

new plan

Corporate Governance

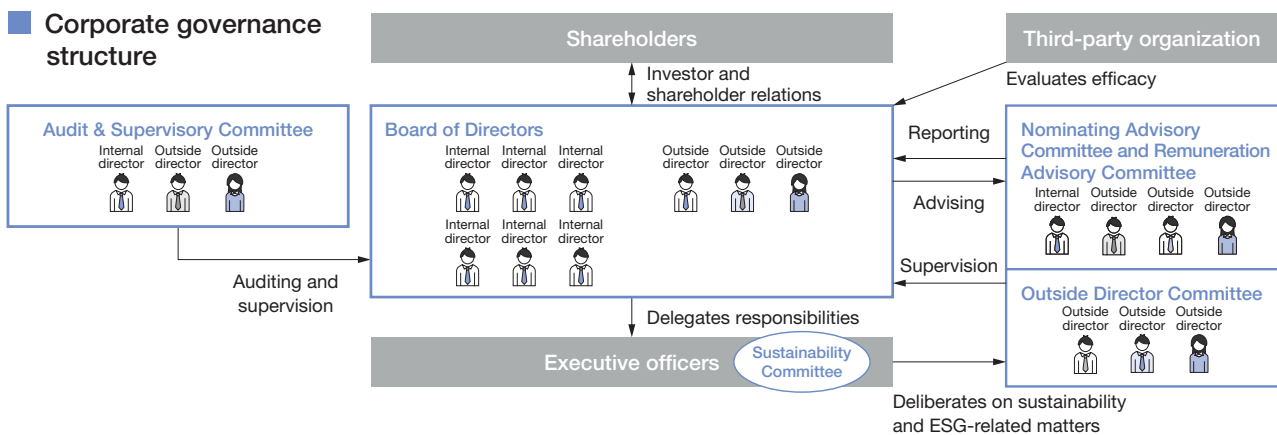
Corporate governance system

Assigning responsibilities to speed up decision-making and strengthen supervision

Noritz has established an Audit & Supervisory Committee for the purpose of effectively balancing management execution and supervision. Furthermore, although it is not mandatory in Japan, the Company has voluntarily established a Nominating Advisory Committee, Remuneration Advisory Committee, and Outside Officer Committee to strengthen its corporate

governance system and the supervisory role of outside directors. The Nominating Advisory Committee and Remuneration Advisory Committee provide pertinent advice and guidance to the Board of Directors, and a majority of their members are outside directors. The Outside Officer Committee is comprised exclusively of outside directors.

Corporate governance structure



Enhancing the effectiveness of the Board of Directors

Making improvements based on evaluation results

Noritz has been assessing the effectiveness of its Board of Directors since 2017, and began having the results evaluated and analyzed by a third-party organization in 2021. Based on the evaluation results for 2022, a number of issues to address were specified for improving the Board's effectiveness in 2023.

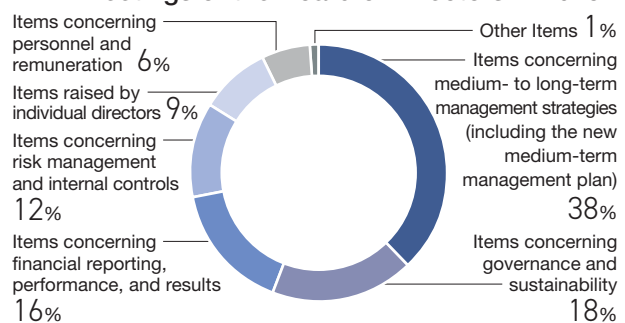
One issue was to increase opportunities for discussing medium- to long-term management strategies. Accordingly, this topic was included in the Board's agenda throughout 2023 along with deliberations on the new medium-term management plan. Consequently, discussions of medium- to long-term management strategies accounted for almost 40% of time spent in meetings of the Board. Another matter to address was to more effectively monitor the Board. Therefore, regular meetings of outside officers were organized to give outside directors a more constructive role.

Finally, the Company's advisory bodies recommended measures for strengthening the Board's independence and objectivity. Specifically, the Nominating Advisory Committee gave advice on how to effectively select director candidates,

and the Remuneration Advisory Committee recommended the adoption of a medium-term incentive stock plan with performance share units.

