



NORITZ CORP.

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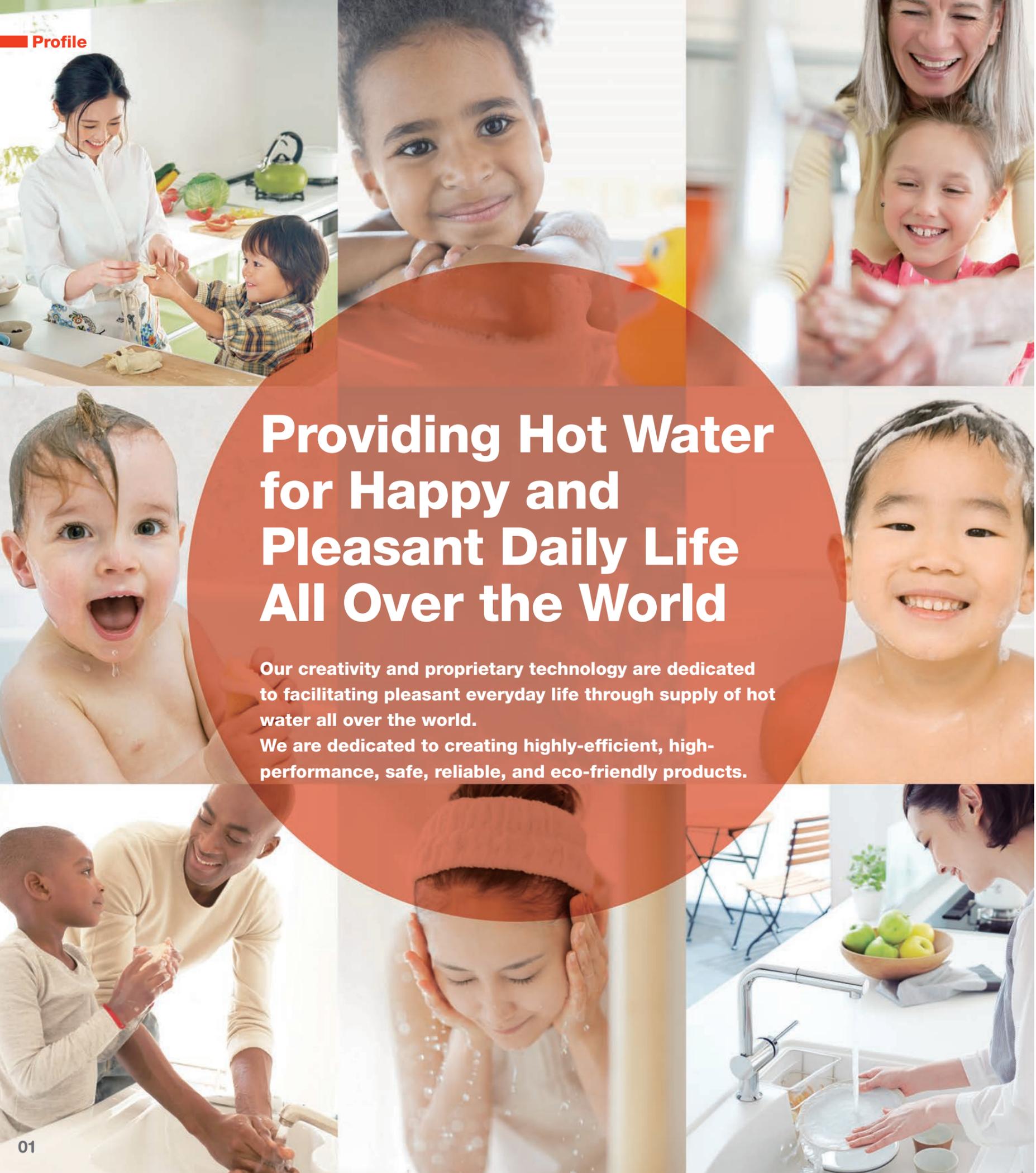
NORITZ REPORT 2016

* Information in this report is deemed accurate as of March 2016. 1607-08



**NORITZ
REPORT
2016**

NORITZ CORP.



Providing Hot Water for Happy and Pleasant Daily Life All Over the World

Our creativity and proprietary technology are dedicated to facilitating pleasant everyday life through supply of hot water all over the world.

We are dedicated to creating highly-efficient, high-performance, safe, reliable, and eco-friendly products.

Corporate Philosophy



Making your life a happy and safe oasis with hot water

Philosophy Framework

Corporate Philosophy

Noritz Group Core Standards

1. To provide customers with safe and reliable products.
2. To provide customers with value.
3. To engage in fair and transparent corporate activities.
4. To protect the global environment and human lives.

Noritz Group 3C

- | | |
|-----------|----------------------|
| CHANGE | We keep CHANGING. |
| CHALLENGE | We keep CHALLENGING. |
| CREATE | We keep CREATING. |

Noritz Group Corporate Ethical Values

1. Compliance with and strict adherence to laws and regulations.
2. Actions based on high moral and ethical standards.
3. Fairness in business practices.

Noritz Group CSR Awareness

1. Recognition of the international guidelines regarding the sustainable development of the society.
2. Strive to play a positive role in solving social issues.
3. Cooperate with the local community.

Core Values

3 C

Ethical Values

Noritz Group Code of Ethics, CSR Awareness

¥250B
2.5M housing units

Noritz, after significant contributions to Japan's tradition of home bathing and cleanliness, is now expanding abroad

The overseas expansion footprint of Noritz began from China in 1993. Since then, we have expanded our sales fields to Asia & Oceania, North America, South America and Europe, to add a new growth dynamism to the corporate group. We are now holding up to the world our byword, "To create happiness with hot water." We are directing our resources to achieve growth on the global stage.

¥200B
2.0M housing units

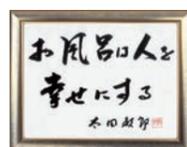
¥150B
1.5M housing units

¥100B
1.0M housing units

¥50B
0.5M housing units

1951

"Noritsu Bath Industry" was established in Kobe.



1990

Opened the Akashi Main Factory and Training Center in Akashi.

1956

Opened an R&D center within the Hyogo Prefecture Technology Research Institute, near Kobe.



1984
Adopted a corporate identify program and changed the corporate logo.

1962

Established the Akashi Factory in Akashi, near Kobe and began in-house manufacturing.



1968

Renamed to "Noritsu Corporation."

1993
Began global expansion.

2001

Made capital participation in and began business tie-up with Harman Co., Ltd. and Harman Pro Co., Ltd., based in Osaka.



2002

Established Noritz America Corp. in California.

2004

- Established Noritz Hong Kong Co., Ltd.
- Established Noritz (Shanghai) Home Appliance Co., Ltd.

2005

Established Noritz (China) Co., Ltd.



2009

Acquired the first "Eco-First Company" certification awarded to a gas and kerosene appliance manufacturer.

1993

Established a joint venture in Shanghai, China.



2012

Signed the UN Global Compact.



2013

Made capital participation in Sakura Bath & Kitchen Products (China) Co., Ltd., a Chinese housing equipment manufacturer.



2014

- Acquired Dux Manufacturing Limited, an Australian water heater manufacturer.
- Unified the kitchen appliance brand, changing "Harman" to "Noritz."

Noritz Group

Overseas business growth in five years

Overseas sales

2010 2015
¥16B → ¥61.9B

Overseas operating income

2010 2015
¥0.4B → ¥1.5B

Non-Japanese directors

2010 2015
0 → 9

(7 overseas Group companies) (14 overseas Group companies)

Overseas employees

2010 2015
781 → 4,619

Overseas sales volume of water heaters (year)

2010 2015
510 thousand units → 1,280 thousand units

Overseas production bases

2010 2015
2 locations → 5 locations

Overseas sales bases

2010 2015
59 locations → 107 locations



■ Domestic sales ■ Overseas sales — Domestic housing starts

* All data are based on investor relations disclosures.

Noritz contributes to solving social issues through its business activities

Motivated by intent to respond to the needs of society, the Noritz Group create value through business activities, by utilizing its creativity and roadmap for value creation are as shown below.

seeks to make efficient use of all of its visible and invisible assets and proprietary technology. The Noritz Group business model Important keywords are explained in the subsequent pages.

What stakeholders want and expect

- Global environment**
 - Considered response to the challenges of depletion of resources and climate change
- Employees**
 - Job security
 - Promotion of diversity
 - Development of human resources
- Customers**
 - An richer way of life
 - Safe and reliable products and services
- Business partners**
 - Product power
 - Support capability
- Society**
 - Good corporate citizenship
 - Social contributions
- Stockholders**
 - Sustainable corporate value creation
 - Enhanced corporate governance

Noritz Group business activities

Major business areas

- Water heaters**
Market exposure: Japan, Asia & Oceania, North America, South America, Europe
- Bathrooms**
Market exposure: Japan
- Kitchen appliances**
Market exposure: Japan, Asia
- Kitchen**
Market exposure: Japan

Invisible assets

- Commitment to be "eco first"
- Pursuit of technological progress for the realization of the energy-saving society
- Engagement in local communities
- Global CSR activities
- Supply Chain Management
- Enhanced corporate governance system
- Global promotion of compliance adherence

Specific initiatives

- Product design, quality management
- In-house and outside training courses
- Enhancement of service capability
- Investment in environmental equipment;
- Waste reduction
- Development of eco-friendly products
- Management of hazardous chemicals
- Respect for human rights
- CSR procurement
- Development of human resources
- Enhancement of corporate governance
- Compliance

Quality
Environment
Society
Governance

Providing hot water for pleasant daily life

Spreading and handing over Japan's tradition to treasure home bathing

Value creation

- Global environment**

Develop and sell eco-friendly products

| | 2005 | 2015 |
|--|------------------|-------------------|
| Amount of CO ₂ reduction contributed by our products in Japan | 20,000 tons/year | 118,000 tons/year |
| Sales share of highly efficient water heaters | 5.8% | 40.2% |
- Employees**

Strive for assurance of job security

| | 2005 | 2015 |
|---|-------|-------|
| Number of group employees | 4,765 | 9,253 |
| Employment of people with disabilities (throughout the group) | 96 | 153 |
- Customers**

Heeding the voices of customers to improve products and services

| | 2005 | 2015 |
|--|---------------|---------------|
| Customers' thank-you calls received by the call center | 323 calls | 425 calls |
| Inquiries received by the call center | 237,000 calls | 318,000 calls |
- Business partners**

Provide value to society, jointly with business partners

| | 2005 | 2015 |
|--|------------------|------------------|
| Cumulative sales volume of gas and kerosene appliances | 35 million units | 52 million units |
| Market share of water heaters in Japan | 34.4% | 37.7% |
- Society**

Contribute to society and make appropriate information disclosure

| | 2005 | 2015 |
|-----------------------------------|---|---|
| CSR communication tools (website) | Focus on environment | Overall CSR |
| CSR communication tools (reports) | Environmental report (6-page summary version) | Noritz Report (46-page integrated report) |
- Stockholders**

Provide return to Stockholders consistently and steadily

| | 2005 | 2015 |
|-----------------------------------|------------|--------|
| Dividend payment and payout ratio | ¥28; 32.3% | ¥32; — |

“The Simple Comforts of Life” is our group vision, and through that we seek to create further corporate value.



President and CEO

国井総一郎
Soichiro Kokui

We have never forgotten our belief, “Bathing Makes Happiness,” since the first day the company existed.

The Noritz Group is a leading company in the business of making gas and kerosene water heaters, with a 40% share in the Japanese domestic market. Our history began in 1951 when Noritsu Bath Industry was established. Our founder’s maxim “Bathing Makes Happiness” indicates the special way he sought to improve the daily life of the people, in a transition period of the post-war recovery in Japan. Ever since then, Noritz has assigned high priority to the research and development process, leading to the creation of eco-friendly products with high heat efficiency. In this way we have contributed to “a happy and pleasant everyday life with hot water” in Japan.

We began overseas business in 1993, when we established a joint venture with a company in Shanghai, and launched production of gas water heaters. In 2002, we introduced our tankless gas water heaters in the U.S.A. In recent years, we have been accelerating overseas expansion. We took an equity stake in a housing equipment manufacturer in China in 2013 and acquired a water heater manufacturer in Australia in 2014.

We are determined to realize our group vision “The Simple Comforts of Life” all over the world and aim to create corporate value by doing so.

Business results in 2015 and Progress of the Medium-term Management Plan “V-plan 16”

The sluggish domestic market conditions, which began after the hike in consumption tax rate in 2014, continued in 2015, resulting in a 30.8% year-on-year drop in operating income to ¥5.1 billion. Amortization of goodwill of ¥4.6 billion for consolidated subsidiary Sakura Bath and Kitchen Products (China) was recorded as an extraordinary loss, as its business results fell below the plans made at the time of capital investment. In addition, impairment loss of ¥2.4 billion was recorded due to a weaker profit outlook for the Kitchen Appliances Segment and the Housing Equipment Segment in Japan, and a ¥1.9 billion provision for reserves for products warranties was made, stemming from a warranty extension for some components. As a result, a net loss of ¥3.9 billion was recorded. In China, on top of the slowing economy, our delayed response to the shift in consumer behavior, from sales via specialty stores to sales through a mass retailer or via the Internet, had a negative impact on our results. In the medium-term management plan, “V-plan 16,” our targets for 2016, the final year, were ¥250 billion in sales and ¥10 billion in operating income. However, a sustained sluggishness in domestic demand and a slowdown in China’s economy have forced us to revise downward our targets to ¥220 billion in sales (up 0.5% year-on-year) and ¥7 billion in operating income.

Medium-term Management Plan “V-plan 16” and its Revisions

Group Vision

The Simple Comforts of Life

The Noritz Group is determined to contribute to the happiness of people and healthiness of the planet through greater satisfaction and convenience in daily life.

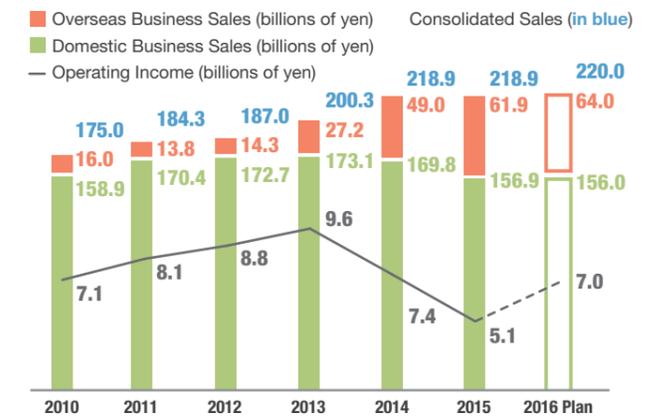
Brand Message

エコ＊リラ＊キレイ
Ecology_Relax_Clean&Beauty.

Basic Policy

- 1 To strengthen a stable management base and achieve sustained growth
- 2 To inspire confidence and pride in the Noritz Group on the part of our employees

To achieve “Growth Strategy”
To achieve a “Strong Brand”
To achieve “Strong Collaboration”
To achieve a “Strong Team”



Revised targets for 2016

Sales **¥220billion** Operating Income **¥7billion**

Reasons for revision

- Domestic business**
 - Sales slowdown of built-in cookers (down 4% year-on-year in units)
 - Shift in sales strategy of housing equipment products (from quantity to quality)
- Overseas business**
 - Sluggish business at Sakura Bath and Kitchen Products (China)

Initial targets

Sales **¥250billion** Operating Income **¥10billion**

Overseas growth and alliances are the keys for our growth

Going forward, we will adopt a new medium-term management plan and endeavor for an early recovery in earnings. Overseas business is expected to be a main driver for earnings recovery. In North America, the water/space heater business has entered a stable growth path, while in Australia, synergies with Dux Manufacturing Limited, which became our wholly-owned subsidiary in 2014, are materializing as planned and are expected to give a positive impact on earnings in 2016. In China, we will focus on restructuring Sakura Bath and Kitchen Products (China), which became our subsidiary in 2013, aiming to return to the black in 2016. In the domestic market, which is expected to keep shrinking, we plan to continue to launch attractive products with higher performance. We are therefore making appropriate investments, mainly in dies for new products.

