

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

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



Shigeharu Kanzaki  
President and Representative Director

## Noritz Group Achieves Zero-Emission Status at All Plants

In fiscal 2004, members of the Noritz Group were successful in attaining zero-emission status at all 13 of their manufacturing plants. Zero-emission status means that the plants emit no waste that has to be disposed in landfill sites.\*

The first plant to reach zero-emission status—in April 2003—was that of Group company Taisei Kogyo Corporation, which manufactures heat-exchange and other water-heating equipment. In September 2003, three of Noritz's plants—namely, the NAM Plant office, Akashi Plant, and Tsuchiyama Plant—also attained zero emissions. These three plants all manufacture water-heating equipment, and they were the first water-heating equipment production facilities in Japan to reach zero-emission status. Also, in December 2003, our Tsukuba Plant and Kakogawa Plant, both of which manufacture system bathrooms, reached zero emissions. During 2004, this status was also attained by the facilities of Group companies RB Corporation, Kanto Sangyo Co., Ltd., Tada-Smith Company, Ltd., and Suoh Kinzoku Kogyo Co., Ltd.

\* The definition of zero-emission status differs from company to company. Noritz defines this status as when the volume of waste recycled by all recycling methods (material recycling, chemical recycling, and thermal recycling) reaches 99% or more for three consecutive months.

## New Company and Showroom Established in Shanghai

On June 11, 2004, the Company set up Noritz (Shanghai) Home Appliance Co., Ltd., to be in charge of manufacturing water-heating and other equipment in Shanghai, China. The company has acquired approximately 160,000 square meters of land in the Feng Xian district of Shanghai and is planning to build a new plant as a strategic manufacturing center for supplying China and eventually other markets as well. The first stage of the project calls for construction of buildings with a total floor area of 450,000 square meters. This facility is scheduled to go into operation in 2007 and will involve capital investment of about ¥4.0 billion. The new plant will meet rising demand for gas water-heating equipment in China and respond to the increase in sales of gas water heaters in the United States, Oceania, and other markets. The Company's total production capacity for water-heating and other equipment, including the existing facilities of Shanghai Noritz, is expected to rise to 1.2 million units in 2010.

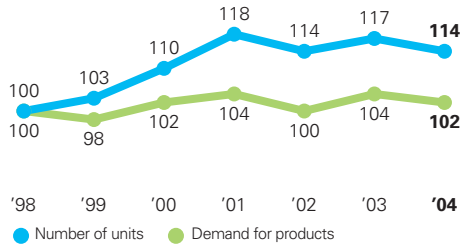
In addition, on October 11, 2004, Shanghai Noritz opened its first showroom in Shanghai. The opening ceremony for the showroom was attended by the management of approximately 30 local real estate companies. As the housing environment in Shanghai is improving rapidly, Shanghai Noritz is working to encourage sub-users and end users, including local real estate and interior decorating companies, to adopt the latest high-performance water-heating equipment. Exhibits on display in the new showroom include the first warm-water built-in floor heaters and many other products that potential customers can view firsthand and will provide hints for new lifestyles.

Thus far, gas water heaters and other housing fixtures and decorations have been supplied to customers in "do-it-yourself" form, for users to install themselves. But, in recent years, as the trend toward a free economy in China has accelerated, real estate companies have begun to install equipment and interior items in high-value-added condominiums sold to more affluent customers. Shanghai Noritz is working with local real estate developers and other types of companies to incorporate Noritz's high-performance water-heating equipment in their home designs. The opening of the new showroom is well-timed to provide impetus for these marketing activities.

# Review of Operations

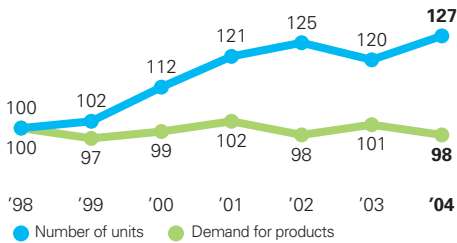
The following graphs show changes in net sales of Noritz products by category, along with changes in total unit sales of such products in Japan (total domestic demand). The 1998 levels of both Noritz unit sales and total domestic sales are set at 100 to facilitate inter-year comparisons.

## Gas Bath Heaters



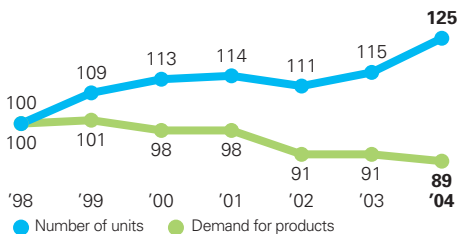
Total domestic demand for gas bath heaters in 2004 declined to 1.83 million units, or 98% of the level for 2003. Noritz sales of gas bath heaters also decreased, to 97% of the level for the previous year. As unit sales declined more than total demand, the market share of Noritz brand units slipped to 36.2%. As a consequence of a substantial decrease in sales of gas heaters for room heating and bath use, which have relatively high unit prices, and a drop in unit sales prices, net sales in this segment declined 9%, to ¥42.9 billion.

## Gas-Related Water Heaters



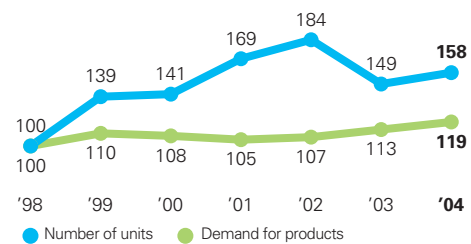
Total domestic demand for gas-related water heaters in 2004 decreased 3%, to 1.32 million units, and the market share of Noritz brand units slipped 0.3 percentage point, to 27.8%. Nevertheless, exports of gas-related water heaters to the United States and Hong Kong expanded significantly. As a consequence, net sales of these heaters rose 1% from the previous year and amounted to ¥15.0 billion.

