

Continuing to move forward

Founded on the belief that quality baths bring joy to people, Noritz celebrated its 70th anniversary in 2021. In 2022, the Company marked the 25th year since its release of the RC-6201S remotely controlled bath water heater, an innovative product that notified users when the bath water was ready with a melody. This system has been greatly appreciated by customers ever since. With an eye towards its 100th anniversary, Noritz will work to continue earning the praise of customers while incorporating their feedback along with suggestions from all other stakeholders in its business activities.



Head office address

93 Edomachi, Chuo-ku, Kobe, Hyogo, 650-0033, Japan

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



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.



This is our *Communication on Progress* in implementing the principles of the *United Nations Global Compact* and supporting broader UN goals. We welcome feedback on its contents.

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 2022

NORITZ CORP.

Noritz's History

People throughout Japan hear a sweet melody when it is bath time, just one of “The Simple Comforts of Life” provided by Noritz

A bath melody heard throughout Japan

In 1997, Noritz began selling its RC-6201S remotely controlled bath water heater that notified users when the bath water was ready with a melody. For 25 years, that melody has become a part of people's lives across the country. In fact, based on cumulated sales of over 16.2 million products up to 2020, the Company estimates that about one-third of Japan's population have heard the melody. Here are comments from some of them:

“Just hearing that tune brings me a sense of relief.”

“The melody helps me relax in the evening.”

“When I think of music for a hot bath, that melody comes to mind.”

“For my spouse and I, the melody brings back happy memories of our newly married life and our children.”

“When I hear that tune, I feel like going back to my family home.”

The melody signals the time for people to unwind at the end of the day. Noritz came up with the idea to use sound to indicate when the bath water is ready from a desire to improve convenience for visually impaired users at a time when universal design was being adopted worldwide.

To choose a melody that customers would not grow tired of, Noritz examined many candidates from classical music, which remains popular across generations. It specifically wanted a melody that evoked feelings of elation and well-being before entering the bath. Hoping to bring happiness to its customers, the Company selected a section from the second part of Dolly's Dreaming and Awakening, a piano piece by the German composer Theodore Oesten. Having become widely associated with Noritz throughout Japan, the Company registered the melody as a trademark in March 2021. This was the first trademark of a sound recording in Japan that included classical music.

Having celebrated its 70th anniversary in 2021, Noritz hopes this melody will continue being a part of people's daily routines as it strives to provide “The Simple of Comforts of Life.”



▶ Scan to hear
the melody



Noritz's History

Meeting the needs of each generation by applying technological innovations to improve user-friendliness

Founded on the belief that quality baths bring joy to people, the Noritz Group has always aimed to meet the needs of the times by developing technologies that make baths even more pleasurable. The Group's product developers have focused on the remote control units of its bath water heaters, in particular, since they are used every day, in order to improve the comfort, convenience, and environmental performance of its products.



Providing "The Simple Comforts of Life" in step with the changing times

Improving convenience in the 1970s

Magicon gas water heater — ①



Featured a lever that allowed users to ignite and extinguish the pilot burner from inside the bathroom.

It immediately became a sensation, as gas water heaters had to be switched on and off from outside the house in those days, a major inconvenience on rainy and cold winter days.

Gas water heater remote control units



Noritz began including remote control units with its gas water heaters, allowing users to turn on the pilot burner and set the bath water temperature from inside the kitchen.

Noritz developed these wall-mounted units, which included a 100-volt power source, with a desire to improve convenience for households.

Expanding functionality in the 1980s

SR Series with an audio remote control unit — ②



The SR Series of gas water heaters came with the first bathroom remote control units to feature an interphone and built-in radio. This allowed family members to speak to each other between the bathroom and kitchen. The unit made bathing even more enjoyable, as one could listen to a baseball night game on the radio or even sing karaoke by connecting a cassette player via the unit's audio input jack.

RC-2000 Series



Launched a remote control unit equipped with a liquid crystal display, which greatly improved convenience by showing the time and status readout of the gas water heater. Noritz used a two-wire circuit for the remote control unit to make installation easier, thereby reducing installation time and costs.

Incorporating universal design in the 1990s and 2000s

RC-6201S — ③



Launched the industry's first gas water heater to feature a remote control unit with a voice announcement. It also played a melody to notify users when the bath water was ready. The melody made it easier for users to distinguish the bath signal from other home appliances, as most appliances in those days had a similar buzzer sound.

RC-8301 — ④



Released a remote control unit featuring three buttons for starting the bath water, reheating the water, and talking on the interphone. In response to market demand for barrier-free and universal design, Noritz aimed to make the remote control unit more user-friendly for the elderly and people with disabilities. Accordingly, it placed braille on the surface of the buttons and made it easy to increase the volume and reduce the speed of the voice guidance.

Saving energy in the 2010s

RC-C001 remote control unit — ⑤



Launched a remote control unit display that allowed users to check how much energy they were consuming. It also came with an eco-switch that made it easier to conserve energy and water. Noritz developed the product amid growing awareness of global environmental problems, including energy depletion and greenhouse gas emissions. The Company received a Kids Design Award from a Japanese NPO, Kids Design Association, in recognition of the product's value for teaching children about energy conservation.

Wireless connectivity for today

RC-G001W — ⑥



Noritz released the industry's first gas water heater with a wireless LAN remote control unit. Using a dedicated app, users could now start the bath water and control the floor heating system from outside the home. They could also use the app or the kitchen remote control unit to check up on elderly family members using the bath. This bath monitoring function was developed by Noritz in response to rising numbers of bath-related accidents among the elderly.

Development concept ①

To the delight of households across the country, Noritz developed the Magicon as a solution for the inconvenience of outdoor gas water heater controls.

Development concept ②

Noritz developed the remote control unit for the SR Series with a view to improve convenience and make bathing more enjoyable for families.

Development concept ③

The main purpose of developing this unit was to notify visually impaired and elderly people with sound when the bath water was ready. For the sound, Noritz chose a melody that provides comfort and tranquility.

Development concept ④

Based on the concept of a remote control unit that could simplify the operations of a multifunctional water heater, Noritz narrowed down the number of buttons to the essentials.

Development concept ⑤

Noritz developed the RC-C001 with a desire to stimulate interest in the environment among children. The product's ability to display energy consumption data was a first for Japan's water heater industry.

Development concept ⑥

Bath-related accidents have been increasing year by year in Japan, so Noritz applied its technologies in an effort to make baths safer. Overcoming various technical challenges, the Company was able to equip the product with sensors for detecting people's movements in the bathroom.

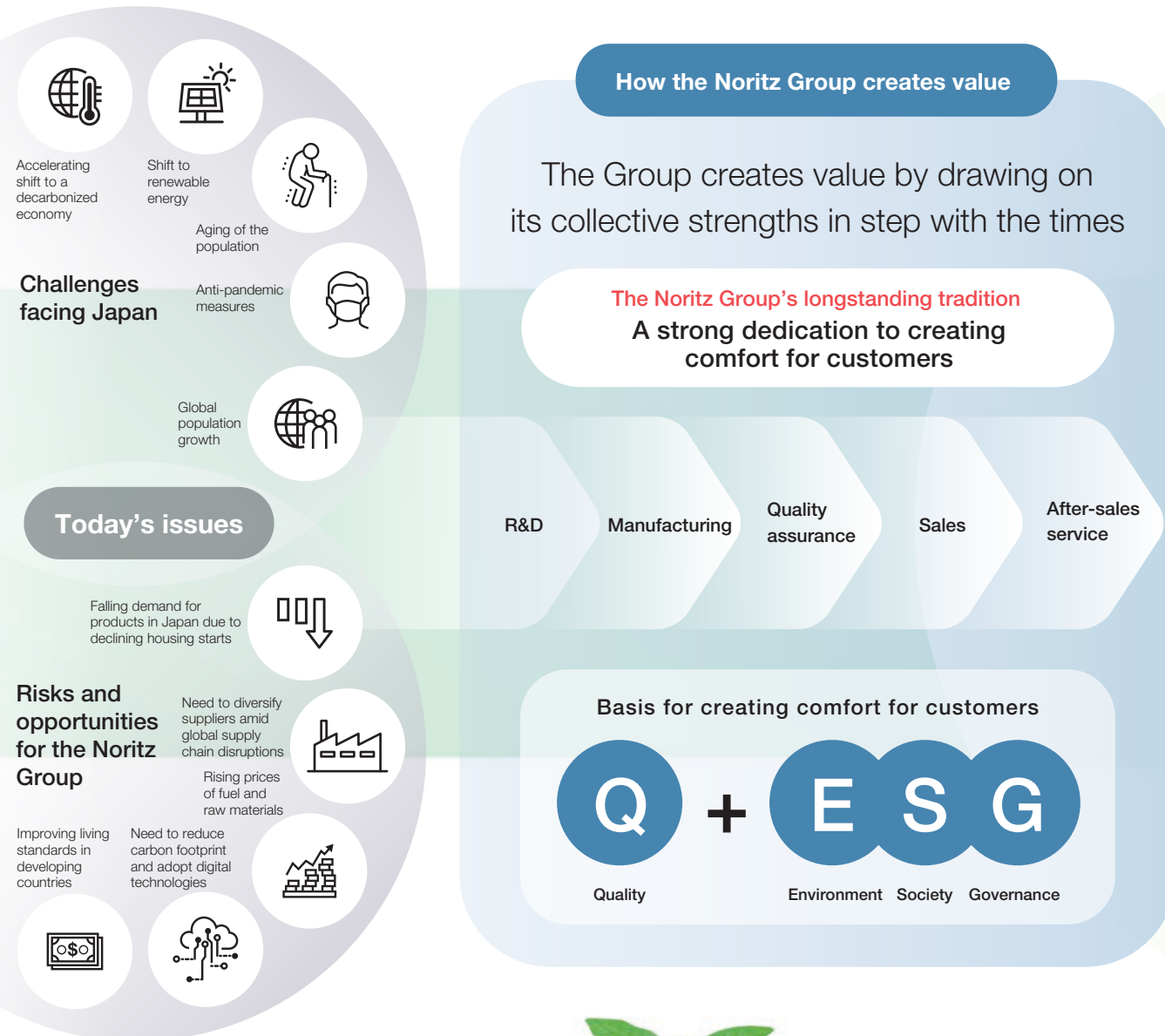


Value-Creation Process

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

Business segments and services

Water heaters and heating ventilation and air conditioning systems



- Gas water heaters
- Oil water heaters
- Hybrid water and space 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

Create corporate value

Kitchen appliances



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

After-sales services



- Product repairs
- After-sales services
- Regulatory compliance and safety inspections

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



Consider the future with our customers



Fulfill our responsibility to the global environment



Aim to grow with our partners



Message from the President

We are uniting our workplaces and putting ambidextrous leadership into practice to enhance organizational capabilities company-wide.



お風呂は人の
幸せにします
太田 敏郎

Satoshi Haramaki

President and CEO
Noritz Corporation

My first year as president

Changing for the future while staying true to our founder's ideals

I have served as president for about one and a half years since my appointment in October 2020, a time when the COVID-19 pandemic was spreading worldwide. Now in 2022, the pandemic continues to affect our businesses. We have been facing global shortages of electronic components and resins, and suspended shipments of parts due to lockdowns in Southeast Asia and other factors. Consequently, we were forced to delay shipments of our products, which, regrettably, inconvenienced our customers and business partners.