We firmly believe there can be opportunities for us to raise corporate value through mergers and acquisitions, and alliances, in Japan and abroad. In December 2015, we entered into a capital and business tie-up with Chofu Seisakusho Co., Ltd. By having different products of strength, Noritz and Chofu can complement each other in terms of product line-up. We plan to cooperate in supply

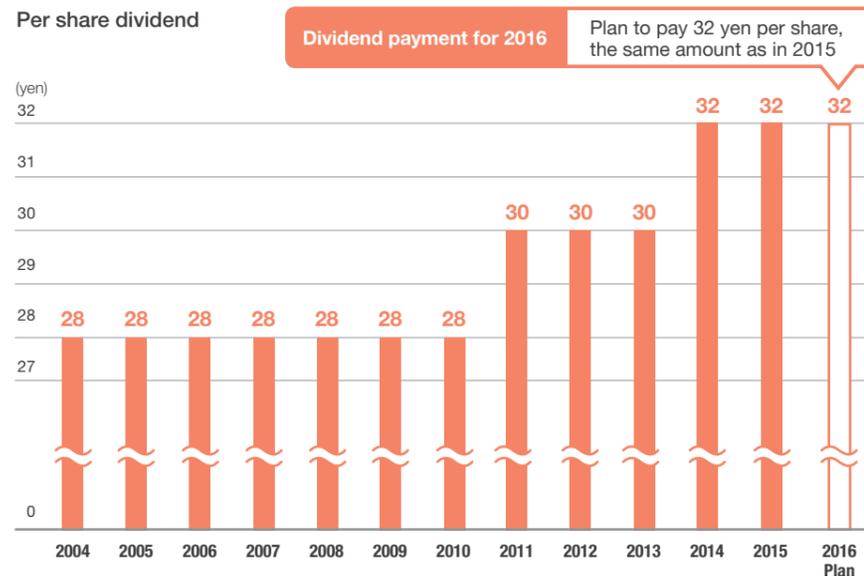


functions and jointly develop products and parts, and complement each other's after-service functions so as to realize benefits.

In terms of financial benchmarks, we used to focus on growth in sales to increase operating income. However, we are now focusing on improving profitability to raise ROE. We will do our best to continue stable dividend payment and raise profitability at the same time, so that we will be able to further increase the amount of dividends paid to Stockholders.

Return to Stockholders

Basic Policy
Consistent stable dividend payment



By sharing Noritz Vision with our employees, we aim to raise corporate value

In FY2007 and FY2008, when the Noritz Group posted net losses, our employees were losing confidence. After I became the president in 2009, I implemented various measures and, at the same time, put priority on increasing communication with employees in order to activate the organization and to encourage employees to feel they were part of corporate policy. In 2011, I began active dialogue with employees through the Vision Café initiative, in which I shared my thoughts with employees. I have visited almost all of our departments and group companies. My next focus, from 2016, is to practice "Amoeba Management," which was devised by Kyocera's honorary chairman, Kazuo Inamori, as I believe this method is effective in promoting change in employees' awareness and developing next-generation leaders.

Despite weak business results in 2015 and revision in the "V-plan 16," we agreed with the labor union to increase the employee annual work hours from 1,810, one of shortest in the industry, to 1,920, the industry average. This agreement was achieved because our employees had become informed of our Vision. I firmly believe that such employees will be the driver for Noritz to raise corporate value amidst whatever market conditions we may face in the future.

We will continue CSR management and initiatives to improve energy efficiency

The Noritz Group's CSR policy is to elicit greater contentment in daily life, do well by all stakeholders, act in the best interests of the global environment, with the underlying objectives of "realization of economic values through business strategies," "promotion of social values that contribute to solving social issues," and "pursuit of Noritz identity." In 2009 Noritz was given the first "Eco-First Company" certification awarded to a gas and kerosene appliance manufacturer. We have made the environment-related pledge to society of reducing CO₂ emissions by 200,000 tons per year, by our equipment used at home. In the Japanese domestic market, approximately 20 million households are using our gas/kerosene water heaters, which emit approximately 20.15 million tons* of CO₂ per year throughout their life cycle. This represents about 1.4% of overall CO₂ emissions in Japan. Because improvement of the energy efficiency of our products can greatly lead to reduction in CO₂ emissions in Japan, we have developed and sell highly-efficient, eco-friendly products, including highly-efficient gas water heaters ("Eco-Jozu" and "Eco-Feel") as well as a "Hybrid water/space heater system." In December 2012, we signed the Global Compact advocated by the United Nations. In accordance with the 10 principles in four categories of the Global Compact, we are implementing initiatives based on our corporate philosophy and global framework to help achieve sustainable growth of ourselves and the society.

We are also continuing activities on behalf of social causes and local communities, such as by being a sponsor of Kobe Luminarie, an event that symbolizes the recovery of Kobe from the Great Hanshin/Awaji Earthquake. Our employees participate in this as volunteers. This stemmed from our experience in 1995 when we suffered from the Great Hanshin/Awaji Earthquake and received tremendous support from many persons. At present, we are also contributing to the "Michinoku Future Fund" to help realize dreams of children who lost their parents in the Great East Japan Earthquake of 2011. We hope to continue such activities, which resonate to our philosophy. Noritz is determined to realize sustainable growth through its operations, which help realize pleasant and convenient daily life for people all over the world, and help solve social issues. We appreciate our stakeholders' continued support in our Group. Thank you.

* Calculated by the Scope 3



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

11-year Financial and Non-Financial Data Summary

| | 2005.12 | 2006.12 | 2007.12 | 2008.12 | 2009.12 | 2010.12 | 2011.12 | 2012.12 | 2013.12 | 2014.12 | 2015.12 | 2015.12 |
|---|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------------------------|---------|
| Consolidated Statement of Income (Fiscal Year) | | | | | | | | | | | | |
| | (Millions of yen) | | | | | | | | | | (Millions of U.S. dollars) | |
| Sales | ¥176,047 | ¥182,076 | ¥180,017 | ¥181,254 | ¥169,350 | ¥175,067 | ¥184,353 | ¥187,061 | ¥200,327 | ¥218,943 | ¥218,909 | \$1,816 |
| Cost of goods sold | 122,698 | 128,178 | 127,248 | 129,765 | 119,909 | 121,135 | 129,928 | 133,008 | 140,773 | 150,599 | 147,543 | 1,224 |
| Selling, general and administrative expenses | 46,400 | 48,091 | 50,410 | 48,042 | 45,071 | 46,787 | 46,238 | 45,214 | 49,884 | 60,936 | 66,242 | 549 |
| Operating income | 6,949 | 5,806 | 2,358 | 3,445 | 4,369 | 7,144 | 8,186 | 8,839 | 9,670 | 7,407 | 5,123 | 42 |
| Ordinary income | 8,402 | 7,028 | 3,019 | 3,102 | 4,821 | 7,380 | 8,704 | 9,813 | 11,058 | 9,439 | 6,013 | 50 |
| Net income (loss) | 4,273 | 2,996 | - 1,208 | - 1,796 | 838 | 3,843 | 4,798 | 5,979 | 6,387 | 3,479 | - 3,958 | - 33 |
| Balance Sheet (End of Fiscal Year) | | | | | | | | | | | | |
| | (Millions of yen) | | | | | | | | | | (Millions of U.S. dollars) | |
| Net assets | 89,089 | 92,236 | 87,130 | 79,993 | 81,449 | 83,419 | 85,621 | 92,724 | 109,673 | 118,244 | 113,731 | 943 |
| Total assets | 151,533 | 155,151 | 156,682 | 145,028 | 136,573 | 143,845 | 150,837 | 159,910 | 191,324 | 206,061 | 197,022 | 1,634 |
| Consolidated Cash Flows (Fiscal Year) | | | | | | | | | | | | |
| | (Millions of yen) | | | | | | | | | | (Millions of U.S. dollars) | |
| Cash flow from operating activities | 8,080 | 8,696 | 2,756 | 7,904 | 12,416 | 12,613 | 9,777 | 11,167 | 9,673 | 13,476 | 13,116 | 109 |
| Cash flow from investing activities | - 9,695 | - 6,516 | - 18,031 | - 3,742 | 290 | - 2,898 | - 9,028 | - 7,340 | - 10,430 | - 14,658 | - 6,346 | - 53 |
| Cash flow from financing activities | - 3,560 | - 1,139 | 8,846 | - 4,722 | - 7,066 | - 955 | - 1,432 | - 1,731 | - 574 | - 2,814 | - 2,814 | - 23 |
| Cash and cash equivalents at end of year | 15,887 | 17,323 | 11,708 | 10,816 | 16,461 | 25,029 | 24,371 | 26,765 | 26,936 | 24,274 | 27,581 | 229 |
| Per Share Information | | | | | | | | | | | | |
| | (yen) | | | | | | | | | | (U.S. dollars) | |
| Net assets | 1,860.9 | 1,890.5 | 1,804.7 | 1,666.2 | 1,700.8 | 1,742.6 | 1,790.3 | 1,938.9 | 2,231.0 | 2,372.1 | 2,291.1 | 19 |
| Net income (loss) | 86.7 | 62.6 | - 25.3 | - 37.6 | 17.5 | 80.3 | 100.3 | 125.0 | 133.6 | 72.8 | - 82.8 | - 0.7 |
| Dividends | 28.0 | 28.0 | 28.0 | 28.0 | 28.0 | 28.0 | 30.0 | 30.0 | 30.0 | 32.0 | 32.0 | 0.3 |
| Management Indicators | | | | | | | | | | | | |
| | (%) | | | | | | | | | | | |
| Operating income to sales | 3.9 | 3.2 | 1.3 | 1.9 | 2.6 | 4.1 | 4.4 | 4.7 | 4.8 | 3.4 | 2.3 | |
| Equity ratio | 58.8 | 58.3 | 55.1 | 55.0 | 59.6 | 58.0 | 56.8 | 58.0 | 55.8 | 55.0 | 55.6 | |
| Return on assets (ROA) | 2.8 | 2.0 | - | - | 0.6 | 2.7 | 3.3 | 3.8 | 3.6 | 1.8 | - | |
| Return on equity (ROE) | 4.9 | 3.3 | - | - | 1.0 | 4.7 | 5.7 | 6.7 | 6.4 | 3.2 | - | |
| Non-Financial Data | | | | | | | | | | | | |
| Number of employees (consolidated) | 4,765 | 4,907 | 5,290 | 5,273 | 5,134 | 5,299 | 5,519 | 5,703 | 9,165 | 9,422 | 9,253 | |
| Number of patents in Japan | 871 | 931 | 1,010 | 934 | 850 | 743 | 767 | 842 | 904 | 921 | 940 | |
| CO ₂ emission reduction by our products (10,000 tons/year) | 2.0 | 3.4 | 3.9 | 4.8 | 4.8 | 6.4 | 8.2 | 9.9 | 11.1 | 11.7 | 11.8 | |
| CO ₂ emission reduction by our business activities (tons) | - | - | - | - | - | 22,892 | 21,621 | 21,636 | 22,152 | 21,071 | 19,925 | |

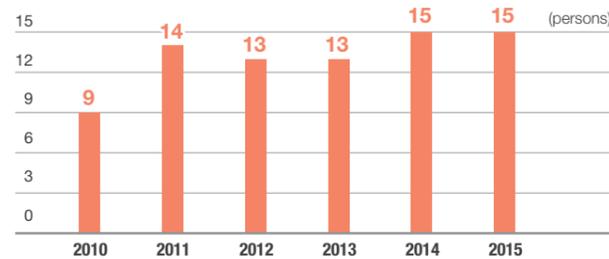
* The stated yen amounts are rounded down to the nearest million yen.
 * Figures in yen have been translated into U.S. dollars solely for convenience and are based on the exchange rate of ¥120.55=US\$1, announced by Sumitomo Mitsui Banking Corporation on December 30, 2015.

Calculation: Operating income to sales = Operating income /Sales X 100
 Equity = Net assets - Minority interests
 Equity ratio = Equity/Total assets X 100

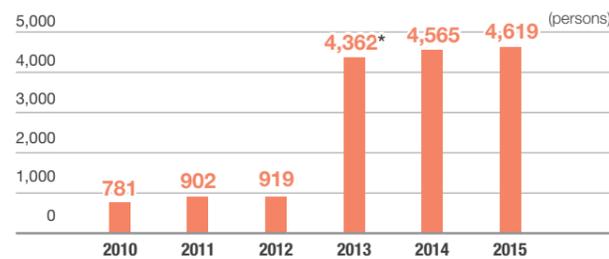
Return on Assets (ROA) = Current net income/Average total assets of previous and current terms X 100
 Return on Equity (ROE) = Current net income/Average equity of previous and current terms X 100

Diversity-related Data

Female Managers (non-consolidated)



Overseas Employees



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

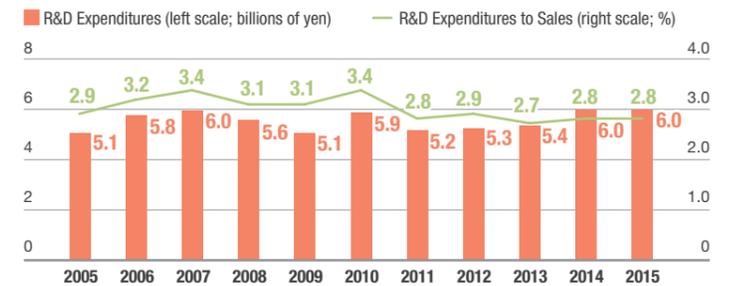
Ratio of Employees with Disabilities (entire group)



* Figures compiled as of June end for each year

R&D Expenditures

R&D Expenditures and their Ratio to Sales



Noritz Group Topics and Awards in 2015

Corporate Topics

Jan.



Enhanced production technology capability
Consolidated the production function of three manufacturing companies in the Group to Noritz

Apr.



Launched the Happy Palette, a Web system that enables color simulation of installation plans and preparation of estimates

Jun.



Held a CSR Dialogue
Held a CSR Dialogue event and identified CSR Materiality (Priorities) in July

▶ P.21

Oct.



Improved production efficiency at subsidiary Shinwa Inc.
Streamlined production lines, concentrating them on one floor (formerly three)

Jan.



Enhanced service operations
Integrated a consolidated subsidiary NTS into the Noritz Group so as to provide higher quality service as a manufacturer

May



Participated in the Japan-U.S. Economic Forum
In the Forum, Noritz America's environmental and energy-saving contributions and Noritz's proprietary technology were highly regarded

Jun.



Built Dux backbone system
Completed establishment of its HQ function and organizational structure

Dec.



Promoted more alliances
Entered into capital and business tie-up with Chofu Seisakusho Co., Ltd.

Mar.



Improved production efficiency at Sakura Bath & Kitchen Products (China)
Significantly reduced lead time by the improvement of operational processes by use of the Notice Review Processing System (NRPS)

May



Improved service quality
Introduced a roving system for improvement of after-service quality for customers

Jul.



Further promoted a shift to "Eco-Jozu"
Ended sales of some inefficient (not "Eco-Jozu") gas water heater models

Ceased production and sales

Product Topics

Jan.



Business in the American market
Noritz America began sales of a tankless water heater "EZTR"

EZTR40

Apr.



recipia
Sales of a system kitchen series "recipia," featuring a smart appearance and efficient pattern of movement while cooking

Jul.



Yupatio
Sales of a system bath "Yupatio," which enables customers to choose the shape of a bathtub and a wall panel design for personalized enjoyment of bath time

Sep.



ECOJOZU
Sales of a slim-type highly-efficient gas bath water heater "GT-C2063," which enables installation of the "Eco-Jozu" type at almost all housing complex units

▶ P.28

Nov.



Business in the Australian market
Completed development of tankless water heaters for Dux. Launch in Feb. 2016

Apr.



PROGRE
Sales of a gas cooker "PROGRE" featuring a "multi-grill" function, which widens the variety of cooking modes

▶ P.28

Jul.



Business in the Chinese market
Added a lineup of products specifically for sales through the website of Noritz China

Oct.



ECOJOZU
Noritz's first remote control system to monitor commercial-use water heaters around the clock

▶ P.30

Awards

Jan.



"Hybrid water/space heater system" for detached houses

- Energy Conservation Grand Prize Awarded the Energy Conservation Grand Prize" (Jan. 2015)
- Given the Environment Minister's Award for Global Warming Prevention Activities (Dec. 2015)



▶ P.27

Feb.



Noritz's solar heat utilization system certified for the Eco Mark

- First in the industry to be certified for the Eco Mark according to the new standard for solar heat utilization systems (Feb. 2015)
- Awarded the Product of the Year in the Eco Mark Award 2015 (Jan. 2016)



Mar.



Distinguished Service Award by the Japan Industrial Association of Gas and Kerosene Appliances
Three employees from Noritz and Harman were awarded the Distinguished Service Award by the Association

Jun.



Japan Gas Association's Technological Award
"Smart Cooker" (built-in cooker) was awarded the Technological Award of the Japan Gas Association

Sep.



Chairman's Recognition Award by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers (JEED)
Subsidiaries S-CORE Hearts K.K. and KASHIMA CORPORATION received the JEED Chairman's Recognition Award

▶ P.26

Oct.



Good Design Award
A gas built-in cooker "piatto" was given a Good Design Award



Nov.



