Notice of Convocation of the 68th Ordinary General Shareholders' Meeting: Internet Disclosure Items

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Rinnai Corporation

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

Consolidated Statements of Changes in Shareholders' Equity
Year ended March 31, 2018

(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	8,756	247,327	(1,007)	261,536
Net changes during the current term					
Dividends paid			(4,549)		(4,549)
Net income attributable to owners of the parent company			21,194		21,194
Acquisition of treasury stock				(6,010)	(6,010)
Retirement of treasury stock		(5,157)		5,157	—
Transfer from earned surplus to capital surplus		5,157	(5,157)		—
Net other changes than shareholders' equity during the current term					
Total net changes during the current term	—	—	11,487	(853)	10,633
Balance at the end of current term	6,459	8,756	258,814	(1,860)	272,170

	Other accumulated comprehensive income				Non-controlling interests	Total net assets
	Unrealized gain 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	4,883	3,047	3,310	11,241	17,860	290,638
Net changes during the current term						
Dividends paid						(4,549)
Net income attributable to owners of the parent company						21,194
Acquisition of treasury stock						(6,010)
Retirement of treasury stock						—
Transfer from earned surplus to capital surplus						—
Net other changes than shareholders' equity during the current term	1,700	1,635	536	3,871	2,821	6,693
Total net changes during the current term	1,700	1,635	536	3,871	2,821	17,326
Balance at the end of current term	6,583	4,682	3,846	15,112	20,682	307,965

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, etc.

Consolidated subsidiaries: 34 companies

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

From the fiscal year under review, Shanghai Rinnai Gas Appliance Engineering Services Co., Ltd. was included in the scope of consolidation, because the company was newly established.

(2) Major unconsolidated subsidiaries:

Nonconsolidated subsidiaries: Rinnai Italia S.r.l.
Guangzhou Rinnai Gas and Electric Appliance Co., Ltd.

Reason for exclusion: The above nonconsolidated subsidiaries are excluded from the scope of consolidation, because their activities have not been deemed material, and total assets, net sales, net income and retained earnings of the nonconsolidated company are not significant compared to the consolidated amounts.

2. Application of Equity Method

(1) Number and names of affiliated companies for which the equity method is applied:

Number of affiliated companies for which the equity method is applied.: —

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

Names of major nonconsolidated subsidiaries: Rinnai Italia S.r.l.
Guangzhou Rinnai Gas and Electric Appliance Co., Ltd.

Name of affiliated company: Mikuni RK Corporation

Reason for exclusion: The above companies are excluded from application under the equity method because their net income and retained earnings 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., Brivis Climate Systems Pty Ltd. and other five 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. Significant Accounting Policies

(1) Valuation standards and calculation methods for significant assets

(a) Securities and investments in securities

<u>Available-for-sale securities with market value</u> are stated at market value, based on the fair market value at the end of the period. (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.)

<u>Securities without market value</u> are stated at cost using the moving-average cost method.

(b) Inventories

<u>Finished goods:</u> Valued at cost using the first-in, first-out method (balance sheet amount is written-down to net selling value in the case that profitability of assets has decreased).

<u>Raw materials and supplies:</u> Valued at cost using the last purchase price method (balance sheet amount is written-down to net selling value in the case that profitability of assets has decreased).

(2) Depreciation of fixed assets

<u>Property, plant and equipment (excluding leased assets)</u>

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 and delivery equipment: 7–17 years
Tools, furniture, and fixtures: 2–15 years

<u>Intangible fixed assets (excluding leased assets)</u>

The Corporations use the straight-line method.

However, software for internal use is amortized over the useful period (5 years) of software used by each of the Corporations.

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) Accounting for major accruals
Allowance 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.

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

(4) Method and Period of Goodwill Amortization
Amortization of goodwill is calculated by the straight-line method over a period of five years.

(5) 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 objective

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 contract that ensure effective hedging.

Other

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

<u>Accounting standard for assets and liabilities related to retirement benefits</u>

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 (5 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).

<u>Accounting for consumption taxes</u>

Consumption taxes are not included in revenues and expenses.