Under these challenging circumstances, in January 2021, the Noritz Group launched a new three-year medium-term management plan extending to the end of 2023. Guided by this plan, we have been making all-out efforts

to strengthen the Group's businesses and leverage its technologies to develop new businesses going forward.

Shortly before I was appointed as president, Noritz founder and Honorary Chairman Toshiro Ota passed away on January 15, 2020, at the age of 92. We will never forget his ideals and passion for making baths more pleasurable for people. He also taught us that for the Company to continue growing in the future, we must preserve whatever remains valuable while making changes as necessary. Based on his guidance, I intended to make bold reforms in the Company as it marked its 70th anniversary in 2021, in order to flexibly adapt to changes in our operating environment and society at large. I recognize that raising the Company's value in this way is my most important mission.

Pursuing ambidextrous leadership

Adapting to the operating environment by strengthening businesses and exploring new possibilities

To realize an optimal balance between strengthening the Group's businesses and creating new businesses, our management leadership needs to be ambidextrous. We reflected this approach in our new medium-term management plan, which has three main objectives: maintain the sustainability of group-wide operations, develop innovative ways to maintain customer loyalty, and foster an organizational culture that takes on challenges.

In Japan, the market is shrinking due to the country's declining population, so we need to shift from our former one-time sales model to a business model designed for recurring sales. For example, we equip residential gas water heaters with an inspection alert function that notifies users via the product's remote control unit when an inspection is due after 10 years of usage. This keeps us in contact with customers, and has resulted in a steady flow of requests for inspections and replacement sales. For commercial buildings, too, we are shifting from one-time sales to comprehensive solutions, including maintenance contracts, as a means to boost profitability.

On the other hand, the biggest challenge for our management is to improve the resilience of the Group's supply chain, as we want to make sure customers are never again inconvenienced by delayed product shipments.

To ensure a stable product supply going forward, the Group is taking steps to have parts manufactured overseas also made in Japan, procure parts from multiple countries, standardize main parts and components, and redesign parts that can be procured stably.

While making these changes to the Group's already established businesses, we are exploring possibilities for developing all-new technologies, products, and businesses. Our goal is to develop new business models and technologies for the future through various initiatives, including our employee suggestion program, and by promoting open innovation with universities, research institutions, and companies in other industries.

To put ambidextrous leadership into practice, we will need to change our workplace mentality. Specifically, I believe we should enhance best practices in our businesses while also exploring new directions to take. We have been able to overcome numerous management crises in the past because our workplaces were able to effectively respond and adapt. To channel this strength towards bold corporate reforms, I intend to clearly explain our management goals to everyone, and foster a workplace environment that encourages all employees to act independently with an eye to the future.

Top Message

Vision and Strategies

Towards carbon neutrality

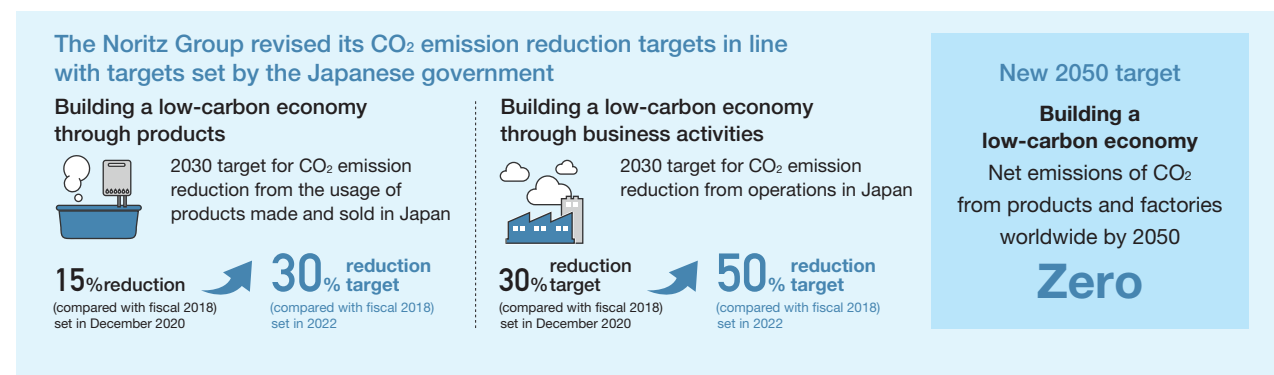
Working to reduce CO₂ emissions from products and business activities

As problems caused by climate change become increasingly serious, people around the world are stepping up measures to decarbonize and achieve carbon neutrality. The Noritz Group's mainstay products emit CO₂, a major cause of climate change, so reducing those emissions is a challenge that strikes at the heart of our business. Therefore, we have created a roadmap for contributing to decarbonization through 2050, and will continue taking proactive steps to reduce CO₂ emissions.

In the first phase of the roadmap spanning to 2030, we will strive to substantially reduce CO₂ emitted by products sold by the Noritz Group. Specifically, we are proactively developing and promoting technology and products that emit less CO₂, including highly efficient heat recovery gas water heaters and hybrid water and space heating systems that integrate gas and heat pumps, as well as solar heating systems and other energy creation systems. At the same time, we are equipping our products with functions to notify users about environmental performance, such

as product CO₂ emissions, as well as product lifecycles. Through these activities, we are aiming to reduce CO₂ emissions at the product usage stage by 30% by 2030 compared with the result in fiscal 2018.

The Group is also focusing on reducing CO₂ emissions from manufacturing operations. In December 2020, Noritz became the 45th Japanese company 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, 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 will give priority to capital investment that helps reduce CO₂ emissions. In consideration of these initiatives, we set a 2030 target for reducing CO₂ emissions from operations in Japan by 50% compared with the 2018 result.



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 the new 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. Through our Quality and ESG-driven strategies, we will aim to fuse social and environmental issues with business issues.

We recognize that quality is always a vital issue for manufacturers. By improving quality across the design, manufacturing, and product installation stages, we will reduce the rate of product defects by half in the next three years.

On the environmental front, we are reducing CO₂ emissions at each stage mentioned above, to help achieve carbon neutrality in the future. We are also focusing on reducing waste matter in manufacturing, expanding used product recycling, 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.

Meanwhile, Noritz has been taking steps to facilitate speedier decision-making and more effective management supervision. Toward that end, the Company established its Audit & Supervisory Committee in 2019, and increased the ratio of outside directors serving on its Board of Directors in 2020. Looking forward, we intend to strengthen corporate governance by disclosing information on 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, 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 2021

Steady progress towards the objectives of our medium-term management plan

Fiscal 2021, ended December 31, 2021, was the first fiscal year of our new three-year medium-term management plan. During the first half of the year, Noritz posted record-high operating income in its Domestic Business segment, thanks to strong sales of high-value-added products such as highly efficient heat-recovery gas water heaters, the GT-C62 series of water heaters with bath monitoring and bathwater cleaning functions, and the Progre series of high-performance built-in gas cookers. From September, however, the Company had to reduce production of numerous products as the COVID-19 pandemic became more serious, causing lockdowns in Southeast Asia and global shortages of electronic components and resins, as I mentioned earlier. Consequently, both sales and income in this segment ended up below results of the previous year.

In the International Business segment, net sales and operating income increased overall year on year. In China, income increased on the back of brisk sales of new products tailored to the domestic market, as well as sales growth from inland regions and online shopping portals. In North America, results improved as group companies expanded their distribution networks and promoted sales of commercial water heaters and heating systems. In Australia, new models of commercial water heaters sold briskly.

Despite this strong performance internationally, net sales decreased by 3.1% year on year to ¥178.1 billion. Likewise, operating income fell by 47.5% to ¥2.5 billion, and ordinary income decreased by 32.9% to ¥3.9 billion. Nevertheless, the Company posted ¥5.4 billion in net income attributable to

shareholders of parent company, up from a net loss of ¥3.0 billion in the previous fiscal year.

Although fiscal 2021 was mostly disappointing in terms of financial results, we made steady progress towards the objectives of our new medium-term management plan by executing various measures during the year. For example, with respect to our first objective of maintaining the sustainability of group-wide operations, we raised the proportion of high-value-added products in Japan as part of a shift to a high-earnings product portfolio, and launched a new commercial products business as planned. We also made progress towards our second objective of developing innovative ways to maintain customer loyalty. Specifically, we set up a framework for promoting three designated business areas, and concluded a comprehensive partnership agreement with Kobe University to jointly research and develop products for the decarbonization, digital transformation, and health and wellness markets. In addition, Noritz acquired a stake in Kangaroo International Joint Venture Company, a leading water purifier and home appliance manufacturer in Vietnam, and made it an equity affiliate with a view to quickly gain a foothold in the Southeast Asian market.

In 2022, we will continue executing various measures of the new plan while placing priority on reorganizing the Group's supply chain. We estimate that difficulties in procuring parts reduced operating income by about ¥5.0 billion in fiscal 2021, representing a substantial opportunity loss. Therefore, establishing a global network that ensures dependable procurement and stable production will be essential for bringing earnings back on track.

Fostering an organizational culture that takes on challenges

Sharing goals and pursuing them together in autonomous workplaces

The concept of ambidextrous leadership is easy to understand but difficult to put into practice. In actuality, it is executed in the workplace, and to effectively incorporate management concepts in workplace activities, existing organizations will probably need to be changed. The key for accomplishing this is to increase the autonomy of our workplaces. This is why the third objective of our medium-term management plan is to foster an organizational culture that takes on challenges. Although the Company's organizations are hierarchical in structure, I want the teams that lead our workplaces and the individual employees working in those teams to act as autonomously and independently as possible.

To explain this approach, I have been visiting the Company's workplaces in every region of Japan since 2021 to discuss our plans and objectives with members of their respective teams in motivational meetings. By motivating workplace teams on the front lines of our businesses, I have been trying to inspire each one into action and enhance organizational capabilities throughout the Company as a whole.

