employees to be engaged in sports and cultural activities out of office hours to promote the sense of unity and communication among employees and in workplace.	447
In-house recruitment	This is to explore the employees who are highly motivated to improve their work challenging new areas. By allocating appropriate staff at a right position, it should promote the sense of satisfaction toward work and activate workplace.	0
Childcare shortened work hours	In the event that an employee is the caregiver of a child that hasn't been enrolled in an elementary school, or is the caregiver of a family member that requires nursing, the employee in question will be exempt from working late shifts (10:00PM - 5:00AM) with the exception of cases wherein the employee's absence would preclude or inhibit the continuation of normal business operations	19
Family-care shortened work hours	Any employee who is responsible for a family member that requires full-time or nursing care may shorten his/her daily working hours, provided that a minimum of 6 hours are worked each day. This provision is possible for 93 days per such family member.	0
Work from home program	The longest duration of "Work from home program" shall be one year per application. Utilizing IT equipment, an employee may work partially or entirely at home.	2
Measure to reduce working hours (Flexible working hours)	Depending on work plan, working hours and work start/end time can be negotiated.	Applicable to certain departments
Measure to reduce working hours (No overtime day)	Every Wednesday is set as "No overtime day" to encourage employees to leave early.	Applicable to certain departments
Measure to increase the ratio of consumed paid-leave	To promote the utilization of paid-leave, we encourage employees to take at least one day per each half fiscal year, total 2 days a year, as "Refreshing paid-leave"	Applicable to all departments

Comment from an Employee who Uses Work from Home Program

Each person has his/her view toward raising a child. I wanted to wait until my child turned 3 before resuming full-time work. So, after taking about one year of Childcare leave, I started working at home. Once I began, I realized how hard it is to manage work, child-minding and household chores all by myself. Lately, I ask my mother-in-law to look after my child. I am happy to utilize this program because I can spend longer hours with my child rather than working full-time at an office, yet I can maintain my job.

Keiko Makio,
Section Chief, Information System Division



■ Measures to Enrich Our Employees' Family Lives

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.

<Major Programs in Fiscal 2011>

Item	Overview
Nationwide events in Japan	Various events to promote health of our employees and their family members and communication including bowling competition, barbecue picnic, and sports festivals
Training seminars by age group	Training seminars focusing on the "Education for the soul" that supports employees to develop attractive personalities as members of society
Employees' awareness survey (New)	Awareness survey to grasp the employees' values that have been diversifying and continue to realize the prosperity of the Company and employees' happiness

* Nationwide Events

- Chubu Sports Festival
Oguchi Sogo Ground Number of participants: 2,117
- Walking Festival
Higashiyama Zoo and Botanical Gardens Number of participants:1,543
- Kansai Festival
Expo '70 Commemorative Park Number of participants:143
- Nationwide event (Barbecue)
Tohoku, Shizuoka, Hokuriku and Hiroshima .. Number of participants:203



Kansai Festival, Expo '70 Commemorative Park



Nationwide event (Barbecue) (Hokuriku)

* Training seminars by age group

- Personality design seminar..... Number of participants: 70
- Life design seminar..... Number of participants: 61
- Self-finding seminar Number of participants: 44
- New employee communication seminar..... Number of participants: 140



Personality design seminar



New employee communication seminar

Industrial Relations and Human Rights

At the Rinnai Group, aiming to provide the work environment and culture that employees can feel as "I am happy to work at Rinnai.", the Rinnai Employees' Association and Personnel Affairs Division regularly convene the Labor-Management Council to confirm and share the information on management policy, actual results, and comments from each workplace as a periodic improvement activity.

Moreover, our basic stance toward human rights, the respect for each other's personality and the prevention of harassment is compiled as "Rinnai Code of Ethics" to educate and enforce all employees in the Group. In addition, we also established the Corporate Ethics Helpline to maintain the sound environment of the workplaces.

■ Our Stance toward Human Rights and the Respect for Each Other's Personality

In principle, all employees in the Rinnai Group abide by "Rinnai Group Code of Ethics, Rinnai Code of Conduct, Article 11 "The respect for human rights and each other's personality" and act on these rules. (Abstract is inserted as below.)

- (1) Basic human rights of all people shall be respected through our business operations. At workplaces, employees have to respect each other's human rights and personalities and facilitate the sound working environment respecting each other's uniqueness.
- (2) The Company shall respect the privacy of employees, pay cautious and careful attention to the handling of personal information and take the best measures for the adequate administration of the information.
- (3) Any discriminating act toward an individual based on gender, age, nationality and physical characteristics, etc. is prohibited. The employees should not commit an act which could be viewed as or would lead to sexual harassment at workplace.

To promote and enforce the items above to all employees in the Group, a compliance committee member is allocated to each workplace to implement regularly corporate ethic education. In addition, at a rank-specific training program, we educate our employees based on their roles and job responsibilities.

■ Establishment of Good Labor Relations

The Employees of the Company are "members of the Rinnai Employees' Association" which functions as the organization to represent entire employees.

Based on mutual understanding and trust, the Company and the Association establish healthy and sound labor relations openly exchanging opinions on management issues, labor condition, workplace environment and compensations and discussing improvement plans.

Moreover, the Company makes effort to provide safe working environment without any concern to the employees of our business partners, etc. in addition to our employees. We also actively arrange and offer welfare programs and various events and programs for our employees and their families.

■ Measure to Prevent Child and Forced Labor

As a measure to prevent child and forced labor, "Rinnai Group Code of Ethics, Rinnai Code of Conduct, Article 11 "The respect for human rights and each other's personality (4)" stipulates as "The Company should not allow any inappropriate labor including harmful and exploitative child labor which lets under-aged children to work, and slavery against the will of employees.". Entire Group abides by and acts on this rule.

■ Measures to Prevent Harassment

To maintain working environment that our employee find comfortable, we take measures to prevent any infringement of human rights including sexual harassment and power harassment.

To avoid our employee to commit any harassment without any intention and knowledge, we produced a check list of detailed examples of harassment case that is posted on the company-wide intranet for self-assessment.

Moreover, the intranet also provides actual examples of harassment cases involving legal disputes to promote the awareness toward the prevention of harassment by our employees.

In fiscal 2011, all employees ranked as Section Chief or higher (640 employees), conducted self-assessment on power harassment. In addition, we provided 53 of newly assigned Section Chief with harassment

prevention education to reinforce the prevention.

■ Increase in the Allocation/Promotion of Female Employees

(1) Current status of positions held by female employees

The ideas and comments from women are very important to our products. Many women are demonstrating their capabilities in various job descriptions utilizing their characteristics mainly in product planning department, sales planning promotional department, fixed customer sales department and production department. Moreover, the ratio of women in total generalists (core job positions) is also increasing every year and the Company actively assigns women for managing positions.

In Japan, as of April 2011, the Company had 44 female managers (2.0% of total managing positions), doubling the number in 2006. As an entire Group, we have 47 female workers in management roles.

(2) Enhancement of Support Programs for Working Women

For women to keep working for the Company after getting married, we provide various working styles and support programs.

<Major Programs>

- Career track conversion system

A system which allows employees to convert from generalist to administrative positions when the employees who don't wish to relocate for job assignment or request for the shortened working hours

- Come Back program

A program that allows a former employee to come back to the Company as a full-time employee

- Childcare leave and Family care long leave

Programs to support employees to raise children

- Shortened work hour system

A program to support employees to raise children and care their family members

- Flexible working hours system

A program to support employees to raise children, care their family members and work within restricted time

- Work from home program

A program to support employees to raise children, care their family members and recover from diseases

Comment from Female Manager

My job responsibility includes area management and marketing and communications in Sardinia. Although we are in a male-dominant industry, people always take time to listen to my opinions. Through this position, I was able to broaden my views by accumulating technical knowledge and skills. I've had the opportunity to engage in various activities beyond my assigned role and all of these experiences are now my valuable assets.

From now, I would like to communicate not only the innovative aspect of our products but also the reliability of our products, with a special focus on the communication methods that highly utilize IT.

Sala Sartini,
Manager, Rinnai Italia S.r.l.



Fair and Diversified Employment

■ Fair and Diversified Employment

* View toward Employment

We respect the diversity of individuals and provide employees with various job opportunities and a working environment where they can demonstrate their various capabilities.

Rinnai Group Code of Ethics stipulates that "Any discriminatory act toward an individual based on gender, age, nationality or physical characteristics, etc. is prohibited".

Based on this, we maintain fair and equitable hiring practices, in line with prevailing business plans and recruitment needs.

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.

* Promotion of re-employment of aged employees

Rinnai promotes the re-employment program for the employees who retired due to age-limit to continuously utilize technology and skills that skilled employees have and smoothly pass on the skills and "the Rinnai Spirit" to following generations.

This reemployment program presents the employees a purpose and motivation in life and maintains and improves the capabilities of the workplace.

* Promotion of recruitment of handicapped employees and support programs

In fiscal 2011, the handicapped employee recruitment ratio of the Company was 1.45% whilst the statutory ratio was 1.8%. Our continued employment of handicapped people is not only aimed at fulfilling the statutory requirement stipulated by the government, but is also a reflection of our commitment to corporate social responsibility. Here at Rinnai, we strive to create an environment where all employees including handicapped people are able to passionately commit to work.



Onsite operations

Occupational Health and Safety

The Group gives priority to the assurance of the health and safety of our employees and stakeholders and abides by the laws related to health and safety. In addition, all the employees in the Group strive to create, maintain and manage a working environment which is safe and sanitary and develop an active organizational culture which encourages our employees to be physically and mentally healthy.

■ Basic Policy on Safety and Hygiene

An essential requirement in business is the assurance of the health and safety of employees, via the provision of a hazard-free and hygienic work environment. As Rinnai constantly strives to protect the life and health of all employees we give top priority to the sanitary condition and safety of the workplace. This corporate mantra extends to our customers, to whom we strive to provide "safety and peace of mind".

Fiscal 2012 Basic Policy on Safety and Hygiene

- (1) Promote the preventative measures against fire and explosions without fail: Daily check of related facilities and the observance of management rules
- (2) Create a workplace with "Zero accidents" obtaining participation and cooperation of all employees in the Group: KYT^(Note) Periodical execution of Education and Health and Safety Sessions
- (3) Warning and improvement activities with top-down style: Risk Management Committee, Company-wide Health and Safety Committee
- (4) Care for working environment and health: Support of the physical and mental health of our employees and their families to achieve "safety and peace of mind"

(Note) KYT: Crisis Detection Training

* Status of On-the-Job Accidents and Injuries

In fiscal 2011, despite our efforts to achieve "zero accidents", unfortunately we recorded a total 31 on-the-job accidents, although we would like to note that this number is 10 less than the total accidents from the previous year.

We share the information regarding on the occurrence of on-the-job accidents among domestic Group companies to prevent the reoccurrence of similar accidents. Furthermore, aiming to achieve the goal and improve safety awareness among employees, we are promoting measures to realize the goal of creating a workplace "with zero hazardous factors".

* Accident Prevention Measures

To give our No.1 priority to work safety and peace of mind, the Group promotes various accident prevention measures under the guidance of the "Risk Management Committee" headed by the President.

- (1) Activities to prevent fire and explosion: Enforcement of safety inspection of environmental safety equipment (gas feeders and furnaces, etc.) and test and evaluation equipment, and the improvement and renewal of equipment as our top priority
- (2) Production site onsite guidance: Horizontal development of the production sites under the guidance of the Safety and Health Committee of Production Group
- (3) Training for clerical work staff and new employees: KYT training for new employees including a monthly information sharing session regarding on-the-job accidents, designed to promote work-safety awareness.
- (4) Implementation of emergency drill: "Earthquake and fire drill" more than once a year

With the rising frequency of large-scale disasters at home and abroad, the Rinnai Group, aiming to build a strong corporate structure to withstand crisis situations, establishes business continue plans for a quick recovery at the time of disaster.



Emergency drill

* Promotion of Traffic Safety

To minimize traffic accidents involving employees, various measures and education programs are provided. Every year, we obtain a certificate of driving record from each employee who was granted permission to drive a company car or commute by car. This is to accurately grasp employees' traffic accidents and violation of traffic rules to improve the self-awareness and management of the employees.

In particular, it is mandatory for employees in sales divisions to report accidents and violation of rules. Depending on the details, an employee may receive a suspension of the permission to drive a company car or may require taking a safety seminar provided by an external agent.

