



**NORITZ CORP.**

— Main Office —

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

[www.noritz.co.jp/](http://www.noritz.co.jp/)

— Inquiry —

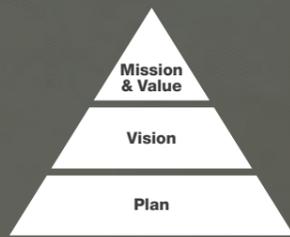
[csr@noritz.co.jp](mailto:csr@noritz.co.jp)



**NORITZ REPORT 2019**



1908-10  
\* Information in this report is deemed accurate as of March 2019.



## Mission Statement

### Mission

The Simple Comforts of Life

### Value

We set our highest priority on quality, and provide the products and services 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.

### Vision

The Noritz Group  
– Globally Competitive by 2020

### Plan

Medium-term Management Plan V-plan 20

#### Measure 1

Restructuring the business portfolio

#### Measure 2

Enhancing profitability of domestic business

#### Measure 3

Continuous expansion of overseas business

#### Measure 4

Reforming corporate culture

お風呂は人の心を  
育てる  
大田 敏彦

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# The Noritz Group's Value-Creating Process

Noritz Group are fully aware of our business risks and social issues we need to overcome. We also see them as business opportunities and strive for creation of corporate value. Our precious "invisible assets", which are expressed by using the formula "Q+ESG," are sources for creating corporate value. We will expand and integrate our three values – social value, economic value, and brand value – to achieve our mission.



**Perspective of Society**

Social issues

Materiality

Business activities

Integration

Output

Outcome

What stakeholders want and expect

Stakeholders

- Global environment
- Society
- Customers
- Business partners
- Stockholders
- Employees

Four priority subjects from the perspective of value creation for Noritz's sustainability

- Global environment
- Consumer safety
- Human resources
- Supply chain management

Having acknowledged societal demand and expectations, we have selected Materiality in 12 categories of four subjects for the Noritz Group to create corporate value.

By clarifying Materiality, we recognize the risks as well as opportunities to create value which ultimately create "The Simple Comforts of Life."



Climate change



Safety and reliability

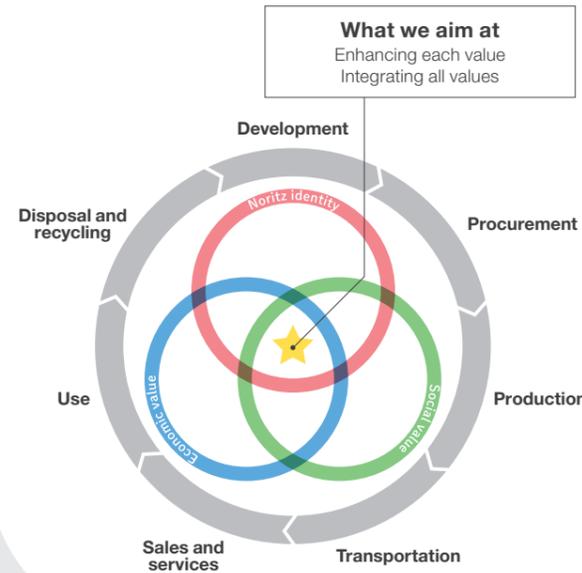
Sustainability of Society and Noritz

**Mission** The Simple Comforts of Life

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

and provide the products ahead. transparency. employees, and contribute creating with our passion.

Guidelines for corporate value creation



What we aim at  
Enhancing each value  
Integrating all values

- Social value**
- Contribution to solving social issues
  - Trust extended by society
- Economic value**
- Strong, sound financials
  - Business investment aimed at further growth
- Brand value**
- Earn absolute trust from our customers
  - Best quality and services
  - Corporate culture prepared for challenges

Resources of corporate value creation

Our Precious Invisible Assets

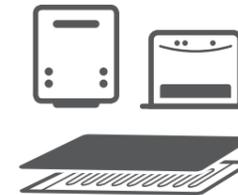


- Q Passion and insistence on quality
- E Proactive handling of environmental issues
- S Realization of sustainable society
- G Sound and speedy corporate governance

Value

Products and services

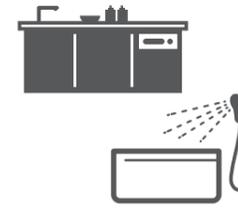
Water Heaters and HVAC  
(Heating Ventilation and Air Conditioning)



Kitchen appliances



Housing equipment products



Service and other

- Enhanced customer support
- Notice on appropriate timing for product maintenance
- Higher workmanship quality
- Recycling



Mission and Value

Guidelines for corporate value creation

Resources of corporate value creation

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

2008	0.48 million ton
2018	2.64 million tons
2020 (plan)	3.00 million tons or more

\* Comparison to CO<sub>2</sub> emissions in 2000; 2008 only includes products sold in Japan

Economic value

- Consistent growth

	Sales	Operating income
2008	¥181.2 billion	¥3.4 billion
2018	¥209.8 billion	¥4.8 billion
2020 (plan)	¥220.0 billion	¥10.0 billion

**Perspective of Noritz**

Introduction

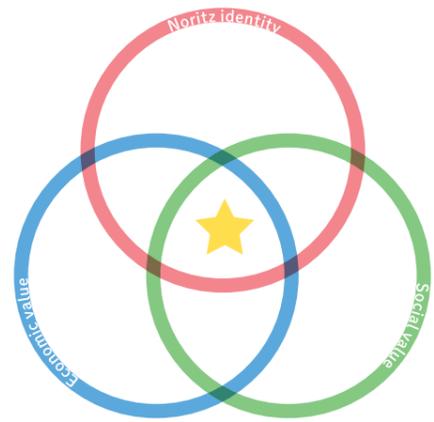
Message

Business Activities

Q+ESG

Data

# Integrating Corporate Management and CSR



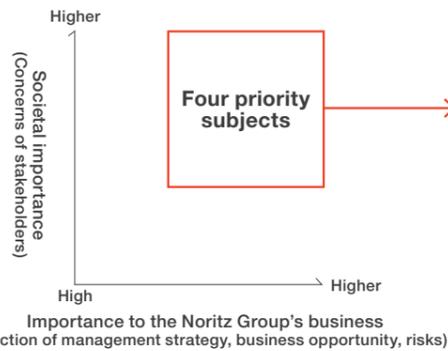
Recognizing what society requires and what society expects, as we understand through our two-way communication with stakeholders, we are undertaking business activities which integrate

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

In order to expand and integrate these three values, we will keep enhancing “Q+ESG” (Quality + Environment, Society and Governance), which are our resources of corporate value creation.  
 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.”

## Identifying Materiality and its activities, aimed at raising social and corporate sustainability

From the degree of importance to both society and the Noritz Group, we have identified 12 categories of four subjects as Materiality to be developed as risks and business opportunities. From 2017, towards achieving the medium-term management plan, V-plan 20, Materiality issues are separated into four categories of Q, E, S, and G and there are KPIs (Key Performance Indicators) for each. We also handle issues that keep changing over time, by receiving and ascertaining opinions through the Dialogue with stakeholders.

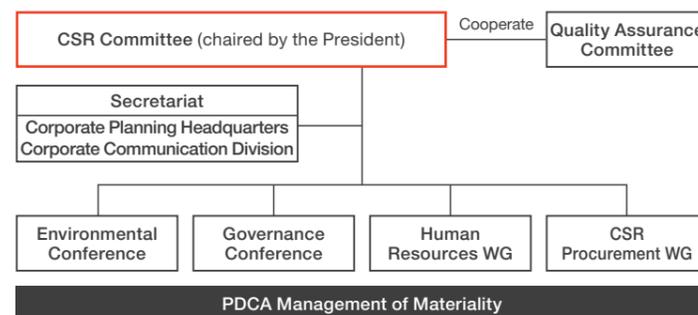


Global environment	1. Reduction of CO <sub>2</sub> emissions	→ P29, P30
	2. Reduction of hazardous substance in products	→ Website
	3. Advanced environmental performance products	→ P23, 24
Consumer safety	4. Consumer safety	→ P26
	5. Downstream value chain management	→ Website
	6. Customer satisfaction (safe, reliable, impressive)	→ P26, P27
Human resources	7. Assurance of human rights	→ P33
	8. Employment	→ Website
	9. Diversity	→ P32
Supply chain management	10. Global personnel management	→ P32
	11. Communication	→ P31
	12. CSR procurement	→ P33

## PDCA management of materiality

Since 2007 Noritz has formed a CSR Committee, chaired by the president, and has held committee meetings. From 2019, CSR issues will also be discussed and decided at the monthly Board of Directors Meetings and the Management Meetings, so as to integrate corporate management with CSR and to accelerate CSR efforts.

In 2019 we also established a structure to centrally promote CSR and disclose information in-house and outside, by setting up a Corporate Communication Division. We hold CSR Committee meetings in April and October to check progress of Materiality KPIs and promote CSR Management.



## Our priority SDGs targets and activities along the value chain

Among the Sustainable Development Goals (SDGs), adopted by the United Nations member countries in 2015, we focus on two goals that are closely related to the Noritz Group's activities: Goal 13 (Climate action) and Goal 12 (Responsible consumption and production). As a member of an international community, the Noritz Group contributes to realizing SDGs, and considers this as an opportunity to promote business activities.

13 CLIMATE ACTION		Initiatives against Climate Change					
		Major social issues: global warming; natural disasters caused by abnormal weather					
Value chain		Procurement	Development and production	Transportation	Sales and services	Use	Disposal and recycling
Recognition	Risks	■ Production stoppage due to natural disasters ■ Surge in prices of materials and components	■ Shutdown due to natural disasters ■ Energy shift	■ Disruption of the distribution network due to natural disasters including cold wave	■ Energy shift ■ Decline in demand due to global warming	■ Product defects/damage caused by natural disasters and freezing	■ Price fluctuation of materials ■ Increase in illegal dumping triggered by the Revised Basel Law
Initiatives	Business	■ CSR procurement; survey and evaluation ■ VE: internal sourcing ■ Coping with BCP	■ Overseas expansion use of high-efficiency technologies ■ Adoption of renewable energy and energy-efficient equipment ■ Installation of solar power generation equipment in offices ■ Reduction in waste	■ Improvement in logistics efficiency ■ Optimization of transportation bases ■ Modal shift	■ Reduction in waste ■ Environmental initiatives in sales bases (energy efficiency; waste, etc.)	■ Provide information on eco-friendly use	■ Separate collection for disposal ■ Recycling of water heaters
Initiatives	Products	■ Green procurement	■ Development of products with high environmental performance ■ Reduction in loss caused by defects	■ Shrink packaging ■ Returnable packaging	■ Sales expansion of eco-friendly products ■ Improvement in durability	■ Equipment with an eco-mode feature ■ Visualization of energy consumption ■ Efficient use of hot water	■ Collection and recycling of water heaters
Value creation	Opportunities	■ Stable procurement due to CSR procurement	■ Increase in demand in high-efficiency equipment ■ Increase in added value by new product development	■ Cost reduction led by distribution mobility	■ Shift to eco-friendly products ■ Expansion in sales opportunities	■ Increase in contact with customers	■ Cost reduction by recycling ■ Increase in circulation of domestic resources
What we aim at		CSR procurement Stable, sustainable procurement	By 2020: 12% reduction in CO <sub>2</sub> emissions in offices (vs. 2013)	Reduction in CO <sub>2</sub> emissions during transportation	No. 1 in the industry in the ratio of eco-products to total sales	By 2020: 3+ million tons or more reduction in CO <sub>2</sub> emissions in product use (vs. 2000)	By 2020: Amount of recycling: 1,125 tons

12 RESPONSIBLE CONSUMPTION AND PRODUCTION		Initiatives on Safety and Reliability					
		Major social issues: increase in bathroom accidents in an aging society; decline in working population due to the falling birthrate; Sudden malfunction of products					
Value chain		Procurement	Development and production	Transportation	Sales and services	Use	Disposal and recycling
Recognition	Risks	■ Hazardous substance in products ■ Enhanced regulations, such as for conflict minerals and the Modern Slavery Act	■ Labor shortage in production due to a declining working population ■ Labor accidents in production sites	■ Labor shortage in transportation due to a declining working population	■ Shift from face-to-face sales to sales via internet	■ Increase in bathroom accidents ■ Sudden malfunction of products ■ Deterioration caused by long use	■ Hazardous substance in products ■ Depletion of resources
Initiatives	Business	■ CSR procurement, survey and evaluation ■ Human rights, due diligence, human rights education	■ Improve productivity by using common parts and automation	■ More efficient transportation ■ Optimized transportation bases	■ Building of connection with customers using a website function ■ Providing recipes for automatic cooking ■ Providing useful information	■ Check-up alert system	■ Water heater recycling to employ people with disabilities and assist them become self-reliant
Initiatives	Products	■ Elimination of hazardous materials ■ Survey on use of conflict minerals	■ Development of products that help solve social issues, and new value creation ■ Installing a “bathing-monitor” function in devices ■ Stove temperature sensor to prevent fire accidents ■ Development of products with safety functions	■ Regular visit to transportation companies to improve quality of platforms and goods handling	■ Creation and diffusion of products that help solve social issues ■ Diffusion and sales promotion of products with a “bathing-monitor” function ■ Sales promotion of products with functions to help reduce housework processes	■ Provide “bathing-monitor,” “easy housework (RAKUKAJI),” and “safe and reliable” opportunities ■ Use of smartphones for remote control ■ Multi Grill for automatic cooking	■ Collection and recycling of water heaters
Value creation	Opportunities	■ Stable procurement by CSR procurement ■ Building trust with customers	■ Quality improvement by automatic production	■ Enhancement in transportation function and quality	■ Increase in customer contacts and sales	■ Appropriate assessment on the time for replacement to improve trust from customers	■ Increase in the amount of recycling ■ Circulation of domestic resources
What we aim at		CSR procurement Stable, sustainable procurement	More product series to be equipped with a “bathing-monitor” function More series with the multi-grill function	Shorter transportation time and distance Improve vehicle loading efficiency	More safe, reliable, and better quality of life of customers	Prevention of accidents in the bathroom and by a cooker Improved quality of life Prevention of sudden malfunctions	Employment and assistance for self-independence of people with disabilities

**1951**

Noritz Bath



Launched a tiled bathtub that can efficiently produce hot water while maintaining water temperature with less use of fuel.

**1961**

First aluminum-made bathtub gas water heater



Launched an aluminum-made gas-fueled water heater, contrary to common knowledge that it should be made of copper.

**1963**

Small-sized water heater and kerosene boiler



Launched a small water heater for kitchen use that produces 100°C hot water (left) and a kerosene boiler (right).

**1970**

Magicon



Launched the Magicon controller that enables lighting and extinguishing of a pilot burner from inside the bathroom.

Housing starts (million units)  
2.5

**1977**

Gas instantaneous water heater "Yubic"



Equipped the industry's first 100V power source to realize stable hot water flow and freeze prevention. Also enabled it to be operated with a remote controller inside the bathroom.

**1983**

Automatic gas water heater "Yu-Large"



Equipped with a built-in pump to realize automatic bath filling and temperature control.

**1993**

Gas water heater for the Chinese market



Launched an instantaneous gas water heater in China.

**2002**

Tankless gas water heater for the North American market



Promoted tankless water heaters in the North American market which has tank water heater culture.

**2004**

Highly-efficient gas water heater "Eco-Jozu"



Released an eco-friendly product with improved heat efficiency using exhaust heat.

**2013**

Hybrid water/space heating system



Dramatically improved energy efficiency by using natural refrigerant and equipping with a built-in heat pump.

**2017**

Introduced the GT-C62 Series bath gas water heater



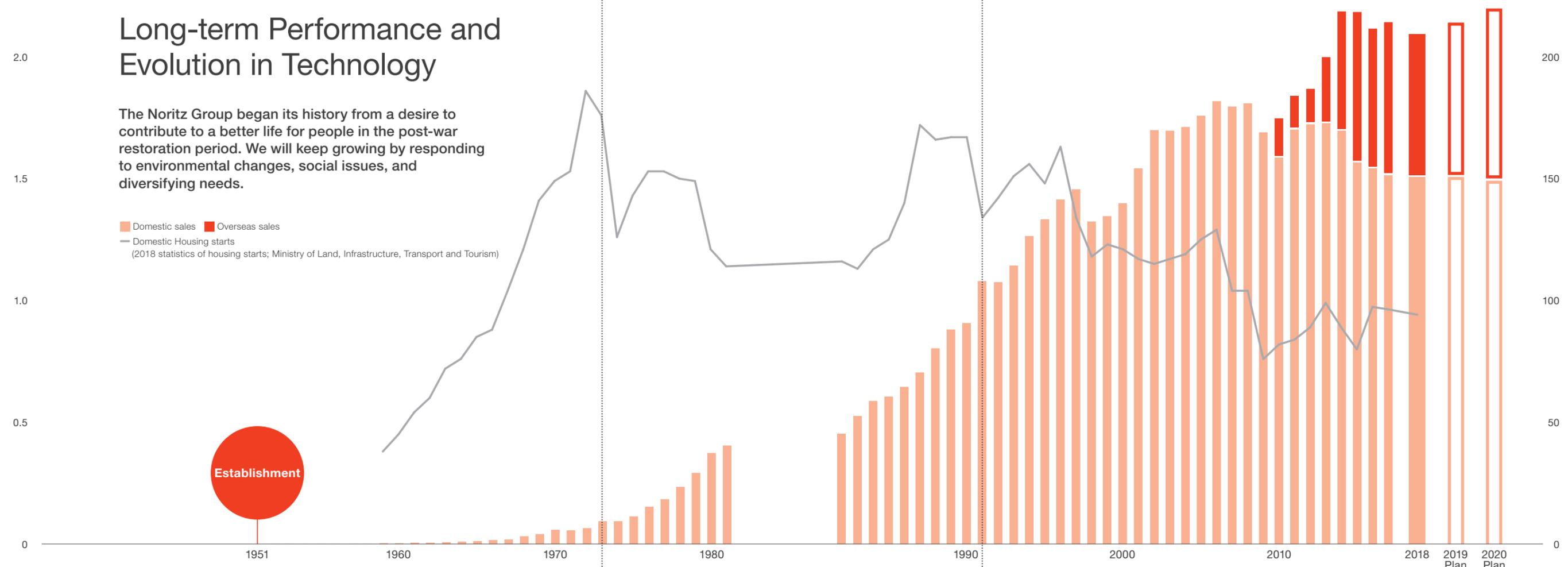
Equipped units with the "bathing-monitor" function to help reduce bathroom accidents.

Sales (billions of yen)  
250

## Long-term Performance and Evolution in Technology

The Noritz Group began its history from a desire to contribute to a better life for people in the post-war restoration period. We will keep growing by responding to environmental changes, social issues, and diversifying needs.