While sharing our goals with all employees in every workplace, management will continue offering support to enable each team and individual employee to independently pursue those goals going forward. Furthermore, I want the Noritz Group to grow sustainably in the future by striving 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

A motivational meeting in 2021

Held at the Global Headquarters' Planning & Administration Department

Empowering teams to work independently towards achieving goals



From left: Hiroki Nagayasu, Satoshi Kawaguchi, Qing Wang, Maki Shimoda, Satoshi Haramaki, Kota Tachibana, Koe Ra, Takahiro Uchida, Haruna Miki, and Katsuki Tanaka

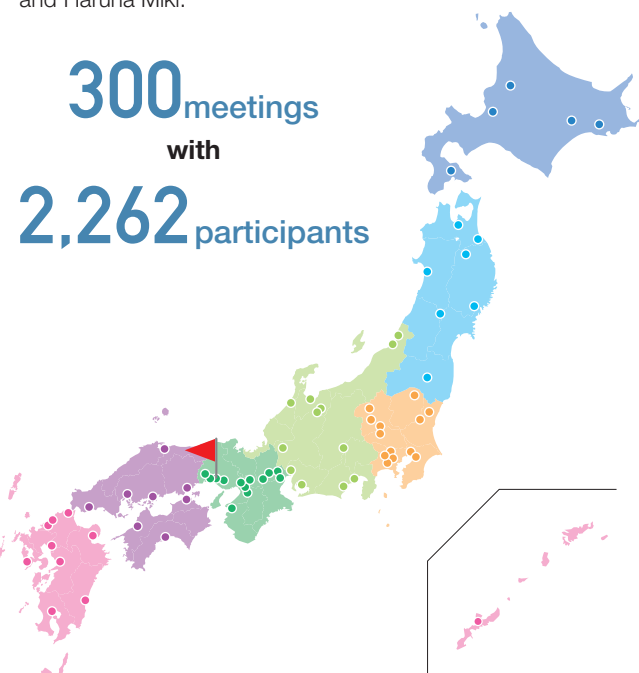
(August 2021)

About the Company's motivational meetings

Noritz began holding motivational meetings in 2021 with the goal of fostering a corporate culture that encourages employees to think independently and workplaces to take initiative. Four of the Company's officers (President Satoshi Haramaki, Masamine Hirose, head of the Products Headquarters, Masayuki Takenaka, head of the Planning & Administration Headquarters, and Kazushi Hirooka, head of the Marketing Headquarters) aim to hold 300 meetings at workplaces across Japan in two years to develop strong leadership teams that can enable their workplaces to independently assess and execute management policies and strategies, set specific goals, and get results. In all of the meetings, the officers have discussed how upper management policies can be executed through team activities.

The following discussion is from a motivational meeting held in August 2021 at the Planning & Administration Department of the Company's Global Headquarters. Led by President Haramaki, the meeting was attended by department members Hiroki Nagayasu (the department head), Satoshi Kawaguchi, and Maki Shimoda, along with members of the department's

management group, Katsuki Tanaka (the group leader), Qing Wang, Kota Tachibana, Koe Ra, Takahiro Uchida, and Haruna Miki.



Meeting held at the Global Headquarters' Planning & Administration Department

■ Nagayasu

In accordance with the overall policies of the Global Headquarters, the Planning & Administration Department is responsible for improving the profitability of operational departments and cutting costs. One of our main duties is to oversee performance management, corporate governance, quality assurance, and marketing at group companies outside Japan. Our department handles these international corporate affairs as the contact point for Noritz's group companies around the world. We also ensure that exports of products from Japan to other countries are supplied in a dependable manner. The department is responsible for product liability and works to optimally coordinate manufacturing, sales, and inventories throughout the supply chain. These operations cannot create value independently, so we understand the importance of facilitating close cooperation between the Company's operational departments, group companies worldwide, and business partners.

Noritz has positioned its international businesses as growth drivers going forward, so the Global Headquarters is

implementing strategies aimed at expanding operations. Accordingly, our department has been improving systems and helping employees gain relevant experience and skills needed for the growth of international businesses.

Our core policy is to effectively provide support and proactive leadership so that these international businesses can maximize profitability. On that basis, we are pursuing three objectives. The first is to provide relevant expertise for helping all of these businesses cut costs through budget management. The second is to devise new frameworks and best practices for enabling businesses to collectively carry out forward-looking initiatives. Finally, we want to build the Noritz brand in other countries and collect and share market data to establish a firm basis for international expansion. With these objectives in mind, for both export operations and international corporate affairs, we have been specifying tasks, key goal indicators, and key performance indicators, and appointing personnel to work on those tasks.

Vision and Strategies



Sharing ideas for achieving goals

■ Haramaki

Unlike sales departments, for a back office department like yours, setting financial targets such as net sales and operating income is difficult. Therefore, each member of your department should be aware of what is necessary to achieve such goals. For example, the management group in your department has set the goal of optimizing supply chain management, but what do you think must be done to achieve that?

■ Tanaka

To expand internationally, I think more flexibility will be necessary. Our management group has been tasked with optimizing inventories, but that is only a passing point. Essentially, we want to enable faster shipments following orders from customers. I think that is the ultimate goal to accomplish.

■ Haramaki

I see. Ms. Shimoda, you have been tasked with strengthening foundations for continuous expansion overseas. How can that goal be achieved?

■ Shimoda

At present, our businesses are growing in countries where group companies operate, but in countries where we don't operate, we still lack information about the kinds of products that dealers want to handle. Therefore, I expect more information from dealers to be collected year by year.

■ Haramaki

Please tell me about the management group's goal of improving the personnel backup system. What is the purpose of having tasks assignable to all personnel?

■ Uchida

Depending on the country we export to, the procedures we handle are slightly different. At present, only a limited number of personnel can properly handle the work for each country, but our goal is to set up a system for enabling all members to perform these duties. Therefore, members have been learning how to handle procedures for countries other than those they have been assigned to, so they can take over for others when needed.

■ Haramaki

So members have the skills required for handling other countries

besides the ones they are normally in charge of. Ms. Miki, how do you view these efforts to improve the backup system that has been set up?

■ Miki

I am in charge of export procedures for Hong Kong, but if I have to take time off due to illness or personal reasons, for example, another member can take over, allowing the work to continue uninterrupted.

■ Haramaki

It is vital for all personnel to share ideas for achieving such goals on a regular basis. Generally, when executing policies, key performance indicators are specified in certain activities that must be accomplished in order to achieve key goals, which are top-level goals. Directly linking key goals with key performance indicators is not always necessary in back office departments. Instead, it is more important to have very clear indicators of performance.

Reshaping supply chain management
for international business expansion

■ Haramaki

In the process of executing policies, is anything unclear or worrying for you?

■ Miki

Outside Japan, sometimes we receive requests to increase the number of products just before they are installed. If we can effectively deal with such last-minute changes here in Japan, I think Noritz will become more competitive in other countries.

■ Tanaka

What you have pointed out is currently the most challenging task for members in charge of export operations.

■ Haramaki

That must make it necessary to communicate closely with the Production Control Departments. When negotiating with them, tell them that such requirements must be met because expanding the International Business is a company policy. This is Mr. Nagayasu's responsibility.

■ Nagayasu

Yes. Business expansion overseas has been making steady



progress, but I think our approach to the supply chain management must also evolve to handle that expansion. As the head of our department, I want to take the lead in building new connections with other departments.

■ Haramaki

That is a management issue, so I should handle it, too. Is anything else unclear or worrying for any of you?

■ Tachibana

I often receive sudden requests from customers in my job, which makes it difficult to coordinate production with group companies through monthly online meetings or other means.

■ Haramaki

Maintaining stable production while flexibly meeting market demand is a never-ending challenge for manufacturers. In the past, we changed our production control system because the scale of operations in Japan and overseas was very different, but we need to transform it again now that we have positioned our international businesses as growth drivers.

The importance of
managing routine tasks independently

■ Haramaki

There are two sides of executing policies: resolving issues that come up in routine work procedures, and carrying out strategic tasks. I imagine that handling these strategic tasks while doing your routine work must be rather difficult. Ms. Wang, what percentage of your total work time is devoted to such strategic tasks?

■ Wang

I would guess about 20 percent.

■ Haramaki

Allocating around 20 percent is fine. Making sure to keep working on those tasks every day is more important than the total amount of time. Those tasks will pile up if you put them off when you are busy. The degree that goals have been achieved may be unclear for some time, but each of you should ask what can be done today to get closer to accomplishing those goals, and manage your daily schedules accordingly.

■ Kawaguchi

Since we work in a back office department, we often monitor the accomplishment of goals over long time spans rather than on a monthly or yearly basis. Therefore, I am interested to know how our step-by-step efforts will be evaluated.

■ Haramaki

Not everything must be completed for an evaluation. When climbing a mountain, for example, your first goal might be to reach the fourth shelter. Likewise, within a fiscal year, it is important to initially decide on a short time span for a goal. Even if outcomes do not show up quickly, they will gradually appear as you keep trying various approaches for getting results. I believe that persistent actions are the basis for policy management in the workplace.

■ Ra

I joined the company just five months ago, so I am still learning on the job. If you could offer me some advice on what to do and be aware of, I would greatly appreciate it.

■ Haramaki

If I could give one word of advice, it would be to separate your time on and off the job. This is something I have been aware of since I joined the company. In reality, this is not so easy to do, but your work will be much more efficient if you forget about it on the weekend and relax, and then concentrate on it again from Monday. If you already have something that helps take your mind off of work, that's great. Otherwise, you should find a hobby or something.

■ Ra

I understand, thank you.

Motivational meetings are held for the purpose of helping employees understand how to execute policies, providing senior managers with opportunities to gain direct feedback in the workplace, and identifying issues that management must address. By empowering employees to perform at their best while broadening their work duties and responsibilities, Noritz aims to enable its organizations to continually take on challenges. In this way, employees become more involved in the process of pursuing clear goals. Besides these meetings, Noritz is deploying various tools for raising employee engagement with a view to make its organizations more dynamic.



Creating Value through Manufacturing

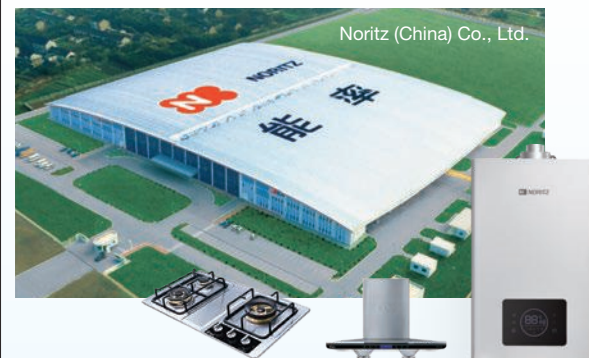
Enriching people's lives through R&D and manufacturing capabilities

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.

Chinese market

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)

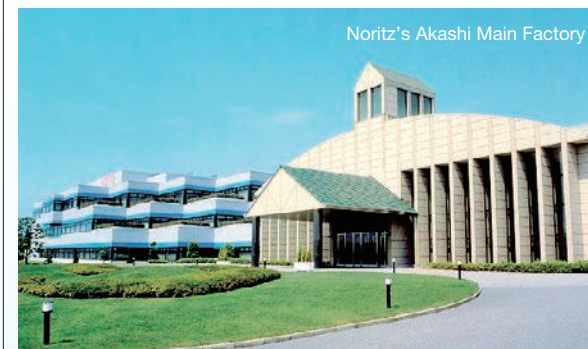
Comment from a customer in China

Among roughly 200 companies in China that exclusively manufacture water heaters, Noritz stands out as a premium brand because Japanese quality standards are high. Water heaters are commonly placed inside buildings in China, so many people favor well designed products. In that context, Noritz products are considered to be stylish.



Japanese market

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.

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)

Comment from a customer in Japan

Turning a tap to get hot water is so taken for granted in Japan that many forget that it comes from a water heater. I came to appreciate this after mine broke down on a cold winter day. I was really grateful to the service staff who came quickly to repair it.



Masamine Hirose
Head of
Products Headquarters
Noritz Corporation

Australian market

Combining the strengths of Dux Manufacturing and the Noritz Group



Noritz Corporation entered the Australian market in 2014 when it acquired Dux Manufacturing Limited, a leading manufacturer of storage-type water heaters in Australia 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.

Manufacturing facility and sales office in Australia
Dux Manufacturing Limited
(New South Wales)



Simon Terry
CEO
Dux Manufacturing
Limited

Comment from a customer in Australia

In Australia, most water heaters have a tank for storing the water, so it is possible for a large family to run out of water during the day. Japanese people on a homestay here were surprised when the hot water ran out. Japanese tankless gas water heaters are popular now because users do not need to worry about running out of hot water.