Moreover, new employees receive an actual driving lesson using a company car receiving cooperation from a driving school, a program which encompasses risk anticipation training using video, education of traffic rules and regulations and an aptitude test to improve their awareness of safe driving.



Driving training at a driving school



Risk anticipation training using video



Education by employees who commute by car

Care for Health

To promote the creation of a vibrant corporate environment wherein people can work healthily -both physically and mentally, it is a precondition that each employee to be health conscious and promote sound self-management and health enhancement.

To maintain and improve the employees' health, through collaboration with the Rinnai Health Insurance Society, the Company has been encouraging 100% of employees to undergo a medical checkup and receive a consultation from an industrial doctor, if an employee requires further examination. In addition, various measures including mental health care workshops, medical checkup support and introduction of financially subsidized sporting events are being actively implemented.

* Support for Health Promotion

Through the alliance with the Rinnai Health Insurance Society, we provide a range of medical support services to our employees and their dependent families which include regular checkups as well as detection examinations for various types of cancer (including prostate, intestinal and breast cancer checks). Thorough physical examinations are also available.

In addition, should an employee require further examination, we will organize additional consultation with one of our industrial doctors.

For patients with lifestyle diseases, specific health guidance and an individual follow-up are provided to make sure the employee is fully recovered.

Moreover, we are also keen on financially supporting sporting events and club activities (such as soccer, baseball, golf, cycling, etc.) to promote the employees' health.

* Mental Health Care

We strive to cultivate a positive atmosphere in the workplace by caring for the mental health of employees as well as their physical wellbeing. This effort focuses on early stress detection and preventative measures.

In fiscal 2011, we held two courses, "a mental health care workshop" and "a mental health care workshop for manager". The key objectives were to help employees recognize the stressors in their daily routines and become familiar with effective approaches to de-stress. The number of attendance was about 550.



Mental health care workshop

Human Resource and Personnel Related Data

We disclose human resource and personnel related data including the number of employees and the status of fulltime employees.

Number of employees (Consolidated)

*As of March 31, 2011

	Full-time employees (Number)			Temporary employees
	Male	Female	Total	
Rinnai Corporation	2,449	1,116	3,565	503
Domestic Group Companies	1,061	590	1,651	1,016
Overseas Group Companies	2,170	1,008	3,178	308
Total	5,680	2,714	8,394	1,827

Status of full-time employees (Non-consolidated)

*As of March 31, 2011

	Average age	Average working Years	Paid leave utilization ratio	Separation rate
Rinnai Corporation	35.2 years old	13.4 years	5.2/20 days	2.00%

Number of employees by area (Consolidated)

* Number of employees

	Male	Female	Total	(%)
Japan	3,510	1,706	5,216	62.1
Asia	1,756	828	2,584	30.8
Europe and the U.S.	100	36	136	1.6
Others (Oceania and Latin America)	314	144	458	5.5
Total	5,680	2,714	8,394	100

Rinnai Social & Environmental Report 2011

Number of newly recruited employees (Non-consolidated)

<Recruitment of newly graduated students>

	Fiscal 2009	Fiscal 2010	Fiscal 2011
Male	130	137	107
Female	127	107	42
Total (Number)	257	244	149

<Mid-career recruitment>

	Fiscal 2009	Fiscal 2010	Fiscal 2011
Male	17	33	12
Female	19	18	24
Total (Number)	36	51	36

*The figure for fiscal 2009 is from September 2008 to March 2009.

Number of resignees and reemployment of retired employees (Non-consolidated)

	Number of resignees		Number of reemployment
	Age retirement and part-time employee	Discretionary	
Fiscal 2009	100	150	61
Fiscal 2010	93	100	58
Fiscal 2011	137	101	49

Number of handicapped employees (Non-consolidated)

	Fiscal 2009	Fiscal 2010	Fiscal 2011
Number of handicapped employees	46	55	54
Employment ratio (%)	1.32	1.49	1.45

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.

Information Disclosure, Dividend and General Shareholders' Meetings

■ Concept for Information Disclosure

In accordance with the "Rinnai Code of Ethics" and our "Disclosure Policy", Rinnai has a basic policy to accurately and impartially disclose the corporate information related to the Group's business description and activities without delay.

Our announcement of financial results are posted on "TDnet" in compliance with the disclosure standards set by the Tokyo Stock Exchange, and our securities report is publicized on "EDINET" operated by the Financial Services Agency. This information is posted on "IR Information" page on our corporate website. In addition, Rinnai has started posting the presentation material for information meeting to announce the financial results beginning with the presentation of financial results at the end of fiscal 2011. Our English website also posts the material and IR information for fair and timely disclosure.

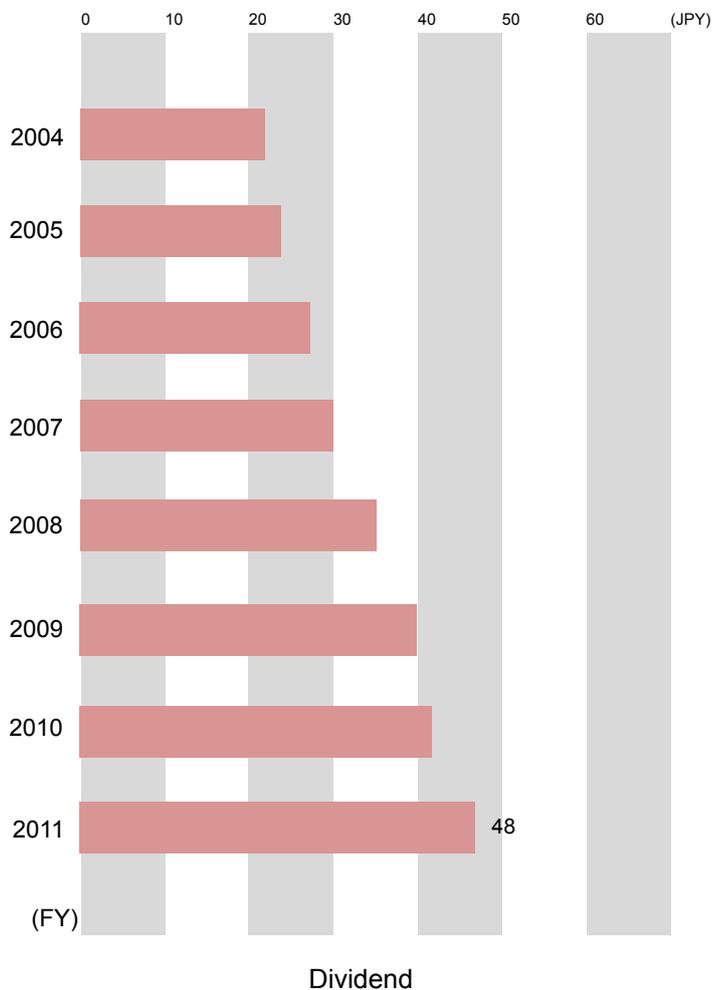
■ Our Policy on Dividend

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 2011 was ¥48 per share, up ¥6 per share from fiscal 2010.

This marked the ninth consecutive year of higher dividends.



■ 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, 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.

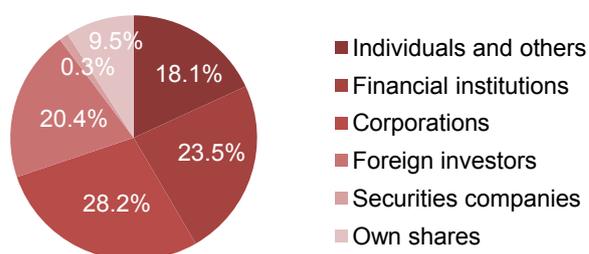
* Shares by shareholder (As of March 31, 2011)

Share Information

Number of authorized shares: 200,000,000 shares

Number of outstanding shares: 54,216,463 (Including treasury stock)

Number of shareholders: 3,750



IR and Communication Programs

■ Policy on IR Activities

Rinnai believes that it is important to gain a deep understanding of our stakeholders including shareholders and investors toward our business activities and strategies to establish a good relation based on the shared recognition. To do so, we will do our best to arrange timely, fair and immediate disclosure of our company information to build a bidirectional relationship. We believe that this will eventually increase our corporate value.

■ Communication with Institutional Investors and Analysts

In addition to the biannual information meetings that explain business results and other small meetings, Rinnai visits each institutional investor and receives interview over the phone. These activities are to provide clarification of our business results to institutional investors and analysts and actively exchange views with them. In fiscal 2011, the Company arranged factory tours and a presentation session for overseas investors. Furthermore, we have begun implementing a questionnaire survey regarding our IR activities starting from the fiscal 2011 year-end business results presentation held on May 2011. The survey was distributed among institutional investors and analysts who participated in the meeting. We utilize the collected comments to improve our IR activities.



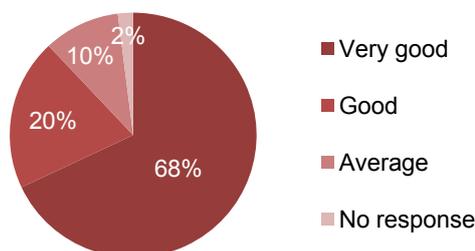
Factory tour

Principal IR activities in Fiscal 2011

IR activities	Number of activities held	Total number of attendance
Information meeting	2 (2) times	205 persons
Individual meeting	85	148
Interview	38	42
Telephone meeting	13	13
Small meeting	17 (1)	99
Factory tour	2	11
Presentation for overseas investors	1(1)	21
Total	158	539

* Numbers in parentheses () are the number of IR meetings that the President participated.

Evaluation on the fiscal 2011 year-end business results presentation



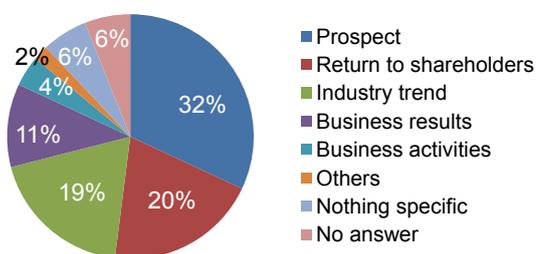
■ Communication with Individual Investors

In fiscal 2011, we held individual investor seminars to deepen each individual investor's understanding toward our business in two cities, Tokyo and Nagoya, and received the attendance of 363 investors. During the seminars, we gave a concise explanation of our corporate philosophy, management policies, business strategies and overseas operations for individual investors to understand our extensive activities. A questionnaire survey for attendants was again implemented to improve our communication measures.



Individual investor seminar

The area of interest of institutional investors
 (From the Institutional Investor Seminar held on December, 2010)



External Evaluation

■ Selection as a SRI Index Constituent Share

In the operation of funds, such as investment trusts, “socially responsible investment (SRI)” has recently attracted considerable attention. SRI doesn’t only assess a target company’s financial conditions such as its business results but also its environment protection activities and social programs.

Rinnai has been receiving high evaluation from external assessment bodies as a company which has been actively promoting CSR for sustainable development and has been selected as one of the constituent shares of “FTSE4 Good Index Series” for the seventh consecutive year since 2004. Moreover, in fiscal 2011, it was newly selected as a constituent share of “Dow Jones Sustainability Indexes (DJSI) 2010 Asia Pacific”.



- * FTSE4 Good Index: It is a SRI index operated by FTSE group, which is a limited partnership jointly invested by The Financial Times and London Stock Exchange Group in the U.K.
- * DJSI is one of the most globally recognized social responsibility indices operated by Dow Jones & Company, Inc. in the U.S. and Sustainable Asset Management (SAM) in Switzerland. The scope of DJSI Asia Pacific is restricted to the Asia-Pacific region.

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.

