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**NORITZ**  
The Simple Comforts of Life

## Helping build a low-carbon economy

Noritz will ensure a stable supply of hot water to households while developing products that save energy and use renewables to achieve carbon neutrality by 2050.



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This report was compiled in line with the *Guidance for Collaborative Value Creation* issued by Japan's Ministry of Economy, Trade and Industry, which aims to have companies and investors engage with each other to jointly create value.




As a signatory to the United Nations Global Compact since 2012, Noritz Corporation has committed to the compact's ten principles in four areas, and works to contribute to the sustainability of society on that basis.

# NORITZ REPORT 2023



**NORITZ CORP.**



## Supplying essential hot water systems while contributing to decarbonization by diversifying energy sources

The Noritz Group is carrying out a wide range of initiatives under its mission to provide the Simple Comforts of Life through its products. The Group's hot water systems, in particular, are essential for people to enjoy a relaxing bath at the end of the day and to warm up when the weather is cold.

While deeply aware of its responsibility to maintain a supply of these products, Noritz confronted challenging circumstances in 2022. Due to global shortages of electronic components amid the spread of the COVID-19 pandemic, the Company was unable to deliver water heaters on schedule to some customers, causing them considerable inconvenience. While Noritz has always taken for granted its ability to deliver these products, which are essential for supplying hot water, its inability to do so for the first time in its history represented a serious crisis for the Company. Consequently, all of its members have renewed their appreciation of the need to ensure an uninterrupted supply of water heaters.

Having undergone various crises in the past, Noritz has fostered a corporate culture of overcoming challenges. Therefore, Noritz is working together with its suppliers to improve the supply chain with a commitment to maintaining a steady supply of water heaters. At the same time, the Company is considering ways for its products to use various energy sources so it can contribute to worldwide efforts in achieving carbon neutrality by 2050.

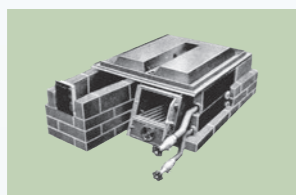
Noritz's History

# Aiming for carbon neutrality by developing products that save energy and meet the needs of every generation

The Company's founder, Toshiro Ota, firmly believed that "quality baths bring joy to people." From this starting point, the Noritz Group has been applying technologies to develop bath systems that bring comfort to users and reduce environmental impacts. In Japan, the energy consumed for water and space heating accounts for about 60% of household energy expenses. Therefore, Noritz strives to improve the environmental performance of its water heaters so that its customers can reduce their ecological footprints.



**1951** Founding of the Company  
An efficient wood-burning bathwater heater



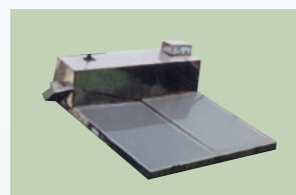
The Noritz Bath Type A allowed users to efficiently heat water with a relatively small amount of firewood. This helped spread the installation of household baths, then a rarity, at a time when fuel was in short supply, bringing joy to people throughout Japan.

**1961**  
Responding to the shift to gas from wood and coal



As Japanese homes shifted away from burning wood and coal in favor of gas Noritz began developing gas water heaters. This led to the launch of its highly efficient and smartly designed GS model gas water heater made of aluminum instead of copper, which was commonly used for such heaters at the time.

**1980**  
Clean energy water heater powered by the sun



Amid soaring gas and oil prices following the 1979 oil crisis, Noritz began manufacturing a solar water heater that emits no CO<sub>2</sub>, placing it at the forefront of energy-saving product development.

**1998**  
Building on advancements in water heaters to improve the efficiency of gas cookers



Noritz released gas cookers featuring its Eco-Jet burner designed for low gas consumption and excellent thermal efficiency. The burner was the first in the industry to achieve thermal efficiency of 55% at cooking temperatures.

**2002**  
Thermal efficiency of 95% achieved by reusing exhaust heat



In response to rising environmental awareness around the world, Noritz developed an eco-friendly gas water heater that reuses exhaust heat to boost thermal efficiency. While exhaust heat of conventional gas water heaters can reach around 200°C, the Company's model keeps the temperature at about 60°C while also reducing CO<sub>2</sub> emissions.

**2013**  
Making the most of gas and electricity for water heating



Noritz released a hybrid water heating system that uses both gas and electricity. Designed to consider the environment over the entire product lifecycle, the system was the only product in the industry that uses the natural refrigerant R290. In 2021, the Company released a compact hybrid system that can fit inside a gas meter cabinet, allowing it to be installed at apartment buildings.

**2022**  
High-efficiency gas water heater for businesses



Noritz launched the industry's first highly efficient, commercial-use gas water heater capable of supplying water up to 84°C. Since commercial-use water heating systems tend to consume relatively large amounts of energy, the Company aims to encourage businesses to replace their boilers with this product as a means to promote decarbonization by reducing CO<sub>2</sub> emissions. The product also meets HACCP-based standards for disinfectants.

**2022**  
Hybrid water heating system for businesses



Noritz released a hybrid water heating system to the commercial facility market. The system combines a commercial-use water heater and natural refrigerant heat pump, offering an environmentally friendly option for businesses while also ensuring a stable supply of hot water at commercial facilities where hot water usage fluctuates depending on the day or season.

Developing user- and eco-friendly products in the 1990s  
**Self-cleaning bathtub**  
Noritz's Osoji Yokuso brand bathtub could automatically clean the tub and fill it with bath water with the press of a button, reducing work for users while also using a minimal amount of water.



Developing user- and eco-friendly products in the 1990s  
**Bathtub with automatic drain stopper**  
This function automatically closes the bathtub's drain flange once the hot water is turned on, ensuring no water is wasted by mistakenly running a bath with the drain flange open.



Developing user- and eco-friendly products in the 2010s  
**Energy consumption display and conservation function**  
Noritz has released a bath system with a display for checking the amount of energy consumed, making users more aware of energy conservation. The system's Eco-switch function reduces bathwater volume and temperature to an unnoticeable degree, helping users conserve water and energy on a daily basis.



Developing user- and eco-friendly products in the 2010s  
**Automatic drainage pipe cleaning function**  
This function automatically uses freshly heated water to flush out the water remaining in the bathtub pipes after the drain flange has been opened, ensuring that only clean water is added to the bathwater next time.



Developing user- and eco-friendly products in the 2010s  
**Digitally controlled hybrid water heater**  
This model optimizes the amount and timing of the hot water it supplies based on the everyday usage patterns of each customer. The heater minimizes energy consumption by eliminating waste in this way, thereby benefiting the environment while lowering energy expenses for users.



Developing user- and eco-friendly products in the 2010s  
**Bacteria-killing water heater function**  
This function regularly disinfects the water supplied by the water heater, making it safe for family members to use the same bathwater. It was especially well received by consumers when the need for disinfecting was high during the COVID-19 pandemic.

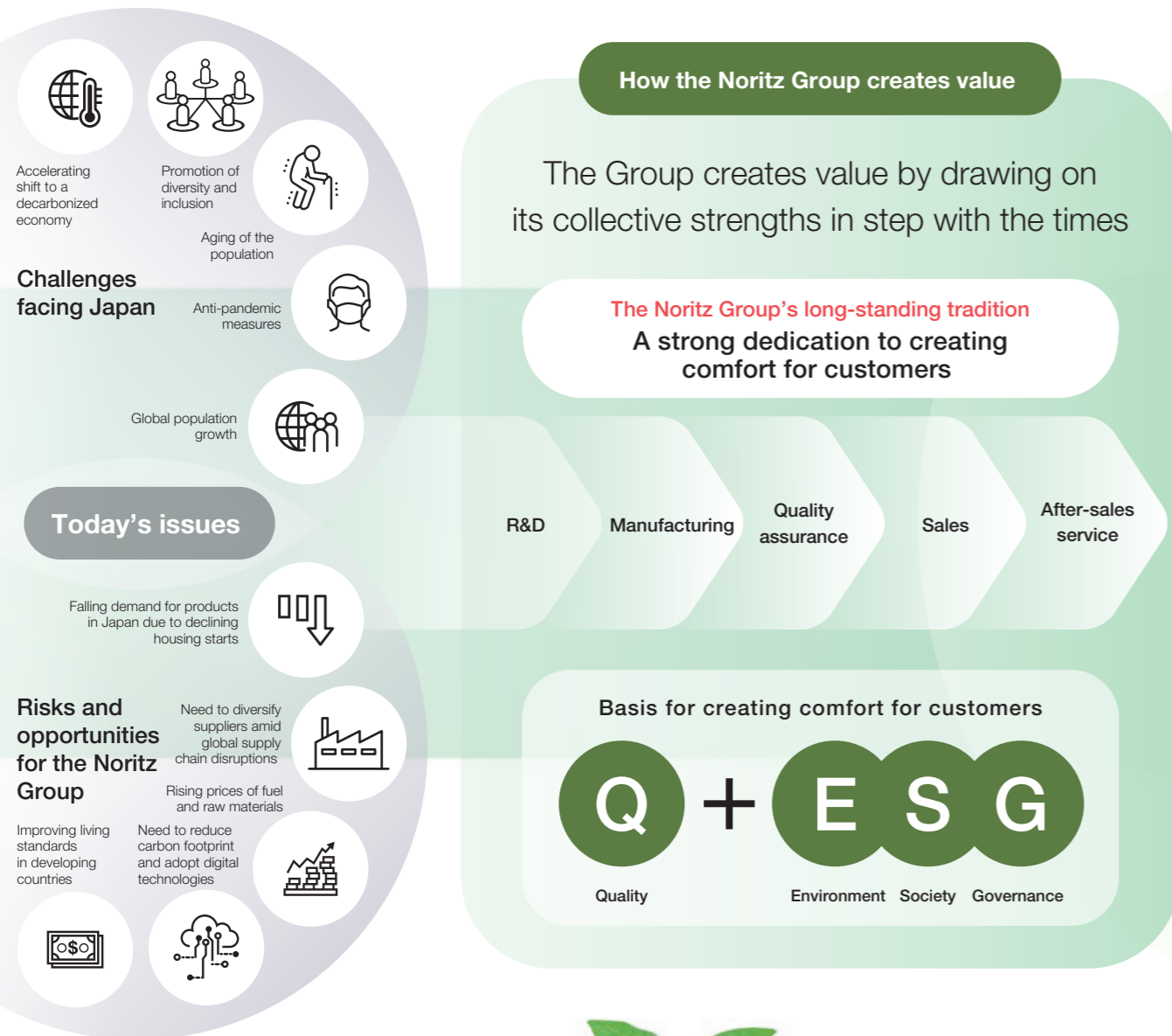


Value-Creation Process

# Staying in step with the times to provide “The Simple Comforts of Life”

While closely following broad trends and searching for solutions to issues facing society, the Noritz Group is working to create value by drawing on its collective strengths.

The Group's commitment to quality and pursuit of sustainability, as measured by environmental, social, and corporate governance (ESG) factors, forms the basis for creating comfort for customers. Accordingly, the Group is carrying out a wide range of initiatives in an effort to continue providing “The Simple Comforts of Life” through our products.



Realizing our mission

## The Simple Comforts of Life

Creating value for customers

Main businesses



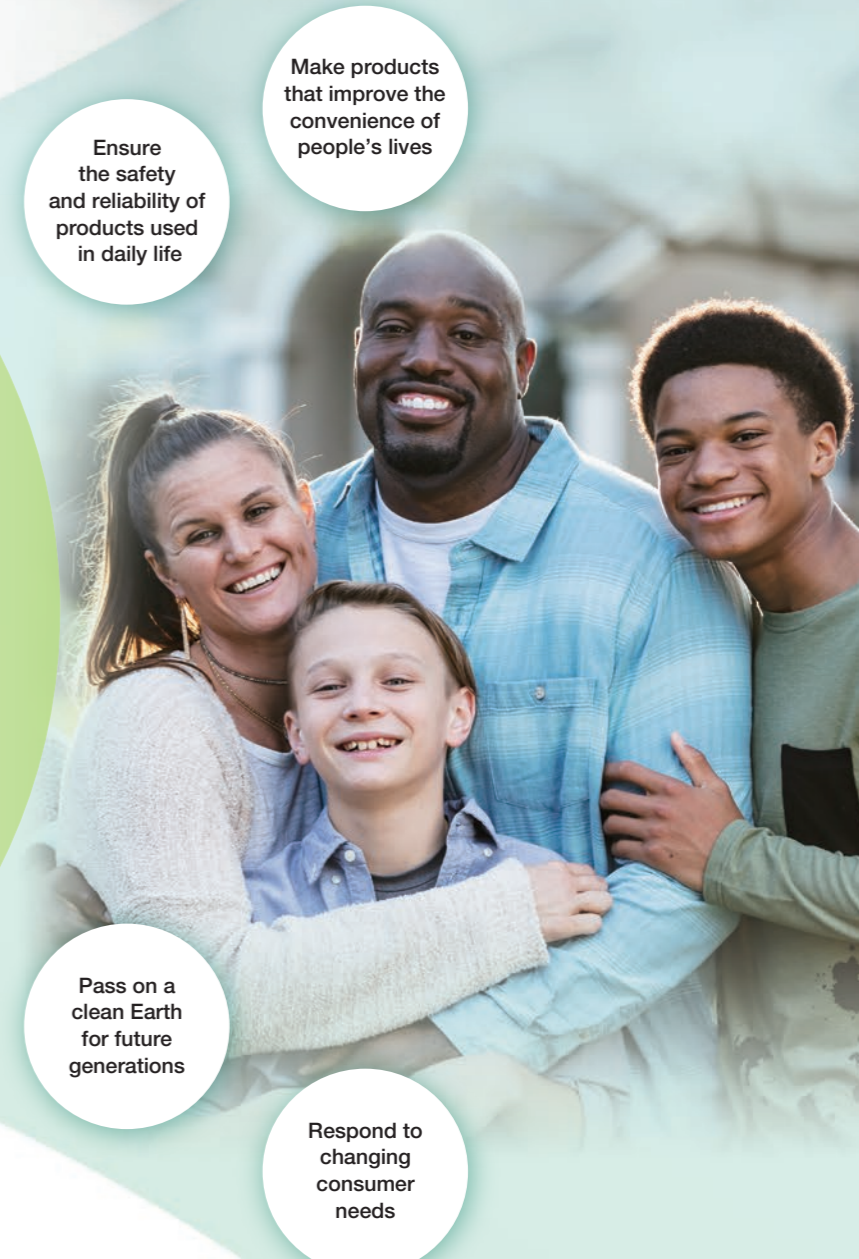
Products

Water heaters and heating ventilation and air conditioning systems

- Gas water heaters
- Oil water heaters
- Hybrid water heating systems
- Solar heating systems
- Waste heat recovery systems for fuel cells
- Hydronic floor heating systems
- Bathroom heating, drying, and ventilation systems
- Gas fan heaters

Kitchen appliances

- Built-in gas cookers
- Countertop gas cookers
- Gas ovens
- Range hoods



Ensure the safety and reliability of products used in daily life

Make products that improve the convenience of people's lives

Pass on a clean Earth for future generations

Respond to changing consumer needs

Relevant Sustainable Development Goals for the Noritz Group



## Message from the President

Steady progress in achieving the goals of our medium-term management plan sets the stage for a brighter future



**Satoshi Haramaki**  
President and CEO  
Noritz Corporation

### The past two and a half years since my appointment as president

#### Adapting to the operating environment during a turbulent time

I have served as president for about two and a half years since my appointment in October 2020. During that short time, various incidents have happened around the world and the Noritz Group's operating environment has greatly changed. For example, global shortages of electronic components and resins amid the ongoing COVID-19 pandemic have made it difficult for us to procure materials, resulting in serious problems for many of our customers and business partners.