■ Domestic sales 
 ■ Overseas sales  
— Domestic Housing starts  
(2018 statistics of housing starts; Ministry of Land, Infrastructure, Transport and Tourism)



**Japanese economy and change in society surrounding Noritz**

**Up to 1973** Post-war restoration period and high economic growth period  
Shifted household energy from firewood and coal to gas and oil

**1973 - 1991** Stable growth period in social systems; diffusion of electric appliances

**1991 -** Mature period  
Climate change; super-aging society

What Noritz did for Japan's evolution in bathing

**Sales of bathroom appliances using gas and kerosene as energy source**

**Bathing culture**

Diffusion of the home bath



**New technologies to provide convenience**

**Bathing culture**

Increase in shower

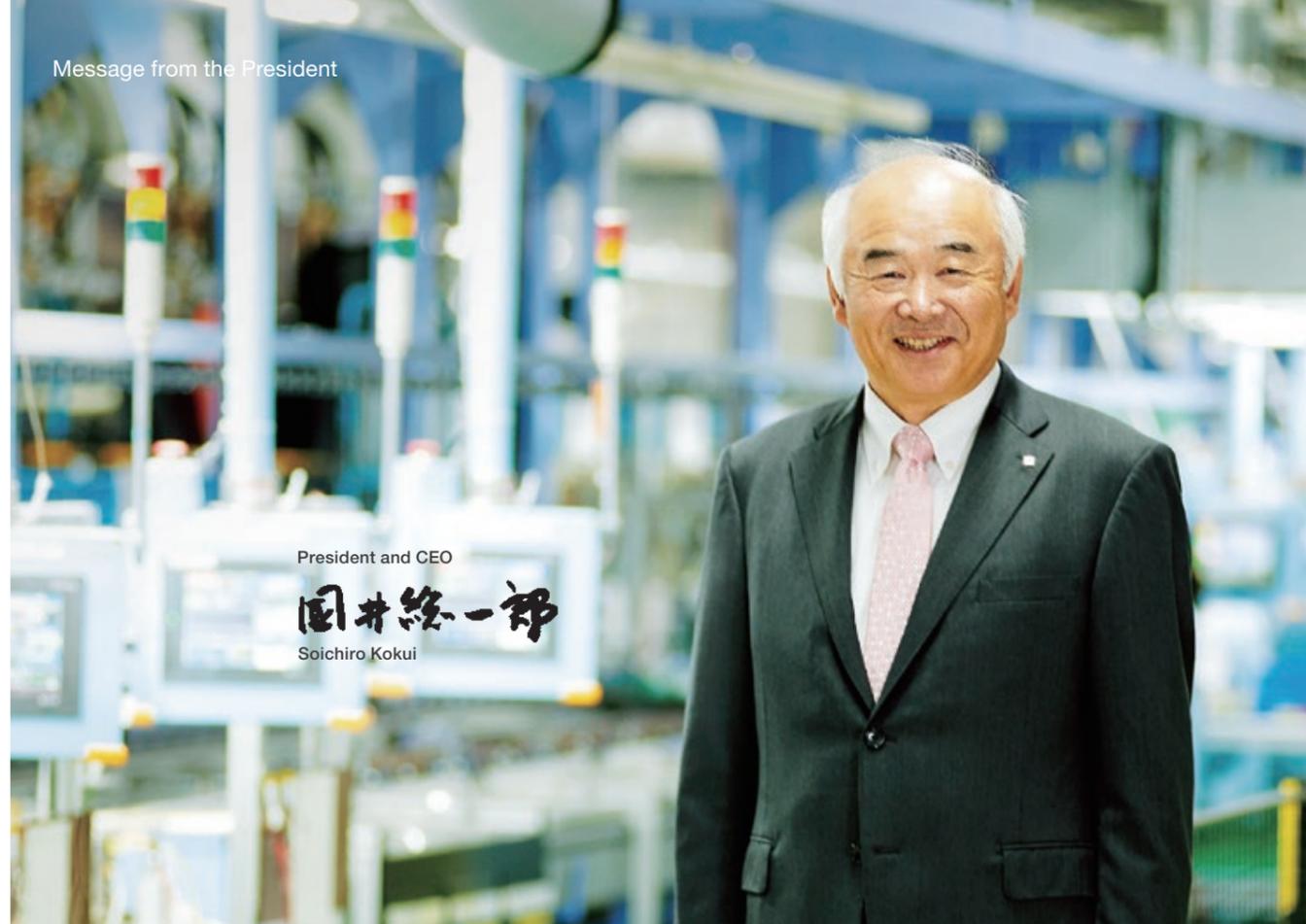


**Provide added value by enhancing environmental performance of products based on safety and reliability**

**Bathing culture**

Beauty & health-conscious bathing style such as a half body bath and a mist sauna





President and CEO

国井 総一郎  
Soichiro Kokui

## Tankless water heaters with high environmental performance are a key product for boosting the Noritz Group's global growth

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

At the time we established our ongoing Medium-term Management Plan, "V-plan 20," we adopted "The Simple Comforts of Life" as the Noritz Group's mission. This mission has inherited the spirit of our founder's maxim "Bathing makes us happy."

Since Japan's post-war restoration period of the 1950's when only few households had their own bath at home, Noritz devoted itself to increase the installation of a bath in general households. "Thank you for installing such a great thing." I have heard that our predecessors back then had received such word of gratitude from customers after our water heater was purchased and installed.

Subsequently, Japan entered a high economic growth period and then a mature economic period. Noritz was able to grow in terms of sales and earnings as we came to manufacture and sell over one million units of water heaters per year, satisfying an even greater number of customers. In 1997, we introduced a melody to notify users that the bathtub had been filled. Since then, this has become a common feature, the melody currently being heard at over a quarter of all households in Japan.

We have adopted a group vision "The Noritz Group – Globally Competitive by 2020" in our current medium-term management plan, V-plan 20. We are expecting further growth of our overseas business as the overseas market is big in scale and there remains many countries with high potential to improve infrastructure and the quality of home living environments.

Meanwhile, issues related to climate change have been on top of agendas worldwide, resulting in the Paris Agreement and Task Force on Climate-related Financial Disclosures (TCFD). As a company engaged in manufacturing and sales of appliances that burn fossil fuel to make hot water, we recognize reduction in greenhouse gas as our important issue. I believe that we can contribute to reduction in greenhouse gas emissions by globally expanding our domestically-accumulated technology as manifested in high combustion efficiency. We will continue to help provide "The Simple Comforts of Life" based on our group mission, as well as continuing to become a company valued by society, through provision of solutions to social issues.

## Progress of V-plan 20

### Reviewing the second year

In 2018, the second year of V-plan 20, we recorded sales of ¥209.8 billion (down 2.2% from 2017) and operating income of ¥4.8 billion (down 28.3%). These results were short of our targets. Particularly in the domestic market, consumers were less willing to make housing-related investment, and pricing competition among housing manufacturers also intensified. In addition, the cost of sales were higher due to the movement of exchange rates and material prices, a shortage of factory labor, and an increase in distribution cost. In the overseas market, a slowdown in market growth in China, which represents roughly 70% of our overseas sales, had a significant impact. As a result, the Noritz Group recorded a decline in both sales and earnings.

In this business environment, we had to revise downward our V-plan 20 numerical targets for 2020. Concerning our domestic business, in addition to the reasons stated above, sales of higher-value-added products did not make progress as planned and the planned earnings improvement became unlikely to happen. As for the overseas business, the market outlook in China is expected to remain uncertain in the near future. These were major reasons for revision.

In view of the unfortunate results recorded in 2018, we held extensive discussions and decided on measures to take ahead

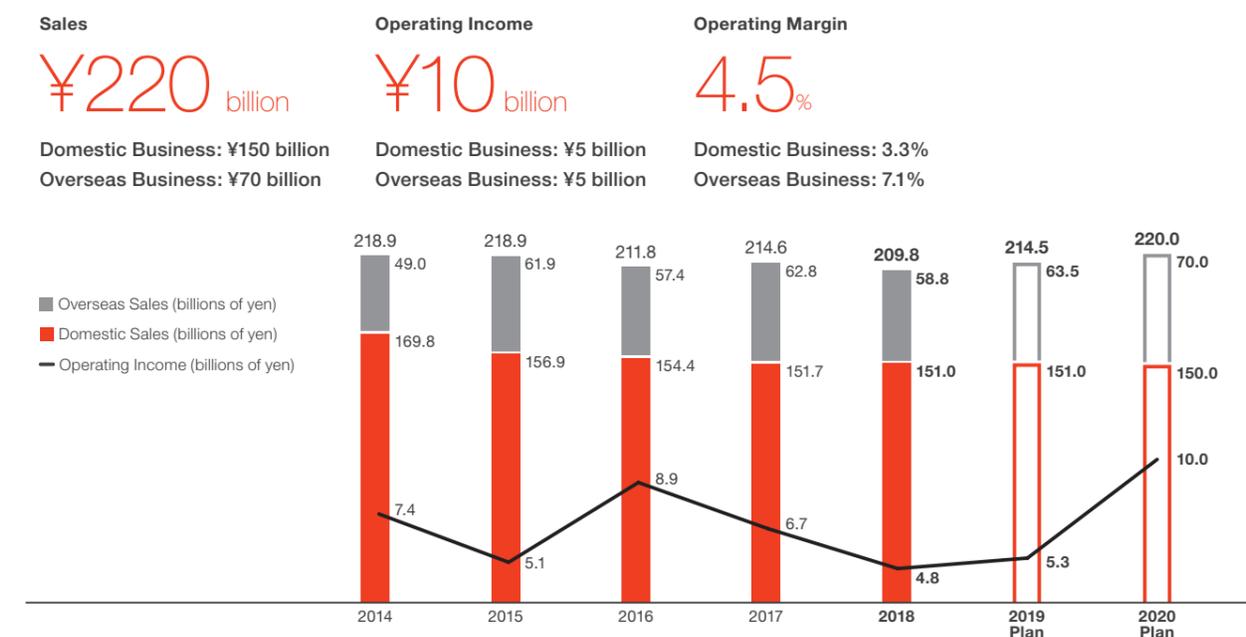
### Four Priority Measures for V-plan 20

#### Initiatives in 2018

- 1 Restructuring the business portfolio**  
Concentrate management resources in the Water Heaters and HVAC Segment
  - Development of new products in the water heater and kitchen appliances segment
  - Outsourcing of development and manufacturing of kitchen appliances to Toclas Corporation
- 2 Enhancing profitability of domestic business**
  - Automation of the final assembly process
  - Establishment of Service Business Development Headquarters to strengthen contact with customers
- 3 Continuous expansion of overseas business**
  - China: Develop and launch new products
  - North America: Acquisition of PB Heat, LLC
- 4 Reforming corporate culture**
  - Promotion of Q+ESG measures
  - Revision in organization design

of passing the halfway mark of V-plan 20. I am convinced that the steady execution of these priority measures and achievement of the earnings planned in 2019 will be the first step for us to accomplish future growth.

### Targets in 2020



## Towards achieving the V-plan 20

With the aim of reaching revised targets of the V-plan 20, we have implemented diverse measures based on the initial four priority measures. Firstly reflecting on the effects of product defects that occurred in early 2018, we have established a dedicated division to improve design quality and another division to evaluate qualities of products from the users' perspective. We are thus committed to achieving further quality improvement, and the creation of safety and reliability in the home environment. In the Domestic Housing Equipment Segment, we have decided to outsource the development and manufacture of kitchen systems to our alliance partner Toclas Corporation. We believe that this arrangement will allow us to leverage

the strength of both companies in order to provide superior products. With regards to new products, we launched a gas water/space heater product and a hybrid water/space heating system in March and September of 2018 as important steps in popularizing the "bathing-monitor" function in Japan. In August, we launched a medium-grade "piatto-series" cooker, equipped with an automatic "multi-grill" function. Sales of this product grew significantly in the peak October-December quarter. In the overseas business, our teams in Japan and China jointly developed and launched a key water heater for the Chinese market in September. Going forward, we plan to develop variations of this product.

## Making the Noritz Group to be valued in the world

Overseas Business			
	2010	2018	2020 Plan
Sales	¥16.0 billion Overseas sales ratio 9%	¥58.8 billion Overseas sales ratio 28%	¥70.0 billion Overseas sales ratio 31%
Operating income	¥0.4 billion	¥2.2 billion	¥5.0 billion
Overseas sales volume of water heaters (per year)	510,000 units	1,100,000 units	1,230,000 units



## Enhancing profitability of domestic business

Even after 2019, we will continue to focus on enhancing profitability in the domestic business. Firstly, adverse changes in currency rate and material prices, the shortage of factory workers, and a sharp increase in logistics cost are expected, but we intend to continue improving productivity via manufacturing innovation. Noritz develops and manufactures appliances and systems that have a variety of models by function, type of gas, and installation variation. Consolidation of these models and use of common parts should result in cost reduction. At the same time, automation of assembly processes are believed to be easy to realize, and may enable us to solve the labor shortage problem. Secondly, we will move forward with our marketing innovation, which means a shift to higher-margin sales channels. The "check-up alert function" (time stamp), which is equipped in almost all of Noritz residential appliances sold in Japan, will become universal from 2019. For customers to comfortably use our appliances, our products will alert them to the time for a check-up, by displaying on the remote controller or by a blinking light on the device. The period for a check-up is based on the standard use period of the engineering design (10 years for residential-use devices, 3 years for commercial-use devices). Customers will be able to make long-term use of our product by relying on technicians in our service network.

## Continuous expansion of overseas business

We plan to grow our overseas business by expanding product offerings and areas. The Noritz Group's previous business model was to develop and manufacture products in Japan or China, and sell them mainly through local sales bases. However, since 2013, we have rapidly expanded our business scale through M&A activities, such as capital participation in Sakura Bath and Kitchen Products (China) Co., Ltd. in 2013 and acquisition of Dux Manufacturing Limited in Australia in 2014. More recently, in January 2019, we acquired PB Heat, LLC, a leading manufacturer of space-heating boilers in the Northeastern part of the United States. Besides M&A, we are accelerating business activities in China using new means – a new sales method that combines store sales and e-commerce; exploitation of distribution channels, using interior design firms and facility management firms; marketing and promotion efforts aimed at kitchen manufacturers. Going forward, we plan to aggressively use such means as M&A and business alliances in entering areas yet to be exploited, on top of engaging in additional business and adding functions in the existing operating areas including China, North America, and Australia. We thereby envision growth in products and areas, and speedier business activities.

## Acquisition of PB Heat, LLC



Signing Ceremony with Mr. Doug Shuff, President and CEO of PB Heat (left)

In January 2019, we acquired PB Heat, LLC, a provider of residential and commercial boilers, with the aim of increasing our product offerings for space heating and commercial use, and expanding sales channels in the Northeastern part of the United States. PB Heat has its headquarters, factory, and research facility in Pennsylvania, and is engaged in manufacturing and sales of residential boilers, commercial boilers, and Combi-boilers (gas water/space heating), which are fueled by gas or oil. In the North American market, due to the rising environmental considerations and energy saving, the expansion of high-efficiency types of both water heaters and boilers have accelerated year by year. This presents great growth opportunities for the Noritz Group. By offering small, high-efficiency, gas instantaneous water heaters (Noritz's area of strength) and a diverse line-up of boilers (PB Heat's area of strength), we will increase sales.

## Aiming at raising sustainable corporate value

### Policy on initiatives for creation of corporate value “Integrating corporate management and CSR”

The Noritz Group’s policy on initiatives for creation of corporate value is to raise social, economic, and brand values, and to integrate and boost them.

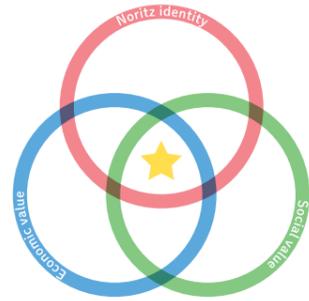
To do this, we find it important to always assign prominence to our precious “invisible assets” of “Q+ESG” (Quality + Environment, Society and Governance), which are sources of corporate value creation.

Since 2015, we have held a Dialogue with stakeholders (external experts) each year and from 2016 all internal directors have attended the event. In this event, Materiality was assessed as appropriate and Key Performance Indicators (KPIs) for each of Q+ESG were formulated.

What we find particularly important is to energize people who work on these initiatives. We therefore seek to facilitate each and every employee to make the most of their uniqueness and strength. We placed “enhancement of team power” on our management priority agenda, and awards are given to those who challenge themselves. Furthermore, top executives visit workplaces to directly talk with employees about management commitment and policies. Through such communication, I believe that teamwork will be strengthened, and innovation will be realized.

### Aiming at becoming a global leading eco-friendly company

Nowadays it is becoming indispensable for companies to respond to international arrangements aimed at realizing a sustainable society. Among Sustainable Development Goals (SDGs) adopted by the United Nations in 2015, we believe Goal 13 (Climate action) and Goal 12 (Responsible



Our Precious Invisible Assets

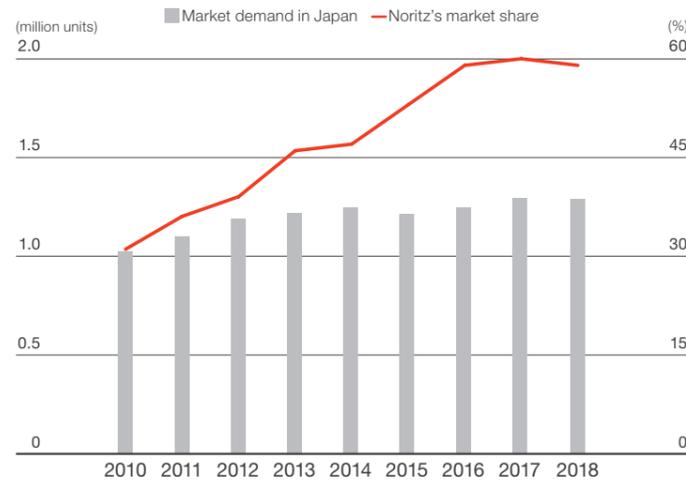


consumption and production) are closely related to the Noritz Group’s business activities.

Notably, measures to combat climate change, adopted in the Paris Agreement, are global common challenges confronting the world today. We are aware that they may have a financial impact on the Noritz Group. We are on record as a participant in CDP, formerly the Carbon Disclosure Project. We disclose related information, and are in the process of drawing a long-term environmental vision.

The Noritz Group is currently promoting sales of Eco-Jozu\* water heaters, which are highly efficient in heating water. By introducing technologies that we have developed and refined in Japan to markets overseas, we aim at becoming a global leading environmentally-friendly company.

Noritz’s Market Share in High-efficiency Water Heaters (GT-C Series Bath Gas Water Heaters)



Source: Statistics from the Japan Industrial Association of Gas and Kerosene Appliances



\* The Eco-Jozu water heater collects and uses exhaust heat to make hot water. By efficiently converting 95% of gas energy to making hot water, its environmental performance is at a high level.

### Committed to always being a company valued by society

We believe that satisfying stakeholders’ requirements, expectations, and solving social issues will lead us to growth opportunities.

Our strength as a manufacturer is matched by our emphasis on offering value-added features, many of which add safety and reliability, and make standard home activities including cooking and bathing easier and more enjoyable. Prime examples of this are our Si sensor-equipped gas cookers\*1 and self-cleaning bathtubs.

For example, features anticipated to lead to the Noritz Group’s creation of corporate value include the “bathing-moni” function and the “bacteria-removing” function\*2 that enables reuse of remaining bath water, equipped in the GT-C62 Series high-efficiency bath gas water heaters; and the “multi-grill” function, which is equipped with a gas cooker, enabling automatic cooking. In our view, it is our responsibility to recycle resources generated from our used and disposed products. We are therefore involved in recycling of water heaters, jointly with business partners.

Through this initiative, we are also engaged in supporting persons with disabilities to become more self-reliant.

\*1 Cooking stove equipped with safety features

\*2 Details of features and effects are available on the Noritz Website (Japanese only).



### Enhancing governance structure for achieving further growth

To enhance governance, we conducted an organization design project and revised our management structure in 2019.

