



As of March 2018, Noritz is included in the Morningstar Socially Responsible Investment Index.  
The Morningstar Socially Responsible Investment Index (MS-SRI) is the first socially responsible investment index in Japan. Morningstar Japan K.K. selects 150 companies from among approximately 4,000 listed companies in Japan by assessing their social responsibility, and converts their stock prices into the index.

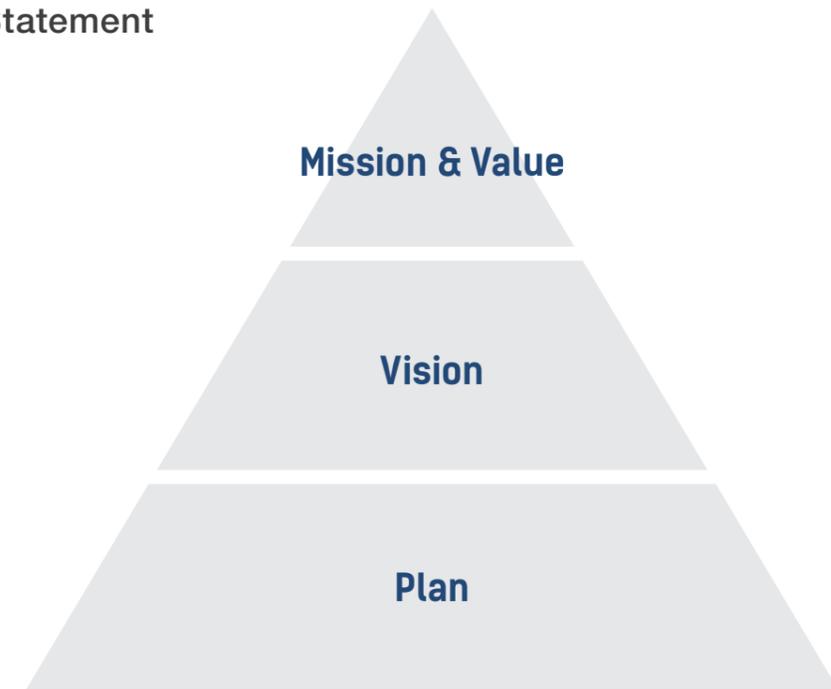


# NORITZ REPORT 2018



# The Simple Comforts of Life

## Mission Statement



  
**Mission**

The Simple Comforts of Life

  
**Vision**

The Noritz Group — Globally  
Competitive by 2020

**Value**

We set our highest priority on quality, and provide the products and service by staying one step ahead.  
We act on justice, fairness, and transparency.  
We develop ourselves with our employees, and contribute to the society.  
We keep changing, challenging, and creating with our passion.

  
**Plan**

V-plan 20

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# Value-Creating Business Model

## What stakeholders want and expect

- Global environment**  
Prevention of dangerous climate change  
Efficient use of resources
- Society**  
Solving social issues
- Customers**  
Pleasant living environment  
Safety and reliability
- Business partners**  
Expanding the benefits of business relations
- Stockholders**  
Sustainable corporate value creation  
Enhancement of corporate governance
- Employees**  
Contribution to society and self-fulfillment

## Noritz Group business activities

### Mission The Simple Comforts of Life

- Value**
- ▶ We set our highest priority on quality, and provide the products and service by staying one step ahead.
  - ▶ We act on justice, fairness, and transparency.
  - ▶ We develop ourselves with our employees, and contribute to the society.
  - ▶ We keep changing, challenging, and creating with our passion.

### Approach in creating value

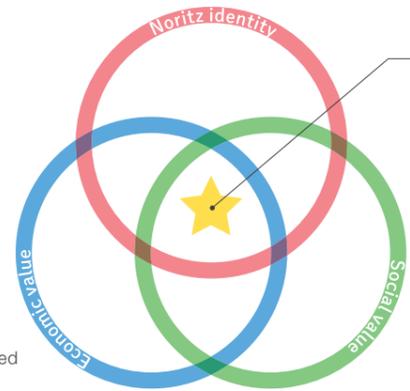
#### Brand value

- ▶ Earn absolute trust from our customers
- ▶ Best quality and services
- ▶ Corporate culture having readiness to take up challenges

#### Economic value

- ▶ Strong, sound financials
- ▶ Business investment aimed at further growth

What we aim at



#### Social value

- ▶ Contribution to solving social challenges
- ▶ Trust extended by society

### Base for creating value

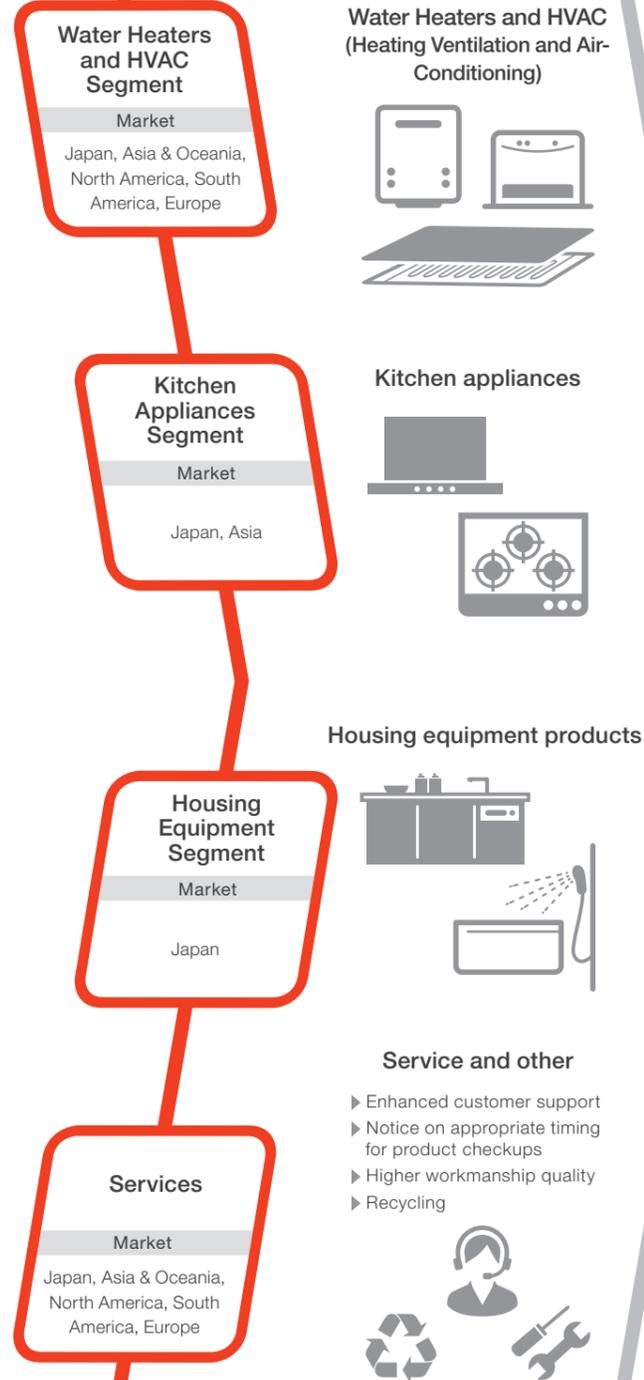
#### Our precious invisible assets



- Q** Passion and insistence on quality
- E** Proactive handling of environmental issues
- S** Realization of sustainable society
- G** Sound corporate governance

P.29-46

## Output



## Outcome (Value creation)

### Social value

- Reduction of greenhouse gas emissions
- Installation of "bathing-monitor" functions to help reduce bathroom accidents

Amount of CO <sub>2</sub> Reduction Contributed by Our Products		
2007	2017	2018 (plan)
0.39 million ton	2.27 million tons	2.49 million tons or more

\* 2007 only includes products sold in Japan

### Economic value

- Consistent growth

Sales (Japanese yen)		
2007	2017	2018 (plan)
¥180.0 billion	¥214.6 billion	¥220.0 billion

Operating Income		
2007	2017	2018 (plan)
¥2.3 billion	¥6.7 billion	¥8.0 billion

### Brand value

- Trust extended by customers

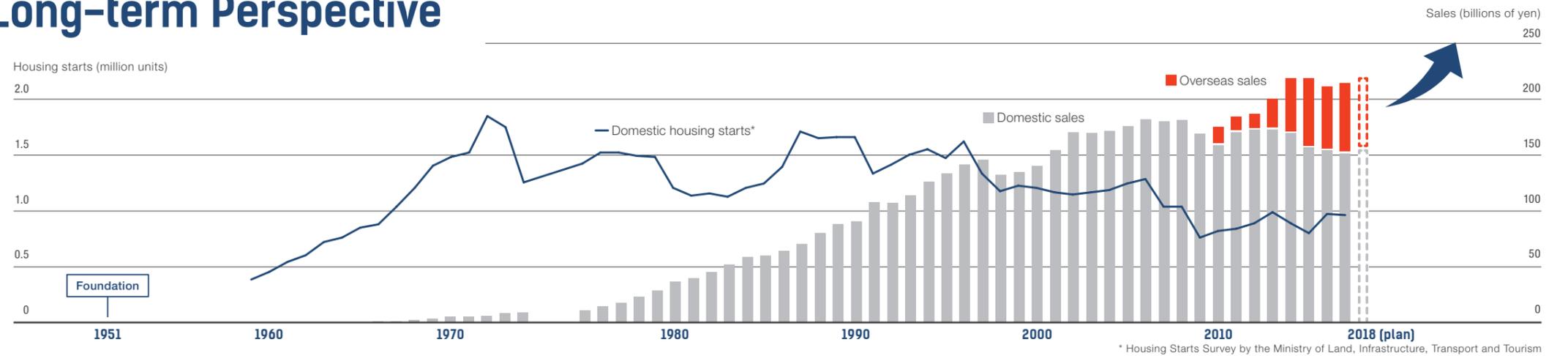
Customer Satisfaction		
2015	2017	2018 (plan)
84%	88%	88% or higher

\* Compiled from the survey by our domestic help desks and contacts for repair services.

# Four Changes from a Long-term Perspective

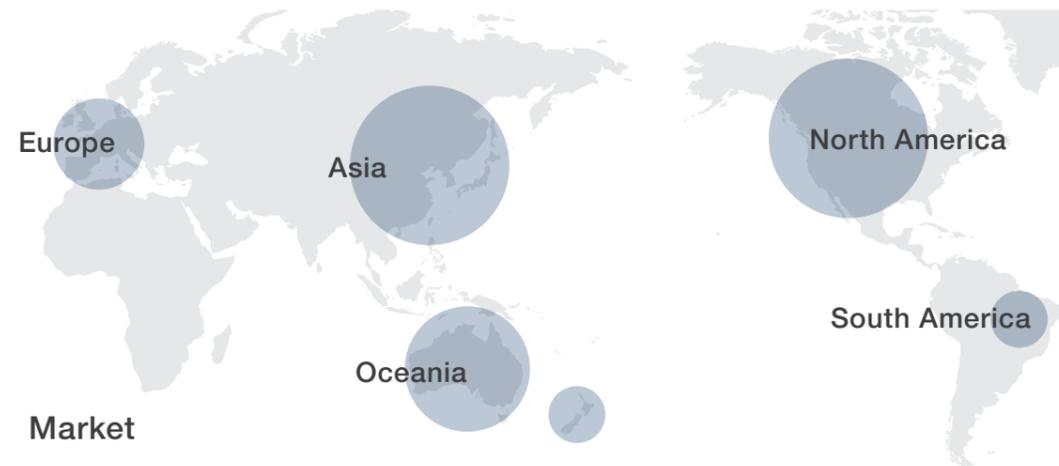
## 1 Sustainable Growth

The Noritz Group began its history with the desire to help improve the Japanese people's standard of living during the post-war recovery period and since then has adapted to diversifying needs and the changing environment to achieve its goals and sustainable growth.



## 2 Overseas Expansion

Noritz seeks to expand overseas sales, while aiming at integrated global group management.

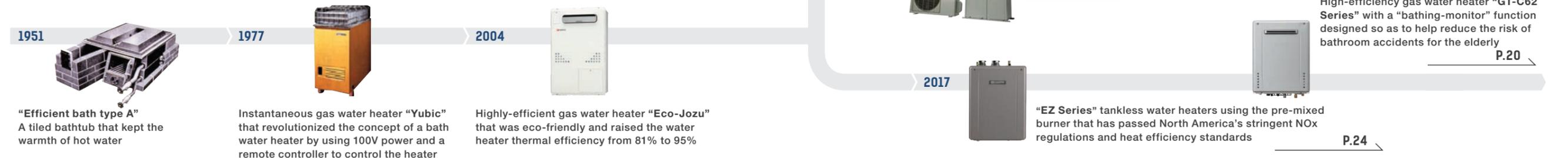


	2010	2017	2018 (plan)
Overseas sales (Japanese yen)	¥16.0 billion	¥65.9 billion*	¥70.0 billion*
Overseas sales ratio	9%	29%	30%
Overseas operating income (Japanese yen)	¥0.4 billion	¥2.6 billion	¥3.0 billion
Overseas sales volume of water heaters (per year)	0.5 million units	1.2 million units	1.3 million units

\* Including ¥3.0 billion in internal transactions.

## 3 Evolution of Products and Technology

We proactively respond to social requests for safety and reliability, as well as environmental consideration and other social challenges, primarily by providing hot water for daily life.



## 4 Management Evolution

We adhere to our DNA, which are sources for sustainable growth of the Noritz Group, and strive to make progress in keeping with changes in society.



# Noritz Group Topics and Awards in 2017

## Corporate and Product Topics

**Jan.** **Formulated the Mission and Value Statement**  
Formulated a new Mission and Value Statement to be shared by all group companies in Japan and abroad for achieving V-plan 20.



**Mar.** **Launched the GT-C62 and started a new production line**  
Launched the GT-C62 Series water heaters that help reduce bathroom accidents. Started a new production line that incorporated in-house manufacturing of external cases and embedded the automated inspection process.



**Apr.** **Introduced the Carbon Offset Program in production lines**  
Started to offset CO<sub>2</sub> emissions in production from the production lines of the GT-C62 Series and hybrid water heaters.

**Announced a business alliance with Toclas Corporation**  
Announced cooperation with a housing equipment maker Toclas in development and production, including enhancement of product lines.

**May** **Noritz America launched the EZ Series**  
Started sale of water heaters using the pre-mixed burner that meets stringent environmental regulations in North America.



**Jun.** **Dux started commercial gas continuous flow sales to Reece company in Australia**  
Commercial gas continuous flow launched to Reece as OEM.

**Jul.** **A supplier completed construction of its plant within the site of Noritz China**  
Suntech, a manufacturer of controllers, completed construction of a new plant within the site of Noritz China.

**Noritz Living Techno started operation**  
Noritz Living Techno Inc. started sales and service operations.



**Opened corporate-sponsored childcare center**  
Opened a company-sponsored childcare center within the Akashi Plant site to help group employees to balance work and childcare.



**Aug.** **Outsourced production of gas fan heaters**  
Outsourced production of gas fan heaters as a part of Monozukuri (manufacturing) reform.

**Sep.** **Held a Dialogue with Stakeholders**  
Invited external experts and held a Dialogue event for sustainable growth of the Noritz Group.

**GT Series passed a 10-million mark in unit sales**  
GT Series gas water heaters for bathrooms passed 10 million in unit sales since their launch in 1982.



**Oct.** **Renewed commitment to Eco-First**  
Committed to help build a low-carbon society through sales of the Eco-Jozo and Hybrid water/space heating system.

**Nov.** **"Bath Club"**  
Held the social gathering events for bath lovers on the Good Bath Day (Nov. 26) in Kyoto, Kobe, and Sakai.

**Dec.** **Held a Mission and Value Global Meeting**  
Discussed the Noritz Group Mission and Values with top executives of overseas group companies.

## Award Topics

### Awards for products and services

#### Hybrid Water/Space Heating System



**2017 Environment Minister's Award for Global Warming Prevention Activity Technological Development and Commercialization Category**  
Sponsored by the Ministry of the Environment.

Recognized for high efficiency in energy conservation and high environmental friendliness. Second such award to Noritz; the first was for an earlier model of the system.



**2017 Energy Conservation Grand Award Energy Conservation Center Chairman's Award**  
Sponsored by the Energy Conservation Center, Japan (ECCJ).

Awarded in the Product and Business Model Segment.



**7th Carbon Offset Grand Award Award of Excellence**  
Sponsored by the Carbon Offset Network (CO-Net)

Recognition of low CO<sub>2</sub> emissions in production of eco-friendly water heaters. Contributed to forest breeding in Hyogo Prefecture through this.

#### Technology Awards

##### ENE-FARM Type S\* residential-use fuel cell co-generation system

**2017 Technology Award**  
Sponsored by the Japan Gas Association.

Awarded for the development of ENE-FARM Type S residential-use fuel cell co-generation system and its remote monitoring system using IoT technology.

Jointly awarded with Chofu Seisakusho, Ltd., Aisin Seiki Co., Ltd., Toshiba Fuel Cell Power Systems Corporation, Rohm Co., Ltd., and OGIS-RI Co., Ltd.

\* The eco-friendly residential-use fuel cell co-generation system generates electricity at home by use of gas as fuel and uses heat derived from the electricity power generation to make hot water.

##### Commercial-Use 3kW-SOFC Co-Generation System

**2017 Cogeneration Grand Award Chairman's Award, Technology Development Category**

Sponsored by the Advanced Cogeneration and Energy Utilization Center Japan

Highly evaluated for the development of a device that collects and uses exhaust heat to make hot water.

Jointly awarded with Kyocera Corporation, Osaka Gas Co., Ltd., Tokyo Gas Co., Ltd., Toho Gas Co., Ltd., and Saibugas Co., Ltd.

##### ENE-FARM, Residential-Use Fuel Cell Co-Generation System

**2017 Cogeneration Grand Award Special Award, Technology Development Category**

Sponsored by the Advanced Cogeneration and Energy Utilization Center Japan

Highly evaluated for the development of the ENE-FARM with enhanced added value and of advanced functions based on IoT and are useful in emergencies.

Jointly awarded with Tokyo Gas Co., Ltd., Panasonic Corporation, and Gastar Co., Ltd.

#### Quality Award



**2017 Gas Appliance Quality Award First Prize in the Cooking Range Category**  
Sponsored by Osaka Gas Co., Ltd.

Subsidiary Harman Co., Ltd. received the first prize in the Cooking Range Category for the second consecutive year. The range was highly evaluated for achieving a continued decline in the failure rate.

#### After-service Award

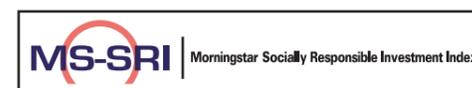


**First-Half of 2017 Overall First Prize in the Installation and Owner Service Category, by Tokyo Sales Department**  
Sponsored by Asahi Kasei Homes Corporation

Received the overall first prize for the second consecutive year in the manufacturers' after-sales service quality category.

### Societal Evaluation

#### Socially Responsible Investment (SRI) Index



**Morningstar**  
Noritz was selected for inclusion in the Morningstar SRI Index.

#### Integrated Reporting

**Asia Sustainability Reporting Awards 2017**

Noritz Report was selected as a finalist in the competition for Integrated Reports for the second consecutive year.





We are committed to always be a company needed by society and to keep raising our corporate value.

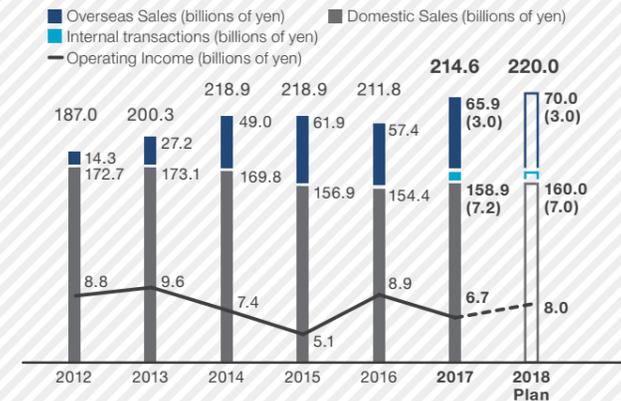
President and CEO

国井総一郎

Soichiro Kokui

### Results and Review for 2017

- POINT 1** We managed to increase sales but recorded a decrease in operating income mainly due to sluggish first-half results.
- POINT 2** Disordered launch of new products in the Japanese market affected full-year results. Domestic sales of water heaters in terms of units bottomed in the 3rd quarter and recovered in the 4th quarter.
- POINT 3** Sakura Bath and Kitchen Products (China)'s stagnant first-half results were attributable to one-off factors but affected its full-year results, despite a recovery shown in the second-half.