## Kerosene-Fired Water Heaters



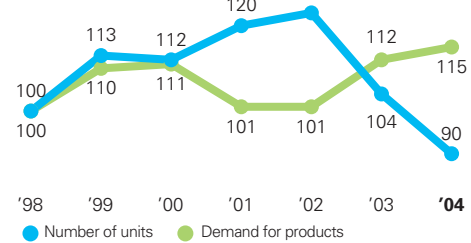
Overall domestic demand for kerosene-fired water heaters in 2004 declined 2%, to 455,000 units. Sales of Noritz brand units and OEM units manufactured by Noritz rose 9%, and the market share of these units expanded 1.5 percentage points, to 33.3%. As a result of these trends, net sales of these products advanced 6% over the previous year, to ¥16.6 billion.

## System Bathrooms for Private Homes



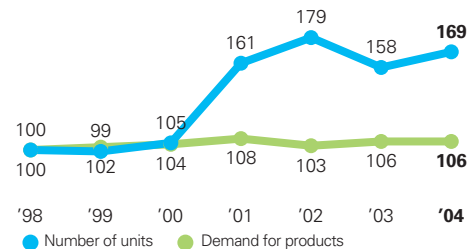
Although total domestic demand for system bathrooms for installation in unit housing in 2004 grew 6% and amounted to 770,000 units, the share of Noritz brand units slipped 0.4 percentage point, to 5.8%, as Noritz sold 47,000 of these units, 6% higher than in the previous year. Nevertheless, because of an increase in the share of low-priced, standard units among units sold by Noritz, net sales of these products slipped 3%, to ¥14.4 billion.

## System Kitchens for Private Homes



While the total domestic demand for system kitchens for new residential units in 2004 rose 2%, to 640,000 units, our total unit sales decreased a significant 14%, to 22,000. This was because we have shifted our marketing target to midrange to high-end units, thus bringing a sharp drop in sales of units to the mass market. Net sales declined 11%, to ¥7.3 billion.

## Vanity Units



In 2004, overall domestic demand for vanity units amounted to 1.88 million units, virtually the same as in 2003. Our sales of moderately priced units were strong and expanded 7%, to 116,000. Net sales of this segment rose 2%, to ¥4.4 billion. Our market share increased 0.3 percentage point, to 6.2%.

\* The sales figures do not refer to total sales and include various items (back margins) deducted from non-consolidated sales. The items whose amounts are deducted from sales span a wide range of product categories, making it impossible to calculate total sales in each individual product category.

# Financial Review

## Results of Operations

### Net Sales

In fiscal 2004, ended December 31, 2004, the Japanese economy remained on a recovery trend during the first half of the year, supported by exports and private capital investment. Thereafter, economic growth slowed, as a result of a combination of factors, such as steep rises in prices of raw materials, including crude oil; slower growth in overseas economies; and the adverse effects of natural disasters, such as typhoons and earthquakes. Despite the slowdown in the second half of 2004, the economy remained generally firm for the fiscal year as a whole. The number of new housing starts rose 2% over the previous year, but competitive conditions in the market for housing refurbishment became substantially more intense, and conditions in Japan's housing-related industries remained challenging.

Amid this business environment, the Noritz Group renewed its management structure in July 2004, and the newly appointed management team began preparations for its "Create 21 Second-Phase Medium-Term Management Plan," for implementation beginning in 2005. Principal features of the new plan will include the integration of two product segments and the creation of a product headquarters division. Other initiatives include a reorganization to facilitate the expansion of international business operations and the strengthening of the Company's management systems for enhancing customer satisfaction and consolidating the earnings base.

As a result of these and other initiatives, consolidated net sales amounted to ¥171.6 billion, 0.9% higher than for the previous fiscal year. However, as a consequence of declines in sales prices and increases in raw material costs, operating income decreased 4.7%, to ¥7.7 billion. Nevertheless, net income rose a substantial 56.6%, to ¥5.0 billion, because of a sharp decline in special losses in 2004 following completion in 2003 of the amortization of the effect of adopting new accounting standards for retirement benefits.

### Cost of Sales and SG&A Expenses

The cost of sales increased 1.5%, to ¥118.9 billion, and the cost of sales to net sales ratio rose 0.4 percentage point, from 68.9% to 69.3%. This was because of the increases in raw material costs, which offset the effects of cost-cutting efforts. The rise in selling, general and administrative (SG&A) expenses was held to only 0.2%, to total ¥45.0 billion, and the ratio of SG&A expenses to net sales recorded an improvement of 0.2 percentage point, to 26.2%. However, operating income was down 4.7%, to ¥7.7 billion, because of declines in sales prices, which more than offset the effects of activities to cut costs. The two principal reasons for the drops in sales prices were a change in the mix of products sold and an increase in the number of moderately priced unit homes (houses built for sale), owing to the activities of leading home builders to promote lower-cost housing. Also, as a result of the rise in all-electric homes in urban areas, sales of higher-priced, gas-related heaters and air conditioners, which the Company supplied to leading gas companies, dropped substantially. On the other hand, construction of built-for-sale unit housing for first-time home owners—which come equipped only with moderately priced gas-related water heaters—increased. As a result of these developments, the ratio of operating income to net sales declined 0.2 percentage point, from 4.7% to 4.5%.

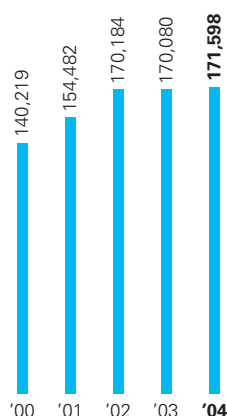
### Other Income (Expenses)

Other income (expenses), net, which amounted to expenses of ¥2.0 billion in the previous year, improved to income of ¥1.3 billion in the year under review. The principal reasons for this improvement were the absence of expenses to amortize the effect of adopting a new accounting standard for retirement benefits and a gain on the return of the substitutional portion of the employee pension fund. As a result, income before income taxes increased 46.3%, to ¥8.9 billion.

