

Consolidated Results 2013

1. Highlights of the Year

- * Consolidated net sales increased 7.1%, to a record-high ¥200.3 billion (up for the fourth consecutive year)**
 - Domestic business: Sales boosted by growth in water heaters, kitchen equipment, and new energy businesses
 - Overseas business: Significant increase in sales thanks to growth in China

- * Operating income rose 9.4%, to a record-high ¥9.6 billion (up for the fourth consecutive year)**
 - Operating margin: 4.8% (up 0.1 percentage point)

- * Net income climbed 6.8%, to a record-high ¥6.3 billion (up for the fourth consecutive year)**
 - ROE: 6.4% ROA: 3.6%

2. Strategic Highlights

* Implemented growth strategies

- Expanded business in highly eco-friendly, energy-efficient products; transformed Sakura China Co., Ltd. into a consolidated subsidiary

* Reinforced the operational foundation

- Promoted standardization of parts to reduce costs

3. Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2011, 2012, and 2013

Millions of yen

	2011	2012	2013
Fiscal Year:			
Net sales	¥184,353	¥187,061	¥200,327
Operating income	8,186	8,839	9,670
Operating margin	4.4	4.7	4.8
Net income	4,798	5,979	6,387
Net cash provided by operating activities	9,777	11,167	9,673
Net cash used in investing activities	(9,028)	(7,340)	(10,430)
Net cash used in financing activities	(1,432)	(1,731)	(574)
Cash and cash equivalents	24,371	26,765	26,936
Capital expenditures	5,896	5,898	5,881
Depreciation and amortization	7,773	6,312	8,829
At Fiscal Year-End:			
Total assets	¥150,837	¥159,910	¥191,324
Net assets	85,621	92,724	109,673
Per Share Data:			
Net income	¥ 100.34	¥ 125.04	¥ 133.58
Cash dividends	30.00	30.00	30.00
Net assets	1,790.34	1,938.84	2,230.97
Financial Ratios (%):			
Return on equity (ROE)	5.7	6.7	6.4
Return on assets (ROA)	3.3	3.8	3.6
Equity ratio	56.8	58.0	55.8

Performance by Segment

Domestic Business

In the Domestic Business, sales edged down 0.0%, to ¥173.1 billion, and operating income declined 7.8%, to ¥7.9 billion.

The water heater and air-conditioning equipment segment benefited from a high level of demand amid moderate economic recovery. Against this background, the Noritz Group actively launched new products and increased unit sales of highly eco-friendly, energy-efficient offerings, including its highly efficient *ECO JOZU* (gas-related) and *EcoFeel* (kerosene-fired) water heaters. In September 2013, we unveiled Japan's smallest (as of July 2013) hybrid water and room heating system featuring the latest heat pump technologies.

In the kitchen equipment segment, demand for built-in gas cooking stoves was healthy thanks to diversification of household energy uses since the Great East Japan Earthquake. New products with improved safety and cooking functions were well received, and unit sales of built-in gas cooking stoves increased as a result.

In the new energy segment, where demand for solar power generation systems has been growing, we introduced high-output, high-efficiency solar cell modules. Unit sales of solar power generation systems increased as a consequence. During the year, two of our operations—the Kobe Port Solar Power Station and the Kakogawa Factory—entered the electric power selling business with the launch of large-scale solar power generation (mega-solar) operations.

In the household system equipment segment, we took advantage of continued solid demand by launching new products and highlighting the distinctive aspects of our offerings. As a result, unit sales increased in the second half of the period.

Domestic Business:

	Billions of yen		
	2011	2012	2013
Fiscal Year:			
Sales			
Water heater and air-conditioning equipment	¥ 112.1	¥ 113.8	¥ 114.2
New energy	7.1	9.6	10.1
Household system equipment	18.1	16.4	15.5
Kitchen equipment	26.0	25.4	26.8
Others	6.8	7.3	6.3
Total	170.4	172.7	173.1

Overseas Business

In the Overseas Business, sales jumped 70.7%, to ¥27.2 billion, and operating income surged 812.8%, to ¥1.6 billion.

In China, we faced some challenges, including measures by the national government to hold down real estate prices. Nevertheless, we stepped up promotion of high-function products, expanded our sales territories, and actively tapped new sales channels, achieving significant sales growth in China as a result.

In North America, we benefited from an economic upturn highlighted by recovery in housing sales. In response, we launched an instant-heating (tankless) water heater with a capacity of 20 liters/minute, the first of its kind in the region. We also increased sales of highly eco-friendly, energy-efficient products.

*Performance by Segment figures are from managerial accounts and not from financial accounts.

Overseas Business:

	Billions of yen		
	2011	2012	2013
Fiscal Year:			
Sales			
China	¥ 7.0	¥ 7.6	¥ 19.2
North America	3.7	4.1	5.1
Others	3.0	2.5	2.8
Total	13.8	14.3	27.2

4. Medium-Term-Business Plan

The Noritz Group is currently implementing V-Plan 16, a six-year business plan running from January 2011 to December 2016. The core objectives of the plan are to improve the Group's profitability and enhance capital efficiency. Under the plan, we are targeting a consolidated operating margin of 6% or higher and consolidated ROE of 8% or higher.

Medium- and Long-Term Strategies

The Group vision of V-Plan 16 is to "stimulate new levels of happiness, bring smiles to people around the world, and pursue fulfilling lifestyles." Guided by the plan, the Group will emphasize improvements in customer satisfaction levels by focusing on five keywords: environment, safety, comfort, health, and beauty.