\* Forecasts for 2017 and after include internal transactions. Figures in parentheses are internal transaction amounts.

### Achieving the Noritz Group's mission, "The Simple Comforts of Life"

Our history began in Japan's post-war recovery period of the 1950's when our founder's maxim "Bath makes us happy" indicates the special way he sought to improve the daily life of the Japanese people by emphasizing the pleasure that can be enjoyed from a universal practice: a hot bath at home. Ever since then, Noritz has continued efforts to improve life through bathing. As the times went by, Japan is now in an economic maturation period and I feel strongly that our role necessarily has changed from "pursuing convenience" to "providing solutions to social challenges," while continuing to provide added value to the practice of soaking in a hot tub. In the meantime, many countries in the world have not yet acquired a satisfactory living environment for their people. The Noritz Group has been expanding the geographic scope of its business from Japan to all over the world and is making utmost efforts to enrich the daily life of people through improving access to a supply of hot water, as expressed in our group mission statement "The Simple Comforts of Life." Through operations that provide solutions to social challenges, we will raise the corporate value of Noritz, further motivate our people, and execute our medium-term management plan. It is my role to make sure that we deliver.

### The first year of the V-plan 20 turned out to be difficult

In 2017, the first year of our Medium-term Management Plan V-plan 20, we recorded sales of ¥214.6 billion (up 1% from 2016) and operating income of ¥6.7 billion (down 25%). These results were disappointing. The domestic business recorded a decline in sales and income. A launch of a major new product "GT-C62 Series" in March 2017 took more time than had been planned. Intensified competition among housing equipment manufacturers after the completion of the government's energy deregulation program and adverse changes in currency rate and material prices were other negative factors. With regard to the overseas business, our subsidiary Sakura Bath and Kitchen Products (China) Co., Ltd. could not recover from its stagnant first-half results and recorded a decline in income for the full year, despite a sales gain. As a CEO, I am far from satisfied with the results. I will do my utmost for a recovery of earnings at the earliest.



**Focus in domestic business on popularizing the “bathing-monitor” function and in overseas business responding to changes in the Chinese market**

We anticipate a difficult business environment in Japan due to a decline in housing starts, labor resource shortage in production areas, and a surge in raw material prices. Even in such a challenging environment, I am confident that our “bathing-monitor” function, which helps reduce the risk of bathroom accidents of the elderly, and our “cleanliness” function, which keeps bath water clean to be reused after bathing, making for efficient use of water resources, will be favorably received by our existing and potential customers. In 2018 we will promote them more aggressively by equipping these functions in additional product series. I believe such initiatives will result in a contribution to solving some social challenges. In addition, we will cope with the labor resource shortage and surge in raw material prices by increasing in-house manufacturing to raise added value in production on one hand and by introducing more automation and more labor-saving changes on the other hand. Overseas markets are big in size and have significant growth potential. China is a big and important market representing about 70% of our overseas sales. I think our challenge is to promptly respond to rapid changes in this market, including growth of e-commerce sales. In North America and Oceania, where tank-type water heaters dominate in the market, tankless (instantaneous) water heaters are gaining attention due to their environmental friendliness and efficiency in energy consumption. The ratio of high-efficiency water heaters has been increasing in recent years. We are promoting a shift from a tank-type water heater. At the same time, we are planning to increase sales of products for space heating and for commercial water heaters. By tackling these challenges, we will strive to achieve ¥220.0 billion (up 2% from 2017) in sales and ¥8.0 billion (up 19%) in operating income in 2018.



**Highly motivated employees are the driving force of growth**

A labor resource shortage is a pressing, serious challenge at production sites in Japan. I believe that our workplaces need to facilitate the employment and empowerment of foreigners, elderly, women, and people with disabilities more than ever before by providing meaningful job opportunities. In order to enable such diverse workers to perform well, it is indispensable to create a workplace where employees can balance work with their personal life. We will make investments needed and continue to improve various related programs and schemes. Nowadays, as we experience ever-accelerating speed of change, I am convinced that a company cannot achieve sustained growth unless teams are empowered and their members help each other, in addition to each individual to be empowered. This is why the “enhancement of team power” is included in the management priority issues in 2018 and various measures have been and will be additionally launched. I myself will visit our workplaces and convey my passion and management policies to our employees in person, as I believe that it can be a trigger to deepen communication within a team. I also find it important to improve the working environment so that our people can work vigorously, become motivated, and realize their full potential.



Opening of “Noritz Kids Park Smile Center,” a company-sponsored childcare center, in July 2017



**“Q + ESG” Initiatives**

The Noritz Group’s management is promoting awareness of “Q+ESG” (Quality + Environment, Society and Governance) in management. As a company that provides products valuable for the daily life of customers, we have exerted efforts to apply the firm belief that Quality is an indispensable element in this formulation. One good example is the equipping of a “check-up alert function” in almost all water heaters for the past 10 years. The check-up alert function tells customers when to perform a check of the condition and function of the appliance to prevent an accident or malfunction caused by many years of use. In March 2009 the Noritz Group became the first manufacturer in the gas and kerosene appliance industry to acquire Eco-First Company certification and has made the commitment to implement various environmental initiatives on behalf of society since then. In 2017 we were pleased to

have received three environmental-related awards. Our Hybrid Water/Space Heating System received accolades for its environmental performance in efficiently making hot water by use of gas and electricity and contributing to reduction in both CO<sub>2</sub> emissions and running cost. We will continue to sell eco-friendly products and help realize a low-carbon society. We are also contributing to solve global challenges. Among 17 Sustainable Development Goals (SDGs) adopted by the United Nations in 2015, we identified two fundamental themes underlying our efforts on behalf of the environment: “measures against climate change” through reduction in greenhouse gas emissions and “responsibility in manufacturing and responsibility in using” to ensure a sustainable pattern of consumption and production. Under our group mission “The Simple Comforts of Life,” we are committed to always be a company needed in society and to keep raising our corporate value.

**The UN Global Compact 10 Principles**

- Human Rights**
  - Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
  - Principle 2 Make sure they are not complicit in human rights abuses.
- Labour**
  - Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
  - Principle 4 The elimination of all forms of forced and compulsory labour;
  - Principle 5 The effective abolition of child labour; and
  - Principle 6 The elimination of discrimination in respect of employment and occupation.
- Environment**
  - Principle 7 Businesses should support a precautionary approach to environmental challenges;
  - Principle 8 Undertake initiatives to promote greater environmental responsibility; and
  - Principle 9 Encourage the development and diffusion of environmentally friendly technologies.
- Anti-corruption**
  - Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

**Sustainable Development Goals (SDGs)**



Noritz Group’s initiatives and relevance to the SDGs <http://www.noritzglobal.com/en/csr/policy.html>





**Aiming to enhance sustainable corporate value through improvement in asset efficiency and capital efficiency**

Director and Managing Executive Officer  
(Officer in charge of finance)  
**Masayuki Takenaka**

**Aggressively making investment for growth**

Under the new medium-term management plan V-plan 20, we are increasing the amount of capital expenditures compared to the previous plan and making intensive investments in areas which are expected to contribute most in raising the corporate value of the Noritz Group.

As an example, we plan to increase investments in overseas markets, as an integral part of the Noritz Group's globalization. We will be aggressive in developing products tailored to local needs and in investing in production facilities to respond to an increase in sales and high future growth prospects. In addition, we are open to M&A opportunities as one of the means to realize those objectives.

As it is certainly important to balance growth and efficiency, I, as CFO, am mindful of capital cost and consider it as a central element in overall decision making.

**Focus on enhancing earning power**

We are determined to make investments so as to achieve targets of V-plan 20, which sets forth our aim to become "Globally Competitive by 2020." As mentioned above, anticipating growth potential in overseas markets, we are specifically keen to invest in product development for each region and in development for business expansion, as well as in M&A opportunities. In the Japanese market, where demand is on a declining trend, we will mainly consider types of investment that can result in cost reduction or share expansion. Specific themes can include investment for production improvement, adoption of IT, and research

and development related to solving social issues. We aim at renovating ourselves to become a truly global company, and at raising ROE through the enhancement of earning power.

**Effective use of stockholdings**

Regarding securities we hold, we will review whether to hold or sell them, by taking into account views of external directors. The Board of Directors has decided to seek securing capital with an eye on making intensive investments that contribute to raising corporate value. We also will enhance dialogues with stockholders so as to increase the number of long-term holders of our stock.

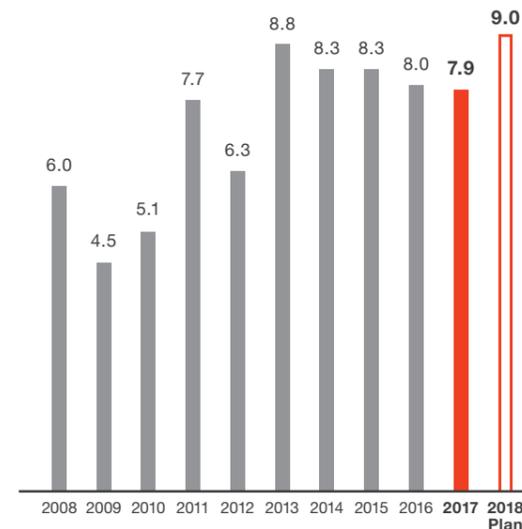
**Policy on return to stockholders**

Our basic policy is to provide continuous and stable dividends, while taking into consideration profit stability, growth investments, reserves for unexpected events, and other factors.

Financial Policy	
1	Aiming to achieve a 10% operating margin
2	Aiming to achieve an 8% ROE
3	Making new investments, mainly in the core water heater business
4	Continuing stable dividend payment to stockholders

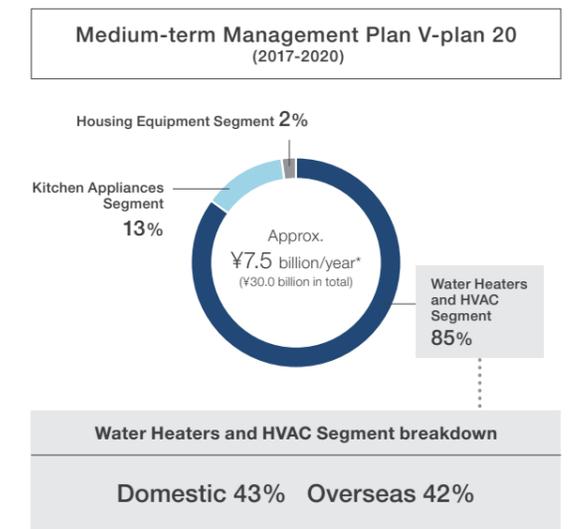
**Investment Results and Plan**

Capital Expenditure Results and Plan (billions of yen)



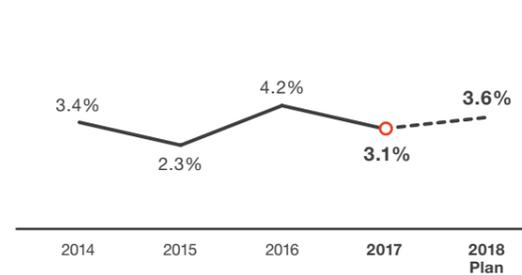
\* Including investment in IT and other intangible assets  
\* Excluding investment in M&A and new businesses

Capital Expenditure Plan

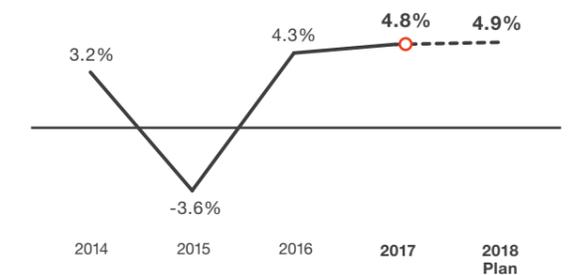


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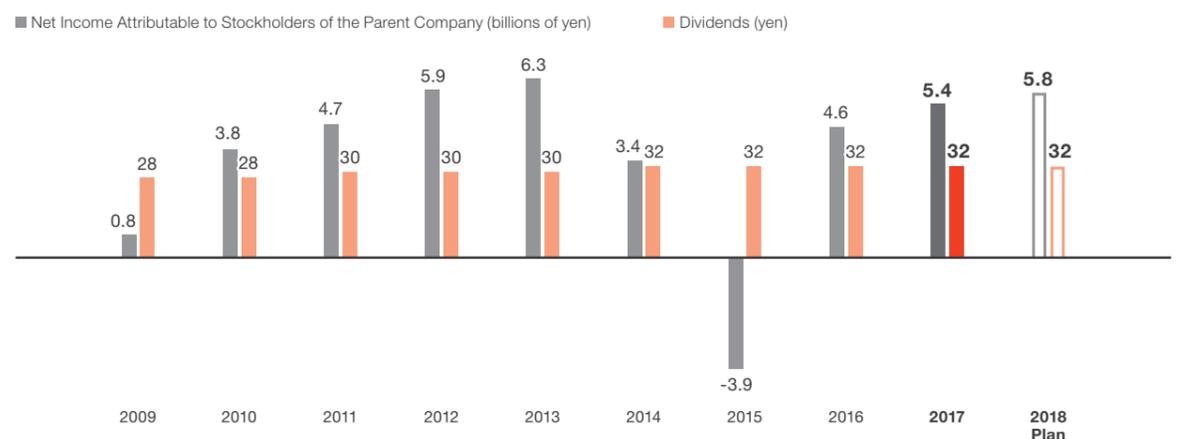
**Operating Margin Results and Plan**



**Return on Equity (ROE) Results and Plan**



**Net Income Attributable to Stockholders of the Parent Company and Dividends Results**



# Progress of the Medium-term Management Plan V-plan 20

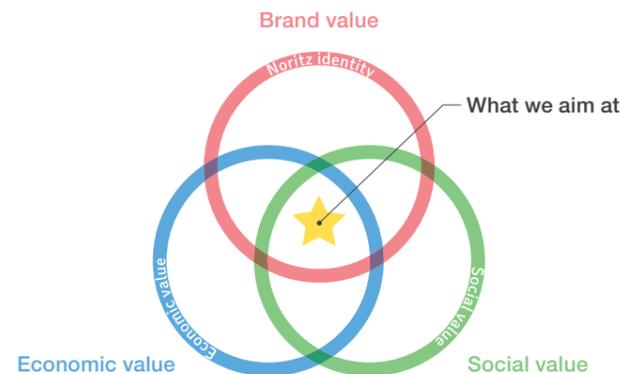
The Noritz Group provides various products, with an emphasis on the Water Heaters and HVAC Segment. We strive to develop eco-friendly products which make efficient and effective use of energy, in addition to being easy-to-use and convenient. We are committed to make hot water more conveniently available around the world to provide health-promoting and basic “simple comforts of life.”

In 2017, the first year of the V-plan 20, we recorded sales of ¥214.6 billion, operating income of ¥6.7 billion, ordinary income of ¥8.0 billion, and net income attributable to stockholders of the parent company of ¥5.4 billion. While we have planned to achieve a significant growth in sales and income during the V-plan 20, the first year turned out to be difficult, yet we managed to increase sales but recorded a decrease in income. This mixed result was because the negative impacts from adverse changes in currency rate and material prices more than offset the positive impacts from various initiatives we took. In 2018, in spite of a challenging management environment, we will continue to seek to grow sales and make progress in structural reform of our profit, aiming at surely achieving our plans.

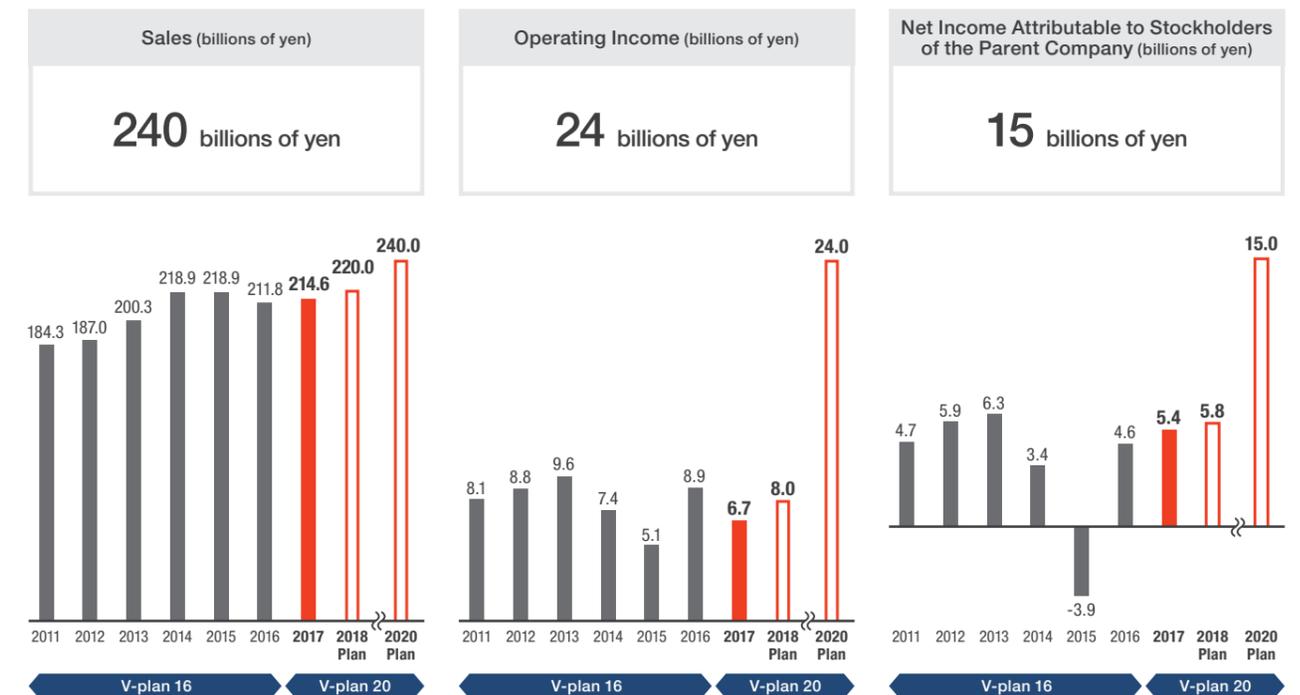
## Group Vision

**The Noritz Group — Globally Competitive by 2020**

## Approach in creating value



## Financial Targets



## Four Priority Measures (Initiatives in 2017)

**Measure 1 | Restructuring the business portfolio**

- Water heater business**
  - Launch of major products
- Housing equipment**
  - Business alliance with Toclas Corporation

**Measure 2 | Enhancing profitability of domestic business**

- Launch of “GT-C62 series”
- Renewal of water heater production lines
- Start of in-house production of exterior components of water heaters
- Outsourcing production of gas fan heaters
- Shift of sales personnel to enhanced channels

**Measure 3 | Continuous expansion of overseas business**

- Launch of water heaters using the pre-mixed burner
- Start of in-house production of “Combination boilers” in China
- Induced two suppliers to build plants within Noritz China’s plant site
- Launch of commercial water heaters

**Measure 4 | Reforming corporate culture**

- Drafting and disseminating our Mission and Value Statement
- Improvement of workplace environment
- Promotion of communication
- Fostering of a culture that is ready to take up challenges

# Business Summary

## Domestic Business

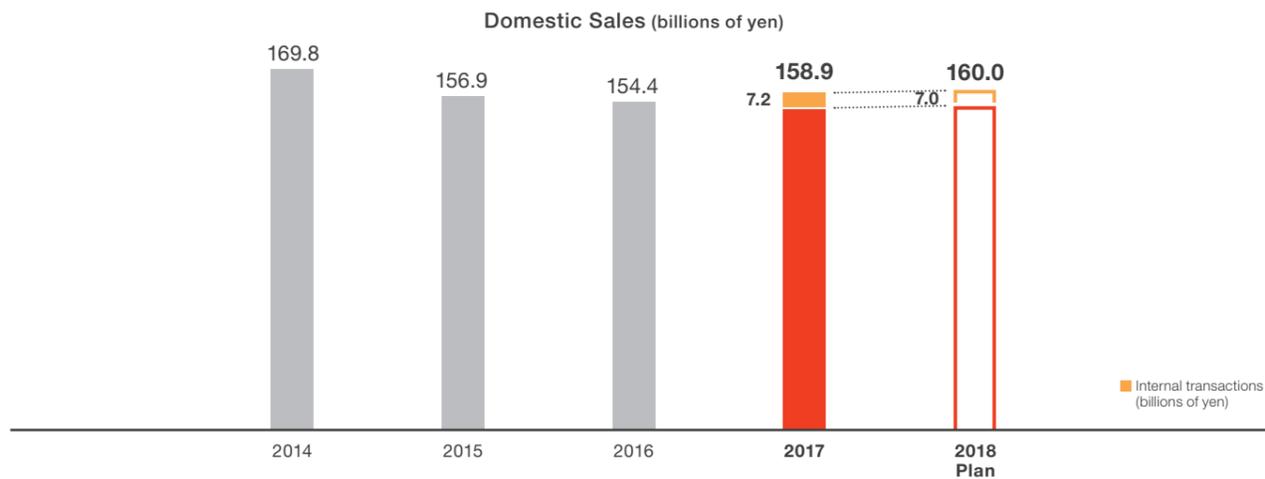
In the domestic business, demand in terms of units is projected to decrease over the medium to long-term, in line with a decline in population and the number of households in Japan. We therefore aim at improving income, rather than growing sales, by restructuring our domestic earnings.