In 2024, the Company will continue to enhance the effectiveness of its Board of Directors by taking necessary steps to address issues identified in the evaluation results for 2023.

Breakdown of time devoted to agenda items in meetings of the Board of Directors in 2023



Issues being addressed in 2024 to improve the Board's effectiveness

- (1) Systematically plan agenda items and increase opportunities to discuss management issues to which more time should be devoted
- (2) Monitor the Board by reviewing important decisions it made in the past and verifying what progress has been made
- (3) Deliberate on enterprise risk management and manage risks on a group-wide basis

Sustainability management under the new plan

Corporate governance

Strengthening internal controls

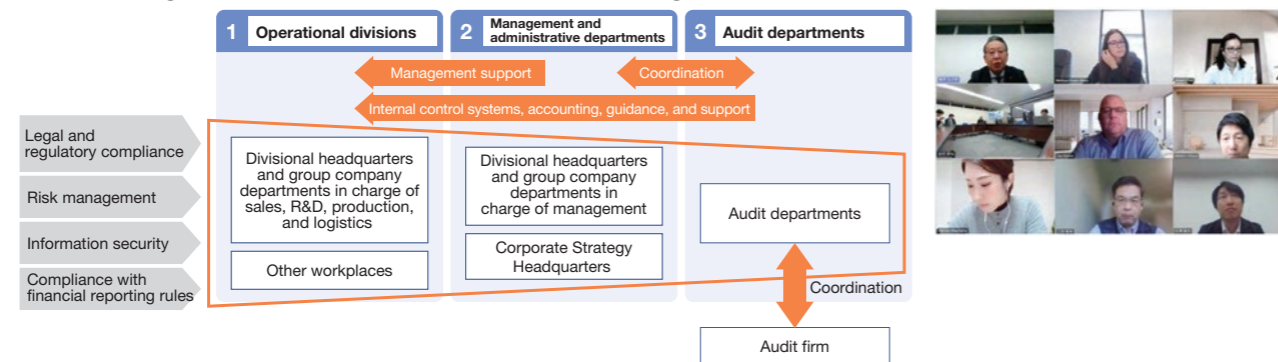
An internal control system bolstered by three sets of organizations

The Noritz Group works to strengthen its internal control system across three sets of organizations: operational divisions, management and administrative departments, and audit departments. The Group initiated an annual assessment of internal controls based on new evaluation standards to ensure that its audit departments can assess internal controls independently. Based on the results, internal controls have been made more effective across all three sets of organizations under the system. Noritz updated its guidebook on group-wide management standards, first issued in 2018, to include necessary internal control guidelines related to IT, information security, and personnel, in addition to financial and legal

compliance issues. Revisions were also made for group companies outside Japan based on new laws and regulations in their respective countries, and explained to relevant personnel in video conferences.

Aiming to strengthen corporate governance outside Japan, the Group began holding meetings at each subsidiary to discuss governance-related risks and concerns. These discussions provided opportunities to spread awareness of corporate governance and deepen relationships throughout the Group. The meetings will be held annually going forward as a means to enhance the Group's corporate governance system.

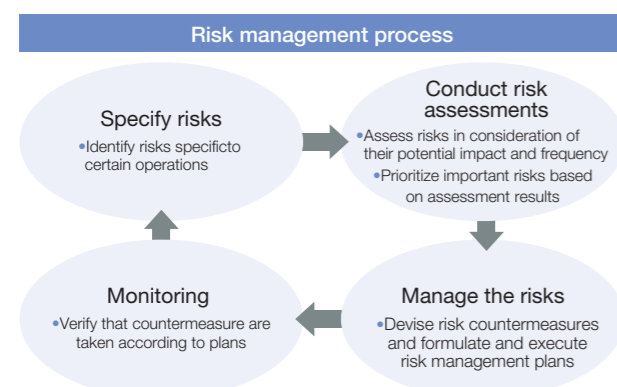
Executing internal controls across three sets of organizations



Enterprise risk management

Promoting a unified approach to managing risks throughout the Group

The Noritz Group is implementing enterprise risk management (ERM) in order to ensure sustainable operations. Noritz's Board of Directors has specified a unified group-wide approach to ERM and integrated it with its management strategies. On this basis, the entire Group manages risks not only to prepare for the types of crises that have occurred in the past, but also to ensure business continuity and expansion going forward.



