Notice of Convocation of the 72nd Ordinary General Shareholders' Meeting: Internet Disclosure Items

Contents

Rinnai Corporation

The above items are provided to shareholders via Rinnai Corporation's website (https://www.rinnai.co.jp/) according to the pertinent laws and Article 16 of the Corporation's Articles of Incorporation.

I. Business Report

System to Ensure Execution of Business and Overview of Its Operational Status

1. An overview of systems to ensure appropriateness of business activities

An overview of systems to ensure that execution of business by directors conforms to legal regulations and the Articles of Incorporation, as well as systems to ensure appropriateness of other business activities, is given below.

(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 (Rinnai Corporate Mission), 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 Groupwide 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 Groupwide 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, Board of Directors' meetings 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 Groupwide 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 targets 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

- The Internal Control Office shall provide support to Audit & Supervisory Board members. An employee assigned to provide support shall give priority to instructions given by the relevant Audit & Supervisory Board member. In the event that a full-time employee is required due to the nature of the duties, members of the Board of Directors and the Audit & Supervisory Board shall select the employee after proper discussion.
- Changes in personnel and assessment of performance of assigned persons as support staff for Audit & Supervisory Board members 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 performance 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, 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.

2. An overview of the operational status of systems to ensure appropriateness of business activities

An overview of operational status of systems to ensure appropriateness of business activities at the current fiscal term are given below.

(1) Matters related to compliance

- The Corporation worked to instill a deeper awareness of the Rinnai Code of Conduct and appropriate behavior among all employees. We conducted a survey to gauge the level of employee awareness, and disclosed the results.
- As part of our main internal compliance education activities, we designated one month of the year as “Rinnai Compliance Month” and conducted internal training for all employees on the theme of harassment prevention.This included compliance training by external instructors for division and site managers. Messages from president regarding compliance were also distributed internally to raise awareness.
- As for our whistleblowing system, we established corporate ethics counseling contact points inside and outside the Corporation, and appointed an outside law firm to handle external inquiries. However, there were no logged reports of suspected serious legal or regulatory violations during the current fiscal term.

(2) Matters related to risk management

- The Risk Management Committee,which is comprised of executive officers and divisional heads and chaired by the president, met regularly (four times per year). Each person with responsibility gave a report on the implementation status of in-house checks and associated improvements pertaining to risk-related issues (including countermeasures for COVID-19 infection, cyber security) within the Corporation and at Group companies. The content was reviewed, information was shared, and efforts were made to prevent potential risks from becoming reality.

(3) Matters related to execution of duties by directors

- During the fiscal year in review, the Board of Directors met 15 times (excluding one time when written resolutions were made) to discuss and approve key agenda items and receive business reports.
- The Executive Committee, attended by executives responsible for operating divisions at the Corporation and at Group companies, met regularly to review progress on annual business plans and confirm status toward achieving goals and any issues requiring attention.

- The minutes of Board of Directors' meetings and Executive Committee meetings, along with approval documents, in written form were properly stored and managed.

(4) Matters related to appropriateness of the Group's business

- Key business management issues at Group companies were properly handled in accordance with approval rules established under the Corporation's management rules. Also, through regular opportunities to provide updates on business activities and the delivery of monthly business reports, the Corporation was able to confirm the status of progress on fiscal management plans and pinpoint issues requiring attention.
- Internal audits by the Internal Control Office were carried out based on plans drafted to match the business content and operating scale of each Group company.

(5) Matters related to audits by members of the Audit & Supervisory Board

- Members of the Audit & Supervisory Board performed business audits based on the audit plan determined by the Audit & Supervisory Board. Due to the spread of COVID-19, members audit overseas subsidiaries that are difficult to visit remotely via the internet.
- Members of the Audit & Supervisory Board attended meetings of the Board of Directors and the Executive Committee, and stated opinions, as necessary. In addition, members of the Audit & Supervisory Board looked over request documents *(ringi)* for circulating to executives in lieu of a meeting to obtain approval for some actions as well as monthly business reports and the minutes of important meetings, and confirmed the content of such materials.
- Members of the Audit & Supervisory Board communicated with the independent auditor and exchanged opinions regarding the audit plan proposed by the independent auditor and the results obtained through the audit. In addition, members of the Audit & Supervisory Board exchanged opinions with the representative director, outside directors and the Internal Control Office.