In Japan, we will target proliferation of highly eco-friendly, energy-efficient offerings, especially in the water heater and air-conditioning equipment segment, with the aim of fostering initiatives to protect the global environment. We will also expedite efforts to proliferate our highly efficient *ECO JOZU* gas water heaters, and plan to raise the share of such products in overall gas water heater sales to 50% by 2016. In addition, we will promote our hybrid water and room heating system, which uses atmospheric heat and gas energy to produce hot water, and we will actively develop new offerings, such as fuel cells and gas electricity generation and water and room heating systems that use the power of gas to produce electricity and hot water. In the meantime, we will target growth in the new energy segment by developing and expanding sales of solar power generation systems and solar water heaters that fully utilize the unlimited energy of the sun.

The kitchen equipment segment is positioned as the Group's second income-producing business after water heater and air-conditioning equipment. In this business, we are working to expand sales of gas cooking stoves and other kitchen equipment while cutting costs. In the household system equipment segment, we are developing highly distinctive products.

Overseas, we are drawing on our technical expertise amassed in Japan, where we have a record as a reliable provider of hot water. Drawing on this strength, we are working to increase revenue and earnings in China and North America, where we are advancing our own brand of instant-heating systems, while tapping new OEM partners. In China, we will seek to expand our business by maximizing synergies with Sakura China Co., Ltd., which is now a consolidated subsidiary.

Medium-Term-Business Plan

	Billions of yen		
	2013	2014 (est.)	2016 (est.)
Net sales	¥ 200.3	¥ 220.0	¥ 250.0
Operating income	9.6	10.5	15.0
Operating income ratio	4.8%	4.8%	6.0%
Net income	6.3	6.8	10.0
ROE	6.4%	6.1%	8.0%
ROA	3.6%	3.2%	4.0%

5. Progress of the Medium-Term Business Plan

* Domestic highlights

- Growing sales of *ECO JOZU* and solar power generation systems
- Launch of hybrid water and room heating systems
- Standardization of parts across water heater products

* Domestic highlights

- Strengthen cost-competitiveness of the kitchen equipment segment
- Improve profitability of the household system equipment segment

* Overseas highlights

- Growing business in the Chinese market
- Reduced fixed costs in North America
- M&A success with Sakura China Co., Ltd.

* Overseas challenges

- Tap new sales territories
- Develop distinctive new products
- Target synergies between Sakura China Co., Ltd. and Noritz (China) Co., Ltd.

Medium-Term Business Plan

	2014 (est.)	2016 (est.)
Net sales	¥ 220.0	¥ 250.0
Domestic	175.0	190.0
Overseas	45.0	60.0
Operating income	10.5	15.0
Domestic	8.5	11.4
Overseas	2.0	3.6
Net income	6.8	10.0

Billions of yen

6. Medium-Term Business Plan: Second Half (2014–2016)

External Conditions

Domestic Business

- Growing sentiment toward environment and energy-saving; upgrading of various support measures
- Demand for gas and kerosene-fired water heaters to remain high
- Decline in new housing starts
- Impact of the weak yen

Concern about rising costs despite steady market conditions

Overseas Business

* China

- Economic growth, though slowing, to be in the high 7% range through 2014
- Expanding market for online sales
- Increases in the minimum wage

Global competition to accelerate despite overall market growth

* North America

- Economy on the recovery path
- Housing market recovering
- Growing demand for condensing-type products

Global competition to accelerate despite overall market growth

Domestic Business Initiatives

	Billions of yen		
	2013	2014 (est.)	2016 (est.)
Fiscal Year:			
Water heater and air-conditioning equipment			
Segment sales	¥ 116.5	¥ 117.0	¥ 125.0
Sales of new products	2.5	4.5	13.0
ECO JOZU sales (% of segment sales)	36.9	43	50
New energy			
Segment sales	¥ 7.8	¥ 10.0	¥ 13.0
House hold			
Segment sales	¥ 15.5	¥ 15.0	¥ 16.0
Kitchen equipment			
Segment sales	¥ 26.8	¥ 27.0	¥ 31.0
Total			
Segment sales	¥ 173.1	¥ 175.0	¥ 190.0

Overseas Business Initiatives

	Billions of yen		
	2013	2014 (est.)	2016 (est.)
Fiscal Year:			
Sales in China	¥ 19.2	¥ 37.0 (2.6 times)	¥ 50.0
Sales in North America	5.1	5.5	7.2
Sales in Other area	2.8	2.5	2.8
Total	27.2	45.0	60.0

7. Financial Position

As of December 31, 2013, the Noritz Group had total assets of ¥191,324 million, up ¥31,414 million from a year earlier. Current assets rose ¥9,960 million, to ¥111,041 million, due mainly to increases in notes and accounts receivable and inventories. Total noncurrent assets grew ¥21,454 million, to ¥80,283 million.

Total liabilities climbed ¥14,465 million, to ¥81,651 million, due mainly to an increase in notes and accounts payable.

Net assets (including minority interests) rose ¥16,949 million, to ¥109,673 million.

8. Cash Flows

As of December 31, 2013, the Noritz Group had cash and cash equivalents of ¥26,936 million, up ¥171 million from a year earlier.

Net cash provided by operating activities amounted to ¥9,673 million, down ¥1,494 million from the previous year. Major factors included ¥9,545 million in income before income taxes, ¥5,881 million in depreciation, and ¥4,122 million in income taxes paid, as well as a ¥1,316 million increase in inventories and a ¥985 million decrease in trade notes and accounts payable.

Net cash used in investing activities totaled ¥10,430 million, up ¥3,090 million from the previous year. Main factors included ¥7,131 million in additions to property, plant, and equipment and ¥5,509 million in purchase of shares in a subsidiary.

Net cash used in financing activities was ¥574 million, down ¥1,157 million from the previous year. Main factors included ¥1,481 million in dividends paid and a ¥976 million net increase in short-term bank loans.

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