In response, we placed priority on restructuring our supply chain in 2022, and took steps to modify procurement conditions and secure alternative sources of components. Although we were able to resume production from March last year, delivering certain products on time remains a challenge even now. On behalf of the Company, I would like to sincerely apologize to our customers and business partners for the problems this has caused.

While delayed product deliveries are certainly inconvenient, our products, themselves, are essential for bathing and cooking. Thus, we have renewed our

appreciation of how important our business is for people's everyday lives.

At the same time, our business has been seriously impacted by many new developments that we could never have predicted, including Russia's invasion of Ukraine, soaring prices of raw materials resulting from the yen's rapid depreciation, and steeply rising transport and energy costs. Meanwhile, many countries have set specific targets and timelines for reducing CO<sub>2</sub> emissions, greatly accelerating the push towards carbon neutrality.

As a manufacturer of products that burn gas and oil, Noritz will need to adapt to these shifts. Indeed, over the past two and a half years, I have become more aware than ever that what was taken for granted in the past will not extend into the future. While staying true to the belief of the Company's founder, Toshiro Ota, that "quality baths bring joy to people," all of us at Noritz understand that we must respond flexibly to the changing times if we are to continue providing products that bring comfort and convenience to people's lives.

#### Pursuing ambidextrous leadership

#### Preparing to launch new future-oriented initiatives and expand the Group's business globally

Fiscal 2023, ending December 31, 2023, is the final year of the three-year medium-term management plan we launched in January 2021. Under this plan, management has been working to realize an optimal balance between strengthening the Group's businesses and creating new businesses through ambidextrous leadership, based on the plan's main objectives of maintaining the sustainability of group-wide operations and developing innovative ways to maintain customer loyalty. To achieve these two objectives, we also set the management objective of fostering an organizational culture that takes on challenges. To achieve such broad goals, every level of an organization must work towards them, from the entire company down through its departments, the teams in those departments, and finally the individual members of those teams. Therefore, since my appointment as president, I have routinely visited each department to talk with employees about the importance of pursuing objectives. I believe our main objectives are now widely understood in our workplaces, pursued by individual employees, discussed and acted on by teams, and rooted in work practices that produce results. Therefore, I am confident that Noritz will

continue to grow regardless of how the operating environment changes in the future.

At present, we are discussing our next medium-term management plan with a view to launching new future-oriented initiatives and expanding the Group's business globally. By preparing for the future now, we hope to continue bringing "The Simple Comforts of Life" to people around the world through our products.

#### Components of the medium-term management plan



Top Message

## Vision and Strategies

### Towards carbon neutrality

#### Developing next-generation products and installing in-house energy-generating facilities to accelerate measures for reducing CO<sub>2</sub> emissions

Many countries in the world are stepping up measures to achieve carbon neutrality in the future in response to increasingly serious problems caused by climate change. The Noritz Group's mainstay products, particularly water heaters, emit substantial amounts of CO<sub>2</sub>, so reducing those emissions is a challenge that strikes at the heart of our business.

Therefore, in February 2022, to build on the Group's past efforts to help realize a low-carbon economy, we set more ambitious targets for reducing emissions under a new roadmap. By 2030, we are aiming to reduce CO<sub>2</sub> emissions from the usage of products made and sold in Japan by 30% and from operations in Japan by 50% compared with the respective results in 2018. Furthermore, the Group is striving to achieve net zero CO<sub>2</sub> emissions from products and factories worldwide by 2050.

Reaching such ambitious targets will be difficult if we simply continue our past activities. Therefore, Noritz is actively encouraging customers to replace the gas water heaters it has supplied to them with highly efficient models that consume less energy. Remote control units and smartphone apps that display CO<sub>2</sub> emissions are provided to help customers become more aware of the energy they consume. At the same time, we are proactively developing and promoting technology and products that emit less CO<sub>2</sub>, including highly efficient heat recovery gas water heaters and hybrid water heating systems that integrate

gas and heat pumps, as well as solar heating systems and other energy creation systems.

In addition to these initiatives to reduce CO<sub>2</sub> emissions from the usage of products, the Company is focusing on ways to lower emissions from its operations. Toward this end, Noritz joined the RE100 in December 2020, becoming the 45th Japanese company to join this global initiative. As a member, Noritz has committed to the RE100 goal of securing 100% of its electricity from renewable sources, and is aiming to achieve this at all factories in Japan by 2030 and all of the Group's workplaces outside Japan by 2050. Furthermore, Noritz adopted the Japanese government's internal carbon pricing system in January 2022, and is giving priority to capital investment that helps reduce CO<sub>2</sub> emissions. In recognition of these efforts, Noritz received a score of A- for climate change leadership in 2022 by the CDP, an NPO that runs a global disclosure system for managing environmental impacts.

Decarbonization is a critical issue for the Noritz Group's future, but we also regard it as an important opportunity to substantially revamp the Group's business portfolio. While upholding its social responsibility as a supplier of water heaters—products that are essential for households and businesses—Noritz will strive to grow sustainably with the communities it serves.

### Quality and ESG initiatives

#### Providing solutions for societal and environmental issues while overcoming challenges in our businesses

As a framework for creating value, the Noritz Group has been emphasizing quality and integrating environmental, social, and corporate governance (ESG) factors in its management since 2014. We reassessed the Group's material issues in 2020 while formulating our three-year medium-term management plan and a long-term social and environmental vision extending through 2030. Based on this reassessment, we specified 10 material issues to address by 2023 (see page 23). Through our quality- and ESG-driven strategies, we have been integrating social and environmental issues into our business challenges.

We recognize that quality is a vital issue for all manufacturers. Accordingly, the Group has been taking steps to improve quality across the design, manufacturing, and product installation stages, with the goal of reducing the rate of product defects by half the number in 2020 over the three years of our medium-term management plan. These efforts were recognized with a Best Contributor to Product Safety Award in 2022 from Japan's Ministry of Economy, Trade and Industry.

On the environmental front, we have been working to reduce CO<sub>2</sub> emissions from operations and the usage of products with an eye to achieving our goal of net zero CO<sub>2</sub> emissions. We are also focusing on reducing waste matter in manufacturing, expanding used product recycling, promoting a circular economy, and making use of carbon offset services that promote sustainable forest management and protect biodiversity.

To contribute to society, we are supplying various products and services that provide solutions to issues facing people today. For example, we supply bath monitoring functions that help prevent bath-related accidents involving the elderly, and gas water heaters with bacteria-killing functions that keep bathwater disinfected. Moreover, our Multi Grill gas cookers make cooking easier and more convenient for busy working families.

To further develop human resources, Noritz has been taking active steps to raise employee engagement, provide training programs to young employees, promote diversity, facilitate work-style reforms and enhance health management.

Meanwhile, we have made progress in strengthening our corporate governance structure and speeding up decision-making by adopting a more in-depth performance evaluation of the Board of Directors, integrating a skill matrix in succession planning, and examining the adoption of medium-term incentives in our remuneration system for directors and executives. Looking ahead, we will take steps to comply with revisions to Japan's Corporate Governance Code, such as by disclosing climate-related risks and ensuring diversity within the Board of Directors.

In addition, Noritz became a signatory to the United Nations Global Compact in 2012, and is carrying out business activities with a commitment to the compact's ten principles in the four areas of human rights, labor, the environment, and anti-corruption.

### Overview of fiscal 2022

#### Sales and income increase despite a challenging operating environment

In 2022, Noritz's operations in Japan were impacted by international supply bottlenecks of parts and components, which had continued since the second half of the previous year. From March, however, we boosted production and filled backlogged orders by modifying procurement conditions and securing alternative sources of parts and components. Consequently, production volume reached a record-high level. Sales of high-value-added products also increased, including hybrid water heating systems that efficiently heat water using gas and electricity, and highly efficient heat-recovery gas water heaters, particularly the GT-C62 series featuring bath monitoring and bathwater cleaning functions. We also expanded businesses beyond the residential market by launching new commercial- and industrial-use products, including a high-efficiency gas water heater that can heat water to 84°C, an industry-first, as well as compact water heating systems with high-efficiency heat pumps. Thanks to these efforts, as well as upward revisions of our suggested retail prices for products, both sales and income increased in Japan in fiscal 2022.

Likewise, in other countries where the Group operates, sales and income increased during the year, and were enhanced further by the depreciation of the yen. In China, despite the temporary impact of the lockdown in Shanghai, production eventually returned to normal and sales recovered. In North America, while procuring parts was difficult for some time, a system was set up to switch production of some parts elsewhere within the Noritz Group, allowing backlogged orders to be filled. In Australia,

imports of tankless water heaters from China resumed, generating steady sales and substantially contributing to income.

As a result of the factors above, consolidated net sales increased 18.4% year on year to ¥210,966 million. Income also increased across the board and exceeded forecasted amounts. Operating income jumped 175.5% to ¥6,889 million, and ordinary income rose 98.7% to ¥7,900 million. Only net income attributable to shareholders of parent company decreased year on year, declining 12.4% to ¥4,800 million.

Meanwhile, Noritz began taking steps toward automating production in the future. As part of a project launched in 2021 to strategically facilitate a digital transformation of the Group, we started reorganizing production systems and optimizing logistics by outsourcing these operations to third-party logistics services.

In fiscal 2023, the final year of our three-year management plan, although the outlook for the operating environment remains unclear, we will continue building a stable supply chain while aiming to ensure dependable procurement and keep rising costs in check. At the same time, the Group will work to rationalize and streamline production by utilizing digital technologies, improve its sales and marketing model, and step up its development of products that help reduce CO<sub>2</sub> emissions and provide solutions for issues facing society today. Having already achieved the plan's original net sales target of ¥192.0 billion, we have raised the target to ¥234.0 billion, or 10.9% above the amount posted in fiscal 2022. We are also making steady progress toward achieving our ordinary income target of ¥8.0 billion.

### Expanding into new businesses

#### Aggressively entering new markets and improving services

I believe the key for the Noritz Group's growth over the coming years will be to bolster its ability to supply commercial-use products to markets not only in Japan but around the world. The market for our products in Japan, especially, is projected to shrink due to the decline and aging of the country's population, so expanding beyond the residential sector into markets that offer potential for growth is an urgent matter for management.

In Japan, the Noritz Group has secured a leading market share of water heaters for small businesses like hair salons and restaurants, as well as for medium-size facilities such as hotels, inns, and public welfare buildings. We are focusing on boosting our share of these markets while marketing high-added-value products to increase profitability. At the same time, we are aggressively entering the market for large-scale facilities such as schools, daycare centers, hospitals, and spas.

To newly enter other markets for commercial-use gas water heaters, we are proactively developing technologies and applications for diverse needs, particularly for factories and plants as well as agricultural- and fisheries-related facilities. We

are also making improvements to our services in various ways, such as digitalizing and centralizing customer information, providing thorough maintenance, and facilitating the replacement of boilers with gas water heaters as a means to decarbonize (see page 11, "Roundtable discussion on expanding beyond the residential sector").

I want the Noritz Group to grow sustainably in the future by continuing to provide people throughout society with "The Simple Comforts of Life" through its products. As we carry out these endeavors, we look forward to the support and understanding of the Group's stakeholders.



President and CEO  
Noritz Corporation

Satoshi Haramaki

## Vision and Strategies

Roundtable discussion on expanding  
beyond the residential sector

## Making inroads in the commercial- and industrial-use water heater markets



From left: Kouichi Ryoutoku, Rena Kusachi, Satoshi Haramaki, Akie Kurakata, Atsushi Mori, and Jun Doi

Expanding beyond the residential sector into new markets for water heaters is one of the Company's growth strategies in its three-year medium-term management plan. By applying its core technologies of combustion control, heat exchange, and fluid control, Noritz aims to expand into these new markets and help them decarbonize.

Outside the residential water heater market, water heaters can be classified into systems for commercial facilities that mainly provide hot water to service providers and users, and for industrial and agricultural facilities that primarily supply hot water to machinery. Noritz is focusing on facilities where it can leverage its strengths and offer added value to businesses by encouraging them to upgrade or replace their equipment with more efficient water heating systems. In this way, the Company hopes to grow as the supplier of choice in the future.

Employees involved in these activities met with the Company's president to share their views in a roundtable discussion held in December 2022.

### The key to expansion into new markets

#### ■ Haramaki

Over two years have passed since the Non-housing Business

Division was set up in July 2020. What kind of progress has been made in that time?

#### ■ Ryoutoku

We have been targeting two main types of facilities. The first are commercial facilities that use water heaters and systems to provide customers with services that use hot water. We have started offering systems to large commercial facilities, and progress has been in line with plans, for the most part. Notably, we have made inroads in the market for common flue systems for large facilities that primarily use conventional boilers. The second type of facilities are industrial and agricultural, but our progress is still at the trial-and-error phase.

#### ■ Mori

There is a much wider range of applications for industrial and agricultural facilities than for commercial facilities. Industrial facilities include everything from food processing plants to automobile and sheet metal factories, for example. Besides industrial facilities, there are many possibilities in the produce, livestock, and fishing sectors, so we need to decide on where to focus.

#### ■ Haramaki

Yes, and we need a basis for those decisions. We should focus on areas where we have relevant expertise. In these markets, our products and systems will differ depending on the places where they are used.

