



NORITZ Corporation

Annual Report 2005



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, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note)
	2004	2005	2005
For the year:			
Net sales	¥171,598	¥176,048	\$1,491,048
Net income	4,950	4,274	36,199
Per share data (Yen and U.S. dollars):			
Net income	¥ 98.01	¥ 86.65	\$ 0.734
Cash dividends, applicable to the year	28.00	28.00	0.237
At year-end:			
Total assets	¥148,773	¥151,533	\$1,283,417
Total shareholders' equity	85,780	89,089	754,544

Note: The U.S. dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥118.07 to U.S.\$1.00, the rate prevailing at December 31, 2005.

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Forward-looking statements

Statements contained in the *Annual Report 2005* regarding business results for fiscal 2005 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



Katsuhiko Takeshita
Chairman and Representative Director



Shigeharu Kanzaki
President and Representative Director

During fiscal 2005, ended December 31, 2005, Noritz Corporation reported net sales of ¥176.0 billion, 2.6% higher than for the previous fiscal year. Operating income amounted to ¥6.9 billion, 9.7% lower than a year earlier, and net income decreased 13.7%, to ¥4.3 billion.

Although net sales rose, two principal factors contributed to a decline in profitability. First, the unit sales price ratio declined 3.4% on average. Second, even though we implemented cost reductions amounting to ¥2.5 billion, this was insufficient to absorb an increase of ¥0.45 billion in raw material costs and a decline in unit sales prices. Third, the Company increased expenses deemed necessary for future sales, including active advertising expenditures to win housing refurbishment sales and product development costs, thus leading to an increase in selling, general and administrative expenses of ¥1.4 billion and an increase in the SG&A expense ratio.

Also, in fiscal 2004, the Company reported a gain of ¥0.6 billion from the shifting of a portion of corporate pension funds to 401k-type defined contribution pension plans, but a similar gain was not reported in fiscal 2005. Moreover, largely as a result of the reporting of a loss on sales and disposal of property, plant and equipment amounting to ¥0.7 billion and the previously mentioned factors, net income amounted to ¥4.3 billion, 13.7% lower than in the previous fiscal year.

By business segment, sales of our main business, water heater and air-conditioning related equipment, increased 2.3%, to ¥110.5 billion. The principal reasons for this increase were an increase in overseas sales, to ¥6.5 billion, ¥1.5 billion higher than for the previous fiscal year, and increases in the sales of parts manufacturing subsidiaries Taisei Kogyo Corporation and Noritz Electronics Technology (NET) Corporation accompanying the rise in the sales of water heater and air-conditioning related equipment by Noritz, the parent company. Total market demand for gas-fired and kerosene-fired water heaters amounted to 3.43 million units, a substantial decline of 2.8% from the previous fiscal year. However, demand for electric-powered water heaters rose to 43 thousand units, an increase of 19% over the previous year, and accounted for 11% of water heating units sold. Amid this operating environment, Noritz worked to sell high-efficiency, gas-fired water heating equipment that places a lower burden on the natural environment and produce OEM units for other manufacturers.

In our second major business, system bathrooms and kitchens, demand showed a slight increase. Our sales of bathroom related equipment, including system bathrooms and other

items, declined 2.2%, to ¥15.5 billion. The number of units we sold increased, but, as a result of the rise in the percentage of low- and medium-priced units, profitability conditions in the system bathroom business have become more challenging. In the system kitchen business, sales of these units for newly constructed housing were stagnant, but sales of built-in glass-top ranges manufactured by consolidated subsidiary Harman Co., Ltd., were favorable, rising 1.6%, to ¥29.0 billion. In our service business, sales of other businesses increased as a result of the higher sales of parts for after-sales service and a rise in sales to other companies.

→ The Second Medium-Term Plan and Analysis of the Environment

We have positioned fiscal 2006—the second year of our Create 21 Second-Phase Medium-Term Management Plan—as the time for solidifying our foundations to meet the objectives set for fiscal 2007. At present, those goals remain the same, namely ¥185.0 billion in net sales, ¥10.0 billion in recurring income, and ¥5.0 billion in net income, all on a consolidated basis.

To confirm our awareness of the management environment in the home equipment industry, let us look at two key issues. First, let us turn to the markets for new housing units and renovation. The number of new housing starts is forecast to remain steady at the current level. However, issues we must address include the shrinkage in the built-to-order housing area, which is the main target for sales of medium- to higher-priced housing equipment, and growth in the built-for-rental and built-for-sale housing segments, in which price competition is severe.

Without doubt, there is latent demand in the market for housing refurbishment. Certain circumstances, such as severe winter weather, may act to boost demand by encouraging home owners to refurbish their homes with new equipment. An important task is to uncover and stimulate latent demand among those who have a desire to improve the quality of their homes.

Next, let us turn to the second major issue, namely energy. Electric power companies and manufacturers of electrical equipment and appliances are placing emphasis on housing that relies entirely or principally on electric power as a source of energy, and their activities are resulting in a decline in the usage of gas-fired and kerosene-fired water heaters. To counter this trend, we at Noritz are implementing initiatives that draw on our strengths and are introducing products that are differentiated from electric-powered units. In the gas range area, we intend to continue to market glass-top ranges and other high-value-added products.

