NORITZ

Consolidated Results 2014

1. Consolidated Performance Overview

* **Revenue up for the year, but earnings down due to weak domestic business; operating income target (announced November 2014) nearly reached**
  - Consolidated net sales: ¥218.9 billion (9.3% year on year)
  - Domestic Business: Sales and operating income down, impacted by consumption tax hike and yen's depreciation
  - Overseas Business: Increased sales in all regions, including China and North America
  - Extraordinary losses of ¥4.1 billion (including cost of recalling bathroom heater/dryers and loss on liquidation of residential solar power generation system business)

* **Operating income: ¥7.4 billion (-23.4% year on year)**
* **Net income: ¥3.4 billion(-45.5% year on year)**

2. Main Initiatives

* Steady growth in overseas business; solid preparation for future

- Healthy growth in China and North America
- Frameworks established for future growth, including acquisition of Dux Manufacturing Limited in Australia

* Liquidation of unprofitable domestic business

- Withdrawal from residential solar power generation system business

3. Message from President

Overall, the year under review saw an increase in revenue and a decrease in earnings. However, it was year in which we identified initiatives for future growth and achieved steady outcomes.

There are several highlights I would like to explain. First, revenue and earnings from our domestic business declined—due to a slowdown in economic recovery stemming from the consumption tax hike, as well as sharply fluctuating foreign exchange rates—while we posted increased revenue and earnings in our overseas business, which was healthy across all regions. In the Domestic Business, sales declined 1.9%, to ¥169.8 billion, and operating income fell 29.1%, to ¥5.6 billion. In the Overseas Business, by contrast, sales jumped 80.2%, to ¥49.0 billion, and operating income rose 5.9%, to ¥1.7 billion. Main factors boosting revenue was the full-year inclusion in consolidated results of Sakura China Co., Ltd., which became a subsidiary in 2013, as well as expansion of the geographical sales coverage of Noritz (China) Co., Ltd.

Second, we effectively deployed business resources to acquire Dux Manufacturing Limited, Australia's second-largest maker of electric and gas tank-based water heaters. In the process, we lay the groundwork for future growth in the region.

Third, we decided to withdraw from the residential solar power generation system business, for which we cannot expect future growth due to worsening market conditions. (We plan to cease production and sales by the end of 2015.)

In light of expedited growth in our Overseas Business and the market environment in China, the driver of that growth, we have revised our targets for fiscal 2016 set under our medium-term business plan. Noritz was founded in 1951 with the philosophy that "bath makes markets people us happy." We have since worked to highlight the appeal of Japan's hot bath culture and raise people's living standards. Now, more than 60 years later, this philosophy remains unchanged. The Noritz Group, with operation that transcend hot water, will transform itself into the future based on the themes of environment, safety, comfort, health, and beauty. Please join us on this exciting journey.

4. Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2012, 2013, and 2014

Millions of yen

	2012	2013	**2014**
Fiscal Year:			
Net sales	¥187,061	¥200,327	**¥218,943**
Operating income	8,839	9,670	**7,407**
Operating margin	4.7	4.8	**3.4**
Net income	5,979	6,387	**3,479**
Net cash provided by operating activities	11,167	9,673	**13,476**
Net cash used in investing activities	(7,340)	(10,430)	**(14,658)**
Net cash used in financing activities	(1,731)	(574)	**(2,814)**
Cash and cash equivalents	26,765	26,936	**24,274**
Capital expenditures	6,312	8,829	**8,3**
Depreciation and amortization	5,898	5,881	**7,068**
At Fiscal Year-End:			
Total assets	¥159,910	¥191,324	**¥206,061**
Net assets	92,724	109,673	**118,244**
Per Share Data:			
Net income	¥ 125.04	¥ 133.58	**¥ 72.76**
Cash dividends	30.00	30.00	**32.00**
Net assets	1,938.89	2,230.97	**2,372.13**
Financial Ratios (%):			
Return on equity (ROE)	6.7	6.4	**3.2**
Return on assets (ROA)	3.8	3.6	**1.8**
Equity ratio	58.0	55.8	**55.0**

Performance by Segment

Consolidated net sales rose 9.3%, to ¥218.9 billion. Despite efforts to increase sales of high-value-added products and cut costs, operating income declined 23.4%, to ¥7.4 billion, impacted by the consumption tax hike.

Domestic Business

In the Domestic Business, sales declined 1.9%, to ¥169.8 billion, and operating income fell 29.6%, to ¥5.6 billion.