#### ■ Ryoutoku

I have come to really understand that over the past two years. For instance, in April 2022, we released an industrial-use gas water heater that can supply water up to 84°C. It created a buzz because this temperature is the highest ever in the industry. This was also our first product developed specifically for cleaning and sterilization applications. We have negotiated with food processing plant operators, which must manage hygiene based on the Hazard Analysis and Critical Control Point (HACCP) principles. The product has been well received in the market, so we hope to capitalize on that to expand into new markets.

#### ■ Kurakata

We are also promoting products in the United States, particularly for the commercial, healthcare, and agriculture markets. We are targeting facilities like hotels, restaurants, hospitals, and dairy plants.

#### ■ Haramaki

We must examine these markets very closely to determine where we can best leverage our expertise, what kind of value we can offer to customers, and how we can use our technologies to compensate for any weaknesses we have.

### Tapping overseas demand by strengthening ties between organizations

#### ■ Mori

To narrow down new markets to target, our sales teams collect all kinds of market information from various sources, such as trade fairs held around Japan, and then report it to our planning teams.

#### ■ Ryoutoku

Since the planning and sales teams are part of the Non-housing Business Division, information is shared and strategies are developed at a much faster pace than in the past.

#### ■ Doi

The planning teams and product design teams also work very closely together and regularly share information, so the information we need can be accessed quickly.

#### ■ Haramaki

Cooperation between organizations in Japan and other countries is also important for expanding these businesses. Unlike residential water heaters, which vary by country due to climate and consumer lifestyles, commercial and industrial water heaters in Japan and other countries do not differ so much. Hotels and factories, for example, generally need the same types of equipment regardless of their location. For this reason, it should

## Vision and Strategies

It is essential to integrate information from sales locations and product development departments.

### Jun Doi

General Manager  
Non-housing Product Development  
Department  
Domestic Product Supervisory Division  
Research & Development Headquarters



be possible for a model that has been successful in Japan to be marketed in another country, and vice versa. Actually, the business model of delivering assembled products we initiated in Japan this year originated in the United States.

#### ■ Doi

We also recognize the importance of information sharing in the Research & Development Headquarters. If water heaters are made in Japan and then sold in the U.S. market, we must consider what parts to standardize and how those water heaters can be operated there.

#### ■ Kurakata

Technologies from Japan are not only being deployed overseas; the systems, product functions, and business models that were mentioned earlier have also been introduced in the domestic market. I hope efforts are made to share technologies between countries in the future, but to make substantial inroads in overseas markets, we must examine local needs in detail and fully understand the differences between legal and regulatory requirements.

#### ■ Haramaki

Unless you actually go to those countries, there are many things you will not know about them. Likewise, attempts to sell environmentally friendly products in other countries will not make progress unless negotiations are held in those countries.

#### ■ Kurakata

Japanese employees tend to avoid discussions about international operations, but understanding what is happening in other countries is important for many types of jobs. Product developers, for example, probably understand the design and structure of a product once they see it onsite. That makes it much easier to move ahead with whatever needs to be done. I imagine this is often the case with commercial- and industrial-use products, in particular.

The importance of administering and utilizing customer data for management

#### ■ Ryoutoku

Since last year, we have been rapidly increasing the number of maintenance agreements concluded with customers in the commercial and industrial sectors. Downtime caused by a breakdown in the hot water supply is more critical for these customers than for households, so providing maintenance to prevent downtime is a very important service.

#### ■ Mori

To increase the number of maintenance agreements, we offer this service to customers whenever possible based on the idea that it should always be an option for them. In negotiations, we have customers tell us about all the problems and breakdowns they have experienced in the past, and then we draw up a service plan that fits their budget. As a result of this approach, new agreements have increased by around six times over the past year.

#### ■ Doi

That means the maintenance agreements create a win-win outcome for both Noritz and the facilities.

#### ■ Mori

Yes, and we design our proposals in a way that makes this clear to our customers. Noritz mainly engages in business-to-business transactions, so we didn't really have any channels for directly proposing maintenance plans to customers, such as the facility owners and operating companies. To solve that issue, we created many opportunities to contact these customers. Nevertheless, I believe we need to improve customer data management. To propose maintenance plans more effectively to customers, relevant data must be managed with more precision.

Understanding exactly how customers use our products is the key to competitiveness.

### Atsushi Mori

General Manager  
Sales Department  
Non-housing Business Division  
Marketing Headquarters



#### ■ Ryoutoku

Operating customer data systems is an issue for the Company as a whole, not just these new businesses. Building such a system requires a considerable amount of time and costs, and it is difficult to do with just the Company's own resources. Nevertheless, when considering the Company's future, we must get serious about starting this project.

#### ■ Kurakata

Various kinds of manufacturers seem to be struggling with this issue. We want to shift from one-time sales to recurring sales, but we have no data that links one-time sales results to individual customers. Data about sales at dealers, product deliveries, and product repairs are all separate and unconnected.

#### ■ Haramaki

Your points are very insightful. To increase business-to-customer transactions in the future, we will need to refine our methods for directly negotiating with users, including residential users. A customer data system basically serves as a platform for this approach. I now understand that building such a system is an important task for management. I will incorporate this in our next medium-term management plan.

Speed is always important in the global market.

### Akie Kurakata

Senior Manager  
Planning & Administration Department  
Global Headquarters



Creating a virtuous cycle by quickly responding to the market

#### ■ Haramaki

For corporations to grow sustainably, their ability to provide solutions to issues facing the world today is increasingly regarded as important. Two years ago, we launched a project to explore how Noritz can provide such solutions through new businesses by leveraging its strengths. This standpoint is also essential for expanding into commercial and industrial markets.

#### ■ Kusachi

For the Corporate Planning Division, the basis for new business development in those markets is to create benefits for society by drawing on the Company's expertise in areas like temperature control and heat exchange technologies. The population is aging, plastic waste is a problem, and decarbonization is a big challenge, so we hope to offer products and services that offer solutions related to these issues.

#### ■ Ryoutoku

Generally, equipment installed in commercial or industrial facilities emits large amounts of CO<sub>2</sub>. With that in mind, our new hybrid water heating system released in October 2022 can help such facilities reduce their CO<sub>2</sub> emissions, which is a competitive advantage for us. I think this product can really meet the needs of customers.

#### ■ Doi

In my opinion, for a manufacturer to respond to changing market needs, it must always aspire to proactively develop new technologies and products. Creating new things to show to customers is bound to get a response. Without such things, we cannot acquire relevant data from distributors and dealers.

#### ■ Mori

In that regard, the high-temperature gas water heater that was

New needs come to light when pursuing big challenges.

### Kouichi Ryoutoku

General Manager  
Planning Department  
Non-housing Business Division  
Marketing Headquarters



mentioned earlier could be a game changer.

#### ■ Ryoutoku

I'm sure of that. We have received more inquiries than expected from a wide range of business, because a water heater capable of supplying water up to 84°C had never been released. Research had confirmed that demand exists in certain markets, but we didn't know all of the usages until the product was actually put on the market.

#### ■ Doi

Noritz was able to smoothly release it to the Japanese market because the Group has established a solid reputation for the products it has launched overseas. The development time was also relatively short thanks to the use of some technologies possessed by the Company's overseas subsidiaries.

#### ■ Kurakata

In the global market, speed is always important in practically any circumstance. At Global Headquarters, we hope game-changing products like this one will keep coming in the future.

#### ■ Kusachi

Returning to the topic discussed at first, specifying which new markets to enter will be a key factor for expanding into the commercial and industrial sectors in the future. In the Corporate Planning Division, we regard this as the most important matter for the next medium-term management plan. After carefully determining the Company's competitive advantages and medium- and long-term growth strategies, the goal will be to narrow down which specific markets to target.

#### ■ Haramaki

I think we should aim to put commercial- and industrial-use products at the core of our domestic business by 2030. Let's work hard together to make that happen in the future.

Narrow down target markets to those where we can successfully compete.

### Rena Kusachi

Corporate Planning Division  
Planning & Administration Headquarters



Japan's market for residential-use water heaters is shrinking, so for the Company to grow sustainably in the future, it will be essential to expand into other markets that offer excellent potential for growth in and outside Japan. This endeavor has only just begun.

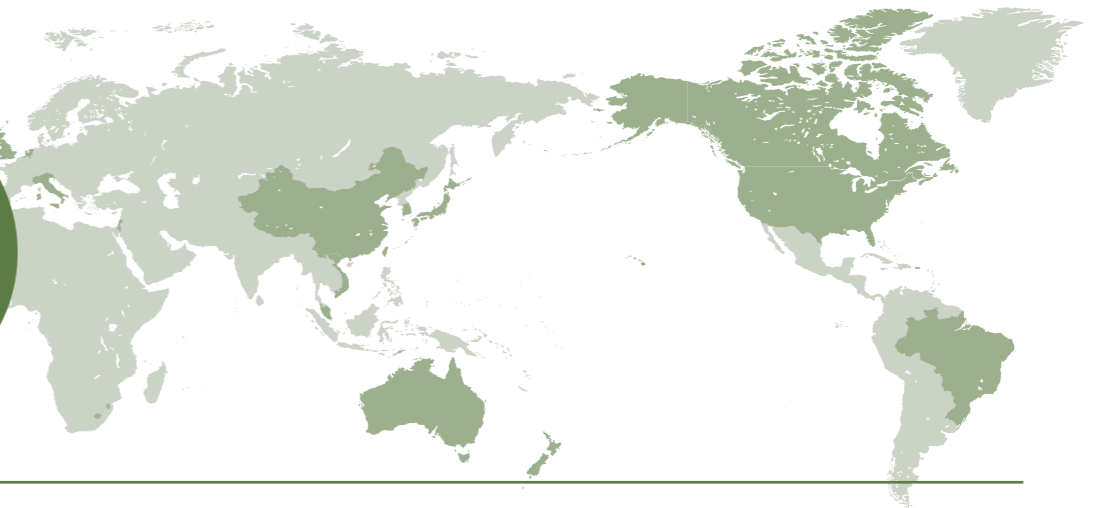


Creating Value through Manufacturing

# Enriching people's lives through R&D and manufacturing capabilities

The Noritz Group has been supporting Japan's bathing culture for many years as a leading manufacturer of water heaters. In the 1990s, the Group began extending its operations globally. Backed by a 70-year history of accumulated R&D and manufacturing capabilities, the Group has been leveraging these strengths to accelerate this global expansion. In line with these efforts, Noritz acquired a stake in Kangaroo International Joint Venture Company, a major water purifier and home appliance manufacturer in Vietnam, making it an equity affiliate. Noritz is aiming to make the most of Kangaroo's sales network and manufacturing plants to gain a foothold in the Southeast Asian market and expand business going forward.

International operations  
**17**  
countries and areas



Noritz's Akashi Main Factory

**Japan**

### Playing a central role in the Group's global expansion

Playing a leading role in the Group's global expansion, the Akashi Main Factory develops and manufactures technically advanced, high-quality water heaters, with annual production of about 1.1 million units. The factory also manufactures and supplies various other products for the Japanese market, including co-generation systems, solar water heaters, and gas cookers.



**Masamine Hirose**  
Director and Senior Managing Executive Officer  
Head of Products Headquarters  
Noritz Corporation

#### Manufacturing facilities in Japan

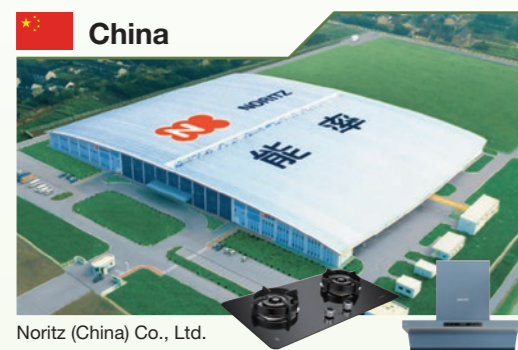
Noritz Corporation: Akashi Main Factory, Akashi Factory, and Tsuchiyama Factory (all in Hyogo Prefecture)  
RB Corporation (Ibaraki Prefecture)  
Harman Co., Ltd. (Osaka Prefecture)

#### Sales offices

Nationwide network of sales branches  
Noritz Contact Center (Hyogo Prefecture)

#### Market strategy

As the market for residential-use products continues to shrink due to Japan's declining number of households and population, Noritz will aim to expand its businesses in other markets. Under the accelerating trend toward carbon neutrality, Noritz will promote the adoption of hybrid water heating systems combining high-efficiency gas water heaters and heat pumps for industrial and commercial use.



Noritz (China) Co., Ltd.

**China**

### Meeting demand for high-quality and high-performance Japanese products

Demand for high-quality and high-performance Japanese products has been growing in China on the back of the country's rising standard of living. While meeting that demand and ensuring the same quality assurance standards as in Japan, Noritz (China) manufactures a wide range of products, including gas water heaters, gas cookers, range hoods, and electric water heaters. The company is selling these products across the country, firmly establishing Noritz as a premium brand in China.



**Eisuke Mori**  
General manager  
Noritz (China) Co., Ltd.

#### Manufacturing facilities in China

Noritz (Shanghai) Home Appliance Co., Ltd. (Shanghai)  
Sakura Bath and Kitchen Products (China) Co., Ltd. (Jiangsu)  
Sakura Shunde Co., Ltd. (Guangdong)  
Dongguan Daxin Noritz Electronics Co., Ltd. (Guangdong)

#### Sales offices

Noritz (China) Co., Ltd. (Shanghai)  
Noritz Hong Kong Co., Ltd. (Hong Kong)

#### Market strategy

Group companies will continue marketing high-value-added residential-use gas water heaters in Greater Shanghai while expanding sales to tier 3 and 4 cities. They will also aim to enhance Noritz's brand power by stepping up marketing of kitchen gas cookers and range hoods.



North America NRA

**North America**

### Aiming to be number-one in tankless water heaters

As storage-type water heaters are most common in North America, Noritz America Corporation is promoting the popularization of tankless (instantaneous) water heaters, which offer exceptional energy savings and environmental benefits. The company is aiming to be number-one in the tankless water heater market by promoting the ease in which customers can switch over from tank-type water heaters. Noritz America Corporation began selling heating products in 2016 and has been stepping up its business expansion in North America, including Canada.



**Jay Hassel**  
President and CEO  
Noritz America Corporation

#### Manufacturing facility in the United States

PB Heat, LLC (Pennsylvania)

#### Sales offices

Noritz America Corporation (California)  
Facilities Resource Group LLC (Michigan)

#### Market strategy

Anticipating growth in the tankless water heater market, which has been booming over the past two decades, Noritz America will aim to expand business in North America by accelerating development of eco-friendly products to meet increasingly strict environmental regulations, and by setting up logistics and sales networks.



