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May 9, 2025

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Representative: Hiroyasu Naito, President
Stock Code: 5947
Listings: Tokyo Stock Exchange, Prime Market, Nagoya Stock Exchange, Premier Market
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Notice Regarding Opinions of the Corporation's Board of Directors on the Shareholder Proposals

We, Rinnai Corporation (hereinafter, "Rinnai" or the "Corporation") received a document from DALTON KIZUNA (MASTER) FUND LP (hereinafter, "Proposing Shareholder"), a shareholder of Rinnai Corporation, seeking to make a shareholder proposal (hereinafter, "Shareholder Proposal") at the 75th Ordinary General Meeting of Shareholders scheduled for June 25, 2025 (hereinafter, "General Meeting of Shareholders"), and we have been reviewing the contents of this proposal. As a result, we hereby announce that its meeting held today, the Board of Directors has resolved to oppose the Shareholder Proposal.

Details

I. Description of and Reasons for Shareholder Proposal

1. Proposed Agenda

(1) Amendment to the Articles of Incorporation regarding disclosure of measures aimed at achieving management that is conscious of capital costs and stock price

(2) Implementation of share buyback

(3) Approval of compensation amount related to restricted stock compensation system
(4) Amendment to the Articles of Incorporation regarding the composition of outside directors

2. Outline of and Reasons for Shareholder Proposal
The details of the Shareholder Proposal are described in the attached "Details of the Shareholder Proposal."

This attachment contains the relevant portions of the Shareholder Proposal submitted by the Proposing Shareholder in the original text.

II. Opinions of the Board of Directors on the Shareholder Proposal

Shareholder Proposal 1. "(1) Amendment to the Articles of Incorporation regarding disclosure of measures aimed at achieving management that is conscious of capital costs and stock price"

(1) Opinion of the Board of Directors
<u>The Board of Directors opposes this Shareholder Proposal.</u>

(2) Reasons for opposition
This Shareholder Proposal seeks to introduce a new provision into the Articles of Incorporation concerning initiatives based on a document published by the Tokyo Stock Exchange entitled "Key Points and Examples Considering the Investor's Point of View in Regard to Management Conscious of Cost of Capital and Stock Price."

However, the matters that this Shareholder Proposal seeks to include are not appropriate for inclusion in the Articles of Incorporation, which serve as a fundamental code of the Corporation. On the contrary, introducing such provisions may hinder the Corporation's ability to respond swiftly and flexibly to changes in market conditions and business strategy.

Furthermore, as detailed below, the Corporation is already practicing "management conscious of cost of capital and stock price," so there is no need to stipulate the matters proposed in this Shareholder Proposal in the Articles of Incorporation.

Under our corporate mission of "utilizing heat to provide society with a comfortable way of life," we have been pursing three key strategies outlined in our medium-term business plan, New ERA 2025 (fiscal 2022, ended March 31, 2022 – fiscal 2026, ending March 31, 2026) (hereinafter, "the Plan"): "Expansion of business scale," "Revolution of corporate structure," and "Advancement in addressing social challenges." In May 2021, we announced the numerical targets of the Plan, including consolidated net sales of ¥450.0 billion, operating income of ¥50.0 billion, a return on invested capital (ROIC) of 19.0%, and a total shareholder return ratio (five-year average) of 40.0%. We also established a capital allocation policy for the duration of the Plan. In May 2023, as we reviewed progress under the Plan so far (fiscal 2022–2023), we announced a new capital policy. Aiming to enhance transparency and improve capital efficiency, we added ROE (fiscal 2026 target: 8%) as a key performance indicator. We also decided to strengthen shareholder returns by gradually raising the dividend payout ratio (fiscal 2026 target: 40% range) and conducting flexible share buybacks. On February 8, 2024, we announced our "Action to Implement Management that is Conscious of Cost of Capital and Stock Price." Based on our recognition that improving capital efficiency is a key management priority, we disclosed our estimate of the Corporation's cost of capital at 6.5–7.5% and stated our intention to achieve ROE of 10% or higher during the period of the next medium-term business plan. We also reaffirmed our commitment to achieving the targets of the Plan by executing growth investments and enhancing shareholder returns in line with the capital allocation framework set under the Plan.

Our consolidated numerical targets for fiscal 2026, ending March 31, 2026, the final year of the Plan, are net sales of ¥470.0 billion, operating income of ¥50.0 billion, ROE of 8.0%, and ROIC of 12.0%. We expect to achieve all of these targets, except ROIC. We expect ROIC to decline in the short term due to elevated inventory levels for products and parts. This was done in response to supply disruptions during the COVID-19 pandemic, which hindered our ability to reliably deliver essential household products. However, we plan to improve ROIC over the medium to long term by reviewing our production structure and further strengthening our supply chain.