In 2017, we made a significant advance by launching new major products in our core Water Heaters and HVAC Segment. Despite some positive impacts from our improving the cost of sales, the combination of a delay in the launch of new products and adverse changes in currency rate and material prices resulted in a decrease in sales and operating income compared to the previous year. The domestic business generated sales of ¥158.9 billion and operating income of ¥4.0 billion in 2017.

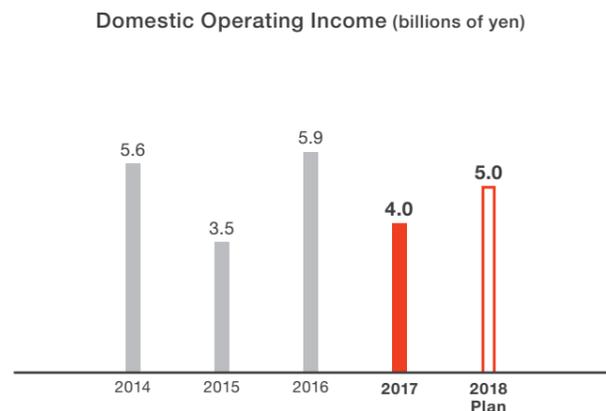
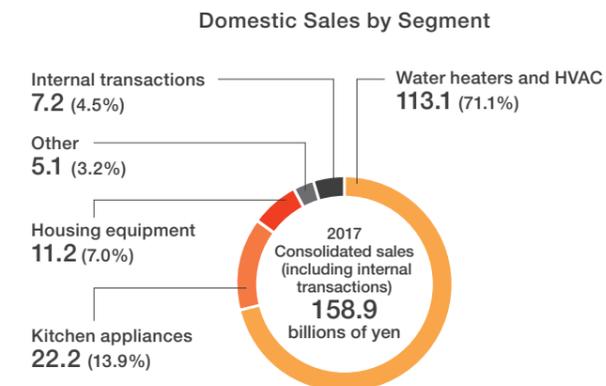
We will strive to achieve the plan targets in 2018 by focusing on increased demand for our new products that can contribute to solve social issues, as well as continuing to improve our earnings structure.

### Variables influencing earnings

- Environmental regulations for achieving a decarbonized society
- Changes in energy sources
- Slowdown in housing starts
- Surge in fuel prices and material prices



\* Forecasts for 2017 and after include internal transactions.



## Overseas Business

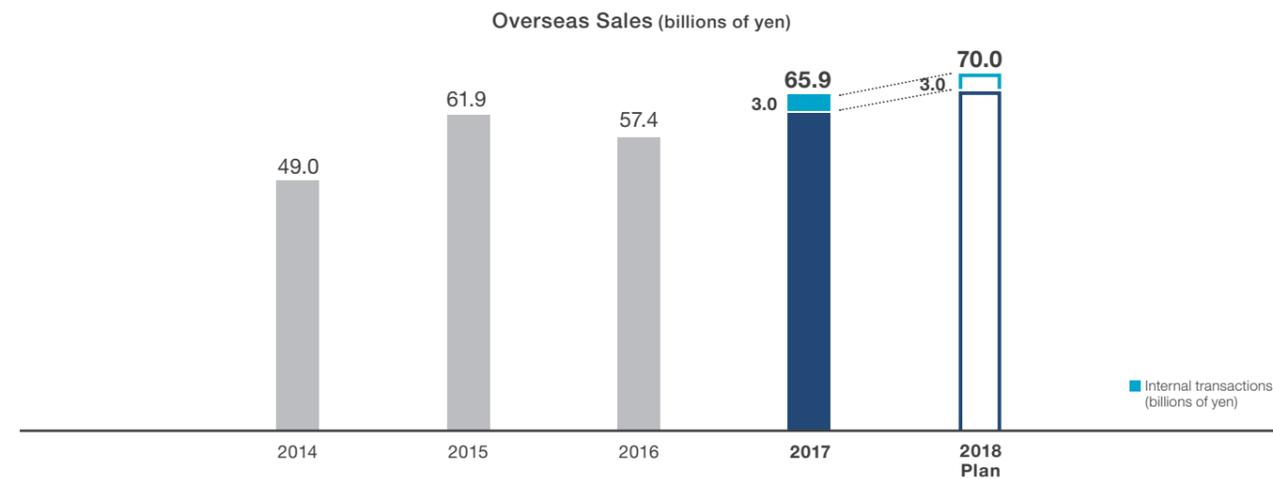
In the worldwide growth of need to preserve the environment and energy resources, and ongoing improvement of living standards in emerging markets, we see significant growth potential in overseas markets. We are planning and preparing for expansion of sales based on those trends.

In 2017, our overseas business recorded an increase in sales to ¥65.9 billion but a decrease in operating income to ¥2.6 billion compared to 2016. While we increased sales in the three major areas of China, North America, and Australia, operating income was affected by a temporary increase in expenses of Sakura Bath and Kitchen Products (China) Co., Ltd. and other factors.

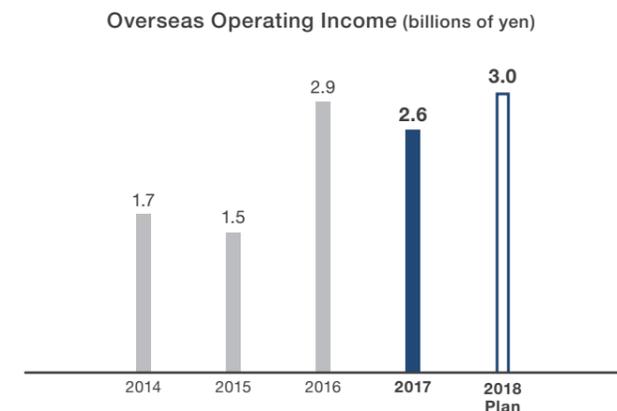
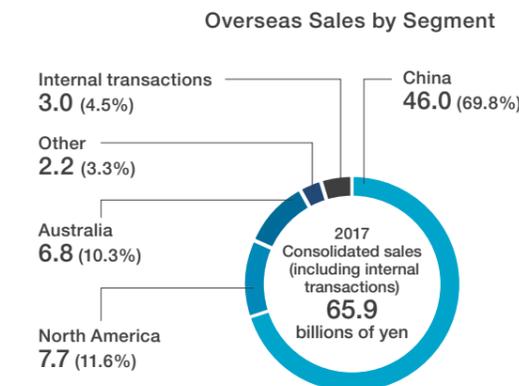
In 2018, we are focusing on expanding sales of products for space heating and commercial water heaters in order to boost our growth.

### Variables influencing earnings

- Environmental regulations for achieving a decarbonized society
- Surge in fuel prices and material prices
- Country risks
- Currency fluctuations



\* Forecasts for 2017 and after include internal transactions.



# Domestic Business



## Water Heaters and HVAC Segment

In the Water Heaters and HVAC Segment where there is constant replacement demand, we are securing stable growth by promoting eco-friendly products which have high added value, and by contributing to reduction in energy consumption for water and space heating.

In 2017 when demand for gas and kerosene water heaters increased from the previous year, in addition to making initiatives to expand sales of eco-friendly products, we launched the new model GT-C62 Series high-efficiency gas water heater, making progress in increasing adoption of the "bathing-monitor" function we have developed in order to reduce the risk of bathroom accidents of the elderly. We also reached out to more customers with our products having advanced environmental performance, such as a hybrid water and space heater system. Moreover, we accelerated our Monozukuri (manufacturing) innovation such as in-house presswork for exterior components of our products, and OEM production of gas fan heaters by outsourcing.

### T O P I C S

#### Started internal sourcing of exterior components

We installed stamping equipment and began to manufacture exterior components in-house. By installing the equipment adjacent to the product assembly line, productivity has been enhanced.



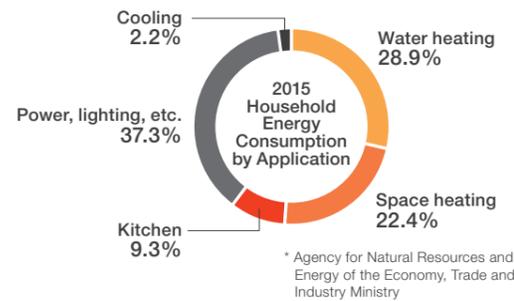
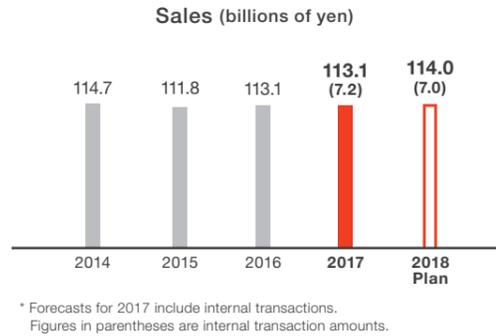
Internally-sourced production line

#### Started OEM production of gas fan heaters

As a part of Noritz's Monozukuri innovation, we shifted into OEM production of gas fan heaters to stabilize the production level.



Gas fan heaters



### High-priority product ①

High-efficiency gas water heater that helps reduce the risk of bathroom accidents of elderly

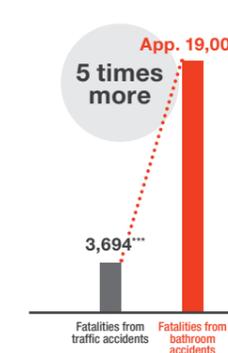
#### GT-C62 Series **NEW**

In March 2017 we launched the GT-C62 Series, a new model of high-efficiency gas water heater Eco-Jozu. The new model is equipped\* with a function to help reduce the risk of bathroom accidents of elderly. It is estimated that approximately 19,000 people\*\* die while taking a bath every year in Japan alone. The number of fatalities while taking a bath is about five times more than those from traffic accidents. The Noritz Group has been doing research in physiology and the effects of bathing on human body, with the objective of discovering ways to reduce bathroom accidents. We are also making efforts to promote use of space heating in a bathroom and public awareness of how to safely take a bath.

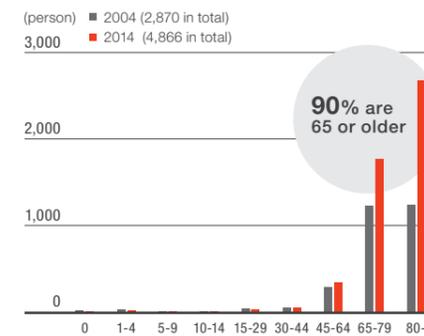


High-efficiency gas water heater GT-C62 Series

#### Comparison of Fatalities



#### Fatalities from Drowning in a Bathtub at Home by Age\*\*\*\*



\* Installed in the products of Standard Grade and above \*\* "Understanding of the Actual Situation and Research on Preventive Measures of Accidents Related to Taking a Bath," from the 2013 Research Report (Summary and Sections) by Researchers Shingo Hori, under the Ministry of Health, Labour and Welfare Grants System \*\*\* Survey by the National Police Agency, 2017 \*\*\*\* Survey by the Ministry of Health, Labour and Welfare

#### GT-C62 Series: Major Features and Functions

- Slow-reheating function to prevent thermal shock to the body
- Function of detecting entry into the bathroom and excessive duration in a hot bath, to prevent heatstroke
- Function of detecting getting out of the bathtub and exiting the bathroom to prevent delay in discovering an accident

Installation of UV sterile filtration (99.9% removal of bacteria) to support cleanliness and safety

◆ Details of the functions and effects of the GT-C62 Series at present are available (in Japanese only) [www.noritz.co.jp/product/kyutoki/gus/gt\\_c62.html](http://www.noritz.co.jp/product/kyutoki/gus/gt_c62.html)

### High-priority product ②

#### Hybrid Water/Space Heater System,

the industry's first and only product to adopt natural refrigerant R290

**Renewal in 2016**



By employing both the power of a gas water heater and the economic efficiency of a heat pump (electricity), this system optimizes comfort, energy efficiency, and environmental performance.



Having the heat source by Eco-Jozu, never runs out of hot water even when there is no hot water in the tank.

Inside the heat pump unit: Ambient air heat → Heat → Water heating

Inside the hot water storage unit: 60°C, 47°C, 46°C

#### Adopting natural refrigerant R290

Global Warming Potential (GWP)

R410A: 2,090

R32: 675

**R290: 3**

#### Significant reduction in hot water-related CO<sub>2</sub> emissions

Model	Annual CO <sub>2</sub> emissions/unit**
HYBRID 140L type (R290 as refrigerant)	approx. 690kg
APF3.5 Eco-Cute (CO <sub>2</sub> as refrigerant)	approx. 830kg
Conventional LP gas water heater	approx. 1,360kg

49% reduction/year (Approx. 670kg)

#### Outstanding primary-energy efficiency in water heating

Primary energy efficiency in water heating **Achieved 145%!\*\*\***

\* Refrigerants used in general home-use air conditioners in Japan (as of June 2016). \*\* Calculation method: Annual hot water load of 16.7GJ; LPG 6kg-CO<sub>2</sub>/m<sup>3</sup> (Article 3 of the Law Concerning the Promotion of Measures to Cope with Global Warming, Ministry of the Environment; Electricity 0.579kg-CO<sub>2</sub>/kWh (Alternative values of electric company-specific CO<sub>2</sub> emissions factor (results in 2014), Ministry of the Environment) • For a family of four in a detached house in Tokyo. • Only for water heating \*\*\* Company's research based on the conditions of six areas from "Assessment Criteria for Residential Construction Companies" published by the Institute for Building Environment and Energy Conservation (as of August 2016)

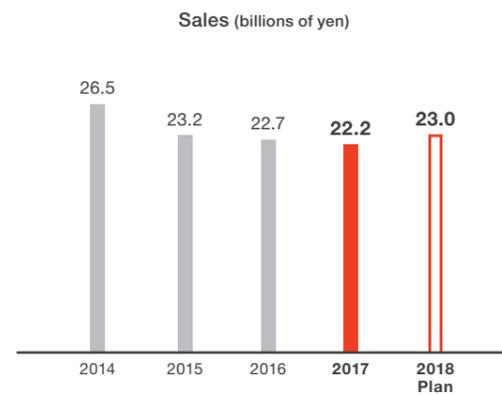
## Domestic Business



### Kitchen Appliances Segment

Aside from safety and reliability, we help recreate cooking culture by facilitating “quick and easy cleansing,” “quick cooking,” and “joy of cooking” as keywords.

We expanded sales, focusing on middle- and high-end built-in cookers and kitchen stove hoods, by promoting “multi-grill” cookers that have a drop-in range for grilling and can be used like an oven, including burners built into a countertop. Promotion activities include the Everyday Multi-Grill Club, a website and social networks for promoting pleasurable grilled, simmered, and steamed cooking. We also launched “Safy,” a new standard-grade table cooker that can detect a pan or pot on the table top, expanding our portfolio of safe, reliable products.



#### T O P I C S

#### Started the Everyday Grill Club

We started the Everyday Grill Club, a website, social networks, and events for participation by customers and aimed at experiencing the convenience and joy of grilling. We hope that the members interact with each other and discover new pleasures in cooking.



Multi-grill experimental event

#### Emphasized function

#### Creation of “multi-grill,” a new cooking approach

Development of a temperature sensor for the bottom-up burner part of the multi-grill has made it possible to have automatic cooking at optimal temperature. No longer is there need for manual adjustment of the flame or turning the grilled food over, an important difference from conventional grilling.

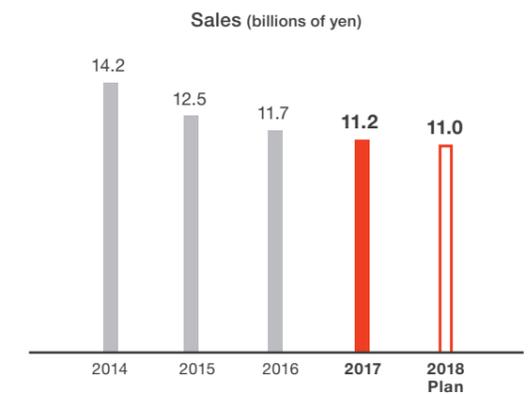


### Housing Equipment Segment

Focusing on the home renovation market, which allows us to make individual proposals tailored to needs of each customer, we are improving our ability to satisfy customers.

In the Housing Equipment Segment, our products of strength include a built-in kitchen system, which enables easy adjustment of width to fit in available spaces (increments by 1cm), a “Self-Cleaning Bathtub,” which eliminates the need to clean the tub by hand, and a variety of decorative bathroom wall panel designs produced by inkjet printing.

We are also working on redefining our business models, by including greater OEM production and more business alliances.



#### T O P I C S

#### Business alliance with Toclas Corporation

In April 2017, we reached a basic agreement concerning business alliance with Toclas Corporation, a maker of housing equipment in Japan. We have discussed various specific measures related to development and production and Noritz has begun to supply certain components and materials of its unique “Self-Cleaning Bathtub” to Toclas Corporation.



#### Emphasized function

#### “Art Wall Plus,” by which we can create custom-design bathroom wall panels by using customer selections from over 50-million designs

By using Noritz’s proprietary inkjet printing technology, our Yupatio Series “Art Wall Plus” enables customers to pick their favorite images from the more than 50-million images or illustrations in our archive and design their unique bathroom.



Website for simulation (in Japanese only)  
<http://artwall.noritz.co.jp/>



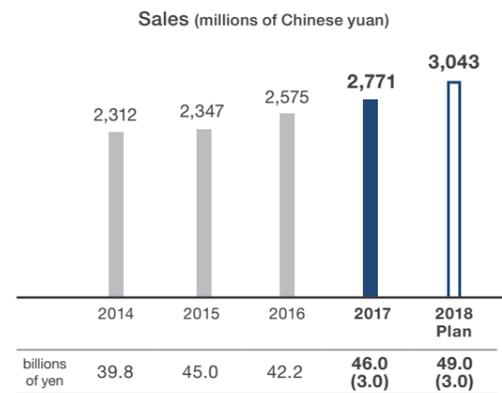
# Overseas Business



## China

We have established a physical presence for development, production, and sales in China, which is now a major area representing about 70% of our overseas sales. We seek to supply increasing quantities of eco-friendly products in China where environmental problems have emerged and have created high levels of concern.

On top of being big in market size, mainland China is rapidly moving ahead with development of infrastructure, increases in demand for gas, and improvement of living standards. Our strategy is to expand sales of eco-friendly products mainly in urban areas where environmental problems have emerged and to expand our product portfolio to include space heating and commercial water heaters, and other products. We intend to accelerate growth in China on the back of our strength in safety and reliability measures and technology accumulated in Japan. On the marketing and sales side, we have proactively responded to rapid changes in distribution, including growth of e-commerce sales.



\* Forecasts for 2017 and after include internal transactions. Figures in parentheses are internal transaction amounts.  
\*\* The fiscal year average exchange rate is used.

### T O P I C S

#### Induced a maker of controllers and a maker of pressed components to build plants within Noritz's production site in Shanghai

On the production side, Noritz China's two suppliers have established production facilities within the site of our plant in Shanghai. Our production efficiency has been enhanced by this, by reducing the distribution cost of components and enhancing quality control.

#### Emphasized product

**China** Products sold exclusively online

Online sales of products exclusively made for that channel have been increasing. New or improved products are offered every year.



## North America

In North America where tank water heaters have a majority share of the market, eco-friendly energy-efficient tankless water heaters are gaining in popularity. By differentiating ourselves from competitors through our products being capable of easy installation, we are working on increasing sales of eco-friendly products.