Coexistence and Prosperity with Business Partners

■ Rinnai Group Purchasing Policy

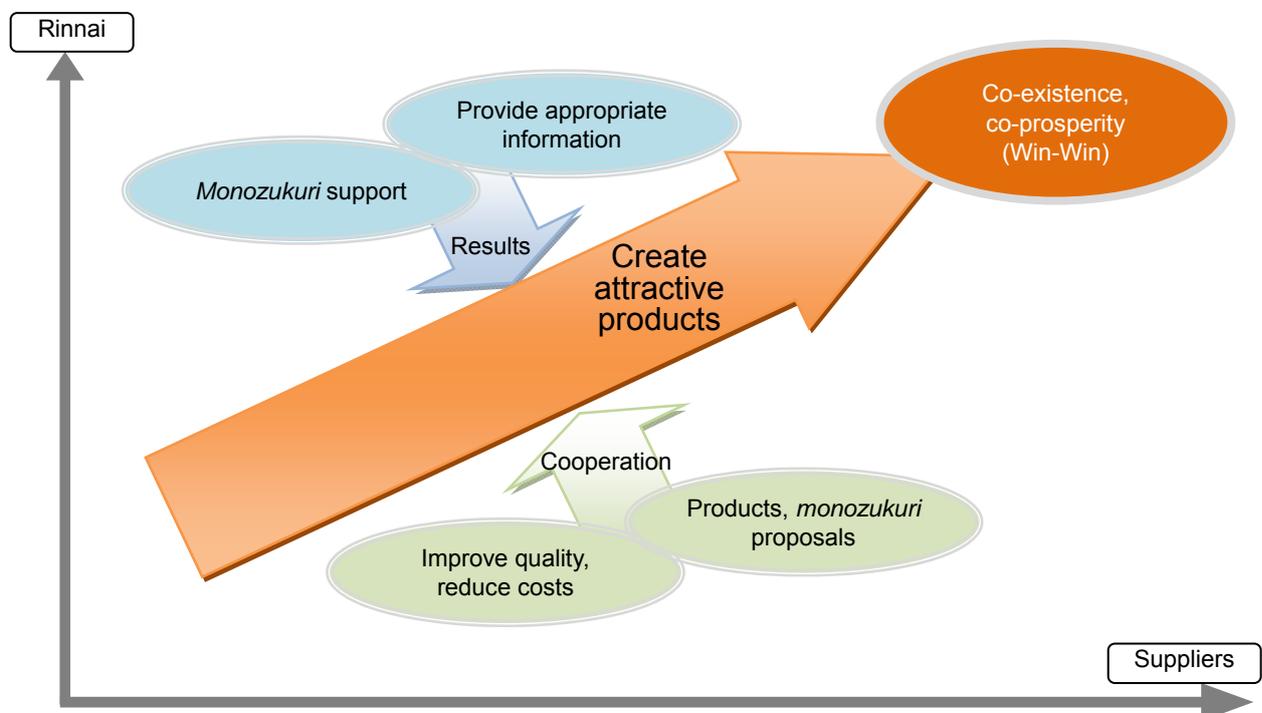
To grow along with our suppliers, we emphasize transactions based on a fair and impartial assessment and selection process and respect for laws and regulations and corporate principles, in accordance with the Rinnai Group Purchasing Policy.

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.”

■ Rinnai's Stance on the Relationship with Our Business Partners

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. 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.



■ Realization of Fair-and-Square Transactions

In accordance with “Rinnai Group Code of Ethics, Rinnai Code of Conduct, Article 8 Relations with Customers”, 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.

■ Communication with Our Business Partners

We request our business partners to independently establish a quality assurance system and assure the implementation of the system to help us achieve our policy on quality, “We provide highly safe products that meet customers’ requirements.”

We provide opportunities for suppliers to learn more about our perspective on quality and the basis of *monozukuri* at Rinnai through annual events including a get-together at the beginning of the year and policy information meetings and regular meetings of the Supplier Liaison Group. These meetings are also ideal for gathering information through suggestions from suppliers and promoting dialogues based on submitted questions. Indeed, these meetings promote a stronger commitment to teamwork.

■ Improvement Activities with Our Business Partners

In 2007, Rinnai started a “Level-Up Workshop” to provide our business partners with guidance on how to improve onsite operations and to help them nurture the company heads of the next generation. Under the guidance of Rinnai, the workshop is held to discuss ideas to improve actual operations and management methodologies a few times a month. For the improvement of processes, suppliers form groups to improve the level of manufacturing, *monozukuri*, by visiting each other’s production site, identifying the issues for the site and delivering solutions. For the education of the executive candidates, each attendant is requested to produce a management plan to understand the strengths and weaknesses of his/her company. When there is any issue, Rinnai’s staff in charge of this project individually provides consultation to the supplier.



Working with Logistics Partners to Improve Logistics

■ Integrated Logistics Center

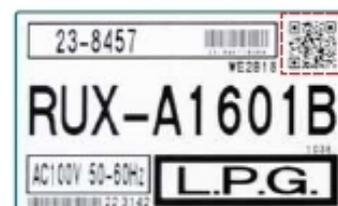
In April 2008, we newly opened the Integrated Logistics Center that centralizes the products of four principal factories to establish streamlined logistics system which is closely linked to the production and sales. Through this center, we aim to improve the quality of logistics and services.

We are receiving more orders for system products and there is a greater demand for a wider variety of products with smaller lot sizes. Moreover, we need to cope with more diversified requests from our customers such as shortened lead time before the delivery, and a delivery to locations where the product must be actually installed. Before the center was opened, our operations in Aichi, where our production are mainly based, had to be supported by up to 14 logistics centers to store the products. However, in fiscal 2011, due to the results of company-wide effort to reduce inventories, we were able to successfully centralize our logistics bases into two. This successfully achieved high efficiency in logistics and contributed for the reduction of the environmental burden.

The Integral Logistics Center has introduced item-by-item control with QR code and an inspection system. QR codes, which identify each product, are affixed to all products and utilized in many processes in the logistics centers such as when products are brought in and out. By reading the data of QR code, we have drastically improved the quality of logistics by preventing errors and improving the traceability of each item. In addition, the combined use of wireless terminals, real-time operation instruction and actual result collection resulted in a significant improvement of the operations.



Integral Logistics Center



Product Label

Information includes product code, gas type, production number, production date, production line, etc.

■ Communication with Logistics Partners

Every April, we hold a logistics policy information meeting to help service providers gain deeper insight into the logistics policy, targets and measures of our company and logistics department. In addition, we arrange a quarterly quality conference to reduce environmental burden related to the transportation and storage of products, and to improve the quality. In fiscal 2011, followed by our logistics partners' presentation, we discussed actual issues and confirmed countermeasures. Furthermore, we support our logistics partners to improve their quality by visiting their working sites and discussing the issues.

■ Our Logistics Partners' Measures to Improve their Logistics Quality

In May 2010, eight mixed consignment carriers* of our logistics partners voluntarily established a "Logistics Working Group" for quality improvement. To promote the improvement of logistics quality and safe transportation, the Working Group is tackling the issues that are common with mixed consignment carriers through information exchange and improvement activities with the leadership of onsite staff. The Working Group started delivering tangible results such as the modified consignment label design, which was arranged based on its proposal. It is contributing to the improvement of the logistics services of our company as well as the performance level of each carrier.

* Mixed consignment carrier: Services to transport consignment collected from any number of consigners, or an operator that offers the services.

■ Working with Logistics Partners to Improve Logistics

Rinnai and our logistic partners strive to improve work efficiency together through close communication. Rinnai used to issue invoices (shipment reports) using its original format. However, in fiscal 2008, we started sending electric data to our logistics partners so that they can use their own format to print-out. Consequently, the number of missing invoices in transit and the burden of assortment have been reduced. In addition, we started printing bar codes used by our logistics partners on our shipment labels (shipping tags). This contributed for the simplification of processes such as in-transit confirmation and assortment and improved the logistics quality by preventing errors.

We used to ship small products such as remote controllers one by one to the destination. However, in April 2011, we started a packaged shipping system combining such small items with other products to deliver to the same destination. This change reduced the work load of shipping process, handling errors, and customers' burden to receive multiple consignments.



■ Support of areas affected by disaster through the cooperation with logistics partners

Rinnai decided to donate total 10,000 units of our products to support the victims of Great East Japan Earthquake to assist the restoration efforts in the affected area. In addition, by responding to our calls, many of our logistics partners and NPOs provided donations including water, food and daily necessities. Despite the chaotic situation with disrupted traffic and communication networks, we were able to safely deliver the aid supplies thanks to the cooperation of our logistics partners.



Donated aid supplies



A truck of our logistics partner

■ Measures to reduce shipping amount

The company is designated as a specified shipper under the revised Rationalization in Energy Use Law. To reduce shipping volume and CO₂ emission, we implement measures such as the integration of logistic centers and the improvement of logistics efficiency.

In fiscal 2011, we consolidated our logistics bases into two in Aichi, where our four factories are located and streamlined warehouses spread around Japan. This eliminated redundant inventory at logistic centers, the production that is neither urgent nor important, and so called "horizontal transportation"*. Moreover, improved logistics efficiency contributed to cost reduction and minimization of environmental burden. Our next measures include the following two: to increase combined shipments grouping products shipped to the same destination; and to reduce the transportation routes that are not directly heading to the final destination.

Trend of shipping volume and CO₂ emission

Fiscal	2007	2008	2009	2010	2011
Shipping volume (ton x km)	7,888	7,042	6,519	6,483	6,333
CO ₂ emission volume (TCO ₂)	11,747	11,228	10,013	9,901	9,837

* Horizontal transportation: transportation that doesn't include final destination (customer site), such as the route between Rinnai factory and its warehouse

■ Environment-friendly Logistics

To tackle environmental issues in the area of logistics, we cooperate with our logistics partners to reduce CO₂ emissions, improve energy efficiency and increase the productivity of track transportation. From the end of fiscal 2011 to fiscal 2012, we reviewed the delivery routes to mass merchandisers. Consequently, we reduced the number of routes that didn't directly head to the final destination and lowered environmental burden. For continuous improvement, we are encouraging our partners to obtain third-party environment certifications including "ISO14001" and "Green Management Certificate".

■ Utilization of Environment-Friendly Cars

We have employed environment-friendly cars including compressed natural gas cars, liquid natural gas cars and hybrid cars as low-toxic options. In fiscal 2011, we aimed to switch 30% of our cars used to collect products and actually converted 24.8%.

In fiscal 2012, we set our target of conversion to be 50% to promote the activity.

With Our Communities and Society

The Rinnai Group has been actively and independently promoting social action programs without intermission. Our programs are extended to worldwide and deeply rooted to the local communities.

In Touch with the Community

■ Donation of Rice Cake to Celebrate the Harvest Festival of the Ooagata Shrine

In March 2011, the harvest festival took place at the Ooagata Shrine in Inuyama, Aichi. The harvest festival is famous as an event to pray for an abundant crop and invite spring to the Owari region. Every year, a local company donates a large round rice cake to the shrine. This year, Rinnai employees took the honorable role to produce and donate the rice cake. The date of the celebration was blessed with a good weather and about 50,000 people enjoyed the event.



Donation of the rice cake



Employees' rice cake production

■ Support for the Restoration of the Nakagawa Canal

The Nakagawa Canal that runs near our headquarters used to be alive as a transportation route connecting the Port of Nagoya and the center of Nagoya city for foreign ships to proceed. With the development of transportation by railroads and automobiles, the utilization of canal transportation diminished greatly. In 2010, the Nakagawa Canal celebrated the 80th anniversary of its creation. To commemorate, an art event, "The Nakagawa Canal Art", was held in October 2010 based on a plan to restore the Nakagawa Canal as the new core of the Nagoya-city.

Rinnai's Chairman Naito was appointed as an Honorable Chairman of the Nakagawa Canal Art Planning Committee. The committee arranged various events to add a new value to the water area of the Nakagawa canal. The events included a fantastic digital light art show, "Digital Hanging Scroll" projected onto the walls of warehouses and a live performance combining Japanese traditional performance, Noh, and modern music.

In this way, we continue to promote and encourage community members to come together to utilize and contribute to the restoration of the Nakagawa Canal.



"Digital Hanging Scroll" Projected on the Wall of Warehouses Produced by Akira Hasegawa (Photo: by Yoshiyuki Hata)

■ Hosting a Cooking Contest

In April 2011, P.T. Rinnai Indonesia conducted a cooking contest in Semarang, which is the capital of the province of Central Java. The contest was the largest of its kind in history receiving 1,610 contestants and presence of the State governor and his wife. The contestants competed using our single cooktop burner gas stove.

We have presented our gas stove to participants as a prize for participation.



Cooking competition



Prize presentation

■ Support for fund raising for cystic fibrosis patients

Cystic fibrosis is a hereditary disease and there are many patients who are suffering from this disease in the United States. Rinnai America Corporation is supporting the fund-raising for cystic fibrosis patients through walking events and auctions.