II. Consolidated Financial Statements

Consolidated Statements of Changes in Shareholders' Equity
Year ended March 31, 2022

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Balance at the beginning of current term	6,459	8,648	315,992	(1,881)	329,219
Cumulative effect of change of accounting policy			(8)		**(8)**
Balance at the beginning of current term, after change of accounting policy	6,459	8,648	315,984	(1,881)	329,211
Issuance of new shares	24	24			49
Dividends paid			(7,083)		(7,083)
Net income attributable to owners of the parent company			23,748		23,748
Acquisition of treasury stock				(17,433)	(17,433)
Disposition of treasury stock		0		0	0
Retirement of treasury stock		(16,983)		16,983	—
Decrease due to merger			(72)		(72)
Transfer from earned surplus to capital surplus		16,983	(16,983)		—
Net other changes than shareholders' equity during the current term					
Total net changes during the current term	24	24	(391)	(449)	(791)
Balance at the end of current term	6,484	8,673	315,593	(2,330)	328,419

	Other accumulated comprehensive income				Non-controlling interests	Total net assets
	Unrealized gain (loss) on marketable securities	Foreign exchange translation adjustment	Remeasure-ments of defined benefit plans	Total other accumulated comprehensive income		
Balance at the beginning of current term	6,058	(2,885)	9,937	13,110	28,989	371,318
Cumulative effect of change of accounting policy						(8)
Balance at the beginning of current term, after change of accounting policy	6,058	(2,885)	9,937	13,110	28,989	371,310
Issuance of new shares						49
Dividends paid						(7,083)
Net income attributable to owners of the parent company						23,748
Acquisition of treasury stock						(17,433)
Disposition of treasury stock						0
Retirement of treasury stock						—
Decrease due to merger						(72)
Transfer from earned surplus to capital surplus						—
Net other changes than shareholders' equity during the current term	(1,476)	7,811	(4,744)	1,590	6,747	8,337
Total net changes during the current term	(1,476)	7,811	(4,744)	1,590	6,747	7,545
Balance at the end of current term	4,582	4,925	5,193	14,700	35,736	378,856

Notes to Consolidated Financial Statements
Significant Accounting Policies of Consolidated Financial Statements
The accompanying consolidated financial statements have been prepared based on the accounts maintained by Rinnai Corporation (the “Corporation”) and its consolidated subsidiaries. (The “Corporation” and its consolidated subsidiaries are hereinafter collectedly referred to as the “Corporations.”)

1. Scope of Consolidation
(1) Number of consolidated subsidiaries and names of major companies

Consolidated subsidiaries: 37 companies
Major consolidated subsidiaries: RB Controls Co., Ltd., Gastar Co., Ltd., and Shanghai Rinnai Co., Ltd.

From the fiscal year ended March 31, 2022, Central Heating New Zealand Ltd., which was an affiliated company for which the equity method is applied during fiscal 2021, is newly included in the scope of consolidation due to the actual control standard. Industrias MASS SA de CV is also included in the scope of consolidation from fiscal 2022, due to the acquisition of its shares on September 1, 2021.

Japan Ceramics Co., Ltd. is excluded from the scope consolidation, because the company was merged with Rinnai Precision Co., Ltd., a surviving company, on April 1, 2021.

(2) Major nonconsolidated subsidiaries:

Nonconsolidated subsidiary: Rinnai UK Ltd.
Reason for exclusion: The above nonconsolidated subsidiary is excluded from the scope of consolidation because its activities have not been deemed material, and total assets, net sales, net income and earned surplus of the nonconsolidated company are not significant compared to the consolidated amounts.

2. Application of Equity Method
(1) Number and names of nonconsolidated subsidiaries and affiliated companies for which the equity method is applied:

Number of nonconsolidated subsidiaries for which the equity method is applied: 0
Central Heating New Zealand Ltd. is excluded from affiliated companies for which the equity method is applied because the company is included in the scope of consolidation due to the actual control standard.

(2) Major nonconsolidated subsidiaries and affiliated companies for which the equity method is not applied:

Name of major nonconsolidated subsidiary: Rinnai UK Ltd.
Name of major affiliated company: Mikuni RK Corporation
Reason for exclusion: The above companies are excluded from application under the equity method because their net income and earned surplus are not significant compared with the consolidated amounts and their activities are not deemed material.

3. Fiscal Year-End of Consolidated Subsidiaries

Subsidiaries for which the fiscal year-end date differs from the date of the consolidated term (fiscal year-end date: December 31): Rinnai Australia Pty., Ltd., Rinnai America Corporation, Rinnai New Zealand Ltd., Rinnai Holdings (Pacific) Pte Ltd., Rinnai Hong Kong Ltd., Rinnai Taiwan Corporation, Rinnai Korea Corporation, Shanghai Rinnai Co., Ltd., Rinnai (Thailand) Co., Ltd., Rinnai Vietnam Co., Ltd., RB Korea Ltd., Rinnai Canada Holdings Ltd., Rinnai Brazil Heating Technology Ltd., Shanghai Rinnai Thermo Energy Engineering Co., Ltd., P.T. Rinnai Indonesia, Gas Appliance Services Pty., Ltd., Rinnai Italia S.r.l., Guangzhou Rinnai Gas and Electric Appliance Co., Ltd, Rinnai Manufacturing Malaysia Sdn Bhd, Central Heating New Zealand Ltd., Industrias MASS SA de CV, and other six companies.