North American market

Aiming to be number-one in tankless water heaters



As storage-type water heaters represent most of the North American market, 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.

Manufacturing facility in the United States
PB Heat, LLC (Pennsylvania)

Sales offices

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



Jay Hassel
President and CEO
Noritz America
Corporation

Comments from a customer in the United States

Storage-type water heaters are mainstream in the U.S. because people here have a lot of space. Nevertheless, an increasing number of people are replacing those heaters with environmentally friendly tankless gas water heaters from Japan because environmental energy and conservation regulations are strict. The Japanese products are also more convenient because they never run out of hot water.



Creating Value through Manufacturing



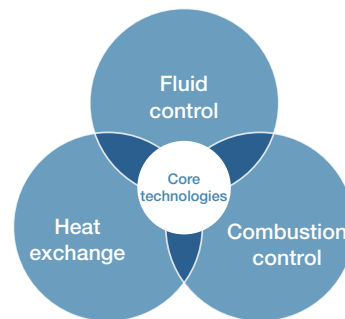
Research and development

Aiming to help build a low-carbon economy by developing new technologies for diversifying energy sources

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 a wider range of energy sources with a view to help build a low-carbon economy.



Comment from a member of the Option Development Department
While placing importance on customer satisfaction, we are applying technological innovations to develop product functions that people would use every day.



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. It applies its fluid control technology to develop control devices and sensors designed to maintain consistent bathwater temperature for more comfortable baths.

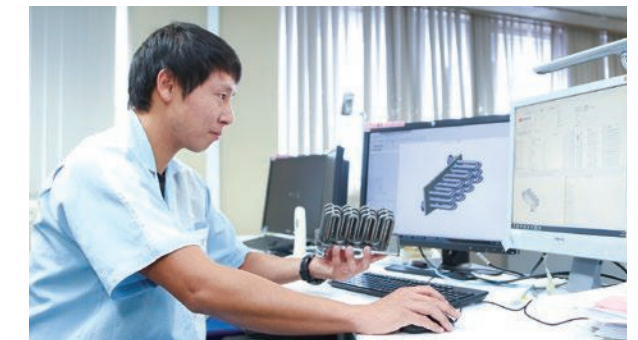
Through the development of these core technologies, Noritz has completed a substantial amount of research on methods of limiting CO₂ emissions and maintaining good health through bathing, creating a basis for providing "The Simple Comforts of Life" through its products.

Product development for the global market

Developing products that meet demand and environmental requirements in each country through group-wide collaboration

Noritz is striving to develop products that can attract customers around the world by facilitating cooperation between its overseas manufacturing facilities and technical departments in Japan. Through these group-wide efforts, various products have been developed with particular attention to environmental friendliness, including highly efficient combination boilers and the EZ Series of highly efficient tankless water heaters with a premixed burner design, which meet NOx emissions and thermal efficiency standards in North America where environmental and energy conservation regulations are stricter than in Japan.

By making the most of its expertise and technologies developed in Japan, the Noritz Group intends to accelerate its global expansion by developing products suited to the cultures and energy markets of various countries.



Innovation

Developing new products for the decarbonization, digital transformation, and health and wellness markets

Noritz carries out R&D with a view to meet the needs of increasingly diverse consumers and communities while also responding to changes in energy markets. In the past, Noritz developed its Multi Grill brand gas cooker designed to make everyday cooking easier and more pleasurable, and the Osoji Yokuso brand bathtub featuring a convenient self-cleaning function. The Company has also developed environmentally friendly hybrid water and space heating systems.

While continuing to refine its technologies, Noritz will strive to create new businesses by developing new products for the decarbonization, digital transformation, and health and wellness markets. To accelerate this new business creation, the Company concluded a comprehensive partnership agreement with Kobe University in 2021.

In addition, Noritz will develop a hybrid water heating system that circulates thermal energy in a project commissioned by the New Energy and Industrial Technology Development Organization, Japan's largest public body promoting R&D and technology deployment.



Creating Value through Manufacturing



Manufacturing

Striving to raise quality through a safe and efficient manufacturing network

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, while placing the highest priority on product quality, the Group has been collaborating with suppliers across its entire supply chain to speed up production and shipments while further enhancing the quality of products.

Built-to-order
manufacturingNoritz
Production
SystemJust-in-time
manufacturing

Comment from a member of the Production Engineering Department

While considering everyone working on the factory floor, our job is to install production machinery and equipment designed to ensure product safety for users. To bring our production lines up to date, we have adopted automated manufacturing equipment for simple tasks while having skilled workers manufacture more complex items by hand.



Highly efficient production system

Aiming to raise the efficiency of the Noritz Production System and ensure a stable supply

Deployed by the entire Noritz Group, the Noritz Production System combines just-in-time manufacturing with built-to-order manufacturing. Noritz created this unique system in order to quickly deliver products to customers while eliminating all kinds of inefficiencies as much as possible. Originally deployed by the Akashi Main Factory for its gas water heater production line, the system has since been adopted by all factories group-wide.

More recently, however, the Group has recognized the need to adapt to the changing market and supply chain conditions, which have been disrupted by the COVID-19 pandemic. Therefore, we have been taking steps to improve the Noritz Production System by raising efficiency and increasing inventories of parts to ensure a stable supply.

Partnership with suppliers

Delivering on time without production or shipment stoppages by managing risks in partnership with suppliers

Noritz products like baths and gas cookers are indispensable for customers because they are used in everyday life. Recognizing that a failure to deliver these products would greatly inconvenience customers, the Noritz Group strives to ensure that production and shipments proceed on schedule while working closely with its suppliers to manage risks. Unfortunately, however, as a result of unexpected circumstances related to the COVID-19 pandemic, including prolonged lockdowns in various countries, the Noritz Group has experienced production delays, causing disruptions for customers. Taking this issue seriously, the Group is improving its risk management in order to more effectively deal with global pandemics and disasters.

In addition, Noritz and its group companies around the world have acquired ISO 9001 certification, the international standard for quality management, and promote responsible procurement in cooperation with suppliers.



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. To make manufacturing more efficient, the Group has adopted robotic process automation in back-office operations, and installed automated conveyor systems to step up automation. It is also improving workplace environments in an effort to make work more rewarding for employees.

While automating production lines with a human touch, the Group assures quality by having employees manually conduct all inspections, including inspections of gas leaks at the final stage of production. Through these measures, the Noritz Group is providing safe products that customers can depend on in their everyday lives.



Creating Value through Manufacturing



Sales and services

Offering a full range of reliable support spanning from sales to after-sales services

The Noritz Group has earned the trust of customers through its partnerships with a wide range of sales outlets around the world. It also offers them training programs in and outside Japan to keep their service staff updated about products and equip them with the skills they need for sales, installation, maintenance, and repair work, thereby ensuring a uniform level of service quality.

Although meeting directly with customers has been more difficult during the COVID-19 pandemic, the Group has been using online meeting platforms to meet remotely and maintain good relations with customers.



Sales activities during the COVID-19 pandemic

Shifting to online trade shows as main events for gas appliance manufacturers

For the Noritz Group, meeting consumers directly is an important way to promote the safety, dependability, and convenience of its products. In 2021, however, the Group had to conduct sales and marketing activities remotely due to restrictions on events and gatherings during the COVID-19 pandemic. For example, most exhibition facilities in Japan were unable to host trade shows, the largest events for gas appliance manufacturers, which are normally held regionally in autumn. In response, Noritz created a system for holding online exhibitions and provided it to sales outlets and dealers. The Company intends to continue maintaining relations with customers while taking steps to prevent the spread of COVID-19 infections.

Service staff support app

Helping staff promptly propose replacement models and repairs with a chatbot app

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 chatbot is also used for receiving orders for repairs, scheduling service appointments, and informing customers when repair work is finished.

Customers have commended the account for its convenience, and the number of users surpassed 20,000 in two years following the account's launch.



Customer support

Connecting with customers through a free membership website

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 for customers in Japan, providing users with timely and useful information on how to use products safely and comfortably based on the products they register. To date, the number of registered users has surpassed 100,000.



Please refer to the Japanese website for details
https://mypage.noritz.co.jp/member_web/auth/

Noritz's Contact Center

Raising customer satisfaction with prompt, helpful, and friendly support

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.



Sustainability

Aiming to maintain customer loyalty

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.

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



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

More information on pages 25 and 26

Environment



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

More information on pages 27 to 30

Society



Supply chain management	Promote socially responsible procurement
Development and promotion of products that solve social issues	Cultivate new applications Refine existing technologies Promote products that benefit people's lives
Employee engagement	Manage corporate culture through change Educate employees about innovation Promote quality and ESG initiatives in-house Improve workplace conditions

More information on pages 31 to 34

Governance



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

More information on pages 35 and 38

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 raise the quality of its products and services.

The Group's products burn gas, so even a small defect could potentially lead to a serious accident. 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

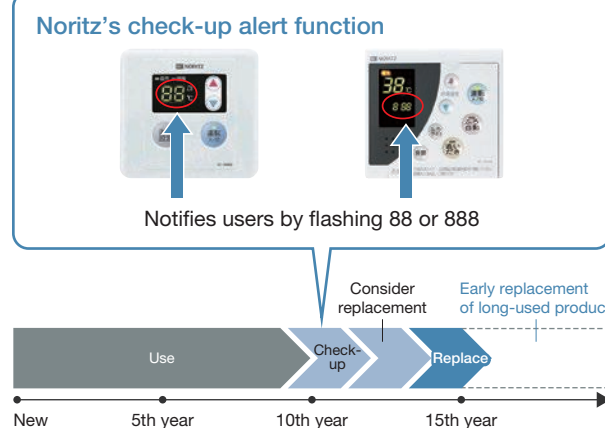
Water heaters equipped with inspection alert functions

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 also providing 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>



Detailed product evaluations from the standpoint of consumers

Noritz aims to design its products to be safe and easy to use by anyone. Therefore, it verifies that all kinds of users, including senior citizens, can easily operate its products and understand user manuals prior to their release in order to eliminate potential accidents caused by improper handling or usage. The Company has products evaluated by users and only releases products after they have passed such evaluations.

Noritz also verifies that its products are easy to install by construction firms and its installation manuals are clearly explained in order to ensure a consistent level of installation quality.

Through these activities, the Company is improving

product quality while ensuring their safety, reliability, and user-friendliness.



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

In an effort to bolster its international competitiveness, Noritz is leveraging its technologies in Japan to enhance joint development with its group companies around the world while stepping up collaboration with their manufacturing plants. In such ways, the Noritz Group has been meeting demand from established and new markets. As an example of these efforts, employees from Japan and China jointly developed the E1 Combi boiler made in China and released to the Chinese market in 2021.



Technical development—maximizing development efficiency

Improving production efficiency and maintaining consistent quality through automation and modular components

To make products tailored to each market the Noritz Group operates in, factory workers carefully assemble each Noritz product by hand. To facilitate this process, the Group has been introducing automation and developing modular components to ensure consistent quality regardless of which workers assemble the products. In 2021, it adopted a robotic warehouse system for its remote controller production lines in order to maintain stable quality across manufacturing and logistics. Looking ahead, the Group is working to further boost production efficiency.