■ Participation in the program of “Habitat for Humanity” and “Happiness-sharing ‘N’ Campaign”

Since 1994, Rinnai Korea Corporation has been participated in Habitat’s home building program for humanity offering gas stoves to families that live in the houses every year.

Moreover, Rinnai Korea accumulates a part of its profit to donate for “Happiness-sharing ‘N’ Campaign”, a housing environment improvement program for low-income single senior citizens. In fiscal 2011, we have donated 25 million won.



■ Activities to support single senior citizens and minors without guardians

On February 4, 2010, Rinnai Korea participated in a program conducted by Incheon Bupyeong Fire Station (the fire department which is responsible over the area) to assure the safety for the people who are alienated from society such as single senior citizens and minors without guardians and achieve widespread use of fire extinguishers to prevent residential fires. We have donated 50 fire extinguishers to contribute for the fire prevention program.



■ Free dental checkup for disabled people

Rinnai Korea arranged free dental checkup and oral hygiene education for 60 physically disabled people (October 2010) and about 70 multicultural families that find it difficult to use medical facilities due to the difficulties in communication (November 2010).



■ Participation in “Kanazawa Hyakumangoku Festival, Odorinagashi (Dancing program)”

About 80 employees of RB Controls Co., Ltd in Kanazawa, Japan, our partner company, participated in Odorinagashi (Dancing program) of Kanazawa Hyakumangoku Festival in 2010.



■ Disaster-prevention activities for local communities

Each location conducts various activities to support disaster-prevention activities for local communities in cooperation with fire stations.



Participation in Fire Department’s Ceremonial Demonstration Event in New Year

Communicating with Students

■ Factory Tours for Students

To encourage interaction with the local community, each factory provides cooperation for a factory tour program for local elementary school students. Schools utilize this program as an opportunity for students to learn about society and *monozukuri* through the presentation of facilities in production lines, assembly method and products.



Seto Factory



Oguchi Factory



Asahi Factory



Aichi Factory



RT Engineering Co., Ltd.

■ Vocational Training at High School

Employees of Rinnai America Corporation visited a high school in the local community and provided a lesson on a system of tankless hot-water unit and its advantages (energy-saving etc.) as a part of vocational training.



■ Acceptance of high-school student trainee

P.T. Rinnai Indonesia provides access to a practical training program at factories and offices, which is a part of curriculum of high school, and accepts high school students every year. In fiscal 2011, we accepted 20 students from 4 schools in the practical training course at our workplace.

Training	Number of students
Workshop	6
Production Technology Division	4
Assembly Division	4
Administration Division	6



Commemorative Gift Presented by a High School

Support for Victims of Disaster

■ Support for the Victims of Great East Japan Earthquake

Hoping to support the victims of Great East Japan Earthquake and the restoration of the affected areas, Rinnai made a donation of 50 million yen through the Japanese Red Cross Society. In addition, we decided to present a total of 10,000 units of our products including cooking stoves, rice cookers, and heaters. Moreover, Rinnai Korea Corporation provided about 2.8 million yen through the Korean Red Cross Society and Rinnai (Thailand) Co., Ltd. and its local partners offered about 1.1 million yen. We sincerely hope for the earliest restoration of the affected areas.

As a comprehensive heat-energy appliance maker, which contributes to people's lifestyles, we continue to support the restoration of the affected areas for the earliest recovery of people's comfortable and safe lives and their peace of mind, working with others in the related industry including gas operators.



Loading aid supplies



Delivery of aid supplies at the affected area



Repair at the affected area

■ Support for the Victims at Christchurch earthquake

Rinnai New Zealand Ltd., the company and its employees, donated about 1.8 million yen for the restoration from Christchurch earthquake occurred in February 2011 through disaster fund. In addition, we offered barbecue grills as aid supplies for the victims.



Shipment of aid supply

■ Free maintenance services for products damaged with water disaster during rainy season and summer

Since the beginning of 1980, Rinnai Korea Corporation has been dispatching its service group to the areas affected by water disaster to provide free inspection and repairs for gas cooking stoves and gas boilers covered by water. In 2010, the group conducted the aid activity for 45 households in Daegu in July, 200 households in Ikusan in August, and 1,600 households in Seoul and Incheon in September.



Free service reception desk

■ Support for elementary schools affected by Sichuan Earthquake

Guangzhou Rinnai Gas and Electric Appliance Co., Ltd. donated 50,000 yuan (about 630,000 yen) to the educational fund Hongyu Enterprise Group to support elementary schools affected by Sichuan Earthquake.



■ Other Support Programs

As aid for the restoration project related to a large scale flood caused by a cyclone that occurred in January 2011, Rinnai Australia Pty., Ltd., as a company and its employees, donated about 1.7 million yen to the victims in Queensland and Victoria, where the damage was severe.

Employees of Rinnai Korea Corporation and its agencies in Korea donated 36.5 million won to the families of the victims of Cheonan, which sank in April 2010.

Rinnai (Thailand) Co., Ltd. and its partner companies jointly donated 400,000 baht as a recovery aid to the areas affected by a large-scale flood in the southern area of Thailand in March 2011.

Support for Sports and Culture

The Group supports events that foster international exchange in the arts and culture as well as sporting events.



Toyota International Youth Football Championship

Rinnai Corporation, Actual Results in Fiscal 2011

Major financial contribution	Major sponsorship
<ul style="list-style-type: none"> * The tenth meeting of the Conference of the Parties to the Convention on Biological Diversity (COP 10) * Foundation for the Arts, Nagoya * Chubu High-tech Center (CHC) * Institute for International Policy Studies * Japan Academy of Chamber Music 	<ul style="list-style-type: none"> * Japan Virtuoso Symphony Orchestra Concert * Nagoya Philharmonic Orchestra * Nagoya School of Music, The Music Competition of Japan, Award-winning Celebration Concert * Campus Venture Grand Prix, Chubu Area * Nagoya Shonen Shojo Hatsume Club (Invention and Innovation Youth Club) * Toyota International Youth Football Championship * Nippon Domannaka Festival

Rinnai America Corporation: Actual Results in Fiscal 2011

Rinnai America Corporation supported Ragnar Relay, the longest relay in the world that takes up to 12 runners to finish the course of about 300km in the U.S., by installing shower rooms in several locations.



Rinnai Italia S.r.l.: Actual Results in Fiscal 2011

The Rinnai Italia S.r.l. participated in the event, "National Heat Technology Contest" held for high school students in Italy in May 2011 as a sponsor.

■ Rinnai POPS Orchestra Program

"Rinnai POPS Orchestra" operated by Rinnai Korea Corporation, is the only one private orchestra in Korea. It was established in 1986 for the emotional development in the youth, the contribution for the growth of culture in the local community and the improvement of the level of culture of the nation. The orchestra annually provides more than 25 charity concerts including a regular concert and concert trip visiting various sites based on requests and invitation.



Promotion of Greenery Activities

■ “Home Greenery Project”

身近なところからストップ温暖化



In 2008, we started “Home Greenery Project” to contribute to the prevention of global warming and provide the sense of enjoyment to participants of the project. We present young blueberry trees, which are easy to grow and absorb CO₂ well. So far, we have offered about 18,000 of young trees trying to reduce CO₂ with the cooperation of the project participants. In 2011, we selected 1,000 people from the

applicants to the project by lottery, and presented total 2,000 trees bundling two kinds of trees as a set. We used the young blueberry trees that were planted and grown in the areas affected by the earthquake in the Tohoku region.

Our Employee’s Voluntary Activities

■ Participation in Environmental Beautification Activities

Each location of the Rinnai Group promotes local environmental beautification activities such as the cleaning of the company vicinity and commuting routes of the employees. Our activities are deeply rooted in each community.



Cleaning of Kamaishi Coast
(With about 100 attendants)



Cleaning of Asahi Factory Area
(With about 130 attendants)



Nurturing the environment near Notojima
Recreation Facility (With 22 attendants)



“Clean Walk” (With about 120 attendants)

■ Participation in Blood Donation Program

Rinnai Korea Corporation participated in a blood donation program as a social action program in August 2010. With the help of Incheon Blood Center of Korean Red Cross Society, 26 employees participated in a group blood donation program. This program will be continued every year.



Environmental Policy

Environmental problems including global warming are emerging in various locations around the world. In modern times the raw materials required for *monozukuri* (manufacturing) are limited and measures for sustainable growth must be considered. In pursuing the development of business activities that will concurrently contribute to environmental conservation and generate profits, the Rinnai Group would like to become a business entity that society hopes for its continuous operations. Toward this end, we have set specific goals to carry out “Basic Environmental Policy” to strengthen and expand the environment protection 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

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.

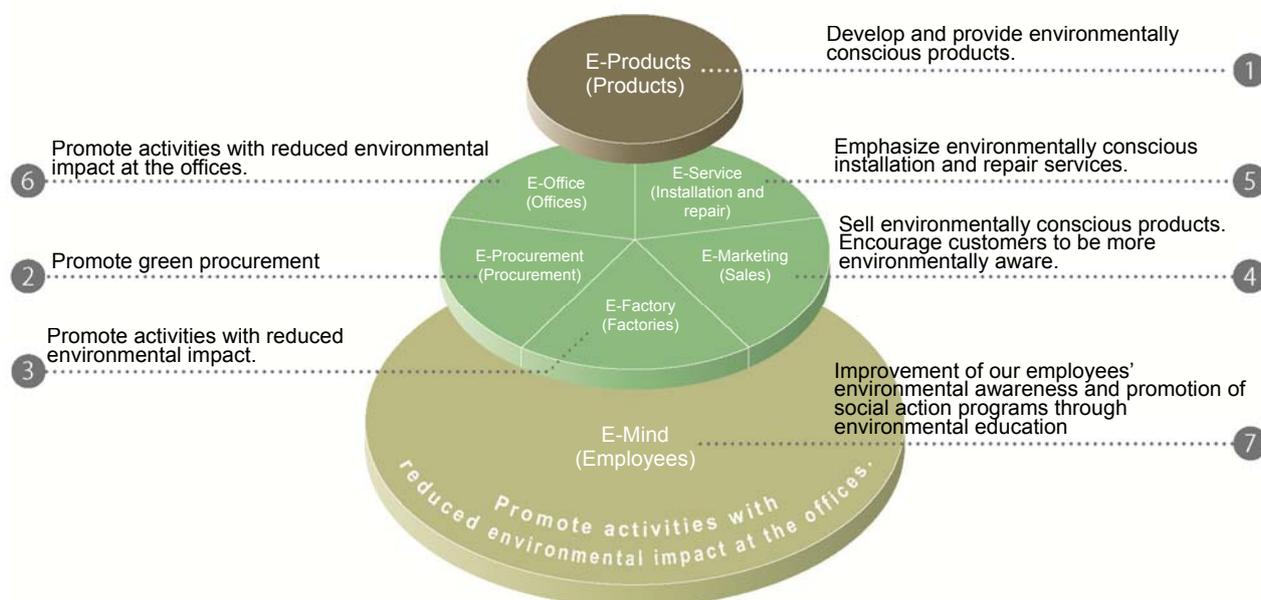
7. Disclose information to employees and the communities in which we work.

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 Activity

“7E” Strategic Initiatives: Green Activities Involving All Employees in All Business Areas

Based on our goal to achieve a sustainable operation, we have been promoting the “7E” Strategic Initiatives. The employees with a high sense of environmental awareness create environmentally conscious products at green factories to provide these products to customers with our confidence. As a *monozukuri*-driven company, we pay considerable care 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. Our consideration goes to each element including “procurement” of materials and components, “factories” as the base of our *monozukuri*, “sales” of our products, “services” related to the products used by our customers, “offices”, where administration activities take place and “employee”, the foundation of our activities.



7E Strategic Initiatives

7E (Primary promotional items)		
1	E-Products (Products)	Develop and provide environmentally conscious products.
2	E-Procurement (Procurement)	Promote green procurement
3	E-Factory (Factories)	Promote activities with reduced environmental impact.
4	E-Marketing (Sales)	Sell environmentally conscious products. Encourage customers to be more environmentally aware.
5	E-Service (Installation and repair)	Emphasize environmentally conscious installation and repair services.
6	E-Office (Offices)	Promote activities with reduced environmental impact at the offices.
7	E-Mind (Employees)	Improvement of our employees' environmental awareness and promotion of social action programs through environmental education

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.