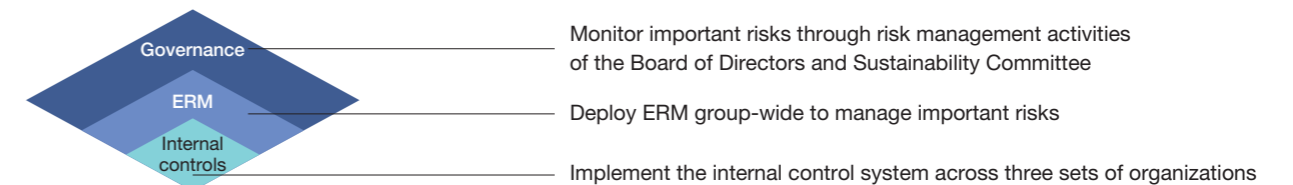
Based on its risk management process and the result of quantifying the potential impact of risks in 2023, the Group recognized a suspension of production and business activities as a risk that could seriously impact its performance, and, therefore, specified and evaluated related risks that could impact operations in each value chain. To prevent such serious risks from materializing and to limit the duration of any suspension of operations, the Group will create business continuity plans and systems for resuming operations as quickly as possible. By focusing on risk management scenarios in this way, the Group refined its risk management system, enabling it to more effectively identify serious risks that could impact its operations as a whole.

Integrating important group-wide risks, governance, ERM, and internal controls

Important risks for the Noritz Group	1. Supply chain disruptions 2. IT and information security breaches 3. Product defects
	4. Difficulties in securing human resources 5. Incompatibility with product standards outside Japan 6. Problems resulting from hazardous substances 7. Difficulties in launching products in new countries


The Group's risk management process begins with the identification of risks specific to each operational division. The Board of Directors then determines which of these risks could have a serious impact on the Group as a whole. These risks are monitored by the Sustainability Committee, which meets twice annually, the Board of Directors, and by outside directors. As risks associated with changes in the Group's operating environment become increasingly serious, such as declining

product demand in Japan and growing calls for decarbonization, new business initiatives are increasingly needed. In this context, important risks for the Noritz Group include potential difficulties in releasing products in new markets, which ties into its management strategies and material issues. To address these risks, the Group is setting up a risk management system integrated with its governance system, ERM, and internal controls.



Message from an outside director

We will continue discussing how to respond to the needs of stakeholders while aiming to expand the Group's businesses.



Yasuhiro Tani
Outside director and member of the Audit & Supervisory Committee

Since my appointment as an outside director and member of the Audit & Supervisory Committee, I have helped monitor and advise management from an independent standpoint, drawing on my experience as a certified public accountant, tax attorney, and securities analyst.

As part of these duties, I participated in meetings with institutional investors in April 2023, and they were particularly interested in the Company's price-to-book ratio. In response, I initiated a discussion by the Board to start formulating a management policy aimed at improving this ratio during the period of our medium-term management plan.

Besides such financial matters, we must address major issues on the ESG front. Most important among them is reducing GHG emissions. By 2030, Noritz must achieve its targets of reducing CO₂ emissions from products at the usage stage by 30%, and from manufacturing operations by 50% (compared with levels in 2018). These are challenging targets, but achieving them will be essential for the Company to respond to today's expectations and reflect its position in the industry. Turning to corporate governance, after updating its internal control standards for the first time in 16 years, Noritz has adopted enterprise risk management. The Board will need to make steady progress toward establishing

a robust and flexible system in order to enhance the Group's sustainability going forward.

For the Group to expand its business in the future, it must focus more than ever on growth markets around the world and augment its global strategies accordingly. In that process, the quality of audits conducted at subsidiaries in various countries should be steadily improved, regardless of differences in language, business practices, and legal systems. Therefore, when executing the audit plans of our internal audit departments, I believe a great deal of progress can be made by co-sourcing with locally based auditing firms and submitting reports to the Board of Directors.

Our new medium-term management plan commenced in 2024, and to successfully carry it out, we will need to confirm that everything is proceeding on schedule. If anything is delayed, we must determine the reasons why and promptly take countermeasures. In the evaluation of the Board's effectiveness, I proposed placing more importance on reviewing and monitoring the results of decisions previously made by the Board while respecting rules concerning management responsibilities. I expect the Board to reach a consensus on this and takes steps to realize it.