Reflecting the above-mentioned items, net income rose 56.6%, to ¥5.0 billion, as mentioned previously. Return on sales posted a 1.0 percentage point gain, to 2.9%. Similarly, return on equity increased 2.1 percentage points, from 3.8% in the previous year to 5.9% in fiscal 2004.

#### Net Sales

(Millions of yen)



#### Net Income and Operating Income

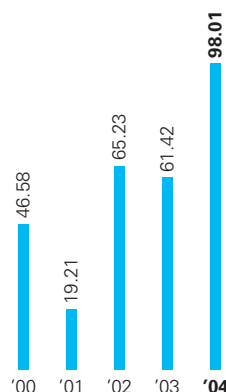
(Millions of yen)



● Net Income  
● Operating Income

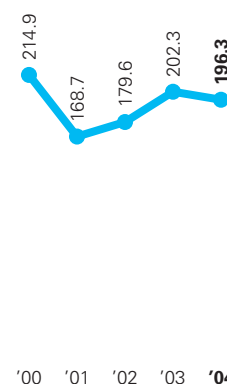
#### Net Income per Share

(Yen)



#### Current Ratio

(%)



## Financial Position

The Group's total assets at year-end amounted to ¥148.8 billion, ¥5.8 billion lower than at the previous fiscal year-end. Of this total, total current assets declined ¥14.4 billion, while non-current assets increased ¥8.5 billion. Among current assets, cash and time deposits decreased ¥10.5 billion. This was because of the purchases of ¥8.5 billion in Japanese government bonds in view of the scheduled removal of government guarantees on bank deposits. In addition, marketable securities fell ¥6.6 billion, owing to sales of these investments.

On the other hand, the balance of investment in securities increased ¥9.2 billion. This was due to the previously mentioned purchases of Japanese government bonds and the reshuffling of the maturities of the Company's bond portfolio to absorb the impact of fluctuations in interest rates. Deferred tax assets declined ¥1.5 billion, owing to the reversal of deferred taxes accompanying the reversal of a portion of the Company's severance and retirement reserves. The increase in the Other category within investments and other assets was due to a rise in callable time deposits of ¥1.0 billion and other factors.

The Group's total liabilities declined 11.6%, or ¥8.2 billion, to ¥63.0 billion. The principal reasons for the reduction in current liabilities, which amounted to ¥5.8 billion, was a change in the system for intra-Group settlements making use of Noritz Capital Corporation, the Group's finance company, and the repayment of outstanding bank borrowings of Group company RB Corporation. Instead, Noritz Capital, as the in-house bank for the Group, extended the necessary loans to RB. Long-term liabilities declined ¥2.5 billion, principally because of a decline in reserves for severance and retirement benefits, accompanying the shift to a defined contribution pension plan. Fifty percent of the reserves intended for the payment of lump-sum pensions were shifted to the defined contribution pension plan.

Shareholders' equity rose 2.9%, or ¥2.4 billion, to ¥85.8 billion. This was mainly due to an increase in retained earnings of ¥3.9 billion, primarily accounted for by the net effect of the

increase in net income for the period, and buybacks of Noritz shares amounting to ¥1.9 billion.

As a result of these developments, the shareholders' equity ratio gained 3.7 percentage points, rising from 53.9% at the end of the previous fiscal year to 57.6% at the end of the year under review. In addition, the Group's liquidity ratio was 196%, substantial strengthening of the Group's financial position.

## Cash Flows

In fiscal 2004, net cash provided by operating activities decreased ¥5.2 billion from the level for the previous year. Principal factors accounting for this development included income before income taxes of ¥8.9 billion, a decline in trade notes and accounts receivable of ¥1.3 billion, a decrease in trade notes and accounts payable of ¥4.6 billion, and a reduction in employees' retirement benefits reserves of ¥3.3 billion.

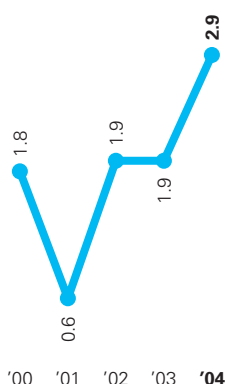
Net cash provided by (used in) investing activities decreased ¥16.3 billion from the previous year to a minus ¥16.3 billion. Principal factors accounting for this decline were net investments in time deposits exceeding proceeds from time deposits amounting to a cumulative minus ¥3.5 billion, additions to securities were a net ¥6.9 billion larger than proceeds from sales of securities, and net additions to property, plant and equipment, after deduction of proceeds from sales of property, plant and equipment, amounted to ¥4.6 billion.

Net cash used in financing activities rose ¥1.3 billion, from ¥2.3 billion in fiscal 2003 to ¥3.6 billion in fiscal 2004. Principal factors accounting for this were a net decrease in short-term bank loans of ¥0.6 billion, payments of ¥1.9 billion for purchases of the Company's outstanding common stock, and dividends paid by the parent company of ¥1.1 billion.

As a result of the above-mentioned trends in cash flow items, cash and cash equivalents at the end of the fiscal year under review amounted to ¥21.1 billion, down ¥14.8 billion from the previous fiscal year.