Actual Results of Fiscal 2011

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. In May of fiscal 2011, three departments including the Kanto Branch and Chugoku Branch, the marketing and sale divisions, and the Components Center responsible for the management of functional components needed for repairs, obtained ISO14001:2004 certification. In addition, a domestic group company, Techno Parts Co., Ltd., was certified Eco Action 21 in August 2011. To enhance environment activity further, we will promote the certification acquisition by domestic sales operations and overseas group companies.

■ Locations that newly acquired ISO14001



Kanto Branch



Chugoku Branch



Components Center

* Certification acquisition status

ISO 14001 Environmental management system certification acquisition status (1/2)

Location		Certified year/month
Rinnai	Research and Development Headquarters	October 1997
	Production Engineering Division	October 1997
	Oguchi Factory	October 1997
	Seto Factory	December 2000
	Environment Division	December 2000
	Aichi Factory	November 2003
	Asahi Factory	November 2003
	Quality Assurance Division	November 2003
	Head Office	December 2008
	Kansai Branch	May 2010
	Logistic Unify Office	May 2010
	Kanto Branch	May 2011
	Chugoku Branch	May 2011
	Parts Center	May 2011

ISO 14001 Environmental management system certification acquisition status (2/2)

Location Name		Certified year/month
Domestic Group Company	Rinnai Technica Co., Ltd.	December 2003
	Yanagisawa Manufacturing Co., Ltd.	June 2004
	Rinnai Precision Co., Ltd.	December 2005
	Japan Ceramics Co., Ltd.	January 2006
	RT Engineering Co., Ltd.	March 2006
	RB Controls Co., Ltd.	March 2006
	Noto Tech Co., Ltd.	January 2007
Overseas Group Company	Rinnai Korea Corporation	July 1997
	RB Korea Ltd.	October 2006
	Shanghai Rinnai Co., Ltd.	December 2008

Environment Management System "Eco Action21"

Location Name		Certified year/month
Domestic Group Company	Techno Parts Co., Ltd.	August 2011

* Topic: Techno Parts Co., Ltd.

Four locations of Techno Parts Co., Ltd, a domestic Group company which manufactures components, were certified Eco Action 21 in August 2011.



Ichinomiya Facility



Sango Facility



Ida Facility

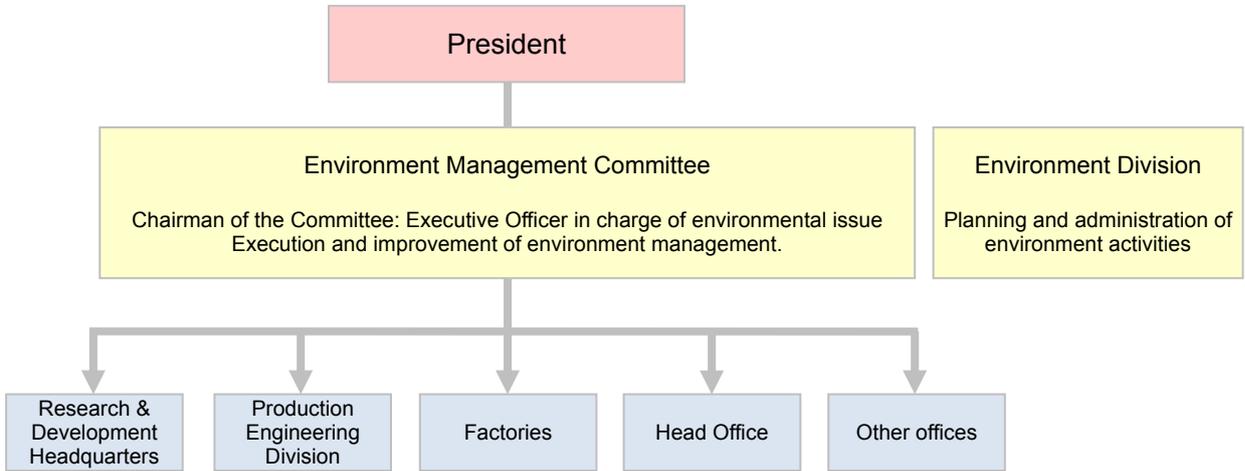


Komaki Facility

* Eco Action 21: Certification and registration system that effectively and efficiently conducts environmental activities to create sustainable society in accordance with the guidelines established by the Ministry of the Environment.

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 discusses and decides important items including the basic environmental basic policy, the goal and a medium to long-term plan. The committee thoroughly informs all Rinnai employees about decisions of the committee and promotes concrete activities in line with annual plans. We review our objectives as necessary and diligently strive to meet our targets. Each division has a liaison group and holds routine meetings to make issues known to everyone in the respective division and continue improvement activities.



Review meeting by executives



Liaison group

Environmental Audits

■ External Audits

The ISO 14001 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 2011 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, assesses conformity to the established environmental management system and reviews 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 2011 found no major non-conformances. There were 12 opportunities for improvement and 59 observations. We swiftly addressed these areas to ensure that they would not develop into problems later on.



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. The execution of audit requires highly specialized knowledge and communication skill. 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 2011, the courses drew 61 participants.



Internal auditor training

■ Eco-Leader Course

In every division, 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 20 people.



Eco-Leader Course

Enhancing Global Environment Management: Creating an environmental management system with our business partners

■ Reinforcement of Chemical Management

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 processes 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.

In Europe, especially, manufacturers must adhere to strict regulations, such as the Restriction of Hazardous Substances (RoHS) Directive and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). As a collection of companies, the Rinnai Group must assume 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. 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.

* RoHS Directive: "DIRECTIVE 2002/95/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 January 2003 on the restriction of the use of certain hazardous substances in electrical and electronic equipment" Since July 1, 2006, the EU market has been restricting the use of lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls (PBB) and Polybrominated diphenyl ethers (PBDE) in electrical and electronic equipment.

* The Registration, Evaluation, Authorization and Restriction of Chemicals (REACH): It is a new regulation on chemical substances in EU that mandates registration, evaluation and authorization of chemical substances manufactured in or imported to EU.

Rinnai's Procurement Management Standards



E-Procurement Standards



Policy on Chemical Substance Management

■ Support to Establish Environment Management System

To promote environmentally conscious *monozukuri* working with our business partners, we encourage our business partners to obtain certifications for environment management system including ISO14001, Eco Action 21 and KES.

Environmental Action Plan and Results

Fiscal 2011 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.

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

Activity	Fiscal 2011 Target	Fiscal 2011 Achievement	Progress
Environmental management system	<ul style="list-style-type: none"> ISO 14001 certification for three divisions - a marketing and sales office, a branch and Components Center. 	<ul style="list-style-type: none"> ISO 14001 certification obtained for three divisions - Kanto Branch, Chugoku Branch and Components Center 	○

E-Products

Activity	Fiscal 2011 Target	Fiscal 2011 Achievement	Progress
Prevent global warming	<ul style="list-style-type: none"> Develop high-efficiency appliances Develop condensing heat source products for the domestic and overseas markets Develop remote controls with energy-saving display function Reduce stand-by power consumption Eco-Jozu hot-water units, full-scale Eco-Jozu hot-water and heating system 	<ul style="list-style-type: none"> Develop high-efficiency appliances Eco-Jozu hot-water units, Eco-Jozu heat source for hot water and heating system Reduce stand-by power consumption Eco-Jozu hot-water units, Eco-Jozu heat source for hot water and heating system 	○
Prevent air pollution	<ul style="list-style-type: none"> Develop low-NOx condensing hot-water heater for overseas markets. 	<ul style="list-style-type: none"> Develop low-NOx condensing hot-water heater Eco-Jozu hot-water units, Eco-Jozu heat source for hot water and heating system 	○
Reduce resource consumption, promote recycling	<ul style="list-style-type: none"> Implement product assessments. Develop lightweight condensing products. full-scale Eco-Jozu hot-water and heating system, Yukko Eco-Jozu Develop products that conserve water and cut running costs. 	<ul style="list-style-type: none"> Implement product assessments. Develop lightweight condensing products. Eco-Jozu hot-water units, Eco-Jozu heat source for hot water and heating system Develop products that conserve water and cut running costs. Eco-Jozu heat source for hot water and heating system, remote controls with energy-saving display function 	○

E-Procurement

Activity	Fiscal 2011 Target	Fiscal 2011 Achievement	Progress
Green procurement	<ul style="list-style-type: none"> Green product development. (Promote use of materials conforming to E-Procurement Standards) Enhance green procurement management (chemical management). 	<ul style="list-style-type: none"> Procure and use materials based on E-Procurement Standards Establish Chemical Substance Management Office under Environment Division to strengthen chemical substance management activities 	○

E-Factory

Activity	Fiscal 2011 Target	Fiscal 2011 Achievement	Progress
Prevent global warming	<ul style="list-style-type: none"> Push total CO₂ emissions below 90% of fiscal 1999 level 	<ul style="list-style-type: none"> Push total CO₂ emissions below 90.3% of fiscal 1999 level (Total CO₂ emissions 4.4% increase from the previous year) 	△
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"> Average recycling rate 100% for zero emission locations Reduce waste by 18.2% from fiscal 2003 level 	○
Reduce 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. 	<ul style="list-style-type: none"> Reduce by 55.3% from fiscal 2002 level (The amount of hazardous chemical substances used: 3.7 tons increase from the previous year.) 	○

E-Marketing, E-Service

Activity	Fiscal 2011 Target	Fiscal 2011 Achievement	Progress
Expand sales of high-efficiency products	<ul style="list-style-type: none"> Cut CO₂ emissions from high-efficiency hot-water units by 31,000t-CO₂/year. 	<ul style="list-style-type: none"> Cut CO₂ emissions from high-efficiency hot-water units by 30,000t-CO₂/year. 	△
Provide information on environmentally conscious products	<ul style="list-style-type: none"> Introduce and promote awareness of environmentally conscious products at trade shows. Create and distribute 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

Activity	Fiscal 2011 Target	Fiscal 2011 Achievement	Progress
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"> Green purchasing rate: 95.3% 	○

E-Mind, Other

Activity	Fiscal 2011 Target	Fiscal 2011 Achievement	Progress
Environmental information disclosure	<ul style="list-style-type: none"> Issue Social & Environmental Report for fiscal 2011. Upload environment-oriented information to the Rinnai website. 	<ul style="list-style-type: none"> Issue Social & Environmental Report for fiscal 2011. (September) Upload environment-oriented information to the Rinnai website. (September) 	○
Environmental education and awareness	<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. 	<ul style="list-style-type: none"> Execute new employee training, rank-specific training program, internal auditor training and internal chief auditor training 	○

Fiscal 2012 Environmental Action Plan

We always assume a new perspective in working toward new targets.

In fiscal 2012, the first year to launch the new medium-to long-term plan, we 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 2012 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"> ISO 14001 certification for three divisions- a marketing and sales office and two branches

E-Products

Activity	Basic Action Plan	Fiscal 2012 Target
Prevent global warming	<ul style="list-style-type: none"> Push Eco-Jozu as the de facto standard, develop remote controls with energy-saving display function and high-efficiency appliances, 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 Develop condensing heat source for the domestic and overseas markets Develop remote controls with energy-saving display function Reduce stand-by power consumption, condensing combi boiler, condensing heat source for hot water and heating system, Fan-forced heaters for the domestic market
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
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 heat source. Develop condensing hot-water units for overseas markets. Develop products that conserve water and cut running costs.

E-Procurement

Activity	Basic Action Plan	Fiscal 2012 Target
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).

E-Factory

*From fiscal 2012, not only the production divisions, but also all divisions share Basic Action Plan and Target, "Prevent global warming" and "Reduce waste".

Activity	Basic Action Plan	Fiscal 2012 Target
Prevent global warming	<ul style="list-style-type: none"> Reduce total CO₂ emissions more than 4%, based on fiscal 2010 level, by fiscal 2014 	<ul style="list-style-type: none"> Reduce total CO₂ emissions more than 2%, based on fiscal 2010 level
Reduce waste	<ul style="list-style-type: none"> Sustain zero emission status (Recycling rate above 99.5%) Reduce total waste output by more than 3%, based on fiscal 2011 level by fiscal 2014 	<ul style="list-style-type: none"> Sustain/improve zero emission status Reduce total waste output by more than 1%, based on fiscal 2011 level
Reduce 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 more than 53%, based on the fiscal 2002 level by fiscal year 2014. 	<ul style="list-style-type: none"> Reduce volume of hazardous chemical substances—as listed on the Pollutant Release and Transfer Register—by more than 51%, based on fiscal 2002 level.