Dux Manufacturing Limited

**Australia**

### Combining the strengths of Dux Manufacturing and the Noritz Group

Noritz Corporation started operations in Australia in 2014 when it acquired Dux Manufacturing Limited, a leading manufacturer of storage-type water heaters with over 100 years of history. Since then, Dux Manufacturing has expanded business and broadened its product lineup by including tankless (instantaneous) water heaters—Noritz's specialty—with its conventional electric and gas storage-type water heaters.



**Simon Terry**  
CEO  
Dux Manufacturing Limited

#### Manufacturing facility and sales office in Australia

Dux Manufacturing Limited (New South Wales)

#### Market strategy

Dux Manufacturing will continue expanding its business by marketing tankless water heaters along with its mainstay storage-type water heaters. The company will also expand product applications for commercial facilities while building on the success of its market entry into New Zealand.



Creating Value through Manufacturing



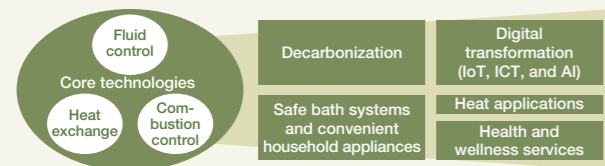
**Research and Development**

Broadening technological applications to provide solutions and help achieve carbon neutrality

Founded on the belief that quality baths bring joy to people, the Company offered the Noritz Bath equipped with water heaters to Japanese consumers in 1951 with the hope of raising living standards in the country. Still cherishing that belief, the Noritz Group is not only providing comfortable baths that customers desire but also developing even safer and more dependable products, including bath systems with monitoring functions for reducing bath-related accidents, bacteria-killing functions for allowing bathwater to be safely reused, and remote controllers and smartphone apps designed for greater convenience.

Looking ahead, Noritz will strive to establish technologies that enable products to use a wider range of energy sources with a view to help achieve carbon neutrality in the future.

■ Applications of core technologies



**Comment from a member of the Research & Development Headquarters**

Along with our efforts to put eco-friendly products on the market, we are trying to reduce the environmental burden of our R&D operations and increase their efficiency.



**Core technologies**

**Applying combustion control, heat exchange, and fluid control technologies to develop reliable and comfortable baths**

The Noritz Group has been conducting research and development for many years with the goal of attaining the world's highest level of bathing comfort by leveraging its stable hot water supply technologies and combining its three advanced core technologies—combustion control, heat exchange, and fluid control. Through its combustion control technology, Noritz aims for precise control and consistent burning of gas to efficiently burn it in the combustion chamber and limit NOx emissions from the combustion. Noritz applies its heat exchange technology to develop heat exchangers that are compact, highly efficient, corrosion-resistant, and very reliable. Its fluid control technology is applied to develop control devices and sensors designed to maintain consistent bathwater temperature for more comfortable baths. In recent years, Noritz has been looking beyond the residential bath system market in search of ways to develop these core technologies for new applications in the commercial and industrial markets.

**Optimizing R&D**

**Using analytical tools to maximize development efficiency**

The Noritz Group has been developing modular components with analytical tools to ensure consistent quality at the time of product assembly, including automated operations. It optimizes the balance between quality, costs, and its ability to secure a stable supply of raw materials when modularizing the components in order to handle soaring material prices, reduce procurement-related risks, and adopt new parts with the latest technologies.

Noritz uses a supercomputer to conduct simulations at the design stage, assesses product performance more precisely in a short period of time and eliminates remodeling at the final design stage. The Company is striving to improve development processes and increase the speed of product development and traceability.

**Innovation**

**Eying a wider range of industries while developing new technologies through open innovation**

In line with its mission to provide “The Simple Comforts of Life,” the Noritz Group conducts research and product development in response to diverse consumer and societal needs as well as energy consumption trends. Accordingly, it intends to develop relevant software for these purposes, and create new products and services for the decarbonization, digital transformation, and health and wellness markets.

In 2022, Noritz accelerated these endeavors through collaborative activities with Kobe University, the University of Hyogo, and a national project led by the Japanese government. By promoting open innovation in joint research and business startup projects, the Company aims to create new technologies in the future.

As part of its efforts to foster an organizational culture that takes on challenges, Noritz has set up a program to solicit innovative ideas from employees, and initiated the second phase of the program in 2022.

**Localized product development system**



**Enabling group companies to speedily develop products for the local market**

Aiming to develop products that consumers will choose anywhere in the world, Noritz has been facilitating cooperation between its subsidiaries in several countries and its R&D and quality assurance departments in Japan. For example, since entering China's vast market in 1993, the Noritz Group has been expanding its business by developing products tailored specifically to the needs of local consumers. As water heaters are mostly installed inside buildings in China (unlike Japan where they are usually placed outside), the Group paid particular attention to product design, especially since many consumers choose these products themselves at large appliance retailers. This makes it important to quickly develop and release new models before they become dated.

Noritz (China) has posted rising sales of its S-series of residential water heaters since the product launch in 2020. The series was jointly developed by the subsidiary's members, who have a solid grasp of local needs, and employees from Japan specializing in Noritz's advanced technologies. In the future, the Noritz Group plans to transfer such technologies to its companies in China to enable them to independently handle every stage of operations from product development to sales.

Creating Value through Manufacturing



## Reducing cost prices and raising quality by using digital tools to revamp production

The Noritz Group makes use of a wide range of standards, indices, and management systems to ensure the efficiency of its manufacturing operations and to supply safe, dependable, and high-quality products to customers. With about 20 million households already using Noritz products in Japan, the Group has been working to offer safe and reliable products to its global customer base by raising safety standards to comply with international quality standards. Furthermore, the Group is working closely with its business partners across the entire supply chain to raise product quality even further with the goal of completely eliminating product defects, while upgrading its manufacturing plants with digital tools and advanced systems to speed up production and shipments.



**Comment from a member of the Production Headquarters**  
 Making our factories easy to work in is important for ensuring safe and dependable products for customers. We also need to consider the environment with a view to becoming carbon neutral. Therefore, we take steps to raise awareness and incorporate environmental improvements in our routine improvement activities.

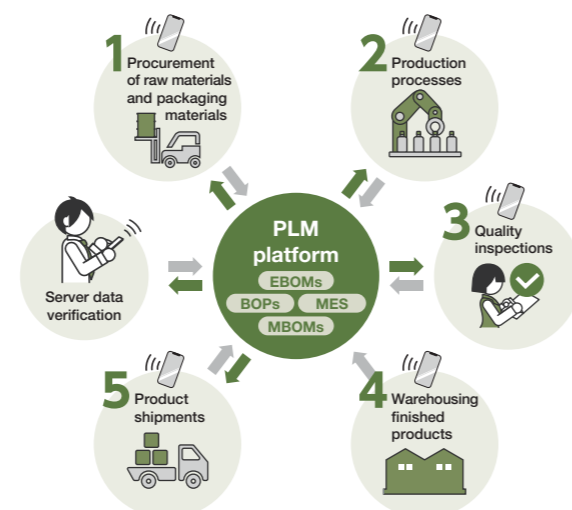
Promoting a digital transformation

**Upgrading production processes throughout the supply chain**

In 2021, Noritz launched a strategic project for digitally transforming its operations and designated the systematic restructuring of its supply chain as a priority issue. Accordingly, it has been centralizing information deemed important for management decisions and integrating various types of production- and sales-related data across the entire Noritz Group, with the goal of facilitating groupwide reforms related to cost price reductions, automation, business continuity planning, and other matters through data-driven management. It is also working to lower procurement-related risks by building a network of suppliers while updating its Noritz Production System\*.

\*The Noritz Production System combines just-in-time manufacturing with built-to-order manufacturing. This unique system generates bills of process (BOPs) to determine the manufacturing processes for a specific product, and manufacturing and engineering bills of materials (MBOMs and EBOMs) to specify all the parts required for a product. It also includes a manufacturing execution system (MES) for managing production turnarounds, indicating variations in operations, and collecting production-related data.

**Digitally transforming product lifecycle management (PLM)**



Comprehensive quality assurance

**Automating production and manually conducting comprehensive inspections to ensure product safety and dependability for customers**

The Noritz Group takes steps to improve quality at the manufacturing stage so that customers can depend on its products for the comfort they bring to everyday life. For example, the Group makes effective use of digital tools in quality inspections, and has installed automated conveyor systems to step up automation. At the same time, the Group assures quality by having employees manually conduct all inspections, including inspections of gas leaks at the final stage of production. In addition, the Group is digitizing information on manufacturing processes to build a system for promptly responding to equipment breakdowns and quality problems whenever they arise.

Expanding globally 🇯🇵 🇨🇳 🇺🇸 🇦🇺

**Making the most of production plants around the world to tap growing demand**

The Noritz Group operates production plants in Japan, China, the United States, and Australia, and leverages the strengths of each plant to develop and manufacture products. In Australia and the U.S., where environmental awareness is relatively high, tankless water heaters have rapidly gained popularity. Therefore, to boost its supply of tankless water heaters with a premixed burner design to the U.S. market, the Group expanded its facilities in Japan with specialized production lines equipped with the latest automation technologies, such as quality monitoring camera systems. Likewise, the Group's production plants in China began shipping new products to Australia from December 2021. Recognizing that market entry begins with exporting, the Group has been creating arrangements like these to optimize the international production and supply of its products according to market demand while cultivating new markets, which it regards as an important task for its international operations.

Creating Value through Manufacturing



**Sales and Services**

Identifying users' needs and changing trends to offer better customer support and product maintenance

The Noritz Group has earned the trust of customers through its partnerships with a wide range of sales outlets around the world. It has also been making use of websites and Internet of Things (IoT) technologies in recent years to provide various services and information directly to customers. By promptly understanding what users need and identifying changing trends, the Group will continue working to offer value.



**Comment from a member of the Marketing Headquarters**

As energy prices rise steeply, consumers are increasingly demanding energy-saving products. By listening closely to consumers and identifying their needs, we are doing our best to have them choose our products.



**Sales activities during the COVID-19 pandemic**

**Creating ways for customers to experience the same benefits as in-person events**

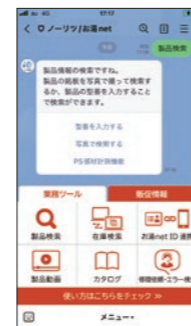
For the Noritz Group, meeting consumers directly is an important way to promote the safety, dependability, and convenience of its products. Amid the prolonged COVID-19 pandemic, however, sales and marketing activities were held remotely due to restrictions on events and gatherings. Nevertheless, Noritz created ways for customers to experience the same benefits as in-person events. For example, when Japan's largest trade show for gas appliance manufacturers switched to an online format during the pandemic, the Company developed a system for holding online exhibitions. Its sales outlets and dealers then used the system to maintain relations with customers while also helping prevent the spread of COVID-19 infections.



**Service staff support app**

**Making the most of digital technologies to improve services**

Noritz has created an official account on the popular LINE app to provide daily support to the service staff of its product dealers in Japan. The account instantly provides information on suitable replacement models of gas water heaters after a user inputs the model name of the current water heater in the chat screen or uploads a photo of the product nameplate. This enables service personnel to quickly propose replacement models. The app can also be used for requesting repairs, scheduling service appointments, and informing customers when repair work is finished. In 2022, a large number of business partners began using the app after the Company encouraged users to request repairs through a special campaign.



**Customer support**

**Offering beneficial services to build bonds with customers**

Noritz provides a variety of after-sales services as a means to maintain good relations with its customers. Among these services, Noritz offers a free membership website in Japan for regular customers, as well as consumers who are considering purchasing its products. Recognizing that more people have been staying home during the pandemic in Japan, the Company also began offering a service featuring reminders and tips for more comfortable bathing through its smartphone app (called Ofuro no Jikan).



Members' webpage



Ofuro no Jikan

**After-sales services**



**Raising customer satisfaction with prompt, helpful, and friendly support**

In Japan, the Noritz Contact Center handles customers' concerns and inquiries in a helpful and friendly manner, and can promptly respond to customers during times of emergency. It has also adopted an AI-based voice assistant system to improve the quality of its customer service and shorten call waiting times. Various departments in the Noritz Group examine and make use of customer feedback collected by the contact center to make improvements and incorporate the views of customers in product development.

The Noritz Group has established similar contact centers in China, the United States, and Australia as part of its efforts to improve after-sales services. During the pandemic, Noritz America's opening hours remained unchanged as customer service staff worked from home. The Group will continue taking steps to improve the quality of all of its services, from sales through to after-sales services, in every country where it operates.

# Sustainability

## Aiming to maintain customer loyalty

### Material issues

Important goals to achieve by 2023 as part of the Long-Term Social and Environmental Vision towards 2030

Noritz specified its material issues in 2015 and periodically revises them in consideration of changing trends in society and its business environment. In tandem with its revision in 2020, Noritz created a long-term social and environmental vision extending up to 2030, and a new medium-term management plan spanning from 2021 to 2023. As a framework for accomplishing its objectives by 2030, Noritz set 21 goals for 10 categories of material issues grouped under quality, the environment, society, and corporate governance. In each of these areas, the Noritz Group will pursue strategic initiatives that integrate societal and environmental issues with its business activities to achieve the goals by 2023.

#### Quality



<b>Product safety and reliability</b>	Eliminate product accidents
	Minimize downtime in production
<b>Global technological applications</b>	Bolster global competitiveness
<b>R&amp;D</b>	Maximize returns on investment in R&D

More information on pages 25 and 26

#### Environment



<b>Initiatives against climate change</b>	Reduce CO <sub>2</sub> emissions from operations and products
	Develop environmentally friendly products
	Promote and market environmentally friendly products
	Promote the Company's water heater recycling business
<b>Resource recycling</b>	Reduce waste through recycling
	Optimize logistics

More information on pages 27 to 30

#### Society



<b>Supply chain management</b>	Promote socially responsible procurement
<b>Development and promotion of products that solve social issues</b>	Cultivate new applications
	Refine existing technologies
	Promote products that benefit people's lives
	Manage corporate culture through change
<b>Employee engagement</b>	Train employees for innovation
	Promote quality and ESG initiatives in-house
	Facilitate work-style reforms

More information on pages 31 to 34

#### Governance



<b>Compliance</b>	Raise awareness of compliance among employees
	Enhance risk management
<b>Risk management</b>	Ensure a stable supply of products

More information on pages 35 to 38

Throughout its 70-year history, the Noritz Group has continued to provide customers with safe and reliable products that make their lives more enriching and comfortable. To ensure that customers continue choosing Noritz products, the Group is working to create value by pursuing environmental, social, and corporate governance (ESG) initiatives while placing the highest importance on quality. At the same time, the Group is aiming to provide new value by contributing to the accomplishment of four of the United Nations' Sustainable Development Goals through its most relevant business activities: Goal 9 ("Industry, Innovation and Infrastructure"), Goal 12 ("Responsible Consumption and Production"), Goal 13 ("Climate Action"), and Goal 17 ("Partnership for the Goals").