Message from a business partner

We inspect water heaters with the goal of eliminating potential accidents

As a member of the Noritz Group, N.S.C. provides after-sales services for Noritz and its affiliated companies. Although Noritz brand water heaters are high in quality, accidents can occur due to product aging and malfunctions. In our everyday work, we take proactive steps to prevent such problems from occurring, in line with the Noritz Group's goal of completely eliminating product accidents. To help accomplish that goal, Noritz equips its water heaters with an alert function that notifies users when an inspection is needed. We then visit their homes to conduct an inspection. Our inspection personnel strive to perform their duties effectively and give clear explanations to customers. Feedback indicates that 85% of customers are satisfied with the inspections, and 91% expressed a willingness to use Noritz products again. We intend to continue improving the quality of our services as a valued member of the Noritz Group.

Ryota Segawa

President and representative director
N.S.C. Co., Ltd.



Sustainability

Sustainability Environment

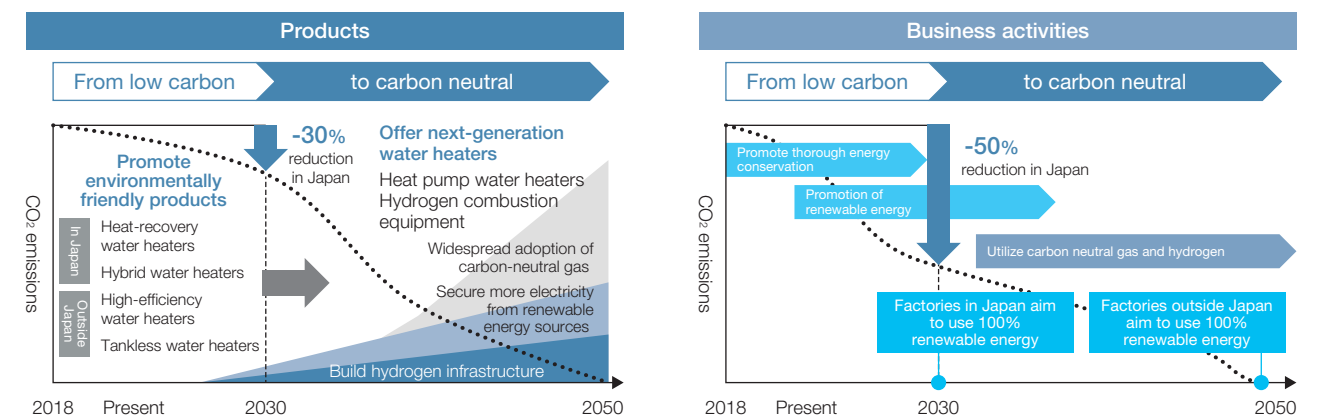
Towards carbon neutrality by 2050

As a group of companies that deals in gas water heaters and kitchen appliances that emit CO₂, the Noritz Group understands the growing importance of reducing CO₂ 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 working to develop products that emit less CO₂ and promote them widely with a view to help achieve the 2050 goal and contribute to a more sustainable planet.



Fighting climate change—reducing CO₂ emissions

Laying a roadmap for contributing to a decarbonized society



TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES
In 2020, Noritz began disclosing important climate-related information in accordance with guidelines set by the Task Force on Climate-related Financial Disclosures. For details, please visit the following webpage: <https://www.noritz.co.jp/company/csr/pdf/tcfd.pdf>

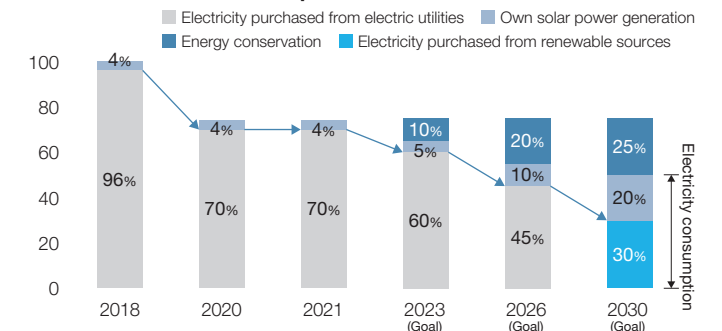
Aiming for a complete shift to renewable energy at factories to reduce CO₂ emissions

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.

RE100
CLIMATE GROUP

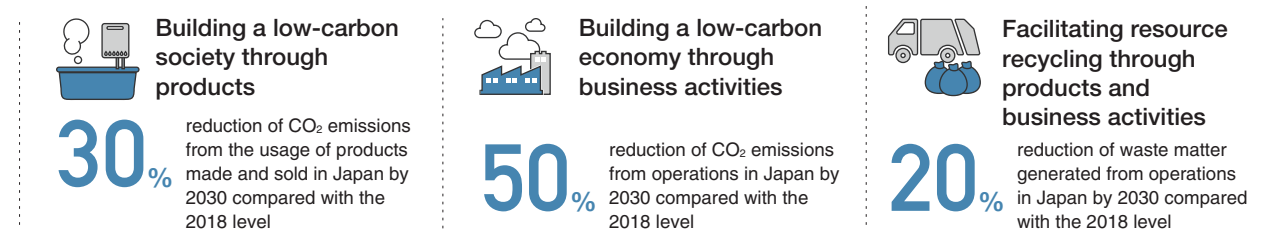


Towards the goal of using 100% renewable energy at all factories in Japan



Working towards medium-term targets for reducing CO₂ emissions and waste

Targets set to help build a low-carbon economy



The Noritz Group is taking proactive measures to cut down on waste, recycle resources, and prevent environmental pollution, especially at its production plants in Japan, while also reducing CO₂ emissions from its products and operations. Aiming to be carbon neutral by 2050, the Group has set respective CO₂ reduction targets for products and operations in line with targets set by the Japanese government.

Message from a third-party organization

I hope Noritz will make rapid progress in saving energy while continuing to encourage employees to think independently

Noritz works to save energy through team activities, which I think is really impressive. Nowadays in Japan, energy-saving measures are increasingly being handled by a relevant department in a company together with a specialized external organization. Consequently, the number of companies that have an organizational culture of saving energy through internal activities has been declining. The number of energy management personnel is also decreasing, resulting in fewer opportunities for employees to gain relevant expertise and experience within their companies. This is a problem for human resources development.

By having teams carry out energy-saving activities, Noritz encourages employees to think independently while applying solutions from external organizations. As such an organization, The Energy Conservation Center, Japan, is also offering ideas that could contribute to further energy conservation. I hope Noritz will make rapid progress in saving energy and achieve its 2030 environmental goals.

Nobutaka Suzuki
The Energy Conservation Center, Japan

Sustainability

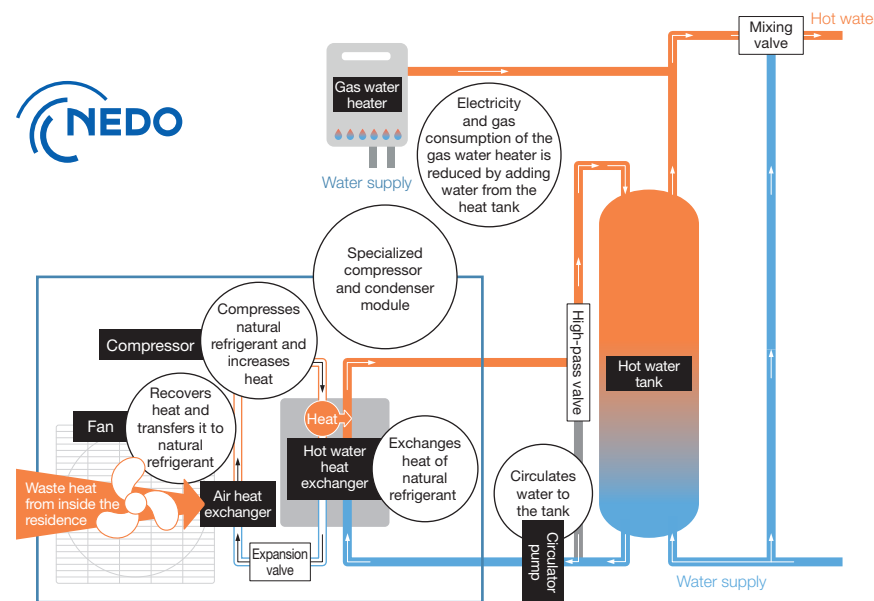
Sustainability Environment

Fighting climate change—developing environmentally friendly products

Project launched to develop technologies and products that contribute to decarbonization

As the shift to a decarbonized economy gains momentum, in 2021, Noritz initiated a project aimed at reducing carbon emissions by developing and promoting products that can use various sources of energy. The project's members have been working to overcome the technical challenges needed to commercialize this system, while also considering marketing strategies. Next-generation energy-saving equipment like this must be developed and adopted in order to popularize carbon neutral gas, increase the supply of electricity from renewable sources, and expand hydrogen infrastructure going forward. Against this backdrop, the development of this system was selected for funding by the New Energy and Industrial Technology Development Organization, Japan's largest organization supporting R&D.

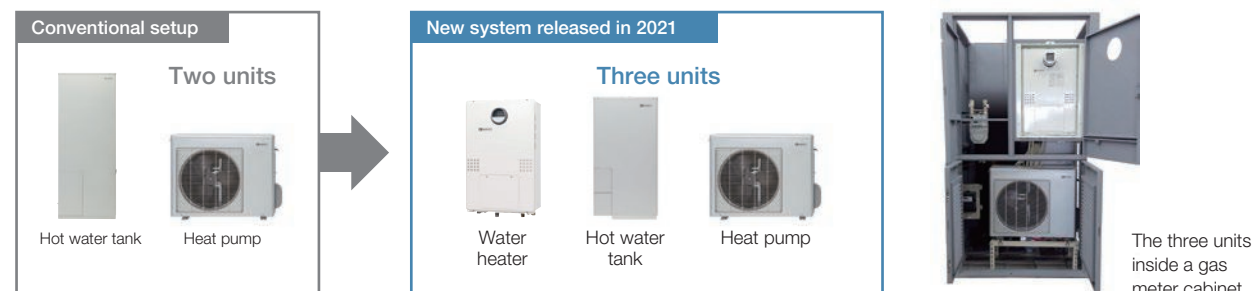
Hybrid water heating system that recovers heat from inside the home



Fighting climate change—marketing environmentally friendly products

Helping Japan decarbonize with a hybrid water and space heating system designed for houses and residential buildings

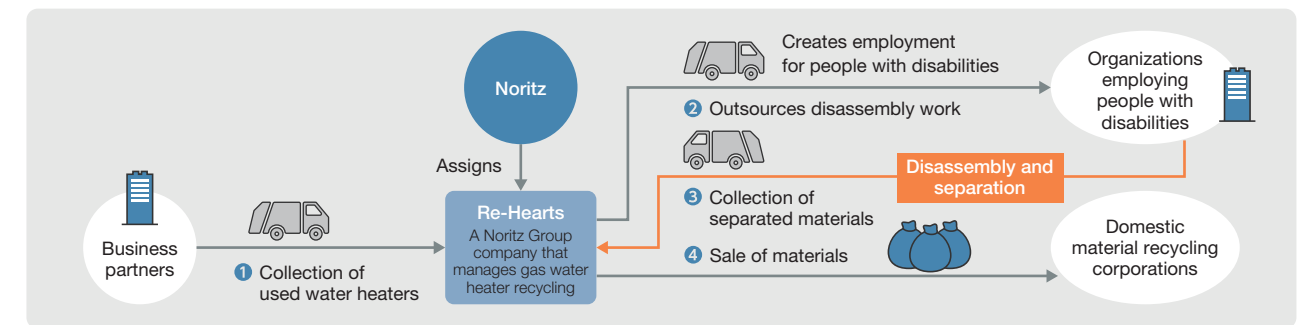
In April 2021, Japan's Ministry of Land, Infrastructure, Transport, and Tourism strengthened mandatory energy conservation standards and energy-saving performance regulations for houses and residential buildings based on its policy of improving housing stock and home ventilation systems that contribute to decarbonization. Specifically, the ministry aims to have houses and residential buildings use less energy for supplying hot water and heating since that energy accounts for about 60% of total residential energy consumption.



