



NORITZ Corporation
Annual Report **2004**

Kerosene-Fired Water Heaters

System Bathrooms for Private Homes

Vanity Units

Gas-Related Water Heaters

Gas Bath Heaters

System Kitchens for Private Homes

Profile

Established in Kobe in 1951, Noritz Corporation is Japan's leading manufacturer of household water heaters and related products, including Japanese-style bath heaters as well as gas-related and kerosene-fired water heaters for residential and commercial use. As it strives to become a top supplier of a comprehensive range of household products, the Company is diversifying its product lineup to

include such products as hot-water floor heaters and bathroom-use drying systems that circulate hot water to generate heat. Additionally, Noritz is continuing the production of such bathroom- and kitchen-related products as luxury baths, vanity units, and system kitchens.

At the end of 1994, in its quest toward creating healthier, more-pleasant, and people-friendly living

spaces through the use of water, the Company introduced its new corporate philosophy—"Noritz: Hot water and health, gentleness and tranquillity, and the creation of better lifestyles." Furthermore, by continuing to "Change, Challenge, and Create," Noritz employees are striving to contribute to and play a more active role in society.

Consolidated Financial Highlights

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note)
	2003	2004	2004
For the year:			
Net sales	¥170,080	¥171,598	\$1,646,814
Net income	3,161	4,950	47,505
Per share data (Yen and U.S. dollars):			
Net income	¥ 61.42	¥ 98.01	\$ 0.941
Cash dividends, applicable to the year	17.00	28.00	0.269
At year-end:			
Total assets	¥154,613	¥148,773	\$1,427,764
Total shareholders' equity	83,387	85,780	823,225

Note: The U.S. dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥104.20 to U.S.\$1.00, the rate prevailing at December 31, 2004.

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Forward-looking statements

Statements contained in the Annual Report 2004 regarding business results for fiscal 2004 represent judgments based on currently available information. It should be noted that there is a possibility that actual results could differ significantly from those anticipated due to such factors as exchange rate fluctuations.

A Message from the Management

Noritz Group Companies Contribute to Operating Income

During fiscal 2004, ended December 31, 2004, Noritz Corporation reported a slight increase in consolidated net sales and lower operating income. By business segment, unit sales of water heaters declined along with the average price per unit. As a consequence, sales in our main business, water heater and air-conditioning related equipment, decreased. On the other hand, sales in our overseas activities rose to approximately ¥5.0 billion, versus ¥3.1 billion in the previous fiscal year. Sales of our second major business, system bathrooms and kitchens, rose above the previous year. Although sales of system kitchens were down, this was offset by improvement in sales of system kitchens with built-in ranges. Performance of our consolidated subsidiaries improved, with both Harman Co., Ltd., and RB Corporation returning to profitability. Moreover, NRK Corporation and Yubig Corporation were newly consolidated with the parent company.

From a profit perspective, increases in prices of raw and intermediate materials applied downward pressure on overall operating income, and we were able to reduce costs only ¥1.9 billion. Operating income of the parent company dropped, but other members of the Noritz Group reported operating income of ¥2.8 billion, thereby restraining the decline in consolidated operating income to ¥0.4 billion. In addition, we reported an extraordinary gain of ¥0.6 billion as a result of the introduction of defined contribution pension plans. Moreover, we completed the amortization of differences arising as a result of the adoption of new standards for retirement allowances in 2003. As a consequence, consolidated net income for fiscal 2004 rose 56.6% from the previous year.

Introduction of New Products for the Low- and Medium-Priced Segments

Fiscal 2004 was the final year of Noritz's "Create 21 First-Phase Medium-Term Management Plan." We continued our policies of focusing on our customers and profitability by introducing new low-priced units to halt the decline in our market share and new medium-priced products to increase overall profitability. In the gas bath heater business, where demand is greatest, we introduced "Yucore GT" with the aims of regaining market share and raising the percentage of fully automated units in our net sales. In addition, in the kerosene-fired water heater business, we introduced the "OTQ Series," which is acting as a driving force to help us regain the No. 1 position in this business. Also, in the system bathroom business, we introduced the "JUB Series," a low-priced offering for the broader market.

In the system kitchen field, we concluded a tie-up with EuroKeller, of France, and began to market our "S Brink Advance," a top-of-the-line system kitchen with a built-in glass-top range that was designed with EuroKeller's three-dimensional processing technology.



Katsuhiko Takeshita

Chairman and Representative Director



Shigeharu Kanzaki

President and Representative Director

Leveraging these new products, we held events entitled “Warm Water Life Satisfaction Exhibitions” in partnership with our distributors to showcase our new offerings to end users. Marketing activities also included holding seminars for distributors that are members of our organized marketing group for promoting sales in the home improvement market. Information presented at these seminars included know-how related to the home improvement business.