E-Marketing, E-Service

Activity	Basic Action Plan	Fiscal 2012 Target
Expand sales of high-efficiency products	<ul style="list-style-type: none"> Expand sales of high-efficiency products Hot-water units (Eco-Jozu gas/solar hybrid hot-water system) 	<ul style="list-style-type: none"> Cut CO₂ emissions from hot-water units by 37,000t-CO₂/year.
Provide information on Environmentally conscious products	<ul style="list-style-type: none"> Provide information on environmentally conscious products 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

Activity	Basic Action Plan	Fiscal 2012 Target
Green purchasing	<ul style="list-style-type: none"> Increase green purchasing rate to be above 91% for items including those newly added from fiscal 2012, by fiscal 2014. 	<ul style="list-style-type: none"> Set green purchasing rate above 90% for items including those newly added.

E-Mind, Other

Activity	Basic Action Plan	Fiscal 2012 Target
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 2012. 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 2012 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.

Scope of accounting Rinnai Corporation

Period of accounting April 1, 2010 to March 31, 2011

Cost of Environmental Protection

(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	3,568
	Environmental protection	Mainly efforts to save energy	1,835
	Resource recycling	Recycling as well as treatment and disposal of industrial waste	2,812
Upstream/downstream		Collection/recycling and volume/weight reduction of materials such as product packaging	2,965
Management activities		Mainly monitoring and surveillance of environmental impact	8,218
Research and development		R&D on environmentally conscious products addressing energy- and resource-saving features and reduction and/or elimination of hazardous chemical substances	54,893
Community efforts		Mainly community activities and beautification/greening at places of business and surrounding areas	242
Total			74,533

(Unit: Ten thousand yen)

Item		Content	Environmental Impact Reduction
On-site results		Saving energy reduced greenhouse gases	584tCO ₂ /year
Upstream/downstream results	Environmental impact reduction through use of products	Reduction of NOx with products with low NOx emissions	60t/year
		High-efficiency products reduced CO ₂	79,592tCO ₂ /year

(Unit: Ten thousand yen)

Economic Effects Accompanying Environmental Protection Measures	Item	Economic Effect
	Costs cut through energy-savings and waste reduction	2,245

■ 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.

■ 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.

■ 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.

Developing Environmentally Conscious Products

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

■ Optimum energy mix of electricity and gas

We developed energy saving products by combining high-efficiency gas hot-water units, Eco-Jozu, and the heat pump technology, which utilizes air-source heat.

Gas/solar hybrid hot-water system

* The system attained a primary energy efficiency ratio of 107%, improving by 20% compared to conventional high-efficiency gas hot-water units.

* The system reduces about 42% of CO₂ emission compared to conventional gas combi boiler.

"Standards of Judgment for Residential Construction Clients", which defines the energy-saving capability of housing, certified our product as a hot-water unit with top level energy-saving capability in April 2011.

ハイブリッド給湯器 エコワン
ECO ONE
 Gas/solar hybrid hot-water system
 ECO ONE

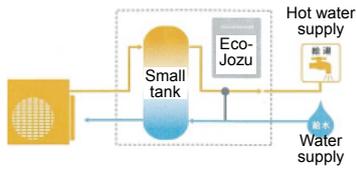


Heat-pump unit
RHP-R50(W)

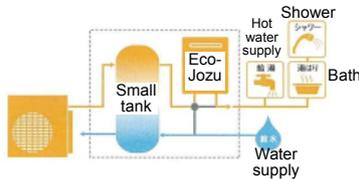


Tank built-in unit
RTU50-E240A2-1 (W)A

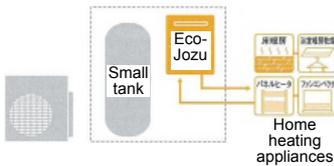
· Configuration of Hybrid Hot-Water Unit



When a small amount of hot water is used:
Operate a heat pump

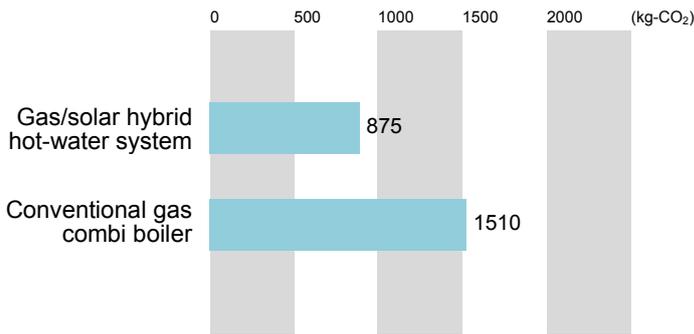


When a large amount of water is used:
Operate a heat pump and a high-efficiency hot-water unit,
ECO-JOZU.



When a hot-water heater is used:
Operate a high-efficiency hot-water unit, ECO-JOZU.
The product exceeds the housing energy-saving standards of fiscal 2014 although it adopted the function to provide floor heating.

· Comparison of annual CO₂ emissions (All power sources)



Researched by Rinnai Corporation in November 2010

Annual hot water supply load	4.48Gcal Based on Standards of Judgment for Residential Construction Clients, Institute for Building Environment and Energy Conservation
CO ₂ emission coefficient	LP gas 6.00kg-CO ₂ /m ³ (Act on Promotion of Global Warming Countermeasures, Article 3)
Electricity (All power source)	0.43kg-CO ₂ /kWh (Ministry of Economy, Trade and Industry: Average emission coefficient for all power source from 2004 to 2008 based on a medium-to long-term evaluation.)

* Primary energy efficiency: "Primary energy" is the energy which can be obtained without changing its form of the way it exists in nature such as coal, oil and natural gas. "Primary energy efficiency" is the efficiency ratio which converted the amount of final energy consumption to its equivalent in the amount of primary energy needed to produce the energy. Higher primary energy efficiency means a lower energy conversion loss rate, better utilization of energy resource and effective energy-saving.

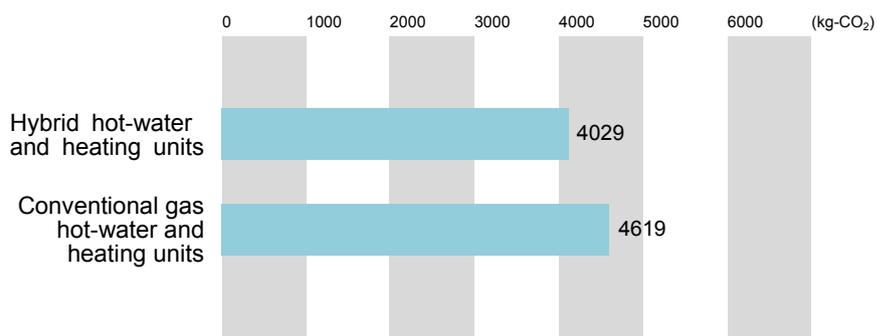
* Standards of Judgment for Residential Construction Clients: These energy-saving standards for housing for sales were newly established for residential construction clients who design and build houses to reinforce energy-saving measures.

Gas/solar hybrid hot-water system for cold regions

- * To improve the heating performance, the heat from the heat pump is utilized not only for hot water supply but also for a hot-water heating system.
When heating load is low, only a heat pump is operated.
When heating load is high, a heat pump and ECO-JOZU, a high-efficiency hot-water unit, are jointly operated.
- * It reduces about 13% of CO₂ emissions compared to conventional gas hot-water heaters.
- * Heating performance: A panel heater allows the connection of a maximum of 10 units.
The heater employs a closed heating circuit, which seals the air in a heating circuit to inhibit rust. It can be connected to iron panel radiators including panel heaters, which are widely used as a heating facility in cold regions.



- Comparison of annual CO₂ emissions from the combined use of hot-water supply and heaters



Energy-saving mode No heat pump water supply setting No heat pump heating setting	-7°C 2°C
Contract type for power usage	Electricity charges by time zone ("Dream 8" by Hokkaido Electric Power Co., Inc.)
Annual hot-water supply load	4,508,636kcal By operation mode defined by Japan Industrial Association of Gas and Kerosene Appliances
Annual heating load	9,153,040kcal By Rinnai Hokkaido monitor data

■ Aiming to realize a low-carbon society with earth-friendly hot-water units

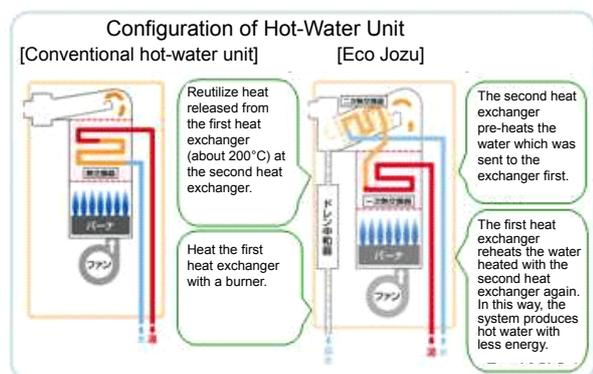


Switch to Eco Jozu by 2013 Campaign

Aiming to convert all gas hot-water units to Eco Jozu products by 2013

As a measure to realize a low carbon society, Rinnai supports the "Switch to Eco Jozu by 2013 Campaign" declared by the Japan Industrial Association of Gas and Kerosene Appliances and the Japan Gas Energy Promotion Association. We are promoting our product development to convert all gas hot-water units to high-efficiency hot-water units, "Eco Jozu", which is energy-saving and environment-friendly with a thermal efficiency rate of about 95%, by March 2013.

To cope with various installation requirements and needs, after 2009, Rinnai developed Eco Jozu E-series products including "RVD · RUFH (hot-water, bath and heating systems)", "RUF (hot-water and bath systems)" and "RUX (a dedicated hot-water system)".



Main Eco Jozu Products which were newly developed

Gas heat source for hot-water and heating unit Eco Jozu (Hot-water, bath and heater system)



Remote controller for kitchen-use MC-200V



Remote controller for bathroom-use BC-200V



RUFH-E series

Gas combi boiler Eco Jozu (Hot-water, and bath system)



Remote controller for kitchen-use MC-123V



Remote controller for bathroom-use BC-123V



RUF-E series

Gas hot-water unit Eco Jozu (Dedicated hot-water system)



Remote controller for kitchen-use MC-140V



Remote controller for bathroom-use BC-140V



RUX-E series

■ Utilization of natural energy

"SOLAMO", a balcony-fence embedded solar water-heating system

[Chairperson's Award, The Seventh Eco Products Awards Steering Committee]

* About 29% of reduction in CO₂ emissions compared to conventional hot-water units

A solar water-heating system, "SOLAMO" consists of heat collection panels, a tank to store the water heated with solar energy and sub-heat source. Its remote controller has an energy consumption status display function and a switch that allows using only the hot water heated with solar energy. Thus, the product is not a merely an energy-saving product but also facilitates functions to promote users to be conscious about conserving energy.



* Jointly developed by 5 companies including Rinnai Corporation, Gastar Co., Ltd, Yazaki Corporation, Sangyo Tateyama Aluminum, Inc. and Tokyo Gas., Co., Ltd.

Safety and Peace of Mind, Comfort and Convenience

■ Kitchen appliances

"DELICIA", a built-in stove with waterless grill with double-burner



RRB71W10G7V-S



A winner of Fiscal 2011 GOOD DESIGN Award

- Heat-off glass top
It has a structure to disperse/release the heat and inhibit the increase of glass surface temperature, so food spill will be unlikely to get burnt on the gas stove.



Surface temperature dropped about 66°C compared to conventional products.

- Smoke-off function
Special burner drastically eliminates the issues related to smoke and smell for cooking fish.

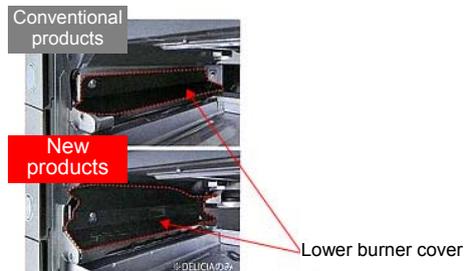
Special burner

Comparison test <Amount of smoke generated when cooking fish>

Conventional DELICIA	New DELICIA
[Image showing high smoke]	[Image showing low smoke]

Smoke: 81% down
Smell: More than 99% down
(Compared to our conventional products)

- Making it easy to clean the inside of the grill
We increased the size of a lower burner cover in the grill to prevent it to get dirty.