In the midst of sharp growth in demand for tankless water heaters, we launched the EZ Series equipped using the pre-mixed burner that has passed North America's stringent environmental regulations, in addition to the EZTR tankless water heater that is easy to install as a replacement for a tank water heater. We will promote appliances for commercial water heaters and for space heating, in addition to residential tankless water heaters.



\* The fiscal year average exchange rate is used.

#### Emphasized product

**North America** EZ Series

These are tankless water heaters equipped using the pre-mixed burner that has passed North America's stringent NOx regulations and heat efficiency standards. The EZ Series' top-mounted connections allow the flexible water lines used by the previous tank heater to be quickly and easily reconnected to the new unit.



#### Emphasized product

**Australia** Continuous Flow Series

Noritz's high-efficiency continuous flow that have been accredited with the highest rating, Six Stars, in Australia's environmental benchmark system, reflecting the high energy efficiency and water efficiency of the products, as required in the Australian market.



#### Emphasized product

**Hong Kong** SIMPA Series

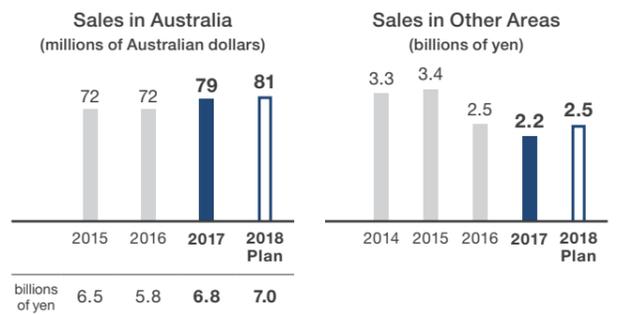
Compact-sized, standard-priced series.



## Australia and other areas

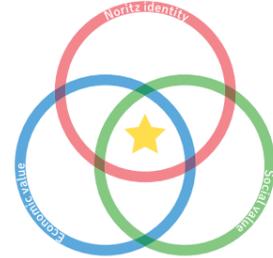
Noritz is engaged in development and sales of products that are tailored to local needs, contributing to preservation of the environment and improvement of daily life for people in each market.

In Australia we have an operation spanning from production to sales of its traditional tank water heaters, and also sell high-efficiency continuous flow imported from Japan. In areas such as Hong Kong, South America, and Europe, we are mainly developing the OEM business of gas instantaneous water heaters on the back of our technological strengths accumulated in Japan. We seek to expand sales of our products for residential-use as well as for commercial facilities.



\* The fiscal year average exchange rate is used.

## Harmonizing Corporate Management and CSR



Recognizing what society requires and what society expects, as we understand through our two-way communication with stakeholders, we are undertaking business activities which harmonize

- “the pursuit of economic value through business strategies,”
- “the promotion of social values that contribute to solving social issues,” and
- “the pursuit of Noritz identity.”

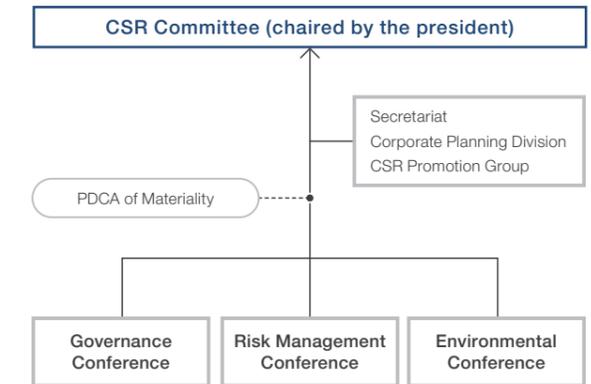
In doing so, we will strive to bring smiles and enthusiasm to all our stakeholders. In other words, we have defined our mission as “The Simple Comforts of Life.”



Founder's maxim, “Bath makes us happy” on the wall

## Noritz CSR Committee

Since 2007 Noritz has held a CSR Committee conference four times a year. The committee, chaired by the president and comprised of directors, executive officers, and corporate auditors, discusses and makes decisions concerning progress of “Q+ESG” KPIs and issues submitted by committees under its umbrella. Based on the decisions made by the committee, the PDCA management method is promoted.

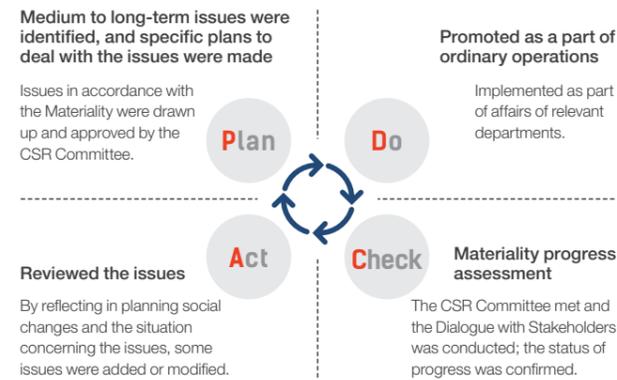


\* Organization as of 2017

## Materiality

Through efforts at sustainable management of the group, we at the Noritz Group identify new opportunities, as the Materiality activities, while recognizing their risks. In 2017, “Q+ESG” (Quality + Environment, Society and Governance) Key Performance Indicators (KPIs) were formulated with the objective of ensuring we will achieve the V-plan 20. The KPI plan, which reflected opinions of each of our relevant departments, was assessed as appropriate through the Dialogue with Stakeholders and, taking into account those opinions, the CSR Committee approved the plan.

### Activities in 2017



## CSR Materiality Analysis Map

Subjects such as the challenges to be faced in seeking sustainable growth of international society, the business environment, the latest CSR trend, and international standards have been added and mapped in a matrix through the Dialogues.

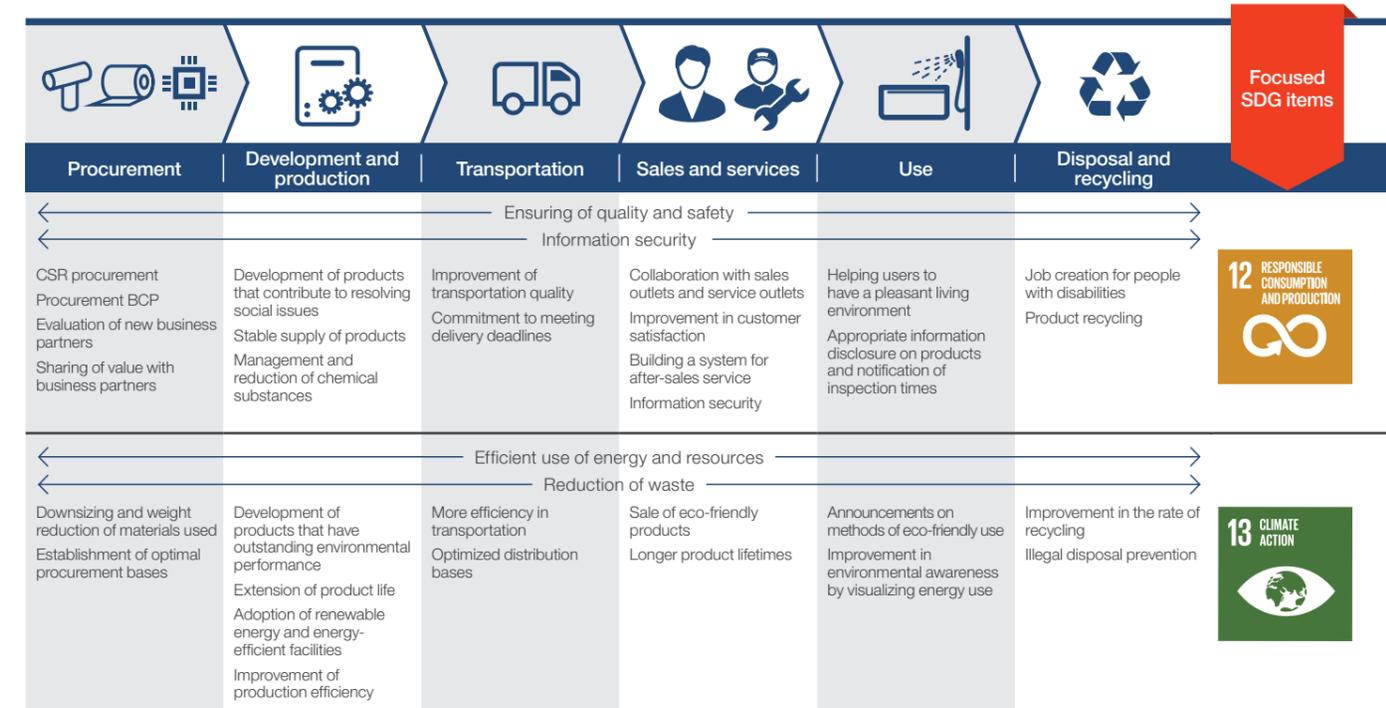


Materiality	Relevance with the V-plan 20	Risk	Why necessary?	Strategy
Global Environment	<b>Measure 1</b> Restructuring the business portfolio	<ul style="list-style-type: none"> <li>Shift to a low-carbon society led by climate change</li> <li>Environmental regulations on a global scale</li> </ul>	<ul style="list-style-type: none"> <li>About 60% of energy consumption at home from water, heating and cooking.</li> </ul>	<ul style="list-style-type: none"> <li>Development and diffusion of energy-saving technology</li> </ul>
Consumer Safety	<b>Measure 2</b> Enhancing profitability of domestic business	<ul style="list-style-type: none"> <li>Accidents caused by deterioration of long-used products</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring of safety and security</li> <li>Building a relationship of trust</li> <li>Customer information to be organized</li> </ul>	<ul style="list-style-type: none"> <li>Communication with customers</li> </ul>
Human Resources	<b>Measure 3</b> Continuous expansion of overseas business <b>Measure 4</b> Reforming corporate culture	<ul style="list-style-type: none"> <li>Declining working population</li> <li>Handling of human rights</li> <li>Human resource development</li> </ul>	<ul style="list-style-type: none"> <li>Awareness of global standards and understanding of risks</li> <li>Sharing of values</li> <li>Next-generation management development</li> </ul>	<ul style="list-style-type: none"> <li>Development of global human resources</li> <li>Communication</li> </ul>
Supply Chain Management	<b>Measure 2</b> Enhancing profitability of domestic business <b>Measure 3</b> Continuous expansion of overseas business	<ul style="list-style-type: none"> <li>Human-rights issues (child labor, forced labor, etc.)</li> <li>Stable procurement</li> </ul>	<ul style="list-style-type: none"> <li>Global regulations such as for conflict minerals and the Modern Slavery Act</li> <li>Establishment of stable procurement base</li> </ul>	<ul style="list-style-type: none"> <li>Regular review and management of the transaction evaluation standards</li> <li>Regular SAQ and checking</li> </ul>

## Looking at CSR Activities along the Value Chain

### SDGs emphasized by the Noritz Group and CSR Activities Along the Value Chain

As a member of the international community, the Noritz Group has recognized that the realization of the Sustainable Development Goals (SDGs), a set of 17 goals for 2030 adopted by the United Nations member countries, as opportunities and has kept it important in promoting business activities. Being a company that manufactures and sells products that necessarily emit greenhouse gas when used, we have two fundamental themes underlying our efforts on behalf of the environment: “measures against climate change” and “responsibility in manufacturing and responsibility in using,” through our value chain.



## Dialogue with Stakeholders

The Noritz Group conducts recurring Dialogue with Stakeholders events, in which experts of various fields are invited and all directors attended. The events are regarded as an important means of evaluating progress regarding the CSR Materiality (Priorities) activity and identification of new subjects of interest. In these Dialogues we exchange opinions on management issues and strategies with the aim of securing sustainable growth of the Noritz Group and make use of them in our business activities.



Group discussion during the Dialogue with Stakeholders

### Activities in 2017 in response to the Dialogue in 2016

Economic value, Social value, and Brand value, which are the three values we had promoted and pursued as a part of CSR, were incorporated in the V-plan 20 and were named as initiatives of “Harmonizing Corporate Management and CSR.” In order to harmonize corporate management with CSR, we found it important to make our employees understand “The new Mission and Value Statement.” We therefore prepared a handy card and a booklet on the subject for globally disseminating our values. In addition, we increased the number of CSR Committee meetings from two to four per year.

### Key points of the Dialogue in 2017

We had a group discussion on specific activities being strategically executed under three themes: appropriateness of our KPIs with the aim of enhancing the three values; our development and management; and our businesses. We have sincerely received the opinions raised and have set the “Q+ESG” KPIs.

#### Topics in the Dialogue (partial)

##### Establishing contact with end users

Establish a contact with end users in order to sell products that help solve social issues

##### Human resource development

Formulate a human resource development plan, associated with needs arising from global expansion

##### Communication

Develop a communication plan in order to share values and enhance motivation of employees

### Main KPIs toward Achieving “the V-plan 20”

**3 million tons or more**

Reduction of CO<sub>2</sub> emissions through products (Japan and overseas)

**70% or higher**

Employee Satisfaction Index by improving communication

**88% or higher**

Customer Satisfaction survey

<b>Held on</b>	September 27, 2017
<b>At the</b>	Headquarters of Noritz Corporation
<b>Attendees</b>	<b>Facilitator</b> <b>Masayoshi Miyanaga</b> Professor, Tokyo University of Science Graduate School of Innovation Studies
	<b>Stakeholder representatives</b> <b>Hiroko Ozawa</b> Region Lead, Japan of the International Integrated Reporting Council (IIRC)
	<b>Akira Sato</b> Representative Director, Value Create Inc.
	<b>Hidemi Tomita</b> Director and General Manager of Business Development Division Lloyd's Register Japan K.K.
	<b>Toshifumi Murai</b> Executive Officer, Strategic Human Resources & CSR, IDEC Corporation
	<b>Megumu Murakami</b> Manager, Center for the Strategy of Emergence/ESG Research Center, The Japan Research Institute, Limited
	<b>Noritz</b> <b>Soichiro Kokui</b> President and CEO
	<b>Takafumi Nakamura</b> Director and Senior Managing Executive Officer, and Head of Domestic Business Headquarters
	<b>Tsutomu Mizuma</b> Director, Managing Executive Officer, and Head of Product Headquarters
	<b>Satoshi Haramaki</b> Director, Managing Executive Officer, and Head of Research & Development Headquarters
<b>Makoto Mizuno</b> Director, Managing Executive Officer, and Head of Kitchen Appliances Headquarters, Domestic Business Headquarters	
<b>Masamine Hirosawa</b> Director and Managing Executive Officer, Head of International Business Headquarters	
<b>Masayuki Takenaka</b> Director and Managing Executive Officer, Head of Administration Headquarters	
<b>Kazushi Hirooka</b> Managing Executive Officer, Head of Sales & Marketing Headquarters	

\* Titles as of September 27, 2017

## Third-Party Opinion on CSR

### Opinions and Our Response in 2017

Concerning our “Noritz Report 2017” published last year, we received the third-party opinions and other opinions via questionnaires, dialogues with stakeholders, and other means. The main opinions and our responses are summarized here.

Opinions received	What Noritz Group did in response in 2017
Harmonizing corporate management and CSR: “Q+ESG”	KPIs were formulated in addition to the business plan toward realization of the Medium-term Management Plan V-plan 20.
Global sharing of value: The new Mission and Value	Statement was introduced throughout the Noritz Group’s global organization so as to be widely known.

### Third-Party Opinion on CSR Activities in 2017

I would like to submit a Third-Party Opinion regarding Noritz Group CSR activities in 2017.

Since January 2017, the Noritz Group has been carrying out its Medium-term Management Plan V-plan 20, integrating Economic value, Social value, and Brand value, with the aim of raising corporate value. I highly regard your having established key performance indicators related to Quality and ESG in order to make employees become aware of the plan and bring about its achievement, and that the management communicated well with outside parties through your first Dialogue with Stakeholders. In addition, the ESG-related activities have expanded into many areas, including (1) renewal of the Commitments to Eco-First, which was established by Japan’s Ministry of the Environment, (2) opening of a company-sponsored childcare center, (3) promotion of a female leadership development plan, (4) expanded use of CSR purchasing surveys, and (5) enhancement of information disclosure. You have also devoted efforts to employ people with disabilities for many years and I find this initiative is visionary from the aspect of empowering diverse people and from the perspective of workstyle innovation. Such efforts and improvements, made every year, are highly valued.

My wish list regarding the future initiatives is twofold. First, tackle themes related to Quality and ESG present ample paths which will lead the Noritz Group to solve environmental and social issues. I

believe that many of these themes will also contribute to satisfy and motivate the employees. I am hoping that you will engage in these activities with an attitude of not merely “you must do” but also “if you do, things will get better.” My second request is related to KPIs. Your KPI targets have been formulated mainly by an incremental approach of building up from the present. Hereafter, I am hoping that you adopt a backcasting approach of retrospectively determining what must be done from a desired future back to the present, especially in the case of the important themes. By adopting this approach, I think that you can also manage to encourage employees to be mindful of their long-term career and develop a sense of growing together with the company.



Manager, Center for the Strategy of Emergence/ESG Research Center  
The Japan Research Institute, Limited  
**Megumu Murakami**

### Response to the Third-Party Opinion

Ms. Murakami, thank you for valuable opinions on the Noritz Group’s initiatives in 2017. We appreciate that you have extended precious and proper advice to us for four consecutive years since the Noritz Report 2015. We are also grateful for your continuing advice regarding our initiative of “Harmonization of Corporate Management with CSR.”

In this Noritz Report 2018, we reported what we did in the first year of our new medium-term plan and described how we strived to raise corporate value by integrating financial and non-financial information. We also reported on our non-financial activities with specific mention of “Q+ESG” (Quality + Environment, Society and Governance) as we believe non-financial assets will be a key to support and drive our long-term future value and growth. In 2017, we implemented various initiatives according to our medium-term plan, aimed at “harmonizing corporate management and CSR.” In particular, we exerted efforts to apply the firm belief that formulation of Q+ESG-related KPIs were indispensable in realizing the “harmonizing of corporate management and CSR.” We

are therefore very much encouraged that you have highly regarded the contents of our initiatives. Going forward, we will manage PDCA via our CSR Committee and seek to make solid achievements. As you mentioned on your wish list, we find it important to take a backcasting approach, which starts from a desired future, and to reform our corporate culture, which in fact is a part of our initiatives in the medium-term plan, in order to further motivate and satisfy our employees. We consider overcoming social challenges as opportunities and intend to foster people who can initiate actions.



Director and Managing Executive Officer  
(Officer in charge of CSR)  
**Masayuki Takenaka**



Understanding how the Noritz Group creates value is greatly aided by an appreciation of our “invisible assets” (that are not in the Financial Statements). Here we use the formula “Q+ESG.”



FEATURE

## Quality Enhancement Initiatives

### Third-party assessment on merchantability and workability

In keeping with the Quality Policy to “Adopt the perspective of customers and provide attractive products that satisfy QCDDPR (Q for Quality, C for Cost, D for Delivery, D for Dokusosei (uniqueness in Japanese), P for Patent, and R for Risk) in the market,” we have established comprehensive quality control arrangements covering from design and development to after-sales services. It is intended that this will help us gain the trust of our customers. What we find particularly important in connection with this is the third-party assessment of merchantability from customers’ perspective, along with global development and diversifying circumstances of living. As many possible circumstances, problems, or risks that are normally not detected, are identified in advance by those directly in charge. This further enhances product quality, and helps to provide safe, reliable, and pleasant housing environments.

#### 2018 Priority Measures to Earn Customer Trust

- 1** **Early detection of and response to quality problems**  
 Constantly monitor defects to enable their early detection and response
- 2** **Investigation of causes of incidents to prevent their recurrence**  
 Those in relevant departments and external experts conduct Fault Tree Analysis (FTA) on troubles and malfunctions of products and accidents caused by them to identify their cause
- 3** **Frequent on-site visits**  
 Frequently visit installation sites to accurately understand the situations

### Delivering safety and reliability to customers via inspections

As a pioneer in the industry, Noritz has been delivering new values to customers with our products and systems. We also aim at being trusted even more in terms of after-sales services. We make sure that our products run safely and reliably until the end of the product’s life. We also equip our products with a check-up alert function in order to prevent accidents caused by aged deterioration of the product and to show our appreciation to users for their use for many years. We plan to expand adoption of the check-up alert function even to products that are not legally required to be inspected (see applicable products on our website).



An example of check-up alert: “888” is displayed on the screen (To be fully activated for residential-use equipment only in the Japanese market in 2019.)