Among capital allocations set under the Plan, we are making growth investments aimed at further strengthening our earning power through performance recovery and strategic growth initiatives. We plan to invest up to ¥205.0 billion (¥80.0 billion for essential investments under our base scenario and ¥125.0 billion for growth and strategic expenditures), significantly exceeding our investment levels over the past five years. As of fiscal 2025, cumulative investment has already reached ¥162.0 billion, and we plan to invest an additional ¥20 billion in fiscal 2026. We will continue actively making necessary growth investments with a view to enhancing medium- and long-term corporate value.

With respect to shareholder returns, the Plan calls for an increase in the dividend payout ratio and flexible share buybacks. For fiscal 2025, we expect the dividend payout ratio to be 38.2%. During the Plan period, we have already bought back shares worth approximately 14 million shares (worth ¥47.4 billion), of which approximately 10.97 million have been canceled. In fiscal 2026 as well, we plan to increase annual dividends by ¥20.00 per share year on year, to ¥100.00. We also plan to buy backs shares worth ¥10.0 billion, thereby further enhancing shareholder returns. As a result, the total shareholder return ratio for the Plan is expected to reach 77.3% (with total returns of ¥106.0 billion), significantly exceeding the target of 40% (¥60.0 billion) set under the Plan.

As outlined above, we are committed to improving profitability through performance recovery while making growth investments. At the same time, we are enhancing capital efficiency by flexibly buying back shares while raising the dividend payout ratio from a medium- to long-term growth perspective, while enhancing information disclosure to shareholders and other investors. In these and other ways, we are striving to achieve sustainable growth and increase corporate value while remining conscious of capital costs and capital efficiency.

Accordingly, the Board of Directors believes that the proposed amendment to the Articles of Incorporation is unnecessary. Moreover, such a provision could hinder our ability to respond swiftly and flexibly to changes in market conditions and business strategy. For these reasons, we oppose this Shareholder Proposal.

Shareholder Proposal 2. "(2) Implementation of share buyback"

(1) Opinion of the Board of Directors

<u>The Board of Directors opposes this Shareholder Proposal.</u>

(2) Reasons for opposition

This Shareholder Proposal calls for the Corporation to conduct a large-scale share buyback equivalent to 1.7 times its net income (¥29.6 billion in fiscal 2025), to be executed within a single year.

This Shareholder Proposal fails to adequately take into account the funding required for the Corporation's necessary growth investments. The share buyback proposed in this Shareholder Proposal may improve ROE in the short term, but it risks distorting our financial foundation and restricting investment activities essential for sustainable growth. As such, it runs counter to our goal of enhancing medium- to long-term corporate value.

As stated in the Board of Directors' opinion on Shareholder Proposal 1—"(1) Amendment to the Articles of Incorporation regarding disclosure of measures aimed at achieving management that is conscious of capital costs and stock price"—the Corporation is actively working to achieve the targets set in the Plan by making growth investments and enhancing shareholder returns.

As noted above, the Corporation has already made ¥162.0 billion in investments during the Plan period and plans to invest an additional ¥20.0 billion in fiscal 2026. Going forward, we will continue actively pursuing the growth investments necessary to enhance corporate value over the medium to long term.

Meanwhile, the land and building we acquired in Minami-Aoyama, Tokyo, in 2023 will be opened in July 2025 as "Rinnai Aoyama," a brand experience facility designed to create new points of contact with users.

In terms of shareholder returns, in addition to raising the dividend payout ratio, the Corporation has also implemented flexible share buybacks. As a result, the total shareholder return over the five years through fiscal 2026 is expected to reach ¥106.0 billion, with a total shareholder return ratio of 77.3%. These figures significantly exceed the total shareholder return target of more than ¥60.0 billion and a total shareholder return ratio (five-year average) of 40% set under the Plan.

We believe that strengthening our earning power to achieve steady profit growth, while making shareholder returns aligned with such growth, serves the best interests of both the Corporation and its shareholders from a medium- to long-term perspective. We also believe that we should not conduct share buybacks according to the timing or amount specified in this Shareholder Proposal. Instead, they should be carried out based on our medium-term business plan and capital policy, taking into account a comprehensive range of factors, including performance, business investments, financial condition, and share price levels.

Therefore, the Board of Directors opposes this Shareholder Proposal.