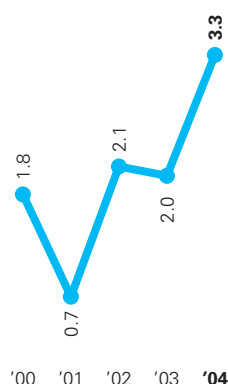
Return on Sales

(%)



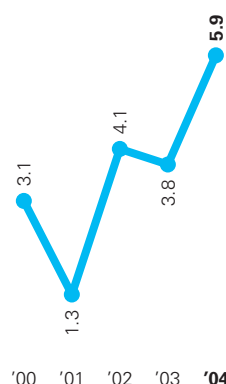
Return on Assets

(%)



Return on Equity

(%)



Equity Ratio

(%)



# Consolidated Balance Sheets

Noritz Corporation and Consolidated Subsidiaries  
As of December 31, 2003 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
<b>Current assets:</b>			
Cash and time deposits (Note 3)	¥ 30,166	¥ 19,667	\$ 188,743
Marketable securities (Note 4)	9,395	2,828	27,150
Receivables—			
Trade notes and accounts	47,969	48,885	469,145
Trade notes and accounts to non-consolidated subsidiaries and affiliates	512	1,053	10,106
Other	2,480	2,100	20,144
Allowance for doubtful receivables	(103)	(386)	(3,704)
	50,858	51,652	495,691
Inventories—			
Finished goods, purchased goods and work in process	6,395	5,437	52,179
Raw materials and supplies	1,732	1,939	18,608
	8,127	7,376	70,787
Deferred tax assets (Note 8)	737	719	6,900
Other	2,880	5,535	53,109
Total current assets	102,163	87,777	842,380
<b>Investments and other assets:</b>			
Investments in and loans to non-consolidated subsidiaries and affiliates	668	1,078	10,345
Investment in securities (Note 4)	8,474	17,662	169,501
Long-term loans receivable	77	202	1,935
Lease deposits	2,916	2,897	27,802
Long-term deferred tax assets (Note 8)	5,657	4,221	40,509
Allowance for doubtful receivables	(541)	(505)	(4,846)
Other	1,244	2,163	20,771
	18,495	27,718	266,017
<b>Property, plant and equipment:</b>			
Land	10,619	10,619	101,910
Buildings and structures	28,421	28,502	273,532
Machinery and equipment	50,391	52,883	507,514
Construction in progress	851	345	3,311
	90,282	92,349	886,267
Less accumulated depreciation	(59,165)	(61,888)	(593,935)
	31,117	30,461	292,332
<b>Intangible assets</b>			
	2,838	2,817	27,035
	¥154,613	¥148,773	\$1,427,764

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
<b>Current liabilities:</b>			
Bank loans (Note 6)	¥ 1,960	¥ 462	\$ 4,434
Payables—			
Trade notes and accounts:			
Non-consolidated subsidiaries and affiliates	285	0	0
Other	37,029	33,491	321,411
Construction	1,232	1,204	11,554
Other	3,939	3,984	38,302
	42,485	38,679	371,267
Accrued expenses	2,515	2,872	27,562
Income taxes and enterprise tax payable	1,632	1,038	9,962
Other	1,901	1,667	15,930
Total current liabilities	50,493	44,718	429,155
<b>Employees' severance and retirement benefits</b> (Note 9)	14,268	10,929	104,885
<b>Directors' and statutory auditors' retirement benefits</b>	821	932	8,944
<b>Long-term deposits received from customers</b>	3,170	3,153	30,259
<b>Long-term deferred tax liabilities</b> (Note 8)	300	294	2,821
<b>Other non-current liabilities</b>	514	1,215	11,661
<b>Minority interests in consolidated subsidiaries</b>	1,660	1,752	16,814
<b>Contingent liabilities</b> (Note 7)			
<b>Shareholders' equity</b> (Note 10):			
Common stock—			
Authorized—156,369,000 shares			
Issued—50,797,651 shares	20,168	20,168	193,551
Capital surplus	22,957	22,957	220,317
Retained earnings	40,803	44,659	428,589
Net unrealized holding gains on securities	424	921	8,839
Foreign currency translation adjustments	(30)	(66)	(633)
Treasury stock, at cost—671,494 shares in 2003 and 1,829,977 shares in 2004	(935)	(2,859)	(27,438)
Total shareholders' equity	83,387	85,780	823,225
	¥154,613	¥148,773	\$1,427,764



# Consolidated Statements of Shareholders' Equity

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

	Number of shares of common stock (thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at December 31, 2002</b>	50,798	¥20,168	¥22,957	¥38,494	¥(386)	¥ 86	¥ (36)
Net income				3,161			
Net unrealized holding gains on securities					810		
Adjustments from translation of foreign currency financial statements						(116)	
Cash dividends paid, ¥17.00 per share				(812)			
Bonuses to directors and statutory auditors				(40)			
Treasury stock purchased							(899)
<b>Balance at December 31, 2003</b>	50,798	¥20,168	¥22,957	¥40,803	¥ 424	¥ (30)	¥ (935)
Net income				<b>4,950</b>			
Net unrealized holding gains on securities					<b>497</b>		
Increase resulting from newly consolidated subsidiaries				<b>83</b>			
Adjustments from translation of foreign currency financial statements						<b>(36)</b>	
Cash dividends paid, ¥22.5 per share				<b>(1,128)</b>			
Bonuses to directors and statutory auditors				<b>(49)</b>			
Treasury stock purchased							<b>(1,924)</b>
<b>Balance at December 31, 2004</b>	<b>50,798</b>	<b>¥20,168</b>	<b>¥22,957</b>	<b>¥44,659</b>	<b>¥ 921</b>	<b>¥ (66)</b>	<b>¥(2,859)</b>

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at December 31, 2003</b>	\$193,551	\$220,317	\$391,583	\$4,069	\$(288)	\$ (8,973)
Net income			<b>47,505</b>			
Net unrealized holding gains on securities				<b>4,770</b>		
Increase resulting from newly consolidated subsidiaries			<b>796</b>			
Adjustments from translation of foreign currency financial statements					<b>(345)</b>	
Cash dividends paid, \$0.216 per share			<b>(10,825)</b>			
Bonuses to directors and statutory auditors			<b>(470)</b>			
Treasury stock purchased						<b>(18,465)</b>
<b>Balance at December 31, 2004</b>	<b>\$193,551</b>	<b>\$220,317</b>	<b>\$428,589</b>	<b>\$8,839</b>	<b>\$(633)</b>	<b>\$(27,438)</b>

See accompanying notes.

# Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 6,115	¥ 8,944	\$ 85,834
Depreciation	5,425	5,599	53,733
Interest and dividend income	(224)	(192)	(1,843)
Interest expense	53	66	633
Write-down of securities	345	16	154
Equity in income of affiliates	(80)	—	—
Loss on sales and disposal of property, plant and equipment	411	376	3,608
Income of sales of property, plant and equipment	(109)	(3)	(29)
Decrease (increase) in trade notes and accounts receivable	5,479	(1,250)	(11,996)
Decrease in inventories	218	946	9,079
Increase in allowance for doubtful receivables	69	242	2,322
Decrease in trade notes and accounts payable	(6,052)	(4,642)	(44,549)
Increase (decrease) in employees' retirement benefits	2,536	(3,339)	(32,044)
Other	(286)	1,529	14,675
Subtotal	13,900	8,292	79,577
Interest and dividends received	231	187	1,795
Interest paid	(51)	(66)	(633)
Income taxes paid	(3,819)	(3,358)	(32,226)
Net cash provided by operating activities	10,261	5,055	48,513
<b>Cash flows from investing activities:</b>			
Investments in time deposits	(2,515)	(3,570)	(34,261)
Proceeds from time deposits	2,779	60	576
Additions to securities	(25,895)	(10,439)	(100,182)
Proceeds from sales of securities	29,488	3,537	33,944
Additions to property, plant and equipment	(3,855)	(4,753)	(45,614)
Proceeds from sales of property, plant and equipment	220	135	1,296
Payments for loans receivable	(218)	(736)	(7,063)
Proceeds from loans receivable	168	137	1,315
Cash acquired in purchases of stock of subsidiaries	436	—	—
Other	(571)	(639)	(6,133)
Net cash provided by (used in) investing activities	37	(16,268)	(156,122)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term bank loans	81	(585)	(5,605)
Repayments of long-term debt	(700)	—	—
Payments for purchases of treasury stock	(899)	(1,925)	(18,474)
Dividends paid	(814)	(1,125)	(10,807)
Dividends paid to minority shareholders of consolidated subsidiaries	(9)	(10)	(96)
Other	1	—	—
Net cash used in financing activities	(2,340)	(3,645)	(34,982)
<b>Foreign currency adjustments</b>	(40)	(8)	(77)
<b>Net increase (decrease) in cash and cash equivalents</b>	7,918	(14,866)	(142,668)
<b>Cash and cash equivalents at beginning of year</b>	27,954	35,872	344,261
<b>Increase in cash and cash equivalents due to newly consolidated subsidiaries</b>	—	69	662
<b>Cash and cash equivalents at end of year</b>	¥35,872	¥21,075	\$202,255

See accompanying notes.

# Notes to Consolidated Financial Statements

Noritz Corporation and Consolidated Subsidiaries

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2004, which was ¥104.20 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 16 (14 in 2003) significant companies over which the Company has power of control through majority voting right or existence of certain conditions evidencing control by the Company.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The difference, if considered significant, between the cost of investments and equity in subsidiaries' net assets at dates of acquisition is amortized over five years.

### (2) Securities

#### *Securities to be held to maturity*

Available-for-sale securities that mature within one year are classified in marketable securities.

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated are stated at moving-average cost. Available-for-sale securities with available fair market values are

stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

### (3) Derivatives and hedge accounting

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

### (4) Inventories

With respect to the Company, finished products, work in process and raw materials are valued at weighted-average cost, whereas purchased goods and supplies are valued at moving-average cost.

With respect to the consolidated subsidiaries, inventories are valued at weighted-average cost or last purchase costs.

#### *Change in accounting method*

Previously, as the standard and method for evaluating raw materials, the Company employed the moving-average original cost method. However, following a review of the original cost computation system, the Company has adopted the weighted-average method beginning in 2004. The quantitative effect of this change is not material.

### (5) Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation is provided on a declining-balance method over the estimated useful lives of the assets. However, in accordance with changes in the Corporation Tax Law, effective April 1, 1998, the Companies depreciate newly acquired buildings on the straight-line method.

### (6) Research and development expenses

Research and development expenses are charged to income as incurred. Such expenses for the years ended December 31, 2003 and 2004 were ¥4,443 million and ¥4,239 million (\$40,681 thousand), respectively.

### (7) Software costs

The Companies include software in intangible assets and depreciate it using the straight-line method over the estimated useful lives (five years).

### (8) Allowance for doubtful receivables

The allowance for doubtful receivables is provided for in an amount sufficient to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

### (9) Bonuses

The Companies follow the general Japanese practice of paying bonuses to employees in July and December. Accrued bonus liabilities of the Companies at the balance sheet date are calculated based upon management's estimate of annual amounts thereof. Accrued bonuses are included in the liability for accrued expenses in the consolidated balance sheets.

Bonuses to directors and statutory auditors, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

### (10) Reserve for product warranty

The reserve for product warranty is calculated on the basis of sales of products and actual product warranties in the past. The reserve is included in the liability for accrued expenses in the consolidated balance sheets.

### (11) Income taxes

The Companies use the asset and liability approach to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

### (12) Retirement benefits

#### (i) Employees

The Companies provide three types of post-employment benefit plans: unfunded lump-sum payment plans, funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages, and salaries at the time of retirement or termination, length of service and certain other factors and defined contribution pension plans.

The Companies provided for employees' severance and retirement benefits at December 31, 2003 and 2004 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of January 1, 2001 and the liabilities for severance and retirement benefits recorded as of January 1, 2001 (the "net transition obligation" at the time of adopting a new accounting standard) is being recognized in expenses in approximately equal amounts primarily over three years commencing with the year ended December 31, 2001. Prior service costs are recognized in expenses in equal amounts over three years, and actuarial gains and losses are recognized in expenses using the straight-line method over 10 years commencing with the following period.