In preparing its consolidated financial reports, the Corporation uses financial statements available as of the settlement date. However, the Corporation addresses adjustments necessary from a consolidated perspective should material transactions occur between January 1 and the consolidated fiscal year-end of March 31.

4. Matters concerning Accounting Policies

(1) Valuation standards and calculation methods for significant assets

(a) Securities and investments in securities

Other securities than stocks without market value are stated at market value. (Unrealized gain or loss, net of income taxes is reported in net assets, while any cost of sales is calculated based on the moving-average cost method.)

Stocks without market value are stated at cost using the moving-average cost method.

(b) Inventories

Products

Valued at cost using the first-in, first-out method (balance sheet amount is written-down to net selling value if profitability of assets has decreased).

Raw materials and stores

Valued at cost using the last purchase price method (balance sheet amount is written-down to net selling value if profitability of assets has decreased).

(2) Depreciation of fixed assets

Property, plant and equipment (excluding leased assets)

The Corporation and its domestic consolidated subsidiaries use the declining-balance method (but the straight-line method for buildings, not including attachments, acquired on or after April 1, 2007, and for facilities attached to buildings and structures that were acquired on or after April 1, 2016). Overseas subsidiaries use the straight-line method.

The estimated useful lives of principal items are as follows:

Buildings and structures: 7–50 years

Machinery, equipment and vehicles: 7–17 years

Tools, furniture, and fixtures: 2–15 years

Intangible fixed assets (excluding leased assets)
The Corporations use the straight-line method.
However, software for internal use is amortized over the useful period (five years) of software used by each of the Corporations.

Leased assets
Leased assets are depreciated over the useful life of assets, equal to the lease term, by the straight-line method with zero residual value.

(3) Accounting for major accruals
Allowances for doubtful accounts
The Corporations provide for possible loan losses and records on the books the amounts that are unlikely to be recovered. Primarily, this consists of an allowance for general claims, calculated according to historical loss ratios, and an allowance for specific claims, such as bankrupted or doubtful loans calculated based on the potential to recover respective credits.

Accrued employees' bonuses
Accrued employees' bonuses are provided for at the estimated amounts, which are to be paid for services rendered prior to the term-end.

Allowance for product guarantee
The Corporation and some of its consolidated subsidiaries, as contingency against outlays of free-of-charge repair costs for their products, have estimated a product guarantee expense amount based on past performance.

Allowances for environmental measures
Allowances for environmental measures are provided for at the reasonable estimated amounts, which are to be paid for future environmental measures.

(4) Basis for recording important income and expenses
The main performance obligations of the principal operations of the Corporation and its consolidated subsidiaries related to revenues arising from contracts with customers and the usual time at which such performance obligations are fulfilled (the normal time at which revenues are recognized) are as follows.

Sales of products and merchandise
The Group primarily manufactures and sells heat-related products and recognizes revenue from these sales at the time of delivery of the products. The customer obtains control of the products at the time of delivery. For sales in Japan, revenue from such products is recognized at the time of shipment, since the period between the time of shipment and the time of delivery is a normal period.

Under its product sales contract, the Corporation has a product warranty obligation to repair or replace, free of charge, any product due to failure or defects that occur after delivery. This warranty obligation is recognized as an allowance for product guarantee because it provides assurance to the customer that the product will perform as intended according to the specifications set forth in the contract with the customer.

Revenue is recognized based on the transaction price set in the contract with the customer. When a product is sold with a rebate, which is conditional on the customer purchasing a certain amount of the product within a certain period of time, the transaction price is calculated based on the consideration promised to the customer in the contract, less the estimated amount of rebate.

Since considerations for transactions are received within one year of fulfillment of the performance obligation, they do not include a significant financial component.

(5) Method and Period of Goodwill Amortization

Amortization of goodwill is calculated by the straight-line method over a period of five or ten years.

(6) Other Significant Accounting Policies

Translation of major foreign-currency assets and liabilities

Claims and credits denominated in foreign currencies are translated into yen at spot market exchange rates prevailing at the term-end, and gains or losses are credited or charged to income as incurred.

The assets and liabilities of overseas subsidiaries are translated into yen at the spot rates prevailing at the term-end, while earnings and expenditures are translated into yen amounts at the average exchange rate for the term. Differences arising from translation are included in non-controlling interests and in the foreign exchange translation adjustment of net assets on the consolidated balance sheets.

Major hedge-accounting methods

Hedge-accounting method

The Corporation applies deferred hedge accounting. In addition, receivables and payables in foreign currencies are valued at historical rates when they are properly hedged under the hedge accounting rules.