Osaka Gas Quality Award
Four departments of Noritz and Harman were awarded the Osaka Gas Quality Award

Profile

Message from the President

Business and Achievements

CSR

Q+ESG

Consolidated Financial Statements

Outline

Business Summary



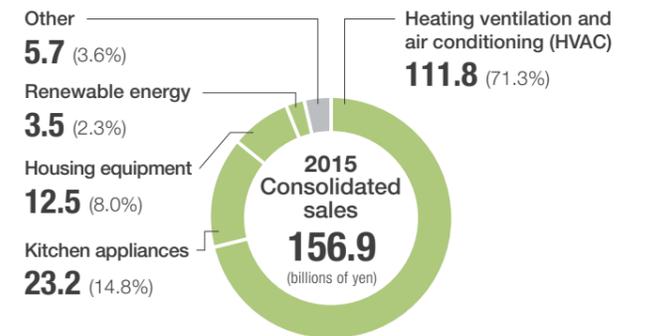
The Noritz Group provides various products which feature supply of “hot water,” most of which are in the Heating, Ventilation, and Air Conditioning (HVAC) segment. We strive to develop eco-friendly products which allow the efficient and effective use of energy, in addition to being easy-to-use and convenient. We are expanding not only in Japan but also in overseas markets with high growth potential, so as to globally contribute to bring about changes for the better in daily life.

Domestic Business

Domestic Sales and Operating Income



Domestic Sales by Segment



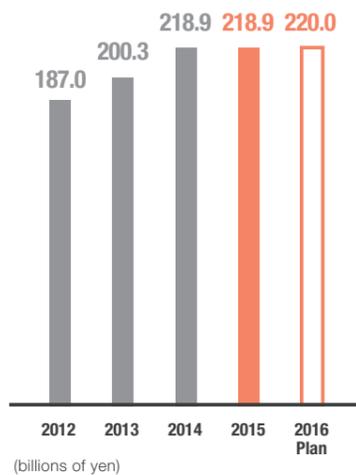
Results in 2015

In the domestic market, sales were ¥156.9 billion (down 7.6% year-on-year) and operating income was ¥3.5 billion (down 36.0%). We endeavored to expand sales of highly-efficient water heaters, built-in gas cookers, and co-generation systems.

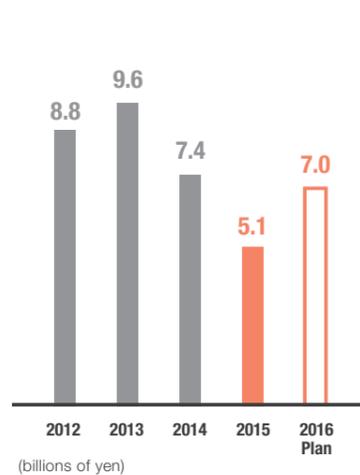
Outlook for 2016

Despite the uncertain market environment in Japan, we forecast sales of ¥156 billion (down 0.6% year-on-year) and operating income of ¥4.5 billion (up 25.2%). Using the newly authorized retail electricity deregulation and the rise in government subsidies for installation of ENE-FARM (residential fuel cell) as opportunities, we aim to expand sales of eco-friendly products and other high value-added products.

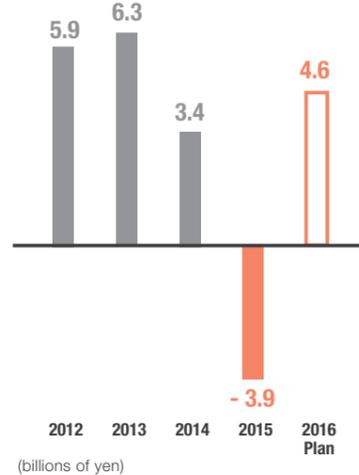
Sales



Operating Income



Net Income

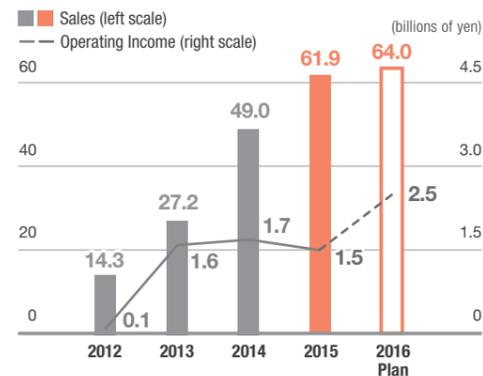


In fiscal year 2015, the Noritz Group posted sales of ¥218.9 billion (no change year-on-year) and operating income of ¥5.1 billion (down 30.8%). A net loss of ¥3.9 billion was recorded due to impairment loss in the Kitchen Appliances and Housing Equipment segments, one-time amortization of goodwill for Sakura Bath and Kitchen Products (China), and provision for reserves for products warranties, stemming from an extension of some product warranties.

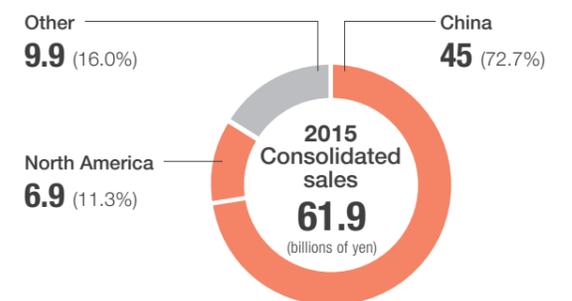
In connection with these conditions we promoted eco-friendly products in Japan and overseas and implemented cost reduction measures. For fiscal year 2016, the economic climate is likely to remain harsh. We forecast sales of ¥220 billion (up 0.5% year-on-year), operating income of ¥7 billion (up 36.6%) and net income of ¥4.6 billion (compared to a net loss of ¥3.9 billion in fiscal year 2015.)

Overseas Business

Overseas Sales and Operating Incomes



Overseas Sales by Region



Results in 2015

In overseas markets, sales of ¥61.9 billion (up 26.3% year-on-year) were recorded on the back of growth in China and North America and inclusion of Dux Manufacturing Limited, an Australian water heater manufacturer acquired in 2015. However, operating income was ¥1.5 billion (down 14.6%) due to weak business by Sakura Bath and Kitchen Products (China).

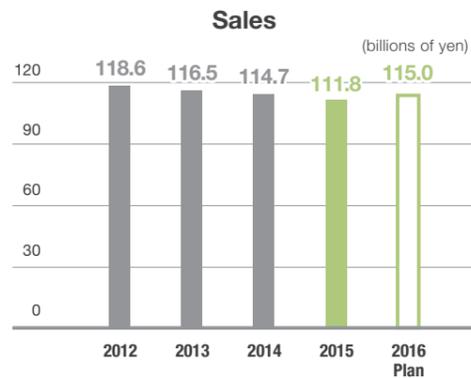
Outlook for 2016

Sales of ¥64 billion (up 3.3% year-on-year) and operating income of ¥2.5 billion (up 63.6%) are estimated. We expect growth in all regions on the back of global increases in needs for eco-friendly and energy-efficient products. Particular priority will be given to restructure Sakura Bath and Kitchen Products (China).

Domestic Business



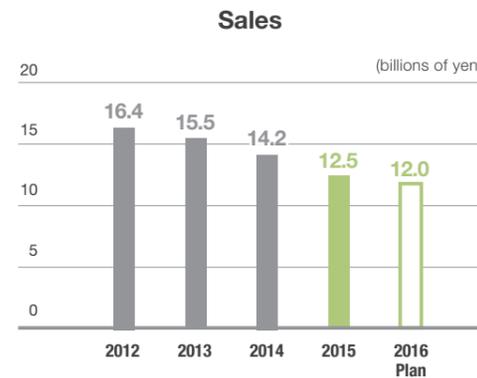
Heating, Ventilation, and Air Conditioning (HVAC) Segment



In the HVAC segment, we manufacture and sell gas/kerosene water heaters that ensure stable supply of hot water, by combining our three advanced technologies in combustion control, heat exchange and fluid control. By promoting eco-friendly products with high added values, we are securing stable growth in this segment where there is constant demand for replacement. In 2015 the sluggish domestic market, after the hike in consumption tax rate, led to a drop in our sales. However, we managed to raise the sales share of the highly-efficient water heater "Eco-Jozu," up to 40.2% (up 2.3 points from 2014). For 2016, demand for water heaters is likely to stay flat year-on-year. We will work hard at increasing our customers' purchases of eco-friendly products such as "Eco-Jozu," "Eco-Feel," or hybrid water heater and heating systems, making full use of various government support programs.



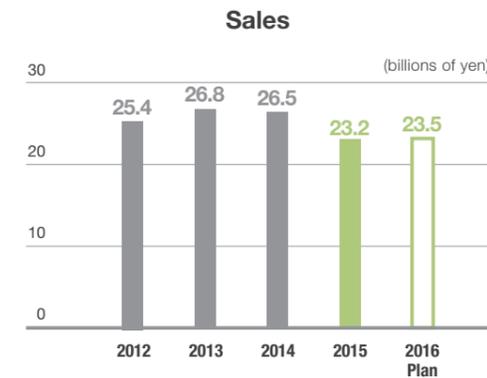
Housing Equipment Segment



In the Housing Equipment Segment, our products of strength include a built-in kitchen system, which enables easy size adjustment of width by increments of 1cm, and a "Self-Cleaning Bathtub," which enables automatic bathtub cleaning. In 2015 we launched the Happy Palette, a web-based color simulation system that facilitates showing product images to customers, to ensure personal satisfaction with our products. For 2016 we will expand wall panel designs for our system bath products, by using the ink jet printing method, and promote the concept of bathrooms as places for personal relaxation and our means of realizing such rooms.



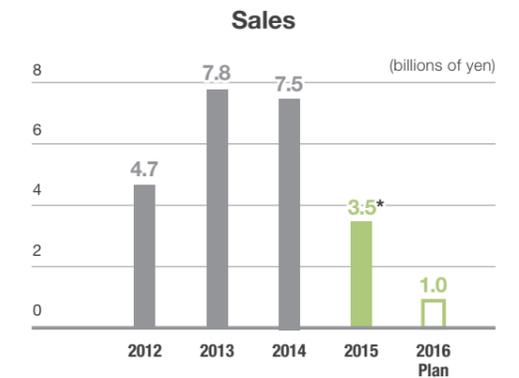
Kitchen Appliances Segment



In the Kitchen Appliances Segment, our main products include the built-in gas cooker, which features our unique burner that enables energy-efficient cooking with a stable flame. We have about a 30% market share in Japan for this product. In the midst of increasing popularity for value-added gas cookers that are easy to cook with, easy to clean and proficiently designed, we focused on expanding sales of high-end "multi grill" products in 2015. For 2016, we expect that the demand for the gas built-in cookers will remain steady. We will promote sales of a "multi-grill" cooker, the "PROGRE," that enables easy grilling, simmering and steaming. We will also focus on marketing of "piatto," which features good design.



Renewable Energy Segment



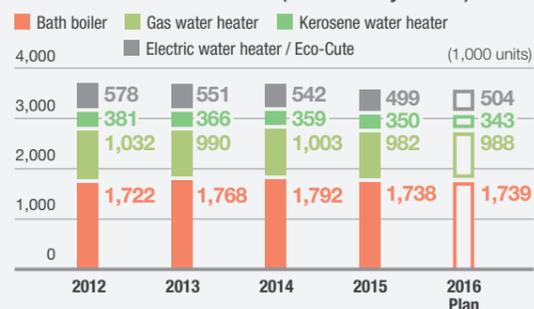
In the Renewable Energy Segment, we are expanding sales of solar energy water heaters and photovoltaic power generation systems for industrial use. Around 30 years have passed since we began sales of a solar water heater. At present, we are promoting products that combine use of solar energy and gas energy.

* Due to the changing market environment, we withdrew from the home-use photovoltaic power generation system market by the end of 2015.

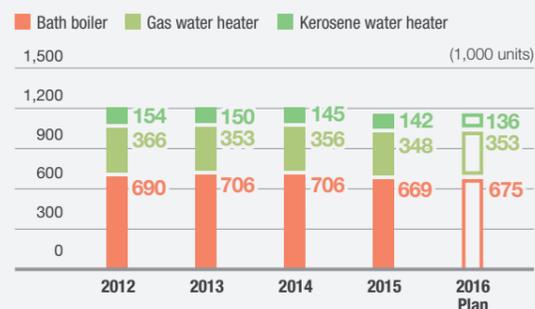


Our "XF Series," the bathroom water/space heater system powered by gas and solar energy, received the Product of the Year Award at the "Eco Mark Award 2015" event organized by the Japan Environment Association (JEA).

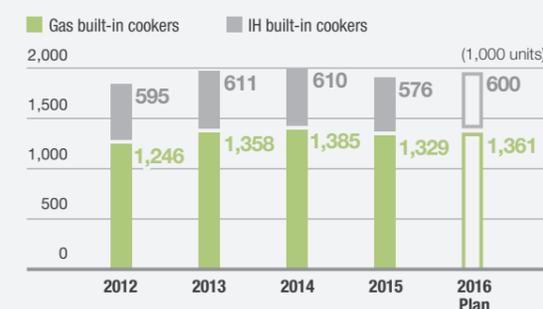
Demand for Water Heaters (estimate by Noritz)



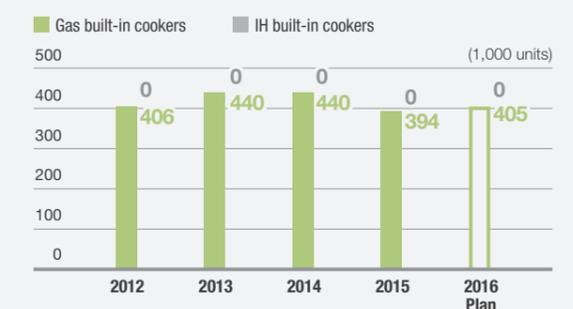
Sales Volume of Water Heaters



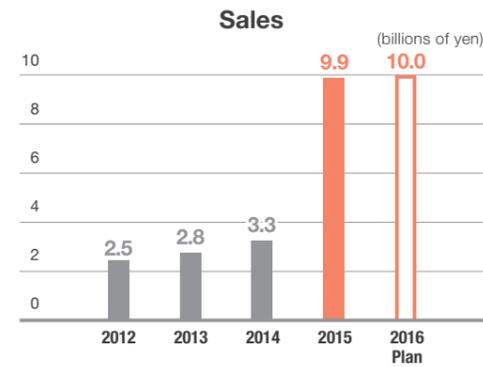
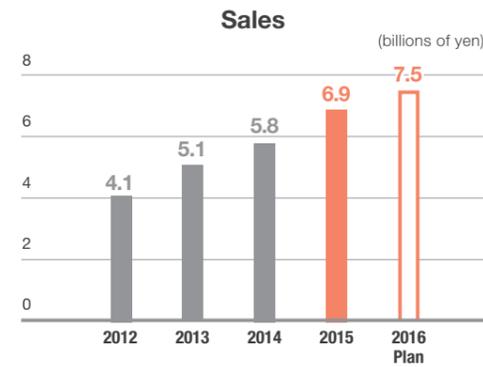
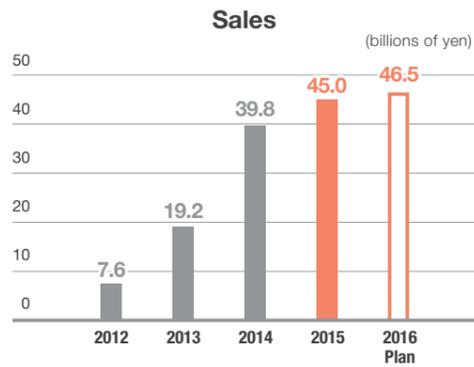
Demand for Built-in Cookers



Sales Volume of Built-in Cookers



Overseas Business



We entered the Chinese market in 1993 when we established a joint venture with a Chinese company. At present, we have a plant in Shanghai and perform the same level of quality management as in Japan. In 2013 we made a capital investment in Sakura Bath and Kitchen Products (China) Co., Ltd., a housing equipment manufacturer that operates all over China. Along with the rising demand for safe and reliable products, we are growing in China with our strength in high quality products. Sales of eco-friendly products are becoming more popular in Shanghai and other cities, while gas instantaneous water heaters are rapidly growing in popularity in inland China, due to an increase in gas demand, development of infrastructure, and improvement of living standards. In 2016 momentum is likely to slow down, but we will continue to expand sales of eco-friendly products and enhance manufacturing by utilizing our strength in the NORITZ Production System (NRPS) production method.

In North America we started sales of tankless water heaters in 2002. At present, our operation covers all of the U.S.A and Canada, with a focus in California. In North America where tank water heaters have a majority share of the market, eco-friendly energy-efficient gas instantaneous water heater is gaining in popularity. In particular, the condensing type with high thermal efficiency has raised its sales share in recent years. In 2015 we expanded sales of newly launched products that can meet local needs. In 2016 we will promote appliances for commercial use and for space heating, in addition to home-use tankless water heaters.