Noritz supplies products that help residences improve their energy-saving performance, particularly hybrid water and space heating systems that reduce residential energy consumption by efficiently using electricity and gas for heating water. In 2021, the Company released a hybrid water and space heating system comprised of three units. The system can facilitate 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.

Promoting resource recycling and water heater recycling

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



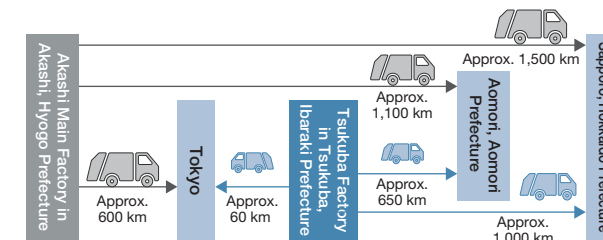
Recognizing the growing importance of realizing a circular economy, the Noritz Group has been recycling gas water heaters since 2011. These activities have been contributing to resource recycling in Japan as well as the creation of employment opportunities for people with disabilities.

Re-Hearts K.K. operates a water heater recycling business with the goals of recycling resources in Japan while also creating job opportunities for people with disabilities. Re-Hearts is a group company of S-CORE Hearts K.K., a member of the Noritz Group that was established for the purpose of employing people with disabilities.

The company collects used water heaters from its business partners and outsources the disassembly and separation work to organizations employing people with disabilities, thereby supporting their independence while reducing environmental burdens through resource recycling.

Promoting resource recycling—reducing waste and optimizing logistics

Reallocating production to reduce environmental burden



Noritz was able to reduce its environmental burden from product shipments and parts procurement by shortening the distance traveled by delivery trucks. This was made possible by transferring the production of its kerosene water heaters to its Tsukuba Factory in Ibaraki Prefecture, which is closer to the northeastern region of Japan where these products are mainly used. Previously, they had been manufactured at the Company's main water heater factory in the city of Akashi, Hyogo Prefecture, which is much farther from Japan's northeast.

Message from a business partner | We want to help achieve the SDGs together



Kan Arai
Kumagai Gumi Co., Ltd.

In recent years, Japan's construction industry has been stepping up sustainability-related initiatives. Likewise, all of us at Kumagai Gumi have been carrying out initiatives to help achieve the UN Sustainable Development Goals in accordance with our environment, social, and corporate governance policies. Among these initiatives, we have been looking to apply energy-saving technologies while complying with net zero energy condominium standards. In that process, a suggestion came from Noritz, a long-time business partner, to use its hybrid water heaters. We then toured Noritz's Akashi Main Factory, and were impressed by the high level of environmental awareness among the R&D team. We were also very interested in the heat pump unit it developed because it uses R290 propane, a natural refrigerant that has a low environmental impact. We have collaborated with Noritz to develop a three-unit hybrid water and space heating system that meets standards for net zero energy condominiums.

Looking forward, we want to continue collaborating with Noritz across our respective businesses to find ways of developing environmentally friendly, long-lasting homes and facilities. In doing so, we can help achieve the SDGs together.

Sustainability

Sustainability Society

Providing 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



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.

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. It was recognized as a company that empowers people with disabilities by the Japan Association of Employers of Persons with Disabilities in 2017.

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.

In 2019, Noritz's group company Kashima Co., Ltd., received an award from the Japan Organization for Employers of the Elderly, Persons with Disabilities and Job Seekers, in recognition of its proactive efforts to employ people with disabilities.



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

Developing and promoting solutions—marketing products that offer solutions to social issues

Solution for reducing bath-related accidents among the elderly

Alleviating the burden on elderly caregivers amid an aging population

● Approx. 19,000 bathing-related deaths in 2013*



Bath monitoring app available for smartphones

Solutions from Noritz

Weather alert app for bathing advisory in collaboration with the Japan Weather Association

Noritz has launched an app (called Ofuro no Jikan in Japan) that provides useful information for ensuring more comfortable bathing. Based on weather forecasts the app also offers reminders and tips for safe bathing methods, such as preheating the bath to lower the risk of heatstroke and heat shock. The weather information provided by the app is obtained through Noritz's collaboration with the Japan Weather Association.



<https://ofuro-time.noritz.co.jp/>

About one-quarter of Japan's population is elderly, and this ratio is increasing. At the same time, the burden on caregivers is becoming more serious as the country's labor force shrinks. In 2021, Noritz released a commercial water heater equipped with a bath monitoring system that can be used by residents of elderly care facilities in their private bathrooms. Aiming to expand the capabilities of this product, Noritz has been collaborating with a healthcare technology company to provide a remote monitoring system with multiple sensors for checking all rooms of elderly residential care facilities. This can ease the burden on caregivers while also enabling such facilities to maintain safer bathing conditions for residents, thereby providing solutions for problems facing the elderly care industry.

* Based on research on bathing-related accidents and preventative measures

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 applied its technology and safety expertise to develop the Multi Grill gas cooker. Designed for quick and easy cleaning, the product's multiple burners allow a wider range of cooking methods compared with single burner gas cookers. Its patented system features internal heat sensors attached to the lower burner that precisely detect the temperature of the bottom container and automatically adjust the heat according to the food being cooked. Leveraging the success of the Multi Grill, the Noritz Group intends to continue developing gas cookers that make cooking easier and more convenient for users.



Message from a business partner

We are applying IoT technology to make life safer and more comfortable for the elderly

Japan is facing various challenges as a super-aging society, where one-third of the population will be elderly by 2025. To help deal with these issues, Z-Works provides a cloud platform and monitoring systems to elderly residential care facilities. Many fatal accidents occur in the bath, but installing sensors in the bathroom has been difficult because of the humidity and lack of electrical outlets. Nevertheless, Noritz has already developed a bath monitoring system for its residential water heaters. By working together, we were able to produce a system for monitoring an entire facility, including the bathrooms. Generally, residential care facilities have tried to reduce bathing accidents by having elderly residents bathe in communal baths. With sensor-equipped systems, however, they can now consider both accident prevention and individual privacy. By applying technological innovations, we want to give these facilities the option of creating a safe bathing environment, including in private rooms.

Makoto Ogawa
Co-CEO
Z-Works Inc.



Sustainability

Sustainability Society

Developing flexible, motivated, and creative employees

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

Noritz places importance on employee engagement with a view to enable its organizations to tackle future issues. The Company has been fostering workplace environments that encourage younger employees to take on challenges and create new businesses.

Motivational meetings

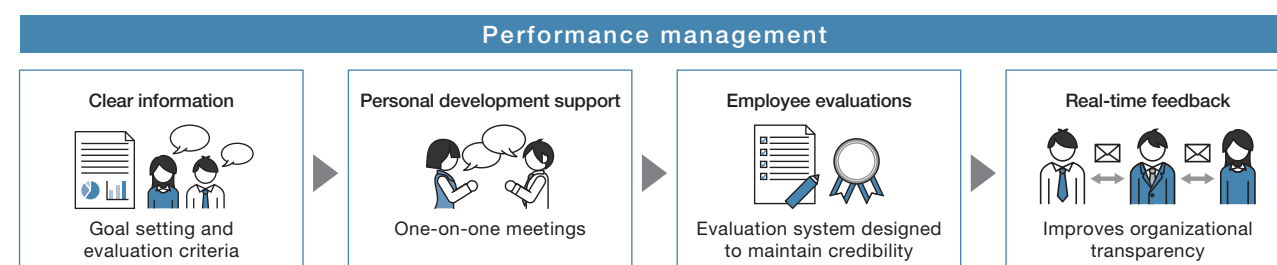
To improve the ability of its organizations to take on challenges, Noritz holds motivational meetings led by its directors, senior managers, and personnel who formulate plans and objectives. The speakers talk about successful interdepartmental initiatives and issues to address, and directly answer questions from employees, visiting 300 workplaces across Japan and meeting with a total of 2,262 participants. This has strengthened teamwork and established a corporate culture of creating teams that develop and execute plans set by upper-level organizations.

300 workplaces across Japan and a total of 2,262 participants



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 providing clear information on goals, evaluation criteria, and related matters to employees.



Employee engagement—workplace reforms

Improving equipment and communication to help employees work safely and comfortably during the pandemic

In response to the outbreak of COVID-19 in Japan and requests by the government for people to stay home, Noritz took steps to implement telecommuting in consideration of the safety of its employees. Specifically, we improved equipment and software needed for telecommuting, introduced electronic signatures to replace traditional Japanese stamps, and shifted to electronic documentation of contracts. The Company also allowed a broad range of employees to work from home, including headquarters staff and members of sales and R&D divisions, while encouraging employees to use its flextime system to enable more flexible working conditions and accommodate changes in their lifestyles.



In addition, Noritz conducted an employee survey concerning the COVID-19 situation, and found that with respect to telecommuting, employees felt that communication, in particular, needed to be improved. In response, the labor union led an initiative to have expenses for online gatherings subsidized.

Occupational health and job satisfaction

Fostering a workplace environment that allows diverse employees to pursue long, healthy careers and 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

We promote health-oriented management so that employees can perform their best in good health and wellness to create value and promote sustainable growth.

- Together with our health insurance association and labor union we give unified support so that each employee is mindful of getting healthy, and maintaining and improving health.
- We strive for corporate culture reform and establish programs and the environment so that individual employees can realize their optimum workstyle that leads to their fuller work/private life and productivity improvement.
- We deliver "The Simple Comforts of Life," as stated in our Mission Statement

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 an employee | As an occupational physician, I want to foster workplaces that are conducive to good mental and physical health

As an occupational physician employed by Noritz, I apply my professional expertise to help employees manage their health and maintain a comfortable working environment. Since the outbreak of COVID-19 in 2020, our workplaces have been trying to limit close contact situations, so many employees have been working from home. At factories, however, employees have continued to work while taking precautions against infections. To make them feel safer on the job, we set up a team to provide workplace vaccinations. Although vaccine shipments arrived in several batches, we did our best to complete the vaccinations as planned. It was the first time for everyone to receive the vaccine, but having it done in their own workplace by people they knew seemed to alleviate their anxiety. Building on this experience, I am more determined than ever to help foster workplaces that are conducive to good mental and physical health.