Exchange contracts on transactions undertaken among consolidated companies are accounted for at fair value and gains or losses are recognized as incurred. There were no applicable items at the end of the current fiscal year.

Hedging method and hedging targets

Hedging methods and hedging targets for which hedge accounting was applied in the year under review are as summarized below.

- Hedging method: Forward exchange contracts
- Hedging targets: Anything with the potential for loss due to fluctuations in currency prices

Hedging policy

The purpose is to avert risk prompted by fluctuating exchange rates, within the targeted claims and obligations. No speculative trading is conducted.

Method for effectively assessing hedge transactions

The Corporations utilize forward exchange contracts that ensure effective hedging.

Other

The Corporations execute derivative transactions within limits determined by their corporate rules.

Accounting standard for assets and liabilities related to retirement benefits
Assets and liabilities related to retirement benefits are booked according to projected retirement benefit obligations and pension plan assets at fiscal year-end. Note that, in calculating retirement benefit obligations, the Corporation applied the benefit formula standard for attributing projected retirement benefits to a period up to the fiscal year in review.

Prior service costs are expensed using the straight-line method over a fixed period (five years) within the average remaining service period of employees at the time the costs are incurred.

Actuarial differences are proportional amounts calculated by the straight-line method over a fixed period (10 years) within the average remaining service period of employees at the time such gains or losses are realized in each fiscal year and expensed from the fiscal year following the one in which the difference occurred.

Unrecognized actuarial differences are adjusted for tax effect and booked in the net assets section as a component of other accumulated comprehensive income with said amounts recorded as an accumulated retirement benefit adjustment increase or decrease (Remeasurements of defined benefit plans).

5. Changes in accounting policies

Application of Accounting Standard for Revenue Recognition

Since the beginning of the fiscal year ended March 31, 2022, the Corporation has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020), under which revenue is recognized as control of promised goods or services is transferred to customers in an amount expected to be received in exchange for those goods or services. Resulting changes mainly include the accounting for consideration paid to customers, which was previously recorded in Selling, General and Administrative Expenses. From the current fiscal year, the amount has been deducted from Net Sales.

The Corporation applied the “Accounting Standard for Revenue Recognition” in accordance with the transitional treatment stipulated in the proviso of paragraph 84 of the Standard. The cumulative effect of having retroactively applied the new accounting policy to periods prior to the beginning of the fiscal 2022 is added to or deducted from the opening balance of Earned Surplus, and the new accounting policy is applied from that balance. The effect of the application on the consolidated financial statements is immaterial.

Due to the application of the “Accounting Standard for Revenue Recognition”, Notes and Accounts Receivable, which was presented in Current Assets on the Consolidated Balance Sheet as of the end of the prior fiscal year, has been included in Notes and Accounts Receivable, and Contract Assets from the fiscal 2022.

Application of Accounting Standard for Fair Value Measurement

From the beginning of the fiscal 2022 ended March 31, 2022, the Corporation has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No.

30, July 4, 2019). The Corporation prospectively applied the new accounting policy under the “Accounting Standard for Fair Value Measurement” in accordance with the transitional treatment stipulated in paragraph 19 of the Standard and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There is no effect on the consolidated financial statements.

In addition, the Corporation has decided to include notes on the breakdown of the fair value of financial products by level in its notes to financial products.

6. Additional information

Accounting estimates due to spread of COVID-19

Despite expectations that the situation would return to normal with the rollout of vaccinations, it remains difficult at this time to predict when normalization will occur due to the ongoing impact of new global breakouts on economic activities. Although uncertainties remain, such as lockdowns in China and tight procurement conditions for parts (mainly semiconductors and electronic components), our accounting estimates are based on the assumption that the long-term impact on corporate activities will be limited because the Group’s products are regarded as daily necessities and have a high replacement ratio.

7. Notes regarding revenue recognition

(1) Breakdown of revenue from contracts with customers

The Group is engaged in the business of manufacturing and selling heat-related products and parts and other peripheral businesses.

Below is a breakdown of revenues by product category

Year ended March 31, 2022 (From April 1, 2021 to March 31, 2022) (¥ millions)

	Reportable Segments						Others	Total
	Japan	United States	Australia	China	South Korea	Indonesia		
Water heaters	81,836	40,761	12,631	45,965	16,418	-	13,412	211,026
Kitchen appliances	55,861	-	-	4,702	6,690	11,758	6,518	85,531
Air conditioning appliances	6,189	2,521	10,250	-	-	-	2,147	21,109
Commercial-use equipment	2,053	56	899	167	4,028	1,442	360	9,007
Others	25,591	1,412	1,983	1,942	4,987	386	3,205	39,509
Total	171,533	44,752	25,764	52,778	32,124	13,587	25,644	366,185

Notes: 1. The above figures indicate amounts after elimination of intersegment transactions.
2. “United states” include sales from subsidiaries in Canada and Mexico, which conduct integrated business activities based on comprehensive sales strategies.
3. “Australia” include sales from a subsidiary in Malaysia, which complements the production system, and conducts integrate business activities.
4. “Others” indicate geographical segments which are not included in reportable segments, and include sales from subsidiaries in Taiwan, Thailand, Vietnam, New Zealand, Brazil and other regions.