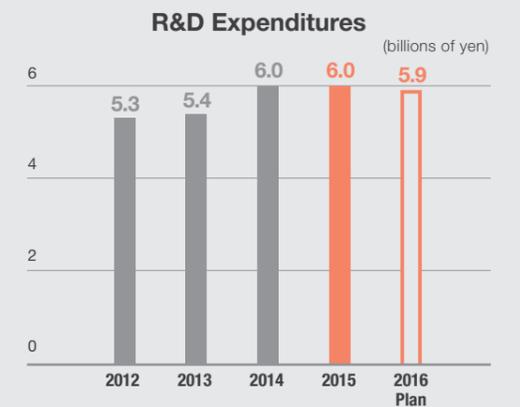
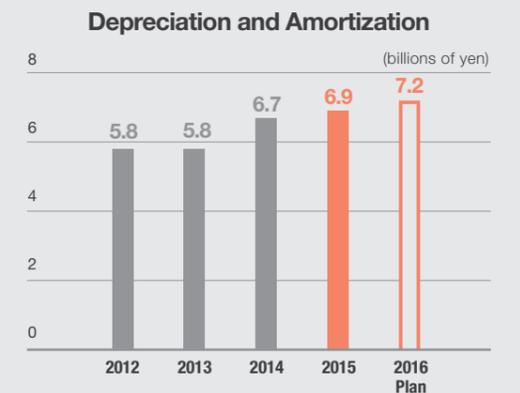
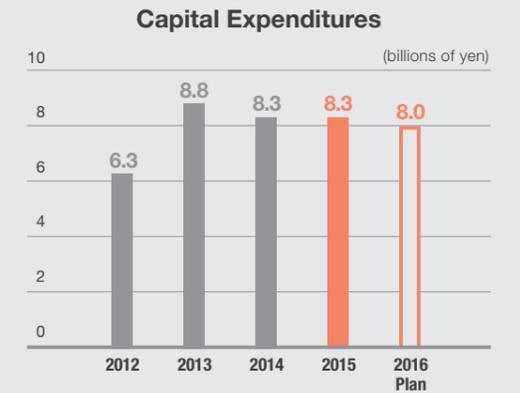
In 2015 business results of Dux Manufacturing Limited, an Australian water heater manufacturer, was incorporated in our results. After the acquisition, we refined the Dux' range that included developing production and sales of its traditional tank water heaters, and to raise its competitiveness. For 2016, we are aiming at increasing sales by providing Noritz's gas instantaneous water heaters in this market. We are developing the OEM business of gas instantaneous water heaters in Hong Kong, South America and Europe.



TNSW, developed by Noritz and Noritz China, was highly regarded at the Hong Kong Excellent Salespersons Contest

In Hong Kong, a sales person from our business partner Hong Kong and China Gas, participated in a contest for home and cooking appliances of various manufacturers. The participant was among the two awarded out of around the 100 participants in total, thanks to the person's presentation capability and the features of TNSW gas heater (i.e., design and Hong Kong's first product to create hot water of 35 degrees).

Reference



Internet sales series



Condensing series



NC380 ASME series



EZTR



Continuous flow series



TNSW series

Overseas Markets

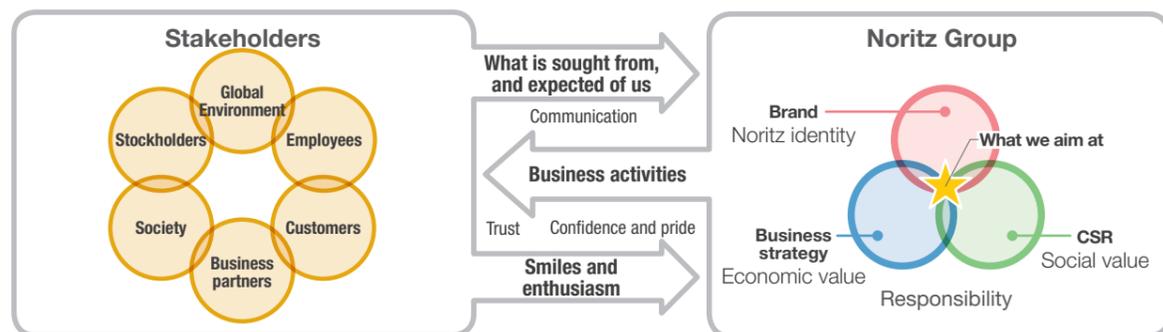


Noritz Group's CSR

CSR Policy

To improve the well-being of all our stakeholders, including the global environment

CSR Activities



The Noritz Group's mission includes helping to solve social problems through its business activities. Recognizing what society requires and what society expects, as we understand through our two-way communication with stakeholders, we are undertaking business activities, which blend "the

pursuit of economic value through business strategies," "the promotion of social values that contribute to solving social issues," and "pursuit of Noritz identity." By doing so, we strive to bring smiles and enthusiasms to all our stakeholders, or to improve their well-being. This is our CSR policy.

Noritz CSR Committee

Since 2007 Noritz has held a CSR Committee conference twice a year. The committee, chaired by the president and comprised of directors, executive officers and corporate auditors, discusses and makes decisions on CSR issues. Based on the decisions made by the committee, the PDCA management method is promoted.

CSR Activities in 2015

As indicated in the third-party opinion in the Noritz Report for 2015, we started to tackle issues of human rights and of supply chain management.

We held human rights training sessions for employees of each level and performed due diligence on human rights at group companies and, with their cooperation, business partners. We plan to set up and disclose a human rights policy in 2016.



CSR Dialogue with Stakeholders

CSR Dialogue with Stakeholders

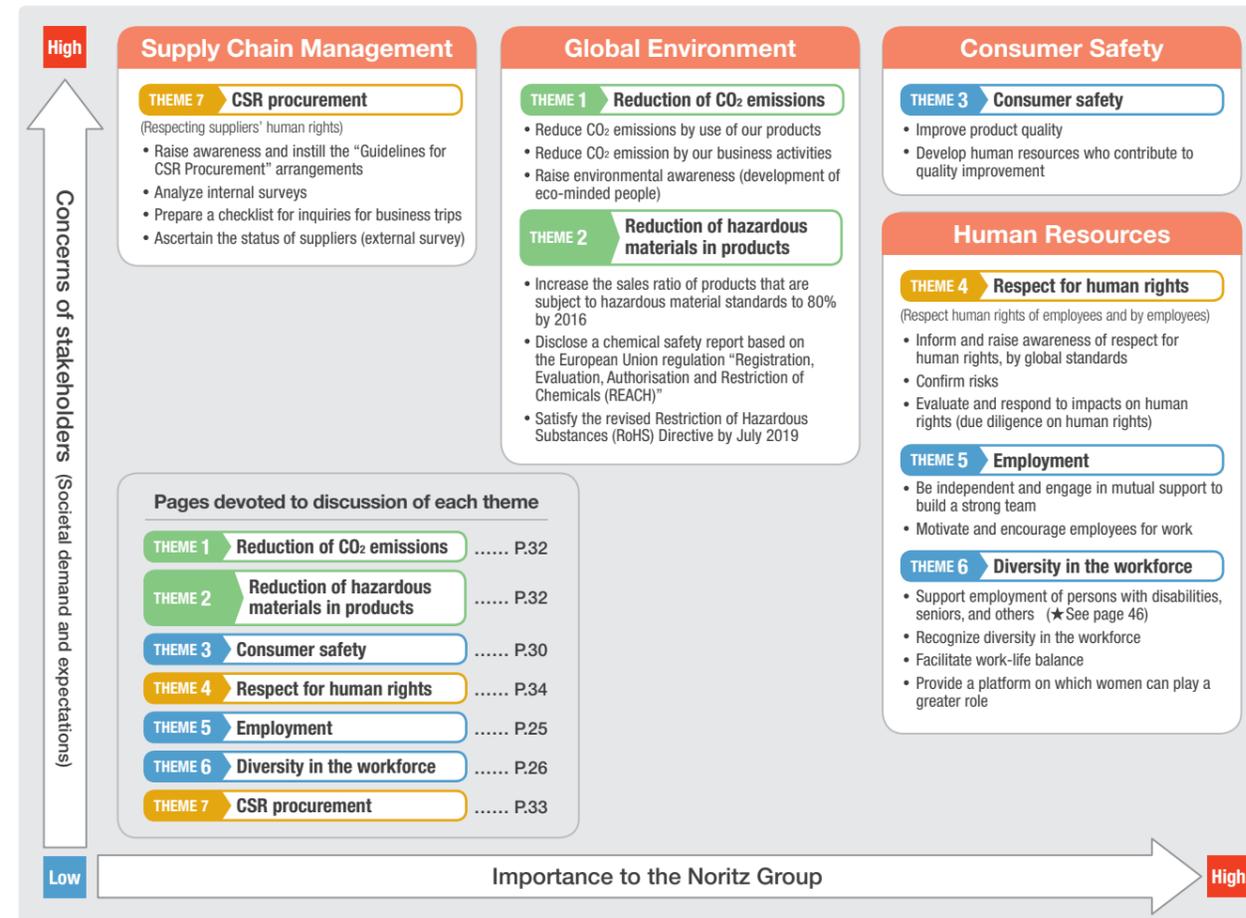
In June 2015, we conducted a CSR Dialogue event and with five representative stakeholders expressed their views. Through this dialogue, seven themes in four areas, chosen by the Noritz Group as CSR Materiality (Priorities), have been assessed as being appropriate.

| | |
|---|--|
| Stakeholders (identities not disclosed) | Researcher of Environmental, Social, and Governance (ESG); representative from a human rights NGO; associate professor of a university law department; corporate consultant, business partner |
| Speakers | Noritz Administration Headquarters Head, Human Resources Division General Manager, Purchasing Department General Manager, CSR&Environmental Conservation Promotion Department General Manager, Corporate Quality Assurance Headquarters General Manager, Corporate Planning Division General Manager, Corporate Communication Division Manager, CSR Promotion Group Manager |

CSR Materiality

Upon dialogues with various stakeholders, the Noritz Group identified seven themes in four areas as CSR Materiality (Priorities). By steady and ongoing attention to those materiality priorities, we aim to help achieve sustainable development of society and of the Noritz Group.

CSR Materiality Analysis Map



* Noritz's human rights initiatives will focus on its workforce and supply chain management, where impacts tend to be great, while we recognize the human rights issues exist in every aspect of our business operations.

CSR Materiality (Priorities) Identifying Process

From the Third-Party Opinion stated in the Noritz Report 2015 and the challenges in seeking sustainable growth of international society, the most relevant issues for the Noritz Group and its stakeholders have been selected and mapped in a matrix with two axes: Importance to the Noritz Group and Concern to stakeholders.

Upon receiving input from our people in departments concerned, we held a dialogue session with representative stakeholders and made an assessment of the issues before identifying them at the CSR Committee conference.

- STEP 1** **Sorting out the social issues**
Select from the Millennium Development Goals, United Nations Global Compact, ISO26000, information from media, third-party opinion, CSR questionnaire items, dialogues with the president, stakeholder survey results, and other information.
- STEP 2** **Review with departments concerned**
 - Review and assess themes internally, including CSR experts
 - Exchange opinions with departments concerned
 - Narrow down themes for materiality
- STEP 3** **Dialogue with stakeholders**
 - Dialogue with representative stakeholders
 - Assess social trends
 - Receive opinions on materiality
 - Assess appropriateness of materiality
- STEP 4** **Identifying 7 themes in 4 areas**
 - Approval of materiality issues by the CSR Committee
 - Decide which department is to be responsible for each materiality theme
 - Set targets and schedule

Noritz's 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” to introduce what we value as those “invisible assets.”



Quality

Commitment to “quality” is a part of our corporate culture as well as one of our strengths. Our quality to a great extent is derived from our “invisible assets,” particularly as our people, who have diverse talents and strength, our technologies that enable us to materialize our passion into products, and our customers who give us valuable opinions. We are pledged to contribute to the society through our business activities by making the most of those assets.

PAGE
25-30



Environment

We, as an “Eco First Company,” have built an environment management system, in keeping with the slogan of “a clean earth for future generations.” Based on our specific plans, such as to reduce the environmental burden created by our company and its products, the Noritz Group is actively working at activities for global environmental conservation.

PAGE
31-32



Society

Since the company was founded, we have been committed to create more jobs and contribute to our communities. Though our business activities, we strive to solve problems in the society. We try to make fair and full information disclosures. We make sincere efforts for achieving our goal “to provide the simple comforts of life to more people.”

PAGE
33-34



Governance

In order for the Noritz Group to create corporate value in the long term, it is essential to make good management judgement and prompt and right decisions. Consideration of the best interests of a variety of stakeholders, we are establishing arrangements which ensure high transparency and sound corporate management.

PAGE
35-40



Quality

“Human Resources” supporting Noritz Quality

MATERIALITY
THEME 5

Human Resources Development

The Noritz Group’s development has been driven by each and every employee’s dedication and passion. We find it to be of critical importance for us to be a powerful corporate group to develop people who can achieve self-realization through work. We are proud of our workforce and motivation of our workers.

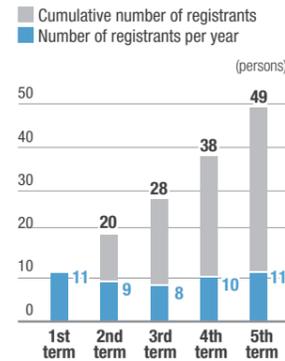
Development of Global Human Resources

In order to develop human resources who can thrive in the midst of ongoing changes associated with globalization, we have a registration program of employees with potential ability for overseas assignments, and a program to enhance their ability in languages and dealing with intercultural issues. The program, which is one year in duration and is offered to employees selected by the in-house application system, includes language courses, correspondence courses, and courses to deepen intercultural understanding. In 2015, the fifth year of this program, the cumulative number of program participants reached 49.

With the aim of strengthening alliances between Japan and abroad, we created an overseas training program that sent four employees abroad in 2015. Through these activities, we are developing human resources who can play a role in our overseas business expansion.



Trainees in a language class



Registrants in Global Human Resource Program

Boosting Employee Satisfaction

Our “independent” employees who can engage in activities for mutual support are Noritz’s “precious resources”. They build strong teams and enhance each other. Having “independence” and “mutual support” of each employee as a base, the Noritz Group aims to become a “three-way good company” and to boost “employee satisfaction”.



Independence means to be proactive in doing one’s work to achieve goals
Mutual support means to enhance each other by cooperating, stimulating, and influencing each other

Effervescence Benchmark Survey

The Noritz Group regularly carries out an employee opinion survey or what the companies call a survey for effervescence (waku-waku in Japanese) benchmarks. This is to gauge progress of our above-mentioned strategy of building a strong team in which synergies are generated by “independents” who can engage in mutual support. This survey was first done in 2001. The level of motivation of employees is surveyed in terms of three themes: to love my work; to enjoy being in my workplace, and to like my company. The survey results are discussed among teams, in order to enhance each other. We also try to realize issues, such as the issue of cooperation among divisions, which have become evident from the survey results.

Effervescence Survey Results

| Three themes | 2013 | 2014 | 2015 |
|--------------------------------|------|------|------|
| I love my work. | 55% | 55% | 53% |
| I enjoy being in my workplace. | 56% | 56% | 53% |
| I like my company. | 47% | 46% | 41% |

Diversity

★ See page 46

MATERIALITY
THEME 6

The Noritz Group is striving to create workplaces in which people with diverse capabilities can work well. Our major initiatives include employment of people with disabilities and seniors, acceptance of diversity in the workforce, promotion of work opportunities for women, and realization of good work-life balance.

Employment of People with Disabilities

In 10 companies in the Noritz Group, 153 people with disabilities are at work. In KASHIMA CORPORATION*, a subsidiary of a Noritz Group company, 15 people with disabilities, representing 27% of its workforce, are working in the same workplace with other employees. In 2015 the Chairman’s Recognition Award by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers (JEED) was given to KASHIMA, in recognition of it having an excellent workplace and to two employees of a special subsidiary company S-CORE Hearts K.K. as excellent workers.

* A Noritz Group company RB Corporation owns a 100% stake.



Employee working at KASHIMA CORPORATION

Promotion of Work Opportunities for Women

Since 2005, the Noritz Group has been sponsoring “Vitamin W Square,” a forum in which female employees from various sections voluntarily get together and discuss on how to improve and enhance women’s work.

In 2015, as the ninth time for the forum, an in-house seminar was held for female workers and their bosses and a collection was made of instances of and tips for female workers’ return to the workplace after childcare leave. In the meantime, the present conditions and issues concerning work opportunities for women were discussed by meetings such as the Board of Directors meetings, which agreed to begin working on solving the issues from 2016.



Seminar for female employees

Initiatives for Productivity Improvement

The Noritz Group aims to improve productivity by making continued efforts at development of human resources and improvement of production processes. The NPRS Promotion Department is in charge of these initiatives.

NORITZ Production System (NRPS) Training

An objective of the initiatives is to share and expand excellent production-related ideas and thoughts within the group. Members of the NRPS Promotion Department visit plants of group companies and suppliers, hold seminars for process improvement (basic course, standard work training session, training for trainers, workshop tour) and provide on-site guidance for process improvement. In 2015, nine training sessions were held for 32 companies and 89 participants and on-site guidance was given at 148 sites for productivity enhancement.