### Quality enhancement

Customers today focus increasingly on product quality in addition to technological innovation. Safety and reliability of products are therefore critically important for sustainable growth of any manufacturing company. Given such an environment, we assigned our highest priority to quality, in keeping with our mission, “The Simple Comforts of Life.” We will continue to do so, with the aim of bringing smiles and enthusiasm with our products and services to customers in their daily life.

#### Norio Kubota

Executive Officer and Head of Quality Assurance Promotion Headquarters Noritz Corp.



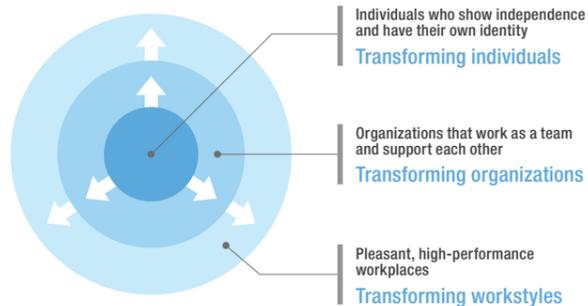


# Human Resources Support Noritz Quality



## Noritz Group's Human Resources Strategy

The Noritz Group is working for transformation and improvement of its individuals, its organizations, and its workstyles, as a human resources strategy in keeping with the V-plan 20. In addition to the initiative of "retaining independence and engaging in mutual support to build a strong team," a new initiative of "communicating, challenging, and reforming" has been added in order to evolve the corporate culture so that we take up more challenges that offer opportunities for betterment.



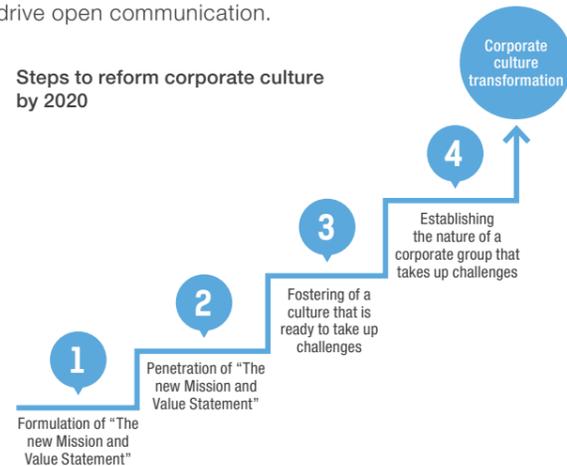
### Creating better working environments

In 2017 the Workstyle Innovation Working Group was formed, with the objectives of enhancing productivity and making it possible for employees to have better personal and public lives. In 2018 we intend to make progress in establishing a system that enables flexible working and improvement of working environments. We also plan to make our employees become mindful of thinking about and changing their workstyle, and make progress of the transformations.

### Penetration of "The new Mission and Value Statement" in transforming corporate culture

We aim at transformational change to become an enterprise that takes up challenges by diffusing our "The new Mission and Value Statement" and sharing the values globally in the Noritz Group. In 2017 we organized workplace meetings, focusing on our booklet about "Mission and Value." We also produced an employee-participation movie on Mission and Value in order to encourage communication. In 2018 we plan to develop "corporate missionaries" who promote "Mission and Value" and to both expand the scope of meetings in workplaces as "Aha! Opportunities" to reflect on "Mission and Value" in each department and drive open communication.

#### Steps to reform corporate culture by 2020



### Global penetration of "The new Mission and Value Statement" in Noritz Group

Noritz America has adopted six core values, as an extension of its Mission and Value Statement in Japan. All Noritz America employees participated in the process and their major monthly meetings now start from a presentation based on the core values, so that they become well-known throughout the company. In December 2017, a Mission and Value Global Meeting was held and was attended by top management of our overseas group companies. Discussions focused on initiatives in 2018.

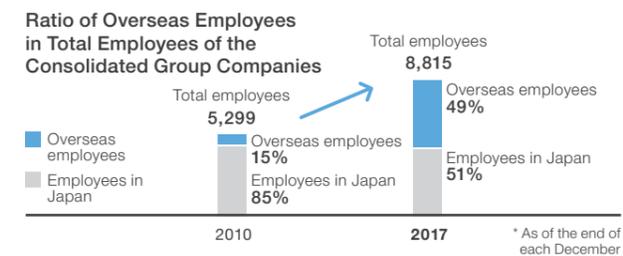


## Workplace Diversity

At a time when the labor force in Japan is shrinking because of the falling birthrate and the aging population, a company must empower a diversity of human resources for it to achieve sustained growth. The Noritz Group therefore pursues creation of better working environments that enable each and every employee to perform to the best of his or her potential and strength.

### Global personnel management

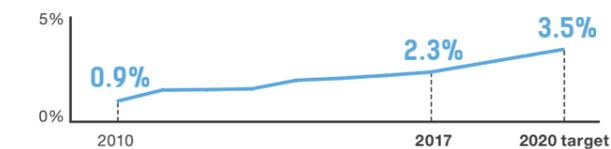
When we started overseas business, we used to send people from Japan to overseas top management positions. However, as we now aim at further growth of overseas business, we are promoting more local people to management positions in the U.S., China, Australia, and Hong Kong. Localization of business and management has resulted in accelerating management speed and motivating local employees.



### Promoting Work Opportunities for Women

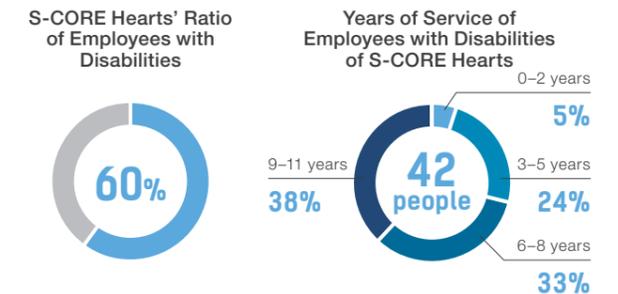
We are working on two themes to encourage women to continue working beyond the current average duration of employment: the principle of "continuous working" and "challenge to a leadership position." Regarding "continuous working," the Noritz Group has been sponsoring the Vitamin W Square (11<sup>th</sup> term), a forum in which women from various sections voluntarily get together and discuss how to improve and enhance women's work. We have done this for eleven years thus far. In 2017 we published a guidebook on balancing work and nursing care. As for "challenge to a leadership position," we continued a female leadership development program to raise awareness and knowledge of women through training, carried out on a trial basis, a mentor system.

#### Ratio of Female Managers in Overall Managers



### Shift from helping people with disabilities to have a more independent life by making them effective manpower

S-CORE Hearts K.K., a Special Subsidiary (a type of legal Japanese entity for employment of people with disabilities) company of the Noritz Group, employs 42 people with disabilities as of June 30, 2017. They are indispensable human resources of the Noritz Group, being engaged in necessary operations, including production of neutralizing devices of the mainstay Eco-Jozu Series products, maintenance (inspection, cleaning, and recycling) of used packaging materials, and shipment of catalogues and supply parts. The workforce of S-CORE Hearts is distinguished by its high ratio of long-term employees and a small number of workers who leave the company.



S-CORE Hearts was certified as a Special Subsidiary by the Ministry of Health, Labour and Welfare in 2017.



Production of a key component called neutralizing device

### Opening of "Noritz Kids Park Smile Center"

In July 2017 we opened a company-sponsored childcare center, the first in the housing equipment industry, within the Akashi Plant site. This is one of ways that we support employees who strive to balance work and childcare.

- Feature 1** Enable employees who take child-care leave to return to work smoothly by placing the child under care within the workplace.
- Feature 2** Employees can work at ease as they can check how their child is doing via a website camera.

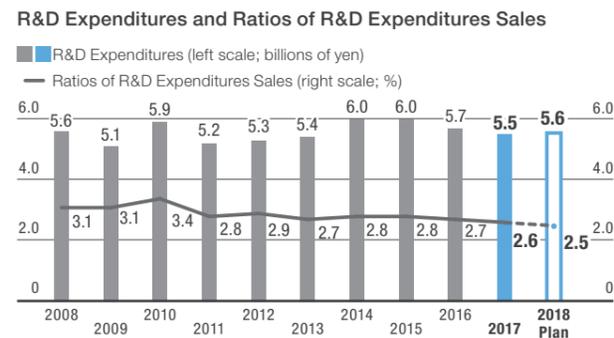




## Value Creation through Technology

### R&D investment for new and advanced technology

Aiming for achieving sustainable growth, we have continuously made R&D investments especially in two ways. First is investment in developing new technology that is needed to match customers' life styles and needs, and adoptable in our rapidly-changing social infrastructure. Second is investment in basic technology and product development for constant advancement and higher efficiency.



### Technical cooperation aiming at “The Noritz Group – Globally Competitive by 2020”

One of priority measures of the V-plan 20 is a continued expansion of overseas business. It is essential to develop products that match characteristics of each overseas market for us to achieve business growth. We have begun to strengthen cooperation between our overseas bases and our technical department in Japan, and to develop products that appeal to overseas potential users. In North America where more stringent environmental and energy-saving standards are enforced than in Japan, we launched high-efficiency water heaters using the pre-mixed burner and high-efficiency combination boilers in 2017.



**High-efficiency EZ Series**  
These are tankless water heaters using the pre-mixed burner that has passed North America's stringent NOx regulations and meets heat efficiency standards.

**High-efficiency combination boiler**  
This combination boiler is a tankless water heater which also has an eco-friendly hydronic space heating function.

### Quality award

As a product manufacturer, on top of providing new functions intended to satisfy diversifying needs of customers, we are continuing unceasing efforts of improvement, evaluation, and implementation for quality enhancement of not only design but also all processes from procurement and production to distribution. Thanks to such efforts, we received the first prize in the cooking range category in the Osaka Gas Co. gas appliance quality award competition for the second consecutive year in 2017.



Quality inspection process

## Noritz Technology Contributing to Solve Social Challenges

We are entering an era which requires development of products that can enhance customers' convenience and life style, and that can overcome social challenges. We find it important to discover and understand values which consumers are not yet aware of. We therefore intend to both develop technology that keeps up with changing times and expand our product line.

### Our Core Technologies



#### Function

##### “Bathing-monitor” function

We help reduce the risk of bathroom accidents, by providing a safety measure for home bathing.

#### Challenge

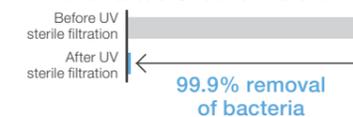
The number of fatalities in Japan caused by heatstroke and heat prostration while taking a bath is about five times more than those from traffic accidents\*\*.

#### Solution

We contribute to reduction in bathroom accidents with our “Bathing-monitor” function, which includes a bathroom monitoring function, bath timer, and slow-reheating function.



#### Performance of UV sterile filtration unit



#### Function

##### Removal of bacteria

Noritz's UV sterile filtration unit has the ability to remove 99.9% of bacteria in the bath water.

#### Challenge

Reuse of remaining bath water is a big challenge in ongoing efforts to improve the efficient use of water resources. However, around 40% of households in Japan do not reuse remaining bath water due to concern over propagation of bacteria.

#### Solution

We have equipped a UV sterile filtration unit in certain water heaters to eliminate bacteria from bath water, so that the water can be reused the next day for washing laundry.



#### Function

##### Function to use energy efficiently

By use of the Eco switch function of a remote controller, consumers can automatically control the temperature and level of hot water in the bathtub.

#### Challenge

Use of hot water means CO<sub>2</sub> emissions and energy consumption. Eco-friendliness is a condition for which there is strong desire for improvement to be achieved by manufacturers of water heaters.

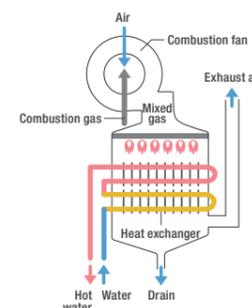
#### Solution

Five functions, such as moderation of the setting for volume and temperature of hot-water supply, have enabled Noritz to realize eco-friendly operation.

\* “Understanding of the Actual Situation and Research on Preventive Measures of Accidents Related to Taking a Bath,” from the 2013 Research Report (Summary and Sections) by Researchers Shingo Hori, under the Ministry of Health, Labour and Welfare Grants System

\*\* Survey by the National Police Agency, 2017

◆ Details of the functions and effects of the GT-C62 Series at present are available (in Japanese only).  
[www.noritz.co.jp/product/kyutoki/gus/gt\\_c62.html](http://www.noritz.co.jp/product/kyutoki/gus/gt_c62.html)



#### Technology

##### “Pre-mixed burner” controlling technology

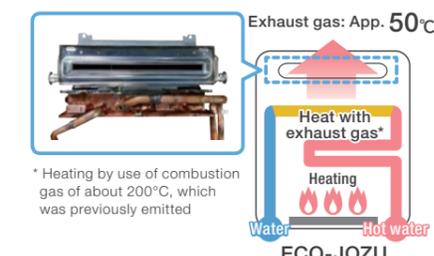
In order to realize high heat efficiency and stable supply of hot water, we have developed sophisticated technology to control gas, water, and heating of water, in addition to development of the functional physical components of products.

#### Challenge

In North America, regulations on NOx emissions are stringent and high heat efficiency is a requirement in environmental performance.

#### Solution

Noritz has developed high environmental performance water heaters using the pre-mixed burner for North America. This is based on a combustion regulation which is significantly different from that applicable to water heaters sold in the Japanese market.



\* Heating by use of combustion gas of about 200°C, which was previously emitted

#### Technology

##### Technology development for heat exchangers

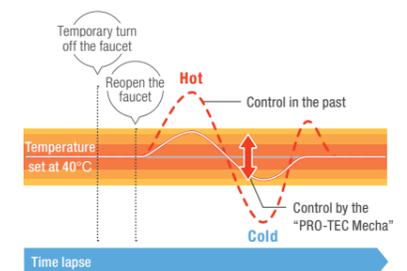
We have developed compact, high-efficiency, reliable heat exchangers.

#### Challenge

Realization of a low-carbon or decarbonized society is a universal challenge.

#### Solution

Our proprietary latent heat collection system has enabled effective utilization of exhaust gas of about 200°C and has reduced CO<sub>2</sub> emissions by about 16% compared to the conventional models.



#### Technology

##### Flow control technology

Our “PRO-TEC Mecha” is aimed at realizing the world's most pleasant, stable temperature of hot water in the bathtub

#### Challenge

When bathers close the water faucet and reopen it, it changes the water temperature and can result in draining (wasting) some water.

#### Solution

We have been developing technology to provide stable-temperature hot water, in order to reduce water use (waste).



## A Clean Earth for Future Generations



### Responsibility for Environmental Conservation

The world is moving toward a low-carbon or decarbonized society, as seen by the adoption of the Paris Agreement. Climate change is a serious and big issue for the Noritz Group. We take increasingly stringent environmental regulations as a business opportunity and are committed to deal with it throughout our value chain. We believe this is our responsibility as a company that manufactures and sells equipment that emits greenhouse gases.

#### Eco-First Initiatives

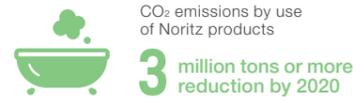
In 2009 the Noritz Group became the first manufacturer in the gas and kerosene appliance industry to acquire Eco-First Company certification and made the commitment to implement various environmental initiatives on behalf of society. In 2017 we updated our Commitments to Eco-First and identified some new targets. We are making efforts to combat climate change by implementing initiatives stated on the right.



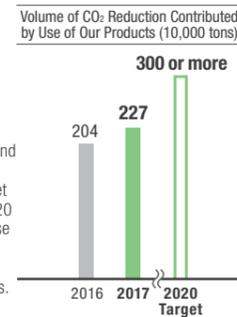
Eco-First Initiatives (in Japanese only)  
<http://www.noritz.co.jp/csr/kankyoe/ecofirst.html>



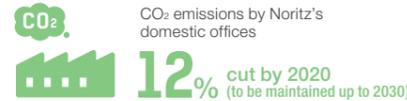
#### Building a low-carbon or decarbonized society by a contribution from our products



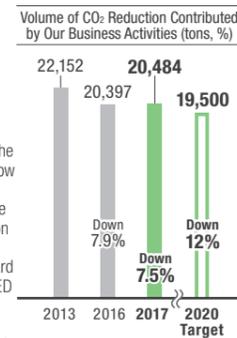
We are promoting development and sales of highly energy-efficient water heaters (such as a type to collect latent heat, and a hybrid water/space heating system) and energy-generation systems (such as a type to use solar thermal power) and target a reduction of CO<sub>2</sub> emissions by 3 million tons per year by 2020 (compared to 2000; assuming 10 years of usable life) from use of our products by customers (including exported products). In addition, we will provide easy-to-understand environmental related information on our products and services to our customers.



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



Noritz's offices in Japan will reduce CO<sub>2</sub> emissions by 12% by 2020 and maintain that level up to 2030 (This is equivalent to the Japanese Government's emissions reduction target of 26% below 2013 levels, consonant with the Paris Agreement.) In 2017, while we adopted some energy-efficient equipment, the volume of our CO<sub>2</sub> emissions slightly increased due to production volume growth and an increase in equipment related to our higher level of in-house sourcing and business expansion. Toward achieving the target, measures we focus on include a shift to LED lighting, raising efficiency in air heating and cooling, adoption of solar power generation systems, more energy-efficiency in production equipment, and making consumption of energy visual.

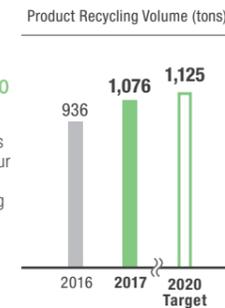


### Eco-First Targets and Initiatives

#### Building a resource-recycling society through products and business activities



We target to increase the recycling volume of used products to 1,125 tons by 2020 and promote activities to support employment of people with disabilities in our recycling operation. In 2017, we strived to increase the volume of recycling and began to cooperate with two welfare facilities.



#### Building a society in harmony with nature through products and business activities

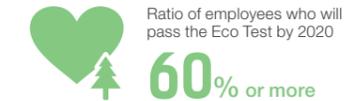


With the aim to help protect biodiversity and ecosystems, we use forest carbon offset services, and promote development of forest materials and use of timber from forest thinning, as a part of our social contribution activities. In order to help our employees better understand role of forests, and the need to protect biodiversity and ecosystems, we will continually implement a program for our employees, whereby they spend time in forests and fields.

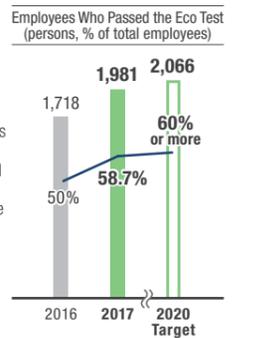


Spending time in forest

#### Becoming more mindful of the environment



We target that 60% or more of Noritz employees will pass the Certification Test for Environmental Specialists (Eco Test; sponsored by the Tokyo Chamber of Commerce and Industry) by 2020 and plan to expand this initiative to group companies. We hope that by this means our people become more mindful of the environment and to promote our "Eco-First" commitment. By 2017, 58.7% of Noritz employees (87.7% of employees in the Domestic Business Headquarters) have acquired the Eco Certification. We plan to devise ways for those persons to further promote environmental activities in their workplace.



### CO<sub>2</sub> Emissions Volume throughout our Value Chain per Year

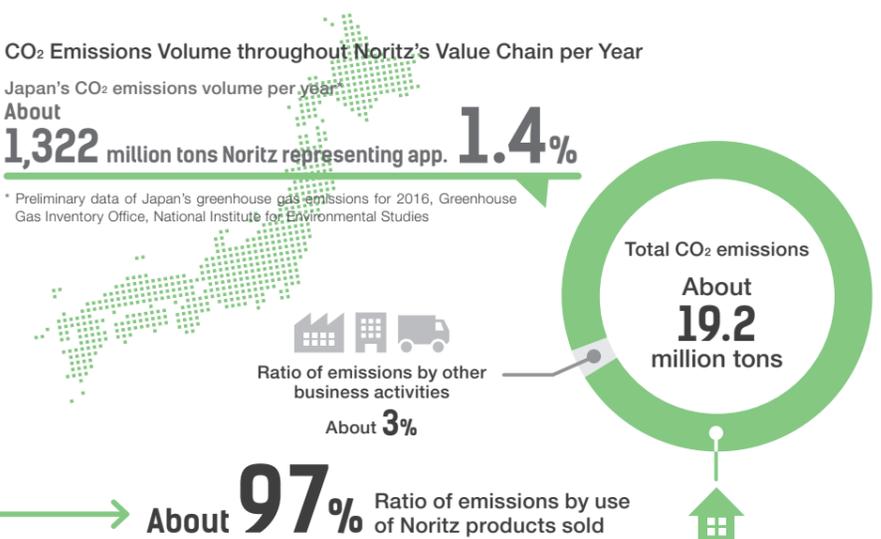
The Noritz Group emits approximately 19.2 million tons of CO<sub>2</sub> per year from its business activities and through use of its manufactured products. This represents about 1.4% of CO<sub>2</sub> emitted in Japan per year.