With regard to organizational design, we resolved at our annual meeting of Stockholders held in March 2019 to transition from being a “company with a Board of Auditors” to a “company



with an Audit & Supervisory Committee.” This move aims at strengthening the supervisory function, speeding decision-making, and enhancing discussion from a medium to long-term perspective. We intend to reduce the number of directors and raise the ratio of external directors including women, in order to further reflect the perspectives of women and people outside the company in our management policies. In terms of management structure, a management executive officer is assigned in each business headquarters to accelerate execution of measures.

By proactively coping with the Corporate Governance Code, we seek conformity with business strategies and speedy decision-making in order to raise the quality and transparency of management.

As a member of society, we at the Noritz Group are committed to make our best efforts to respond to stakeholders’ demands and expectations.

The UN Global Compact 10 Principles

Category	Principle	Description
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
Environment	Principle 6	The elimination of discrimination in respect of employment and occupation.
	Principle 7	Businesses should support a precautionary approach to environmental challenges;
Anti-corruption	Principle 8	Undertake initiatives to promote greater environmental responsibility; and
	Principle 9	Encourage the development and diffusion of environmentally friendly technologies.
	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.



Sustainable Development Goals



SDG Goals Emphasized by the Noritz Group





## Seeking to make aggressive growth investment and to improve capital efficiency with the aim of enhancing sustainable corporate value

Director and Managing Executive Officer  
**Masayuki Takenaka**

### Financial Targets and Investment Policy of Medium-term Management Plan, V-plan 20

- 1 Operating income of ¥10 billion
- 2 ROE of 5%
- 3 Investment mainly in the leading water heater business
- 4 Total payout ratio of 50%\* on a consolidated basis

\* The total payout ratio includes dividends and purchase of treasury stock.

### Aggressive investment to enhance profitability

We evaluate and make decisions on the Noritz Group's investment matters based on alignment with the measures of our Medium-term Management Plan, V-plan 20, and on whether they can contribute to enhancing the corporate value of the Noritz Group.

First and foremost, we aim to accomplish two of the four priority measures of V-plan 20: "enhancing profitability" of domestic business and "continuous expansion" of overseas business. To accomplish this, we are actively investing in product development and manufacturing automation in the Water Heaters and HVAC Segment, and for the enhancement of productivity of the entire operation. The latter includes operational automation by use of robotic process automation (RPA) and through systemization. We also welcome M&A opportunities as one of the means to complement an existing business or function, and to explore new areas. Moreover, we believe that it is important to create business opportunities driven by SDGs and other social issues, in order to raise corporate value.

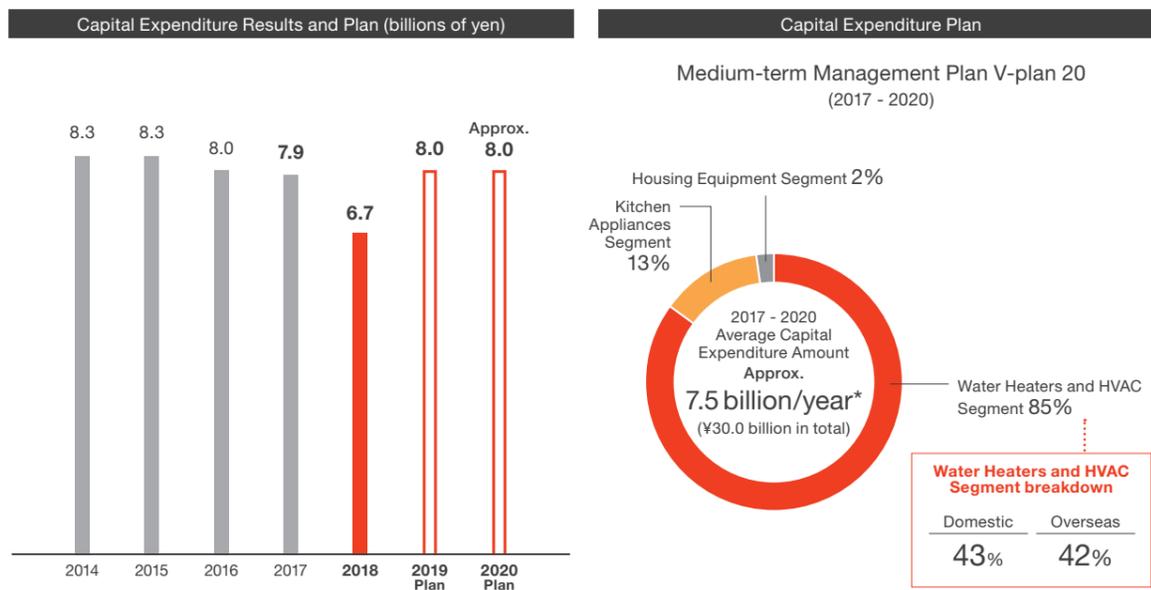
We are therefore mindful of a balance between growth and efficiency and of capital cost in making investment decisions.

### Enhancement of asset and capital efficiencies, and return to stockholders

Based on Japan's Revised Corporate Code enforced in June 2018, we adopted a policy on equity asset holdings and confirmed at a meeting of the Board of Directors that we can secure capital for investment, while proceeding with sales of equity holdings as considered appropriate. In December 2018, we sold some equity holdings and used the proceeds as capital for M&A. We will also continue improving dialogue with stockholders and investors so as to increase long-term stockholders of Noritz shares.

Profit return to stockholders is a priority issue of management. Our basic dividend policy is to provide continuous stable dividends. Three years from 2018 to 2020, we are determined to aggressively return profit to stockholders, targeting a total payout ratio of 50%, including purchase of treasury stock, on a consolidated basis.

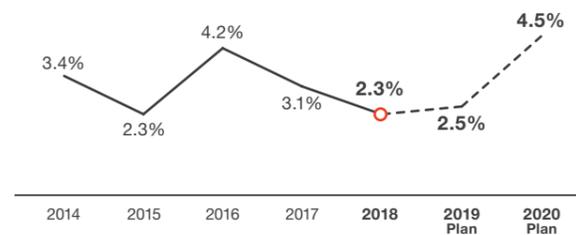
### Capital Expenditure Results and Plan



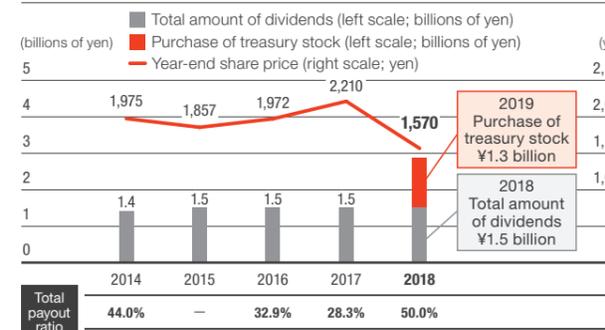
\* Including investment in IT and other intangible assets  
\* Excluding investment in M&A and new businesses

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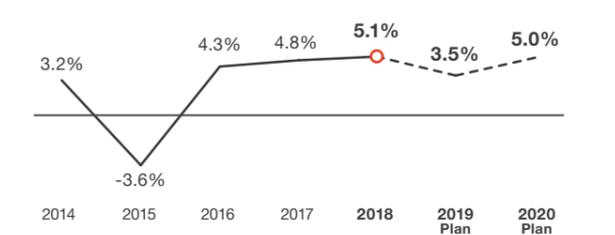
### Operating Margin Results and Plan



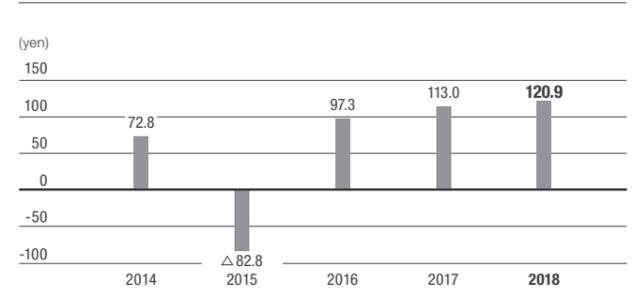
### Return to Stockholders and Share Price



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



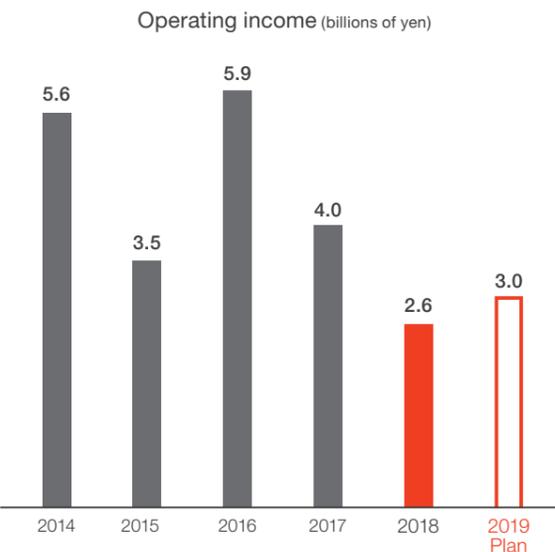
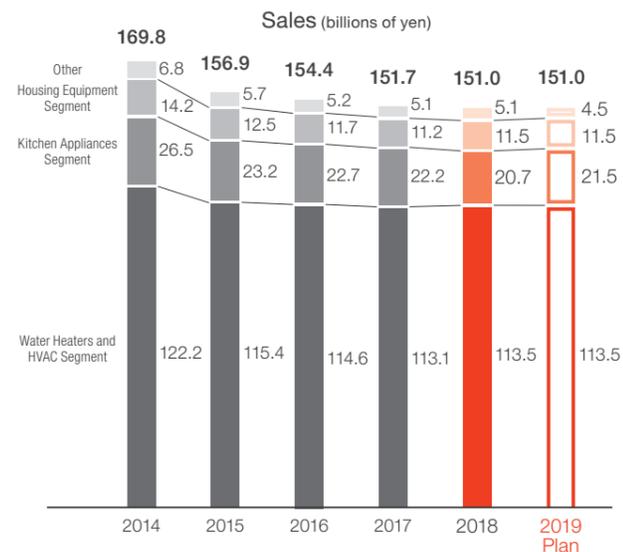
### Earnings (Loss) per Share



## Domestic Business



The housing-related industry in Japan faced a difficult business environment, being affected by a labor shortage and a surge in material prices, in addition to a year-on-year decline in housing starts resulting from exhaustion of gains from a mortgage tax break and lowering of prime lending rates. Moreover, consumer spending weakened as consumers felt no sense of recovery in their actual take-home income. Demand for gas water heaters stayed flat compared to the previous year, while demand for gas kitchen appliances, including built-in cookers, slightly declined. As a result for 2018, both sales and operating income declined from the previous year to ¥151.0 billion and ¥2.6 billion.



\* Sales of the Water Heaters and HVAC Segment from 2014 to 2016 include sales of the New Energy Segment.

### We capture solutions to social issues as our business opportunity and propose “The Simple Comforts of Life.”

**Factors affecting sales and earnings**

- Environmental regulations toward a decarbonized society
- Energy shift
- Decline in housing starts
- Surge in prices of fuel and materials

In Japan, the total number of households has peaked due to the population decline, and housing starts appear to be starting on a downward trend. In addition, the retail liberalization of electricity and gas supply to users

has broadened energy choices for consumers, and many products with new added value were launched while prevailing conditions put product pricing on a downtrend. As a result, long-term demand for gas appliances are moderately declining. In this environment, Noritz introduced new functions, such as a “bathing-monitor” function in 2017, and a “multi-grill” function in 2018 as a feature of new products. The “bathing-monitor” function helps reduce the risk of bathroom accidents for the elderly, while the “multi-grill” function contributes to lessen the burden of and time spent for housework. We consider provision of such solutions for social issues as business opportunities and continue proposing simple comforts of life as stated in our mission.

### Domestic Business by Segment

#### Water Heaters and HVAC Segment

The Water Heaters and HVAC Segment is engaged in developing, manufacturing, and sale of gas and kerosene water heaters and hydronic heating systems, as well as solar energy water heaters that use renewable energy. In 2018, we upgraded the “bathing-monitor” function by adding remote control capability using a smartphone application. This function was installed in our GTH-C Series “high-efficiency gas water heater” and “hybrid water/space heating system.” We intend to respond to the needs of society by cooperating with the Zero Energy House (ZEH) and the Home Energy Management System (HEMS) activities, and to continue differentiating ourselves with the “bathing-monitor” and “cleaning” function and promoting it in 2019.

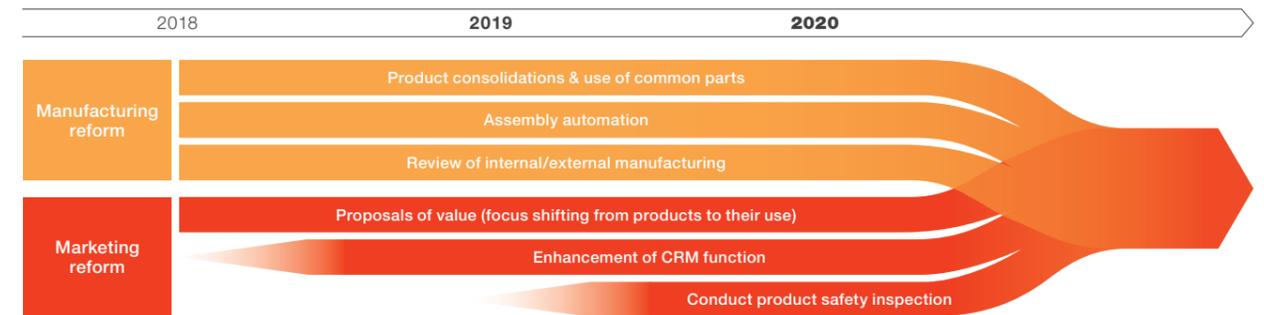
#### Kitchen Appliances Segment

In the Kitchen Appliances Segment, we develop and manufacture gas cookers, aiming for the creation of a new cooking culture, with the keywords “safety and reliability” and “easy housework (RAKUKAJI).” Our cooker with the “multi-grill” function, previously installed only in the high-end models, was installed in the new “piatto-series” products in 2018, expanding sales of medium and high-grade models of built-in gas cookers. We also operate the “Everyday Multi-Grill Club”, a website and social network that promotes joy from grill cooking. In 2019, we will make more proposals on enjoyable cooking and healthy diets, focusing on “multi-grill.”

#### Housing Equipment Segment

In the Housing Equipment Segment, products we are well known for include built-in kitchens and wash basins, which we make so as to be easily adjusted in width to fit in available spaces (in increments of 1cm), and “Self-Cleaning Bathtub,” which automatically wash bathtubs with the press of a button. In 2018, we decided to outsource development and manufacture of the kitchen business to Toclas Corporation, a manufacturer of housing equipment with strength in processing technology for artificial marble. Through product development using the strength of both companies, we aim at enhancing added value. In 2019, we plan additions to the housing reform market by renewing our “Recipia” system kitchen and introducing a new line of bathroom systems, “Upatio MS,” for apartment reform.

### Initiatives to enhance profitability



In 2019, we will execute reforms in manufacturing and marketing, and improve productivity by making work style reform, automation, and other initiatives, with the aim of enhancing profitability driven by business structure reforms.

### Message from Head of Domestic Business Headquarters



In the domestic business, we are active in both the housing and non-housing areas; the latter has high growth potential. In the housing area, we approach social issues positively and find it important to provide products and services that can contribute to solving these issues. In the non-housing area, we take a similar approach but also aim at providing high-value-added hot water to accommodation facilities, which are expected to grow due to an increase in the number of foreign tourists, and also developing new businesses using Noritz’s intellectual properties in different areas.



## Major Initiatives in 2018

# Towards Realizing a Better Living

## The RC-G series\*1 is evaluated\*2 “to be recommendable” by 96 doctors out of 100

Initiatives on safety and reliability while taking a bath



RC-G series  
GT-C62 series and “bathing-monitor” function (Japanese only)



### Expansion of the “bathing-monitor” function

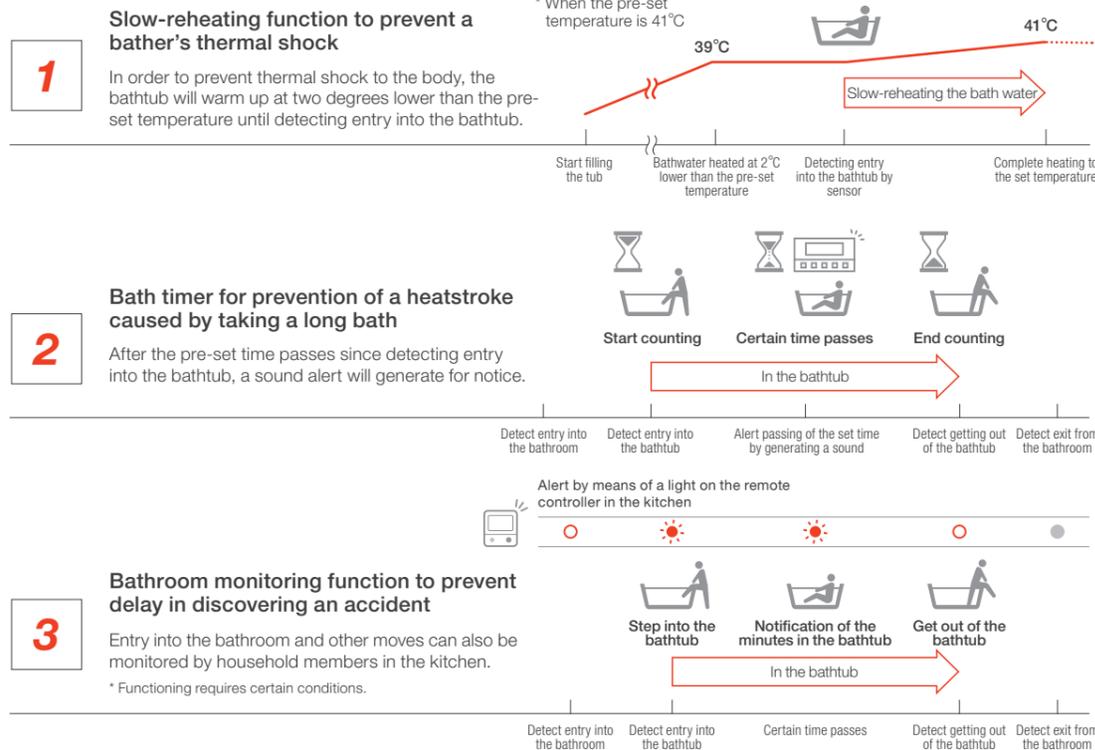
In the Water Heaters and HVAC Segment, following the launch of a gas water heater in 2017, equipped with a function to help reduce the risk of bathroom accidents of elderly persons (GT-C62), we began to install the “bathing-monitor” function in gas water heaters with bath heating and reheating (GTH-C Series) and our hybrid water/space heating system in 2018. Being highly evaluated by many doctors, this function has obtained certification of AskDoctors\*3.

\*1 A remote controller of water heaters with the “bathing-monitor” function

\*2 Surveyed by AskDoctors

\*3 Certification AskDoctors is a service provided by M3 Inc., which has a membership of over 270,000 doctors. Products and services are objectively evaluated by its member doctors.

### Three functions



**Notes**

- Change in blood pressure caused by temperature and duration of bathing vary by individual.
- The function cannot prevent all bathroom accidents.
- Bathroom accident factors are not limited to those stated here.