We will continue those initiatives for the improvement of the entire process from order receipt to shipment, and for strengthening the Noritz Group manufacturing capability.



NRPS Training



Quality

Value Creation through Technology

Realization of an Energy-Saving Society through Technology

The Noritz Group develops products with the aim of realizing an energy-saving society.

Development of a hybrid water/space heater system

By using a combination of gas energy and atmospheric thermal heat, both high energy efficiency and stable supply of hot water are possible. Noritz has realized this in the form of products. Our proprietary technology has enabled us to use R290, a non-fluorocarbon natural refrigerant, in the eco-friendly heat pump for the first time in the industry.



Hybrid water/space heater system for a detached house

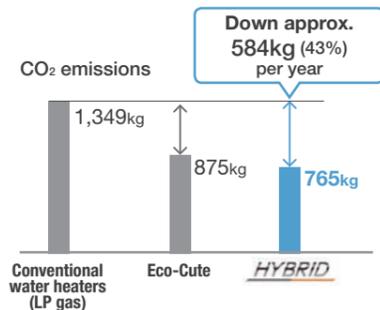
Three Eco-Friendly Points

POINT 1

High-efficiency

The hybrid model has combined advantages of the "Eco-Jozu" gas water heater using latent heat and a heat pump water heater and has realized 125%* in the primary water heating energy efficiency.

* Noritz's study result, based on the ordinance in the "Standards of Judgment for Residential Construction Clients" areas



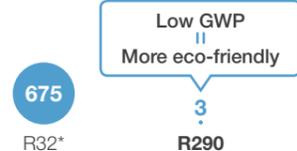
Calculated only for water heating for a family of four in a detached house in Tokyo

POINT 2

Industry's first natural refrigerant

Noritz has concentrated on development and use of eco-friendly non-fluorocarbon refrigerants and is the first in the industry to adopt the hydrocarbon natural refrigerant R290. Compared to R32, which is receiving attention as eco-friendly refrigerant for air conditioners, R290's Global Warming Potential (GWP) is about 1/225 (3/675), proving its eco-friendliness.

Global Warming Potential (GWP)

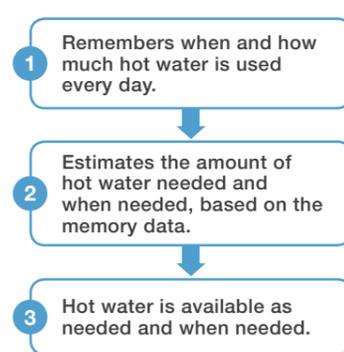


* R32 is being used in household air conditioners (as of March 2015).

POINT 3

Smart control function

The smart-control function learns how water is used in the household and efficiently controls storing of the amount of hot water to be needed at a specific time. This is particularly important for convenience and economy related to bathing at home in Japan.



Voice of an Expert

Takako Momoi, Tokyo Office Manager, Kiko Network* (Certified NPO organization)

Today, when the global environment has deteriorated to a critical level, it is a responsibility of all of us to devise and deploy the right solutions to realize a sustainable society. The refrigerant adopted for Noritz's hybrid water/space heater system is a hydrocarbon, and a natural refrigerant. Unlike fluorocarbon used as refrigerant in air conditioners, hydrocarbons have lower impacts to the environment, and therefore have valuable potential.

* Kiko Network is a nongovernmental, nonprofit organization, which proposes solutions to tackle with climate change

Aiming to Spread Eco-Friendly Products

We are promoting the spread of eco-friendly products so as to solve environmental issues related to water heaters.

Slim-profile highly-efficient gas water heater for housing complexes

The Noritz Group is promoting the spread of eco-friendly highly-efficient gas water heaters. In addition to promoting products that help reduce CO₂ emissions in households, we are developing gas water heaters with an improved condensate drain pipe installation, which had been a limitation for use of "Eco-Jozu" in multi-unit housing complexes. In particular, in September 2015 we developed a slim-profile highly-efficient model, which is easier to install in the limited space in a housing complex apartment.



Slim-profile highly-efficient gas water heater GT-C (P/V) **63 Series

Voice of Developers

L Yoshihisa Kitano
2G2T Manager, Development Section of Gas Complex Products

R Hideya Inamura
1G2T Manager, Development Section of Gas Complex Products

In designing a slim-profile bath water heater with the equivalent performance to the "Eco-Jozu," our challenge was to develop the mechanical structure of the product so as to be compact but still easy to manufacture and repair. We succeeded in reducing exhaust noise and solved an air supply issue in developing this new product for the special conditions of apartments in housing complexes.



New Proposal in Grill Cooking

Our new grill "PROGRE" can be used by consumers to enrich the home kitchen menu with little preparation and taking little time.

The multi-grill enables a variety of cooking

The new grill "PROGRE" has no grid and is equipped with a temperature sensor for the bottom-up burner. This multi-grill enables use of different cooking methods at the same time. Another key feature is the flat structure of the grill, which makes it easy to clean.



The industry's first temperature sensor for the bottom-up burner

Voice of a Cooking Expert

Kazumi Yanohara, Cooking Expert

I am thrilled to do my daily cooking with Noritz's multi-grill cooker. In addition to grilling, I can so easily make Japanese stewed dishes and steamed dishes such as egg custard. Also, cleaning up after cooking has become so easy as the grill has no griddle. The multi-grill cooker is popular among my students as well.





Quality

Other Activities

Raising Product Quality

The Noritz Group is intent on raising customer satisfaction. We have been striving to continue improving a quality management system for the provision of safe and reliable products.

Training sessions focused on “quality”

Training sessions focused on “quality” for each level of employees provide them with required knowledge and skills. The training also establishes quantitative measures of each employee’s ability. In 2015, 22 training sessions were held, attended by 534 employees in total. The themes included “dispersion,” “seven basic tools of quality control” and “reliability engineering” as subjects on the general methods of quality assurance, “analysis of whys” and “Failure Mode and Effect Analysis (FMEA) and Design Review Based on Failure Mode (DRBFM)” as subjects of failure analysis methodology, and the “press processing” and “resin molding” which are related to production technology.



Training session focused on “quality”

Quality Competition

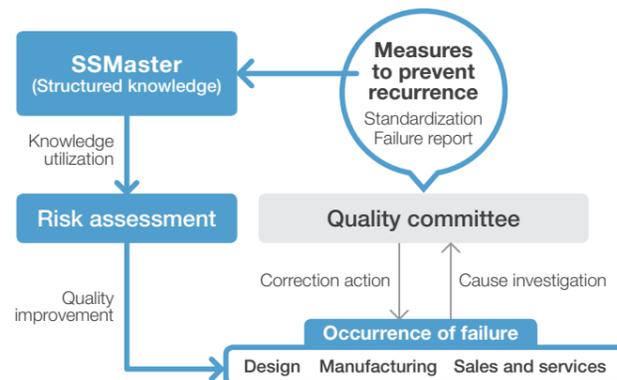
The “Noritz Quality Competition” is held every year for the Noritz Group companies and our business partners with the objective of raising quality awareness. In 2015, a number of successful examples of quality improvement were presented and shared by 125 participants. For the first time for us, discussions on the trouble occurrences were conducted by 91 participants from 51 business partner companies. Such type of interactive communication through the supply chain is also leading to improve operational quality.



“Noritz Quality Competition” award winners

Initiative to Raise Parts Quality

The Noritz Group has adopted the Stress Strength Model (SSM), a method to systematically compile past failures in design and production processes as well as individuals’ insights and know-how and to share them throughout the group. This model is used for risk assessment of FMEA and DRBFM to enhance quality. Through this initiative, we also encourage our people to sharpen their skill at logical thinking.



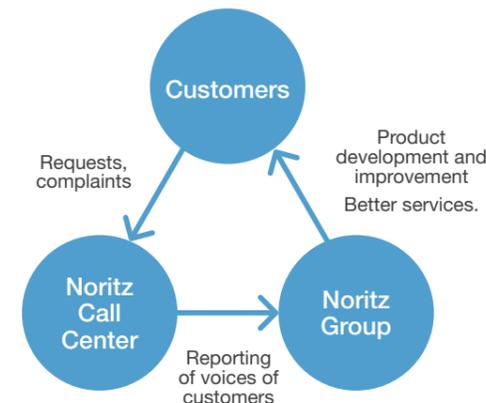
Initiatives for Consumer Safety

MATERIALITY
THEME 3

The Noritz Group listens to customers and takes measures to improve quality on the basis of that.

Call Center Generates Hints for More Consumer Satisfaction

Our call center, which is a point of contact for us to listen to customers’ voices, is part of the group’s quality control initiative, particularly the aspect of preparing and applying measures to raise the quality of their direct contact with customers. The comments and opinions collected at the call center are brought up and discussed in the gathering to listen to voices of customers’ and the Production Department’s information exchange meeting so as to be reflected in product development and improvement, as well as better services.



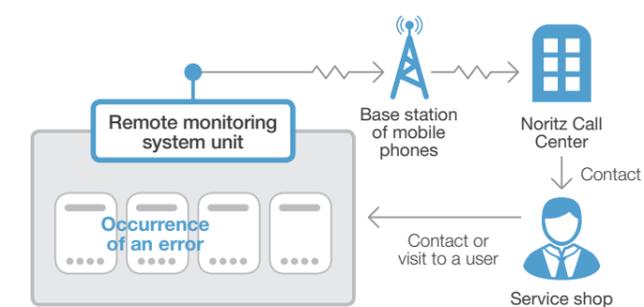
Meeting to review voices of customers

The meeting is held with the aim of promoting higher customer satisfaction (CS) and nurturing the CS culture. By discussing customers’ voices and issues for improvement from their perspective in the meeting participated by the management, their voices tend to be well reflected on the company.



Remote monitoring system

In October 2015 Noritz introduced its first remote monitoring system to monitor commercial-use water heaters around the clock and to ascertain the status of the heaters in detail from a remote location. In case of malfunction of the equipment, an error message is sent to the Noritz Call Center, which then gets in touch with the user of the equipment.



Ensuring customer safety and reliability

In order to prevent an accident caused by the aging of a product, almost all models feature a function to alert customers of the need for a check-up. In addition, in order to shorten the time when the customer cannot use hot water due to an equipment problem, use is made of a system whereby a replacement model or repair parts can be promptly checked on-site.



Example of an alert system for a check-up

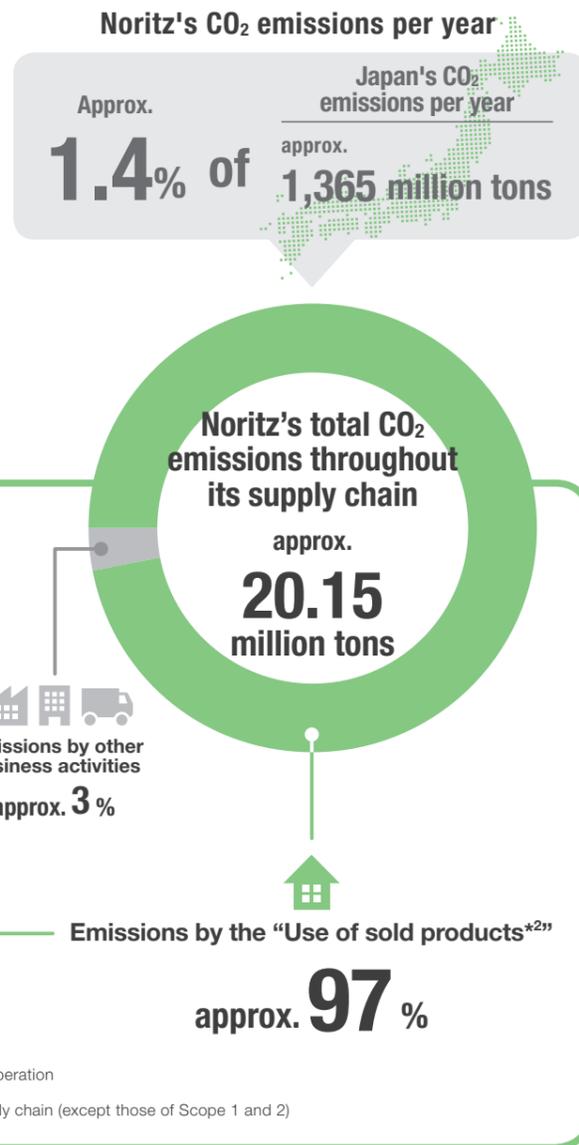


Responsibility for Environmental Conservation

Noritz's consumption of energy for its business operations and by our manufactured products in Japan result in emission of 20.15 million tons of CO₂ per year. This represents about 1.4% of the overall CO₂ emissions in the nation, which is approximately 1,365 million tons.

CO₂ emission calculation for the entire supply chain

Noritz estimated the CO₂ emissions of its entire supply chain, using calculations based on the "Greenhouse Gas Protocol (GHG Protocol)," an international accounting tool, and the "General Guidelines on Supply Chain GHG Emission Accounting," produced by the Ministry of the Environment (see table below). Of the 20.15 million tons representing about 1.4% of the overall CO₂ emissions in Japan, which is approximately 1,365 million tons*1. about 97% was generated by consumer use of our products. This makes us realize the importance of promoting replacement into eco-friendly products.



CO₂ emissions breakdown by category, based on the "General Guidelines on Supply Chain GHG Emission Accounting"

| Scope | Category | Description | Percentage |
|---------|-------------|--|------------|
| Scope 1 | | Direct emissions (use of fuel on site) | 0.04% |
| Scope 2 | | Indirect emissions (consumption of electricity, water) | 0.06% |
| Scope 3 | Category 1 | Purchased goods and services | 2.56% |
| | Category 2 | Capital goods | 0.09% |
| | Category 3 | Fuel- and energy-related activities | 0.01% |
| | Category 4 | Upstream transportation and distribution | 0.11% |
| | Category 5 | Waste generated in operations | 0.00% |
| | Category 6 | Business travel | 0.00% |
| | Category 7 | Employee commuting | 0.01% |
| | Category 8 | Upstream leased assets | 0.01% |
| | Category 9 | Downstream transportation and distribution | 0.00% |
| | Category 10 | Processing of sold products | 0.00% |
| | Category 11 | Use of sold products | 97.07% |
| | Category 12 | End-of-life treatment of sold products | 0.03% |
| | Category 13 | Downstream leased assets | 0.00% |
| | Category 14 | Franchises | 0.00% |
| | Category 15 | Investments | 0.00% |

Scope 1: Direct greenhouse gas emissions from GHG sources from the company's operation
 Scope 2: Indirect greenhouse gas emissions from sources provided by the third party
 Scope 3: Indirect greenhouse gas emissions related to business activities in the supply chain (except those of Scope 1 and 2)

*1 Source: Preliminary data of Japan's greenhouse gas emissions for 2014, Greenhouse Gas Inventory Office, National Institute for Environmental Studies
 *2 Noritz supplies water heaters to approximately 20 million households and has about a 40% share in Japan's gas and kerosene appliance market. Calculation of CO₂ emissions by use of sold products is based on the annual CO₂ emissions in 2000 (1.0 tons for gas appliances and 1.3 tons for kerosene appliances) and adjusted by multiplying the CO₂ reduction rate by product category, and assumes 10 years of usable life.

Commitments to Eco-First and CSR Materiality



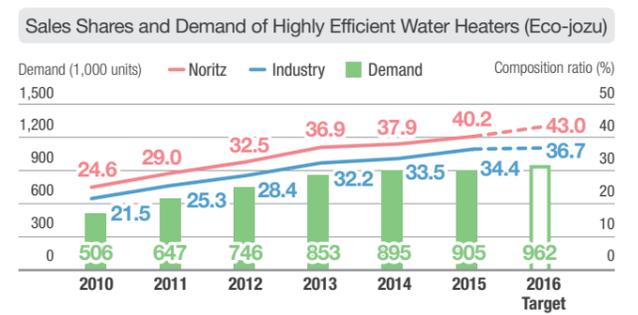
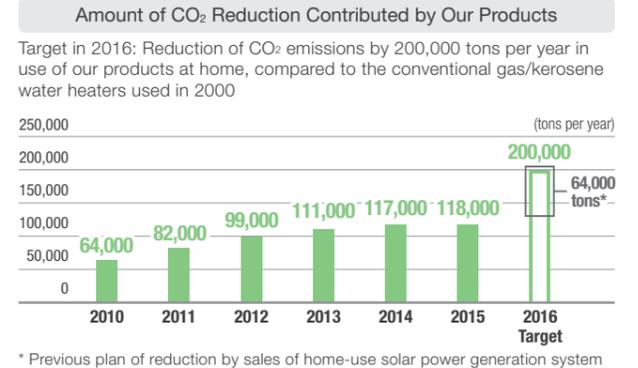
In 2009 the Noritz Group became the first manufacturer in the gas and kerosene appliance industry to acquire "Eco-First Company" certification and made the commitment to implement various environmental initiatives on behalf of society. In 2013 we reviewed the targets and revised our "Commitments to Eco-First" (details are available in our website, but only in Japanese.) We are now focusing on CSR Materiality, which is a part of our high-priority Commitments.