Accompanying the implementation of the Defined Contribution Pension Law, the Company shifted a portion of its unfunded lump-sum payment plans to the defined contribution pension plans, as of April 2004. The Company applies the "Accounting Principles for Transitions among Retirement Benefit Systems (Practical Guideline No. 1 for Corporate Accounting Standards)". Accompanying this transition, the Company reported a special gain of ¥612 million.

#### (ii) Directors and statutory auditors

The liability for directors' and statutory auditors' retirement benefits is provided based upon the Company's internally established criteria.

### (13) Translation of foreign currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

### (14) Accounting for leases

Finance leases which do not transfer ownership may be accounted for in the same manner as operating leases under generally accepted accounting principles in Japan.

### (15) Net income per share

Computations of net income per share of common stock are based on the weighted average number of outstanding shares adjusted for any stock splits. Diluted net income per share is not disclosed because there were no potentially dilutive securities.

Effective January 1, 2003, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standards for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

### (16) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

## 3. STATEMENTS OF CASH FLOWS

The reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2003 and 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Cash and time deposits in			
the consolidated balance sheets	¥30,166	<b>¥19,667</b>	<b>\$188,743</b>
Marketable securities	9,395	<b>2,828</b>	<b>27,150</b>
Other (trust)	1,000	<b>3,500</b>	<b>33,579</b>
Time deposits with maturities			
exceeding 3 months	(1,583)	<b>(4,093)</b>	<b>(39,280)</b>
Bonds with maturities			
exceeding 3 months	(3,106)	<b>(827)</b>	<b>(7,937)</b>
Cash and cash equivalents in			
the consolidated statements			
of cash flows	¥35,872	<b>¥21,075</b>	<b>\$202,255</b>

#### 4. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

The following tables summarize acquisition costs, book values and market values of securities with available fair values as of December 31, 2003 and 2004:

##### Marketable securities to be held to maturity

Type	Millions of yen						Thousands of U.S. dollars			
	2003			2004			2004			
	Consolidated book value	Market value	Difference	Consolidated book value	Market value	Difference	Consolidated book value	Market value	Difference	
Securities whose market value exceeds book value										
Japanese government and regional government bonds	—	—	—	¥5,016	¥5,026	¥10	\$48,139	\$48,231	\$ 92	
Securities whose market value equals or is less than book value										
Japanese government and regional government bonds	—	—	—	¥3,518	¥3,516	¥ (2)	\$33,766	\$33,743	\$(23)	

##### Available-for-sale securities

Securities with book values exceeding acquisition costs are as follows:

Type	Millions of yen						Thousands of U.S. dollars		
	2003			2004			2004		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥2,431	¥3,586	¥1,155	¥4,166	¥5,884	¥1,718	\$39,981	\$56,467	\$16,486
Bonds	2,802	2,830	28	2,062	2,096	34	19,789	20,115	326
Others	11	13	2	697	724	27	6,689	6,948	259
Total	¥5,244	¥6,429	¥1,185	¥6,925	¥8,704	¥1,779	\$66,459	\$83,530	\$17,071

Securities with book values less than acquisition costs are as follows:

Type	Millions of yen						Thousands of U.S. dollars		
	2003			2004			2004		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥1,372	¥1,272	¥(100)	¥ 457	¥ 428	¥ (29)	\$ 4,385	\$ 4,107	\$ (278)
Bonds	1,785	1,670	(115)	—	—	—	—	—	—
Others	790	601	(189)	750	621	(129)	7,198	5,960	(1,238)
Total	¥3,947	¥3,543	¥(404)	¥1,207	¥1,049	¥(158)	\$11,583	\$10,067	\$(1,516)

The following table summarizes book values of securities with no available fair values as of December 31, 2003 and 2004.

##### Available-for-sale securities

Type	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Non-listed equity securities	¥ 147	¥ 151	\$ 1,449
Mutual funds	50	52	499
Commercial paper	7,697	2,000	19,194
Total	¥7,894	¥2,203	\$21,142

Available-for-sale securities with maturities mature as follows:

	Millions of yen										Thousands of U.S. dollars				
	2003					2004					2004				
	Within one year	Within five years	Within ten years	Over ten years	Total	Within one year	Within five years	Within ten years	Over ten years	Total	Within one year	Within five years	Within ten years	Over ten years	Total
Bonds	¥1,350	¥2,418	¥300	¥500	¥4,568	¥618	¥10,600	—	¥500	¥11,718	\$5,931	\$101,727	—	\$4,798	\$112,456
Others	—	282	—	—	282	—	12	—	—	12	—	115	—	—	115
<b>Total</b>	<b>¥1,350</b>	<b>¥2,700</b>	<b>¥300</b>	<b>¥500</b>	<b>¥4,850</b>	<b>¥618</b>	<b>¥10,612</b>	<b>—</b>	<b>¥500</b>	<b>¥11,730</b>	<b>\$5,931</b>	<b>\$101,842</b>	<b>—</b>	<b>\$4,798</b>	<b>\$112,571</b>

Total sales of available-for-sale securities in the year ended December 31, 2003 amounted to ¥30,548 million and the related gains and losses amounted to ¥149 million and ¥13 million, respectively.

Total sales of available-for-sale securities in the year ended December 31, 2004 amounted to ¥32,678 million (\$313,608 thousand) and the related gains and losses amounted to ¥52 million (\$499 thousand) and ¥109 million (\$1,046 thousand), respectively.

## 5. LEASES

Finance leases, except for those in which ownership is deemed to be transferred to the lessee, are accounted for as operating leases. Original lease obligations and future minimum lease payments at December 31, 2003 and 2004 are as follows:

	Millions of yen						Thousands of U.S. dollars
	2003			2004			2004
	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total	Total
Original lease obligation (including finance charges)	¥2,143	¥230	¥2,373	¥1,929	¥227	¥2,156	\$20,681
Payments remaining	956	114	1,070	683	66	749	7,188
Payments due within one year			464			319	3,061
Payments due after one year			606			430	4,127
<b>Total</b>			¥1,070			¥ 749	\$ 7,188

Total lease payments under non-capitalized finance leases for the years ended December 31, 2003 and 2004 were ¥509 million and ¥478 million (\$4,587 thousand), respectively.