## Noritz's “easy housework (RAKUKAJI)” items help ease consumers' busy everyday

Increasing comfort in daily life



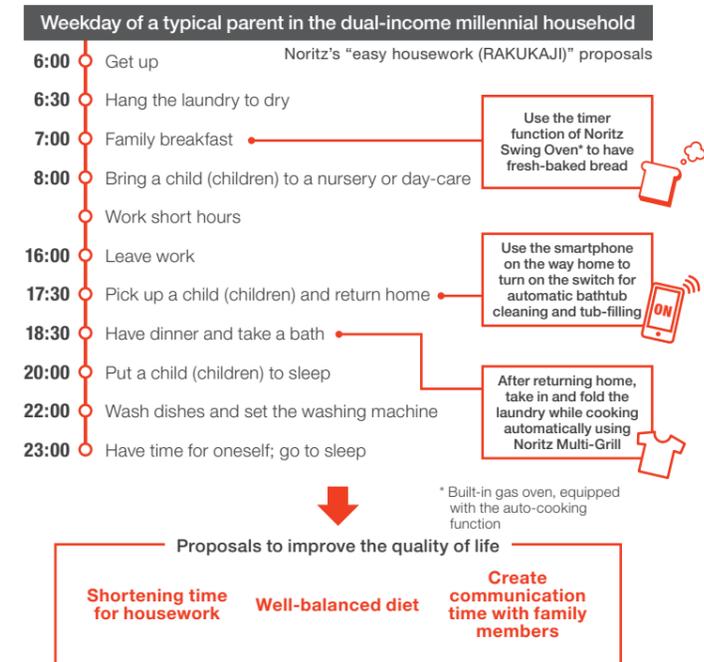
### The “easy housework (RAKUKAJI)” function shortens time spent for housework

On the back of declining birthrate, an aging population, an increase in dual-income households, and other changes in society in Japan, there is an increasing desire to reduce and shorten housework time, and to stay healthy. In particular, the millennials (born in 1980-2000), who will be the next leaders in society, tend to flexibly diversify housework among family members: whoever can do the housework does it whenever they can, without giving fixed roles of housework to anyone\*.

Noritz's products can help make everyday housework easy and help create time for other activities, or just to relax.

With our “easy housework (RAKUKAJI)” functions, we will continue to help customers create more time for family communication and improve the quality of life.

\* Source: “Quantitative Research on Millennial Family Life Status Survey” by Hakuho Kaimono Kenkyujo

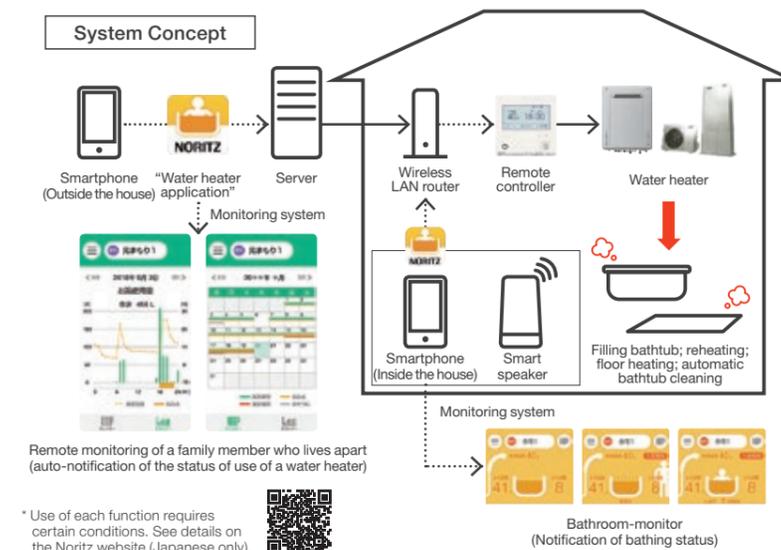


### IoT-driven evolution of everyday life

### Expansion of “smart” functions

Along with the rapid development of IoT and AI, we propose convenient, pleasant use of devices by utilizing a remote-control function and smart speaker of smartphones. By using Noritz's smartphone application “Water heater application”, the monitoring of a bathroom, or checking use of a water heater of a family member who lives apart becomes possible, contributing to the relief of family members.

In March 2019, we created a system to enable automatic cleaning of the “Self-Cleaning Bathtub” just by ordering it via the smart speaker of a smartphone. We will continue to use technology innovation such as IoT and AI, and aim at realizing a pleasant life.



\* Use of each function requires certain conditions. See details on the Noritz website (Japanese only).



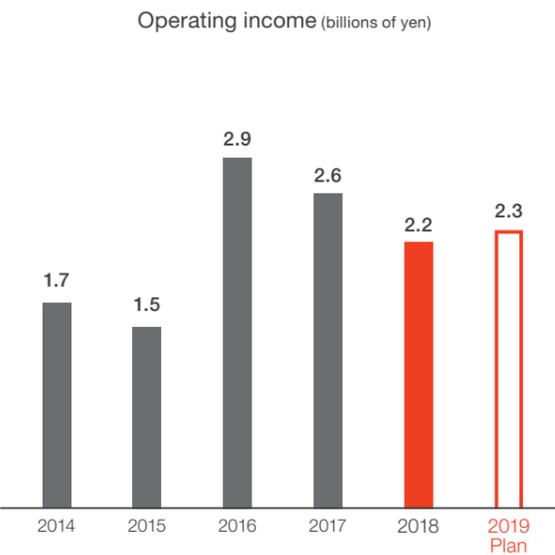
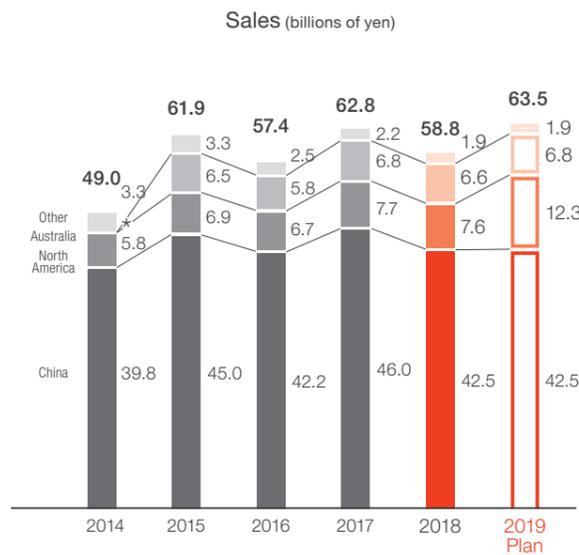
## Overseas Business



In the overseas business, we promote sales expansion of water heaters focused on shower and space heating. Significant growth is particularly anticipated in areas with high potential for improvement in living standards. In particular, we have established a physical presence for development, production, and sales for business expansion in China. We strive to provide products using technology accumulated in Japan, that are eco-friendly, safe and reliable. Moreover, in regard to commercial water heaters and heat sources for space heating, we are promoting higher-efficiency compact products, compared to conventional products, in various regions. In 2018 being significantly affected by an economic slowdown in China, the sales and operating income decreased from the previous year to ¥58.8 billion and ¥2.2 billion respectively.

### Overseas Business by Area

China	North America	Australia
<p>While experiencing rapid economic development, China is encountering various environmental issues, such as high CO<sub>2</sub> emissions and urban air pollution (PM2.5). Particularly in Northern China, the government is promoting a shift from coal to natural gas and demand for gas appliances is rapidly increasing. In 2018 our teams in Japan and China developed and launched water heaters that satisfy requirements in China. In 2019 we will capture changes in demand for fuel conversion and environmental regulations as business opportunities, and will focus on supplying products based on social trends.</p>	<p>In North America, most of the 10 million water heaters sold annually are conventional tank water heaters. Tank water heaters are less heat-efficient and emit more CO<sub>2</sub> compared to gas instantaneous water heaters. As demand for gas instantaneous water heaters is growing each year in North America, we have been developing eco-friendly, energy-efficient tankless water heaters using a pre-mix burner, and expanding sales channels by making acquisitions.</p>	<p>Dux Manufacturing Limited, acquired in 2014, plays a core role in our business development in Australia. Similar to the U.S., tank water heaters have a majority of the share in the Australian market, we seek to increase sales of gas instantaneous water heaters. In addition to sales of residential use water heaters, we are focusing on sales of commercial use water heaters, that are highly energy efficient and compact, and generate significant merits at the time of replacement. We seek to increase sales of commercial use water heater systems mainly to hotel chains and restaurant chains, and expect further curbing in the amount of CO<sub>2</sub> emissions.</p>



\* Sales in Australia in 2014 is included in the "Other" category.

### Initiatives to enhance profitability



### We will contribute in environmental load reduction and provide happiness of living.

**Factors affecting sales and earnings**

- Environmental regulations towards a decarbonized society
- Surge in prices of fuel and materials
- Country risk
- Fluctuation of exchange rates

The biggest challenge the Noritz Group faces today is climate change. While measures to address this issue differ in emphasis and type, such as the reduction of the use of fossil fuel like in Europe or switching to natural gas

which is relatively clean energy. In all cases, the Noritz Group believes that its supply of products and services can contribute to easing climate change and through this will result in an increase in our market value and ultimately in profits. We have a history of proactively responding to the energy trend and environmental regulations of our business areas, using technology accumulated in Japan, and developing and offering high-efficiency, low-NOx products. In addition, as we have spread bath culture across Japan, we would like to deliver "happiness of living" even in areas where living standards are anticipated to improve in the future.

### Message from Head of Overseas Business Headquarters



In the overseas business, we aim at consistently generating earnings by offering combi-boilers (gas water/space heaters) and commercial use products, in addition to conventional products including water heaters and cooking appliances, mainly in three areas: China, North America, and Australia. This is for realizing our group vision "The Noritz Group — Globally Competitive by 2020." Going forward, we will promote business development in new areas through M&A and other means, and popularize eco-friendly, safe, reliable products overseas, so as to realize our mission of helping provide "The Simple Comforts of Life."



## Major Initiatives in 2018

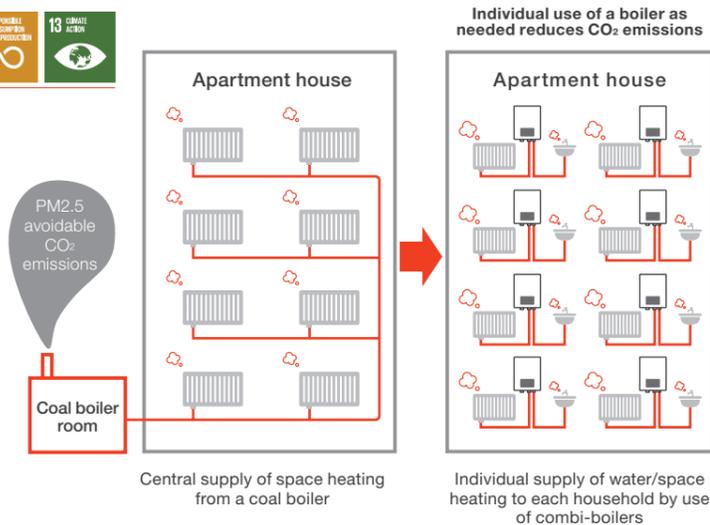
# Noritz water heaters change the lifestyle across the world

### Topics in China

#### China's energy switch



We have established a physical presence for development, production, and sales for business expansion in China, which represents about 70% of overseas sales. In recent years, energy shift from coal to natural gas has been promoted as national policy, leading to a rapid uptake in natural gas. Particularly in the colder north, centered around Beijing and Tianjin, many buildings use coal as fuel for heating, causing health-threatening air pollution (PM2.5). We will help meet the challenge of environmental issues by promoting the use of combi-boilers (gas water/space heaters) and gas water heaters.



Workshop for business partners

#### For safe, reliable use of appliances

Noritz's sales areas are expanding in the rapidly growing Chinese e-commerce market. In the past, typical housing built for sale was not equipped with a water heater and other housing appliances and it was up to the buyer to purchase and install such appliances. Recently, however, sale of housing with pre-equipped housing appliances has increased. We therefore now have a system for working with business partners, who possess the requisite technical knowledge and installation capability for our gas appliances, deliver products, and install and provide the after-service for these appliances.

#### Japan-China joint development of next-generation water heaters



In September 2018, a new water heater developed by our Japan-China joint team was launched in China. After identifying needs in China, we made smaller models, using technology for the ignition part and the heat exchange part developed for other products in Japan, and significantly improved usability by temperature control technology. We plan to develop variation models based on this product, in order to better address diverse needs.



#### Main features

- China's first installation of Pro-Tec mechanism\* to provide stable-temperature hot water when re-opening the faucet
- Enabling low-temperature (32°C) setting for temperate regions
- Installation of a time-stamp function to alert for long-term use

\* A method to prevent the unpleasant cold water sandwich phenomenon. It minimizes temperature change of hot water when re-opening the faucet. It also results in reduction in the waste of water.

### Topics in North America

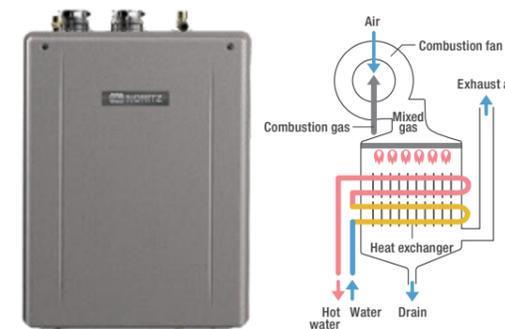
#### Contributing to reduction in greenhouse gas emissions through business activities



In 2002, we established a local company in the state of California and entered the North American market. While environmental regulations and state grant systems differ in each state, demand for gas instantaneous water heaters has been increasing due to higher heat-efficiency, superior energy-efficiency, and absence of worry of running out of hot water. We seek to respond to market needs and develop and promote products with high heat efficiency enabled by effective use of exhaust heat. We have also added water heaters for commercial use and water heaters with a space heating function to broaden our product line-up, and strive to reduce greenhouse gas emissions through smart business activities.



Installed water heaters for commercial use



"EZ Series" using the pre-mixed burner method

#### Promoting products that create less environmental burden



Noritz America Corporation, based in California where environmental regulations are particularly strict, has developed water heaters using a pre-mix burner that satisfy regulation for 20ppm or less in NOx and achieve high heat efficiency at the same time. The product has been on sale since 2017. It was also designed to easily replace the installed tank water heater. We are thus promoting products with less environmental burden.

#### Attending a workshop on EZTR40 installation



We participated in a workshop on EZTR40 (gas instantaneous water heater) installation. EZTR40 is an innovative product with an easy-to-replace design by having connecting ports for cold water and hot water piping on the top of the unit, similar to existing tank water heaters. Builders are pleased with this water heater as its installation is easy and requires little time. We are highly pleased to recommend such a product, which not only has workability, but also outstanding environmental performance.

Mr. Brian McGrane and Mr. Kyle Conlin, who participated in the workshop



**Our Precious Invisible Assets**

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.”

**Q + ESG Topics**  
 Quality Environment Society Governance

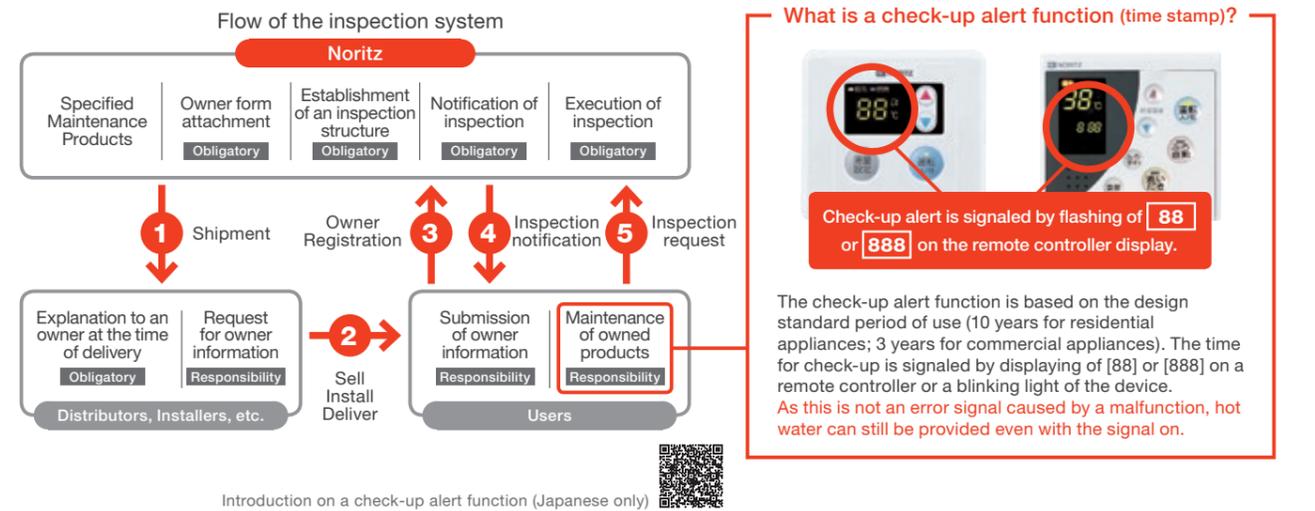
**Pursuit of customer safety and reliability**

After-sale service is another indispensable area where Noritz is dedicated to becoming a more trusted company.

**Noritz’s approach to the System for Safety Inspection of Products for Long-Term Use**

Aiming for zero accidents caused by the deterioration from long term product use, Noritz promotes inspection of appliances after prolonged use, and established a system for this. In 2019, 10 years since the System for Safety Inspection of Products for Long-Term Use\* began to function, we have made full-fledged efforts on maintenance and inspection of our products. We send a legal inspection notice to the customers who have been using our products for a long time. In addition, almost all of our products are equipped with a check-up alert function and we recommend our customers to use “Feel-safe inspection” that conforms to legal inspection requirements. We routinely solicit customers’ better understanding of product check-ups and undertake initiatives on safety and reliability through inspection and other services.

\* The Consumer Products Safety Law obliges consumers to register ownership, and implement inspection (subject to fees) of “Specified Maintenance Products” in order to prevent accidents caused by the deterioration of performance after long use.



**Message from Managing Executive Officers in charge of sales & marketing, and quality assurance promotion**



**Kazushi Hirooka**  
 Managing Executive Officer, Head of Domestic Business Headquarters and Head of Sales & Marketing Headquarters Noritz Corp.

We have established an after-sale service system so that our customers can safely use our products over a long period. We intend to continue explaining the system to users and advocating check-ups to enable longer, safe use of the products. In addition, we seek for our customers’ better understanding and actual use of our inspection system on the occasion of inquiries from our customers, including them contacting our call center.



**Norio Kubota**  
 Managing Executive Officer, Head of Quality Assurance Promotion Headquarters Noritz Corp.

We are dedicated to improving the safety and quality of products, and preventing malfunction or accidents caused by the deterioration of products used for a long time. We want all of our customers who selected Noritz’s water heater to use their choice safely and reliably until the end of its use. We therefore voluntarily promote “Feel-safe inspection” of water heaters in addition to the “specific maintenance products” defined by the laws and regulations. We also voluntarily promote the “Feel-safe inspection” of water heaters for devices other than specified maintenance products.



## Value Creation through Quality

### Consumer safety

We have established a quality management system to pursue customer satisfaction and to deliver safe, reliable products and services.