Initiative to reduce product-driven CO₂ emissions

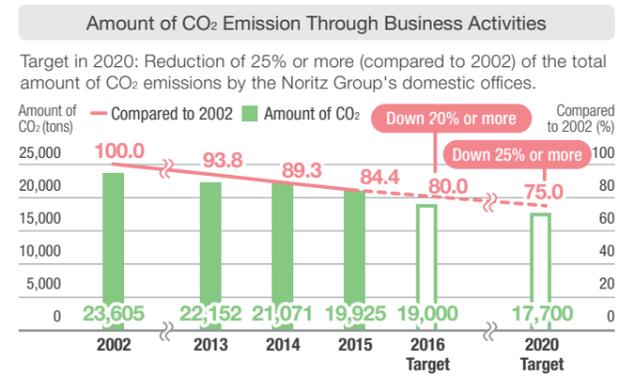
Aiming to reduce CO₂ emissions by our products, the Noritz Group is promoting sales of highly energy-efficient water heaters. However, we did not achieve an aggregate and significant reduction in 2015 compared to 2014, due to our withdrawal from home-use solar power generation systems. Going forward, we will focus on environmental-focused marketing and provide easy-to-understand environmental-related information on our products and services to our customers. In addition, we intend to succeed in carrying out our medium- to long-term CO₂ reduction plan, including our overseas operations in it.

We are also encouraging our employees to become more knowledgeable of and conscious of environmental matters by taking the Eco Test, a certification test for environmental specialists, sponsored by the Tokyo Chamber of Commerce and Industry. By now, 56% of our workforce, including President Kokui, has become certified. In the case of our Sales Department, our employees have a pass rate as high as 84%.



Initiatives to reduce CO₂ emissions through our business activities

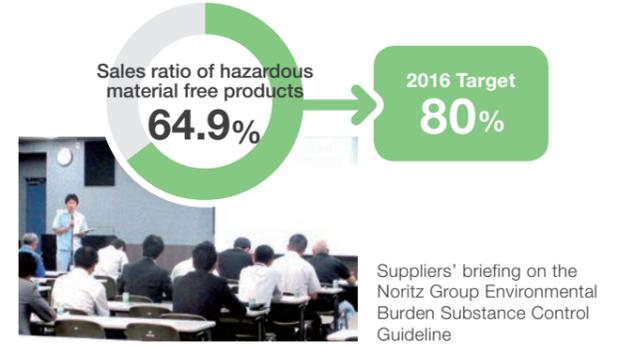
We have steadily reduced CO₂ emission through our business activities as planned. Going forward, we plan to further reduce CO₂ emissions by effective use of the energy flow, which indicates the energy trend, application, and amount of consumption. Development of human resources who can spearhead our environmental activities is also a high-priority item.



Initiatives to reduce use of hazardous materials

As a voluntary initiative, we have developed hazardous material free products and promoted their sales. These products now represent 64.9% of total sales. In light of a revised directive on Restriction on Hazardous Substances (RoHS) in 2019, we are now working on chemical substance control of our products. In 2015, we published the fifth revised version of the Noritz Group Environmental Burden Substance Control Guideline, reflecting various regulatory updates, and conducted a total of 13 briefings to associates and suppliers. In addition, we are currently establishing a system to

disclose information on the status of chemical substances as stipulated in the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulation.





Society

Together with the Society

Supply Chain Management

MATERIALITY
THEME 7

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

In-house Diffusion of the Noritz Group's "Guidelines for Noritz Group CSR Procurement"

The Noritz Group adopted the "Guidelines for Noritz Group CSR Procurement" in 2014 and conducted briefings to group companies and suppliers. In 2015 we sponsored a lecture by experts on CSR procurement, to help our employees and suppliers deepen their understanding.

Addressing the challenge of "conflict minerals"

Since 2014, Noritz has conducted annual surveys on "conflict minerals" ending up in our products and has held briefings for suppliers. A management database has been established in line with the Conflict-Free Smelter (CFS) Program, which is launched by Global e-Sustainability Initiative (GeSI) in partnership with the Electronics Industry Citizenship Coalition (EICC). We have expanded our investigation target from product composition to parts. Going forward, we will promote procurement from responsible suppliers



Briefing on the "Noritz Group Guidelines for CSR Procurement"

Surveying CSR in the Noritz supply chain

In 2015 we conducted a CSR survey to ascertain the actual status of our tier-one suppliers. Using the CSR procurement international standard, we developed a self-assessment questionnaire (SAQ) and asked the suppliers to do self-assessment. Based on the results, we plan to promote an awareness campaign in 2016.

Briefings on the "Noritz Group Guidelines for CSR Procurement"

| | | | |
|------|---------|---|-------------------------------------|
| 2014 | August | Noritz Suppliers Association | 84 participants from 83 suppliers |
| | | Noritz Quality Competition | 97 participants from 55 suppliers |
| 2015 | January | Noritz Suppliers Association | 84 participants from 84 suppliers |
| | June | Briefing on Chemical Substance Management | 127 participants from 116 suppliers |
| | August | Noritz Suppliers Association | 83 participants from 82 suppliers |

Lectures

| | | |
|------|--------|--|
| 2015 | August | Lecture on CSR procurement by experts (held during the Noritz Suppliers Association's meeting) |
|------|--------|--|

Surveys on conflict minerals

| | | | |
|------|---|-------|--------------------|
| 2014 | Number of requests for Noritz survey from suppliers | 4 | |
| | Number of models | 229 | |
| | Number of parts surveyed | 2,017 | Response rate 100% |
| | Number of suppliers surveyed | 78 | Response rate 100% |
| 2015 | Number of requests for Noritz survey from suppliers | 3 | |
| | Number of models | 12 | |
| | Number of parts surveyed | 393 | Response rate 99% |
| | Number of suppliers surveyed | 64 | Response rate 99% |

Respect for Human Rights

MATERIALITY
THEME 4

As a global corporation, the Noritz Group will engage in business activities by respecting the rights of all people concerned.

Development of Human Rights Guidelines and initiatives

Noritz Group emphasizes "respect for people" at every opportunity, in and out of the group, and throughout its value chain. In 2015 through dialogues with human rights NGOs and numerous discussions by the management and heads of departments, we prepared the "Noritz Group Guidelines for Human Rights," which was officially adopted and disclosed in

April 2016. In addition, we conducted a survey to grasp the reality of the Group and its supply chain, and due diligence on human rights. In 2016 in addition to doing business activities based on the Human Rights Guidelines, we plan to steadily work on the issues addressed and aim to implement the Guidelines in the entire value chain.

Contributing to Local Communities

As a member of its local communities, the Noritz Group is actively involved in social contribution activities. We find it important for our employees to grow by being engaged in the local community and becoming aware of society's expectations and requests.

Support for post-disaster recovery

As one of the companies that suffered from the Great Hanshin Earthquake in Kobe in 1995, the Noritz Group has been supporting post-disaster recovery efforts of others in return for the kindnesses received by the company and others. For the Kobe Luminarie, a light festival held in Kobe every December to remember the deceased and to pay tribute to their memories, some of our employees are involved in fundraising every year and also as volunteers since 2012. As for recovery support for the Great East Japan Earthquake of 2011, we financially support high school tuition for students who lost their parents through the "MICHINOKU Future Fund."



Volunteer activities at the Kobe Luminarie



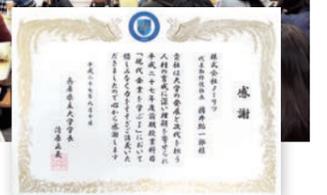
Giving the list donations to the "MICHINOKU Future Fund"

Seminars for university students

The Noritz Group hosted a four-month seminar in 15 sessions at the University of Hyogo, with the theme of "Study modern companies." As a local company contributing to the community, 14 of our people, including President Kokui and mainly alumni employees, became lecturers to about 500 students. We are pleased that some of the students gave us enthusiastic feedback such as "I realized how much efforts the company is making to deliver products to customers."



Lecture at the University and the letter of appreciation



Group company Dux's office tour

Dux Manufacturing Limited, Australia, which joined the Noritz Group in December 2014, celebrated its 100th anniversary. About 300 employees, family members, and people in the community were invited for a plant tour and some recreational activities. We will continue to be an integral part of the local community.



Participants in the plant tour



Governance

Corporate Governance

Basic Policy on Corporate Governance

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

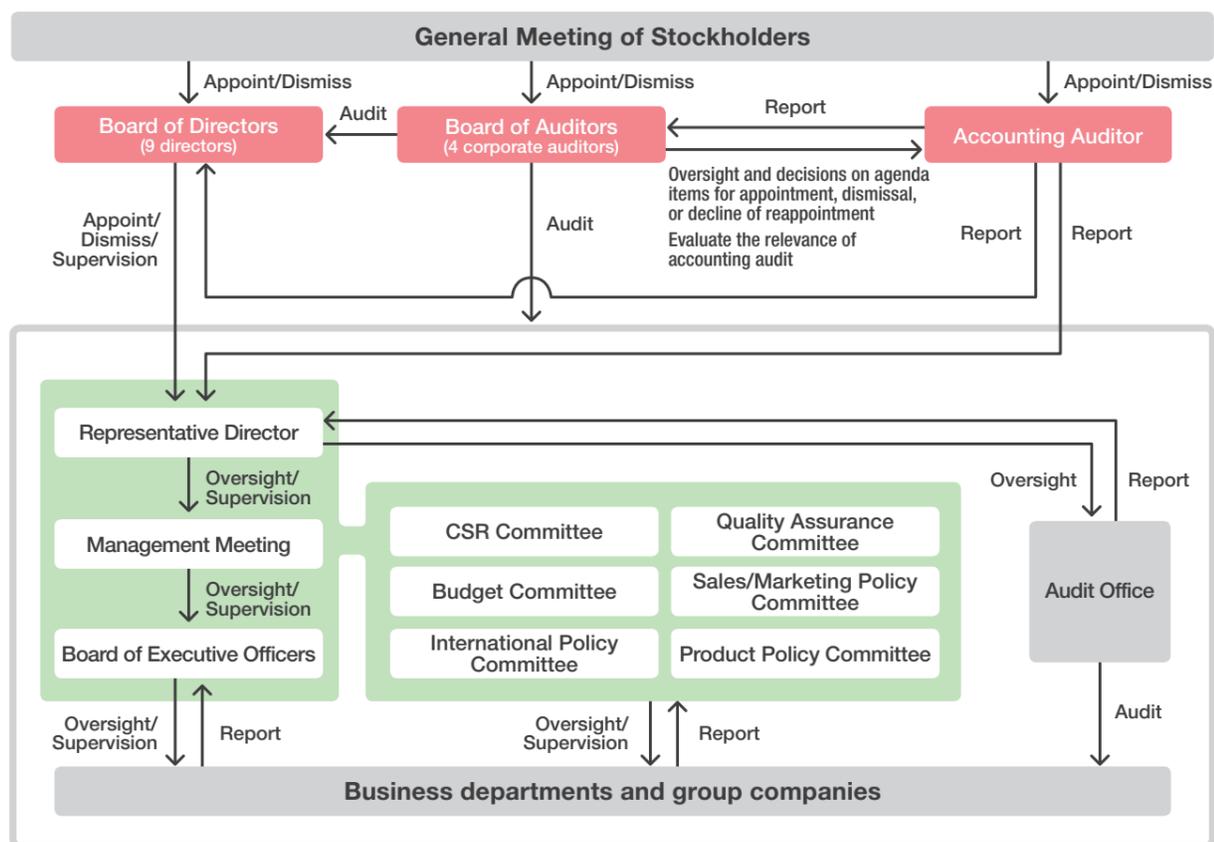
Establishment of Corporate Governance Guidelines

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

Governance Guidelines was established. It is comprised of four chapters, concerning general rules, relationship with stakeholders, information disclosure policies, and corporate governance structure.

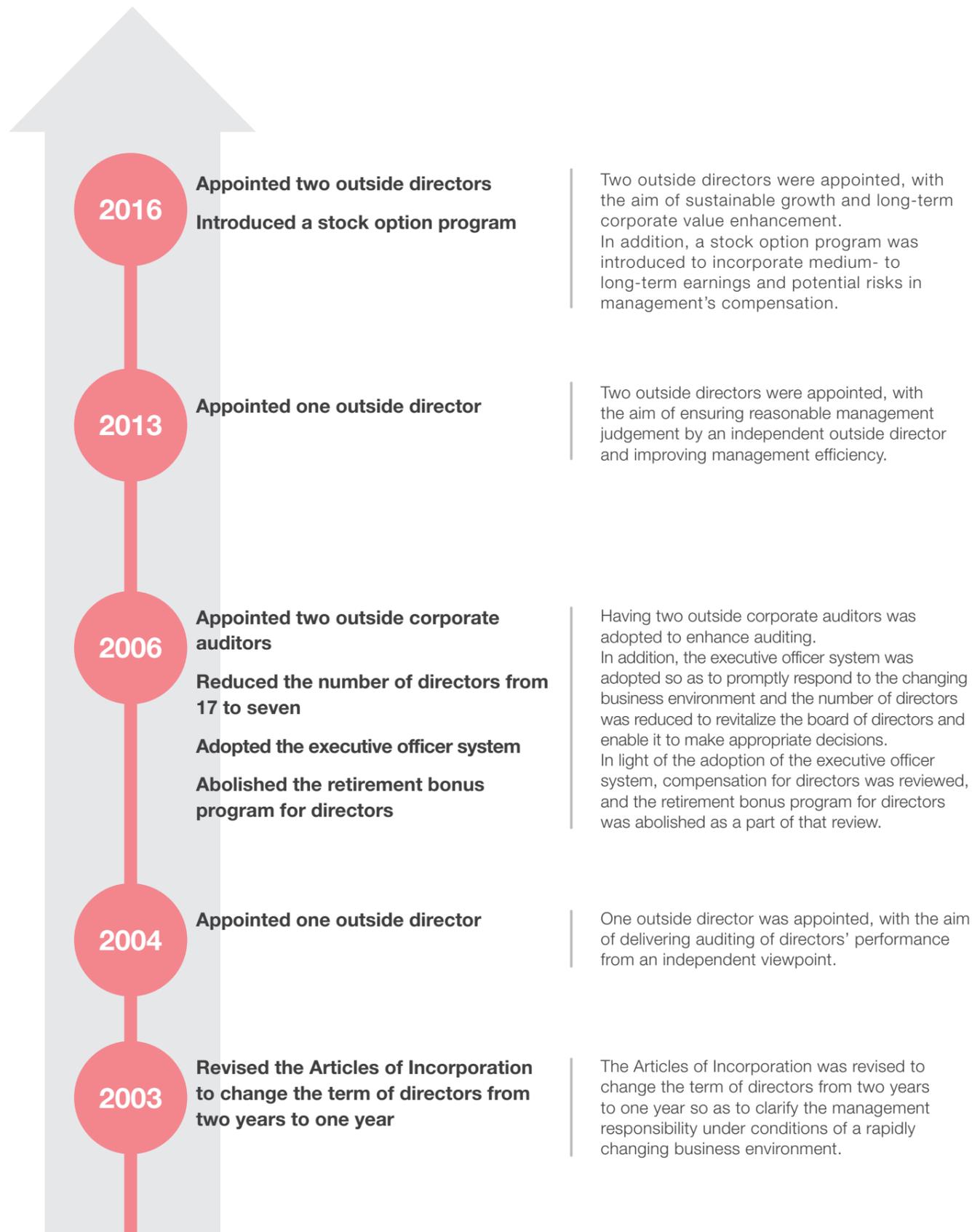
Corporate governance structure

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



Changes in the Corporate Governance Framework

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



Remuneration for Directors

Noritz determines the contents of directors remuneration in line with the Corporate Governance Code and has reviewed the incentives.

Remuneration for directors

The total remuneration for directors at Noritz was determined by a resolution at the 57th General Meeting of Stockholders, held in March 2007, to be within the aggregate amount of ¥400 million (excluding salaries to employees). The total amount of remuneration for corporate auditors at Noritz was resolved at the 53rd General Meeting of Stockholders, held in March 2003, to be within the aggregate amount of ¥50 million.

| | Number of recipients | Total remuneration paid |
|---|----------------------|-------------------------|
| Directors (including one outside director) | 10 | ¥234,722,000 |
| Corporate Auditors (including two outside corporate auditors) | 4 | ¥49,349,000 |
| Total (including three outside director/auditors) | 14 | ¥284,072,000 |

* The above number of directors includes three directors who retired at the end of the 65th General Meeting of Stockholders held in March 2015.