Shareholder Proposal 3. "(3) Approval of compensation amount related to restricted stock compensation system"

(1) Opinion of the Board of Directors

The Board of Directors opposes this Shareholder Proposal.

(2) Reasons for opposition

This Shareholder Proposal calls for the Corporation to grant monetary compensation claims for the purpose of issuing restricted stock to its eligible directors that shall not exceed ¥370 million per year and 120,000 shares, and if the performance criteria are met, restricted stock equivalent to three times the fixed compensation may be granted cumulatively over the next three years.

However, this amount of director compensation does not align with the Corporation's current performance levels. As a reason for the proposal the Proposing Shareholder states that "the greatest weakness of Japanese Boards of Directors is the limited share ownership by individual directors, which results in a lack of alignment with shareholder perspectives." As described in detail below, however, this assertion is not applicable to the Corporation.

We have established a policy on determining compensation for directors under the basic principle of fostering steady improvements in medium- to long-term corporate value while ensuring sufficient transparency and objectivity for the Corporation to fulfill its obligations to shareholders and other stakeholders.

Under this policy, we have also revised our executive compensation system. In fiscal 2025, for example, we increased the proportion of performance-linked compensation, adopting ROE and Total shareholder return (TSR) as KPIs for such compensation, and introducing stock ownership guidelines.

Regarding the performance-linked compensation component, compensation for directors consists of basic compensation, which is fixed, and performance-linked compensation. Previously set at a 70:30 ratio, the structure was revised to 60:40 to properly motivate directors to improve corporate value and achieve targeted goals. The performance-linked compensation ratio was increased in line with the increase in the stock compensation component

We have also adopted ROE, employee engagement improvement, and TSR as new KPIs for evaluating performance-linked compensation. In addition, we have introduced stock ownership guidelines, setting a benchmark for the number of the Corporation's shares directors are expected to hold during their term of office. Under these guidelines, the President and Representative Director is expected to hold shares equivalent to 1.5 times its basic compensation within three years of appointment. Other directors (excluding outside directors) are expected to hold shares equivalent to one times their basic compensation within the same period.

In addition, to ensure objectivity and fairness in the compensation decision-making process, we have established a Compensation Advisory

Committee, which is chaired by an independent outside director and the majority of whose members are independent outside directors. The Board of Directors determines compensation and other policies after deliberation by the Compensation Advisory Committee, thereby ensuring transparency in compensation. In the decision-making process, we also verify the appropriateness of compensation by continuously reviewing compensation levels and composition ratios through objective comparisons with other corporate groups of similar size to the Rinnai Group.

As of March 31, 2025, the Chairman and President of the Corporation held approximately 7.36 million and 1.53 million shares, respectively, of the Corporation's stock, so they already have common interests with shareholders.

As stated above, Board of Directors has decided that the current compensation structure, which is determined by the Board of Directors after deliberation by the Compensation Advisory Committee, is appropriate as it considers the economic environment and ensures objectivity and transparency. We also believe the Corporation has proper mechanisms in place to ensure that its directors and shareholders possess shared values.

Therefore, the Board of Directors opposes this Shareholder Proposal.

Shareholder Proposal 4. "(4) Amendment to the Articles of Incorporation regarding the composition of outside directors"

(1) Opinion of the Board of Directors

The Board of Directors opposes this Shareholder Proposal.

(2) Reasons for opposition

This Shareholder Proposal seeks to amend the Articles of Incorporation to require that a majority of the directors be outside directors.

Considering the current state of our corporate governance, however, we believe there is no need to incorporate such a requirement into the Articles of Incorporation. On the contrary, we consider that such a requirement may hinder the Corporation's ability to form the most appropriate Board composition in response to future growth stages.

To ensure objectivity and transparency in the nomination of directors, the Corporation established the Nominating Advisory Committee, as an advisory body to the Board of Directors. The majority of the Committee's members and its chairperson are independent outside directors. The selection of director candidates to be presented at this General Meeting of Shareholders is decided by the Board of Directors after deliberation by the Nominating Advisory Committee.

The Nomination Advisory Committee engages in careful deliberation to ensure that the Corporation's Board of Directors is composed of members with the appropriate skills required for sustainably enhancing corporate value and achieving the targets of the Plan. These include members with skills in Corporate management, Global management, Finance/Accounting/Capital Policy, Human Resources Strategy, Governance/Legal Matters/Risk Management, Sustainability, and IT/DX. Through this nomination process, the Board of Directors has consistently engaged in constructive discussions aimed at putting the Corporation's management philosophy into practice and enhancing corporate value on a sustainable basis, and has been discussing not only shareholder return, but also investments in R&D, human resources, capital expenditures, and other growth investment from various perspectives.