Notes to Financial Statements

1. Notes to Consolidated Balance Sheets

(1) Assets pledged as collateral and related liabilities

	(Millions of yen)
Pledged assets:	
Cash and deposits	186
Land	2,267
Total	2,453
Liabilities related to pledged assets:	
Notes and accounts payable	117

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

Accumulated depreciation of property, plant, and equipment amounted to ¥113,088 million.

(3) Trade notes receivable discounted

Trade notes receivable discounted amounted to ¥65 million.

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

(1) Number of shares issued at the fiscal year-end, March 31, 2018

Common stock: 51,616,463 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 28, 2017	Common stock	¥2,288 million	¥44.00	March 31, 2017	June 29, 2017
Directors' meeting on November 7, 2017	Common stock	¥2,261 million	¥44.00	September 30, 2017	December 6, 2017
Total	—	¥4,549 million	—	—	—

(b) The effective date for dividends with a record date of March 31, 2018, 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 27, 2018, as follows:

Resolution	Type of stock	Total dividends	Dividend per share	Record date	Effective date
General shareholders' meeting at June 27, 2018	Common stock	¥2,364 million	¥ 46.00	March 31, 2018	June 28, 2018

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, 2018, are shown below.

(Millions of yen)

	Balance sheet amount (*)	Fair value (*)	Difference
(1) Cash and deposits	124,771	124,771	—
(2) Notes and accounts receivable	66,341	66,341	—
(3) Electronically recorded monetary claims	8,858	8,858	—
(4) Marketable securities and investment securities			
Other securities	62,418	62,418	—
(5) Notes and accounts payable	(22,953)	(22,953)	—
(6) Electronically recorded monetary claims	(32,771)	(32,771)	—
(7) Accrued payables	(14,265)	(14,265)	—
(8) Accrued consumption taxes	(761)	(761)	—
(9) Accrued income taxes	(4,843)	(4,843)	—

(*) Among the above items, figures for liabilities are shown in parentheses.

Notes:

1. Method for calculating fair values of financial products, items related to available-for-sale securities
   (1) Cash and deposits, (2) Notes and accounts receivable, and (3) Electronically recorded monetary claims (assets) are settled over short-term periods, their values mostly in line with book values, and so book values are used to state fair value.

   For (4) Marketable securities and investment securities, and other marketable securities, the prices of shares, etc., at the relevant securities exchanges are used to state fair value. For bonds, prices submitted by financial institutions, etc., are used.

   Because (5) Notes and accounts payable, (6) Electronically recorded monetary claims (liabilities), (7) Accrued payables, (8) Accrued consumption taxes, and (9) Accrued income taxes are settled over short-term periods, their values mostly in line with book values, and so book values are used to state fair value.
2. Because unlisted stocks (¥1,569 million in consolidated balance sheets) do not have market prices, it is considered extremely difficult to calculate their fair values. Therefore, they are not included in “Other securities under (4) Marketable securities and investment securities.”

4. Per Share Data

(1) Net assets per share: ¥5,589.17

(2) Net income per share: ¥410.41

5. Subsequent Events

There is no relevant information.

6. Amounts less than one million yen

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

Nonconsolidated Statements of Changes in Shareholders' Equity
Year ended March 31, 2018

(Millions of yen)

	Shareholders' equity							
	Common stock	Capital surplus			Earned surplus			
		Capital reserve	Other capital reserve	Total capital surplus	Legal reserve	Voluntary reserve: Other reserve	Voluntary reserve: Unappropriated retained earnings	Total earned surplus
Balance at the beginning of current term	6,459	8,719	—	8,719	1,614	150,000	26,914	178,529
Net changes during the current term								
Dividends paid							(4,549)	(4,549)
Net income							13,850	13,850
Transfer to other reserve						10,000	(10,000)	—
Acquisition of treasury stock								
Retirement of treasury stock			(5,157)	(5,157)				
Transfer from earned surplus to capital surplus			5,157	5,157			(5,157)	(5,157)
Net changes other than shareholders' equity during the current term								
Total net changes during the current term	—	—	—	—	—	10,000	(5,856)	4,143
Balance at the end of current term	6,459	8,719	—	8,719	1,614	160,000	21,058	182,673