Uki Yasufuku
Occupational physician
Human Resources &
General Affairs Division
Noritz Corporation



Sustainability

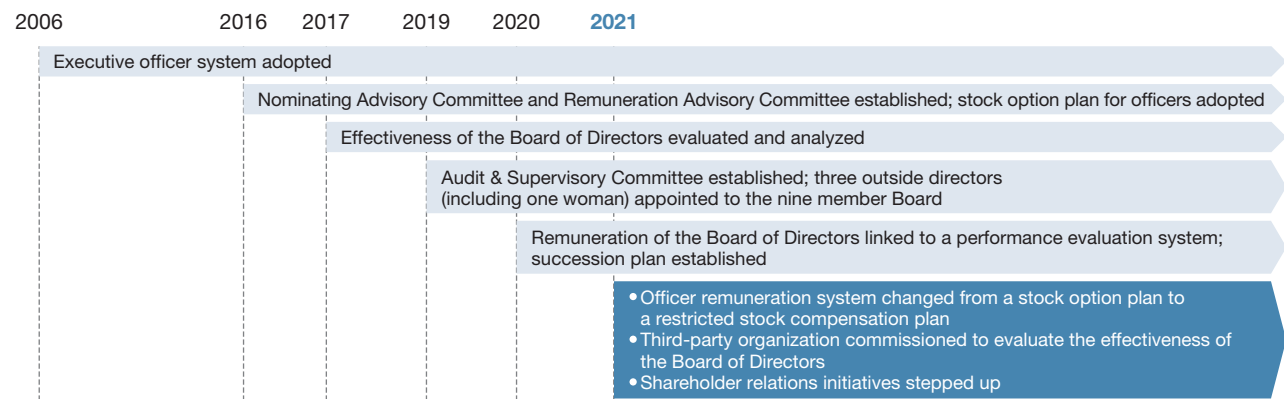
Sustainability Governance

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. Recognizing the utmost importance of maintaining sound corporate governance, management strives to make decisions promptly and with the best possible judgment, and takes steps to improve the Company's soundness and transparency while dealing with changes in its operating environment.

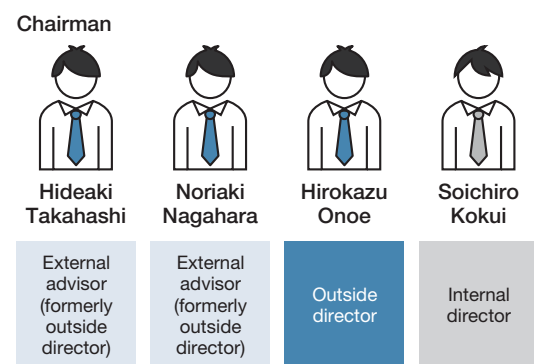


Evolution of the Company's corporate governance structure



Promoting independence and objectivity in the Board of Directors

Composition of the Nominating Advisory Committee and the Remuneration Advisory Committee (As of December 31, 2021)



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 are comprised of 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. In addition to the committee members, three auditors participate in meetings of both committees in order to ensure objective, independent, and transparent deliberations. In 2021, the Nominating Advisory Committee met 10 times and deliberated on various matters, including the retirement of Noritz Chairman Soichiro Kokui. The Remuneration Advisory Committee met seven times in the same year.

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, 2021)

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 adminis-tration	ESG and sustainability matters	
Chairman and CEO	Soichiro Kokui	●		●	●	●		●	●		●	●
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	●			●		●		●		●	●
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	●						●		●	●	●

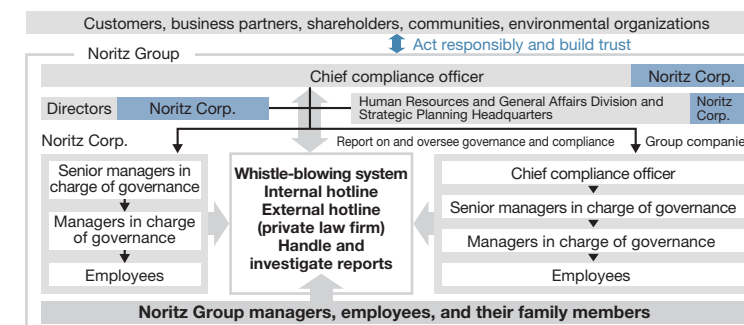
Improving the effectiveness of the Board of Directors

Noritz began assessing the effectiveness of its Board of Directors in 2017, and has carried out a plan-do-check-act cycle to make improvements based on assessment results. To further enhance the Board's effectiveness, the Company contracted a third-party organization to conduct an assessment and analyze the results in 2021. Furthermore, to ensure transparency, the department responsible for corporate governance was put in charge of overseeing the assessment instead of the Board's administrative office.

Compliance—raising awareness of compliance among employees

The Noritz Group shares expectations for proper standards of behavior through its Code of Ethics with the goal of raising awareness of compliance group-wide

Corporate governance system



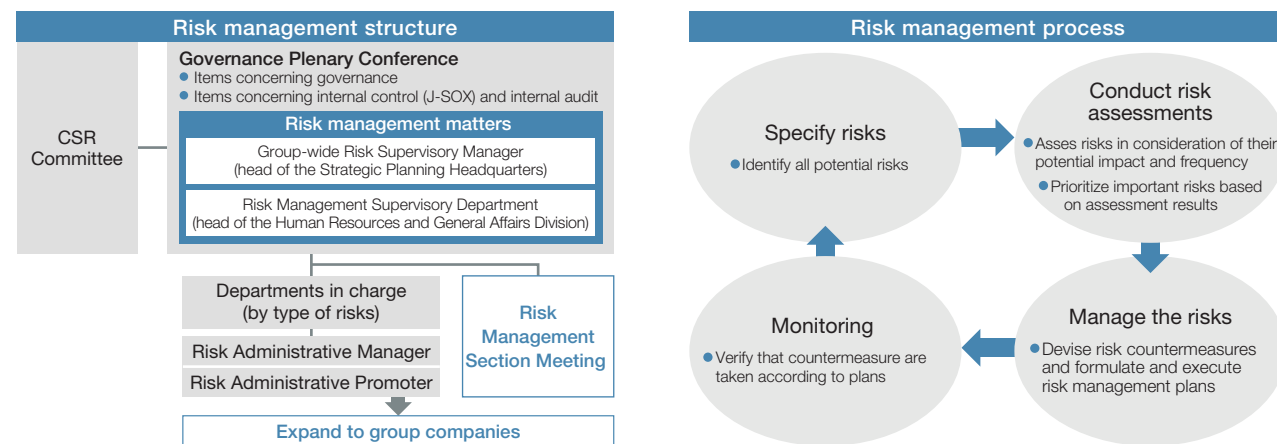
In addition to complying with laws and regulations, the Noritz Group aims to build trust with its stakeholders by conducting business activities based on high ethical standards. For that purpose, the Company established the Noritz Group Code of Ethics in 2003 (and revised it in 2021), and is taking steps to ensure it is closely followed by all members of the Group. Noritz has also set up an internal whistle-blowing system for the purpose of quickly identifying and preventing compliance violations, and resolving problems that arise in the event of such violations. The system is made available group-wide to officers, managers, employees, and their family members.

Sustainability
Governance

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

Improving effective management of major risks following a quantitative risk assessment

To effectively manage risks on a routine basis, Noritz and its group companies in Japan implement a plan-do-check-act cycle in risk management activities. They also hold periodic conferences on corporate governance to discuss issues related to risk management. Proposals raised at these conferences are then deliberated by the Company's CSR Committee. In 2021, Noritz began quantifying various risks and established a system for improving its risk management process.



Hazard risks	① Natural disasters ② Accidents and breakdowns ③ Pandemics ④ Supply chains
Operational risks	① Products and services (quality) ② Production facility troubles ③ Fault in installation and services ④ IT and information security ⑤ Legal and ethical matters (prevention of corruption) 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
Strategic risks	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

- Risk management improved following a quantitative risk assessment

To bolster its routine risk management activities, Noritz contracted a consulting firm to carry out a quantitative risk assessment. In 2021, the firm quantified the risk of a cyber attack disrupting operations as well as the risk of product defects resulting in liability claims and recalls. Based on these results, Noritz reassessed its systems for preventing product defects and its insurance policies, and allocated investment funds for these purposes in the future.

In addition, Noritz updated its business continuity plan to more effectively deal with the COVID-19 pandemic and supply chain disruptions, including international semiconductor shortages. The Company also took into account its delayed product shipments when revising the plan.

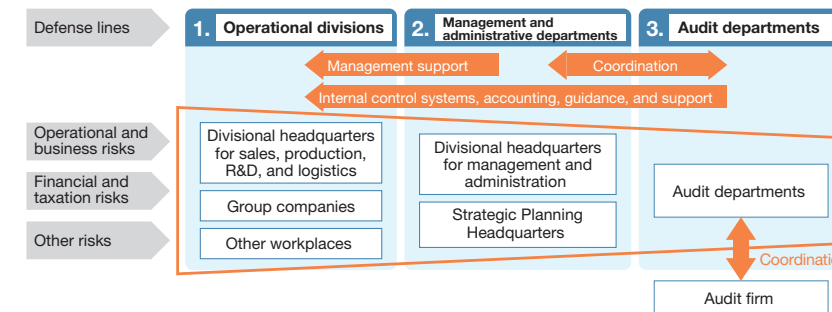
Message from a stakeholder company | I expect Noritz to become an even more valuable company

I have been invited by Noritz in the past to participate in meetings and discussions for stakeholders and shareholders. The company has been thinking seriously about environmental, social, and corporate governance issues and reflecting them in its activities. I fully support these efforts.

I believe a gap exists between Noritz's market capitalization and its value as an essential company for society. With a desire to reduce this gap, the Board of Directors invited me to conduct a training course on the expectations and challenges for companies from the perspective of long-term investors. Now that the course is completed, I hope Noritz will work to become even more valuable in the future.



■ Managing risks across three defense lines



The Noritz Group conducts risk management based on the concept of three “defense lines.” Specifically, the Group’s operational divisions, management and administrative departments, and audit departments each play a role in executing internal controls. In 2021, each divisional headquarters for management and administration (the second defense line) implemented measures for strengthening their corporate governance.

Message from an outside director

I will apply my expertise in accounting, finance, and taxation for the sake of Noritz's sustainable growth

Yasuhiro Tani
Outside director
Audit & Supervisory
Committee member



I was appointed as an outside director in March 2021. In monthly meetings of the Board of Directors, I actively participate in deliberations while respecting the positions and opinions of the other members. I have visited various workplaces, through which I have come to appreciate how Noritz places the highest priority on product quality. Soon after joining the Board, I noticed that communication within the Company is dynamic. Everyone is encouraged to act independently, and members of the Board and the Audit & Supervisory Committee can discuss issues openly. When discussing executive matters, we can raise questions without reservation and give constructive advice. At the same time, everyone is very serious. Rules are strictly observed when performing duties and managing the operations of each division, as well as in deliberations by the Board. The Company has found a good balance between freedom and discipline.

I understand that my main role as an outside director is to make useful proposals for the Company based on my expertise. I specialize in accounting, finance, and taxation, so, as a matter of course, I make sure that transactions and accounting processes comply with rules, unnecessary taxes are not incurred, and investment in facilities and R&D are properly evaluated. More proactively, I propose ways to lower taxes, improve free cash flow, and reduce the weighted average cost of capital.