(2) Basis for understanding revenue from contracts with customers

Information that provides a basis for understanding revenues is described in “Significant Accounting Policies of Consolidated Financial Statements, 4. Matters concerning accounting policy, (4) Standards for recording important income and expenses.”

(3) Information for understanding revenues for the current fiscal year and thereafter (on consolidated basis)

(a) Balance of contract assets, contract liabilities, etc.

Below is a breakdown of receivables, contract assets, and contract liabilities arising from contracts with customers.

In the Consolidated Balance Sheets, receivables and contract assets arising from contracts with customers are included in “Notes and accounts receivable and contract assets,” and contract liabilities are included in “Other” under current liabilities.

(¥ millions)

	Beginning of Fiscal Year (April 1, 2021)	End of Fiscal Year (March 31, 2022)
Receivable arising from contracts with customers	74,878	75,500
Contract assets	116	96
Contract liabilities	3,258	7,224

Notes: 1. Contract liabilities relate to payments received in advance of performance under the contract and are reversed upon recognition of revenue.

2. Of the revenue recognized in the year under review, the amount included in contract liabilities at the beginning of the period was ¥3,465 million. The difference from the beginning balance shown above is due to fluctuations in foreign exchange rates.

(2) Transaction prices allocated to remaining performance obligations

The Corporation and its consolidated subsidiaries apply the practical expedient method in noting transaction price allocated to remaining performance obligations and do not include contracts with an initial expected term of one year or less in the notes. At the end of the fiscal year under review, unfulfilled performance obligations amounted to ¥141 million, all of which are expected to be recognized as revenue within one year after the balance sheet date.

[Notes]

1. Notes to Consolidated Balance Sheets

(1) Assets pledged as collateral and related liabilities

	(Millions of yen)
Pledged assets:	
Cash and deposits	8
Land	2,077
Total	2,085
Liabilities related to pledged assets:	
Accrued payables	1

(2) Accumulated depreciation of property, plant, and equipment

Accumulated depreciation of property, plant, and equipment amounted to ¥129,981 million.

(3) Trade notes receivable discounted

Trade notes receivable discounted amounted to ¥112 million.

2. Notes to Consolidated Statements of Changes in Shareholders' Equity

(1) Class and number of shares issued at the fiscal year-end, March 31, 2022

Common stock: 50,021,057 shares

(2) Items regarding dividends

(a) Dividends paid

Resolution	Type of stock	Total dividends	Dividend per share	Record date	Effective date
General shareholders' meeting on June 26, 2021	Common stock	¥3,597 million	¥70	March 31, 2021	June 30, 2021
Directors' meeting on November 5, 2021	Common stock	¥3,486 million	¥70	September 30, 2021	December 6, 2021
Total	—	¥7,083 million	—	—	—

(b) The effective date for dividends with a record date of March 31, 2021, shall be a date after the close of books for said consolidated period.

Its resolution regarding dividends of common stock is scheduled at the general shareholders' meeting at June 29, 2022, as follows. The Corporation plans to use earned surplus as the source of dividends.

Resolution	Type of stock	Total dividends	Dividend per share	Record date	Effective date
General shareholders' meeting on June 29, 2022	Common stock	¥3,486 million	¥70	March 31, 2022	June 30, 2022

3. Notes to Financial Products

(1) Status of Financial Products

Fund management within the Rinnai Group is executed mainly by deposits, augmented by safe, short-term investments in securities. Partial funds are procured by borrowings from banks.

The Corporation reduces its client credit risk with regard to notes and accounts receivable and electronically recorded monetary claims in accordance with its rules for sales credits. Investment securities held by the Corporation are mainly stocks or bonds, and the Corporation evaluates the fair value of marketable securities on a quarterly basis.

(2) Fair Values of Financial Products

The stated values, fair values, and difference between stated and fair values of relevant items in the consolidated balance sheets for the year ended March 31, 2022, are shown below.

(Millions of yen)

	Balance sheet amount	Fair value	Difference
Marketable securities and investment securities Other securities	45,740	45,740	-

Notes: 1. Cash is omitted, and specific components (such as deposits, notes receivable, accounts receivable and contract assets, electronically recorded receivables, negotiable certificates of deposit included in securities, notes and accounts payable, electronically recorded payables, accounts payable, accrued consumption taxes, and accrued income taxes) are also omitted because they are all settled over short-term periods and their market values mostly in line with book values.