### Third-party assessment on commercial viability and ease of installation

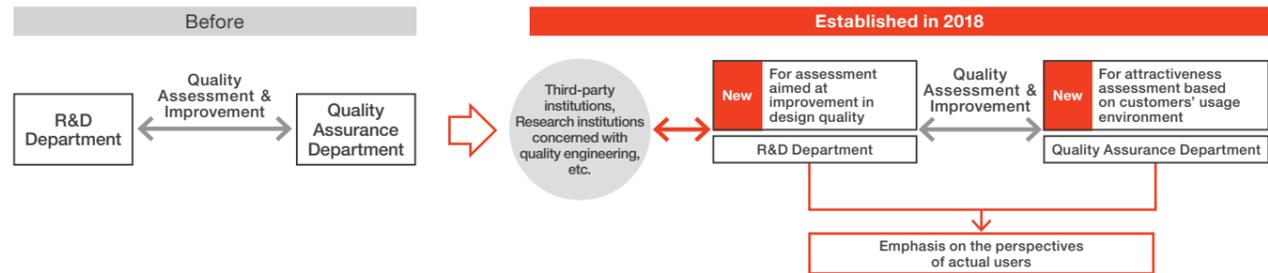
Assigning our highest priority to product quality, we make assessments on product attractiveness or commercial viability from customers' viewpoints. Being responsive to the ongoing diversification of user requirements are resulting in the expansion of the range of available choices in product specification, while high priority continues to be assigned to product quality. In 2018, we newly established a department specifically for improvement of design quality and another department for assessment of product attractiveness from customers' viewpoints. We reviewed design method and made significant improvements. We aim to help create safe, reliable home environments by further enhancing in quality.

The Quality Assurance Department's Examples of Improvement Based on Quality Assessment in 2018

	Assessment items	Improvement items
Product design assessment	Basic function check-up	Software installation manual
	Owner's Guide Installation manual	Owner's Guide
	Actual equipment	Components
Assessment of attractiveness from customers' viewpoints	Usability	Owner's Guide
	Workability	Installation manual

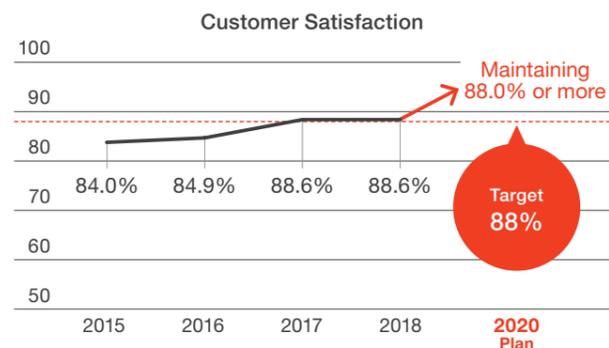
Improvement in 2018  
Assessment of 55 products  
Improvement of 60 cases

Quality Management System (conceptualized)



### Call Center's initiatives

Noritz's call center is open 24 hours 365 days to receive inquiries and requests for repair service. In 2018, we opened a call center in Hokkaido in addition to centers in Tokyo, Hyogo, and Fukuoka. This is to better respond to the high amount of inquiries along with an increase in requests for service following natural disasters in recent years. We also reorganized our system to centrally manage the status of the response of service center, in preparation for inquiries following the launch of the System for Safety Inspection of Products for Long-Term Use. The Noritz Group quantifies the results of the survey taken by our inquiry desks and repair service desks in Japan and uses them as Key Performance Indicators (KPIs) on customer satisfaction.



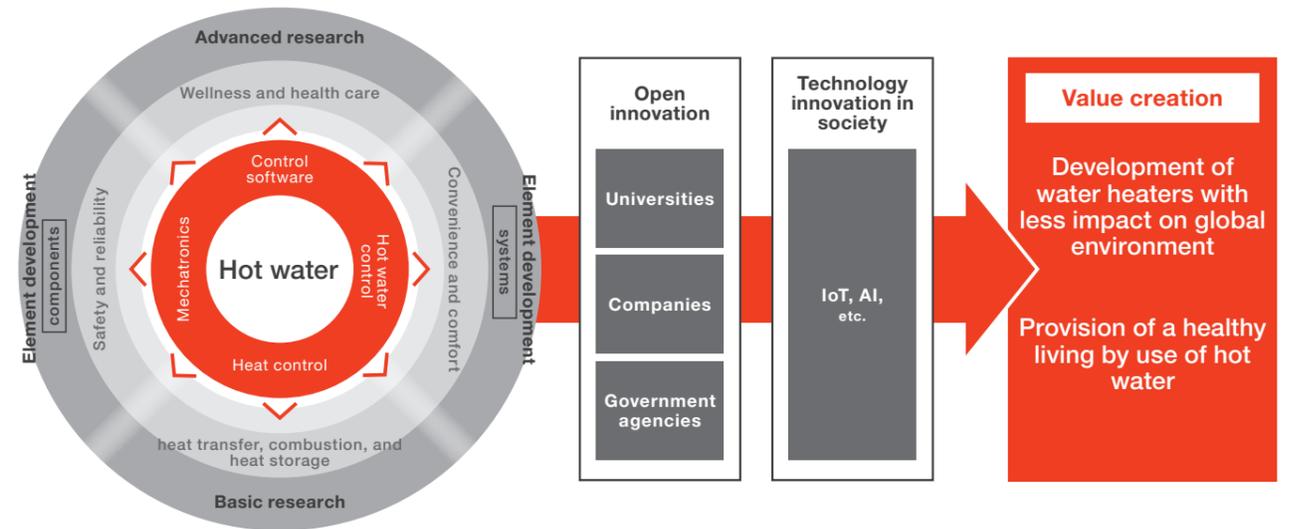
## Utilization of intellectual property and creation of corporate value

As a resources of corporate value creation, our long-accumulated intellectual assets will be enhanced and be built up in keeping with our business strategy.

### Noritz's technology to create corporate value

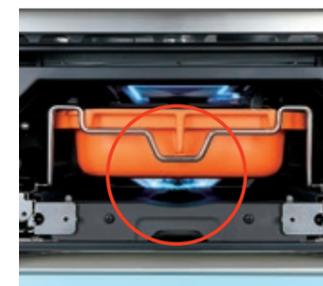
Noritz has four core technology groups: (1)combustion control; (2)heat exchange; (3)fluid control; and (4)electronic control of mechatronics and software. Largely by the use of these technologies, we have carried out research on emissions control of CO<sub>2</sub> and on the assurance of a healthy living, particularly through the supply of hot water, so as to deliver "The Simple Comforts of Life." Our ultimate aim is to contribute to the improvement of the health and life of our customers, by helping solve social issues.

Noritz's core technology and technological development



### Creating new cooking culture with grill technology

The Noritz Group has a history of developing leading-edge products. Recently, we have proposed "easy housework (RAKUKAJI)," which can be realized by a grill designed with emphasis on convenient and enjoyable cooking, and we have established a new industry standard in doing so. Our accumulated technology and safe, reliable know-how were adopted to develop the Noritz "Multi Grill." In addition to quick and easy cleaning, the bottom-up burner with a temperature sensor accurately detects the temperature of the bottom of the special container and automatically adjusts the flame, depending on the menu. This technology is proprietary (patented). A variety of cooking procedures that could not be done with conventional grills has become possible.



#### Multi Grill

- Advantages of Noritz's specially designed container and bottom-up burner with a temperature sensor
- 1 The temperature of the special container is constantly monitored, enabling timely temperature control, in accordance with the menu.
  - 2 Flat sides in the interior of the grill make it easy to clean.
  - 3 Use of the dedicated container in cooking significantly reduces smoke and cooking odor.

### Noritz's history in the development of leading-edge grills

1970		Developed a cooker with "a grill function on both sides," eliminating the need to turn the grilled food over.
1981		Developed a rear-emission style cooker that made cooking easier by moving the exhaust outlet from the center to the rear.
2006		Developed a grill with a Dutch-oven function, an innovative concept that expanded the attractiveness of the gas cooker and broadened the potential of grill cooking.
2014		Developed a new standard Multi Grill that enables automatic cooking with the bottom-up burner equipped with a temperature sensor and a special container.

Piatto grill cooker launched in 2018

Introduction video on the Multi Grill (Japanese only)



Environment

# A Clean Earth for Future Generations

## Initiatives for Environmental Management

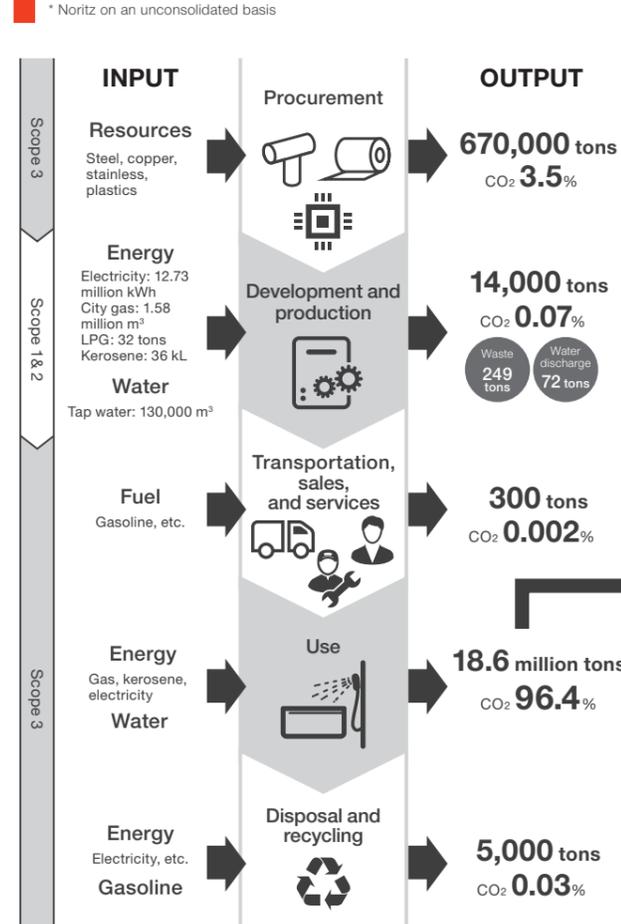
Prompted by the adoption of the Paris Agreement in 2015, it has become increasingly important for companies to integrate “environment” and “management,” in order to address the challenges of climate change and build a sustainable society. Since 2018, Noritz has had a working group with participation by all departments concerned with our value chain and has been working on a long-term environmental vision. Information disclosure based on CDP and other requirements of the global community is another area we intend to focus on.



The Environmental Strategic Meeting



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

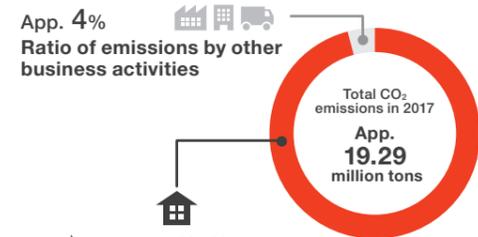


The Noritz Group emits approximately 19.29 million tons of CO<sub>2</sub> per year from its business activities and through use of its manufactured products. This represents about 1.5% of CO<sub>2</sub> emitted in Japan per year.

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

\* Approximately 1.5% of about 1,294 million tons

\* Preliminary data of Japan's greenhouse gas emissions for 2017, Greenhouse Gas Inventory Office, National Institute for Environmental Studies



## Initiatives on renewable energy

Noritz has installed solar power generation systems at 27 locations across Japan. The total power consumption that combines in-house power consumption and electricity sales amounted to approximately 7.88 million kWh, representing about 22% of electricity consumption of the Noritz Group.



\* 1.37 million kWh in in-house power consumption  
\* A water-float mega solar power station in Ono City, Hyogo Prefecture. Power generation began in March 2018.

## “Eco-First” commitment

Making efforts on behalf of environmental preservation is an important social issue for companies that manufacture and sell equipment that emits greenhouse gas.

In 2009, the Noritz Group acquired the Eco-First Company certification, which is given only to companies engaged in advanced, unique, and industry-leading business activities in the environmental field.

We are committed to continually help improve the global environment.



Eco-First initiatives (Japanese only)



**Building a low carbon society through products**

CO<sub>2</sub> emissions by use of Noritz products

**3 million tons or more reduction by 2020**

We are promoting development and diffusion of highly energy-efficient water heaters (such as a type that collects latent heat, and a hybrid water/space heating system) and energy-generation systems (such as a type that uses solar thermal power).

\* Our products include exported products from 2016. Compared to 2000; assuming ten years of use.

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

Domestic waste generation

**17% (1,000 tons) or more reduction by 2020**

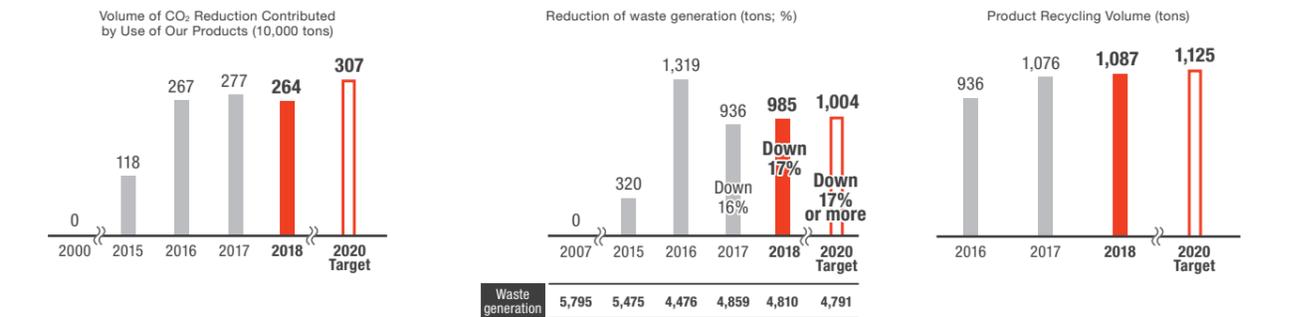
We expanded re-use of trays for components and wood pallets. We expect to continue reduction of waste generation.

\* Compared to 2007

**Increase the recycling volume of used products to**

**1,125 tons by 2020**

We promote activities to support the employment of people with disabilities, particularly in our recycling business. With support to our activities from business partners, we have increased the volume of recycling and outsource the work to 17 social welfare corporations across Japan.



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

CO<sub>2</sub> emissions by Noritz's domestic offices

**12% cut by 2020 (to be maintained up to 2030)**

As the adoption of energy-efficient equipment, such as solar power generation systems and LED lighting, has proved to be effective, we plan to adopt more such equipment in the future. In addition, each of our manufacturing plants are contributing in visualization of energy conservation activities.

Year	2013	2015	2016	2017	2018	2020 Target
Value	2,227	1,755	1,616	1,501	2,652	19,500
Reduction (%)		Down 7.5%	Down 6.8%	Down 12%		

\* Compared to 2013. Equivalent to targets of the Japanese Government for 2030

**Becoming more mindful of the environment**

Ratio of employees who will pass the Eco Test by 2020

**60% or more**

We have made the Eco Test (the Certification Test for Environmental Specialists) our internally-recommended certification, and have given subsidies of the examination fee to employees to assist their efforts to obtain certification. In 2018 we achieved the target. Moreover, our activities were highly regarded and we received the 2018 Eco Test Grand Award.

Year	2015	2016	2017	2018	2020 Target
Value	1,617	1,698	1,981	2,111	2,066
Ratio (%)		52.4%	55.0%	62.9%	60% or more

The Eco Test Grand Award ceremony



# Human Resources Supporting Noritz

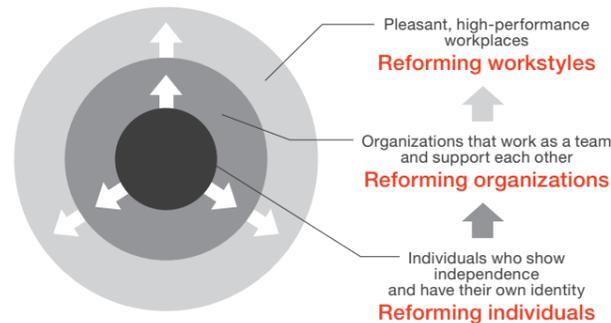
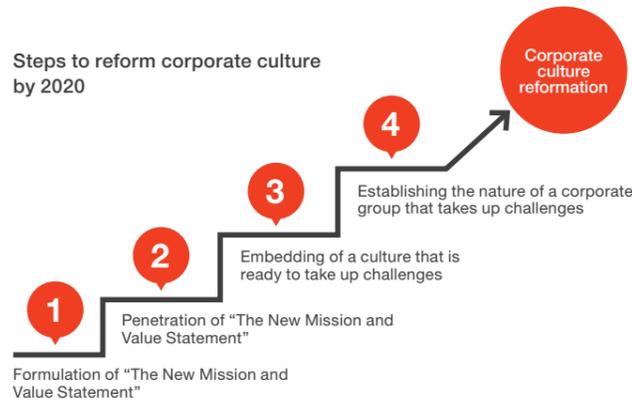
## Reforming corporate culture

We are working on fostering and embedding of a corporate culture that is ready to take up challenges in accordance with our Medium-term Management Plan, V-plan 20.

### Reforming corporate culture = Reforming of Individuals x Organizations x Work-styles

We find it important to combine the reforming of individuals, organizations, and workstyles in realizing the reformation of corporate culture. In 2018 we focused on “embedding corporate

culture that encourages employees to accept challenges” while respecting their independence as an important step.



## Reforming identity to a culture that takes up challenges

Setting our corporate-wide theme as “challenge and reforming through communication” in 2018, we launched an open communication campaign\*. Eight selected teams from 148 workplaces attended numerous workshops with members of the management and boosted their sense of unity. We will continue to work on expanding the circle of challenges and proceed onward from challenges, to accomplish reforming.



Workshop with the management  
\* Campaign to encourage team challenges in undertaking innovative efforts in workplaces

## Fostering “Mission and Value missionaries”

We are working on disseminating our “Mission and Value” program and sharing our values, in order to change into a corporate group that readily and boldly takes up challenges. In 2018 we fostered 44 “Mission and Value missionaries” in the hope that each employee discovers a meaningful, personal Mission and Value. Along this line, each division will continue its involvement in the Mission and Value program and dedication to deliver “The Simple Comforts of Life” for users of our products.



“The Simple Comforts of Life” project (Japanese only)

## 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.

### Promoting Work Opportunities for Women

In order to empower women at work, we are carrying out activities on two themes: the principle of “continuous working” and “challenge to a leadership position.” Regarding “continuous working,” the Noritz Group has been sponsoring the Vitamin W Square (for a 12<sup>th</sup> accounting term), a forum in which women from various sections voluntarily get together and discuss how to improve and enhance women’s work. We also revised a personnel program to extend eligibility

for short work hours for childcare from up to a child’s third birthday to the end of the third grade in elementary school. As for “challenge to a leadership position,” we continue to carry out Women’s Leadership Program (WLP), activities, such as encouraging networking among forum participants, training, and mentoring, to foster desire for facing and succeeding in the challenge of advancement to a leadership position and to enhance their knowledge.

### Global expansion in management

When we started overseas business, we sent people from Japan to overseas top management positions. Nowadays, as we aim for further growth of overseas business, we promote local people to management positions in the U.S., Australia, and Hong Kong. In 2018, we provided training to top

executives in these countries for their better understanding of knowledge required as a manager of an overseas subsidiary of a Japanese company. We aim at strengthening cooperation with operations in Japan and accelerating globalization.

