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(Translated from the Japanese original)

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Nagoya Stock Exchanges  
Stock Code: 5947  
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## **Notice regarding Revision to Monetary Compensation for Directors and Introduction of Restricted Stock Compensation Plan for Directors (excluding Outside Directors)**

At its meeting held today, the Board of Directors of Rinnai Corporation (the “Corporation”) reviewed directors’ compensation and resolved to propose agenda items related to revision to monetary compensation for directors and introduction of a restricted stock compensation plan for directors (excluding outside directors) for resolution at the 71st Ordinary General Shareholders’ Meeting to be held on June 29, 2021 (the “Shareholders’ Meeting”). Details are given below.

### **1. Purpose and other matters related to the review of directors’ compensation**

To date, the Corporation’s compensation for directors has been paid as fixed amounts, with no performance-linked component, to maintain steady business operations. However, considering the Corporation’s recent operating environment and changes in expectations around corporate governance, the Corporation has decided to introduce an annual bonus plan and a restricted stock compensation plan with the objective of promoting solid corporate value creation over the medium to long term. With this in mind, the Board of Directors, at its meeting held on February 10, 2021, resolved to establish the Compensation Advisory Committee, composed of a majority of independent outside directors, as an advisory body to the Board of Directors, to ensure more objectivity and transparency in the process of determining compensation. Accordingly, the revision to policies on determining compensation was deliberated a meeting of the Committee, and then ratified by the Board of Directors.

### **2. Revision to amount of monetary compensation for directors**

The maximum amount of compensation for directors was set at ¥45 million per month (excluding their salary as an employee) at the 58th Ordinary General Shareholders’ Meeting held on June 27, 2008. As a result of the current review, the Board of Directors decided to set the total amount for basic compensation plus annual bonus paid to individual directors at no more than ¥370 million per annum (and no more than ¥50 million for outside directors)

for basic compensation and no more than ¥220 million per annum for annual bonuses. These amounts do not include the salary for directors who concurrently serve as employee.

### **3. Introduction of restricted stock compensation plan**

As part of the review of directors' compensation, the Board resolved to introduce a restricted stock compensation plan (the "Plan") for directors other than outside directors ("Eligible Directors") and executive officers who do not concurrently serve as director (together with Eligible Directors, "Eligible Directors, etc.") to provide an incentive to continuously improve the Corporation's corporate value and to promote value sharing with shareholders. When introduced, the Plan is to provide Eligible Directors, etc. with monetary receivables as compensation for the grant of restricted stocks, and the introduction shall be subject to obtaining shareholder approval for providing this compensation at the Shareholders' Meeting.

The total amount of monetary receivables to be provided to Eligible Directors, etc. under the Plan shall be no more than ¥120 million per annum (excluding their salary for directors who concurrently serve as employee), and total number of common shares to be newly issued or disposed of by the Corporation shall be no more than 20,000 per annum. If a stock split (including gratis stock allotment) or stock consolidation of the Corporation's common shares is conducted effective on or after the day of the resolution at the Shareholders' Meeting, the number will be adjusted according to the split or consolidation ratio by a reasonable amount as necessary.

Eligible Directors, etc. shall make an in-kind contribution of all monetary receivables provided under the Plan, and in turn, receive common shares that will be issued or disposed of by the Corporation. The amount to be paid-in per share shall be decided by the Board of Directors based on the closing price of the Corporation's common shares on the Tokyo Stock Exchange on the business day immediately preceding the day of each resolution by the Board of Directors (or the closing price on the transaction day immediately prior thereto if no transaction is made on such business day), to the extent that it will not be especially advantageous for Eligible Directors, etc. subscribing to the common shares. The specific timing of the provision and allocation to each of Eligible Directors, etc. shall be decided by the Board of Directors.

The issuance or disposition of the Corporation's common shares under the Plan (the "Shares") shall be subject to the conclusion of a restricted stock allotment agreement between the Corporation and each of the Eligible Directors, etc. Under the agreement, (1) Eligible Directors etc. shall not transfer the Shares to any third party, create a security interest on or conduct other dispositions of the Shares for a certain period of time (the "Restriction Period"), and (2) gratis acquisition of the Shares by the Corporation shall be conducted if a certain event occurs. During the Restriction Period, the Shares shall be managed in a dedicated account opened by each of the Eligible Directors, etc. with Nomura Securities Co., Ltd, in order to prevent the transfer, the creation of a security interest on or other dispositions of the Shares during that period.

<Reference Information>

## **The Corporation's Policies on Determining Compensation for Directors, etc. for the 72nd Fiscal Year**

- A summary of the Corporation's policies on determining compensation for individual directors for the 72nd fiscal year is given below.