Basis for creating comfort for customers



### Long-term social and environmental vision towards 2030

#### Fulfill our responsibility to the global environment



The Noritz Group will strive to help solve environmental issues by actively developing and providing high-quality products that save energy and conserve resources.

#### Aim to grow with our partners



The Noritz Group will collaborate with business partners to help solve issues facing society and promote sustainable growth together.

#### Consider the future with our customers



The Noritz Group will engage with customers to envision ways to make their lives more comfortable in the future through innovations.

Sustainability

# Sustainability Quality

## Ensuring product safety and dependability

Placing the highest priority on quality, the Noritz Group strives to provide products and services that are a step ahead of the competition. In its business activities, the Group incorporates feedback from customers while paying close attention to raising the quality of its products and services.

The Group's products burn gas, so a serious accident could potentially occur if a product has worn out with age or has just a small defect. Furthermore, given the vital importance of hot water for people's lives, customers would be seriously inconvenienced if their hot water supply was cut off. For these reasons, the Group always puts quality first to ensure that customers can use its products safely every day.

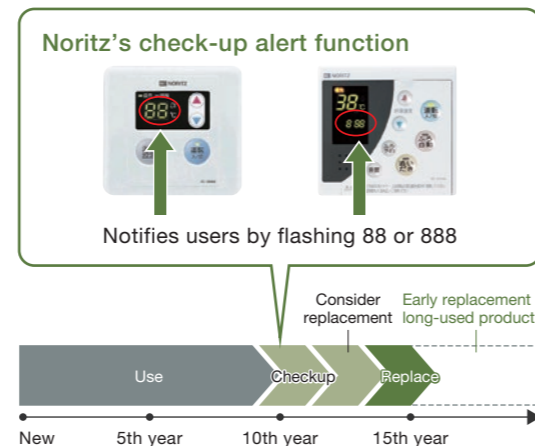


### Ensuring safety and reliability for users—measures for eliminating product accidents

#### Carrying out product safety inspections and promoting early replacement to prevent accidents involving aging water heaters

##### Water heaters equipped with inspection alert functions

Water heater accidents have been on the rise in Japan because many of these products are wearing out after many years of use. Aiming to eliminate such accidents, Noritz equips its products with an alert function to notify users that an inspection is needed. The number "88" or "888" will be displayed on the product's remote controllers if the period or number of times that the heater has been used exceeds its specified service life. The inspections are effective for preventing and reducing the possibility of product malfunctions, and provide opportunities for customers to consider purchasing a more convenient or economical replacement model.



More details are available on the following website (Japanese-language only):

<https://www.noritz.co.jp/info/houtei/tenken.html>



##### Product safety recognized with award from the Japanese government

In 2022, Noritz was recognized for the priority it places on quality and its commitment to providing safe and dependable products with a Best Contributor to Product Safety Award in the Large Manufacturer and Importer category from Japan's Ministry of Economy, Trade and Industry. The Company was highly evaluated for equipping products with inspection alert functions to prevent accidents caused by their wearing out, and with remote bath monitoring functions to help prevent bath-related accidents, as well as for having products and machinery on manufacturing lines manually inspected by qualified personnel.



### Ensuring safety and reliability for users—measures for eliminating downtime

#### Ensuring a continuous water supply with interconnected networks of water heaters

Recognizing that equipment stoppages caused by breakdowns affect customers' operations, Noritz has enabled its commercial water heaters to be installed in a group and interconnected as a network, which is not possible with large boilers. Consequently, if one water heater malfunctions, the network can continue operating and avoid the worst-case scenario of an interruption in the hot water supply. In addition, these systems can be monitored 24 hours a day with IoT devices that detect system errors and automatically provide information about the breakdown. In Japan, that information is sent to the Noritz Contact Center, and in other countries, error information is sent to service staff via smartphones or other devices, enabling prompt repair work. Aiming to reduce downtime even further, Noritz is developing the system to detect possible equipment breakdowns in advance.



### Deploying technologies globally—enhancing international competitiveness

#### Leveraging Noritz's manufacturing capabilities and applying Japanese technologies globally

The Noritz Group has been meeting demand from both established and new markets while working to boost its international competitiveness. Toward these ends, the Company promotes local production and joint development while striving to integrate its technologies in Japan with the proprietary technologies of its group companies around the world. For example, Noritz began sharing technical expertise with its affiliate in Vietnam, Kangaroo International Joint Venture Company, in 2022. In the same year, to help members of its Australia-based subsidiary, Dux Manufacturing Limited, revamp manufacturing equipment, Noritz had them study its water heater production lines in Japan.

### Technical development—maximizing development efficiency

#### Using computer simulations to ensure dependable and consistent product performance in any environment

Water heaters can be installed in all kinds of environments. Therefore, to develop products that can perform dependably and consistently under practically any condition, Noritz assesses the performance of various products at the design stage using supercomputer simulations.

By using the simulations to analyze the combustion and water discharging performance of water heaters, the Group aims to improve the performance of their designs. The simulations have also been helpful for making product improvements like reducing noise levels when the equipment is running. The Group will continue applying such advanced digital tools to raise the quality of the products it supplies to the market.

#### Message from an executive officer

#### Constantly fostering a deep awareness of quality to ensure our customers continue choosing Noritz

Even a small defect in one of Noritz's products can lead to a serious accident. Therefore, employees involved in product planning, development, procurement, production, sales, or after-sales services must always stay focused on quality. The Corporate Quality Assurance Headquarters plays a role in maintaining this awareness.

The public has been demanding higher quality standards in recent years, so we not only place importance on products and services themselves, but also on the quality of the workmanship that goes into them. Top priority must be given to the basics of quality, such as checking all basic procedures and preventing oversights, as well as compliance with regulatory requirements, so we strive to keep all employees constantly aware of these matters in the workplace. It is also vital to maintain a broad perspective on compliance, including whether practices deviate from accepted social norms and ethical conduct. Products can break down or stop operating safely after wearing out, so to protect users, we manage risks and incorporate quality in each process of the value chain as part of our quality management system. Our goal is to ensure that all products supplied by the Noritz Group can be used safely and dependably by customers, so they feel satisfied and continue choosing us in the future.

**Junya Makita**  
Senior Executive Officer  
Head of the  
Corporate Quality Assurance  
Headquarters



Sustainability

# Sustainability Environment

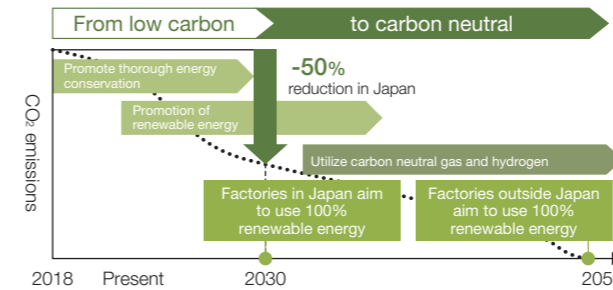
## Towards achieving carbon neutrality by 2050

As a group of companies that deals in gas water heaters and kitchen appliances that emit CO<sub>2</sub>, the Noritz Group understands the growing importance of reducing CO<sub>2</sub> emissions, especially now that Japan has announced its goal of becoming carbon neutral by 2050 amid rising environmental awareness. Recognizing this as an opportunity, Noritz is accelerating its efforts to develop and market products that emit less CO<sub>2</sub> and use a wider range of energy sources to help achieve the 2050 goal and contribute to a more sustainable planet.



### Fighting climate change—reducing CO<sub>2</sub> emissions

#### Committing to the RE100 goal of securing all electricity from renewable sources



In 2020, Noritz became the first company in the gas and oil equipment industry to join the global initiative RE100. As a member, Noritz has committed to the RE100 goal of securing 100% of its electricity from renewable sources. It will work to achieve this at all factories in Japan by 2030 and all of the Group's factories outside Japan by 2050. Toward this end, Noritz plans to invest about ¥40 billion over the years up to 2030 in new equipment and facilities in order to conserve more energy, generate electricity from renewables, optimize logistics, and reduce CO<sub>2</sub> emissions.

### Promoting resource recycling—optimizing logistics

#### Shifting to third-party logistics\* to reduce environmental burdens

Effective from March 2023, Noritz consolidated eight of its shipping facilities in Japan to two and began outsourcing shipping operations to third-party logistics services. In this way, the Company intends to reduce its environmental burden by maximizing the efficiency of shipments of products by truck, as well as keep logistics costs in check and improve its business continuity planning. Noritz can also share data with the logistics services in real time, thereby facilitating product traceability and digitizing of operations from manufacturing to deliveries.

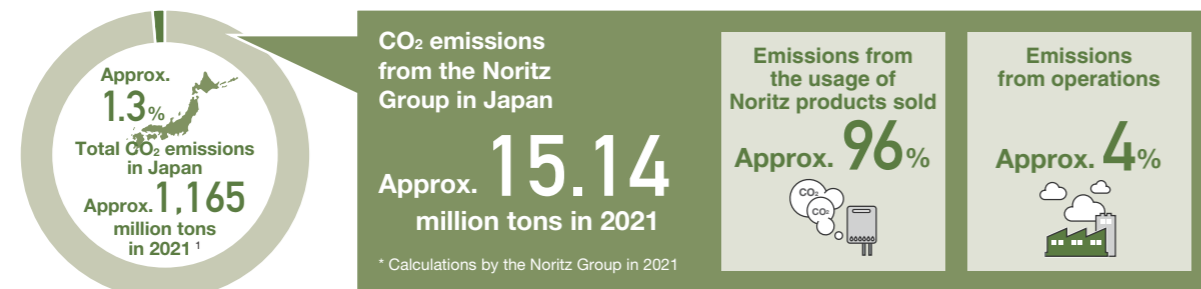
\* Logistics services outsourced by a transport company to handle batches of shipments.



#### Container shipment volume increased by 30% with slip sheet pallets

For container shipments from Japan to the United States, Noritz has switched from using plastic pallets, which must be 12.5 centimeters thick to be loaded by forklifts, to slip sheet pallets that are only about 1 millimeter thick. This has made it possible to stack products in three layers on a pallet in some cases or place optional items, such as remote control units or ventilation components, utilizing the space on top of two-layer products.

Annual CO<sub>2</sub> emissions from the Noritz Group's products (at the usage stage) and operations in Japan account for about 1.3% of the country's total CO<sub>2</sub> emissions. Therefore, the Group recognizes that it has a responsibility to the country to reduce these emissions going forward.



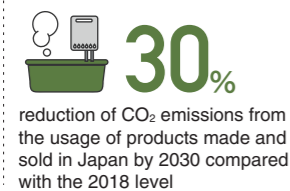
Notes: 1. Preliminary data of Japan's greenhouse gas emissions in 2021 provided by the Greenhouse Gas Inventory Office, National Institute for Environmental Studies

### Fighting climate change—reducing CO<sub>2</sub> emissions and promoting resource recycling

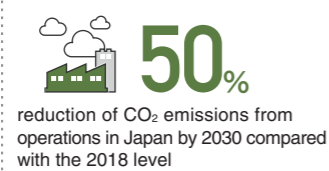


On the momentum of receiving a score of A- from the CDP, Noritz is stepping up initiatives aimed at helping the world decarbonize

#### Building a low-carbon economy through products



#### Building a low-carbon economy through business activities



#### Aiming for carbon neutrality



#### Facilitating resource recycling through products and business activities



The Noritz Group is taking proactive measures to cut down on waste, recycle resources, and prevent environmental pollution while also reducing CO<sub>2</sub> emissions from its products and operations. In recognition of these efforts, Noritz received a score of A- for climate change leadership in 2022 from the CDP, an NPO that runs a global disclosure system for managing environmental impacts.

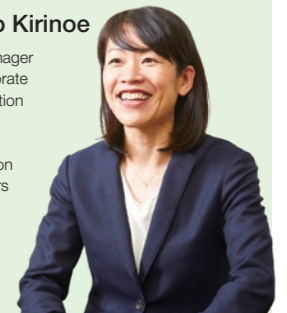
#### Message from a manager

#### Saving energy and cutting costs with the goal of realizing net zero CO<sub>2</sub> emissions

Noritz has joined the RE100 and committed to its goal of securing 100% of its electricity from renewable sources by 2050. At first, we gave the highest priority to making steady progress in conserving energy as a means to cut costs, but that changed altogether after energy prices rose steeply last year. Now we must make decisions on how to increase our use of energy-saving equipment as soon as possible in order to control costs. Raising awareness among all employees and speeding up related initiatives are also necessary. Noritz began addressing environmental problems early on, and was the industry's first manufacturer of gas- and oil-fired equipment to acquire Eco-First certification from Japan's Ministry of Environment. By participating in the Eco-First Program and RE100, and by integrating all of our environmental activities, including compliance with ISO 14001 standards, we will work hard to achieve our goal of net zero CO<sub>2</sub> emissions.

#### Tomoko Kirinoe

General Manager of the Corporate Communication Division Planning & Administration Headquarters

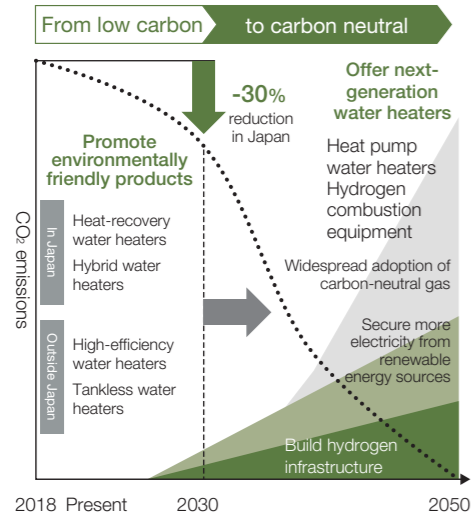


Sustainability

# Sustainability Environment

Fighting climate change—developing environmentally friendly products

Developing next-generation water heaters to help build a decarbonized economy



Efforts are currently underway in Japan to shift to a low-carbon economy using existing infrastructure. Against this backdrop, Noritz is developing more environmentally friendly products, including heat-recovery and hybrid water heaters, while actively promoting an industry-wide shift to high-efficiency water heating systems.