Future minimum rents under non-cancellable operating leases at December 31, 2003 and 2004 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Due within one year	¥3	¥2	\$19
Due after one year	2	1	1
	¥5	¥3	\$20

## 6. BANK LOANS

Short-term bank loans at December 31, 2003 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Short-term bank loans—5.15%	¥1,960	¥462	\$4,434

## 7. CONTINGENT LIABILITIES

At December 31, 2004, the Companies were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes endorsed	¥ 5	\$ 48
As guarantor of indebtedness of an affiliate and other companies	630	6,046
	¥635	\$6,094

## 8. INCOME TAXES

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 42% and 40.7% for the years ended December 31, 2003 and 2004, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the year ended December 31, 2003.

	Percentage
	2003
Statutory tax rate:	42.0%
Permanently non-deductible expenses	2.3
Permanently non-taxable dividend income	(0.4)
Per capita inhabitants' tax	2.1
Equity in losses of affiliates	(0.5)
Decrease in deferred tax assets due to change in tax rate	3.0
Other	3.3
Effective tax rate	51.8%

No reconciliation for the year ended December 31, 2004 has been presented because the difference between the statutory tax rate and the Companies' effective tax rate was immaterial.

Significant components of the Companies' deferred tax assets and liabilities as of December 31, 2003 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Deferred tax assets:			
Employees' retirement benefits	¥5,332	¥3,921	\$37,630
Excess bad-debt expenses	319	389	3,733
Directors' and statutory auditors' retirement benefits	286	347	3,330
Accrued enterprise tax	152	97	931
Write-down of securities	274	239	2,294
Loss carryforwards (for tax purposes)	226	245	2,351
Other	330	553	5,307
Total deferred tax assets	6,919	5,791	55,576
Valuation allowance	(145)	(219)	(2,102)
Deferred tax assets	6,774	5,572	53,474
Deferred tax liabilities:			
Net unrealized holding gains on securities	(258)	(632)	(6,065)
Land	(422)	(294)	(2,821)
Net deferred tax assets	¥6,094	¥4,646	\$44,588

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Short-term deferred tax assets	¥ 737	¥ 719	\$ 6,900
Long-term deferred tax assets	5,657	4,221	40,509
Long-term deferred tax liabilities	(300)	(294)	(2,821)
	¥6,094	¥4,646	\$44,588

The aggregate statutory income tax rate will be reduced for the years commencing on January 1, 2005 and later due to the revised local tax law. At December 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.7% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on January 1, 2005 or later. As a result, deferred tax assets decreased by ¥170 million, net unrealized

holding gains on securities increased by ¥11 million and provision for deferred income taxes increased by ¥181 million compared with what would be reported using the currently applicable tax rate of 42.0%.

## 9. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

As explained in Note 2 (12) Retirement benefits, (i) Employees, effective January 1, 2001, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheet as of December 31, 2003 and 2004 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Projected benefit obligation	¥22,821	¥22,236	\$213,397
Unrecognized prior service costs	3,043	2,011	19,300
Unrecognized actuarial differences	(4,381)	(4,966)	(47,658)
Less fair value of pension assets	(7,262)	(8,443)	(81,027)
Prepaid pension cost	47	91	873
Liabilities for severance and retirement benefits	¥14,268	¥10,929	\$104,885

Included in the consolidated statements of income for the years ended December 31, 2003 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Service costs—			
benefits earned during the year	¥1,384	¥ 918	\$8,810
Interest cost on projected benefit obligation	618	509	4,885
Expected return on plan assets	(138)	(139)	(1,334)
Amortization of prior service costs	(35)	(1,032)	(9,904)
Amortization of actuarial differences	490	479	4,597
Amortization of net transition obligation	1,812	—	—
Severance and retirement benefit expenses	¥4,131	¥ 735	\$7,054

The discount rates and the rates of expected return on plan assets used by the Company are 2.7% and 2.3% in 2003 and 2.3% and 2.3% in 2004, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

## 10. SHAREHOLDERS' EQUITY

(1) Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Effective October 1, 2001, the Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of the legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of the legal reserve and additional paid-in capital remains equal to or exceeding 25% of common stock, they are available for dividends by the resolution of the shareholders' meeting. The legal reserve is included in retained earnings and additional paid-in capital is included in capital surplus in the accompanying financial statements.

(2) The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

## 11. SEGMENT INFORMATION

The Companies primarily are engaged in the manufacture and sale of household-related products, bath heaters, water heaters and bathroom- and kitchen-related products.

As these activities comprise one industry segment, segment information by industry is not disclosed. As sales outside Japan are less than 10% of the Company's consolidated net sales, segment information by geographic area is not disclosed.

## 12. SUBSEQUENT EVENT

### Appropriation of retained earnings

At the ordinary shareholders' meeting of the Company held on March 30, 2005, the following appropriations of retained earnings for the year ended December 31, 2004 were duly approved:

	Millions of yen	Thousands of U.S. dollars
Appropriations:		
Cash dividends—¥14.0 per share	¥686	\$6,583
Bonuses to directors and statutory auditors	39	374

# Report of Independent Certified Public Accountants

To the Shareholders and the Board of Directors of Noritz Corporation:

We have audited the accompanying consolidated balance sheets of Noritz Corporation and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Noritz Corporation and subsidiaries at December 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

  
KPMG AZSA & Co.