### (1) Policies on determining compensation for directors

- To date, the Corporation's compensation for directors has been paid as fixed amounts, with no performance-linked component, to maintain steady business operations. However, considering the Corporation's recent operating environment and changes in expectations around corporate governance, the Corporation has decided to introduce an annual bonus plan and a restricted stock compensation plan with the objective of promoting solid corporate value creation over the medium to long term, and has established basic principles as follows:

#### (Basic principles)

##### 1. Promoting solid corporate value creation over the medium to long term

- The level and composition of compensation are set so that directors will be motivated to realize increased corporate value and attain goals through the concerted efforts of the entire Corporation.
- Directors will be motivated to routinely attain performance targets every fiscal year and create corporate value over the medium to long term by exercising appropriate quantitative evaluation on the basis of financial performance indicators and assessment of medium- to- long-term efforts on compensation.
- Steady improvement of corporate value is sought through directors holding the Corporation's shares for the medium to long term, thus having common interests with shareholders .

##### 2. Securing objectivity and transparency to underline our accountability to a broad range of stakeholders including shareholders

- Policies on determining compensation are deliberated by the Compensation Advisory Committee' meeting, mainly composed of outside directors, and then ratified by the Board of Directors' meeting based on the Committee's recommendations.
- The level and composition ratio of compensation are continuously validated by an objective comparison with those of comparable companies.

### (2) Structure of compensation

- Compensation for directors consists of a basic component (fixed compensation) and a performance-linked component in a ratio of approximately 70:30 for the purpose of providing a sound motivation for increased corporate value and target achievement. Performance-linked compensation consists of an annual bonus, designed to promote steady attainment of performance targets every fiscal year, and a restricted stock option, designed to seek steady improvement of corporate value through sharing interests with shareholders by holding the Corporation's shares for the medium to long term.

- Compensation for outside directors is limited to a basic component (fixed compensation) only, in order to promote proper conduct of their duties to supervise and give advice to the management from a position independent of executive management.
- The composition of compensation and summary of each component are as follows:

#### Composition of compensation



- Basic component
- Annual bonus
- Restricted stock option

#### Summary of each component

Type of compensation	Summary
Basic compensation	Cash compensation paid monthly in a fixed amount based on position and duties
Annual bonus	<p>Cash compensation designed to promote steady attainment of performance targets every fiscal year and corporate value creation over the medium to long term</p> <p>Consisting of a corporate performance-linked component (80%) and an individual performance-evaluation component (20%)</p> <ul style="list-style-type: none"> <li>• The corporate performance-linked component will range from 0% to 150% of the standard amount, depending on the degree of attainment of targeted consolidated operating income and non-consolidated operating income, which are key performance indicators of the Corporation</li> <li>• The individual performance-evaluation component will range from 0% to 150% of the standard amount, depending on major indicators of each director's area of responsibility and an evaluation of efforts towards medium-to long-term growth and ESG, etc.</li> <li>• Determined amounts will be paid as a lump-sum cash payment after the end of each fiscal year</li> </ul>
Restricted stock	<p>Stock-based compensation designed to contribute to steady improvement of corporate value through shared interests with shareholders by holding the Corporation's shares for the medium to long term</p> <ul style="list-style-type: none"> <li>• Basically, restricted stocks are granted every fiscal year, and transfer restrictions will be lifted in the event of a director's resignation</li> </ul>

- ※ If any individual director holds a number of shares exceeding a specified number over the medium to long term, the restricted stock may be included in an annual bonus and the director will receive only an annual bonus as performance-linked compensation incentive. Directors eligible to receive restricted stocks are identified at a meeting of the Compensation Advisory Committee, and then ratified by the Board of Directors.

(3) Level of compensation

- The level of compensation for directors (excluding outside directors) is set so that directors are motivated to realize increased corporate value and attain goals through the concerted efforts of the entire Corporation. It is determined on the basis of position and duties and by using objective data on executive compensation gathered through a survey conducted by an outside expert agency (Willis Towers Watson's Executive Compensation Data) and using those of selected comparable companies as benchmark.

(4) Process of determining compensation

- Policies on determining compensation for directors are deliberated objectively at a meeting of the Compensation Advisory Committee, composed of a majority outside directors, and ratified by resolution of the Board of Directors based on the Committee's recommendations. The amount of each director's compensation, including an assessment of an individual performance-evaluation component, is determined by the deliberation of the Compensation Advisory Committee to which the Board of Directors has resolved to delegate authority, ensuring more objectivity and transparency in the process of determining compensation.
- Deliberations of the Compensation Advisory Committee are conducted from an objective viewpoint and by referring to expertise about compensation systems. Accordingly, information is obtained from an outside expert agency (Willis Towers Watson in fiscal 2020) when necessary.
- The following are the members of the Compensation Advisory Committee who deliberated policies for the 72nd fiscal year and their activities during the fiscal year.

(Members)

- Hiroyasu Naito, President and Representative Director
- Nobuyuki Matsui, Outside Director (Chairman of the Committee)
- Takashi Kamio, Outside Director

(Activities)

1. February 10, 2021: Deliberation on the members and authorities of the Compensation Advisory Committee
2. April 23, 2021: Deliberation on policies for the 72nd fiscal year