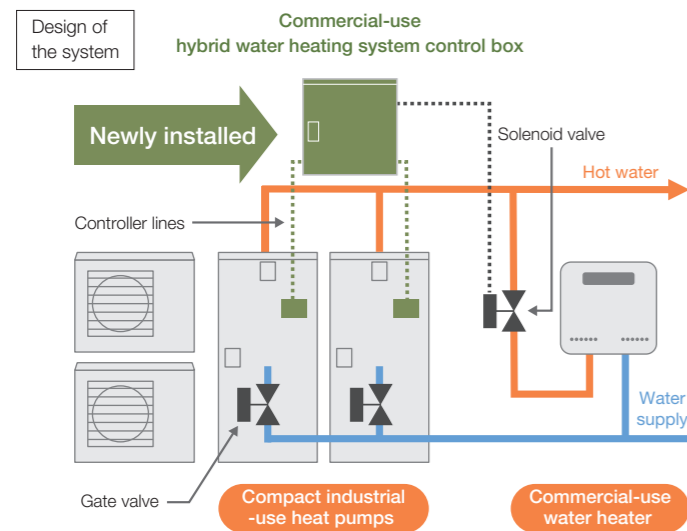
In order to achieve carbon neutrality in the future, Noritz is working to develop products that emit no CO<sub>2</sub> through advanced technological applications, including the adoption of carbon-neutral fuels that gas producers plan to use in the future. The Company is focusing on developing hydrogen combustion technologies, in particular. While hydrogen combustion is possible under laboratory conditions, integrating it into mass-produced equipment has been challenging. Nevertheless, Noritz has been making progress with both mixed and non-mixed hydrogen combustion technologies, and is currently preparing to release products in various countries in compliance with their respective technical standards and regulations. Along with these technologies, Noritz is also developing applications for heat pumps and renewable energy.

To facilitate these endeavors, the Company has earmarked about ¥30 billion for R&D through to 2030.

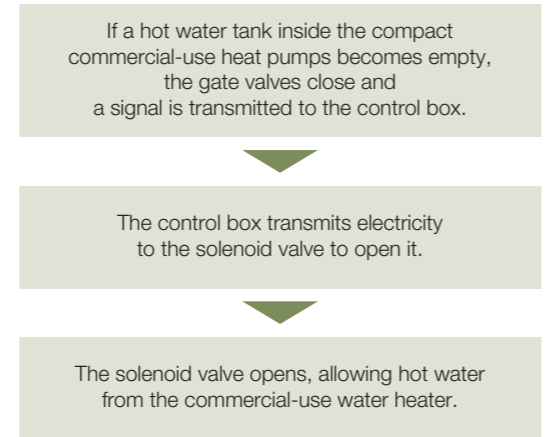
Fighting climate change—marketing environmentally friendly products

Noritz is helping build a low-carbon economy and reduce primary energy consumption by offering a lineup of commercial-use hybrid water heating systems that more efficiently use gas and electricity

Hybrid water heating systems for businesses that need to conserve energy



How the backup hot water supply works



To promote decarbonization and respond to the growing need for electrification at commercial facilities, Noritz added a compact commercial-use heat pump to its product lineup in 2022. This product can be combined with Noritz's commercial-use water heater and control box to form a hybrid water heating system capable of providing a commercial facility with a backup supply of hot water. Some of these facilities run out of hot water when usage exceeds expectations, especially when hot water consumption fluctuates greatly by the day or season. Since Noritz's commercial-use water heaters can be used as a backup, businesses can prevent work stoppages and downtime caused by hot water disruptions while keeping installation costs at a minimum. The heat pumps are also compact and highly efficient, which helps users reduce environmental impacts.

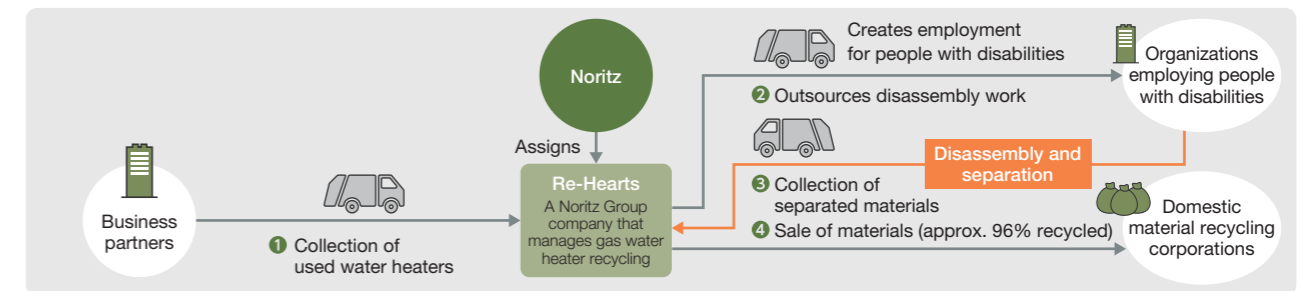
Three-unit water and space heating system helps houses and residential buildings save energy



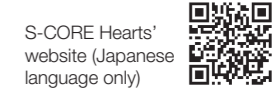
Supplying hot water and heating accounts for about 60% of the energy consumed by households in Japan, so improving the environmental performance of heating systems is essential. In Japan, conventional hybrid water and space heating systems are comprised of two units: a hot water tank with a built-in water heater, and a heat pump. Aiming to reduce overall energy consumption, in 2021, Noritz began separating this setup into three units: a water heater, a hot water tank and a heat pump. This new compact system has been facilitating the widespread adoption of net zero energy housing being promoted by the Japanese government. Moreover, since the system can be fitted inside a condominium unit's gas meter cabinet, it can be installed for net zero energy condominiums. In 2022, the product was recognized for its energy-saving performance with an award from the Energy Conservation Center, Japan.

Promoting resource recycling and water heater recycling

Creating employment opportunities for people with disabilities through initiatives for recycling water heaters




Recognizing the growing importance of realizing a circular economy, Noritz has set up a system for recycling water heaters while also creating employment opportunities for people with disabilities. The recycling work is managed by Re-Hearts K.K., a subsidiary of a Noritz Group company called S-CORE Hearts K.K. that was established for the purpose of employing people with disabilities. Re-Hearts collects used water heaters from its business partners and outsources the disassembly and separation work to organizations that employ people with disabilities, thereby supporting their independence while contributing to resource recycling. As of November 30, 2022, about half a million water heaters have been recycled since this system was first set up in 2009. Plans have been put in place to expand operations in the future with the goal of helping build a circular economy.



**Message from an executive officer** | **Speeding up technological development for a new phase of decarbonization**

Noritz's main products are water heaters, and they emit CO<sub>2</sub> by burning gas and consuming electricity. Therefore, we are working hard to reduce the emissions of these products and switch to different sources of energy. Among them, methanation and renewable energy sources like hydrogen are attracting attention as possibilities, but which will become mainstream in the future is currently unclear because regulations, infrastructure, and other relevant circumstances differ by country. To ensure that we can switch to various kinds of energy sources in the future, we will strategically invest in technological development when the time is right to broaden the scope of our technological expertise and open up possibilities for applying our core technologies.

**Atsushi Yoshimoto**  
 Managing Executive Officer  
 Head of the Research & Development Headquarters





## Sustainability

Sustainability  
SocietyProviding useful solutions to social issues  
through products and services

Noritz was founded on the belief that quality baths can bring joy to people. The Company continues to apply that approach in its business activities and offer useful solutions to customers through its products and services. For example, it has developed baths with monitoring functions to help reduce bath-related accidents, which have been on the rise in Japan as its population ages. Noritz also designs kitchen ranges to be simple and convenient to use for working families. In these ways, the Company provides products that people need today, and because these products are used on a daily basis, it continues updating them in line with societal trends.



## Supply chain management—promoting socially responsible procurement

The Noritz Group works closely with all of its suppliers to grow businesses together and offer solutions to social issues



Suppliers Businesses Communities

## Mutually beneficial procurement

As a finished product manufacturer, the Noritz Group works in partnership with all of its suppliers to procure materials in a socially responsible manner that mutually benefits the suppliers, businesses, and communities. The Group requires suppliers to follow its socially responsible procurement guidelines and monitors their compliance with human rights, child labor prevention, and conflict minerals by administering surveys and the United Nations Global Compact self-assessment tool every year.

## Human rights initiatives

## For the well-being of all people involved in the Group's business activities

The Noritz Group formulated its Human Rights Policy based on various international human rights standards\*. In accordance with this policy, the Noritz Group has established relevant guidelines and systems to ensure that the rights of all stakeholders and others who engage with the Group are respected and secured. Furthermore, the Group provides human rights training to employees, has put in place internal and external whistleblowing systems, and has set up an organization to monitor matters related to human rights.

\* The Universal Declaration of Human Rights, the International Covenants on Human Rights, the ILO Core Labor Standards, the Ten Principles of the United Nations Global Compact, and the United Nations Guiding Principles on Business and Human Rights, etc.

## Employing and supporting the independence of people with disabilities

As part of its efforts to promote a corporate culture that values diversity and fulfill its corporate social responsibility, the Noritz Group fosters workplaces that allow employees with disabilities to play an active role

Noritz's group company S-CORE Hearts K.K. strives to provide stable employment for many people with disabilities by creating jobs in a variety of businesses. In 2021, it was recognized by Japan's Ministry of Health, Labour and Welfare among small to medium-sized enterprises for its outstanding efforts to facilitate and provide stable employment of people with disabilities. S-CORE Hearts established Smile Hearts K.K. in 2015 as a group company providing full-time factory jobs, and outsources used water heater disassembly work to organizations employing people with disabilities as part of its efforts to facilitate recycling. As of June 30, 2022, the percentage of employees with disabilities was 3.55% of the Group's entire workforce in Japan.



Noritz has joined The Valuable 500, a global initiative promoting disability inclusion

## Development and promotion of products that solve social issues

—Cultivate new applications/Refine existing technologies/Promote products that benefit people's lives

## Expanding beyond residential markets by developing useful products and solutions

Besides manufacturing water heaters for the residential market, Noritz is actively expanding into the industrial, commercial, and agricultural markets by developing products that offer new value and solutions for the rapidly changing challenges facing Japan today. For example, in 2022, the Company launched an industrial-use gas water heating system that can supply hot water up to 84°C. This meets the needs of food processing companies that must clean and sterilize equipment at temperatures above 80°C in accordance with Japan's revised law concerning food sanitation, which requires compliance with HACCP management standards for food safety.

Noritz is also supplying commercial-use water heaters equipped with a bath monitoring function that can be used by residents of elderly care facilities in their private bathrooms. By making it easier for staff to guard against bath-related accidents, the products have been helping address the chronic shortage of caregivers in Japan.

In addition, Noritz has been helping fruit and vegetable farmers increase yields by supplying low-temperature CO<sub>2</sub> generator systems inside greenhouses. By applying its technological expertise, the Company jointly developed the system with a major agricultural equipment manufacturer.



Bath monitoring app available for smartphones

## Responding to the need to eliminate bacteria amid the spread of infectious diseases

## Providing hygienic and safe bathing

Noritz has developed next-generation water heaters equipped with UV lighting units that can kill 99.9%\* of bacteria in bathwater, allowing users to bathe hygienically with peace of mind. These products are even more important today as consumers have become increasingly aware of the need to eliminate bacteria since the outbreak of COVID-19 in 2020.



\* 99.9% of bacteria were killed under laboratory conditions according to test results by the Hygiene & Microbiology Research Center (test code 28D-BT-019). The tests measured the number of bacteria in water before and after a UV lighting unit was applied at a flow rate of 9.5 liters per minute.

## Helping reduce cooking time for busy working families

## Gas cooker designed for easy and convenient cooking

Noritz's Multi Grill built-in gas cooker comes with a patented system that features internal heat sensors attached to the lower burner for precisely detecting the temperature at the bottom container and automatically adjusting the heat according to the food being cooked. In 2022, the Company renewed its Progre brand of Multi Grill built-in gas cookers, adding a rice quick-cooking mode and a waterless cooking mode to improve convenience for users.



## Message from a manager | Aiming to promptly devise solutions for businesses with diverse needs

We have been working to provide solutions in industrial and commercial markets through our business activities, but those markets change more rapidly than the market for our residential-use products. The needs of corporate customers and facilities also vary more widely, so we must respond flexibly and offer even more value.

Last year, we began selling a highly efficient industrial-use gas water heating system, the industry's first instantaneous model capable of supplying hot water at 84°C. That allows it to be used for cleaning and sterilizing equipment used by food processing companies that must comply with HACCP-based food sanitation management standards. It is also an environmentally friendly product, and we have received a large number of enquiries about it since its release.

Meanwhile, we have been supplying farms and nursing homes with products that we jointly developed together with leading companies in those industries. By closely following the needs of customers, we intend to promptly devise solutions to issues related to the environment, safety, and labor shortages.

## Katsuhiko Kusunoki

Executive Officer  
Head of the Non-housing  
Business Division  
Marketing Headquarters



Sustainability

# Sustainability Society

## Stepping up human resources development

Recognizing employees as its most important asset, Noritz strives to create a workplace environment that allows all members to realize their maximum potential.

From that standpoint, the Company organizes teams that develop human resources capable of producing excellent results in an effort to realize organizational ambidexterity that can not only increase profits from businesses today but also cultivate new businesses for tomorrow.



### Employee engagement—corporate culture reform and employee training for innovation

#### Holding workshops for employees and systematically grooming the next generation of business leaders

##### Management grooming program

Noritz has launched a program to groom its managers for the future. It selected 20 people from various departments to be trained in business ethics, problem-solving, critical thinking, communication skills, and management approaches. As part of the program, participants devise concrete proposals for executing the business strategies of the Company's next medium-term management plan and present them to managers.