Osaka, Japan  
March 30, 2005

# Five-Year Consolidated Summary

Noritz Corporation and Consolidated Subsidiaries  
Years ended December 31

	Millions of yen					Thousands of U.S. dollars (Note)
	2000	2001	2002	2003	2004	2004
<b>For the year:</b>						
Net sales	¥140,219	¥154,482	¥170,184	¥170,080	<b>¥171,598</b>	<b>\$1,646,814</b>
Cost of sales	96,696	109,754	124,712	117,130	<b>118,943</b>	<b>1,141,488</b>
Selling, general and administrative expenses	34,724	37,016	38,599	44,874	<b>44,961</b>	<b>431,487</b>
Operating income	8,799	7,712	6,873	8,076	<b>7,694</b>	<b>73,839</b>
Income before income taxes	5,025	2,560	6,371	6,115	<b>8,944</b>	<b>85,834</b>
Current income taxes	3,205	3,003	3,744	3,286	<b>2,716</b>	<b>26,065</b>
Net income	2,464	994	3,312	3,161	<b>4,950</b>	<b>47,505</b>
<b>Per share data (Yen and U.S. dollars):</b>						
Net income	¥ 46.58	¥ 19.21	¥ 65.23	¥ 61.42	<b>¥ 98.01</b>	<b>\$ 0.941</b>
Diluted net income per share	45.84	—	—	—	—	—
Cash dividends, applicable to the year	15.00	15.00	15.00	17.00	<b>28.00</b>	<b>0.269</b>
<b>At year-end:</b>						
Total assets	¥137,422	¥147,716	¥154,542	¥154,613	<b>¥148,773</b>	<b>\$1,427,764</b>
Total shareholders' equity	80,718	78,841	81,283	83,387	<b>85,780</b>	<b>823,225</b>
Number of employees	3,377	4,090	4,401	4,539	<b>4,604</b>	
<b>Ratios:</b>						
Return on equity	3.1%	1.3%	4.1%	3.8%	<b>5.9%</b>	
Return on sales	1.8	0.6	1.9	1.9	<b>2.9</b>	
Return on assets	1.8	0.7	2.1	2.0	<b>3.3</b>	

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.

# Board of Directors and Corporate Auditors

Noritz Corporation

## Chairman and Representative Director

Katsuhiko Takeshita

## President and Representative Director

Shigeharu Kanzaki

## Vice President

Hidekazu Kumazawa

## Senior Managing Director

Yutaka Nakayama

## Managing Directors

Tatsuhiko Funahashi

Toshiaki Kabe

Soichiro Kokui

Yuji Nishibata

## Directors

Osamu Yoshida

Masao Kodera

Hideo Ueda

Hirokazu Ueda

Toshiyuki Otaki

Sadao Sasaki

Takafumi Nakamura

Keiichi Nagahashi

Kouji Morita

## Corporate Auditors

Kenji Tokumoto

Tomosaburo Kinda

Takeshi Okamoto

(As of March 31, 2005)

## Corporate Data

Noritz Corporation

### Established

March 10, 1951

### Paid-in Capital

¥20,168 million

### Common Stock

Authorized: 156,369,000 shares

Issued: 50,797,651 shares

### Number of Shareholders

4,970

### Head Office

93 Edo-machi, Chuo-ku,

Kobe 650-0033, Japan

Telephone: (078) 391-3361

Facsimile: (078) 332-3046

Telex: 05622688 NORITZ J

Cable Address: KJNORITZ KOBE

### Research Facilities

Akashi, Hyogo Prefecture

Asahikawa, Hokkaido

Hachioji, Tokyo

### Factories

Hyogo Prefecture: 3

Ibaraki Prefecture: 1

(As of December 31, 2004)

### Major Shareholders

	Number of shares held (Thousands)	Percentage of total shares issued (%)
Morgan Stanley & Company, Inc.	4,043	7.95
The Dai-ichi Mutual Life Insurance Company	2,967	5.84
State Street Bank & Trust Company	2,360	4.64
Noritz Corporation	1,829	3.60
The Mitsui Sumitomo Bank, Ltd.	1,800	3.54
The Employees' Shareholding Association	1,368	2.69
Japan Trustee Services Bank, Ltd.	1,367	2.69
Toshiro Ota	1,350	2.65
The Noritz Customer Shareholding Association	1,276	2.51
The Master Trust Bank of Japan, Ltd.	1,196	2.35

(As of December 31, 2004)

### Subsidiaries

Name	Issued share capital (Millions of yen, unless otherwise noted)	Percentage owned by Noritz (%)	Principal business
NTS Corporation	50	100.0	After-Sales Service and Product Installation
Noritz Jusetsu Corporation	10	100.0	Sale of Housing-Related Products
Taisei Kogyo Corporation	95	83.6	Manufacture and Sale of Water Heater Components
Shinwa Kogyo Corporation	10	88.7	Manufacture and Sale of Water Heater Components
Kanto Sangyo Co., Ltd.	22	100.0	Manufacture and Sale of Kitchen Products
Harmanpro Co., Ltd.	800	90.0	Manufacture and Sale of Water Heater Components
Tada-Smith Company, Ltd.	100	100.0	Manufacture and Sale of Water Heater Components
Suoh Kinzoku Kogyo Co., Ltd.	50	100.0	Manufacture and Sale of Water Heater Components
S-CORE Corporation	20	100.0	Real Estate and Casualty Insurance Agency Operations
RB Corporation <sup>2</sup>	88	51.0	Manufacture and Sale of System Bath Products
Shanghai Noritz Co., Ltd.	US\$14,600 thousand	95.0	Manufacture and Sale of Water Heater Components
Noritz Capital Corporation	30	100.0	Provision of Accounting and Financing Services for Noritz Group Companies
Harman Co., Ltd. <sup>1</sup>	300	90.0	Sale of Housing-Related Products
Noritz Electronics Technology <sup>2</sup>	400	100.0	Manufacture and Sale of Water Heater Components
NRK Corporation	30	60.0	Manufacture and Sale of System Bath Products
Yubig Corporation	50	100.0	Sale of Housing-Related Products

Notes: 1. The ratio of sales (after eliminations for intercompany transactions) of Harman Co., Ltd., was in excess of 10% of the Company's consolidated net sales.

2. This is a specially classified subsidiary.

(As of December 31, 2004)

# NORITZ CORPORATION

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