2. Stocks without market prices are not included in "Marketable securities and investment securities." The amount recorded in the Consolidated Balance Sheets of such stocks is shown below.

	March 31, 2022 (¥ millions)
Unlisted stocks	780

(3) Breakdown of the fair value of financial products by level

The fair value of financial products is classified into the following three levels based on the observability and materiality of the inputs used to calculate fair value.

Level 1 fair value: Calculated based on quoted market prices for assets or liabilities formed in an active market and subject to fair value calculations, among inputs used to calculate observable fair value

Level 2 fair value: Calculated using inputs for fair value calculations other than Level 1 inputs calculations, among inputs used to calculate observable fair value

Level 3 fair value: Calculated using inputs for unobservable fair value calculations

When multiple inputs that have a significant impact on fair value calculations are used, fair value is classified to the level with the lowest priority in fair value calculation, among the levels to which each of those inputs belongs.

Financial products recorded in consolidated balance sheets at fair value

	Fair value (¥ millions)			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Other securities				
Stocks	14,870	-	-	14,870
Bonds	-	30,326	-	30,326
Other	-	-	-	-

Notes: 1. Valuation methods used to calculate fair value and inputs related to fair value calculation

Marketable securities and investment securities

Listed stocks and bonds are valued using quoted market prices. Since listed stocks are traded in active markets, their fair value is classified in the Level 1 category.

On the other hand, bonds held by the Corporation are classified in the Level 2 category because they are infrequently traded in the market and are not given quoted prices in active markets.

2. The above table does not include investment trusts, etc., to which transitional measures are applied pursuant to Paragraph 26 of “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019). The amount of such investment trusts, etc., in the Consolidated Balance Sheets at fiscal year-end is ¥542 million.

4. Per Share Data

(1) Net assets per share: ¥6,889.76

(2) Net income per share: ¥470.39

5. Significant Subsequent Events

Share buyback

At its meeting held on May 10, 2022, the Board of Directors of the Corporation resolved the following matter related to a share buyback pursuant to Article 156 of the Companies Act of Japan as applied to Article 165 (Paragraph 3) of the same Act.

1. Reason for share buyback

To improve shareholder return and capital efficiency and thus further enhance corporate value.

2. Details

(1) Type of shares to be acquired: Common stock of the Company

(2) Total number of shares to be 1,500,000 shares (maximum)

acquired:	(3.01% of total shares issued and outstanding (excluding treasury stock))
(3) Total value of shares to be acquired:	¥10 billion (maximum)
(4) Acquisition period:	May 11–September 22, 2022
(5) Method of acquisition	Market purchase through discretionary transaction method

6. Amounts less than one million yen

Amounts less than one million yen are omitted from the financial statements.

III. Financial Statements

Nonconsolidated Statements of Changes in Shareholders' Equity
Year ended March 31, 2022

(Millions of yen)

	Shareholders' equity							
		Capital surplus			Earned surplus			
						Other legal reserve		
	Common stock	Capital reserve	Other capital surplus	Total capital surplus	Legal reserve	General reserve	Retained earnings carried forward	Total earned surplus
Balance at the beginning of current term	6,459	8,719	—	8,719	1,614	190,000	23,440	215,055
Cumulative effect of change of accounting policy							(161)	(161)
Balance at the beginning of current term, after change of accounting policy	6,459	8,719	—	8,719	1,614	190,000	23,279	214,894
Net changes during the current term								
Issuance of new shares	24	24		24				
Dividends paid							(7,083)	(7,083)
Net income							15,435	15,435
Acquisition of treasury stock								
Disposition of treasury stock			0	0				
Retirement of treasury stock			(16,983)	(16,983)				
Transfer from earned surplus to capital surplus			16,983	16,983			(16,983)	(16,983)
Net changes other than shareholders' equity during the current term								
Total net changes during the current term	24	24	—	24	—	—	(8,632)	(8,632)
Balance at the end of current term	6,484	8,743	—	8,743	1,614	190,000	14,647	206,262

	Shareholders' equity		Other adjustments		
	Treasury stock	Total shareholders' equity	Unrealized gain on marketable securities	Total other adjustments	Total net assets
Balance at the beginning of current term	(1,881)	228,352	5,847	5,847	234,199
Cumulative effect of change of accounting policy		(161)			(161)
Balance at the beginning of current term, after change of accounting policy	(1,881)	228,191	5,847	5,847	234,038
Net changes during the current term					
Issuance of new shares		49			49
Dividends paid		(7,083)			(7,083)
Net income		15,435			15,435
Acquisition of treasury stock	(17,433)	(17,433)			(17,433)
Disposition of treasury stock	0	0			0
Retirement of treasury stock	16,983	—			—
Transfer from earned surplus to capital surplus		—			—
Net changes other than shareholders' equity during the current term			(1,464)	(1,464)	(1,464)
Total net changes during the current term	(449)	(9,032)	(1,464)	(1,464)	(10,496)
Balance at the end of current term	(2,330)	219,159	4,382	4,382	223,541

Nonconsolidated Financial Statements

Significant Accounting Policies of Nonconsolidated Financial Statements

1. Valuation Standards and Calculation Methods for Significant Assets

(1) Securities and investments in securities

Stocks of subsidiaries and affiliates are stated at cost using the moving-average cost method.

