June 29, 2022

(Translated from the Japanese original)

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Notice of Disposal of Treasury Shares as Restricted Stock Compensation

At its meeting held today, the Board of Directors of Rinnai Corporation (the “Corporation”) adopted a resolution for the disposal of treasury shares (the “Disposal of Treasury Shares” or “Disposal”). Details are given below.

1． Outline of Disposal

(1)	Disposal date	July 28, 2022
(2)	Class and number of shares to be disposed	Common shares of the Corporation: 4,933 shares
(3)	Disposal value	¥9,370 per share
(4)	Total value of shares to be disposed.	¥46,222,210
(5)	Planned allottees of shares, number of planned allottees, and number of shares to be allotted	Director of the Corporation: One* (832 shares) Executive officers who do not concurrently serve as director: 13 (4,101 shares)
(6)	Other	For the Disposal of Treasury Shares, we have filed the Written Notice of Securities under the Financial Instruments and Exchange Law.

* In light of the purpose of performance-linked compensation and its functional effectiveness as an incentive, neither outside directors nor individual directors holding a number of shares exceeding a specified number are eligible to receive restricted stocks.

2. Purpose of and Reasons for Disposal

At its meeting held on May 12, 2021, the Board of Directors of the Corporation resolved to newly 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. In addition, at the Corporation’s 71st Ordinary General Shareholders’ Meeting held on June 29, 2021, approval was given for (i) providing monetary compensation (the “restricted stock compensation”) of no more than ¥120 million per annum to be used to contribute towards the acquisition of restricted stocks and issuing or disposing of the Corporation's common shares numbering no more than 20,000 per annum for Eligible Directors under the Plan, and (ii) setting a transfer restriction period for restricted stocks as the period from the day when the Corporation's common shares are allotted under a restricted stock allotment agreement to be concluded with each of the Eligible Directors to the time immediately after the Eligible Director retires his/her position at the Corporation or its subsidiaries determined at a Corporation's Board of Directors' meeting.

The outline of the Plan is as follows:

[Outline of the Plan]
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 issuance or disposal of the Corporation's common shares under the Plan 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, (i) Eligible Directors etc. shall not transfer the common shares allotted under the agreement to any third party, create a security interest on or conduct other dispositions of the shares for a certain period of time, and (ii) gratis acquisition of the shares by the Corporation shall be conducted if any of these events occurs.

We have decided to provide monetary receivables of ¥46,222,210 in total (the "Monetary Receivables") and 4,933 common shares on this occasion, taking into consideration the purpose of the Plan, the Corporation's business conditions, the extent of the duties of each of the Eligible Directors, etc., and other various factors, for the purpose of providing additional motivation to Eligible Directors, etc.

For the Disposal of Treasury Shares, 14 Eligible Directors, etc., who are planned allottees, are to make an in-kind contribution of all Monetary Receivables to be provided and receive common shares of the Corporation to be disposed (the "Allotted Shares") under the Plan. A summary of the allotment agreement to be concluded between the Corporation and each of the Eligible Directors, etc. (the "Allotment Agreement") for the Disposal of Treasury Shares is given in 3. below.

3. Summary of Allotment Agreement

(1) Transfer restriction period

The period from July 28, 2022 (the "Disposal date"), to the time immediately after the Eligible Director, etc. retires his/her position as director, executive, executive officer who does not concurrently serve as director, Audit & Supervisory Board member, employee, advisor or senior advisor, or other equivalent position at the Corporation or its subsidiaries

(2) Conditions to release transfer restrictions

Transfer restrictions for all the Allotted Shares will be lifted at the expiration of the restriction period, under the condition that the Eligible Director, etc. continues to be in the position as director, executive, executive officer who does not concurrently serve as director, Audit & Supervisory Board member, employee, advisor or senior advisor, or other equivalent position at the Corporation or its subsidiaries from the date of assuming his/her position to the time immediately before the conclusion of the first General Shareholders' Meeting after that date (or from the beginning of the fiscal year including the Disposal date to the end of that fiscal year for an executive officer who does not concurrently serve as director of the Corporation) (the "Service Period").

(3) Procedures for retirement of Eligible Directors, etc. during the restriction period for any legitimate reason

(i) Timing of release of transfer restrictions

When an individual Eligible Director, etc. retires all of his/her positions as director, executive, executive officer who does not concurrently serve as director, Audit & Supervisory Board member, employee, advisor or senior advisor, or other equivalent position at the Corporation or its subsidiaries for any legitimate reason, transfer restrictions shall be lifted immediately after the retirement.

(ii) Number of shares on which transfer restrictions are lifted

The number of shares on which transfer restrictions are lifted shall be the number of the Allotted Shares held at the time of the retirement provided in (i) above multiplied by the number of months from the month including the Disposal date (or the month including the beginning of the fiscal year the Disposal date belongs to for executive officers who do not concurrently serve as director) to the month including the retirement date divided by the number of months of the Service Period (12) (or one if the number exceeds one). (Any resulting fraction less than one share shall be rounded off.)

(4) Gratis acquisition by the Corporation

The Corporation shall acquire without cost the Allotted Shares whose transfer is still restricted at the time of the expiration of the restriction period or the time when the restriction is lifted as provided in (3) above.

(5) Management of shares

The Allotted 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 Allotted Shares during the restriction period. The Corporation has concluded a contract related to the management of the accounts for the Allotted Shares held by Eligible Directors, etc. with Nomura Securities Co., Ltd. to secure the effectiveness of the transfer restriction of the Allotted Shares. Eligible Directors, etc. shall consent to the details of the management of their accounts.

(6) Procedures for reorganization

If a merger agreement (the Corporation becomes an absorbed company), a share exchange contract or a share transfer plan (the Corporation becomes a wholly-owned subsidiary), or any other restructure is approved at the Corporation's Shareholders' Meeting (or at the Corporation's Board of Directors' meeting when the restructure does not have to be approved at the Shareholders' Meeting) during the restriction period, the Corporation will release the transfer restriction of the shares, whose number is determined as the number of the Allotted Shares held then multiplied by the number of months from the month including the Disposal date (or the month including the beginning of the fiscal year the Disposal date belongs to for executive officers who do not concurrently serve as director) to the month including the approval date divided by the number of months of the Service Period (12) (or one if the number exceeds one, any resulting fraction less than one share being rounded off), immediately before the business day prior to the effective date of the restructure by the resolution of the Corporation's Board of Directors. In case of the above, the Corporation shall acquire without cost all the Allotted Shares whose transfer is still restricted immediately after the time of the lifting of the transfer restriction.

4. Calculation Basis and Details of Paid-in Amount

The Disposal of Treasury shares to planned allottees is to be conducted by contribution of monetary receivables provided as restricted stock compensation for the Corporation's 72nd business year under the Plan. The disposal value is determined at ¥9,370 based on the closing price of the Corporation's common shares on the First Section of the Tokyo Stock Exchange on June 28, 2022 (the business day immediately preceding the day of the resolution by the Board of Directors) to eliminate arbitrariness. The amount is the market price of the shares immediately before the resolution by the Board of Directors, such that it is considered reasonable and not especially advantageous.

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