In the water heater and air-conditioning equipment segment, we upgraded our product lineup with the launch of the RC-D100 series of remote controls in March 2014 and the OTQ-C4704 series of high-efficiency kerosene-fired water heaters in September 2014. We also strengthened sales of highly efficient ECO JOZU (gas-related) and EcoFeel (kerosene-fired) water heaters, promoting our eco-friendly offerings as the de facto standards for the industry.

In the kitchen equipment segment, we launched Smart Konro, a revolutionary built-in gas cooker, in September 2014 and promoted sales in tandem with a TV commercial campaign. We also pushed the concept of combining range hoods and cookers in set formats.

In the household system equipment segment, where demand languishes, we stepped up proposal-based sales activities centered on system kitchens suited to specific-size renovations, as well as system bathrooms featuring highly popular cleansing bathtubs.

In the new energy segment, we sought to expand our network of retail partners and sell our offerings in sets combined with other products.

Domestic Business:

Billions of yen

	2012	2013	**2014**
Fiscal Year:			
Sales			
Water heater and air-conditioning equipment	¥ 118.6	¥ 116.5	**¥ 114.7**
New energy	4.7	7.8	**7.5**
Household system equipment	16.4	15.5	**14.2**
Kitchen equipment	25.4	26.8	**26.5**
Others	7.3	6.3	**6.8**
Total	172.7	173.1	**169.8**

Overseas Business

In the Overseas Business, sales jumped 80.2%, to ¥49.0 billion, and operating income rose 5.9%, to ¥1.7 billion. Despite the impact of government measures to control real estate prices in China, this segment benefited from the full-year contribution of Sakura China in consolidated results. Other factors included expansion of the geographical sales coverage of Noritz (China) beyond Shanghai and an increase in sales of high-value-added products. In North America, where market conditions are turning upward, we actively introduced products that contribute to environmental protection and broadened sales as a result. In Australia, moreover, we effectively deployed business resources to acquire Dux Manufacturing Limited, the second-largest maker of electric and gas tank-based water heaters in Australia. In the process, we laid the groundwork for future growth in the region.

Overseas Business:

Billions of yen

	2012	2013	**2014**
Fiscal Year:			
Sales			
China	¥ 7.6	¥ 19.2	**¥ 39.8**
North America	4.1	5.1	**5.8**
Others	2.5	2.8	**3.3**
Total	14.3	27.2	**49.0**

5. 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. In light of domestic market conditions, we are targeting a consolidated operating margin of 4.0% or higher and consolidated ROE of 5.7% or higher for fiscal 2016 under the plan.

Medium- and Long-Term Strategies

The Group vision of V-Plan 16 is to "The Simple Comforts of Life." 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 electricity generation and hot water and room heating systems.

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, 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

	Original Plan 2016 (est.)	Revised Plan 2016 (est.)
Net sales	¥ 250.0	¥ 250.0
Operating income	15.0	10.0
Operating income ratio	6.0%	4.0%
Net income	10.0	6.8
ROE	8.0%	5.7%
ROA	4.0%	3.0%

6. Financial Position

As of December 31, 2014, the Noritz Group had total assets of ¥206,061 million, up ¥14,737 million from a year earlier. Current assets rose ¥3,201 million, to ¥114,242 million, due mainly to increases in securities and inventories. Total noncurrent assets grew ¥11,536 million, to ¥91,819 million.
Total liabilities climbed ¥6,165 million, to ¥87,816 million, due mainly to an increase in liabilities related to retirement benefits and a rise in deferred tax liabilities.
Net assets (including minority interests) rose ¥8,571 million, to ¥118,244 million.

7. Cash Flows

As of December 31, 2014, the Noritz Group had cash and cash equivalents of ¥24,274 million, down ¥2,662 million from a year earlier.
Net cash provided by operating activities amounted to ¥13,476 million, up ¥3,803 million from the previous year. Major factors included ¥5,421 million in income before income taxes, ¥7,068 million in depreciation, and a ¥3,287 million decrease in trade notes and accounts payable.
Net cash used in investing activities totaled ¥14,658 million, up ¥4,228 million from the previous year. Main factors included ¥6,875 million in additions to property, plant, and equipment and ¥4,662 million in purchase of shares in a subsidiary.
Net cash used in financing activities was ¥2,814 million, up ¥2,240 million from the previous year. Main factors included ¥1,457 million in dividends paid and a ¥1,278 million net decrease in short-term bank loans.