At the upcoming General Meeting of Shareholders, the Corporation is proposing a Board composition of nine directors, including four independent outside directors, resulting in an outside director ratio of 44%. The Corporation's internal directors have extensive business experience and collectively bring a broad range of knowledge, expertise, and capabilities, including backgrounds in sales, manufacturing, R&D, administrative functions, and overseas assignments. In addition, its outside directors are selected from individuals with executive experience at other companies or distinguished academic backgrounds, each bringing diverse areas of expertise to the Board. Furthermore, two of the four independent outside director candidates are women—one appointed in fiscal 2024 and another in fiscal 2025—ensuring not only the Board's independence but also its diversity.

As described above, the Board of Directors, consisting of candidates proposed by the Corporation, maintains a sufficient degree of independence and also represents an optimal structure for overseeing the execution of management aimed at achieving the Plan. The candidates bring diverse backgrounds and areas of expertise, enabling constructive discussions from a variety of internal and external perspectives. While the Corporation will continue to consider the optimal composition of the Board of Directors, the Board of Directors is currently engaged in frank and active discussions aimed at realizing management that is conscious of cost of capital. We believe this composition helps sustainably enhance our corporate value, which will benefit all shareholders.

Therefore, the Board of Directors opposes this Shareholder Proposal.

(Attachment: “Details of the Shareholder Proposal”)
*The relevant portion of the Shareholder Proposal Document submitted by the Proposing Shareholder is provided here in its original text.

I. Proposed Agenda

1. Amendment to the Articles of Incorporation regarding disclosure of measures aimed at achieving management that is conscious of capital costs and stock price
2. Implementation of share buyback
3. Approval of compensation amount related to restricted stock compensation system
4. Amendment to the Articles of Incorporation regarding the composition of outside directors

II. Outline of Proposals and Reasons for Proposals

1. Amendment to the Articles of Incorporation Regarding Disclosure of Measures Aimed at Achieving Management Conscious of Cost of Capital and Stock Price

(1) Outline of the Proposal
The following provision is to be added to the Corporation’s Articles of Incorporation.
(The changed portion is underlined.)

Before change	After change
(New)	Chapter 7: Disclosure (Disclosure regarding management conscious of cost of capital and stock price) Article 38: As long as the Corporation remains a listed entity, it shall verify the appropriateness of its initiatives and disclosures based on the “Key Points and Examples Considering the Investor’s Point of View in Regard to Management Conscious of Cost of Capital and Stock Price” (hereinafter, “Points and Examples”) published by

	the Tokyo Stock Exchange on February 1, 2024. The Corporation shall also disclose the content of initiatives in accordance with the Points and Examples in its Corporate Governance Report and on its website.

(2) Reasons for the Proposal

In March 2023, the Tokyo Stock Exchange (TSE) requested that listed companies "work to achieve management that is conscious of capital costs and stock price." In this context, the TSE expects companies to "not simply consider whether the current PBR exceeds 1 or ROE exceeds 8%, but to analyze and evaluate capital profitability and market valuation from multiple perspectives based on the investor's viewpoint." The TSE also requested that "the essence of management conscious of cost of capital and stock price is to achieve appropriate allocation of management resources for medium- to long-term corporate value enhancement, and along with such analysis and evaluation, to examine whether the company's balance sheet is in an efficient state for value creation."

Currently, only half of the equity entrusted by the Corporation's shareholders is being invested in business operations, while the remainder is allocated to non-working assets, such as cash to prepare for earthquakes and other contingencies. As a result, the Corporation's ROE remains at approximately 8%, despite having the potential to reach the upper single digits under a more effective capital policy.

We are proposing this resolution to ensure that the Corporation's response to the TSE's requests goes beyond formalities and is truly effective.

2. Implementation of Share Buyback

(1) Outline of the Proposal

1 Share Buyback: The Corporation shall, in accordance with Article 156, Paragraph 1 of the Companies Act, acquire its own common shares through the delivery of monies, with a limit on total number of shares of 15,000,000 and a total acquisition price of ¥50,000,000,000 within one year from the conclusion of the AGM. (*However, if any share buybacks are resolved by the Board of Directors between April 1, 2025, and the date of the upcoming AGM, the corresponding purchase amount shall be deducted from the above limit.)*

2 Other Retained Earnings: The Corporation shall withdraw ¥50,000,000,000 from a general reserve and transfer the same amount to retained earnings brought forward.