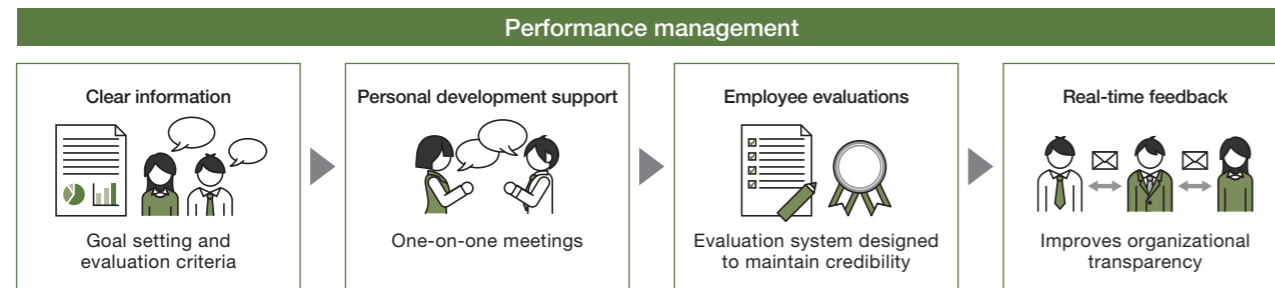
##### Future vision workshops

Noritz has been holding future vision workshops for employees between the ages of 20 and 39. The employees were asked to envision the future of the Company they hope for while considering the major socioeconomic shifts happening in the world today. Through the workshop discussions, which also included managers, the participants specified actions for realizing the future they envisioned, and have begun putting them into practice in their respective workplaces.



##### Adoption of a new performance management system

As part of its efforts to improve personnel systems, Noritz has adopted a performance management system to measure the job performance of employees and help them maximize their accomplishments. The system incorporates real-time feedback and one-on-one meetings, allowing employees to assess whether their performance meets the expectations of their colleagues and supervisors. The Company has also improved organizational transparency and the credibility of its evaluation system by introducing tools for measuring work engagement in real time, and providing clear information on goals, evaluation criteria, and related matters to employees.



### Employee engagement—work-style reforms

#### Fostering workplaces that encourage employees to maximize their potential and raise productivity

To respond to dramatically changing needs in society, Noritz is fostering workplaces that bring out the maximum potential of its employees, who have diverse values, skills, and lifestyles. Toward this end, the Company has taken steps to help employees achieve an optimal work-life balance, such as by shortening working hours and more effectively assigning duties. These efforts have also been raising efficiency in every department of the Company.

Besides giving employees more time for their private life and self-improvement, an optimal work-life balance is important for employees with childcare and nursing care responsibilities. With this in mind, the Company's online newsletter began featuring feedback from fathers who have taken paternity leave in the past to facilitate the adoption of a paternity leave program initiated by the Japanese government in October 2022.



Paternity leave promoted in Noritz's online newsletter

### Occupational health and job satisfaction

#### As it aims for sustainable growth, Noritz promotes health management in the workplace to help employees maintain good physical and mental health, which is essential for them to maximize their potential

For Noritz, helping employees manage their health is an important way for allowing them to make significant contributions in their work. Accordingly, the Company's Human Resources and General Affairs Division collaborates with health insurance associations to help employees and their family members lead healthy lives. In 2021, Noritz provided stress assessments to employees and adopted a tool for measuring their work engagement in real time as a means to help them perform at their best on the job.

#### Noritz Pledge on Health and Wellness

As it aims to realize its mission of providing "The Simple Comforts of Life," the Noritz Group will work to ensure the good health and well-being of every employee.

This mission expresses the Group's sincere commitment to society, and the Group recognizes that to provide the simple comforts of life, all of its employees must also be healthy and satisfied with their jobs.

For Noritz, health is not simply a matter of being free of illness, but has a broader meaning encompassing physical, mental, and social well-being and contentment. From this standpoint, Noritz will work together with its health insurance association and labor union to provide comprehensive systems for supporting employees so that they can maintain their health and well-being, and work with enthusiasm and passion. In that way, Noritz will maintain its commitment to making positive contributions to people and their communities going forward.

For Noritz, the well-being of all employees is essential for fulfilling its mission of providing customers with "The Simple Comforts of Life" through its products, and the health of employees is the source of their collective strength. From that standpoint, the Company created the Noritz Pledge on Health and Wellness, and carries out initiatives aimed at enabling every employee to realize their maximum potential.

#### Message from a manager | Fostering the happiness of employees so that we can realize our mission of providing "The Simple Comforts of Life"

Employees are vital assets for Noritz, and my job is to help foster a workplace that allows them to reach their full potential. A diverse workforce is essential for the Company's growth, so our first priority is to create an environment that encourages employees to continue creating more value through their work regardless of how their lifestyles change. For employees to be innovative, pursue goals, and produce results, it is important that they fully understand our mission statement and recognize how their own work is linked to realizing it. Therefore, we create opportunities for them to talk with managers, supervisors, and colleagues, and have set up a system for evaluating the progress employees are making toward their goals. Furthermore, executive managers also need to fully understand the background of these policies and mutually understand how to execute them, so we facilitate in-depth discussions at the executive management level.

**Tetsuya Hayashi**  
General Manager of the Human Resources & General Affairs Division Planning & Administration Headquarters



Sustainability

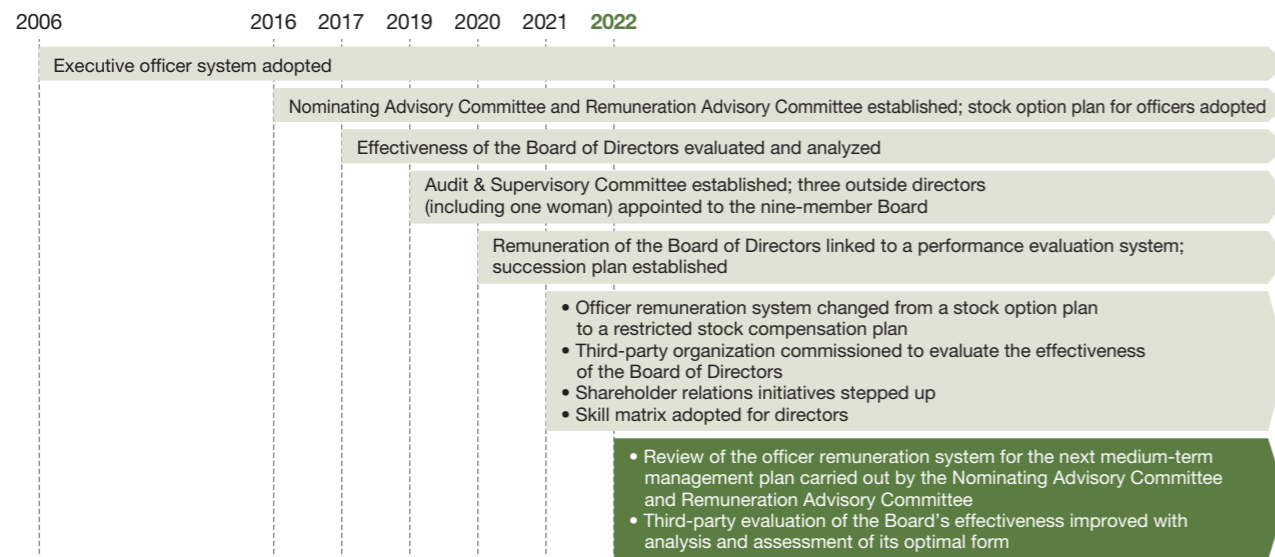
# Sustainability Governance

## Highly transparent and sound corporate management

Noritz's management regards impartiality and fairness as basic principles of decision-making, and works to ensure transparent information disclosure with a view to build public trust, which it greatly values. The Noritz Group's operating environment is undergoing significant changes and continues to be uncertain. Therefore, management has designated sound corporate governance as a matter of the utmost importance, and is working to make governance systems more effective across the Group as a whole.



### Evolution of the Company's corporate governance structure



#### Message from a manager

**We are increasing engagement with investors by strengthening corporate governance**

Given how our operating environment is changing, it will be very important for us to increase engagement with investors and strengthen corporate governance in order to raise shareholder value. Corporate governance has primarily focused on compliance in the past, but we need to approach it more broadly now because the expectations and demands of stakeholders have been widening in scope each year. Since 2021, we have been more proactive in shareholder relations while taking steps to enhance governance based on feedback and suggestions from institutional investors (particularly those that exercise voting rights). In 2022, we focused on further improvements by revising our risk management policy, revamping officer evaluation and remuneration systems, and changing the process of evaluating the effectiveness of the Board of Directors. Looking ahead, we will continue working to raise shareholder value while taking a balanced approach to corporate governance.

#### Takao Matsuzawa

General Manager of General Affairs and Legal Department  
Human Resources & General Affairs Division  
Planning & Administration Headquarters



### Effectiveness of the Board of Directors

#### Enhancing effectiveness with a good balance and diverse range of knowledge, experience, and expertise

As a basic policy for the composition of its Board of Directors, Noritz appoints directors with the goal of ensuring a good overall balance of knowledge, experience, and expertise, and to maintain diversity among the directors based on an appropriate number of members. The expertise possessed by each director and the areas of expertise expected by the Company are shown in the table below.

#### Areas of expertise among directors (as of December 31, 2022)

Position	Name	Gender		Operational management	Strategic expertise				Management expertise				
		Male	Female		Marketing and business planning	Manu- facturing	Digital and information technology	International business	Management strategies	Accounting and admini- stration	ESG and sustainability matters		
											Environmental measures	Social contribution	Corporate governance
President and CEO	Satoshi Haramaki	●		●	●	●		●	●		●	●	●
Director and Senior Managing Executive Officer	Masamine Hirose	●		●		●	●	●			●	●	
Director and Senior Managing Executive Officer	Masayuki Takenaka	●		●				●	●	●	●	●	●
Director and Managing Executive Officer	Kazushi Hirooka	●			●	●		●			●	●	
Director and Managing Executive Officer	Hidenari Ikeda	●		●	●	●		●			●	●	
Outside director	Hirokazu Onoe	●		●		●	●	●					●
Director Audit & Supervisory Committee member	Tsuyoshi Ayabe	●		●	●					●			●
Outside director Audit & Supervisory Committee member	Yasuko Masaki		●									●	●
Outside Director Audit & Supervisory Committee member	Yasuhiro Tani	●						●		●		●	●

#### Improving the effectiveness of the Board of Directors

Noritz has been assessing the effectiveness of its Board of Directors since 2017, and began having the results evaluated and analyzed by a third-party organization in 2021. In 2022, a series of discussions and deliberations were held to determine the optimal workings of the Board, and the analyses and assessments of its effectiveness were improved through various measures, such as interviews with members by the third-party organization.

In addition, following a review of decision-making authority, the authority to make decisions concerning business execution was, in principle, transferred from the Board of Directors to the Management Committee as a means to improve the Board's effectiveness.

#### Promoting independence and objectivity in the Board of Directors

#### Composition of the Nominating Advisory Committee and the Remuneration Advisory Committee (As of December 31, 2022)

##### Chairman



In 2016, the Company established its Nominating Advisory Committee and Remuneration Advisory Committee as advisory bodies to the Board of Directors, for the purpose of strengthening the independence and objectivity of the Board of Directors and of enhancing the corporate governance framework. Both committees include two experienced

executives from outside the Company who have knowledge of its operations. They were appointed when management was formulating its succession plan and establishing personnel training programs. Specifically, the committee members include one outside director and two outside auditors in order to ensure objective, independent, and transparent deliberations.

In 2022, the Nominating Advisory Committee met seven times and the Remuneration Advisory Committee met 10 times. Deliberations included a review of the officer remuneration system for the next medium-term management plan as well as matters related to corporate governance.

Two external advisors of the committees stepped down in March 2023. From thereon, each committee is made up of four members, three of which are outside directors.

Sustainability

# Sustainability Governance

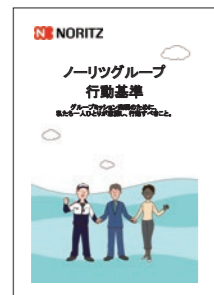
Compliance—raising awareness of compliance among employees

**Strengthening group-wide internal controls while promoting widespread understanding of the Noritz Group Code of Ethics to raise awareness of compliance among all employees**

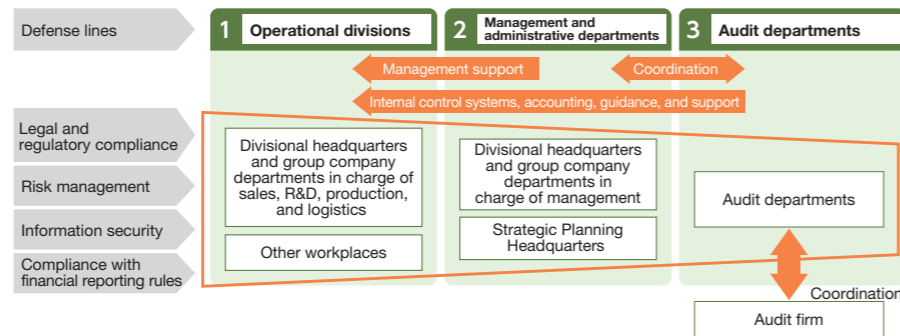
In January 2022, the Company renewed the Noritz Group Code of Ethics in response to a request by stakeholders to clarify the code. The revisions were also intended to better enable the Group to respond to changing societal trends and globalization by raising awareness among employees about recent compliance-related trends.

In addition, the Group has been strengthening internal controls based on the concept of three “defensive lines,” meaning that its operational divisions, management and administrative departments, and audit departments each play a role in executing internal controls. In 2022, the Group focused on improving monitoring activities by management and administrative departments as it extended corporate governance to subsidiaries outside Japan.