Overseas Operation’s Top executives and Directors from Host Countries



Training session for top executives of overseas companies

## Shift to actualizing people with disabilities as a vibrant manpower resource, from merely assisting them to be more independent

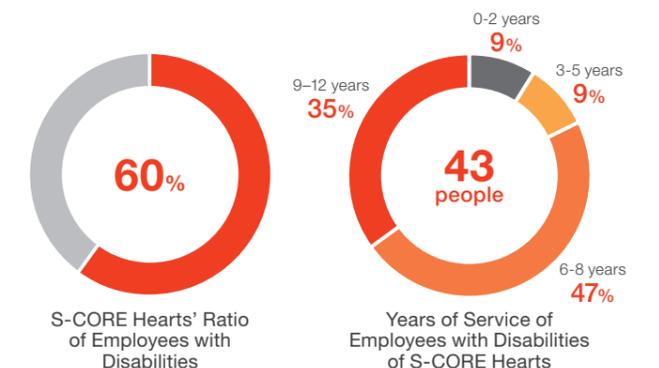
S-CORE Hearts K.K., a Special Subsidiary company (a type of legal Japanese entity that employs people with disabilities) of the Noritz Group, employs 43 people with disabilities\*. They are indispensable human resources of the Noritz Group, being engaged in necessary operations, including production of certain devices for the mainstay Eco-Jozu Series products, maintenance 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 the small number of workers who leave the company. In order to facilitate their long career with us, we began a health-oriented corporate program under the slogan “we keep our employees and their family in good health.”

\*As of June 2018

S-CORE Hearts was recognized as a health-oriented enterprise that focuses on the well-being of employees from a managerial viewpoint and was selected as an Excellent Enterprise of Health and Productivity Management by the Ministry of Economy, Trade and Industry (METI) and Nippon Kenko Kaigi.



S-CORE Hearts was certified as a Special Subsidiary (a type of legal Japanese entity for employment of people with disabilities) by the Ministry of Health, Labour and Welfare.





Society

Q E S G

## Together with Society

### Supply Chain Management

The Noritz Group is engaged in CSR procurement for its entire supply chain, as it strives as a member of society to purchase goods and services in a responsible manner.

#### Aiming at stable, sustainable procurement activities

Aiming at sustainable procurement, the Noritz Group is engaged in procurement activities based on the Noritz Group CSR Procurement Guidelines. In recent years, societal requirements have expanded from environmental consideration to societal considerations. 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. We give feedback to suppliers and at the same time receive their evaluations on our procurement activities on an anonymous basis. In addition, we include CSR items in the ISO9001 statement of supplier evaluation principles and use them as a selection standard of new suppliers.

\* Self-Assessment Questionnaire of suppliers representing top 95% or more of Noritz's transaction amount

#### Addressing the challenge of "conflict minerals"

Since 2014, Noritz has conducted annual surveys on conflict minerals ending up in our products. We hold an annual briefing session on the subject for suppliers and ask for their cooperation in our 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.

\* Global, common survey program of conflict minerals

#### Initiatives for respecting human rights

The Noritz Group formulated its Human Rights Policy based on various international human rights standards\*, the Ten Principles of the United Nations Global Compact, and the Guiding Principles on Business and Human Rights. Compliance Managers and Promoters play a key role in promoting initiatives on human rights. Every year, training programs related to this policy is held for new employees and new executives, to raise their awareness on

Items	Existing	New	Coverage ratio
Request to comply with the Noritz Group CSR Procurement Guidelines	128 companies	3 companies	100%
Noritz supply chain CSR survey (Self-Assessment Questionnaire)	52 companies	-	100%
ISO9001-based supplier assessment	128 companies	3 companies	100%



Cumulative results of conflict minerals surveys (January-December 2018)		Number of requests for Noritz survey from suppliers	Number of targeted models
		16 companies	2,220 models
Number of components under survey	Number of components surveyed	Response rate	
10,812 components	8,995 components	83%	

the importance of human rights, to share knowledge of relevant global trends, and to share familiar examples. We also make use of e-learning and an internally-prepared handbook on cases, to promote employee awareness. In 2018, we held a workshop on "approach to caring for people" in each workplace, with SDGs as a keyword.

\* The Universal Declaration of Human Rights, International Covenants on Human Rights, ILO core labor standards, etc.

The Noritz Group Human Rights Policy (formulated in 2016)



### Creation of value with customers

Communication with stakeholders is important for us to create new value for product users.

#### Communication with customers

In August 2018, we opened Noritz My Page on our website, which has enabled us to offer users of our products appropriate information according to their registered data, together with information on safe, reliable, and pleasant lifestyles. We intend to continue offering information that can benefit customers, and responding to their requests.



My page (Japanese only)



#### Reflecting customers' comments on product development and service improvement

We are constantly making efforts to enhance quality and services in the pursuit of bringing satisfaction and enthusiasm to customers. Over a million comments from customers who use our products are compiled at Noritz Contact Center every year. These precious comments are reported to management and employees and are used for product development and improvement, as well as for providing better services.

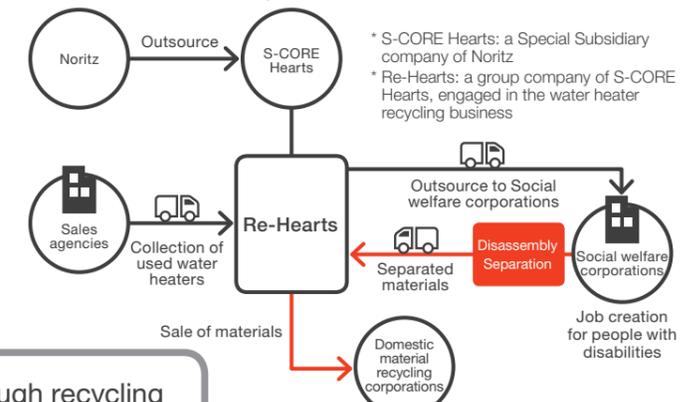
Examples of utilizing customers' comments (Japanese only)



#### Partnership arrangements to assist people with disabilities and for environmental consideration

S-CORE Hearts Group started recycling of water heaters in 2009 in order to create jobs for people with disabilities and to recycle domestic resources. S-CORE Hearts collects used water heaters from business partners who agreed to support this initiative, and consign disassembly and separation of product parts to social welfare corporations, contributing to creating jobs for people with disabilities. Meanwhile, this recycling promotes safe, reliable, domestic recycling of resources, contributing to reduction of environmental impact.

Recycling of Resources and a Flow to Support People with Disabilities



#### Striving to assist people with disabilities through recycling under a partnership arrangement

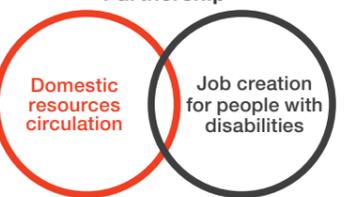


Sekisui House, Ltd. Manager of Environment Improvement Department Mr. Takatsugu Murai (left)

As the "Eco-First Company," Sekisui House has been promoting re-use of resources and operates resource recycling centers across Japan. We were introduced by Noritz, another "Eco-First Company," to the business of increasing the self-reliance and self-realization of people with disabilities, through recycling of water heaters in Japan. We empathize the concept of such a business and have jointly established a structure to continuously support it. We are pleased that Sekisui House's environmental initiatives also result in addressing welfare issues. We learned a lot from Noritz's sincere approach to environmental issues beyond boundary of industries. We look forward to continuing to contribute to the expansion and development of this business.



#### Partnership





Governance

# Corporate Governance

Q E S G

## 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 for optimal management judgement.

### Establishment of Corporate Governance Guidelines

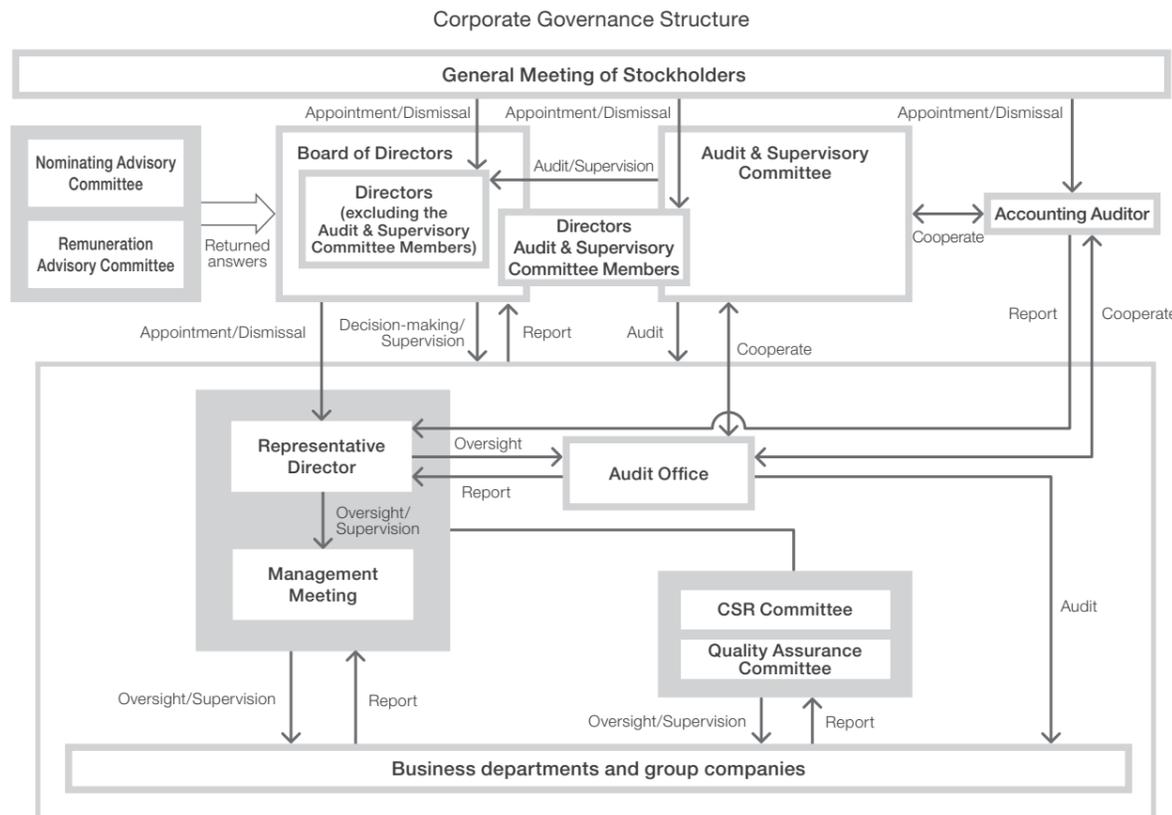
We state in the Noritz Corporate Governance Guidelines the status of implementation concerning underlying principles, including the principle for specific matters to be disclosed, as formulated in the Corporate Governance Code.

Corporate Governance Guidelines(Japanese only)



### Corporate governance structure

We have adopted a corporate governance structure of a “company with an Audit & Supervisory Committee.” Nine directors including three independent external directors are selected for it, and independent directors represent one-third of the Board of Directors.



## 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>	Revised the Articles of Incorporation to change the term of directors from two years to one year	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>	Appointed one external corporate auditor	One external corporate auditor was appointed, with the aim of delivering auditing of directors’ performance from an independent viewpoint.
<b>2006</b>	Appointed two external corporate auditors Reduced the number of directors from 17 to seven Adopted the executive officer system Abolished the retirement bonus program for directors	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>	Appointed one external director	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>	Appointed two external directors Introduced a stock option program as a stock-linked compensation plan Established the Nominating Advisory Committee and the Remuneration Advisory Committee Disclosed the Noritz Corporate Governance Guidelines, a Japanese version and an English version	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 Advisory Committee and the Remuneration Advisory 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>	Disclosed a summary of the results of an evaluation of effectiveness of the Board of Directors Conducted training sessions for directors and auditors	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.
<b>2019</b>	Transitioned to a “company with an Audit & Supervisory Committee”	We transitioned to being a “company with an Audit & Supervisory Committee” with the aim of further enhancing effectiveness of corporate governance and raising corporate value over the medium to long term. We have appointed three independent external directors, who represent one-third of the Board of Directors.

## Remuneration for Directors

The Remuneration Advisory Committee, chaired by an external director, has been established to ensure transparency and fairness.

### Details and calculation method of remuneration for directors

The total amount of remuneration for directors (excluding directors who are also Audit & Supervisory Committee members) is required to be within the aggregate amount determined by a resolution of the General Meeting of Stockholders. The total amount of remuneration for each director (excluding directors who are also Audit & Supervisory Committee members) is determined by a resolution of the Board of Directors, based on roles of their position and responsibilities. However, the Nominating Advisory Committee discusses appropriateness of the remuneration plan in advance and submits their opinion to the Board of Directors.

Separate from the above remuneration for directors, a stock compensation arrangement using stock options has been adopted and stock acquisition rights can be granted to directors (excluding external directors who are also Audit & Supervisory Committee members) as a part of their remuneration. The total amount of remuneration for directors who are also Audit & Supervisory Committee members is required to be within the aggregate amount determined by a resolution of the General Meeting of Stockholders. The total amount of remuneration for each director who is also an Audit & Supervisory Committee member is determined based on the director’s role and other factors, through discussion among directors who are also Audit & Supervisory Committee members.

Aggregate Amount of Remuneration and Number of Directors Determined by a Resolution of the General Meeting of Stockholders held on March 28, 2019

Position	Aggregate amount of remuneration (annual)	Number of directors determined by the Articles of Incorporation
Directors (excluding directors who are also Audit & Supervisory Committee members)	¥400 million or less	8 or less
Directors who are also Audit & Supervisory Committee members	¥50 million or less	4 or less
Total	¥450 million or less	12 or less

## 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.

### Evaluation and analysis of effectiveness of the Board of Directors

Effectiveness of the Board of Directors has been evaluated and analyzed, based on results of self-assessment by directors and hearings from Audit & Supervisory Committee members, with the aim of ensuring effectiveness of the overall Board of Directors and enhancing its performance.

#### 2017: Issues identified from the evaluation results of effectiveness of the Board of Directors

- 1 Continuation of discussions from medium to long-term perspectives
- 2 Continuation of setting agenda items, including the reconsideration of past agenda items, in order to facilitate more substantive discussion at the Board of Directors meetings



#### 2018: Initiatives taken on these issues

- 1 Continuation of discussions from medium to long-term perspectives
  - Agenda items to be discussed at the Board during a given year were reviewed, in order to secure sufficient time to discuss matters from medium to long-term perspectives
  - As a reference for discussion from medium to long-term perspectives, three sessions including, presentations by external experts, training, and exchange of opinions were conducted, in order to better understand the external environment.
- 2 Continuation of setting agenda items, including the reconsideration of past agenda items, in order to facilitate more substantive discussion at the Board of Directors meetings
  - The Secretariat reviewed agenda items to secure sufficient time for discussion at the Board of Directors meetings
  - Discussed on themes which were pointed out in the self-assessment due to a lack of discussion at the previous Board of Directors meetings, and carried out decisions on future direction.

#### 2018: Summary of the results of the evaluation of effectiveness of the Board of Directors

A survey was conducted of 12 current directors and auditors and all of them responded. Major survey items are:

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 management of the Board of Directors' (setting of agenda items, contents and delivery timing of materials), and provision of information and other items to external directors, 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 the issues in 2018 have proved to be effective as a whole.

#### 2019: Issues of the Board of Directors

The following issues will be addressed in 2019 to further enhance effectiveness of the Board of Directors.

Continuation of discussions from medium to long-term perspectives  
 Differentiating from other meetings and review of agenda items, in order to facilitate more substantive discussion at the Board of Directors meetings  
 Maximizing effectiveness of a transition to being a "company with an Audit & Supervisory Committee"

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

#### Organization of each committee



### Nominating Advisory Committee and Remuneration Advisory Committee

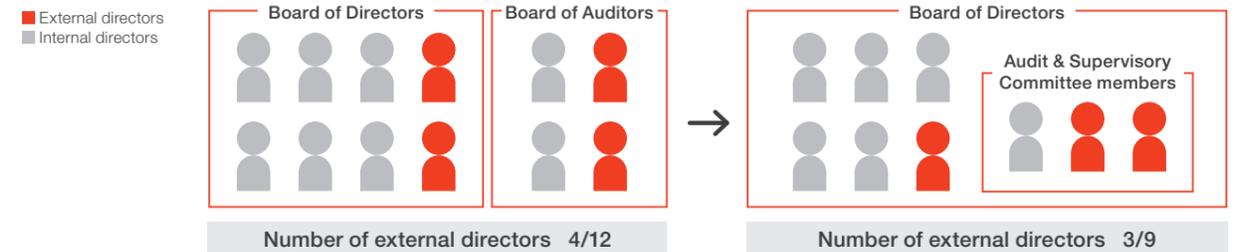
The Nominating Advisory Committee and the Remuneration Advisory Committee have been established as discretionary advisory bodies of the Board of Directors, with the purpose of strengthening independence and objectiveness of the Board of Directors and of enhancing the corporate governance framework.

### Transition to being "a company with an Audit & Supervisory Committee"

We transitioned to being "a company with an Audit & Supervisory Committee" by a resolution of the 69th General Meeting of Stockholders with the aim of further enhancing effectiveness of corporate governance and raising corporate value.

Since the adoption of the Corporate Governance Code in 2015, we have continued discussion on enhancement of governance of Noritz. The transition to a new structure has been studied since 2017 and has been discussed at several meetings of the Board of Directors before being determined.

Noritz conducts evaluation of the effectiveness of the Board of Directors using a self-assessment method once a year. As one of the ways to solve issues identified through evaluation of the effectiveness, we concluded that a transition to being "a company with an Audit & Supervisory Committee" should be most appropriate. Through this transition, the Board of Directors will focus on three issues: enhancement of the supervising function of the Board of Directors; speeding up of decision making; and more



substantial discussions from medium to long-term perspectives.  
**Enhancement of the supervising function of the Board of Directors**

- ▶ Enhancement of the advisory and supervising function of directors who are also Audit & Supervisory Committee members
- ▶ Independent external directors to represent one-third of the Board

#### Speeding up of decision making

- ▶ Review of matters to be discussed at internal meetings and the Board of Directors meetings

#### More substantial discussions from medium to long-term perspectives

- ▶ Review of agenda items for the Board of Directors  
 We will tackle the above three issues to enhance the effectiveness of corporate governance and raise corporate value from medium to long-term perspectives.

#### Message from External Director

**I will support Noritz's governance that aims at improving effectiveness of the Board of Directors to speed up innovations.**

Hideaki Takahashi External Director



External directors are responsible for continuously raising the mindset and direction of the overall management. Our basic action for this is proper execution of governance.

Japan's revised Corporate Governance Code requires companies to establish a structure to supervise management with transparency and objectivity in order to improve the quality of management and raise corporate value. I believe that the Board of Directors should be positioned at the top of this structure.

The revised Corporate Governance Code has three key points. Regarding "promotion of more constructive dialogues with investors," we are discussing the rationale for shareholdings in other listed companies and considering reducing them. With regard to "ensuring diverse viewpoints" and "enhancing supervision of the management

team," we emphasize a well-balanced management structure and a highly-transparent succession of management. Specific measures include selection of women as external directors, discussion on nomination, remuneration, and other issues at discretionary advisory bodies, and drafting of a management development program.

In the wake of revision of the Corporate Governance Code, we, the management of Noritz, recognize its significance and are actively discussing related matters. I believe that the Board of Directors is effectively functioning. This year, Noritz transitioned to being "a company with an Audit & Supervisory Committee" based on a resolution of the General Meeting of Stockholders. We will strive to meet expectations of stakeholders by implementing proactive governance, aiming at speedy decision making.