INPUT ▶	Resources	Energy	Fuel	Energy	Energy
	Steel, copper, stainless, plastics	Electricity: 33.07 million kWh City gas: 245m <sup>3</sup> LNG: 727 tons LPG: 100 tons Kerosene: 163kL	Gasoline, etc.	Gas, kerosene, electricity	Electricity, etc. Gasoline
Water					
Potable water: 270,000m <sup>3</sup>					
Process Flow					
Procurement		Development and production	Transportation, sales, and services	Use	Disposal and recycling
OUTPUT ▶ (10,000 tons)	64	1.5	0.03	1,854	0.5
CO <sub>2</sub> (%)	3.3%	0.08%	0.002%	96.6%	0.03%
OUTPUT ▶ Other than CO <sub>2</sub>		Waste: 4,859 tons Water discharge: 58 tons			

#### CO<sub>2</sub> Emissions Volume throughout Noritz's Value Chain per Year

Japan's CO<sub>2</sub> emissions volume per year\*  
**About 1,322 million tons Noritz representing app. 1.4%**

\* Preliminary data of Japan's greenhouse gas emissions for 2016, Greenhouse Gas Inventory Office, National Institute for Environmental Studies





## Supply Chain Management

The Noritz Group is engaged in CSR procurement for its entire supply chain, as it strives to take responsibility as a final-product brand maker.

### Sustainable Procurement

The Noritz Group is targeting QCDS — Quality, Costs, Delivery, and Sustainability — in procurement. In recent years, societal requirements have expanded from environmental consideration to societal consideration. Request to comply with the Tokyo 2020 Olympic and Paralympic Games Sustainable Sourcing Code is one such example. Since 2015, we have conducted the annual Noritz Supply Chain CSR Survey (Self-Assessment Questionnaire) of major suppliers. Through feedback of the survey results, we discuss with suppliers how to improve their low-score items, aiming for further CSR procurement.

### Addressing the challenge of “conflict minerals”

Since 2014, Noritz has conducted annual surveys on “conflict minerals” ending up in our products. We hold a briefing session on the subject for suppliers and ask for their cooperation in survey. A management database has been established in line with the Conflict-Free Smelter (CFS) Program, of the Responsible Business Alliance (RBA) and Global e-Sustainability Initiative (GeSI). We will continue to promote purchasing activities, that will earn society’s trust.

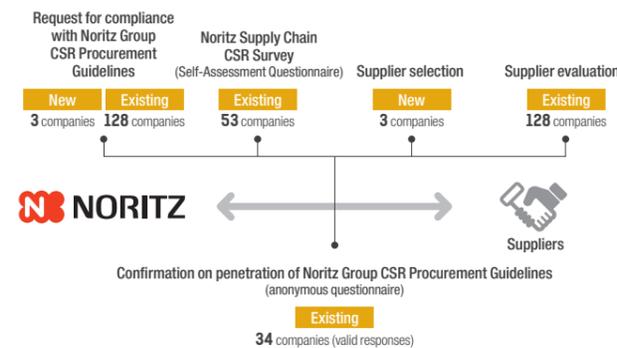
Noritz Group CSR Procurement Guidelines (formulated in 2014)  
[http://www.noritz.co.jp/var/rev0/0003/5629/guideline3\\_2018\\_en\\_02.pdf](http://www.noritz.co.jp/var/rev0/0003/5629/guideline3_2018_en_02.pdf)



## Initiatives for respecting human rights

Noritz Group emphasizes “respect for people” at every opportunity, in and out of the group, and throughout its value chain. We hold human rights training sessions for new employees and new managers every year. In the “Compliance Month” of October 2017, we arranged an opportunity for each workplace to think about and

### Communication with Suppliers (2017)



### Noritz Supply Chain CSR Survey (Self-Assessment Questionnaire)

n=53 (Average)

— 2017  
 - - Previous survey (2015, 2016)



### Cumulative results of conflict minerals surveys (As of January 2018)

Number of requests for Noritz survey from suppliers	14 companies
Number of targeted models	499 models
Number of components under survey	5,096 components
Number of components surveyed	4,585 components
Response rate	90.0%

discuss cases on human rights, which could happen in its everyday operation. In 2018, we will continue such activities to raise awareness of human rights and promote deeper understanding.

Noritz Group Human Rights Policy (formulated in 2016)  
[http://www.noritz.co.jp/library/csr\\_renew/guideline/jinken\\_en.pdf](http://www.noritz.co.jp/library/csr_renew/guideline/jinken_en.pdf)



## Initiatives to enhance brand value

Since 2011, we have conducted our unique annual brand survey by a third-party (cross marketing) to check customers’ recognition, attention, and likability of Noritz. We attempt to understand how we are positioned among 14 housing equipment companies on 20 criteria, including familiarity, integrity, and reliability. In the most recent on-line

survey of 1,070 men and women of ages 20’s to 60’s who lived in the Tokyo area, Noritz was ranked at the top on the “integrity” criterion for the first time in five years since 2013. Committing ourselves to customers, we will continue to strive to be recognized as a company of integrity.

## Initiatives to utilize customers’ comments

We are constantly making efforts to enhance quality and services in the pursuit of bringing satisfaction and enthusiasm to customers. Over 700,000 valued comments from customers who use our products are compiled every year and analyzed at the Customers’ Comments Examination Meetings. We intend to use the results for product development and improvement, and for providing better services. Our product departments have organized past know-how in a systematic way to improve design and production quality. Our call center is open 24 hours 365 days to receive request and inquiries for repair, while our 1,300 certified service staff based in about 180 locations across Japan are engaged in after-sales services. We have also established a system to share the latest information with after-sales service shops and certified installation shops to provide high-quality services. Moreover, we started to launch a service to monitor safety and security of customers through our products, by using IoT technology.



## Support reconstruction from earthquake damages

Being a company which suffered from the Kobe Earthquake in 1995, we continuously support reconstruction efforts after earthquake damages. For the Kobe Luminarie, a light festival to remember the deceased and to pay tribute to their memory, some of our employees undertake fundraising every year. Employees also serve as volunteers for cleaning of public places and for guiding visitors. Since 2016, we have participated as volunteer in the Kobe Luminarie Heartful Day to be held for the benefit of people with disabilities. Our S-CORE Hearts employees with disabilities also joined, providing information in sign language and soliciting donations. As for recovery support for the Great East Japan Earthquake of 2011, we have been contributing financially toward high school tuition for students who lost their parents, through the Michinoku Future Fund, since 2013.



Volunteer activities of photo shooting at the Kobe Luminarie Heartful Day



Giving the list of donations to the Michinoku Future Fund

### Reflecting our empathy and solidarity

With our desire to bring “the Simple Comforts of Life” from taking a bath for the victims of disaster, we have donated gas water heaters and shower booths that protect privacy of users to evacuation centers. We are committed to continue such activities for people in disaster-stricken areas in the future.



# Corporate Governance

## Basic Policy on Corporate Governance

Noritz recognizes that the enhancement of corporate governance is one of the most important management issues and aims to raise corporate value through its business activities for its stockholders and other stakeholders. We are determined to properly respond to the changing business environment, become more sound and transparent, and execute swift decision-making and optimal management judgement.

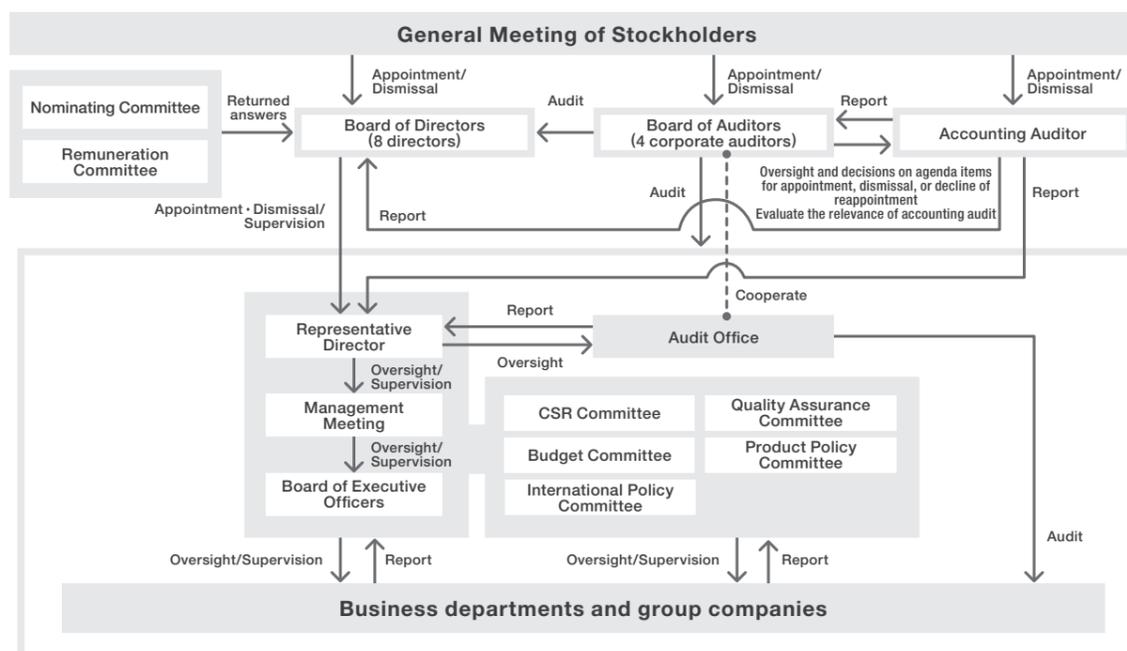
### ■ Establishment of Corporate Governance Guidelines

Noritz believes that putting the Corporate Governance Code into practice is important for achieving effective corporate governance. Thus, based on the resolution of the Board of Directors on March 2016, the Noritz

Corporate Governance Guidelines were established. Presently, we are in compliance with all 73 principles stated in the Corporate Governance Code.

### ■ Corporate governance structure

- Adopted a corporate governance structure, which is composed of the board of directors and the corporate auditors/board of corporate auditors.
- Eight directors including two external directors
- Four corporate auditors including two external corporate auditors



## Changes in the Corporate Governance Framework

Aiming to achieve a better corporate governance, Noritz's corporate governance framework has been revised with due consideration given to revisions in laws and regulations and social circumstances.

<b>2003</b>	<ul style="list-style-type: none"> <li>• Revised the Articles of Incorporation to change the term of directors from two years to one year</li> </ul>	The Articles of Incorporation was revised to change the term of directors from two years to one year to clarify the management responsibility under conditions of a rapidly changing business environment.
<b>2004</b>	<ul style="list-style-type: none"> <li>• Appointed one external corporate auditor</li> </ul>	One external corporate auditor was appointed, with the aim of delivering auditing of directors' performance from an independent viewpoint.
<b>2006</b>	<ul style="list-style-type: none"> <li>• Appointed two external corporate auditors</li> <li>• Reduced the number of directors from 17 to seven</li> <li>• Adopted the executive officer system</li> <li>• Abolished the retirement bonus program for directors</li> </ul>	Having two external corporate auditors was adopted to enhance auditing. In addition, the executive officer system was adopted to promptly respond to the changing business environment and the number of directors was reduced to revitalize the board of directors and enable it to make appropriate decisions. In light of the adoption of the executive officer system, compensation for directors was reviewed, and the retirement bonus program for directors was abolished as a part of that review.
<b>2013</b>	<ul style="list-style-type: none"> <li>• Appointed one external director</li> </ul>	One external director was appointed, with the aim of ensuring reasonable management judgement by an independent external director and improving management efficiency.
<b>2016</b>	<ul style="list-style-type: none"> <li>• Appointed two external directors</li> <li>• Introduced a stock option scheme as a stock-linked compensation plan</li> <li>• Established the Nominating Committee and the Remuneration Committee</li> <li>• Disclosed the Noritz Corporate Governance Guidelines, a Japanese version and an English version</li> </ul>	Two external directors were appointed, with the aim of sustainable growth and long-term corporate value enhancement. A stock option program was introduced to incorporate medium to long-term earnings and potential risks in determination of management's compensation. The Nominating Committee and the Remuneration Committee were established as discretionary advisory bodies. The Noritz Corporate Governance Guidelines in Japanese were disclosed and the English version was uploaded on the company's global website.
<b>2017</b>	<ul style="list-style-type: none"> <li>• Disclosed a summary of the results of an evaluation of effectiveness of the Board of Directors</li> <li>• Conducted training sessions for directors and auditors</li> </ul>	Disclosed a summary of the results of an evaluation of effectiveness of the Board of Directors, conducted at the end of 2016, as well as issues to be addressed by the Board. Conducted five training sessions for directors and auditors.

Noritz Corporate Governance Guidelines  
[http://www.noritzglobal.com/library/csr/pdf/cgguideline\\_en.pdf](http://www.noritzglobal.com/library/csr/pdf/cgguideline_en.pdf)



## Remuneration for Directors

A stock option scheme as a stock-linked compensation plan was introduced for the directors (except external directors), with the aim of providing a valid incentive encouraging sustainable growth of the company.

### ■ Amount of remuneration for directors

The total remuneration for directors and auditors for the period from January 2017 to December 2017 is shown on the table on the right. The total remuneration for directors at Noritz was determined by a resolution at the 57th General Meeting of Stockholders, held in March 2007, to be within the aggregate amount of ¥400 million (excluding salaries to employees).

The total amount of remuneration for corporate auditors at Noritz was resolved at the 53rd General Meeting of Stockholders, held in March 2003, to be within the aggregate amount of ¥50 million.

Position	Number of recipients	Total remuneration paid (thousands of yen)
Directors (including two external directors)	11	¥321,185
Corporate Auditors (including two external corporate auditors)	5	¥48,078
<b>Total</b>	<b>16</b>	<b>¥369,263</b>

\* The above number of recipients includes two directors and one auditor who retired at the end of the 67th General Meeting of Stockholders held in March 2017 and the total remuneration paid includes the amount paid to them.

## Corporate Governance Initiatives

We are giving due attention to corporate governance, with the aim of ensuring sustainable growth and medium to long-term improvement of corporate value.

### Nominating Committee and Remuneration Committee

The Nominating Committee and the Remuneration Committee have been established as discretionary advisory bodies of the Board of Directors, with the purpose of strengthening independence and objectiveness of the Board of Directors and of enhancing the corporate governance framework.



### Summary of the results of the evaluation of effectiveness of the Board of Directors

#### 2017: Issues and initiatives taken

Regarding the issues based on the 2017 results of the evaluation of effectiveness of the Board of Directors, the Board selected the following three subjects and initiated efforts to raise the effectiveness of the Board.

#### 1 Focus on discussion from medium to long-term perspectives

- Agenda items to be discussed at the Board during a given year was reviewed. In order to secure sufficient time to discuss matters from a longer-term perspective, agenda items for the Board of Directors have been revised.
- The regulations on authority for performing duties have been revised and in some cases authority has been delegated so that the Board of Directors can concentrate on important matters to be discussed by the Board.

#### 2 More substantial contents of materials submitted to the Board of Directors

- With the aim of enabling substantive discussion by directors and auditors at the Board of Directors meetings, contents and delivery timing of briefing materials have been changed and an online timely delivery system of necessary information has been developed along with a shift to paperless meeting materials.

#### 3 Execution of enhanced training for directors

- Training needed for directors and auditors has been conducted. Five training sessions in total include lectures by external experts, training, and exchange of opinions.

#### 2017: Summary of the results of the evaluation of effectiveness of the Board of Directors

##### Method of the evaluation of effectiveness of the Board of Directors

A survey was conducted of 13 current directors and auditors and all of them responded. Major survey items are:

##### Composition of the Board of Directors

**Management of the Board of Directors**  
Setting of agenda items, preparation of materials, etc.

**Provision of information to external directors and auditors, etc.**

##### Summary of the results of the evaluation of effectiveness of the Board of Directors

With regard to the Board of Directors' composition, management (setting of agenda items, contents and delivery timing of materials), and provision of information to external directors and auditors, and other items, we have confirmed that Noritz's Board of Directors has in general functioned appropriately and its effectiveness has been secured. We have also confirmed that the initiatives taken regarding earlier issues have proved to be effective as a whole.

#### 2018: Issues of the Board of Directors

The following issues will be addressed in 2018 to further enhance effectiveness of the Board of Directors.

- Continuance of discussions from a medium to long-term perspectives

- Continuance of setting of agenda items, including the reconsideration of agenda items, in order to facilitate more substantive discussion at the Board of Directors meetings.

We plan to regularly evaluate the effectiveness of the Board of Directors, to further improve corporate governance.

## Message from External Directors and Chairman of Nominating Committee and Remuneration Committee



I am proactive to support corporate governance will be embedded in Noritz.

Director (External)  
Yasuhiko Ogawa

Based on my professional viewpoint as a certified public accountant and certified tax accountant, I am overseeing the management of Noritz as an independent external director. The role of an external director is: (1) to give advice needed for raising corporate value, from the viewpoint of protecting interests of general shareholders; (2) to supervise directors' performance, based on its positioning independent of the management and controlling shareholders; and (3) to reflect opinions of stakeholders on the management of the company. The Board of Directors is therefore an important place to execute such roles, and its meetings present precious opportunities to do so. The Board of Directors truthfully exemplifies Noritz's important value "We act with justice, fairness, and transparency." Paperless agenda and briefing materials prior to a board meeting have helped achieve more efficiency and secure more time for preparation. Therefore more in-depth discussions have become possible. I believe that free, open-minded comments are encouraged, and diverse opinions are taken up, resulting in impartial, fair decision-making and transparent information disclosure. I will continue to ask questions, point out issues, and speak up more at the board meetings, in order to contribute to transparent information disclosure and impartial, fair decision-making with due consideration to general shareholders and other stakeholders. I am confident that such actions help result in corporate governance being embedded in real activities of the company.



I will perform an even more appropriate supervising function and contribute to raising corporate value of Noritz.

Director (External), Chairman of the Nominating Committee and the Remuneration Committee  
Hideaki Takahashi

In September 2016 the Board of Directors decided to establish a nominating committee and a remuneration committee meeting and their rules on authority and management were compiled. Both committees were then set up with external directors as both the chairman and a majority of members. Each committee discusses issues related to nomination or remuneration of representative directors, directors, executive officers, and the like, and submit their proposals to the Board of Directors. Through this process, they mainly play a role to oversee appropriateness and transparency of the proposal procedures. Moreover, both committees include four auditors, thereof two independent external auditors are attending as observers. This arrangement has enhanced independence, objectiveness, and accountability of the Board of Directors in discussion of each important issue. I believe that the Nominating Committee makes it possible to build a better, well-balanced management structure and a highly-transparent succession of management by discussing over next-generation management development program. In the Remuneration Committee we are discussing a new stock-linked compensation plan, which may encourage the management to take up the challenge of raising corporate term over the longer term. We are committed to perform an even more appropriate supervising function through these two committees, with the ultimate aim to contribute to raising the corporate value of Noritz.

## Risk Management

We make regular risk assessment of our operations, review countermeasures to avoid risks and enhance the ability to respond in order to minimize damage if the risk occurs.

### Establishing a risk management promotion structure

In 2017 we established a risk management meeting, chaired by the Entire Group Risk Supervisory Manager, under the CSR Committee as we believed that we needed to establish a structure to continuously undertake risk management in order to better respond to risks. Section Meetings have also been set up for information security risks, disaster risks, and labor risks respectively. Moreover, within certain departments of the headquarters, risk-administrative managers have been appointed to make risk management initiatives better known in each of these departments. With regard to information security, a task team has been established to suppress occurrence of incidents in the Noritz Group and to promptly take initial response to prevent further damage or minimize damage in the case of such occurrence.