Compact (56cm) fluorine-coated gas stove with one-side burner grill (Water required)



RTS-338NFTS (SL)

- Making it easier to clean the top plate
It is the first fluorine-coated flat and clean stove without drip pans.
Stove top grates and burner-rings can be removed.



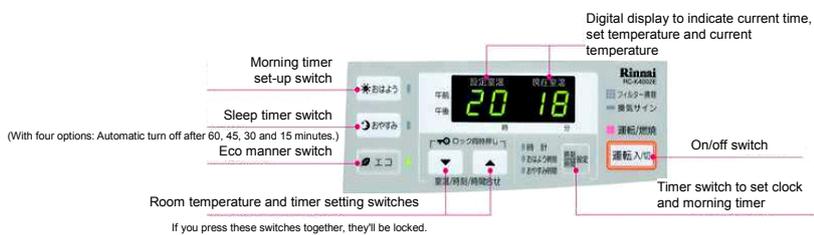
■ Air-conditioners

Fan heaters



RC-K4002E-WH

- Improvement of energy-efficiency
They employ "Eco Operation Function" which efficiently warms up a room while providing comfort.
- Operability Enhancement
Control panel is easy to use.



* This photo is a control panel for RC-K4002E.

■ Professional Appliances

Professional-use single cooktop gas stove with temperature control function



· Operability Enhancement

It has a temperature control function and a timer that facilitate cooking at the same temperature for the same duration.

Temperature control function for frying: Temperature can be set from 160 to 220°C with an interval of 5°C.

Timer function: Timer can be set for 1-99 minutes with an interval of 1 minute.

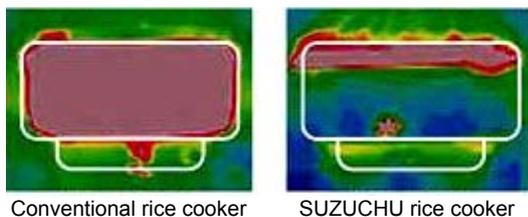
Let us make a kitchen cooler and more comfortable by reducing radiant heat from appliances.

Low radiant heat-type gas rice cooker for professional-use



· Improved thermal insulation capability

The surface temperature of the outside layer was reduced to lower than a half by making the body of the rice cooker into a three-layer structure.



High-speed benchtop gas oven for professional-use



RCK-S10AS

- Improved thermal insulation capability
Surface temperature on upper area of open door and door glass was reduced to about a half by employing "SUZUCHU Oven door (with door glass)".
- Easier cleaning
The design allows the user to remove the outer layer of the oven door.



Packing

We promote packages which only use corrugated board to reduce the use of styrene foam and waste-related issues. In addition, we are also expanding our use of returnable packing to reuse packing materials and reduce the amount of packing used.

Reduce Use of Containers and Packaging

Returnable Packing

- Hot-Water and Heating Units



Corrugated board packing



Returnable packing



Collection style of packing material

Utilization of Plastic Boxes to Transport Goods between Our Locations

- Container boxes for remote controllers



Corrugated cartons

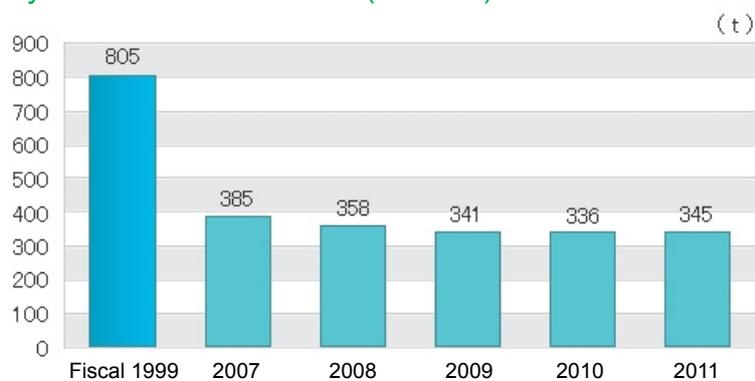


Plastic containers

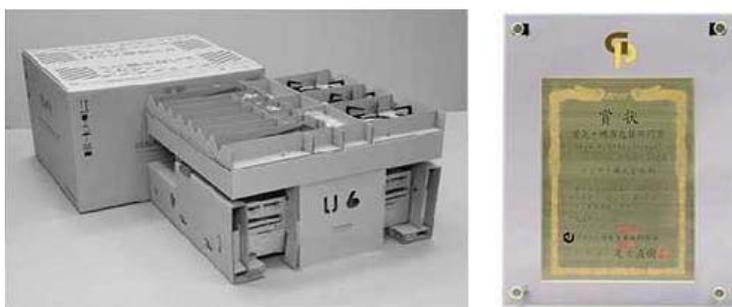


* Reduction of corrugated cartons: About 900kg/month

Styrene Foam Use Trend (Volume)



Topic: Received "Japan Packaging Contest 2010: Electric Equipment Packaging Category Award"



Downsizing of built-in gas stove packaging

The packaging successfully reduced the use of package materials and improved the logistic efficiency by downsizing the corrugated carton size compared to those for conventional system stove products.

Used corrugated cartons	6.0kg → 5.4kg
Loading efficiency	Up 12.5%

Recycling

■ Recycle Household Electrical Appliances

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. Rinnai now has two products—a unit-style air-conditioner and a clothes dryer—that can be redirected from the waste pile.



Unit-style air-conditioner



Clothes dryer

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%

Product	Unit-style air-conditioner	Clothes dryer
Number of units brought to designated collection points	5,724 units	902units
Number of units processed for recycling	5,634units	889units
Weight of units processed for recycling	231.8 tons	30.4tons
Weight of recycled materials	210.2tons	27.3tons
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.

■ Recycle Containers and Packaging

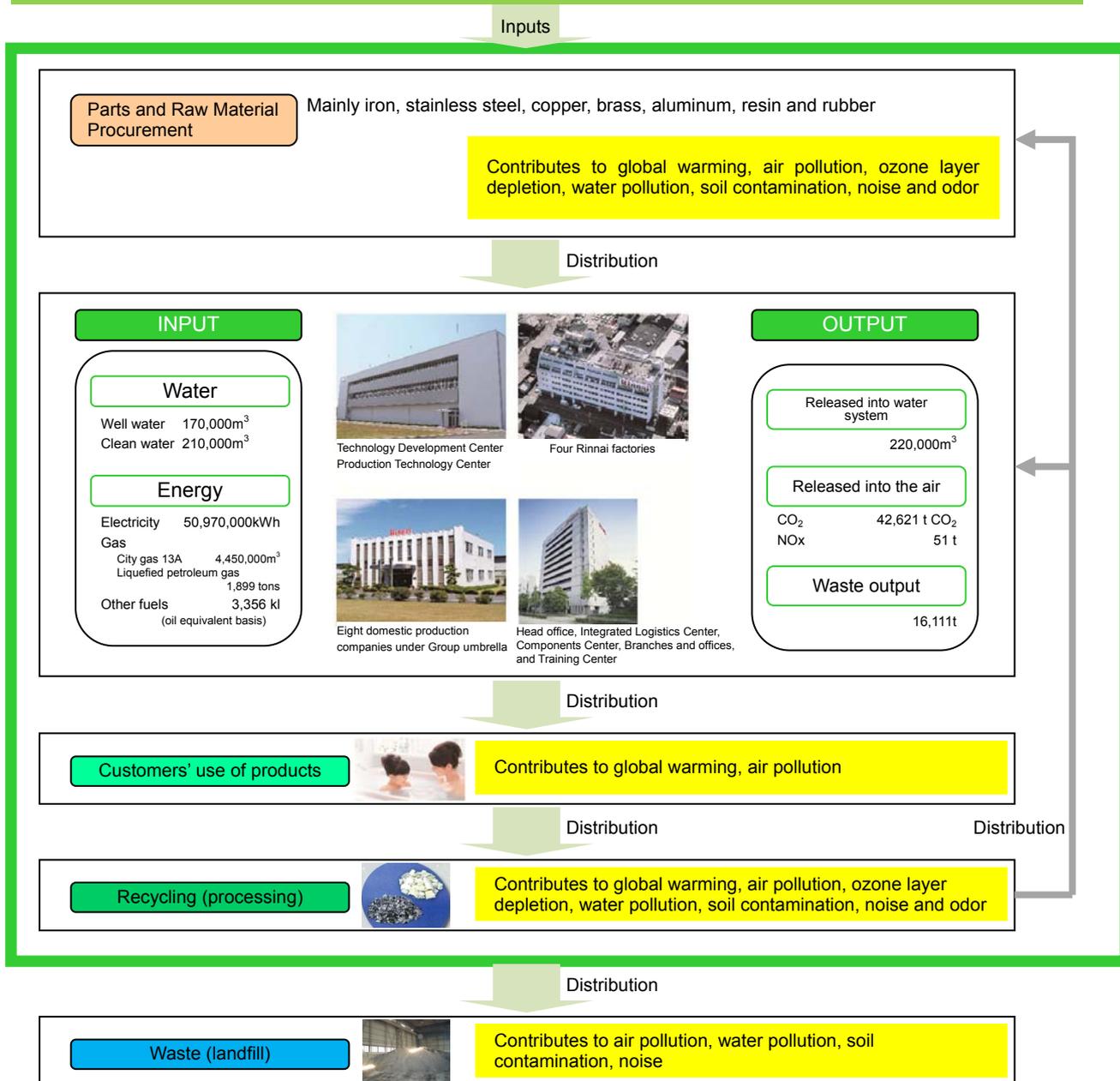
The Containers and Packaging Recycling Law obligates manufacturers and user businesses to recycle product containers and packaging discarded by households in an effort to make more effective use of resources. In accordance with the law, Rinnai has contracted a designated corporation that recycles containers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

Environment-Conscious *Monozukuri*

Since its establishment, Rinnai has been accumulating its outstanding *Monozukuri* technology and work methodology that shall be followed. By sharing and passing this culture over generations, we have been realizing a wide range of technology innovation that fundamentally supports our vigorous environment-friendly business activities.

Environmental Footprint in *Monozukuri*

Energy and natural resources (electricity, gas, oil, raw materials)



Pursuit of *Monozukuri* Reforms

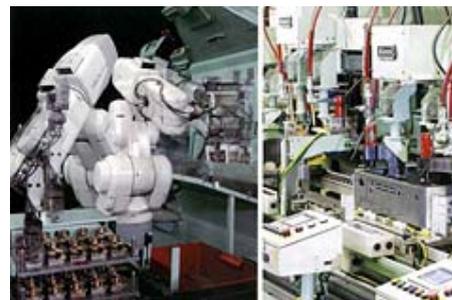
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Production Technology Center

■ Reduction of Environmental Burden through the Optimization of Production

Production Division is working on its improvement project, setting "Number of processes per hour" as a key performance indicator, KPI. To increase our productivity, we target to reduce the number of processes rather than increasing production output. We started displaying the operating ratios of our production facilities and load ratio information utilizing IT system. By shortening processes and reviewing the components supply methodology, we strive to optimize our production, utilize resources and reduce environmental burden.



■ Topic

"Modification of Sales Activity Processes from the Viewpoint of Production Division"

Stagnant communication flow from Sales Division could harm productivity disturbing the regular production plan and creating extra-urgent requests. For Environment-Conscious *Monozukuri*, it is crucial to immediately pass order information to production sites. To do so, it was inevitable for the Sales Division to increase the frequency of visits to our customers. Thus, Production Engineering Division dispatched its process improvement team staff to sales locations to analyze the business activities of our sales staff for a certain period. Based on the analysis, measures were taken to improve the efficiency of sales activities. This resulted in a substantial reduction of urgent orders. The process innovation of Sales Division and the improvement activities of Production Division contributed to the enhancement of business efficiency by reducing inventories by 30% and shortening production lead-time of our major production from three days to two days.

Efforts to Prevent Global Warming

■ Observance of Energy-saving Laws

Energy-saving Laws used to demand companies submit an energy consumption report on a factory/business location basis. However, the revised laws, which went into effect in April 2010, demand them to present the data for an entire company. Rinnai was designated as "a specified business operator", which has an obligation to select staff in charge of energy management and promote company-wide energy control measures. To improve energy efficiency more than 1% every year, we are promoting various global warming prevention measures including energy conservation activities.