Other securities than stocks without market value are stated at market value. (Unrealized gain or loss, net of income taxes is reported in net assets, while any cost of sales is calculated based on a moving-average cost method.)

Stocks without market value are stated at cost using the moving-average cost method.

(2) Inventories

Products

Valued at cost using the first-in, first-out method (balance sheet amount is written-down to net selling value if profitability of assets has decreased).

Raw materials and stores

Valued at cost using the last purchase price method (balance sheet amount is written-down to net selling value if profitability of assets has decreased).

2. Depreciation of fixed assets

Property, plant and equipment (excluding leased assets)

The Corporation uses the declining-balance method for depreciating tangible fixed assets (but the straight-line method for buildings, not including attachments, acquired on or after April 1, 2007, and for facilities attached to buildings and structures that were acquired on or after April 1, 2016).

The estimated useful lives of principal items are as follows:

Buildings: 7–50 years

Machinery and equipment: 10–17 years

Tools, furniture, and fixtures: 2–15 years

Intangible fixed assets (excluding leased assets)

The Corporation uses the straight-line method.

However, software for internal use is amortized over the useful period (five years) of software used by the Corporation.

Leased assets

Leased assets on finance lease transactions that do not transfer ownership are depreciated over the useful life of assets, equal to the lease term, by the straight-line method with zero residual value.

3. Translation of Major Foreign-Currency Assets and Liabilities

Claims and credits denominated in foreign currencies are translated into yen at spot market exchange rates prevailing at the term-end, and gains or losses are credited or charged to income as incurred.

4. Accounting for Major Accruals

Allowances for doubtful accounts

The Corporation provides for possible loan losses and records on the books the amounts that are unlikely to be recovered. Primarily, this consists of an allowance for general claims, calculated according to historical loss ratios, and an allowance for specific claims, such as bankrupted or doubtful loans calculated based on the potential to recover respective credits.

Accrued employees' bonuses

Accrued employees' bonuses are provided for at the estimated amounts, which are to be paid for services rendered prior to the term-end.

Allowance for product guarantees

The Corporation, as contingency against outlays of free-of-charge repair costs for its products, has estimated a product guarantee expense amount based on past performance.

Accrued employees' retirement benefits

Pension costs for employees are accrued based on the projected benefit obligations and pension assets at the term-end. Note that, in calculating retirement benefit obligations, the Corporation applied the benefit formula standard for attributing projected retirement benefits to a period up to the fiscal year in review.

Actuarial differences are proportional amounts calculated by the straight-line method over a fixed period (10 years) within the average remaining service period of employees at the time such gains or losses are realized in each fiscal year and expensed from the fiscal year following the one in which the difference occurred.

5. Basis for recording income and expenses

The main performance obligations of the principal operations of the Corporation related to revenues arising from contracts with customers and the usual time at which such performance obligations are fulfilled (the normal time at which revenues are recognized) are as follows.

Sales of products and merchandise

The Corporation mainly manufactures and sells heat-related products and recognizes revenue from these sales at the time of delivery of the products, since the customer obtains control over the products at the time of delivery. For sales in Japan, revenue from such products is recognized at the time of shipment, since the period between the time of shipment and the time of delivery is a normal period.

Under its product sales contract, the Corporation has a product warranty obligation to repair or replace, free of charge, any product due to failure or defects that occur after delivery. This warranty obligation is recognized as an allowance for product guarantee because it provides assurance to the customer that the product will perform as intended according to the specifications set forth in the contract with the customer.

Revenue is recognized based on the transaction price set in the contract with the customer. When a product is sold with a rebate, which is conditional on the customer purchasing a certain amount of the product within a certain period of time, the transaction price is calculated based on the consideration promised to the customer in the contract, less the estimated amount of rebate.

Since considerations for transactions are received within one year of fulfillment of the performance obligation, they do not include a significant financial component.

6. Other Significant Accounting Policies

Accounting for retirement benefits

The accounting method for unrecognized prior service costs and unrecognized actuarial differences for retirement benefits is different from that applied in preparing the consolidated financial statements.

7. Changes in accounting policies

Application of Accounting Standard for Revenue Recognition

From the beginning of the fiscal year ended March 31, 2022, the Corporation has applied the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020), under which revenue is recognized as control of promised goods or services is transferred to customers in an amount expected to be received in exchange for those goods or services. Resulting changes mainly include the accounting for consideration paid to customers, which was previously recorded in Selling, General and Administrative Expenses. From the current fiscal year, the amount has been deducted from Net Sales.