→ Outlook for Fiscal 2006

We are looking for 3.1% growth in net sales, to ¥181.5 billion, as a result of expansion in overseas sales and other factors. We believe that increases in the prices of raw materials will continue, but we intend to lower costs by cutting back on expenses, standardizing and reducing the number of parts, lowering the number of administrative personnel, and taking other initiatives. As a result of these measures, we are forecasting operating income of ¥7.5 billion, 7.9% higher than for the prior year, and growth in recurring income of 1.1%, to ¥8.5 billion. We are expecting growth in net income of 1.8%, to ¥4.35 billion, and are planning to pay dividends of ¥28 per share for fiscal 2006.

By segment, we are looking for sales of ¥112.8 billion in the water heater and air-conditioning related equipment business, 3.1% higher than in fiscal 2005. This expansion will be supported by growth in overseas sales of 69.5%, to ¥11.0 billion, as sales increase in China and certain overseas subsidiaries, including Noritz America Corporation, are newly consolidated with the parent company, thus offsetting the decline in domestic sales.

We are forecasting 4.1% growth, to ¥46.4 billion, in sales in the system bathroom and kitchen business as a whole. Although sales of the system bathroom business are forecast to decline 9.7%, to ¥14.0 billion, plans call for an 11.4% expansion, to ¥32.4 billion, in system kitchen products, as Harman is expected to increase sales in this area, especially of its top-performing built-in ranges. Sales in the services business are forecast to decrease 0.5%, to ¥16.8 billion, but sales in other business activities are expected to rise 35.6%, to ¥5.5 billion.

→ Three Strategies for Attaining Fiscal 2006 Objectives

We are implementing three basic strategies for attaining our objectives for fiscal 2006. The first of these is aimed at increasing unit sales of our products under our “new value” strategy, which is intended to respond to environmental issues and counter the trend toward use of electric-powered water heaters as well as focus on the theme of health and sales to the institutional market.

Under our second strategic focus, our “Houresh” (house refresh) strategy, we are working to uncover latent demand for replacement and renovation services. This includes strengthening our marketing approach to members of the baby boomer generation, who will be retiring in large numbers in 2007 and may wish to refurbish their homes before doing so, as well as other home owners who may want to undertake home reforms.

Although our competitors may have similar ideas in mind, the strength of our business model lies in three areas. The first of these is that we have ties with powerful dealers that already handle our products. The second is that we are already developing sales channels through gas suppliers that are strengthening their relationships with end users, and the third is that we have our own sales channels.

Under our third strategy, which is to develop further our activities globally, we moved quickly to establish overseas sales bases in 2005. Along with expanding our sales channels in overseas markets, we are working to apply a business model that has proven successful in Japan, which provides for customer centers as well as construction and other services.

Going forward, two major factors will affect our global strategy in the current fiscal year. First, with the required technical permits already in hand, we are positioned to make major leaps forward in sales volume. At the same time, we will complete work on our second manufacturing plant, located in Shanghai, China, and preparations are under way to commence production in 2007.



Katsuhiko Takeshita
Chairman and Representative Director



Shigeharu Kanzaki
President and Representative Director

Topics

→ Preparations Under Way for Expanding International Activities

Including Establishment of New Offices and an Investment Company as well as Acquisition of CE Mark Authorization

In June 2005, Noritz established a branch in Melbourne, Australia. The new office is working to expand sales by strengthening local marketing activities, engaging in planning for products suited to the Oceanian region, and providing support for sales and sales promotion of gas-related water heaters manufactured for OEM customers.

On April 1, 2005, Noritz America Corporation established a second U.S. office in Atlanta. The newly formed office is working to expand sales by strengthening marketing operations in the southeastern part of the United States, an area that the Company has selected for strategic focus. The office will also establish a training center, a product display room, and conference rooms to enhance the Company's capabilities for offering business proposals to its customers in the area.

The Company established the Noritz European Office on November 2, 2005, in Düsseldorf, Germany. This new office marked the Company's active entry into the European market. Progress has been made in having European water heater manufacturers adopt gas-related water heater equipment for commercial use, and the Company is working to expand sales in the European region. In view of the need to address environmental issues in Europe's water heating equipment market and the trend toward phasing out nuclear power plants, the Company is promoting the wider use of high-efficiency water heating equipment and expanding use of natural gas as a fuel. Noritz has obtained the CE mark necessary for entering the European market and is taking steps to meet the requirements of the Regulations on Harmful Substances and comply with other such regulations to reduce harmful substances in products.

→ Accelerated Expansion of Operations throughout China

Investment Company Established to Oversee Subsidiaries in China

The Company received permission from the central government of China to establish a new regional headquarters company, NORITZ (CHINA) CO., LTD., which will oversee the operations of the Company's subsidiaries in China and work to efficiently promote the expansion of the activities of the Noritz Group. Total capital invested in the new company was US\$30 million (approximately ¥3.5 billion). Noritz (Shanghai) Home Appliance Co., Ltd., which was established in June last year, and Shanghai Noritz Co., Ltd., which serve as the manufacturing arms of the Noritz Group in China, have been placed under NORITZ (CHINA), and the marketing functions of Shanghai Noritz will be transferred to the regional headquarters company.