	Shareholders' equity		Other adjustments		Total net assets
	Treasury stock	Total shareholders' equity	Unrealized gain on marketable securities	Total other adjustments	
Balance at the beginning of current term	(1,007)	192,701	4,700	4,700	197,402
Net changes during the current term					
Dividends paid		(4,549)			(4,549)
Net income		13,850			13,850
Transfer to other reserve		—			—
Acquisition of treasury stock	(6,010)	(6,010)			(6,010)
Retirement of treasury stock	5,157	—			—
Transfer from earned surplus to capital surplus		—			—
Net changes other than shareholders' equity during the current term			1,673	1,673	1,673
Total net changes during the current term	(853)	3,289	1,673	1,673	4,963
Balance at the end of current term	(1,860)	195,991	6,374	6,374	202,365

Significant Accounting Policies of Nonconsolidated Financial Statements

Valuation Standards and Calculation Methods for Significant Assets

1. Securities and investments in securities

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

Available-for-sale securities with market value are stated at market value, based on the fair market value at the end of the period. (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.)

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

(2) Inventories

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

Raw materials and supplies: Valued at cost using the last purchase price method (balance sheet amount is written-down to net selling value in the case that 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, 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 (5 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

Allowance 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. 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. Other Significant Accounting Policies

(1) 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.

(2) Accounting for consumption taxes

Consumption taxes are not included in revenues and expenses.

Notes to Financial Statements

1. Notes to Balance Sheets

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

Accumulated depreciation of property, plant, and equipment amounted to ¥48,491 million.

(2) Monetary receivables for affiliates

Short-term monetary receivables ¥9,324 million

(3) Monetary payables for affiliates

Short-term monetary payables ¥6,350 million

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

¥314 million

(5) Contingent liabilities

Liability for guarantees	(Millions of yen)
Rinnai Technica Co., Ltd.	2,657
RB Controls Co., Ltd.	914
Rinnai Precision Co., Ltd.	474
Yanagisawa Manufacturing Co., Ltd.	292
Noto Tech Co., Ltd.	4
Total	4,343
Notes and bills receivable discounted	65

2. Notes to Statements of Income

Transaction with affiliates

Operating transactions

Net sales	¥65,917 million
Cost of sales	¥60,961 million
Other transactions	¥2,810 million

3. Notes to Statements of Changes in Shareholders' Equity

Treasury stock at the current fiscal year-end

Common stock	216,404 shares

4. Notes to Tax-Effect Accounting

Composition of assets of deferred income taxes

(Millions of yen)

Deferred income taxes (assets):	
Over-depreciation of fixed assets	154
Valuation decrease on taxable securities	935
Accrued business taxes	204
Allowance for employees' bonuses	742
Allowance for product guarantees	345
Other	664
Subtotal	3,047
Assessable reserves	(913)
Total deferred income taxes (assets)	2,133
Deferred income taxes (liabilities):	
Gain on contribution of securities to retirement benefit trust	1,512
Unrealized gain on marketable securities	2,374
Total deferred income taxes (liabilities)	3,886
Deferred income taxes (net)	1,753

5. Related Party Transactions

Subsidiaries

Name of company	Percentage of ownership with voting rights	Relations	Transactions	Amount (¥ millions)	Accounts	Year-end balance (¥ millions)
RG Co., Ltd.	Direct 51.0% Indirect 49.0%	Sale of products	Sale of products (Note 1)	14,474	Accounts receivable Notes receivable	3,656 363
Rinnai Technica Co., Ltd.	Direct 100%	Purchase of products, directors holding concurrent positions, and guarantee of liabilities	Purchase of products (Note 2), Guarantee of liabilities (Note 3)	19,126 2,657	Accounts payable	2,014

The above transaction figures do not include consumption taxes, while year-end balances include consumption taxes.

Transaction Conditions

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

2. As to the purchase of products, the Corporation decided transaction conditions by negotiation after the Corporation examined 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: ¥3,937.07
(2) Net income per share: ¥268.20

7. Other

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