As an example of how I contribute, in a meeting of the Board of Directors held in June 2021, I commented

on a report about the final stage of Noritz's acquisition of a foreign company (which had been initiated before I was appointed), drawing on my expertise as a tax accountant to analyze potential tax-related risks in the report. Likewise, based on my knowledge as a certified public accountant, I explained to the Board how purchase price allocation can affect future financial statements, and had them reaffirm the importance of due diligence when examining future M&A strategies, particularly with respect to substantiating assets and covering liabilities. I plan to apply my financial expertise to verify that the acquired company contributes to free cash flows according to original expectations.

Noritz has been stepping up its ESG initiatives each year. As a member of the Audit & Supervisory Committee, I pay particular attention to corporate governance, and plan to closely examine legality audits from the standpoint of shareholders while focusing on validation audits. In recent years, the Noritz Group has expanded into the United States, China, and Australia, and, very recently, Vietnam. With this expansion, the supervision of group companies around the world by the parent company is becoming more important. The Company's Audit & Supervisory Committee, Audit Department, and audit firm coordinate with each other to conduct comprehensive audits, and I hope to play a role in this arrangement so that the audits contribute to increasing the Company's valuation over the medium and long terms.

Financial and Non-Financial Results, and Company Overview

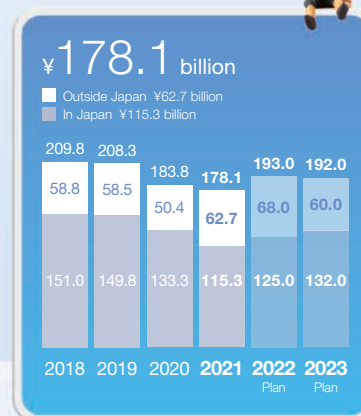


Masayuki Takenaka
Director, Chief Financial Officer
and Senior Managing Executive Officer

Financial Highlights

Results, forecasts, and targets

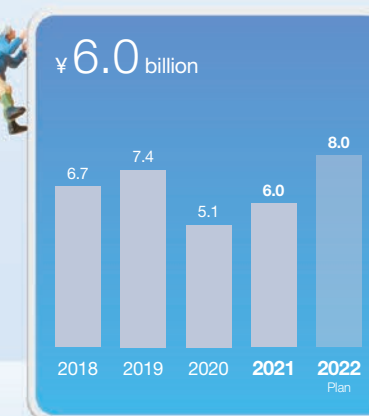
Net sales



Operating income and margin



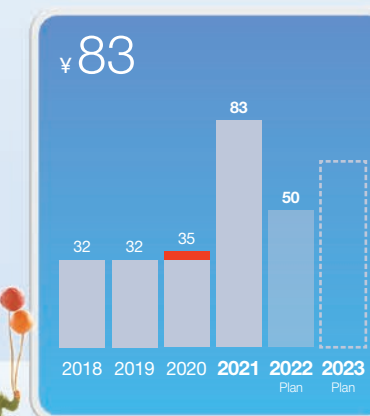
Capital investment



Return on equity



Dividend per share*



* The annual dividend included a 70th anniversary commemorative dividend of ¥3 per share.

Message from the CFO

Steady progress towards our goal of a high-earnings product portfolio

Overview of fiscal 2021

Targets were unachieved due to the pandemic, but earning power steadily improved

With the launch of our new three-year management plan in 2021, management has been executing initiatives designed to boost earning power, which we regard as our biggest task. We strengthened the foundations of the Noritz Group's operations during the second half of our previous three-year management plan up to fiscal 2020, which we positioned as a structural reform phase. Specifically, the Company reduced fixed costs in Japan by selling off its unprofitable housing equipment business, and offering a voluntary early retirement package to employees. The Company also reduced fixed costs incurred by businesses in China, the Group's main country of operations outside Japan.

Under the new three-year management plan, the Company has entered an earnings stabilization phase. In fiscal 2021, the first year of the plan, we improved the product mix by raising the proportion of high-value-added products, increased marginal profits by cutting costs, and reduced fixed costs by improving efficiency across the Group's operations in and outside Japan. As a result, in the first half of fiscal 2021, the Company posted ¥5.0 billion in operating income, a record-high for a six-month period. From the second half of the year, however, the Group had to substantially delay product shipments, especially in Japan, as the impact of COVID-19 across Southeast Asia caused delays in shipments from parts suppliers

and worldwide shortages of wiring harnesses. Consequently, sales and income dropped sharply, and the Company posted year-on-year declines in net sales and operating income in fiscal 2021.

Although our financial targets for fiscal 2021 were unachieved, we made steady progress towards our goal of shifting to a high-earnings product portfolio. The decline in profitability resulting from the delayed shipments was a transitory situation, as we initiated prompt and persistent measures to reorganize the supply chain, including changes in parts procurement methods, and modified product designs. Therefore, I am confident that the Group can get back on track to achieving the financial targets of the medium-term management plan.

Financial strategies going forward

Effectively allocating cash to improve capital efficiency

The Company's financial objective is to improve capital efficiency by raising profitability. Therefore, management places importance on increasing return on equity (ROE), an indicator of capital efficiency. In 2020, ROE was negative because the Company posted extraordinary losses resulting from structural reforms. Over the three years of our new medium-term management plan, however, we have set a target of 5.0% for ROE. In 2021, the Company was able to achieve this target even though earnings

declined steeply due to delayed shipments, as I discussed above, so we should not be satisfied with this result. The Group will work to further improve capital efficiency by shifting to a high-earnings product portfolio in Japan while expanding businesses overseas to steadily generate profits. In the future, we hope to raise capital efficiency above the cost of capital.

As CFO, I have an important duty to maintain a sound balance sheet while effectively allocating cash in ways that drive the Company's sustainable growth and raise its value. Accordingly, I placed priority on selling off certain assets in 2021, specifically real estate that had not been fully utilized, and cross-shareholdings of companies with which Noritz does not have vital business partnerships.

At the same time, we recognize the need to acquire new technologies and build a new business model through proactive investment. Therefore, the Company plans to invest about ¥1.0 billion in advanced technological applications for our products through a comprehensive partnership agreement concluded with Kobe University in 2021. Over the coming years until 2030, another ¥70.0 billion has been earmarked for investment aimed at reducing carbon emissions from the Group's operations and products. Furthermore, with a view to enter new markets, Noritz acquired a 44% stake in Kangaroo International Joint Venture Company, a manufacturer based in Vietnam—one of the fastest growing countries in Southeast Asia—through an investment of ¥5.2 billion. In the future, to create a new sales model that strengthens connections with customers, we intend to step up investment in the Group's digital transformation.

While the outlook for the operating environment remains uncertain, the Company has established a stable financial base and has sufficient cash on hand for responding to various potential risks. To maintain financial discipline and ensure financial soundness, management will work to maintain a minimum credit rating of A and a capital adequacy ratio of at least 50%. If the Company needs to procure funds from external sources in order to execute its business expansion strategies, which could include mergers and acquisitions,

our policy is to flexibility procure such funds in ways that lead to higher asset productivity.

Shareholder return policy

Aiming to raise shareholder value and returns over the medium and long terms

Delivering shareholder returns is a priority matter for Noritz's management. Accordingly, we strive to ensure a good balance between returning profits to shareholders while also maintaining ample internal reserves for investing in sustainable growth and improving the Company's resilience to risks.

For Noritz, continuously paying a stable dividend is a basic policy. Over the three years of our medium-term management plan from fiscal 2021, management will 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, to strengthen the link between dividends and financial results. On this basis, the annual dividend for fiscal 2021 would work out to ¥60 per share; however, management announced its plan to pay ¥83 per share (comprised of an interim dividend of ¥32 per share and a year-end dividend of ¥51 per share) in May 2021, and decided to maintain this amount because total equity remained solid during the year and the decline in earnings was largely due to temporary factors, particularly the difficulties in procuring parts. As another means to deliver shareholder returns, management will consider stock buybacks and retire treasury stock with the goal of reducing it to about 5% of total shares issued by 2023.

Finally, the Company's shares will be transferred to the new Prime Market segment of the Tokyo Stock Exchange, effective from April 4, 2022. To meet the expectations of shareholders and all other stakeholders, we will work to raise shareholder value over the medium and long terms while pursuing sustainable growth.

Financial and Non-Financial Results, and Company Overview

Non-financial Highlights

Results, forecasts, and targets

CO₂ emissions from product usage (group-wide)



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

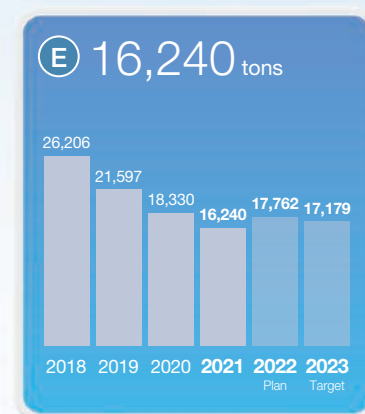


Ratio of female managers (Noritz Corporation)

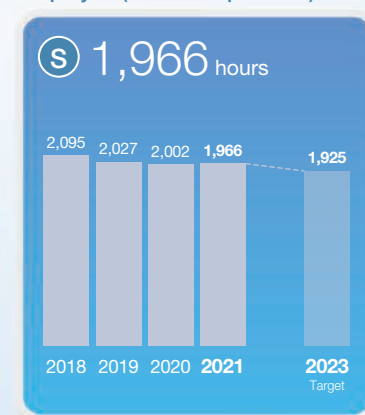


Notes: 1. Emission figures since 2018 have been verified by a third party organization, and the 2021 result is currently being verified by a third party organization. 2. Calculations are based on the average number of employees of Noritz Corporation. In 2021, suspended operations at factories due to difficulties in procuring parts resulted in more paid holidays taken. 3. Figures are as of June 30 for each year.

CO₂ emissions from business operations (group-wide) (Note 1)



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



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



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



Ratio of managers hired mid-career (Noritz Corporation)



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



Company Overview

Company Details (as of December 31, 2021)

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	2,190; 6,720 including group companies

Board of Directors (as of December 31, 2021)

Chairman and CEO	Soichiro Kokui
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
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, 2021
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 2021 (following the publication of the original Japanese version in March 2021)
Next scheduled publication	Noritz plans to publish its next annual report in English in May 2023 (following the scheduled publication of the original Japanese version in March 2023)

Message from the report production team

This report is the eighth 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 global 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, 2022, 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

Global website

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

The Noritz Group's global website features a wide range of information about products and services, group companies, financial results, and CSR-related activities.

Scan here with your smartphone



Sustainability

<http://noritz.co.jp/company/csr/index.html>

The "CSR Activities" section of the global website provides detailed information about quality and environmental, social, and corporate governance (ESG) initiatives carried out each year by the Group.

Scan here with your smartphone



Official social media accounts

Facebook



Instagram



Youtube



Members' webpage

https://mypage.noritz.co.jp/member_web/auth



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

Recipe and cooking website

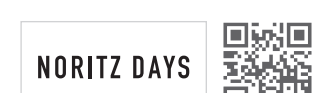
<https://www.mainichigrillbu.com/>



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

Online shopping portal

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



Noritz's official online shopping and media services portal 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)