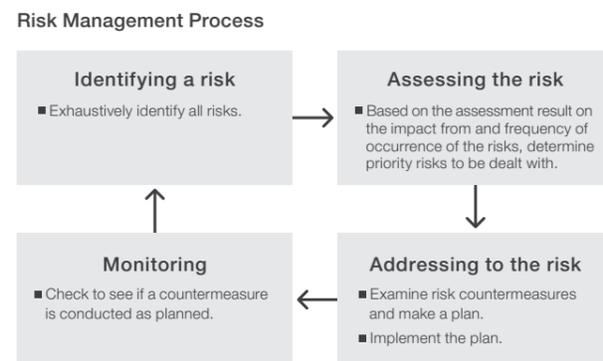


### Identified priority risks to be addressed corporate-wide

In 2017, each department in the headquarters carried out risk assessment of all known potential risks, including corporate risks and speculative risks. We then identified natural disaster (large-scale earthquake) and other business contingency risks as priority risks and have started to address them. The risks are divided to three sections and arrangements for group meetings for each were established and each group carried out activities for risk reduction. The Information Risk Section Meeting has led an initiative to enhance security of Noritz and its group companies. The Labor Risk Section Meeting has coordinated an initiative to make working hours more optimal by incorporating the perspective of work style reform. The Disaster Risk Section Meeting plans to make group companies apply Noritz's personal safety check system. Going forward, we will develop initiatives that further enhance the risk management arrangements and practices, as well as our comprehensive risk responsiveness, at group companies in Japan and overseas.



Risk Management Meeting



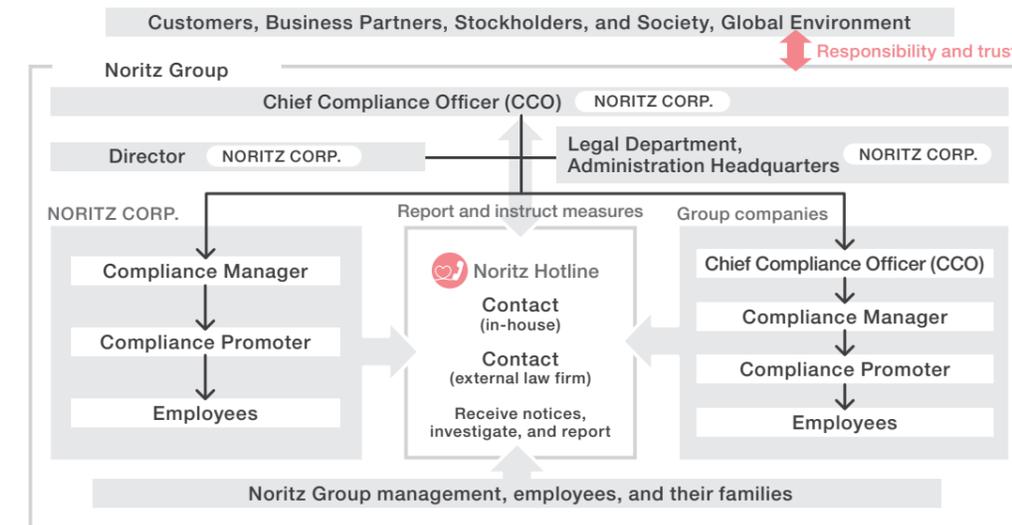
## Compliance

By defining compliance as adherence to “corporate ethics,” which include laws and regulations, the Articles of Incorporation, internal rules, and social rules, Noritz has formulated the Noritz Group Code of Ethics and is committed to comply with it.

Noritz Group Code of Ethics  
[http://www.noritz.co.jp/library/csr/pdf/kijun2014\\_eng.pdf](http://www.noritz.co.jp/library/csr/pdf/kijun2014_eng.pdf)



### Compliance Promotion Structure



Noritz Hotline has been established as a point of contact that the Group's directors, officers, employees, and their family members can use to notify an act in violation of laws and internal rules and regulations. Noritz Hotline has two contacts: in-house and external law firm. A whistleblower's confidentiality is protected and at the same time, the person is to be protected by internal regulations that prohibit retaliatory actions, so that he or she would not suffer disadvantage based on such action.

### Compliance promotion activities

With the aim of fostering a corporate culture in which the whole Noritz Group is aware of compliance, and each department and company can undertake self-correcting changes when necessary, we are carrying out compliance promotion activities.

#### Compliance Month

Every May and September are designated as “Compliance Month,” when our employees are encouraged to think about and discuss compliance matters in their workplace, based on the Noritz Group Code of Ethics and other standards.

**Themes for Compliance Months in 2017**

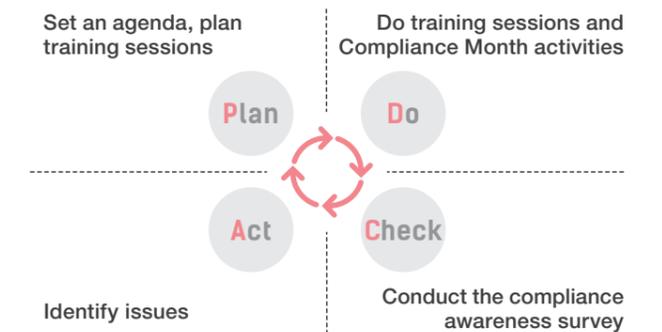
- May: Meetings in workplace on compliance cases
- Sep.: Information security training

**2017 Example of compliance initiatives**

**Joint planning of manufacturing and legal departments**  
 Plan of public invitation to submit compliance cases for manufacturing department

In 2017, we asked our employees in manufacturing areas to submit compliance case studies. Employees who submitted an outstanding case received the award of excellence and their cases have been added to the Compliance Case Examples for Manufacturing Department. We intend to continue such initiatives as a part of campaign to raise compliance awareness.

#### PDCA cycle of compliance promotion activities



#### Compliance Training

Noritz carried out the following training in 2017.

Noritz	Domestic group companies
<ul style="list-style-type: none"> <li>Compliance training for new employees</li> <li>Compliance training for new managers</li> <li>Power harassment training for managers in sales department</li> </ul>	<ul style="list-style-type: none"> <li>Training for newly-appointed officers</li> <li>Training on fraud prevention of irregularities</li> <li>Various types of legal training (i.e., contract related; personal information protection law; and labor law)</li> </ul>

We also undertook compliance training for our suppliers.

#### Plan for 2018

We plan to undertake training on legal issues for each department, based on our legal risk map, in addition to annual compliance training for new employees and new managers. We also intend to carry out initiatives to enhance domestic and overseas group governance.

**Directors** (as of March 30, 2018)



**President and CEO  
Soichiro Kokui**

1976	Apr.	Joined Noritz Corp.
2003	Mar.	Director, Noritz Corp.
2009	Sep.	President and CEO, Representative Executive Officer, Noritz Corp.
2017	Mar.	President and CEO, Noritz Corp.
	May	Chairperson, Kobe Association of Corporate Executives



**Director and Senior Managing Executive Officer  
Takafumi Nakamura**

1980	May	Joined Noritz Corp.
2005	Mar.	Director, Noritz Corp.
2014	Sep.	Director and Senior Managing Executive Officer, Domestic Business Planning, Noritz Corp.
2016	Jan.	Director and Senior Managing Executive Officer, Head of Domestic Business Headquarters, Noritz Corp.



**Director (External)  
Yasuhiko Ogawa**

1982	Jun.	Registered as a certified public accountant
1987	Apr.	Representative of Ogawa Certified Public Accountants Office (current position)
1987	May	Registered as a certified tax accountant
2009	Mar.	External Audit & Supervisory Board Member, Noritz Corp.
2010	Jun.	Chairman of the Kinki Branch of the Japan Institute of Certified Public Accountants (JICPA)
2013	Mar.	External Director, Noritz Corp. (current position)
	Jun.	External Audit & Supervisory Board Member, Osaka Securities Exchange Co., Ltd. (currently Osaka Exchange, Inc.) (current position)
2017	Sep.	External Audit & Supervisory Board Member, Osaka Metro Co., Ltd. (current position)



**Director (External)  
Hideaki Takahashi**

1966	Apr.	Joined the Kobe Bank (currently the Sumitomo Mitsui Bank)
1995	Jul.	Director and Kobe Sales Division Manager, Sakura Bank
1998	Jun.	President and Representative Director, Sakura KCS
2013	Mar.	External Audit & Supervisory Board Member, Noritz Corp.
2016	Mar.	External Director, Noritz Corp.



**Director and Managing Executive Officer  
Tsutomu Mizuma**

1980	Apr.	Joined Noritz Corp.
2007	Jan.	Executive Officer, President of Osaka Office of Sales & Marketing Headquarters, Noritz Corp.
2015	Mar.	Director and Managing Executive Officer, Head of Sales & Marketing Headquarters, Noritz Corp.
2016	Jan.	Director and Managing Executive Officer, Head of Product Headquarters, Domestic Business Headquarters, Noritz Corp.



**Director and Managing Executive Officer  
Satoshi Haramaki**

1983	Apr.	Joined Noritz Corp.
2011	Jan.	Executive Officer, Deputy Head of Research & Development Headquarters, Noritz Corp.
2014	Sep.	Managing Executive Officer, Head of Research & Development Headquarters, Noritz Corp.
2015	Mar.	Director and Managing Executive Officer, Head of Research & Development Headquarters, Noritz Corp. (current position)
2017	Jan.	General Manager of Hot Water Business Division of Domestic Business Headquarters, Noritz Corp.

**Corporate Auditors** (as of March 30, 2018)



**Corporate Auditor  
Toshiyuki Sawada**

1979	Apr.	Joined Noritz Corp.
2004	Jul.	General Manager of Accounting & Finance Division, Administration Headquarters, Noritz Corp.
2011	Mar.	Corporate Auditor, Noritz Corp.



**Corporate Auditor  
Tsuyoshi Ayabe**

1983	Apr.	Joined Noritz Corp.
2011	Mar.	General Manager of Accounting & Finance Division, Administration Headquarters, Noritz Corp.
2014	Jan.	President and Representative Director, Noritz Capital Corp.
2017	Mar.	Corporate Auditor, Noritz Corp.



**Director and Managing Executive Officer  
Masamine Hirose**

1988	Nov.	Joined Noritz Corp.
2011	Oct.	Executive Officer, Noritz Corp.
2016	Apr.	Managing Executive Officer, General Manager of China Business Promotion Division of International Business Headquarters, Noritz Corp.
2017	Mar.	Director and Managing Executive Officer, Head of International Business Headquarters, Noritz Corp.



**Director and Managing Executive Officer  
Masayuki Takenaka**

1992	Jan.	Joined Noritz Corp.
2004	Mar.	Director, Head of Planning & Administration Headquarters, Harman Co., Ltd.
2011	Jun.	Managing Director, Head of Administration Headquarters, Harman Co., Ltd.
2016	Apr.	Executive Officer, Noritz Corp.
2017	Jan.	Senior Executive Officer, Head of Administration Headquarters, Noritz Corp.
	Mar.	Director and Managing Executive Officer, Head of Administration Headquarters, Noritz Corp.



**Corporate Auditor (External)  
Hiroshi Shirai**

1977	Nov.	Joined Price Waterhouse & Co.
1982	Aug.	Registered as a certified public accountant
2011	Oct.	President of Shirai Certified Public Accountant Office (current position)
2012	Jun.	External Auditor of ALTECO Co., Ltd. (current position)
2014	Apr.	Committee Member of Osaka City Appropriate Performance of Duties Committee (current position)
2015	Jun.	External Audit & Supervisory Board Member of Wacoal Holdings Corp. (current position)
2016	Mar.	External Corporate Auditor, Noritz Corp.



**Corporate Auditor (External)  
Yasuko Masaki**

1982	Apr.	Registered as a lawyer (Kobe Bar Association (currently Hyogo-Ken Bar Association)) Joined Shimoyama Law Office
1991	May	Renamed Shimoyama Law Office as Shimoyama & Masaki Law Office Co-Representative of Shimoyama & Masaki Law Office (current position)
2004	Apr.	Professor, The Kwansai Gakuin University Law School
2008	Jan.	External Director, HI-LEX CORPORATION (current position)
	Apr.	President of Hyogo-Ken Bar Association
2011	Apr.	Chief of Hyogo District Office, The Japan Legal Support Center (Houterasu)
2013	Apr.	President of Kinki Federation of Bar Associations
2014	Jun.	External Inspector, CONSUMERS CO-OPERATIVE KOBE (current position)
2018	Mar.	External Corporate Auditor, Noritz Corp.

# 11-year Financial and Non-Financial Data Summary

	2007.12	2008.12	2009.12	2010.12	2011.12	2012.12	2013.12	2014.12	2015.12	2016.12	2017.12	2017.12
<b>Consolidated Statement of Income (Fiscal Year)</b>												
	(Millions of yen)											(Millions of U.S. dollars)
Sales	¥180,017	¥181,254	¥169,350	¥175,067	¥184,353	¥187,061	¥200,327	¥218,943	¥218,909	¥211,872	¥214,648	\$1,891
Cost of goods sold	127,248	129,765	119,909	121,135	129,928	133,008	140,773	150,599	147,543	141,498	145,064	1,278
Selling, general and administrative expenses	50,410	48,042	45,071	46,787	46,238	45,214	49,884	60,936	66,242	61,433	62,876	554
Operating income	2,358	3,445	4,369	7,144	8,186	8,839	9,670	7,407	5,123	8,940	6,708	59
Ordinary income	3,019	3,102	4,821	7,380	8,704	9,813	11,058	9,439	6,013	9,343	8,094	71
Net income (loss) attributable to stockholders of the parent company	(1,208)	(1,796)	838	3,843	4,798	5,979	6,387	3,479	(3,958)	4,654	5,402	48
<b>Consolidated Balance Sheet (End of Fiscal Year)</b>												
	(Millions of yen)											(Millions of U.S. dollars)
Net assets	87,130	79,993	81,449	83,419	85,621	92,724	109,673	118,244	113,731	111,477	121,531	1,071
Total assets	156,682	145,028	136,573	143,845	150,837	159,910	191,324	206,061	197,022	201,041	212,491	1,872
<b>Consolidated Cash Flows (Fiscal Year)</b>												
	(Millions of yen)											(Millions of U.S. dollars)
Cash flow from operating activities	2,756	7,904	12,416	12,613	9,777	11,167	9,673	13,476	13,116	17,238	8,376	74
Cash flow from investing activities	(18,031)	(3,742)	290	(2,898)	(9,028)	(7,340)	(10,430)	(14,658)	(6,346)	(6,423)	(8,574)	(76)
Cash flow from financing activities	8,846	(4,722)	(7,066)	(955)	(1,432)	(1,731)	(574)	(2,814)	(2,814)	(1,614)	(1,715)	(15)
Cash and cash equivalents at end of year	11,708	10,816	16,461	25,029	24,371	26,765	26,936	24,274	27,581	35,887	34,283	302
<b>Per Share Information</b>												
	(Yen)											(U.S. dollars)
Net assets	1,804.7	1,666.2	1,700.8	1,742.6	1,790.3	1,938.9	2,231.0	2,372.1	2,291.1	2,245.1	2,451.1	21.6
Net income (loss)	(25.3)	(37.6)	17.5	80.3	100.3	125.0	133.6	72.8	(82.8)	97.3	113.0	1.0
Dividends	28.0	28.0	28.0	28.0	30.0	30.0	30.0	32.0	32.0	32.0	32.0	0.3
<b>Management Indicators</b>												
	(%)											
Operating income to sales	1.3	1.9	2.6	4.1	4.4	4.7	4.8	3.4	2.3	4.2	3.1	
Equity ratio	55.1	55.0	59.6	58.0	56.8	58.0	55.8	55.0	55.6	53.4	55.1	
Return on assets (ROA)	-	-	0.6	2.7	3.3	3.8	3.6	1.8	-	2.3	2.6	
Return on equity (ROE)	-	-	1.0	4.7	5.7	6.7	6.4	3.2	-	4.3	4.8	
<b>Non-Financial Data</b>												
Number of employees (consolidated)	5,290	5,273	5,134	5,299	5,519	5,703	9,165	9,422	9,253	9,118	8,815	
Number of patents in Japan	1,010	934	850	743	767	842	904	921	940	1,081	1,076	
Number of domestic design patents	308	314	379	460	510	511	534	568	625	674	685	
CO <sub>2</sub> emissions reduction by our products (10,000 tons/year) * Including exports since 2016	39	48	48	64	82	99	111	117	118	204	227	
CO <sub>2</sub> emissions reduction by our business activities (tons)	-	-	-	22,892	21,621	21,636	22,152	21,071	19,925	20,397	20,484	

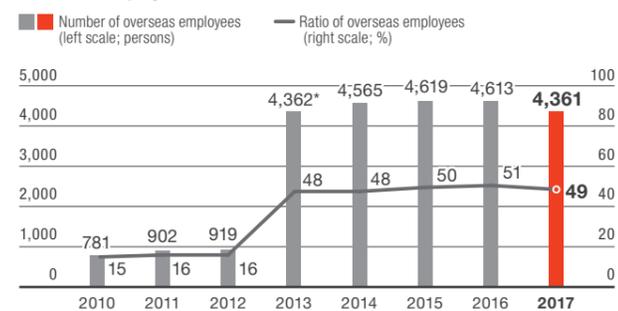
\* The stated yen amounts are rounded down to the nearest million yen.  
 \* Figures in yen have been translated into U.S. dollars solely for convenience and are based on the exchange rate of ¥113.49 = US\$1, announced by Sumitomo Mitsui Banking Corporation on December 28, 2017.

Calculation: Operating income to sales = Operating income/ Sales X 100  
 Equity = Net assets - Noncontrolling interests - Share acquisition rights  
 Equity ratio = Equity/Total assets X 100

Return on Assets (ROA) = Current net income attributable to stockholders of the parent company/Average total assets of previous and current terms X 100  
 Return on Equity (ROE) = Current net income attributable to stockholders of the parent company/Average equity of previous and current terms X 100

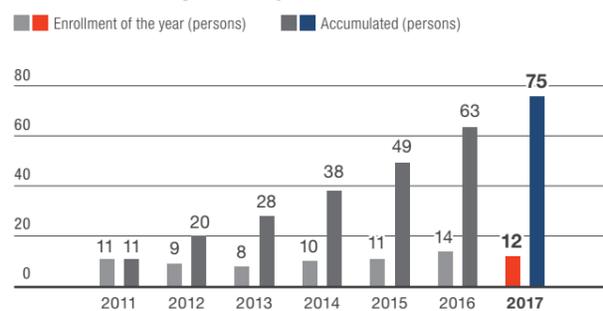
## Diversity-related Data

### Overseas Employees

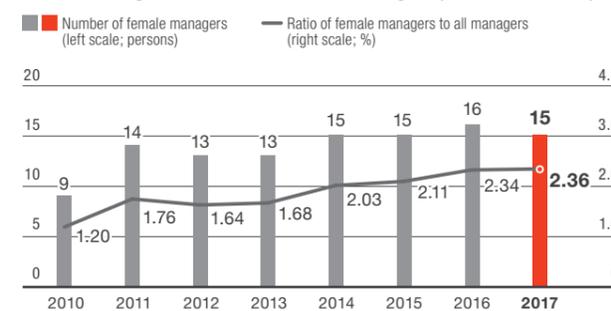


\* Capital participation in Sakura Bath & Kitchen Products (China) Co., Ltd. in 2013

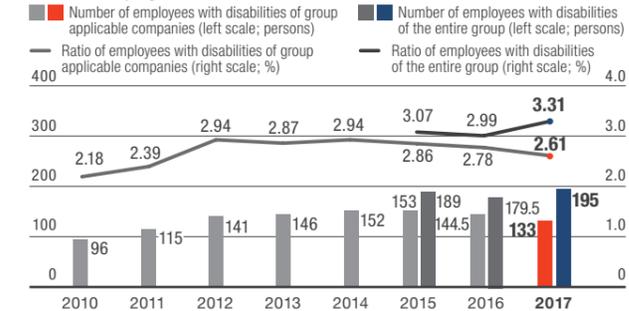
### Global Personnel Registration System



### Female Managers and their Ratio to All Managers (non-consolidated)



### Ratio of Employees with Disabilities



\* Figures compiled as of June end for each year  
 \* In calculating the number of employees and the employment rate, one full-time worker with severe disabilities is counted as 2 persons and one part-time worker with disabilities is counted as 0.5 person.  
 \* Japan's mandatory employment rates are 1.8% in 2010-2013, and 2.0% in and after 2014.