Introduction of stock option scheme as a stock-linked compensation plan

In these days management is expected to share the benefits and risks of stock price fluctuation with Stockholders and enhance their commitment to and motivation for higher stock price and raising corporate value. The 66th General Meeting of Stockholders held in March 2016 passed a resolution to introduce a stock option scheme as a stock-linked compensation plan for the directors (except outside directors) in addition to remuneration in cash, with the aim of providing a valid incentive toward sustainable growth of the company.

Corporate Governance Issues

Noritz recognizes the following two major issues concerning corporate governance.

Establishment of a discretionary committee (Nomination & Remuneration Committee)

In order to nominate representative directors and other directors, and enhance independence, objectiveness, and accountability of the board of directors concerning remuneration and other matters, Noritz is currently considering to establish a discretionary committee which would deliberate on the election and dismissal of representative directors and other directors, and appropriateness of the remuneration plan for directors.

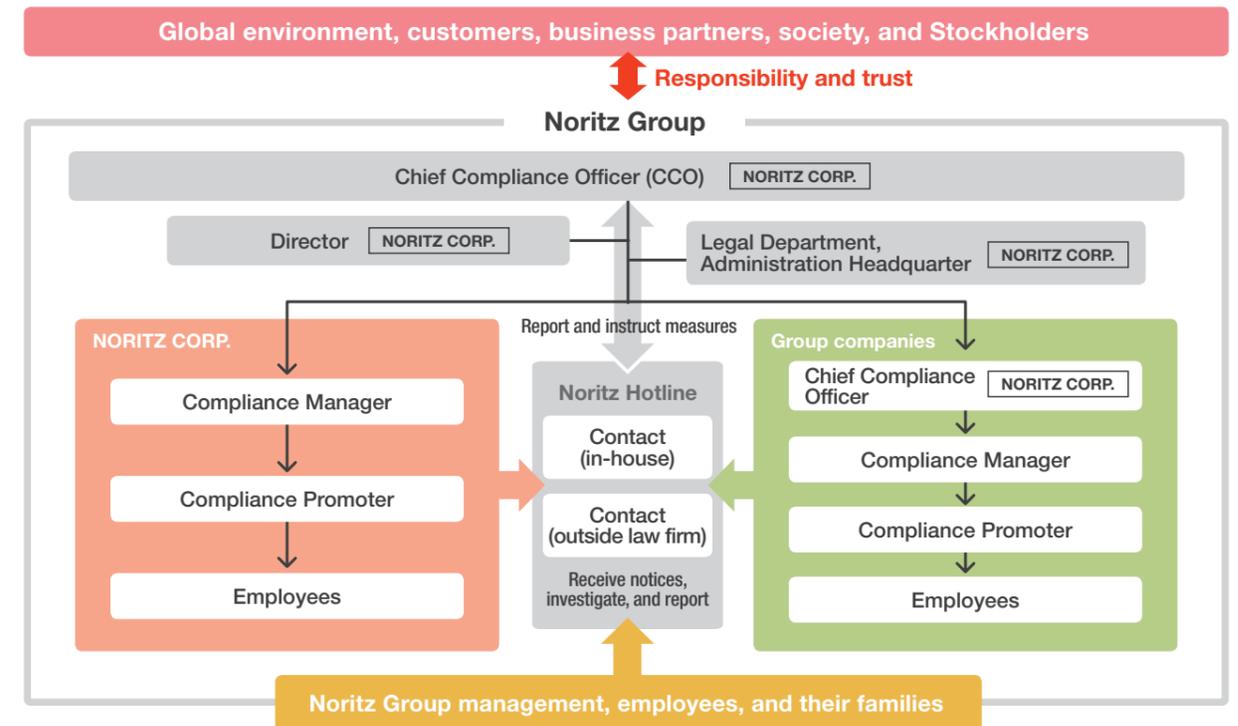
Analysis and evaluation of effectiveness of the Board of Directors

In order to ensure effectiveness of the Board of Directors and enhance its performance, Noritz is considering the conducting of analysis and evaluation of effectiveness of the Board of Directors based on self-evaluation by directors and the hearing opinions of corporate auditors.

Compliance

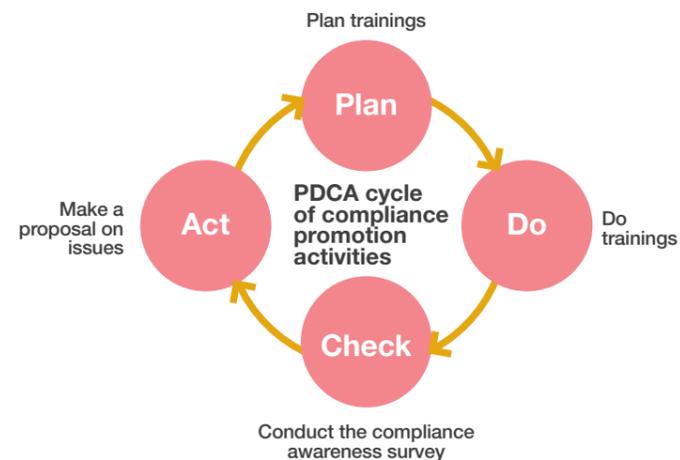
By defining compliance as adherence to “corporate ethics,” which include laws and regulations, the Articles of Incorporation, internal rules, and social rules, Noritz has formulated the Noritz Group Code of Ethics and is committed to comply with it.

Compliance Promotion Structure



Compliance promotion activities

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



Compliance Month

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

Themes for compliance months in 2015
 May 2015: Prevention of power harassment
 Sep. 2015: Information security

Compliance Training

“Stratified Compliance Training” is provided to new employees and new managers, as well as to compliance managers and promoters of each section.

Compliance Awareness Survey

A compliance awareness survey is conducted every year, so as to raise compliance awareness in the workplace and overall work environment. The survey results are reported at the Board of Directors meeting and are utilized in various ways, such as to prepare a feedback sheet and to make a proposal on issues in each department.

Directors and Corporate Auditors (as of March 30, 2016)

Directors and Corporate Auditors named below have been approved by Noritz's 66th General Meeting of Stockholders, held on March 30, 2016.

Directors



1 Representative Director and Representative Executive Officer
Soichiro Kokui

1976 Apr. Joined Noritz

2003 Mar. Noritz Director

2009 Sep. Representative Director and Representative Executive Officer

4 Director and Managing Executive Officer
Yoshiyuki Ozeki

1977 Apr. Joined Noritz

2010 Jan. Noritz Executive Officer, and General Manager of Management Planning Division

2015 Mar. Noritz Director, Managing Executive Officer, and Head of Administration Headquarters

7 Director and Managing Executive Officer
Makoto Mizuno

1986 Dec. Joined Noritz

2014 Jan. Noritz Executive Officer, Head of Sales & Marketing, Chubu Headquarters

2016 Mar. Noritz Director, Managing Executive Officer, and Head of Sales & Marketing, Domestic Business Headquarters

2 Director and Senior Managing Executive Officer
Toshiyuki Otaki

1979 Apr. Joined Noritz

2003 Mar. Noritz Director

2014 Sep. Noritz Director, Senior Managing Executive Officer, in charge of International Business Headquarters, and Head of International Business Division

2016 Jan. Noritz Director, Senior Managing Executive Officer, and Head of International Business Division

5 Director and Managing Executive Officer
Tsutomu Mizuma

1980 Apr. Joined Noritz

2007 Jan. Noritz Executive Officer, Head of Sales & Marketing, Osaka Headquarters

2015 Mar. Noritz Director, Managing Executive Officer, and Head of Sales & Marketing Headquarters

2016 Jan. Noritz Director, Managing Executive Officer, and Head of Production Headquarters

8 Director (Outside)
Yasuhiko Ogawa

1982 Jun. Registered as a Certified Public Accountant

1987 Apr. Registered as a Tax Accountant

2009 Mar. Noritz Outside Corporate Auditors

2013 Mar. Noritz Outside Director

3 Director and Senior Managing Executive Officer
Takafumi Nakamura

1980 May. Joined Noritz

2005 Mar. Noritz Director

2014 Sep. Noritz Director, Senior Managing Executive Officer, and in charge of Domestic Business Headquarters

2016 Jan. Noritz Director, Senior Managing Executive Officer, and Head of Domestic Business Division

6 Director and Managing Executive Officer
Satoshi Haramaki

1983 Apr. Joined Noritz

2011 Jan. Noritz Executive Officer, Deputy Head of Research & Development Headquarters

2015 Mar. Noritz Director, Managing Executive Officer, and Head of Research & Development Headquarters

9 Director (Outside)
Hideaki Takahashi

1966 Apr. Entered Kobe Bank (current Sumitomo Mitsui Banking Corporation (SMBC))

1995 Jul. SMBC Director, Head of Sales & Marketing Kobe Headquarters

1998 Jun. President of SAKURA KCS Corporation

2013 Mar. Noritz Outside Corporate Auditor

2016 Mar. Noritz Outside Director

Corporate Auditors



10 Corporate Auditor
Kazuhira Akari

1977 Apr. Joined the Dai-ichi Mutual Life Insurance Company (current The Dai-ichi Life Insurance Company Limited)

2005 Apr. Noritz Assistant General Manager for Head of Administration Headquarters

2008 Mar. Noritz Executive Officer, General Manager of General Administration Division, Administration Headquarters

2010 Mar. Noritz Corporate Auditor

11 Corporate Auditor
Toshiyuki Sawada

1979 Apr. Joined Noritz

2004 Jul. Noritz General Manager of Accounting & Finance Division, Administration Headquarters

2011 Mar. Noritz Corporate Auditor

12 Corporate Auditor (Outside)
Noriaki Nagahara

1984 Apr. Registered as an Attorney

2006 Mar. Noritz Outside Corporate Auditor

2007 Jan. Representative of Kobe 15-bankan Law Office

13 Corporate Auditor (Outside)
Hiroshi Shirai

1977 Nov. Joined Price Waterhouse & Co.

1982 Aug. Registered as a Certified Public Accountant

2011 Oct. President of Shirai Certified Public Accountant Office

2016 Mar. Noritz Outside Corporate Auditors

* The status of concurrent positions of Outside Directors and Corporate Auditors is on page 40.

Independent Outside Directors

Noritz appoints independent outside directors who have professional insight as corporate executives, lawyers, certified public accountants, etc. They are appointed, based on the Selection Standards of Independent Outside Directors. Using their professional insight, independent outside directors supervise and give advice on business policy, management enhancement, conflict of interests between Noritz and its management and majority Stockholders, and other issues, from the viewpoint of sustainable growth and medium- and long-term improvement of corporate value.

Selection Standards of Independent Outside Directors

With the aim of ascertaining the standards of independence in selection of outside directors and outside auditors, Noritz has formulated the Selection Standards of Independent Outside Directors based on the resolution of the Board of Directors meeting in January 2015 and has disclosed it in the Annual Securities Report.

Outside Directors

| name | Major concurrent posts | Reasons for appointment |
|--------------------------|--|--|
| Yasuhiko Ogawa | Representative of Certified Public Accountant Yasuhiko Ogawa Office Statutory Auditor (Outside) of Osaka Exchange, Inc. | Professional insight as certified public accountant and certified tax accountant, and extensive knowledge and experience in Noritz's operations as auditor to be used in Noritz management |
| Hideaki Takahashi | — | Extensive experience in operations of a financial institution and as corporate executive, and extensive knowledge and experience in Noritz's operations as auditor to be used in Noritz management |

Outside Auditors

| name | Major concurrent posts | Reasons for appointment |
|-------------------------|--|---|
| Noriaki Nagahara | Representative of Kobe 15-bankan Law Office Nikko Co., Ltd. Outside Corporate Auditor | Extensive experience as lawyer to be reflected in Noritz's audit |
| Hiroshi Shirai | President of Shirai Certified Public Accountant Office Member of the Osaka-City Appropriate Performance of Duties Committee Outside Auditor of ALTECO Co., Ltd. Outside Audit & Supervisory Board Member of Wacoal Holdings Corp. | Extensive experience as certified public accountant to be reflected in Noritz's audit |

Message from an Outside Director

I am committed to play an active role in implementing the Corporate Governance Code.

Director (Outside) Yasuhiko Ogawa

Based on my professional knowledge as a certified public accountant and tax accountant, I am in charge of supervising the management within my role and responsibility as an independent outside director. In order to fulfill my duties, I participate not only in the management meetings, that are held prior to the board meetings, but also the regular auditors meetings. This is because I could learn more on issues regarding how to increase corporate value, such as raising the profitability of domestic business, and growth in overseas business. I gain better understanding of the issues to be discussed before

I attend the board meetings. As I found attending at the auditors meetings very effective when I was a Noritz outside auditor, I am continuing to do so since my appointment as an outside director. Noritz's board meetings fulfill appropriate roles and duties as stated in the Corporate Governance Code and make effective use of independent outside directors. I believe that my important responsibility is to proactively engage in discussions at the board meetings and point out problems, if any, so that just and fair decisions for the benefit of stakeholders, including that of the minority stockholders, are made.

Consolidated Financial Statements

Consolidated Balance Sheet

| Assets | (Millions of yen) | | (Millions of U.S. dollars) | Liabilities | (Millions of yen) | | (Millions of U.S. dollars) |
|--|-------------------|-----------------|----------------------------|--|-------------------|-----------------|----------------------------|
| | 2014.12 | 2015.12 | 2015.12 | | 2014.12 | 2015.12 | 2015.12 |
| Current assets | | | | Current liabilities | | | |
| Cash and cash equivalents | ¥21,439 | ¥27,769 | \$230 | Notes payable and accounts payable | ¥41,225 | ¥38,826 | \$322 |
| Notes receivable and accounts receivable | 60,428 | 56,397 | 468 | Short-term borrowings | 1,800 | 800 | 7 |
| Securities | 4,932 | 1,523 | 13 | Accrued corporate income taxes | 1,197 | 624 | 5 |
| Inventories | 20,544 | 18,407 | 153 | Reserve for bonuses | 1,201 | 720 | 6 |
| Deferred tax assets | 1,323 | 1,242 | 10 | Reserve for bonuses for directors | 34 | - | - |
| Others | 5,831 | 4,500 | 37 | Reserve for product warranties | 1,240 | 920 | 8 |
| Allowance for doubtful accounts | - 257 | - 293 | - 2 | Reserve for product accidents processing | 449 | 19 | 0.2 |
| Total current assets | 114,242 | 109,546 | 909 | Reserve for losses due to business rearrangements | 854 | - | - |
| | | | | Other payables | 10,440 | 9,910 | 82 |
| Fixed assets | | | | Others | 9,595 | 9,342 | 77 |
| Tangible assets | | | | Total current liabilities | 68,039 | 61,164 | 507 |
| Buildings and structures (net amount) | 16,452 | 15,952 | 132 | Long-term liabilities | | | |
| Machinery and transport equipment (net amount) | 7,937 | 6,635 | 55 | Deferred tax liabilities | 2,353 | 2,571 | 21 |
| Land | 9,983 | 9,703 | 80 | Reserve for retirement bonuses for officers | 51 | 53 | 0.4 |
| Construction in progress | 619 | 521 | 4 | Reserve for product warranties | 1,425 | 3,439 | 29 |
| Others (net amount) | 3,053 | 2,926 | 24 | Liabilities concerning retirement benefits | 11,508 | 11,626 | 96 |
| Total tangible assets | 38,047 | 35,739 | 296 | Others | 4,439 | 4,435 | 37 |
| | | | | Total fixed liabilities | 19,777 | 22,126 | 184 |
| Intangible assets | | | | Total liabilities | ¥87,816 | ¥83,291 | \$691 |
| Goodwill | 5,624 | 816 | 7 | Net assets | | | |
| Others | 10,257 | 9,591 | 80 | Stockholder's equity | | | |
| Total intangible assets | 15,881 | 10,408 | 86 | Capital | ¥20,167 | ¥20,167 | \$167 |
| Investments and other assets | | | | Capital surplus | 22,956 | 22,956 | 190 |
| Investments in securities | 31,918 | 36,206 | 300 | Retained earnings | 60,583 | 55,120 | 457 |
| Long-term loans | 657 | 848 | 7 | Treasury stock | - 5,088 | - 5,093 | - 42 |
| Deferred tax assets | 2,843 | 2,241 | 19 | Total Stockholder's equity | 98,620 | 93,152 | 773 |
| Others | 3,353 | 2,499 | 21 | Cumulative amount of other comprehensive income | | | |
| Allowance for doubtful accounts | - 882 | - 468 | - 4 | Other difference in securities valuation | 10,162 | 14,040 | 116 |
| Total investments and other assets | 37,890 | 41,327 | 343 | Deferred hedge gains (losses) | 991 | - 52 | - 0.4 |
| Total fixed assets | 91,819 | 87,475 | 726 | Foreign currency translation adjustment | 5,185 | 3,823 | 32 |
| | | | | Cumulative amount of retirement benefits adjustments | - 1,531 | - 1,419 | - 12 |
| Total assets | ¥206,061 | ¥197,022 | \$1,634 | Total cumulative amount of other comprehensive income | 14,807 | 16,393 | 136 |
| | | | | Minority interests | 4,816 | 4,185 | 35 |
| | | | | Total net assets | 118,244 | 113,731 | 943 |
| | | | | Total liabilities and net assets | ¥206,061 | ¥197,022 | \$1,634 |