The Corporation applied the "Accounting Standard for Revenue Recognition" in accordance with the transitional treatment stipulated in the proviso of paragraph 84 of the Standard. The cumulative effect of having retroactively applied the new accounting policy to periods prior to the beginning of the fiscal 2022 is added to or deducted from the opening balance of Earned Surplus, and the new accounting policy is applied from that balance. The effect of the application on the consolidated financial statements is immaterial.

Application of Accounting Standard for Fair Value Measurement

From the beginning of the fiscal 2022 year ending March 31, 2022, the Corporation has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019). The Corporation prospectively applied the new accounting policy under the "Accounting Standard for Fair Value Measurement" in accordance with the transitional treatment stipulated in paragraph 19 of the Standard and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). There is no effect on the consolidated financial statements.

8. Additional information

Accounting estimates due to spread of COVID-19

Despite expectations that the situation would return to normal with the rollout of vaccinations, it remains difficult at this time to predict when normalization will occur due to the ongoing impact of new global breakouts on economic activities. Although uncertainties remain, such as tight procurement conditions for parts (mainly semiconductors and electronic components), our accounting estimates are based on the assumption that the long-term impact on corporate activities will be limited because the Corporation’s products are regarded as daily necessities and have a high replacement ratio.

9. Note related to revenue recognition

The basis for understanding revenue from contracts with customers is described in “Significant accounting policies, 5. Basis for recognition of revenue and expenses.”

Notes

1. Notes to Balance Sheets

(1) Accumulated depreciation of property, plant, and equipment

Accumulated depreciation of property, plant, and equipment amounted to ¥52,923 million.

(2) Monetary receivables for affiliates

Short-term monetary receivables ¥9,332million

(3) Monetary payables for affiliates

Short-term monetary payables ¥7,093 million

(4) Monetary payables for directors and Audit & Supervisory Board members

¥311 million

(5) Contingent liabilities

Liability for guarantees	*(Millions of yen)*
Rinnai Technica Co., Ltd.	2,394
RB Controls Co., Ltd.	1,637
Rinnai Precision Co., Ltd.	423
Yanagisawa Manufacturing Co., Ltd.	149
Noto Tech Co., Ltd.	13
Total	4,619
Notes and bills receivable discounted	112

2. Notes to Statements of Income

Transaction with affiliates

Operating transactions

Net sales	¥56,613 million
Cost of sales	¥69,057 million
Other transactions	¥4,445 million

3. Notes to Statements of Changes in Shareholders’ Equity

Class and number of shares of treasury stock at the current fiscal year-end, March 31, 2022

Common stock 219,577 shares

4. Notes to Tax-Effect Accounting

Composition of assets and liabilities of deferred income taxes

	(Millions of yen)
Deferred income taxes (assets):	
Valuation decrease on taxable securities	927
Accrued business taxes	151
Allowance for employees' bonuses	776
Allowance for product guarantees	200
Accrued employees' retirement benefits	1,027
Other	799
Subtotal	3,883
Valuation reserve	(945)
Total deferred income taxes (assets)	2,937
Deferred income taxes (liabilities):	
Prepaid pension costs	3,524
Unrealized gain on marketable securities	1,755
Total deferred income taxes (liabilities)	5,280
Deferred income taxes (liabilities) (net)	2,343

5. Related Party Transactions

Subsidiaries

Name of company	Percentage of ownership with voting rights	Relations	Transactions	Amount (¥ millions)	Accounts	Year-end balance (¥ millions)
Rinnai America Corporation	Direct 100%	Sales of products	Sales of products[1]	27,638	Accounts receivable	5,218
Rinnai Technica Co., Ltd.	Direct 100%	Purchase of products, Guarantee of liabilities	Purchase of products[2] Guarantee of liabilities[3]	18,781 2,394	Accounts payable	2,017

Transaction Conditions

Notes: 1. With regard to the sales of products, transaction conditions are decided by negotiation after the Corporation has offered a price.

2. With regard to the purchase of products, transaction conditions are decided by negotiation after the Corporation has received estimates.

3. The Corporation has guaranteed debts regarding electronically recorded monetary claims, and figures indicate the guaranteed amount at the fiscal year-end. The Corporation does not receive a guarantee charge.

6. Per Share Data

(1) Net assets per share: ¥4,488.66

(2) Net income per share: ¥305.74

7. Significant Subsequent Events

Share buyback

Notes to share buyback is omitted because same notes are indicated in “Notes to Consolidated Financial Statements, 5. Significant Subsequent Events”**.**

8. Other

Amounts less than one million yen are omitted from the financial statements.