## Consolidated Balance Sheets

Assets	(Millions of yen)		(Millions of U.S. dollars)
	2016.12	2017.12	2017.12
Current assets			
Cash and cash equivalents	¥36,904	¥35,018	<b>\$308</b>
Notes receivable and accounts receivable	45,175	45,483	<b>401</b>
Electronically recorded monetary claims	10,934	13,184	<b>116</b>
Securities	119	316	<b>3</b>
Inventories	16,855	19,728	<b>174</b>
Deferred tax assets	1,409	1,630	<b>14</b>
Others	3,798	4,912	<b>43</b>
Allowance for doubtful accounts	(122)	(128)	<b>(1)</b>
<b>Total current assets</b>	<b>115,075</b>	<b>120,146</b>	<b>1,058</b>
Fixed assets			
Tangible assets			
Buildings and structures (net amount)	15,426	16,457	<b>145</b>
Machinery and transport equipment (net amount)	6,253	6,773	<b>59</b>
Land	9,541	9,503	<b>84</b>
Construction in progress	2,798	660	<b>6</b>
Others (net amount)	2,558	2,587	<b>23</b>
<b>Total tangible assets</b>	<b>36,578</b>	<b>35,982</b>	<b>317</b>
Intangible assets			
Goodwill	698	634	<b>6</b>
Others	8,277	7,388	<b>65</b>
<b>Total intangible assets</b>	<b>8,976</b>	<b>8,022</b>	<b>71</b>
Investments and other assets			
Investments in securities	34,821	42,602	<b>375</b>
Long-term loans	802	738	<b>7</b>
Deferred tax assets	2,513	2,513	<b>22</b>
Others	2,650	2,656	<b>23</b>
Allowance for doubtful accounts	(376)	(171)	<b>(1)</b>
<b>Total investments and other assets</b>	<b>40,411</b>	<b>48,339</b>	<b>426</b>
<b>Total fixed assets</b>	<b>85,966</b>	<b>92,344</b>	<b>814</b>
<b>Total assets</b>	<b>¥201,041</b>	<b>¥212,491</b>	<b>\$1,872</b>

Liabilities	(Millions of yen)		(Millions of U.S. dollars)
	2016.12	2017.12	2017.12
Current liabilities			
Notes payable and accounts payable	¥39,263	¥40,745	<b>\$359</b>
Short-term borrowings	800	800	<b>7</b>
Other payables	10,256	10,984	<b>97</b>
Accrued corporate income taxes	1,843	1,242	<b>11</b>
Reserve for bonuses	1,079	1,155	<b>10</b>
Reserve for bonuses for directors	47	51	<b>0</b>
Reserve for product warranties	991	980	<b>9</b>
Reserve for product accidents processing	10	87	<b>1</b>
Others	10,506	9,234	<b>81</b>
<b>Total current liabilities</b>	<b>64,800</b>	<b>65,279</b>	<b>575</b>
Long-term liabilities			
Deferred tax liabilities	255	2,655	<b>23</b>
Reserve for retirement bonuses for officers	42	49	<b>0</b>
Reserve for product warranties	6,374	4,324	<b>38</b>
Liabilities concerning retirement benefits	13,368	13,460	<b>119</b>
Others	4,723	5,189	<b>46</b>
<b>Total fixed liabilities</b>	<b>24,763</b>	<b>25,680</b>	<b>226</b>
<b>Total liabilities</b>	<b>¥89,564</b>	<b>¥90,960</b>	<b>\$801</b>
Net assets			
Stockholders' equity			
Capital	¥20,167	¥20,167	<b>\$178</b>
Capital surplus	22,956	22,956	<b>202</b>
Retained earnings	58,244	62,114	<b>547</b>
Treasury stock	(5,096)	(5,114)	<b>(45)</b>
<b>Total stockholders' equity</b>	<b>96,273</b>	<b>100,125</b>	<b>882</b>
Cumulative amount of other comprehensive income			
Other difference in securities valuation	12,933	17,908	<b>158</b>
Deferred hedge gains (losses)	(1)	0	<b>0</b>
Foreign currency translation adjustment	1,980	2,410	<b>21</b>
Cumulative amount of retirement benefits adjustments	(3,843)	(3,267)	<b>(29)</b>
<b>Total cumulative amount of other comprehensive income</b>	<b>11,069</b>	<b>17,052</b>	<b>150</b>
Share acquisition rights	32	63	<b>1</b>
Noncontrolling interests	4,101	4,290	<b>38</b>
<b>Total net assets</b>	<b>111,477</b>	<b>121,531</b>	<b>1,071</b>
<b>Total liabilities and net assets</b>	<b>¥201,041</b>	<b>¥212,491</b>	<b>\$1,872</b>

## Consolidated Statements of Income

	(Millions of yen)		(Millions of U.S. dollars)
	2016.12	2017.12	2017.12
Sales	¥211,872	¥214,648	<b>\$1,891</b>
Cost of goods sold	141,498	145,064	<b>1,278</b>
Gross profit	70,374	69,584	<b>613</b>
Selling, general and administrative expenses	61,433	62,876	<b>554</b>
Operating income	8,940	6,708	<b>59</b>
Non-operating income	1,436	1,626	<b>14</b>
Non-operating expenses	1,033	241	<b>2</b>
Ordinary income	9,343	8,094	<b>71</b>
Extraordinary income	1,777	2,784	<b>25</b>
Extraordinary loss	4,164	3,096	<b>27</b>
Net income before tax adjustments	6,956	7,782	<b>69</b>
Income taxes	2,939	2,417	<b>21</b>
Income taxes deferred	(902)	(183)	<b>(1)</b>
Total income taxes	2,036	2,233	<b>20</b>
Net income	4,919	5,548	<b>49</b>
Net income attributable to noncontrolling stockholders of the parent company	265	146	<b>1</b>
Net income attributable to stockholders of the parent company	¥4,654	¥5,402	<b>\$48</b>

## Consolidated Statements of Cash Flow

	(Millions of yen)		(Millions of U.S. dollars)
	2016.12	2017.12	2017.12
Cash flow from operating activities	¥17,238	¥8,376	<b>\$74</b>
Cash flow from investing activities	(6,423)	(8,574)	<b>(76)</b>
Cash flow from financing activities	(1,614)	(1,715)	<b>(15)</b>
Effect of exchange rate changes on cash and cash equivalents	(893)	308	<b>3</b>
Net increase (decrease) in cash and cash equivalents	8,306	(1,604)	<b>(14)</b>
Cash and cash equivalents at beginning of year	27,581	35,887	<b>316</b>
Cash and cash equivalents at end of year	¥35,887	¥34,283	<b>\$302</b>

\* Figures in yen have been translated into U.S. dollars solely for convenience and are based on the exchange rate of ¥113.49 = US\$1, announced by Sumitomo Mitsui Banking Corporation on December 28, 2017.

## Consolidated Statements of Changes in Net Assets

	Stockholders' equity				Accumulated Other Comprehensive Income								
	Capital	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Other difference in securities valuation	Deferred hedge gains (losses)	Foreign currency translation adjustments	Cumulative amount of retirement benefits adjustments	Total cumulative amount of other comprehensive income	Share acquisition rights	Noncontrolling interests	Total net assets
<b>Balance as of December 31, 2015</b>	¥20,167	¥22,956	¥55,120	¥(5,093)	¥93,152	¥14,040	¥(52)	¥3,823	¥(1,419)	¥16,393	-	¥4,185	¥113,731
<b>Changes during the year</b>													
Cash dividends			(1,530)		(1,530)								(1,530)
Net income attributable to stockholders of the parent company			4,654		4,654								4,654
Purchase of treasury stock				(2)	(2)								(2)
Net changes in items other than stockholders' equity during the year						(1,107)	50	(1,843)	(2,424)	(5,324)	32	(83)	(5,375)
Total changes during the year	-	-	3,124	(2)	3,121	(1,107)	50	(1,843)	(2,424)	(5,324)	32	(83)	(2,254)
<b>Balance as of December 31, 2016</b>	¥20,167	¥22,956	¥58,244	¥(5,096)	¥96,273	¥12,933	¥(1)	¥1,980	¥(3,843)	¥11,069	¥32	¥4,101	¥111,477
<b>Changes during the year</b>													
Cash dividends			(1,530)		(1,530)								(1,530)
Net income attributable to stockholders of the parent company			5,402		5,402								5,402
Purchase of treasury stock				(31)	(31)								(31)
Disposal of treasury stock			(2)	14	11								11
Net changes in items other than stockholders' equity during the year						4,974	2	429	576	5,983	30	188	6,201
Total changes during the year	-	-	3,869	(17)	3,852	4,974	2	429	576	5,983	30	188	10,053
<b>Balance as of December 31, 2017</b>	¥20,167	¥22,956	¥62,114	¥(5,114)	¥100,125	¥17,908	¥0	¥2,410	¥(3,267)	¥17,052	¥63	¥4,290	¥121,531

	Stockholders' equity				Accumulated Other Comprehensive Income								
	Capital	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Other difference in securities valuation	Deferred hedge gains (losses)	Foreign currency translation adjustments	Cumulative amount of retirement benefits adjustments	Total cumulative amount of other comprehensive income	Share acquisition rights	Noncontrolling interests	Total net assets
<b>Balance as of December 31, 2016</b>	\$ 178	\$ 202	\$ 513	\$ (45)	\$ 848	\$ 114	\$ (0)	\$ 17	\$ (34)	\$ 97	\$ 1	\$ 36	\$ 982
<b>Changes during the year</b>													
Cash dividends			(14)		(14)								(14)
Net income attributable to stockholders of the parent company			48		48								48
Purchase of treasury stock				(0)	(0)								(0)
Disposal of treasury stock			(0)	0	0								0
Net changes in items other than stockholders' equity during the year						44	0	4	5	53	0	2	55
Total changes during the year	-	-	34	(0)	34	44	0	4	5	53	0	2	89
<b>Balance as of December 31, 2017</b>	\$ 178	\$ 202	\$ 547	\$ (45)	\$ 882	\$ 158	\$ 0	\$ 21	\$ (29)	\$ 150	\$ 1	\$ 38	\$ 1,071

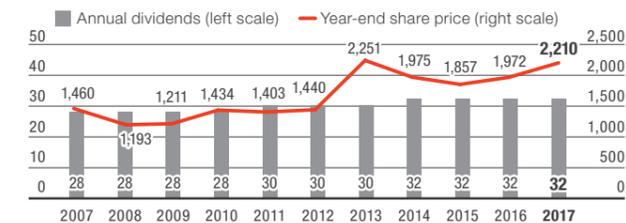
\* Figures in yen have been translated into U.S. dollars solely for convenience and are based on the exchange rate of ¥113.49 = US\$1, announced by Sumitomo Mitsui Banking Corporation on December 28, 2017.

## About Stockholders and Shares

### Stockholder Return Policies

Noritz regards the return of profit to stockholders as one of our most important management priorities. Our basic policy is to provide continuous and stable dividends, while taking into consideration consolidated-based business performance and the payout ratio, and maintaining a sound financial position.

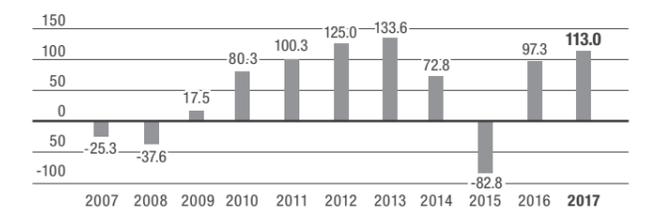
### Dividends and Share Price (Yen)



### Together with Our Stockholders

Noritz holds the general meeting of stockholders in March every year. We publish financial results quarterly and hold results briefings in February and August.

### Per share net income (net loss) (Yen)

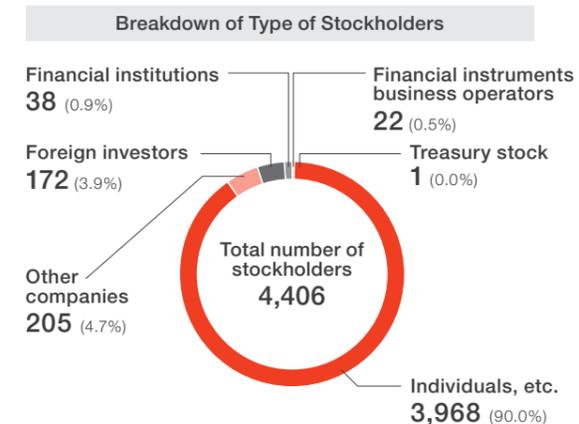


### Status of the Shares (as of December 31, 2017)

Total Number of Authorized Shares	Total Number of Issued Shares	Number of Stockholders
<b>156,369,000</b>	<b>50,797,651</b>	<b>4,406</b>

Major stockholders		
Names	Number of shares held	Shareholding ratio (%)
The Dai-ichi Life Insurance Company Limited	2,524,400	5.28
Sumitomo Mitsui Banking Corporation	2,199,695	4.60
Noritz Transaction Counterparties Stock Ownership Association	1,687,409	3.53
Chofu Seisakusho Co., Ltd.	1,520,000	3.18
The Chase Manhattan Bank, N.A. London	1,437,600	3.01
The Master Trust Bank of Japan, Ltd. (trust account)	1,396,200	2.92
Toshiro Ota	1,350,100	2.82
Noritz Employee Stock Ownership Association	1,251,815	2.62
Japan Trustee Services Bank, Ltd. (trust account)	1,129,500	2.36
Nippon Electric Glass Co., Ltd.	1,119,300	2.34

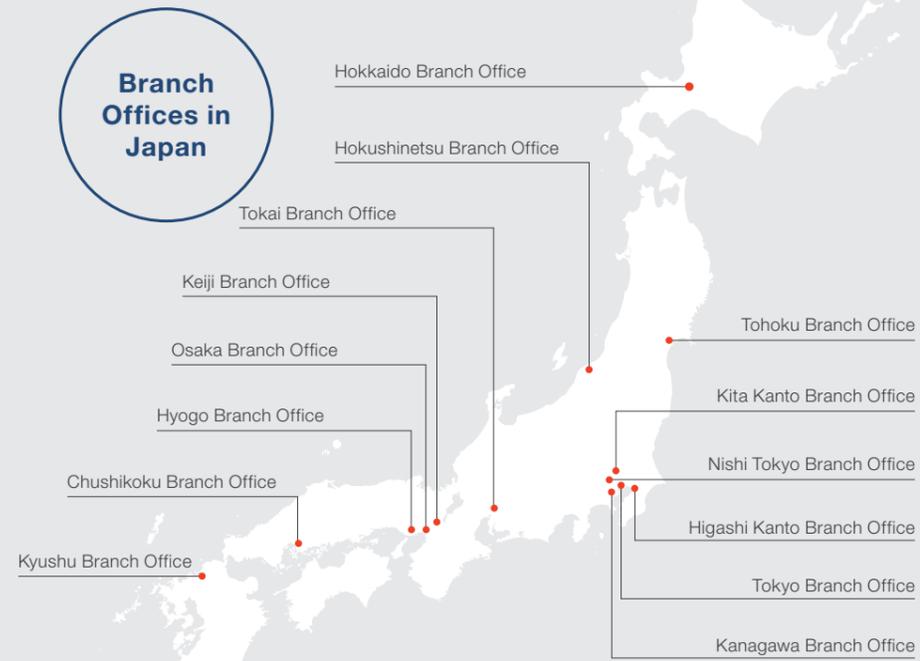
\* Treasury stock of 2,992,066 shares owned by Noritz is not included in the above table.  
\*\* Treasury stock of 2,992,066 shares is not included in calculating the shareholding ratio.



\* Percentages in parentheses are shareholding ratios.



\* Percentages in parentheses are shareholding ratios.



<b>Hokkaido Branch Office</b>	Asahikawa Sales Office, Kushiro Sales Office, Hakodate Sales Office
<b>Tohoku Branch Office</b>	Aomori Sales Office, Hachinohe Sales Office, Morioka Sales Office, Akita Sales Office, Yamagata Sales Office, Koriyama Sales Office
<b>Tokyo Branch Office</b>	
<b>Nishi Tokyo Branch Office</b>	Kofu Sales Office
<b>Higashi Kanto Branch Office</b>	Mito Sales Office, Tsukuba Sales Office, Kashiwa Sales Office, Ichikawa Sales Office, Kisarazu Sales Office
<b>Kanagawa Branch Office</b>	Atsugi Sales Office, Sagamihara Sales Office
<b>Kita Kanto Branch Office</b>	Takasaki Sales Office, Utsunomiya Sales Office, Kumagaya Sales Office, Saitama Nishi Sales Office
<b>Tokai Branch Office</b>	Toyohashi Sales Office, Okazaki Sales Office, Gifu Sales Office, Mie Sales Office, Tsu Sales Team, Shizuoka Sales Office, Numazu Sales Office, Hamamatsu Sales Office
<b>Hokushinetsu Branch Office</b>	Nagaoka Sales Office, Nagano Sales Office, Matsumoto Sales Office, Kanazawa Sales Office, Toyama Sales Office, Fukui Sales Team
<b>Osaka Branch Office</b>	Sakai Sales Office, Nara Sales Office, Wakayama Sales Office
<b>Keiji Branch Office</b>	Shiga Sales Office, Fukuchiyama Sales Office
<b>Hyogo Branch Office</b>	Himeji Sales Office
<b>Chushikoku Branch Office</b>	Okayama Sales Office, Sanin Sales Office, Fukuyama Sales Office, Yamaguchi Sales Office, Takamatsu Sales Office, Matsuyama Sales Office, Kochi Sales Office
<b>Kyushu Branch Office</b>	Kitakyushu Sales Office, Oita Sales Office, Kumamoto Sales Office, Kurume Sales Office, Nagasaki Sales Office, Miyazaki Sales Office, Kagoshima Sales Office, Okinawa Sales Office



- 6 Tada-Smith Company, Ltd.
- 8 Kanto Sangyo Co., Ltd.
- 7 Noritz Tsukuba Factory/RB Corporation  
Kandatsu Factory
- 5 Harman Co., Ltd.
- 1 Noritz Akashi Main Factory (Noritz Akashi Messe-NAM)
- 2 Taisei Industry Co., Ltd.
- 3 Noritz Akashi Factory/Shinwa Industry Co., Ltd.
- 4 S-CORE Hearts K.K.
- 9 Noritz Kakogawa Factory
- 10 Noritz (China) Co., Ltd.  
Noritz (Shanghai) Home Appliance Co., Ltd.
- 11 Sakura Bath and Kitchen Products (China) Co., Ltd.
- 12 Dongguan Daxin Noritz Electronics Co., Ltd.
- 13 Sakura Shunde Co., Ltd.
- 14 Dux Manufacturing Limited

**Our thoughts in publishing NORITZ REPORT 2018**

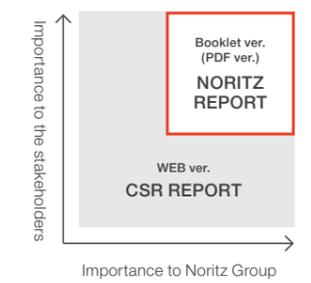
This is the fourth issue since we integrated financial and non-financial information in the NORITZ REPORT in 2015. This report is positioned as a communication tool to present to many stakeholders our thinking on Noritz Group's value creation business model and the harmonization of corporate management and CSR. In this 2018 edition, we have focused on the progress of our medium-term management plan V-plan 20, and how we will lead our efforts into value creation. We hope many of our stakeholders will understand our efforts and initiatives.

NORITZ REPORT Production Team

**About the contents of this report**

<b>Reporting period</b>	2017 (from January 1, 2017 to December 31, 2017) * Some activities in 2018 are also included.
<b>Scope</b>	Initiatives taken in Japan are the main content of the NORITZ REPORT 2018. Certain parts explain the company's responses to laws and societal demand in Japan. This English version report was prepared with care given to not having a material difference from the contents of the original Japanese.
<b>Referenced guidelines</b>	SDGs, ISO26000, GRI "Sustainability Reporting Guideline" Standard, IIRC Integrated Reporting Framework, United Nations Global Compact, Ministry of the Environment "Environmental Reporting Guidelines" 2012 version, Keidanren (Japan Business Federation) Charter of Corporate Behavior
<b>Last issued</b>	The Japanese version in April 2017 and the English version in July 2017
<b>Next scheduled issue date</b>	The Japanese version in April 2019 and the English version in July 2019

**Approach to reporting media**



**Company Profile**

<b>Company Name</b>	Noritz Corporation
<b>Established</b>	March 1951
<b>Headquarters</b>	Eiko Building, 93 Edo-machi, Chuoku, Kobe, Hyogo, Japan
<b>Capital</b>	¥20,167 million
<b>President and CEO</b>	Soichiro Kokui
<b>Number of Employees</b>	2,796 (non-consolidated) 8,815 (consolidated) As of December 31, 2017



**About future plans and forecasts**

All the plans or strategies of Noritz and Noritz Group as of March 31, 2018 that are shown in this report are our forecasts unless they are historical facts; they contain risks or uncertain factors. Actual business outcomes and conditions may differ greatly from these plans and forecasts, depending on various factors.