Shanghai Noritz Expands Production

During 2004, we continued to implement our international strategies. Shanghai Noritz Co., Ltd., made further improvements in quality and expanded the production of gas water heaters for sale in China and Japan. At present, work is under way on designing the second plant of Shanghai Noritz. In addition, Shanghai Noritz opened a showroom in October 2004 and stepped up its marketing activities aimed at real estate companies. We also established Noritz Hong Kong Company Limited, to integrate Noritz Group companies in the Hong Kong region. In the United States, Noritz America, Inc., is expanding its sales network to major cities. Most water heaters sold in the U.S. market are tank-type units, but there is growing appreciation in the United States of the advantages of tankless, instantaneous water heaters, which are the most widely used in Japan. As a result, shipments of these units are expanding in the U.S. market.

In Japan, we are continuing to develop our OEM business and are producing gas- and kerosene-fired units for other manufacturers. During the fiscal year under review, we expanded our OEM relationship with TOTO Ltd. to include not only gas-fired but also kerosene-fired water heaters. In addition, Noritz Group companies—including Taisei Industries Co., Ltd., RB Corporation, and Kanto Sangyo Co., Ltd.—expanded their production of parts on an OEM basis. NTS Corporation, our service and maintenance company, is actively marketing its maintenance services to air-conditioner manufacturers and producers of other home appliances. NTS became the first company in the maintenance field in Japan to obtain ISO 9001 certification.

To enhance our brand awareness among consumers, we began to sponsor two television programs during the year. Together with Harman, we also focused on providing information to magazines. This has raised our profile among a number of these publications, and the number of articles introducing our products is expanding.

In the wider business context, fiscal 2004 was also marked by a series of incidents of unethical corporate behavior and natural disasters, which underlined the importance of corporate risk management. Noritz focused its attention on providing assistance to the Shinetsu region in Japan, which experienced earthquakes and water damage during the year. These activities, which have attracted favorable public attention, included working together with local gas companies to install shower rooms for people who were rendered temporarily homeless by these natural disasters. In addition, Noritz took the initiative in collecting donations for victims of these disasters at the 14th Akashi Narrows Walk Rally and made its own contributions.

Strategies under the Second Medium-Term Plan

In 2005, we began to implement our Create 21 Second-Phase Medium-Term Management Plan. Goals under this plan include aiming to reach ¥185 billion in net sales, ¥9 billion in operating income, and ¥5 billion in net income, all on a consolidated basis. In the water heater and air-conditioning equipment business, we are forecasting that sales will remain flat in Japan, but that sales in markets outside Japan will be ¥13 billion.

Our outlook for the management environment is as follows. Recently, new housing starts have leveled out, and, thus, we are forecasting a decline of about 170,000 units over the next three years. At the same time, however, the number of houses built by first-time home owners will rise, and this is expected to result in lower sales prices for Noritz products and lower gross margins. We are forecasting that the total volume of water heating equipment will remain at about the current levels, but that the number of electric-powered units will rise to 15% of the total in 2007. We are aware that this will present a major challenge for Noritz. On the other hand, to meet this challenge, we are planning to place more emphasis on system kitchens and system baths not only in the market for new housing but also in the housing refurbishment market. Both the number of units sold and average prices of system kitchens with built-in ranges are increasing, but our forecast is for these to level out. As electric-powered induction heater ranges come into wider use, we intend to place emphasis on selling new, high-quality products in this area to maintain sales of units with built-in gas ranges at current levels.

Under our Create 21 Second-Phase Medium-Term Management Plan, we will be implementing three strategies. The first will be our "new value" strategy. We plan to enhance our designs and production technology, with the aim of offering new value to customers and driving further development of our markets. In addition, on the periphery of the water-heating equipment field, we plan to move forward with the development of systems that combine water heaters with system baths and kitchens.

Our second strategic focus will be our "Houresh" (House refresh) strategy. This strategy will capitalize on our capabilities for providing new features and proposals for value for our customers. We plan to target the home refurbishment market and work to encourage additional purchases and the replacement of current heaters. In addition, we will be working to strengthen our links with customers through more cooperative efforts both inside and outside Noritz.

Our third strategy will be to develop further our activities globally. Both in Japan and overseas, our initiatives will include responding to trends in technology and international accounting standards, improving our infrastructure, and moving toward use of common parts in Japan and overseas. Our exports from Japan amounted to ¥2.3 billion in fiscal 2004, and we are aiming for ¥6.6 billion in fiscal 2007. We also plan to build a second plant in Shanghai, as previously mentioned, and strengthen our production capabilities.

Turning to the business outlook for fiscal 2005, we are aiming for consolidated net sales of ¥175.0 billion, operating income of ¥7.5 billion, and net income of ¥4.0 billion. Initiatives during fiscal 2005 will include developing technologies for the future and equipment that responds to environmental requirements, while strengthening our capital investment measures.



Katsuhiko Takeshita
Chairman and Representative Director



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