■ "Challenge 25 Campaign"

The Rinnai Group was one of the first members that joined the Challenge 25 Campaign that started in January 2010 as a national program to prevent global warming by cutting CO₂ emissions. We are actively promoting a global warming prevention program. Moreover, after the outbreak of the East Japan Great Earthquake on March 11, 2011, to cope with the power shortage issue, Rinnai strengthened its measures to save energy through our daily operations. The measures include the change of room temperature setting of air-conditioners, the review of the implementation period of "cool-biz" and "warm-biz" programs that allow employees to wear less formal attire as an energy-saving measure, reduction in the use of elevators, immediate power-off of personal computers which are not in use, and the enforcement of practice to turn off lights of facilities during lunch break. Through such measures, we strive to reduce our energy consumption and CO₂ emissions little by little. We promote the provision of the information on energy conservation.



Voluntary reduction of elevator use



"Two up Three Down" campaign



Heating temperature guideline

Suspension of elevator use based on a schedule

Enforcement of air-conditioner temperature control

Green Curtain

We produce 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. In addition, the morning glories and goya of the Green Curtain were grown out of seeds collected in the previous year. (Implemented at Yanagisawa Manufacturing Co., Ltd. and Japan Ceramics Co., Ltd., etc.)



Green Curtain



Growing seedlings



Seeds of morning glories and balloon vine(heart pea)



Seeds of goya (bitter melon)

Green Roof

We planted plants on the balcony of the fourth and fifth floors of the Kanto Branch to inhibit the transfer of solar radiation heat to the air.



Balcony of Kanto Branch

Utilization of Natural Energy Sources

A small-sized wind and solar generator is installed at a parking space at the headquarters to reduce power consumption.

Electric Power Generation	
Solar power rated output	168W
Wind power rated output	About 30W



Parking space at the headquarters

Optimization of Facilities

To reduce the power consumption of a palletizing robot, which loads final products sent from an assembly line on pallets, we took advantage of the end of product replacement period and converted to a smaller model that has sufficient capability to handle our process volume. The model change has given a wider space for processing as well. (Aichi Factory)

Reduction of power consumption	7,600kWh/year
CO ₂ emission reduction result	About 2.9t-CO ₂ /year



Improving Logistics

■ Working with Logistics Partners

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 reviewing our operations from various viewpoints and ideas such as the loading efficiency.

Major Activities

- Change of pallet sizes
- Change of number of stack layers (Observance of Product Handling Warning Sticker)
- When there are a small quantity of products on a pallet, they shall be piled for the shipment.

*CO₂ emission reduction achievement: 112.4t-CO₂/year

■ Other Examples of Logistics Improvement

Shared Transportation for Procured Components

To reduce energy consumption related to regular and special deliveries of procured parts, we arranged for shared transportation. Instead of our supplier's own transportation, we use a shared delivery service for the transportation of parts to reduce CO₂ emissions. (Aichi Factory)

*CO₂ emission reduction achievement: 0.4t-CO₂/year

Improvement of consignment style

To reduce the number of shipping processes, we abolished a system to use stretch film to prevent loads from collapsing. Instead, we employed a new method to put products on a cart covered with a net. Thus, we successfully reduce the number of processes and eliminate the use of stretch film that needs to be disposed of at the end. (Components Center)



Place products on a pallet and wrap with stretch film



Load on a cart holding with a net

Efforts to Reduce Waste

■ Reduced Waste Output and Recycle

Zero Emissions

We strive to maintain zero emissions and reduce waste output.

Waste Output

Fiscal 2011 actual results	100% of previous year (No change in volume)
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* 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

Measures to reduce waste generated from production activities and promote recycling

Reduce Waste	Process Waste Economically
Don't buy something that will end up as garbage. Don't make waste. Return reusable items to respective point of purchase. Reuse. Recycle.	Reduce volume. Cut unit cost of processing fees. Turn waste into a valuable commodity. Boost the value of valuable commodities.

Example of Preventing Waste

—Utilization of Stamped Out Material

To promote the utilization of materials recycled from the process to produce a stamping die, we register and manage the material, size (thickness, width, depth and weight) and number of recycled material from the stamping process to make it easier to recycle to produce another die. (Production Engineering Division)

Stamping material recycle results	About 1.5t/year
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Improvement of "quality" of recycling

To recycle the waste that is currently used as fuel, we review the separation and collection method to improve the "quality" of recycling from thermal to material recycle.

—Material Recycle of ABS Resin by Separation

We extracted ABS resin from mixed resin waste*, which used to be thermal-recycled, treating as valuables and recycled as material. (Asahi Factory)

* Under Japan's Manifest System of Industrial Waste, we issue a manifest for this waste.

ABS resin recycle volume	About 3t/year
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■ 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 2011, we verified that 42 providers were performing waste management operations in an appropriate manner.



Facility rounds

■ 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. As for disposed electric appliances in which traces of PCB were confirmed, we will also properly store and process them at facilities which are running certified by Minister for the Environment from fiscal 2011.

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



Oguchi Factory
Storage for electric appliances in which a trace of PCB was found

Chemical Substances

■ Reduce/Eliminate Hazardous Chemical Substances

Laws and regulations to restrict the use and manufacturing of chemical substances are enforced to avoid the adverse effects that such substances have on people's health and the environment. We are working to reduce, or eliminate altogether, hazardous chemical substances used in our production 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.

Example of Reduction in Hazardous Chemicals

—Reduced use of paint thinner for cleaning use

To paint various kinds of components, the color of paint has to be frequently changed, and painting equipment including a spray painter gun and a pump needs to be cleaned for each use. Paint thinner for cleaning use is utilized to clean such devices. To reduce the consumption of thinner, we improved the processes and partially converted the use of thinner during the painting and cleaning processes of internal-surface of pipes into air. (Asahi Factory)

Cleaning thinner reduced consumption	About 10t/year
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Efforts to Prevent Pollution

■ Preparing for Emergencies

Assuming the occurrence of accidents that would be likely to have an adverse effect on the environment, we have implemented a number of preventative measures. All offices run annual drills premised on adverse events, such as environmental accidents. To minimize environmental risk, we have also reviewed procedures setting out actions to take in the event of a crisis and have prepared emergency provisions.



Emergency response drill



Storage of supplies for emergency use

Environment-Focused Equipment Inspection

To prevent accidents that would impact the environment, 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.



Leak inspection of underground tank
(Yanagisawa Manufacturing Co., Ltd.)



Round-check of high-priority facilities
(Noto Tech Co., Ltd.)

Utilization of Water

■ Consideration for Water

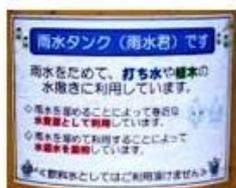
Recognizing water as our valuable resource, we strive to reduce the consumption of both clean water and well water. In addition, while we try to minimize the use of water drawn from a well in the factory, we purify used water before disposal and also implement rigorous drain management with drain control equipment preparing for abnormal conditions.

Utilization of Rain Water

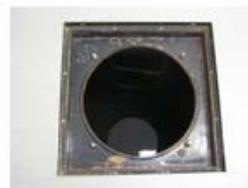
We collect rain water to reuse for watering plants.



Rain water tank
(Yanagisawa Manufacturing Co., Ltd.)



Underground tank placed in Design Building,
Research & Development Headquarters



Drain management

We monitor pH with a water pollution preventative facility for the real-time detection of accidents that cause any adverse effect on the environment. (Seto Factory)



Biodiversity

Besides the implementation of environmental activities for the realization of a low-carbon and recycle-based society, companies are requested to be responsible for risk management regarding the impact on biodiversity by studying the relationship and interdependence between the actual business activities and the ecosystem. Rinnai supports the Declaration of Biodiversity by Nippon Keidanren (Japan Business Federation). We recognize that biodiversity provides essential benefits so that society can continue to exist. Thus, we promote activities to reduce the burden on the environment including biodiversity derived from our business operations. Furthermore, we implement measures to maintain and protect biodiversity.

Status of Legal Compliance

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.



Water quality examination



Air assessment

■ Legal Compliance Status

In fiscal 2011, there is no violation of environment laws and regulations concerning pollution prevention.

Environment Education and Promotion of Awareness

Activities during Environment Month

We set every June as "Environment Month" to increase awareness of the environment for each employee and implement and enhance various environmental protection and conservation activities at the factories and offices.

■ Rinnai Group Environment Awards Programs

Seeking to invigorate employees' environmental activities and promote access to excellent approaches within the Group, we established "Environment Awards Programs", 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. The first prize-giving ceremony took place at "Company-wide QC Circle Competition".

Environment Prize	Development of gas/solar hybrid hot-water system
Environment Contribution Prize	"Home Greenery Project"
Other prizes	13 prizes



Award presentation



Posting of award-winning cases

■ Other Factory Visit

We visit other companies' factories to learn about their advanced environment-conscious measures.



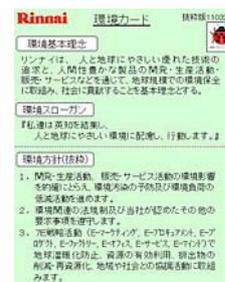
Factory tour



Environment measures seminar

■ Environment Policy Card

We distribute an "Environment Card" that lists selected Environmental Policy to employees to promote their awareness toward environment conservation activities. The back of the card is for them to fill in "My Environment Challenge Declaration".



Environment Card

■ Issuance of Environment Company News

We periodically issue "Environment Company News" to share internal environmental measures and introduce domestic and international trends on environment activities. This is to promote the communication among employees and encourage them to be more environment-conscious.



Environment Company News

■ "Safe and Eco-Friendly Drive Seminar"

For the prevention of car accidents and global warming, we invited a guest instructor and held a "Safe and Eco-Friendly Drive Seminar" for employees in sales and management divisions who use a company car. It is on the guidance and explanation on "the basics of traffic safety" and "actual training of eco-friendly training" and 50 employees attended the seminar.



Safe and Eco-Friendly Drive Seminar

■ Green purchasing

For the purchase of office supplies and office automation equipment, we encourage employees to give priority to purchasing environment-friendly products that are qualified under the Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities.

* "Green procurement" and "Green purchasing": "Green procurement" is to acquire goods directly related to our production activity, and "Green purchasing" means purchase of office-related supplies and facilities.

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 RGM-4, 6, 8.
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 Oguchi factory, Production Engineering Division and Research & Development Headquarters.
	December	Won prize at 8th Energy Conservation Vanguard 21 for tabletop oven RSBN-096.
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: Yukko V Series, 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 and Environment Division acquired ISO 14001 certification
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, 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: Eco-Jozu condensing hot-water/heating unit RVD-E Series.
2010	January	Market debut: Eco-Jozu condensing combi boiler RUF-E Series 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 Hybrid Hot-Water Unit ECO ONE.
	December	Market debut: Light-weight and compact Eco-Jozu hot-water unit "RUX-E Series" (Hot-water unit exclusive use)
2011	January	Market debut: Eco-Jozu hot-water/heating unit RUFH-E2402 Series

Awards and Prizes

Major Award Winning History

Rinnai received following awards from April 1, 2010 to June 30, 2011.

Awards for Rinnai Corporation

2010	October	Japan Packaging Contest 2010, Electric Equipment Packaging Category Award
	September	Good Design Award 2010
	August	Japan Manual Awards, Paper Manuals Division, Operations Manuals, No.1 Category, Most Outstanding Manual in Category
	July	Kids Design Award 2010
	June	Technology Grand Prize and Technology Prize by The Japan Gas Association
February	Aichi Environmental Award, Silver Award	

Awards and Prizes for the Group Companies

—Rinnai Korea Corporation

2011	February and March	2011 Brand Survey by Korean Management Association Consulting (KMAC) Korea's most respected company <Home-use boiler section> No.1 - Home-use boiler Korea Best Brand Award <Gas stove section> No.1 - Gas stove
	2010	October

—Rinnai America Corporation

2010	August	The 2010 MVP AWARD by BUILDING PRODUCTS (Housing equipment magazine) MVP AWARD Winner - Condensing Tankless Water Heater
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—P.T. Rinnai Indonesia

2010	July	Indonesia Best Brand Award by SWA (Economic magazine) <Table stove section> Gold Award - Table Stove
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—Rinnai UK Ltd.

2010	April	H&V News Award 2010 by Thermal Energy Appliance Industry Association<Commercial appliance section> Best Product Award - Condensing hot water units
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