**The new Noritz Group Code of Ethics**



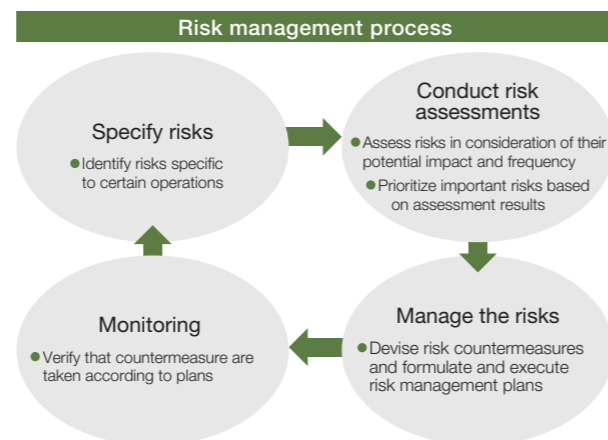
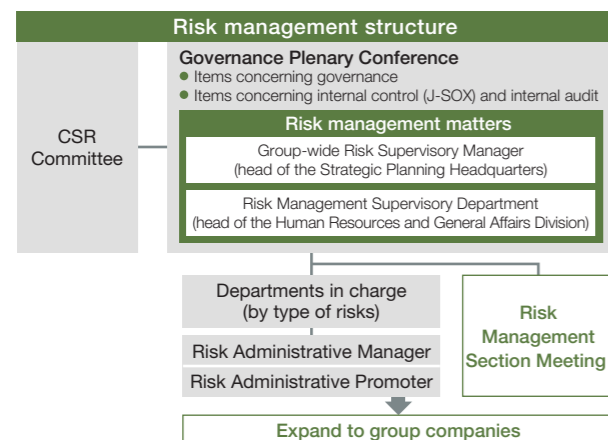
**Executing internal controls across three defensive lines**



Risk management—ensuring a stable product supply while enhancing risk management

**New process for identifying and assessing important business risks established to improve risk management**

Issues related to risk management are discussed at the Group’s periodic conferences on corporate governance, and proposals raised at these conferences are reviewed by the Company’s CSR Committee. Recognizing that new business risks emerged during the COVID-19 pandemic, Noritz revamped its process for identifying and assessing risks in 2022 as part of its continuous efforts to improve risk management. Its divisions had used uniform methods for identifying and assessing risks in the past, but through this new process, methods are used depending on specific operations when such operations differ significantly, even within the same department. Through this process, the Company is more effectively specifying risks that could impact the entire Noritz Group and devising concrete measures to manage those risks.



**List of risks (those numbered in green are considered higher in importance)**

<b>Hazard risks</b>	① Natural disasters ② Accidents and breakdowns ③ Pandemics ④ Supply chains
<b>Operational risks</b>	① Products and services ② Production facility troubles ③ Fault in installation and services ④ IT and information security ⑤ Legal and ethical matters (falsification of product quality inspections) ⑥ Intellectual properties ⑦ Labor affairs ⑧ Social reputational damage by SNS, etc. ⑨ Accidents, etc. of the management ⑩ Environmental hazardous substance ⑪ Aging of buildings and facilities ⑫ Financial and accounting
<b>Strategic risks</b>	① Investment ② Organization ③ IR ④ Response to climate change ⑤ Production technology innovation ⑥ Surge in material costs ⑦ Markets and marketing ⑧ Economic conditions, including foreign exchange fluctuation ⑨ Fluctuation in prices of investable securities ⑩ Global economic and geopolitical risks

Noritz formulates plans for managing specific risks that can affect the Group as a whole, and executes the plan the following year. In 2022, the Group improved its information security to guard against cyber threats, which are becoming increasingly sophisticated and complex. Furthermore, its audit departments implemented data audits focusing on the risks of data leaks and falsification of product quality inspections, and reported the results to management.

**Message from an outside director**

**I hope to contribute to the Noritz Group’s sustainable growth based on my experience in managing an equipment manufacturer**

Hirokazu Onoe  
Outside director



When I was appointed as an outside director in March 2021, I was knowledgeable about Noritz’s activities as a major manufacturer of water heaters, of course, but I was surprised to learn how diverse its businesses are outside the residential water heater market. The Company has also been very active in environmental, social, and governance (ESG) issues, which have attracted much attention in recent years. Given the nature of its business as a supplier of CO<sub>2</sub>-emitting products, Noritz has designated decarbonization as a key challenge for its growth, and is taking steps to reduce CO<sub>2</sub> emissions with a strong awareness of this issue. I highly commend these efforts.

In meetings of the Board of Directors, input from outside directors is welcomed. The three of us have different backgrounds, and openly offer our views on every topic submitted for the agenda based on our respective expertise. The Board’s discussions are dynamic as a result. An evaluation of the Board’s effectiveness is conducted every year in order to improve its performance. For the evaluation at the end of the last fiscal year, I suggested that we set up a venue for engaging in candid discussions outside of the Board’s regular meetings, and the secretariat immediately considered this suggestion.

In my role as an outside director, I am expected to offer opinions and views based on my experience in managing an equipment manufacturer that operates globally. I hope my experience can be useful for helping Noritz grow sustainably. Immediately after my appointment, Noritz

faced manufacturing problems due to global supply bottlenecks of parts and components, so I suggested using the procurement routes of the company where I also serve as chairman. Through experience, I have come to appreciate the importance of after-sales service, so I also suggested that we improve maintenance services as a means to stabilize earnings. In the future, I plan to actively call for expansion overseas. I made decisions about major mergers and acquisitions of foreign companies when serving as president of the equipment manufacturer, so I may be able to provide helpful advice on ensuring the success of such acquisitions as well as post-merger integration.

Noritz has formulated a medium-term management plan for achieving sustainable growth, and is implementing growth strategies based on the plan. I believe that outside directors are responsible for impartially verifying whether initiatives are proceeding according to plan, and promptly pointing out whether any obstacles or delays have arisen. I always consider this responsibility when attending the Board’s monthly meetings, reviewing relevant documents, and questioning and commenting on reports.

Today, socioeconomic conditions and the Group’s operating environment are undergoing major changes, so we must respond with flexibility and adjust the direction of our strategies when necessary. From that standpoint, I hope to contribute to the Noritz Group’s sustainable growth by drawing from my experience and offering useful advice and suggestions.



**Masayuki Takenaka**  
Director, Chief Financial Officer  
and Senior Managing Executive Officer

# Financial Highlight

Results, forecasts, and targets



Message from the CFO

## We are establishing a high-earnings product portfolio and executing strategic financial management from a medium- to long-term perspective

Overview of fiscal 2022

Sales and income exceeded targets despite difficulties in procuring raw materials

In fiscal 2022, ended December 31, 2022, the Noritz Group's manufacturing operations were impacted by ongoing global shortages of raw materials and components, which began in the latter half of 2021 amid the COVID-19 pandemic. Up until February, the Group's production had slowed markedly due to difficulties in procuring raw materials, causing delayed shipments of many flagship products. From March, however, we adjusted procurement conditions, stocked up on inventories, modified product designs, and secured alternative sources of parts and components. Because all members of the Group worked together to overcome this crisis, we were able to boost production volume to a record-high level and respond to a steady stream of product orders on the back of pent-up market demand.

Thanks to these efforts, consolidated net sales and income for fiscal 2022 exceeded the targets we had set at the beginning of the year, and the net sales target of our current medium-term management plan was achieved one year ahead of schedule. Profit attributable to owners of parent was down slightly year on

year, however, it actually increased substantially if we consider that the amount in the previous year was bolstered by gains on the sale of investment securities and fixed assets totaling ¥4.9 billion. Return on equity, one of the performance indicators I place priority on as CFO, came to 4.2%. Although this was below our target of 5.0%, I believe we continued to make steady progress in our shift to a high-earnings product portfolio.

Although production volume fell substantially below usual levels due to the difficulties in procuring raw materials, the Company was able to overcome this crisis without increasing debt through additional financing because it possessed enough cash on hand. This not only reflects our efforts to raise capital efficiency, but also reaffirms the importance of maintaining a sound and stable financial base for responding to unforeseen risks.

While the Company's financial results have been improving on the whole, I recognize that we still have work to do in specific areas. For example, although the operating margin increased by 1.9 percentage points year on year to 3.3%, I believe it should have increased more given that sales rose by 18.4%. Therefore, we will continue taking steps to cut costs and boost earning power.

Financial strategies from fiscal 2023

Aiming to achieve medium-term targets on route to a growth phase

Fiscal 2023, ending December 31, 2023, is the final year of our three-year management plan. Although the outlook for the year remains uncertain due to rising energy and raw material prices worldwide, fluctuating exchange rates, and heightened geopolitical risks, we intend to invest in the Group's continuous growth while maintaining a stable financial base. Over the first two years of the plan, the Group's operating environment suddenly deteriorated as a result of the pandemic, which we could never have imagined when formulating the plan, yet we dealt with those changes and successfully brought earnings back on track. On this momentum, we will continue aiming to achieve the plan's operating income target of ¥8.0 billion.

The Company will launch a new medium-term management plan starting from fiscal 2024. Our financial management placed priority on improving profitability during the three years of the current plan, which we regard as an earnings stabilization phase, but we intend to pursue financial strategies that enhance the Company's financial position in the next plan. We will need to draw up a capital allocation plan to specify where and how much cash flow from operating activities will be allocated. As part of our growth strategies, we continually explore opportunities for major investments in mergers and acquisitions. If the Company's own financial resources are insufficient for such actions in the future, our policy is to flexibly procure funds from external sources while exercising financial discipline. Toward that end, we will work to maintain a minimum credit rating of A and a capital adequacy ratio of at least 50%.

Our commitment to stakeholders

Clearly explaining how Noritz creates value

Returning profits to shareholders is a priority matter for management. From that standpoint, the Company aims to continuously pay a stable dividend. As a matter of policy over the three years of our medium-term management plan, we have set the dividend amount based on either a consolidated dividend payout ratio of 50%, or a dividend on equity ratio of 2%, whichever is higher, while giving full consideration to the Company's financial results. On this basis, the annual dividend for fiscal 2022 was set at ¥53 per share, comprised of an interim dividend of ¥25 per share and a year-end dividend of ¥28 per share. In addition to paying dividends, Noritz has been conducting stock buybacks as a means to deliver shareholder returns, and acquired 1.1 million of its own shares in fiscal 2022. The Company plans to retire treasury stock, which amounted to about 4.8 million shares (approximately 9.5% of all shares issued) following the buybacks as of December 31, 2022, with the goal of reducing it to about 5% of total shares issued by the end of 2023.

Looking ahead, we intend to carry out more strategic financial management and allocate capital for investment targets more specifically than before, based on medium- and long-term growth strategies that incorporate ESG criteria. At the same time, I recognize my important mission as CFO to clearly explain how Noritz creates value to the Company's shareholders, investors, and other stakeholders. I look forward to their understanding and ongoing support for the Noritz Group.

Financial and Non-Financial Results, and Company Overview

Non-financial Highlights Results, forecasts, and targets

# Non-financial Highlight

Selected key performance indicators for material issues

CO<sub>2</sub> emissions from product usage (group-wide)



CO<sub>2</sub> emissions from business operations (group-wide) (Note 1)



Percentage of fully automated water heaters equipped with bacteria-killing functions



Average days and percentage of paid holidays taken by employees (Note 2)



Average annual hours worked per employee (Noritz Corporation) (Note 2)



Ratio of managers hired mid-career (Noritz Corporation)



Ratio of female managers (Noritz Corporation)



Number of employees with disabilities (group-wide) (Note 3)



Ratio of employees with disabilities (group-wide) (Note 3)



Notes: 1. The 2022 result is currently being verified by a third-party organization. 2. Calculations are based on the average number of employees of Noritz Corporation. In 2021, suspended operations at factories due to difficulties in procuring parts resulted in more paid holidays taken. 3. Figures are as of June 30 for each year.

## Company Overview

### Company Details (as of December 31, 2022)

Name	Noritz Corporation
Founded	March 1951
Headquarters Address	Eiko Building, 93 Edo-machi, Chuo-ku, Kobe, Hyogo, Japan
Paid-in Capital	¥20,167 million
President and CEO	Satoshi Haramaki
Number of Employees	2,137; 6,569 including group companies

### Board of Directors (as of December 31, 2022)

President and CEO	Satoshi Haramaki
Director and Senior Managing Executive Officer	Masamine Hirosawa
Director and Senior Managing Executive Officer	Masayuki Takenaka
Director and Managing Executive Officer	Kazushi Hirooka
Director and Managing Executive Officer	Hidenari Ikeda
Outside director	Hirokazu Onoe
Director and member of the Audit & Supervisory Committee	Tsuyoshi Ayabe
Outside director and member of the Audit & Supervisory Committee	Yasuko Masaki
Outside director and member of the Audit & Supervisory Committee	Yasuhiro Tani

## About this Report

### Scope of contents

Period covered by this report	January 1 to December 31, 2022
Companies covered by this report	Noritz Corporation and its group companies worldwide
Guidelines used for compiling this report	IIRC International Integrated Reporting Framework, United Nations Sustainable Development Goals, ISO 26000 international standards, GRI Sustainability Reporting Guideline, SASB Standards, United Nations Global Compact Principles, Charter of Corporate Behavior issued by the Japan Business Federation, and Guidance for Collaborative Value Creation issued by Japan's Ministry of Economy, Trade and Industry
Previously published report	The previous version of this report was published in May 2022 (following the publication of the original Japanese version in March 2022)
Next scheduled publication	Noritz plans to publish its next annual report in English in June 2024 (following the scheduled publication of the original Japanese version in March 2024)

### Message from the report production team

This report is the ninth annual report published by Noritz Corporation since its initial report in 2015. The report has been compiled as a source of information for the Noritz Group's many stakeholders about consolidated financial results and targets as well as the Group's approach to creating value. Additional information is also available on Noritz's official website.

### Disclaimer

This report contains statements regarding plans, strategies, and other activities of Noritz Corporation or the Noritz Group. Those statements that are not historical facts as of March 31, 2023, are forward-looking statements, and, therefore, are subject to risks and uncertainties. Future outcomes and financial results may differ greatly from those forward-looking statements due to various factors.

## Noritz's Websites

### Noritz official website

<https://www.noritz.co.jp/>  
The Noritz Group's website features a wide range of information about products and services, group companies, financial results, and sustainability-related activities. (Japanese-language only)

### Global website

<https://www.noritzglobal.com/>  
(English available)

### Official social media accounts

Facebook Twitter Youtube

### Sustainability

<http://noritz.co.jp/company/csr/index.html>  
The "CSR Activities" section of the website provides detailed information about quality and environmental, social, and corporate governance (ESG) initiatives carried out each year by the Group. (Japanese-language only)

### Members' webpage

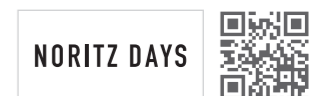
[https://mypage.noritz.co.jp/member\\_web/auth](https://mypage.noritz.co.jp/member_web/auth)



A free-to-join members' webpage offering information about sales campaigns in Japan (Japanese-language only)

### Online shopping portal

<https://days.noritz.co.jp/>



Noritz's official online shopping portal in Japan (Japanese-language only)

### Recipe and cooking website

<https://www.mainichigrillbu.com/>



A website offering recipes for cooking with Japanese-style gas cookers as well as topical features and event news in Japan (Japanese-language only)

### Bath-related stories

<https://ofurobu.com/>



A media portal featuring selected essays by writers who love bathing (Japanese-language only)