



MEMBERSHIP
April 23, 2019

Company Name: Rinnai Corporation
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Director
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Announcement of Partial Amendment of “Basic Policy on Establishment of Internal Control System”

At its meeting held on April 23, 2019, the Board of Directors of Rinnai Corporation passed a resolution to amend the Corporation’s “Basic Policy on Establishment of Internal Control System. The amended parts are underlined below.

System to ensure the execution of business

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

- To ensure that directors and employees of the Corporation and its subsidiaries are constantly aware of the need to observe legal regulations and the Articles of Incorporation when executing their duties, the Group has formulated the Rinnai Group Code of Ethics, which consists of the Company Motto, the Brand Promise (Mission), the Rinnai Charter, and the Rinnai Code of Conduct. The Corporation and its subsidiaries shall work to ensure that all directors and employees are fully familiarized with the Rinnai Group Code of Ethics.
- In addition to establishing the Business Ethics Committee, the Corporation shall formulate basic items on Group-wide corporate ethics and promote compliance with those ethics.
- If a director becomes aware of an incident in which there is suspicion of a major legal violation, he or she shall immediately report the incident to the Audit & Supervisory Board and the Board of Directors.
- The Corporation has set up a Corporate Ethics Hotline as an internal reporting system to handle incidents in which there is suspicion of a major legal violation. Operation of the hotline is based on the Corporation’s business ethics manual.
- If an Audit & Supervisory Board member believes there is a problem with the internal compliance system or Corporate Ethics Hotline, he or she shall convey his or her opinion and seek measures to correct the situation.

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

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

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

- As part of its risk management system, the Corporation shall determine risk management regulations and promote internal checks and awareness activities on a Group-wide basis, according to relevant regulations under the Risk Management Committee chaired by the

president. Risk managers shall be assigned to deal with specific types of risk.

(4) System to ensure efficient execution of duties by directors of the Corporation and its subsidiaries

- To ensure that directors execute their duties in an efficient manner, meetings of the Board of Directors shall be held on a regular basis to discuss and debate important matters and make executive decisions.
- Directors formulate management strategy and track the progress of management plans at the Group-wide executive meeting held every year.
- Execution of business based on decisions made at Board of Directors meetings shall be performed by the relevant director according to the Corporation's rules and procedures.
- The Corporation formulates the Group management direction, management, plan and management numerical target in each fiscal year, based on the medium-term management plan, medium-term numerical targets, and management indicators. Each department formulates an action plan, according to the Corporation-wide plan and target for each fiscal year, and the Corporation practices consistent management of each department.

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

- To ensure that business at Rinnai Group companies is conducted appropriately, the Corporation shall formulate a Rinnai Code of Conduct to serve as a behavioral guide for Rinnai Group companies. Based on the charter, Group companies shall create their own specific regulations.
- Business control of Rinnai Group companies shall be based on management procedures and the relevant companies' procedures and reporting rules determined by provisions for controlling Rinnai Group companies.
- Internal audits by the Internal Control Office and relevant divisions were carried out in accordance with the business content and operating scale of each Group company.

(6) System applicable to employees who support to Audit & Supervisory Board members; and system to ensure effective execution of instructions to such employees

- An employee from the Internal Control Office shall be assigned to concurrently provide such support to the Audit & Supervisory Board member, and the assigned person shall also be responsible for duties within Office of the Audit & Supervisory Board. The assigned person shall give higher priority to supporting the member than the work of the Internal Control Office, and shall not accept instructions or commands related to said support duties from superior officers in the department from which he or she was assigned.
- Changes in personnel and assessment of performance of assigned persons from the Internal Control Office serving concurrently as support staff for an Audit & Supervisory Board member shall require the consent of the Audit & Supervisory Board.

(7) System for reporting to Audit & Supervisory Board members; other systems to ensure effective execution of duties by Audit & Supervisory Board members

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

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

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

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

- Total costs incurred in the process of executing duties by a member of the Audit & Supervisory Board shall be covered by the Corporation based on application by said member.

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