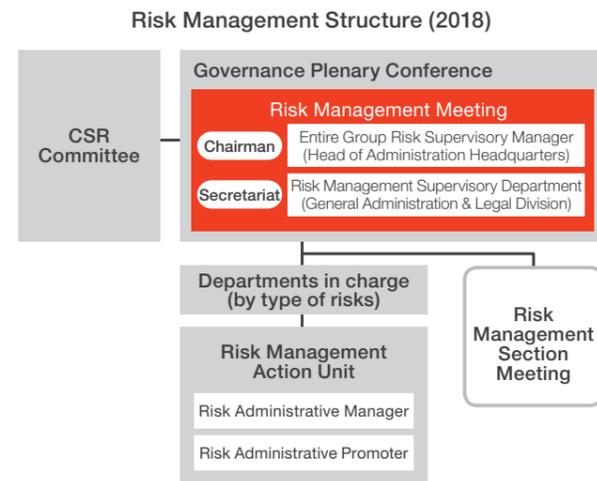
## Risk Management

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 partially revised the corporate structure and established a risk management group, chaired by the Entire Group Risk Supervisory Manager, as we believed that we needed to establish a structure to continuously undertake risk management in order to better respond to risks. In 2018, consonant with such a revised structure, we managed a PDCA cycle of identifying, assessing, addressing to, and

monitoring risks. In addition, to enhance business continuity planning (BCP) of the overall Noritiz Group, we worked on establishing a crisis management structure. Going forward, we intend to promote a comprehensive risk management structure involving group companies in Japan and abroad.



### Identifying priority risks to be addressed corporate-wide and its approach

In 2018, in addition to natural disasters (large-scale earthquake) and other business contingency risks which we had tackled for some time, we identified long working hours and other labor risks as priority risks and have started to address them. Japan was hit with many natural disasters in 2018 including an earthquake in Northern Osaka in June, heavy rain in Western Japan in July, large-scale typhoons in August and September, and an earthquake in Eastern Ibaraki, Hokkaido in September. Rollout of a group-wide safety confirmation system, checking of stockpiles for major disasters, and seismic assessment of each office are among the measures undertaken. We also conducted a disaster drill and an emergency training to raise awareness of all employees.



Briefing session on risk management to group companies

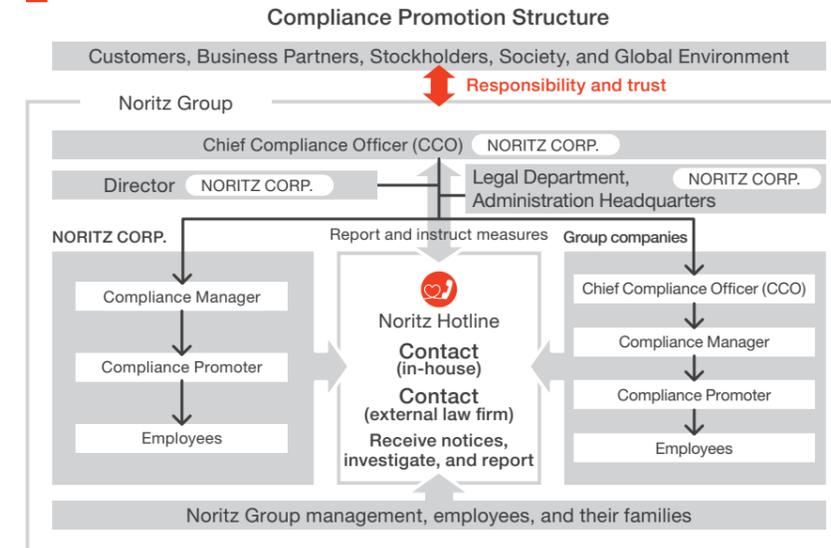
As for the issue of long working hours, we have implemented measures aimed at appropriate working hours, such as PC log management and revision of personnel programs from the viewpoint of workstyle innovation.

We intend to continue enhancing our structure, including domestic and overseas group companies, and our capacity to respond to risks.

## Compliance

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

### Compliance Promotion Structure



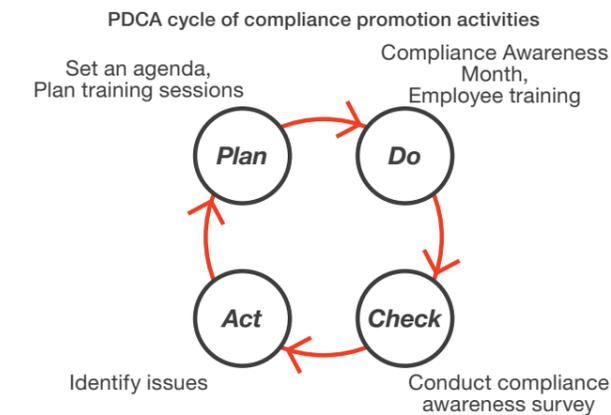
The Noritiz Group has formulated the Noritiz Group Code of Ethics, with the aim of being a corporate group to be continuously selected by customers and society. Through the Code of Ethics, all employees of the Noritiz Group aim at raising awareness about compliance, while sharing values on right actions.

Noritiz Group Code of Ethics



### Compliance promotion activities

With the aim of fostering a corporate culture in which the whole Noritiz 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 Awareness Month

Every May and September are designated as “Compliance Awareness Month,” where our employees are encouraged to think about and discuss compliance matters in their workplace.

Themes for Compliance Awareness Months in 2018	Month	Theme
	May	Quality issues and work quality
	Sep.	Information security training

#### Promotion of group governance

As part of our promotion of Noritiz Group governance, we published the Management Book for Domestic Group Companies in 2018, to improve the management level of group companies. From 2019 onward, we will make efforts for further improvement of the management level. In 2019, we will also publish the Management Book for Overseas Group Companies, to promote governance of the entire Noritiz Group, including overseas companies.

#### Workshops on internal control and prevention of power harassment

During three years from 2016 to 2018, the Audit Department and the Legal Department jointly hosted workshops on internal control and prevention of power harassment targeted to all managements of the Sales and Marketing Departments and persons in charge (1,104 participants from 46 departments). Different workshop programs were arranged for management persons in charge as they require different knowledge and have different key concerns.

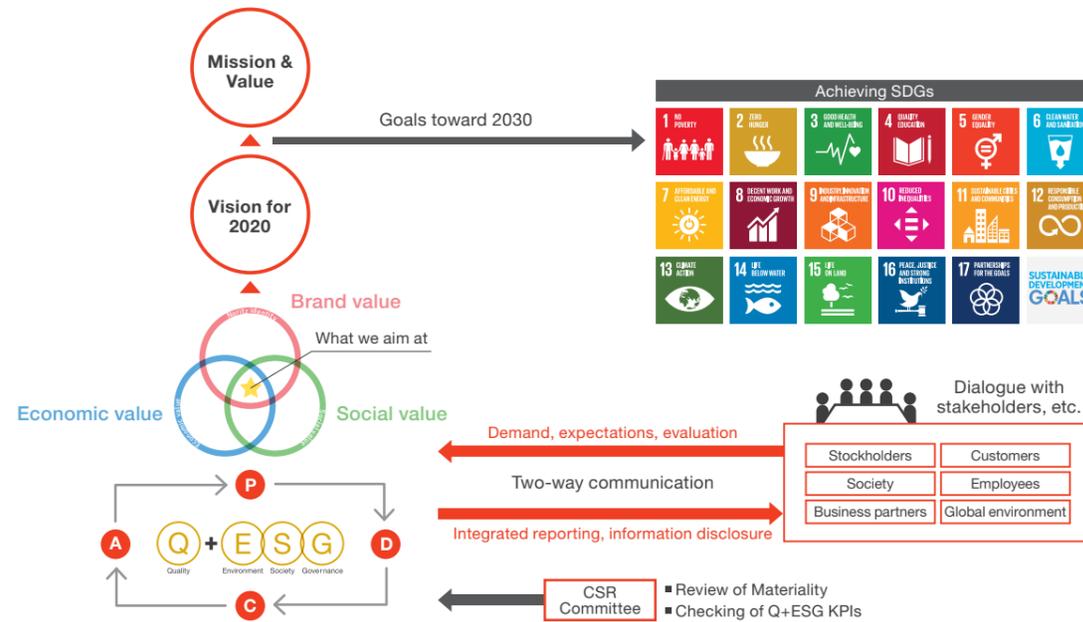
#### Noritiz Hotline

With the aim of preventing and early detecting of compliance violations, and of exposing and solving compliance issues, Noritiz has established a Noritiz Hotline, a whistle-blowing system which group directors, officers, employees, and their family members can use. Noritiz Hotline has two contacts: in-house and external law firm. A whistleblower is guaranteed confidentiality of identity and details and can select either of these contacts.

In 2018, 16 cases in total were reported or sought consultation. Each case was followed up with methods such as fact checking and hearings, and was properly handled or resulted in establishing a measure to prevent recurrence.

## Stakeholder Dialogue

With the aim of reflecting stakeholders' viewpoints to our business activities and of realizing the Noritz Group's sustainable growth and contribution toward society's development, we conduct recurring Dialogue with stakeholders events, in which experts of each ESG field are invited and to which internal directors attend. The events are regarded as an important process of sustainable management, such as identification of long-term management issues and evaluation of progress regarding CSR Materiality (Priorities) activity.



### Dialogues in 2018

Opinions received and how we responded

#### The fourth Stakeholder Dialogue

The Fourth Dialogue with stakeholders was held in July 2018. In order to realize meaningful dialogues on the issues of each department, we used a matching method based on prior hearings of internal and external speakers. Themes discussed included a social trend toward realizing a low-carbon society and management issues for integrating corporate management and CSR.



The Fourth Stakeholder Dialogue

#### Attendees of the Dialogue in 2018

Facilitator	<b>Masayoshi Miyanaga</b> Professor, Tokyo University of Science Graduate School of Innovation Studies <small>* Titles as of July 2018</small>
Stakeholder representatives	<b>Hiroko Ozawa</b> Region Lead, Japan of the International Integrated Reporting Council (IIRC)
	<b>Minoru Matsubara</b> Asset Management Division, Resona Bank, Ltd.
	<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>Naomi Yamazaki</b> ESG Network of Stockholders & Companies <small>* Titles as of July 2018</small>
Noritz	<b>Soichiro Kokui</b> President and CEO
	<b>Takafumi Nakamura</b> Director and Senior Managing Executive Officer, Head of Domestic Business Headquarters
	<b>Tsutomu Mizuma</b> Director, Managing Executive Officer, Head of Product Headquarters
	<b>Satoshi Haramaki</b> Director, Managing Executive Officer, Head of Research & Development Headquarters
	<b>Masamine Hiroasawa</b> Director, Managing Executive Officer, Head of International Business Headquarters
	<b>Masayuki Takenaka</b> Director, Managing Executive Officer, Head of Administration Headquarters
	<b>Kazushi Hirooka</b> Managing Executive Officer, Head of Sales & Marketing Headquarters
<b>Hidenari Ikeda</b> Executive Officer, Head of Corporate Planning Division <small>* Titles as of July 2018</small>	

### Opinions received at the Dialogue and Noritz's response in 2018

Q+ESG	Category		Opinions and issues in the Dialogue		Achievements (partial) in 2018
	Target area	Dialogue themes	Expectations and opinions to Noritz	Issues to be taken by Noritz	
Q	Consumer safety	<ul style="list-style-type: none"> <li>Safety and reliability</li> <li>Customer Satisfaction (CS)</li> <li>Point of contact with customers</li> </ul>	<ul style="list-style-type: none"> <li>Market development based on reduction of bathroom accidents</li> <li>Establishing contact with customers</li> </ul>	<ul style="list-style-type: none"> <li>"bathing-monitor" function to be better known and expanded</li> <li>Two-way communication, i.e., notification on the time to check a product</li> </ul>	<ul style="list-style-type: none"> <li>More models to have a "bathing-monitor" function</li> <li>Information disclosure on safety check-up</li> <li>CS at 89%; maintaining the 2018 target of 88% or more</li> </ul>
E	Global environment	<ul style="list-style-type: none"> <li>Response to global warming</li> </ul>	<ul style="list-style-type: none"> <li>Integrating management with environmental response</li> <li>Environmental risks to be identified and addressed</li> </ul>	<ul style="list-style-type: none"> <li>Disclosure of environmental data</li> <li>Formulating an environmental strategy by region</li> </ul>	<ul style="list-style-type: none"> <li>Evaluated C in CDP</li> <li>Start formulation of a long-term environmental vision</li> <li>Reduction in CO<sub>2</sub> emissions of products 2.64 mn tons vs. 2.49 mn tons (target of 2018, compared to 2000)</li> <li>Expansion in overseas sales of instantaneous water heaters</li> </ul>
S	Human resources	<ul style="list-style-type: none"> <li>Better use of human resources</li> <li>Communication</li> </ul>	<ul style="list-style-type: none"> <li>Use of AI and automation to offset domestic labor shortage</li> <li>Corporate structure and personnel development for creating innovation</li> </ul>	<ul style="list-style-type: none"> <li>Talent management<sup>*1</sup></li> <li>Open innovation</li> </ul>	<ul style="list-style-type: none"> <li>Fostering of MV<sup>*2</sup> missionaries changing of mindset</li> <li>Embedding of a corporate culture to encourage challenge</li> <li>Organizational review and its implementation</li> </ul>
G	Governance	<ul style="list-style-type: none"> <li>Establishment of a governance structure that matches the management strategy</li> </ul>	<ul style="list-style-type: none"> <li>Materializing of overseas business growth stories</li> <li>Setting up of challenges to advance governance</li> </ul>	<ul style="list-style-type: none"> <li>Building and disclosure of a long-term strategy</li> <li>Governance structure for globalization</li> </ul>	<ul style="list-style-type: none"> <li>Publishing of the Management Book and distribution to domestic group companies</li> <li>Identifying of roles of the Board of Directors and the Management Meeting</li> <li>Transition to a company with an Audit &amp; Supervisory Committee</li> </ul>

<sup>\*1</sup> Strategic hiring, placement and development of human resources  
<sup>\*2</sup> Mission and Value

### Dialogues in 2018

Conducted a review of the Dialogue

In order to deepen opinions raised in the Dialogue and more clearly identify management challenges for sustainability, Professor Masayoshi Miyanaga, who played the role of facilitator, President and CEO Kokui, and three directors in charge of domestic and overseas businesses reviewed the issues in 2018. The issues were separated into short, medium, and long-term categories, and their risks and opportunities were recognized. As a step to move ahead, some revision was made in our organizational structure. We intend to integrate management with CSR and act on it in a speedy manner.



Review of the Dialogue

#### My thoughts on Noritz's CSR management



**Masayoshi Miyanaga**  
Professor  
Graduate School of Management  
Tokyo University of Science

We had the fourth Stakeholder Dialogue in 2018, in which we shared various opinions from representatives of stakeholders in each respective field with the management, and actively discussed issues and initiatives. At this Dialogue in particular, a majority of participants agreed that it is important to take into consideration longer-term changes in society and business environment, recognize future risks and opportunities, and share their strategies and measures internally. Moreover, the meeting to review the issues with the President and directors in charge of domestic and overseas businesses was conducted four months later and I made proposals on short, medium, and long-term management issues. In order to act in conformity with, and realize Noritz's mission to help provide "The Simple Comforts of Life" and its vision "The Noritz Group – Globally Competitive by 2020," the passion and personal growth of employees are indispensable factors while globalization and diversity continue to wait ahead. I anticipate that Noritz will further promote Q+ESG to meet the expectations of diverse stakeholders and manage Noritz to raise its value in a broad sense.

Directors as of March 29, 2019



**President and CEO**  
**Soichiro Kokui**

**Main career**  
President, Harman Co., Ltd.  
Managing Executive Officer, Head of Sales & Marketing Headquarters, Noritz Corp.

**Significant concurrent post**  
Chairperson, Kobe Association of Corporate Executives  
External Director, The Minato Bank, Ltd.



**Director and Senior Managing Executive Officer**  
**Satoshi Haramaki**

**Head of Domestic Business Headquarters In charge of Research & Development Headquarters**

**Main career**  
President and Representative Director, SHINWA INDUSTRY CO., LTD.  
Director and Managing Executive Officer, Head of Research & Development Headquarters, Noritz Corp.



**Director and Senior Managing Executive Officer**  
**Masamine Hirose**

**Head of International Business Headquarters**

**Main career**  
President and Representative Director, Kanto Sangyo Co., Ltd.  
Managing Executive Officer, General Manager of China Business Promotion Division of International Business Headquarters, Noritz Corp.

**Significant concurrent post**  
Chairman, Noritz (China) Co., Ltd.  
Chairman, Noritz Hong Kong Co., Ltd.  
Chairman, Sakura (Cayman) Co., Ltd.  
Chairman, Sakura China Holdings (H.K.) Co., Ltd.  
Director, NORITZ AUSTRALIA PTY LTD.



**Director and Managing Executive Officer**  
**Tsutomu Mizuma**

**Deputy Head, Domestic Business Headquarters In charge of Kitchen Business Division, Bath Life Business Division, and Kitchen Life Business Division**

**Main career**  
President and Representative Director, Harman Co., Ltd.  
Director and Managing Executive Officer, Head of Sales & Marketing Headquarters, Noritz Corp.  
Director and Managing Executive Officer, Head of Product Headquarters, Domestic Business Headquarters, Noritz Corp.



**Director and Managing Executive Officer**  
**Masayuki Takenaka**

**Head of Administration Headquarters**

**Main career**  
Managing Director, Head of Administration Headquarters, Harman Co., Ltd.  
President and Representative Director, S-CORE Hearts K.K.



**Director (External)**  
**Hideaki Takahashi**

**Main career**  
President and Representative Director, Sakura KCS  
Representative and Senior Managing Director, Kobe International House  
External Audit & Supervisory Board Member, Fujicco  
External Audit & Supervisory Board Member, Noritz Corp.

Directors (Audit & Supervisory Committee Members) as of March 29, 2019



**Director (Audit & Supervisory Committee Member)**  
**Tsuyoshi Ayabe**

**Main career**  
General Manager of Accounting & Finance Division, Administration Headquarters, Noritz Corp.  
President and Representative Director, Noritz Capital Corp.  
Corporate Auditor, Noritz Corp.



**Director (Audit & Supervisory Committee Member)(External)**  
**Yasuhiko Ogawa**

**Main career**  
Chairman of the Kinki Branch of the Japan Institute of Certified Public Accountants (JICPA)  
External Corporate Auditor, Noritz Corp.

**Significant concurrent positions**  
Representative, Ogawa Certified Public Accountants Office  
External Audit & Supervisory Board Member, Osaka Exchange, Inc.  
External Audit & Supervisory Board Member, Osaka Metro Co., Ltd.



**Directors (Audit & Supervisory Committee Member) (External)**  
**Yasuko Masaki**

**Main career**  
Professor, The Kwansai Gakuin University Law School  
External Corporate Auditor, Noritz Corp.

**Significant concurrent positions**  
Co-Representative of Shimoyama & Masaki Law Office  
Independent Director of HI-LEX CORPORATION  
External Inspector, CONSUMERS CO-OPERATIVE KOBE  
Vice Chairman, Japan Federation of Bar Associations

Message from the Audit & Supervisory Committee Member



**Yasuko Masaki**  
External Director  
(Audit & Supervisory Committee Member)

I will contribute to raising corporate value

I was initially appointed a corporate auditor (external) in March 2018, but I have recently been appointed as an Audit & Supervisory committee member since March 2019. I now bear heavier responsibilities but will continue to be engaged vigilantly. I intend to use in particular my professional insights as a lawyer, experience as an external director, and viewpoints as a consumer and a woman, and contribute with a different standpoint and ideas from those inside the company.