Consolidated Statement of Income

| | (Millions of yen) | | (Millions of U.S. dollars) |
|---|-------------------|----------|----------------------------|
| | 2014.12 | 2015.12 | 2015.12 |
| Sales | ¥218,943 | ¥218,909 | \$1,816 |
| Cost of goods sold | 150,599 | 147,543 | 1,224 |
| Gross profit | 68,344 | 71,365 | 592 |
| Selling, general and administrative expenses | 60,936 | 66,242 | 549 |
| Operating income | 7,407 | 5,123 | 42 |
| Non-operating income | 2,368 | 1,363 | 11 |
| Non-operating expenses | 337 | 473 | 4 |
| Ordinary income | 9,439 | 6,013 | 50 |
| Extraordinary income | 146 | 814 | 7 |
| Extraordinary loss | 4,163 | 9,212 | 76 |
| Net Income (net loss) before tax adjustments | 5,421 | - 2,385 | - 20 |
| Income taxes | 2,605 | 2,166 | 18 |
| Income taxes deferred | - 703 | - 372 | - 3 |
| Total income taxes | 1,901 | 1,793 | 15 |
| Net income (loss) before adjustments for minority interests | 3,520 | - 4,179 | - 35 |
| Net income (loss) of minority interests | 40 | - 220 | - 2 |
| Net income (loss) | ¥3,479 | ¥- 3,958 | \$- 33 |

Consolidated Statement of Cash Flow

| | (Millions of yen) | | (Millions of U.S. dollars) |
|--|-------------------|---------|----------------------------|
| | 2014.12 | 2015.12 | 2015.12 |
| Cash flow from operating activities | ¥13,476 | ¥13,116 | \$109 |
| Cash flow from investing activities | - 14,658 | - 6,346 | - 53 |
| Cash flow from financing activities | - 2,814 | - 2,814 | - 23 |
| Effect of exchange rate changes on cash and cash equivalents | 1,334 | - 649 | - 5 |
| Net increase (decrease) in cash and cash equivalents | - 2,662 | 3,307 | 27 |
| Cash and cash equivalents at beginning of year | 26,936 | 24,274 | 201 |
| Cash and cash equivalents at end of year | ¥24,274 | ¥27,581 | \$229 |

* Figures in yen have been translated into U.S. dollars solely for convenience and are based on the exchange rate of ¥120.55=US\$1, announced by Sumitomo Mitsui Banking Corporation on December 30, 2015.

Consolidated Statements of Changes in Net Assets

| | Stockholders' equity | | | | | Accumulated Other Comprehensive Income | | | | | | Total net assets |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|--|-------------------------------|--|--|--|---|------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total Stockholders' equity | Net unrealized gains on other securities | Deferred hedge gains (losses) | Foreign currency translation adjustments | Recalculation of defined benefit plans | Total accumulated other comprehensive income | Minority interests in consolidated subsidiaries | |
| Balance as of December 31, 2013 | ¥20,167 | ¥22,956 | ¥58,539 | ¥-5,084 | ¥96,579 | ¥7,265 | ¥3 | ¥2,834 | - | ¥10,103 | ¥2,990 | ¥109,673 |
| Adjustment due to changes in accounting practices | | | | | - | | | | | | | - |
| Balance at beginning of year reflecting changes in accounting practices | 20,167 | 22,956 | 58,539 | -5,084 | 96,579 | 7,265 | 3 | 2,834 | - | 10,103 | 2,990 | 109,673 |
| Changes during the year | | | | | | | | | | | | |
| Cash dividends | | | -1,434 | | -1,434 | | | | | | | -1,434 |
| Net income | | | 3,479 | | 3,479 | | | | | | | 3,479 |
| Purchase of treasury stock | | | | -3 | -3 | | | | | | | -3 |
| Net changes in items other than stockholders' equity during the year | | | | | | 2,897 | 987 | 2,351 | -1,531 | 4,704 | 1,826 | 6,530 |
| Total changes during the year | - | - | 2,044 | -3 | 2,040 | 2,897 | 987 | 2,351 | -1,531 | 4,704 | 1,826 | 8,571 |
| Balance as of December 31, 2014 | ¥20,167 | ¥22,956 | ¥60,583 | ¥-5,088 | ¥98,620 | ¥10,162 | ¥991 | ¥5,185 | ¥-1,531 | ¥14,807 | ¥4,816 | ¥118,244 |
| Adjustment due to changes in accounting practices | | | 71 | | 71 | | | | | | | 71 |
| Balance at beginning of year reflecting changes in accounting practices | 20,167 | 22,956 | 60,655 | -5,088 | 98,692 | 10,162 | 991 | 5,185 | -1,531 | 14,807 | 4,816 | 118,316 |
| Changes during the year | | | | | | | | | | | | |
| Cash dividends | | | -1,577 | | -1,577 | | | | | | | -1,577 |
| Net income | | | -3,958 | | -3,958 | | | | | | | -3,958 |
| Purchase of treasury stock | | | | -4 | -4 | | | | | | | -4 |
| Net changes in items other than stockholders' equity during the year | | | | | | 3,878 | -1,043 | -1,361 | 112 | 1,585 | -631 | 955 |
| Total changes during the year | - | - | -5,535 | -4 | -5,539 | 3,878 | -1,043 | -1,361 | 112 | 1,585 | -631 | -4,585 |
| Balance as of December 31, 2015 | ¥20,167 | ¥22,956 | ¥55,120 | ¥-5,093 | ¥93,152 | ¥14,040 | ¥-52 | ¥3,823 | ¥-1,419 | ¥16,393 | ¥4,185 | ¥113,731 |

| | Stockholders' equity | | | | | Accumulated Other Comprehensive Income | | | | | | Total net assets |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|--|-------------------------------|--|--|--|---|------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total Stockholders' equity | Net unrealized gains on other securities | Deferred hedge gains (losses) | Foreign currency translation adjustments | Recalculation of defined benefit plans | Total accumulated other comprehensive income | Minority interests in consolidated subsidiaries | |
| Balance as of December 31, 2014 | \$167 | \$190 | \$503 | \$-42 | \$818 | \$84 | \$8 | \$43 | \$-13 | \$123 | \$40 | \$981 |
| Adjustment due to changes in accounting practices | | | 0.6 | | 0.6 | | | | | | | 0.6 |
| Balance at beginning of year reflecting changes in accounting practices | 167 | 190 | 503 | -42 | 819 | 84 | 8 | 43 | -13 | 123 | 40 | 981 |
| Changes during the year | | | | | | | | | | | | |
| Cash dividends | | | -13 | | -13 | | | | | | | -13 |
| Net income | | | -33 | | -33 | | | | | | | -33 |
| Purchase of treasury stock | | | | -0.0 | -0.0 | | | | | | | -0.0 |
| Net changes in items other than stockholders' equity during the year | | | | | | 32 | -9 | -11 | 0.9 | 13 | -5 | 8 |
| Total changes during the year | - | - | -46 | -0.0 | -46 | 32 | -9 | -11 | 0.9 | 13 | -5 | -38 |
| Balance as of December 31, 2015 | \$167 | \$190 | \$457 | \$-42 | \$773 | \$116 | \$-0.4 | \$32 | \$-12 | \$136 | \$35 | \$943 |

* Figures in yen have been translated into U.S. dollars solely for convenience and are based on the exchange rate of ¥120.55=US\$1, announced by Sumitomo Mitsui Banking Corporation on December 30, 2015.

About Stockholders and Shares

Stockholder Return Policies

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

Dividends



Together with Our Stockholders

Noritz publishes financial results quarterly. We hold results briefings in February and August and the general meeting of Stockholders in March.



Financial results briefing.

Status of the Shares (as of December 31, 2015)

Total number of authorized shares

156,369,000

Total number of issued sharers

50,797,651

Number of Stockholders

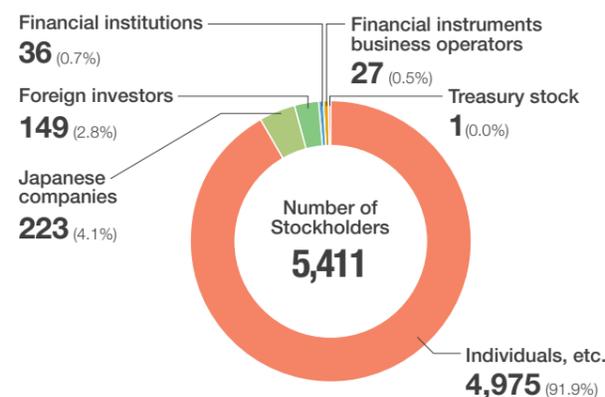
5,411

Major Stockholders

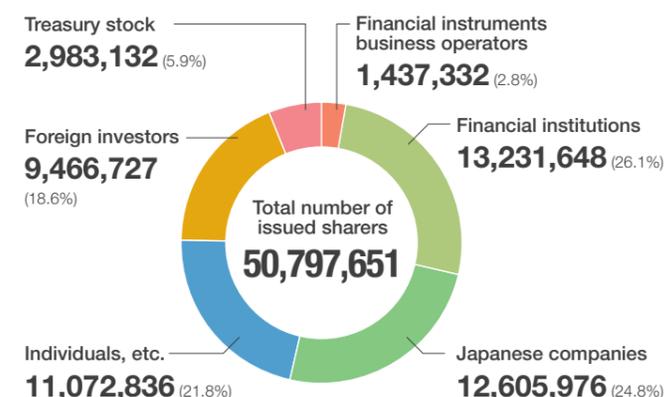
| Names | Number of shares held | Shareholding ratio (%) |
|---|-----------------------|------------------------|
| The Dai-ichi Life Insurance Company Limited | 2,967,000 | 6.21 |
| Noritz Transaction Counterparties Stock Ownership Association | 2,233,309 | 4.67 |
| Sumitomo Mitsui Banking Corporation | 2,199,695 | 4.60 |
| MSIP Client Securities | 2,192,800 | 4.59 |
| Noritz Employee Stock Ownership Association | 1,383,715 | 2.89 |
| Toshiro Ota | 1,350,100 | 2.82 |
| Japan Trustee Services Bank, Ltd. (trust account) | 1,261,600 | 2.64 |
| Nippon Electric Glass Co., Ltd. | 1,119,300 | 2.34 |
| TOTO Ltd. | 1,100,300 | 2.30 |
| Gumma Bank, Ltd. | 1,087,000 | 2.27 |

* The top ten major Stockholders are listed. * Shares held by Noritz are not listed. * Number of treasury stock shares is not included in calculating the shareholding ratio.

Breakdown of type of Stockholders



Breakdown of ownership among Stockholders



Third-Party Opinion on CSR

Opinions and Our Response in 2015

Concerning our "Noritz Report 2015" published last year, we received the third-party opinion and various other opinions via questionnaires, dialogues with stakeholders, and other means. The main opinions and our responses are summarized here.

| Opinions received | What Noritz Group did in response in 2015 |
|---|---|
| Inquiries on human rights and supply chain management | Conducted due diligence on human rights (CSR survey) at group companies and business counterparties; conducted human rights training for employees at each level; and brought the Guidelines for CSR Procurement to the attention of all. |
| Integration of management and CSR | Identified our CSR materiality assessment as our priority issue from a CSR perspective for integration in our medium-term management plan. |

Third-Party Opinion regarding CSR Activities in Fiscal 2015

Third-Party Opinion

I would like to submit a Third-Party Opinion regarding Noritz Group CSR activities in Fiscal 2015. In recent years, Noritz Group has developed in-house arrangements for CSR. Specific initiatives include the "Code of Ethics," "Guidelines for CSR Procurement," CSR materiality assessment, dialogue with stakeholders, and more information disclosure. I highly evaluate such continuous efforts made each year. In 2015 the company conducted a survey on supply chain management, which is one of the materiality items, to group companies and business partners. This is an example of how Noritz's every department concerned has made an overall effort to step forward into action. I anticipate that such efforts will result in greater positive impacts to the company's business (i.e., by contributions to the environment and in the interests of customers; with active roles played by diverse employees) and less negative impacts (i.e., less environmental burden, consideration to human rights). With respect to the CSR information disclosure, Noritz began disclosing in English in 2015, and we are strongly evaluating Noritz's active commitment to disclose in Chinese in 2016, with China being one of the countries with substantial impact on Noritz's business. I expect that the Noritz Report 2016 will be utilized in dialogues with shareholders. I understand that Noritz realizes the need to enhance CSR awareness within the company and the group. It is said that the role of the management is extremely important in this regard, as the medium- to long-term perspective is indispensable in CSR. To integrate corporate strategy and CSR, I hope that the management will keep communicating with employees on the importance of CSR, what type of actions can create positive impacts or reduce negative impacts, and how such actions can lead to brand building or favorably affect business activities and that each executive will share his experience with younger generations.

Please note that this opinion does not assure that this report is measured and calculated correctly, and shows all the important issues without omitting a single one, as evaluated in accordance with the production criteria that is generally regarded as fair and proper for the environmental report and alike.



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

Response to the above Third-Party Opinion

Ms. Murakami, thank you for valuable opinions from a third-party viewpoint. We appreciate your advice from a global perspective on our CSR activities. In this Noritz Report we have stated our financial and non-financial information, and presented our business model by classifying its content according to the formula Q+ESG (quality + environment, society and governance). In 2015, we gave deep consideration to how we should respond to CSR-related requests from and expectations of society through our business activities. Upon receiving your opinions, our major achievements included to start working on CSR materiality assessment, to publish our report in English, and to disclose more information on our

activities. In particular, we have refined CSR materiality through very meaningful processes such as numerous in-house reviews and dialogues with stakeholders. On top of our previous and ongoing priority issues such as related to the environment, safety and reliability, and human resources, we have added themes such as supply chain management and respect for human rights. Going forward, we are determined to work on the identified CSR materiality and, at the same time, to discuss the integration of management and CSR, as we aim to raise the corporate value of Noritz Group thereby. We will continuously disclose the status of such activities to all our stakeholders and enhance communication.



Executive Officer (in charge of CSR)
Hiroaki Sawamoto

Our thoughts in publishing Noritz Report 2016

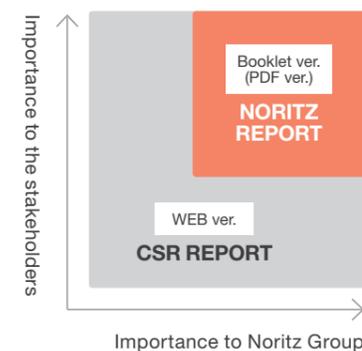
We integrated financial and non-financial information for the first time in the "Noritz Report 2015." We had to go through a trial and error process but we are pleased to have been able to present our thinking on Noritz Group's long-term value creation and CSR to many stakeholders. We also appreciate those of you who have responded to our questionnaire and have given us your precious opinions. Thank you. In this 2016 edition, by using the opinions received on the 2015 edition as reference, we tried to further improve the report. As an example of this, we have outlined our business model and roadmap to create value, and have expanded the pages on corporate governance. Having desire to show value creation from a long-term perspective, we believe there is still more room for improvement. We will continue to make our best efforts so as to help more stakeholders to fully evaluate our Group.

NORITZ Report Production Team

About the contents of this report

| | |
|---------------------------|---|
| Reporting period | Fiscal year 2015 (from January 1, 2015 to December 31, 2015) <small>*Some activities in 2016 are also included.</small> |
| Scope | Initiatives taken in Japan are the main content of the Noritz Report 2016. Certain parts (marked as ★) 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 | ISO26000, GRI "Sustainability Reporting Guidelines" Version 4, United Nations Global Compact, Ministry of the Environment "Environmental Reporting Guidelines" 2012 version |
| Last issued | The Japanese version in April 2015 and the English version in July 2015 |
| Next scheduled issue date | The Japanese version in April 2017 and the English version in July 2017 |

Approach to reporting media



Company Profile

| | |
|--|---|
| Company Name | Noritz Corporation |
| Established | March 1951 |
| Headquarters | Eiko Building, 93 Edomachi, Chuo-ku, Kobe, Hyogo Prefecture, Japan |
| Capital | ¥20,167 million |
| Representative Director and Representative Executive Officer | Soichiro Kokui |
| Number of Employees | 3,014(non-consolidated) 9,253(consolidated) As of December 31, 2015 |

About future plans and forecasts

All the plans or strategies of Noritz and Noritz Group as of March 31, 2016 that are shown in this report are our forecasts unless they are historical facts, and contain risks or uncertain factors. Actual business outcomes and conditions may differ greatly from these plans and forecasts, depending on various factors.

NORITZ
The Simple Comforts of Life