(2) Reasons for the Proposal

First, the Corporation holds surplus funds. As a debt-free entity, it held financial assets totaling ¥185.5 billion, including strategic shareholdings, as of December 31, 2024. In addition, it owns ¥25.8 billion in idle real estate unused since being purchased two years ago for showroom purposes, because such assets cannot be justified from a capital cost perspective as we support the goal of strengthening customer engagement. Moreover, approximately 80% of the Corporation's sales comes from replacement demand, reflecting the stability of its business. Over the past 10 years, it has consistently generated an average EBITDA of over ¥50 billion annually. Therefore, the funds required for growth investments can be secured within the scope of future cash flows.

Second, the Corporation's shares are undervalued. Its current PBR hovers around 1x, and the market has yet to reflect the intangible value inherent in its status as a growth company. Furthermore, when compared with major global competitors, its valuation is significantly lower across all key indicators, including PBR, PER, and EV/EBITDA.

We believe that selling non-working assets and conducting a share buyback to improve capital efficiency and enhance shareholder value per share will serve the best interests of all shareholders.

3. Approval of Compensation Amount related to Restricted Stock Compensation System

(1) Outline of the Proposal

At the AGM held on June 29, 2021, it was approved that the basic component shall not exceed ¥370 million per year (including ¥50 million for outside directors), and annual bonuses shall not exceed ¥220 million per year. Separately, at the same meeting, it was approved that restricted-stock compensation shall not exceed ¥120 million per year, and the maximum number of shares allotted to directors shall not exceed 20,000 shares per year (outside directors are not eligible for this compensation). We now propose to grant monetary compensation claims for the purpose of issuing restricted stock to its directors that shall not exceed ¥370 million and 120,000 shares. The specific timing and allocation of the grants will be determined by the Board of Directors. The plan is designed as a performance-based incentive system, incorporating such indicators as ROE and TSR. If the performance criteria are met, restricted stock equivalent to three times the fixed compensation may be granted cumulatively over the next three years.

(2) Reason for the Proposal

We believe that the greatest weakness of Japanese Boards of Directors is the limited share ownership by individual directors, which results in a lack of alignment with shareholder perspectives.

An effective benchmark for stock-based compensation that aligns the interests of directors with those of shareholders is generally considered to be an amount equivalent to three times fixed compensation. While the Corporation has adopted a restricted stock compensation plan, stock-based compensation for directors (excluding outside directors) in the fiscal year ended March 2024 totaled ¥16 million—equivalent to only 7% of directors' fixed compensation of ¥233 million. At this rate, it would take 44 years for directors to accumulate stock equivalent to three times their fixed compensation.

In Europe and the United States, most major listed companies have adopted stock ownership guidelines that require directors to hold a certain amount of shares over a defined period, as a means of aligning their interests with those of shareholders. After a grace period of several years, it is common for top management to be required to hold shares equivalent to three to five times their base compensation, and for outside directors, at least one times their compensation. Because the Corporation has also introduced stock ownership guidelines, it should aim to achieve ownership levels on par with global standards.

4 Amendment to the Articles of Incorporation Regarding Composition of Outside Directors

(1) Outline of the Proposal

Article 19 of the Corporation's Articles of Incorporation shall be amended as follows so that the majority of the directors of the Corporation are outside directors.

(The changed portion is underlined.)

Before change	After change
(Number of Directors) Article 19: The number of directors of	(Number of Directors) Article 19: The number of directors of

the Corporation shall be no more than 10. 2 (New)	the Corporation shall be no more than 10. 2 As long as the Corporation remains a listed company, the majority of its directors shall be outside directors as defined according to Article 2, Paragraph 1, Item 15 of the Companies Act.

(2) Reason for the Proposal

We believe that diversity and independence within the Board of Directors are essential to the management of a listed company in today's business environment.

Principle 4.7 of Japan's Corporate Governance Code identifies one of the roles and responsibilities of independent outside directors as "Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders."

We have made repeated requests to engage in dialogue with the Corporation's outside directors who are believed to have expertise in capital policy. However, such opportunities have not materialized. As a result, it remains unclear what views the current outside directors hold on capital policy. Moreover, according to the Corporation's skills matrix, capital policy is an area in which the representation of outside directors is particularly low. (Only one outside director is recognized as having expertise in this field, aside from the founding family members on the management team.) Therefore, we believe it is essential to strengthen the Corporation's structure to support its medium- to long-term corporate value by proactively appointing outside directors with expertise in capital policy and ensuring that outside directors constitute a majority of the Board.

Ends