In today's world, M&A is becoming important for companies' growth. It is therefore important for Noritz, when considering corporate acquisitions, to appropriately judge acquisition targets and identifying their problems and challenges. Moreover, work style reform and other factors are becoming increasingly important for corporate growth and creation of corporate value. Concerning such challenges, I will contribute from the perspective of governance and risk management. I believe this leads to help in raising corporate value. I am convinced that the transition to "a company with an Audit & Supervisory Committee" will further enhance the governance of Noritz.

## Financial and Non-Financial Data Summary

	2008.12	2009.12	2010.12	2011.12	2012.12	2013.12	2014.12	2015.12	2016.12	2017.12	2018.12	2018.12
<b>Consolidated Statement of Income (Fiscal Year)</b>												
	(Millions of yen)											(Millions of U.S. dollars)
Sales	¥181,254	¥169,350	¥175,067	¥184,353	¥187,061	¥200,327	¥218,943	¥218,909	¥211,872	¥214,648	¥209,868	\$1,890
Cost of goods sold	129,765	119,909	121,135	129,928	133,008	140,773	150,599	147,543	141,498	145,064	143,170	1,290
Selling, general and administrative expenses	48,042	45,071	46,787	46,238	45,214	49,884	60,936	66,242	61,433	62,876	61,888	557
Operating income	3,445	4,369	7,144	8,186	8,839	9,670	7,407	5,123	8,940	6,708	4,809	43
Ordinary income	3,102	4,821	7,380	8,704	9,813	11,058	9,439	6,013	9,343	8,094	6,262	56
Net income (loss) attributable to stockholders of the parent company	(1,796)	838	3,843	4,798	5,979	6,387	3,479	(3,958)	4,654	5,402	5,778	52
<b>Consolidated Balance Sheet (End of Fiscal Year)</b>												
	(Millions of yen)											(Millions of U.S. dollars)
Net assets	79,993	81,449	83,419	85,621	92,724	109,673	118,244	113,731	111,477	121,531	114,053	1,027
Total assets	145,028	136,573	143,845	150,837	159,910	191,324	206,061	197,022	201,041	212,491	198,817	1,791
<b>Consolidated Cash Flows (Fiscal Year)</b>												
	(Millions of yen)											(Millions of U.S. dollars)
Cash flow from operating activities	7,904	12,416	12,613	9,777	11,167	9,673	13,476	13,116	17,238	8,376	9,046	81
Cash flow from investing activities	(3,742)	290	(2,898)	(9,028)	(7,340)	(10,430)	(14,658)	(6,346)	(6,423)	(8,574)	(1,380)	(12)
Cash flow from financing activities	(4,722)	(7,066)	(955)	(1,432)	(1,731)	(574)	(2,814)	(2,814)	(1,614)	(1,715)	(1,854)	(17)
Cash and cash equivalents at end of year	10,816	16,461	25,029	24,371	26,765	26,936	24,274	27,581	35,887	34,283	38,999	351
<b>Per Share Information</b>												
	(Yen)											(U.S. dollars)
Net assets	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	2,301.0	20.7
Net income (loss)	(37.6)	17.5	80.3	100.3	125.0	133.6	72.8	(82.8)	97.3	113.0	120.9	1.1
Dividends	28.0	28.0	28.0	30.0	30.0	30.0	32.0	32.0	32.0	32.0	32.0	0.3
<b>Management Indicators</b>												
	(%)											
Operating income to sales	1.9	2.6	4.1	4.4	4.7	4.8	3.4	2.3	4.2	3.1	2.3	
Equity ratio	55.0	59.6	58.0	56.8	58.0	55.8	55.0	55.6	53.4	55.1	55.3	
Return on assets (ROA)	-	0.6	2.7	3.3	3.8	3.6	1.8	-	2.3	2.6	2.8	
Return on equity (ROE)	-	1.0	4.7	5.7	6.7	6.4	3.2	-	4.3	4.8	5.1	
<b>Non-Financial Data</b>												
Number of employees (consolidated)	5,273	5,134	5,299	5,519	5,703	9,165	9,422	9,253	9,118	8,815	8,776	
Number of patents in Japan	934	850	743	767	842	904	921	940	1,081	1,076	1,114	
Number of domestic design patents	314	379	460	510	511	534	568	625	674	685	658	
CO <sub>2</sub> emissions reduction by our products (10,000 tons/year) * Including exports since 2016	48	48	64	82	99	111	117	118	267	277	264	
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	20,536	20,651	

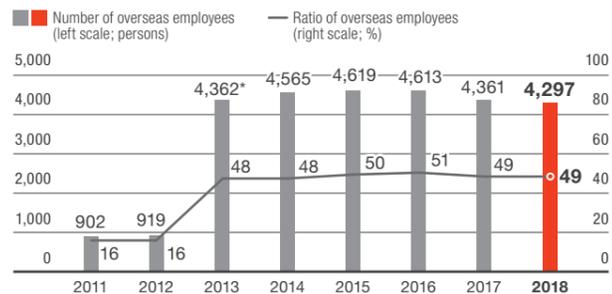
\* The stated yen amounts are rounded down to the nearest million yen.  
 \* Figures in yen have been translated into U.S. dollars solely for convenience and are based on the exchange rate of ¥111.02 = US\$1, announced by Sumitomo Mitsui Banking Corporation on December 28, 2018.

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

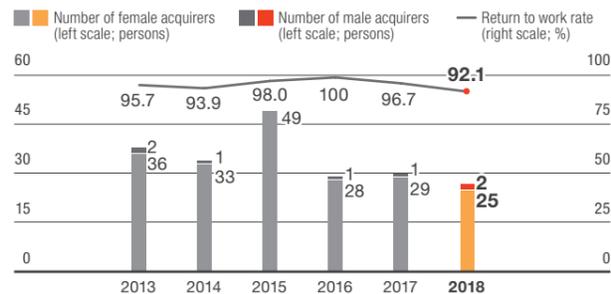
### Diversity-related Data

#### Overseas Employees

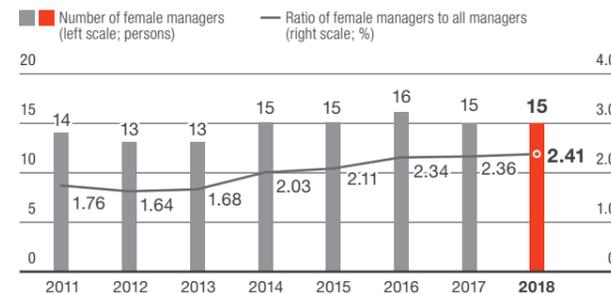


\* Capital participation in Sakura Bath & Kitchen Products (China) Co., Ltd. in 2013

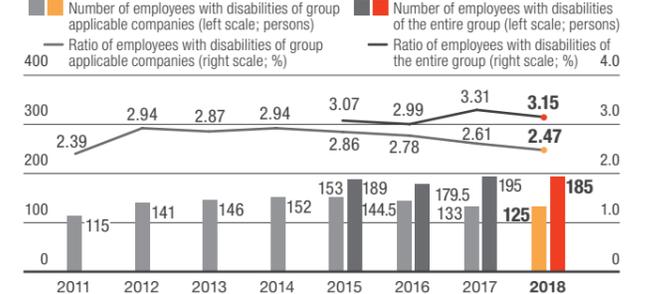
#### Number of Childcare Leave and Return to Work Rate (non-consolidated)



#### 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 2011-2013, 2.0% in 2014-2017, and 2.2% in 2018.

## Consolidated Balance Sheets

		(Millions of yen)		(Millions of U.S. dollars)			(Millions of yen)		(Millions of U.S. dollars)
Assets		2017.12	2018.12	2018.12	Liabilities		2017.12	2018.12	2018.12
Current assets	Cash and cash equivalents	¥35,018	¥39,278	\$354	Current liabilities	Notes payable and accounts payable	¥40,745	¥39,398	\$355
	Notes receivable and accounts receivable	45,483	44,510	401		Short-term borrowings	800	800	7
	Electronically recorded monetary claims	13,184	13,154	119		Other payables	10,984	10,489	95
	Securities	316	606	5		Accrued corporate income taxes	1,242	1,812	16
	Inventories	19,728	20,077	181		Reserve for bonuses	1,155	656	6
	Deferred tax assets	1,630	1,108	10		Reserve for bonuses for directors	51	52	0
	Others	4,912	5,186	47		Reserve for product warranties	980	853	8
	Allowance for doubtful accounts	(128)	(296)	(3)		Reserve for product accidents processing	87	43	0
	<b>Total current assets</b>	<b>120,146</b>	<b>123,626</b>	<b>1,114</b>		Others	9,234	8,526	77
Fixed assets	Tangible assets				<b>Total current liabilities</b>	<b>65,279</b>	<b>62,632</b>	<b>564</b>	
	Buildings and structures (net amount)	16,457	14,592	131	Fixed liabilities	Deferred tax liabilities	2,655	196	2
	Machinery and transport equipment (net amount)	6,773	6,302	57		Reserve for retirement bonuses for officers	49	56	1
	Land	9,503	9,486	86		Reserve for product warranties	4,324	2,548	23
	Construction in progress	660	870	8		Liabilities concerning retirement benefits	13,460	14,212	128
	Others (net amount)	2,587	2,474	22		Others	5,189	5,116	46
	<b>Total tangible assets</b>	<b>35,982</b>	<b>33,726</b>	<b>304</b>	<b>Total fixed liabilities</b>	<b>25,680</b>	<b>22,130</b>	<b>200</b>	
	Intangible assets				<b>Total liabilities</b>	<b>¥90,960</b>	<b>¥84,763</b>	<b>\$764</b>	
	Goodwill	634	480	4	<b>Net assets</b>				
	Others	7,388	6,467	58	Stockholders' equity	Capital	¥20,167	¥20,167	\$181
	<b>Total intangible assets</b>	<b>8,022</b>	<b>6,948</b>	<b>62</b>		Capital surplus	22,956	22,956	207
	Investments and other assets					Retained earnings	62,114	66,361	598
	Investments in securities	42,602	27,707	249		Treasury stock	(5,114)	(5,105)	(46)
	Long-term loans	738	737	7	<b>Total stockholders' equity</b>	<b>100,125</b>	<b>104,381</b>	<b>940</b>	
	Deferred tax assets	2,513	3,321	30	Cumulative amount of other comprehensive income	Other difference in securities valuation	17,908	8,193	74
	Others	2,656	2,907	26		Deferred hedge gains (losses)	0	(0)	(0)
	Allowance for doubtful accounts	(171)	(157)	(1)		Foreign currency translation adjustment	2,410	597	5
	<b>Total investments and other assets</b>	<b>48,339</b>	<b>34,516</b>	<b>311</b>		Cumulative amount of retirement benefits adjustments	(3,267)	(3,159)	(28)
	<b>Total fixed assets</b>	<b>92,344</b>	<b>75,190</b>	<b>677</b>	<b>Total cumulative amount of other comprehensive income</b>	<b>17,052</b>	<b>5,630</b>	<b>51</b>	
	<b>Total assets</b>	<b>¥212,491</b>	<b>¥198,817</b>	<b>\$1,791</b>	<b>Share acquisition rights</b>	<b>63</b>	<b>93</b>	<b>1</b>	
					<b>Noncontrolling interests</b>	<b>4,290</b>	<b>3,948</b>	<b>35</b>	
					<b>Total net assets</b>	<b>121,531</b>	<b>114,053</b>	<b>1,027</b>	
					<b>Total liabilities and net assets</b>	<b>¥212,491</b>	<b>¥198,817</b>	<b>\$1,791</b>	

## Consolidated Statements of Income

	(Millions of yen)		(Millions of U.S. dollars)
	2017.12	2018.12	2018.12
Sales	¥214,648	¥209,868	\$1,890
Cost of goods sold	145,064	143,170	1,290
Gross profit	69,584	66,698	600
Selling, general and administrative expenses	62,876	61,888	557
Operating income	6,708	4,809	43
Non-operating income	1,626	1,802	16
Non-operating expenses	241	349	3
Ordinary income	8,094	6,262	56
Extraordinary income	2,784	5,414	49
Extraordinary loss	3,096	1,603	14
Net income before tax adjustments	7,782	10,073	91
Income taxes	2,417	2,824	26
Income taxes deferred	(183)	1,255	11
Total income taxes	2,233	4,080	37
Net income	5,548	5,993	54
Net income attributable to noncontrolling stockholders of the parent company	146	215	2
Net income attributable to stockholders of the parent company	¥5,402	¥5,778	\$52

## Consolidated Statements of Cash Flow

	(Millions of yen)		(Millions of U.S. dollars)
	2017.12	2018.12	2018.12
Cash flow from operating activities	¥8,376	¥9,046	\$81
Cash flow from investing activities	(8,574)	(1,380)	(12)
Cash flow from financing activities	(1,715)	(1,854)	(17)
Effect of exchange rate changes on cash and cash equivalents	308	(1,095)	(10)
Net increase (decrease) in cash and cash equivalents	(1,604)	4,715	42
Cash and cash equivalents at beginning of year	35,887	34,283	309
Cash and cash equivalents at end of year	¥34,283	¥38,999	\$351

\* Figures in yen have been translated into U.S. dollars solely for convenience and are based on the exchange rate of ¥111.02 = US\$1, announced by Sumitomo Mitsui Banking Corporation on December 28, 2018.

## Consolidated Statements of Changes in Net Assets

	Stockholders' equity					Accumulated Other Comprehensive Income					Share acquisition rights	Noncontrolling interests	Total net assets
	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			
<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
<b>Total changes during the year</b>	-	-	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
<b>Changes during the year</b>													
Cash dividends			(1,529)		(1,529)								(1,529)
Net income attributable to stockholders of the parent company			5,778		5,778								5,778
Purchase of treasury stock				(2)	(2)								(2)
Disposal of treasury stock			(1)	10	9								9
Net changes in items other than stockholders' equity during the year						(9,714)	(1)	(1,813)	107	(11,421)	30	(342)	(11,732)
<b>Total changes during the year</b>	-	-	4,247	8	4,255	(9,714)	(1)	(1,813)	107	(11,421)	30	(342)	(7,477)
<b>Balance as of December 31, 2018</b>	¥20,167	¥22,956	¥66,361	¥ (5,105)	¥104,381	¥8,193	¥ (0)	¥597	¥ (3,159)	¥5,630	¥93	¥3,948	¥114,053

	Stockholders' equity					Accumulated Other Comprehensive Income					Share acquisition rights	Noncontrolling interests	Total net assets
	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			
<b>Balance as of December 31, 2017</b>	\$ 181	\$ 207	\$ 560	\$ (46)	\$ 902	\$ 161	\$ 0	\$ 21	\$ (29)	\$ 153	\$ 1	\$ 39	\$ 1,095
<b>Changes during the year</b>													
Cash dividends			(14)		(14)								(14)
Net income attributable to stockholders of the parent company			52		52								52
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						(87)	(0)	(16)	1	(103)	0	(4)	(106)
<b>Total changes during the year</b>	-	-	38	0	38	(87)	(0)	(16)	1	(103)	0	(4)	(68)
<b>Balance as of December 31, 2018</b>	\$ 181	\$ 207	\$ 598	\$ (46)	\$ 940	\$ 74	\$ (0)	\$ 5	\$ (28)	\$ 51	\$ 1	\$ 35	\$ 1,027

\* Figures in yen have been translated into U.S. dollars solely for convenience and are based on the exchange rate of ¥111.02 = US\$1, announced by Sumitomo Mitsui Banking Corporation on December 28, 2018.

## Stocks and Corporate Information

## Status of the Stocks (as of December 31, 2018)

Total Number of Authorized Shares

156,369,000

Total Number of Issued Shares

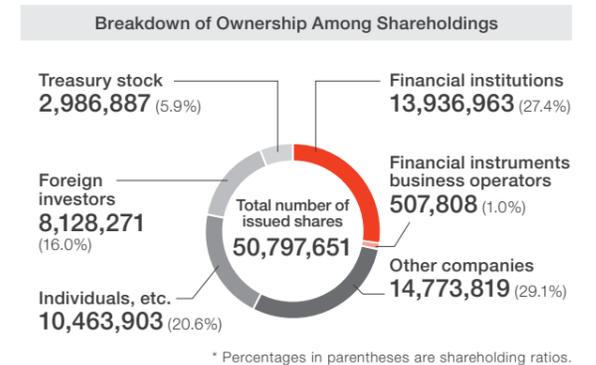
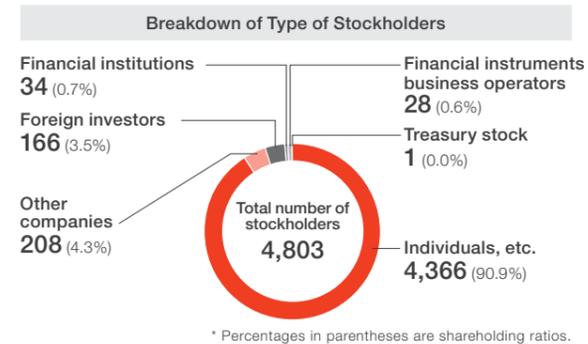
50,797,651

Number of Stockholders

4,803

Major stockholders		
Names	Number of shares held	Shareholding ratio (%)
The Dai-ichi Life Insurance Company Limited	2,303,100	4.82
Sumitomo Mitsui Banking Corporation	2,199,695	4.60
The Master Trust Bank of Japan, Ltd. (trust account)	1,828,000	3.82
Noritz Transaction Counterparties Stock Ownership Association	1,796,609	3.76
Chofu Seisakusho Co., Ltd.	1,520,000	3.18
The Chase Manhattan Bank, N.A. London	1,437,600	3.00
Toshiro Ota	1,350,100	2.82
Japan Trustee Services Bank, Ltd. (trust account)	1,320,800	2.76
Noritz Employee Stock Ownership Association	1,302,215	2.72
Noritz Transaction Counterparties Stock Ownership Association	1,134,900	2.37

\* Treasury stock of 2,986,887 shares owned by Noritz is not included in the above table.  
\*\* Treasury stock of 2,986,887 shares is not included in calculating the shareholding ratio.



## Noritz Group's Network



More on Noritz Group's network (Japanese only)



## Our thoughts in publishing NORITZ REPORT 2019

This is the fifth 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 integration of corporate management and CSR. More details are available on our corporate website.

NORITZ REPORT Production Team



More on Noritz's CSR initiatives on the corporate website (Japanese only)

Company Profile	
Company Name	Noritz Corporation
Established	March 1951
Headquarters	Eiko Building, 93 Edo-machi, Chuoku, Kobe, Hyogo, Japan
Capital	¥20,167 million
President and CEO	Soichiro Kokui
Number of Employees	2,794 (non-consolidated) 8,776 (consolidated)
Listed Stock Exchange	Tokyo Stock Exchange, First Section
Securities Code	5943

## About the contents of this report

Reporting Period	2018 (from January 1, 2018 to December 31, 2018) * Some activities in 2019 are also included.
Scope	Initiatives taken in Japan are the main content of the NORITZ REPORT 2019. 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.
Referenced guidelines	IIRC Integrated Reporting Framework, SDGs, ISO26000, GRI "Sustainability Reporting Guideline" Standard, SASB Standard, United Nations Global Compact, Keidanren (Japan Business Federation) Charter of Corporate Behavior, METI's Guidance for Collaborative Value Creation
Last issued	The Japanese version in April 2018 and the English version in July 2018
Next scheduled issue date	The Japanese version in April 2020 and the English version in July 2020

**About future plans and forecasts**  
All the plans or strategies of Noritz and Noritz Group as of March 31, 2019 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.