NORITZ (CHINA) has been classified as an investment company, and, in addition to its functions as the regional headquarters, it will perform the roles of a domestic marketing company. As the central Noritz Group company in China, it will also handle trading functions, including exports and imports. Since the establishment of this new company will make it unnecessary to obtain operating permits from regional governments when making new investments and setting up new companies, this will facilitate quick decision making.

The first action of NORITZ (CHINA) was to invest US\$16.9 million in the previously mentioned Noritz (Shanghai) Home Appliance and bring that company fully under its control. Noritz (Shanghai) Home Appliance is currently building the Noritz Group's second manufacturing plant in China on 160,000 square meters of land located in the Fengxian district of Shanghai. The newly invested funds will be employed in making preparations for this expansion in plant capacity.

→ Work Completed on Production Technology Development Center

On November 15, 2005, the Company completed the construction of a new production technology development center in the NAM Area, which is the location of the Noritz Headquarters Plant and the Headquarters Development Center. The mission of this new center will be the development of technologies that will create new value for customers, as outlined in the "new value" strategy section of the Company's three-year management plan, which began in 2005. The new center, which is situated on the grounds west of the Headquarters Development Center and has a total floor area of 1,500 square meters, was completed at a total investment cost of ¥450 million. To improve production technology capabilities, infrastructure, personnel, technology, and other resources have been consolidated and situated on the site, with the goals of expanding production of metal molds and manufacturing equipment and establishing pilot lines equipped with metal molds and technologies.

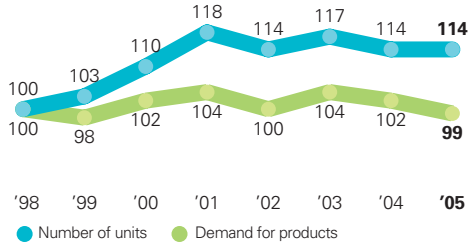
→ Taisei Kogyo to Build New Plant

Taisei Kogyo has made the decision to invest in a new plant, which will be the third Harima plant. A site with 3,400 square meters of land has been set aside for construction of the new three-story plant and an office building. The total investment in land, buildings, and equipment has been set at approximately ¥600 million and the total floor space of the new plant will be approximately 1,700 square meters. Plans call for completion of the new facilities by March 15, 2006. The new plant will specialize in supplying heat exchangers and other parts and components to companies outside the Noritz Group.

Review of Operations

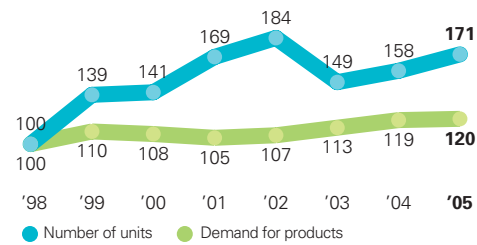
The following graphs show changes in net sales of Noritz products by category, along with changes in total unit sales of such products in Japan (total domestic demand). The 1998 levels of both Noritz unit sales and total domestic sales are set at 100 to facilitate inter-year comparisons.

Gas Bath Heaters



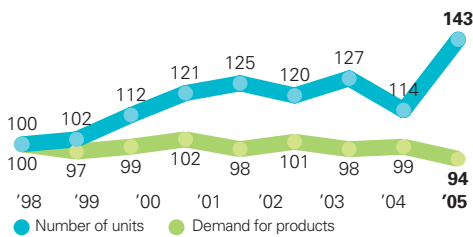
Total domestic demand for gas bath heaters in 2005 declined 2%, to 1.79 million units. Noritz sales of gas bath heaters in unit terms, including OEM sales, in 2005 held firm at the level of the previous year. Moreover, the share of Noritz brand units rose to 37.4% of total demand. As a result of Company efforts to promote sales of higher-priced gas heaters for room heating and bath use, net sales in this category amounted to ¥42.9 billion, the same as for the previous year, despite the decline in overall domestic demand in unit terms.

System Bathrooms for Private Homes



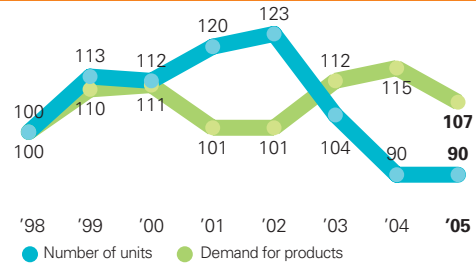
Total domestic demand for system bathrooms for installation in unit housing in 2005 amounted to 770,000 units, the same as for the previous year. The share of Noritz brand units rose 0.5 percentage point, to 6.3%, as the Company sold 51,700 of these units, 8% higher than in the previous year. Nevertheless, because of an increase in the share of low-priced, standard units among units sold by Noritz, net sales of these products slipped 2%, to ¥14.1 billion.

Gas Water Heaters



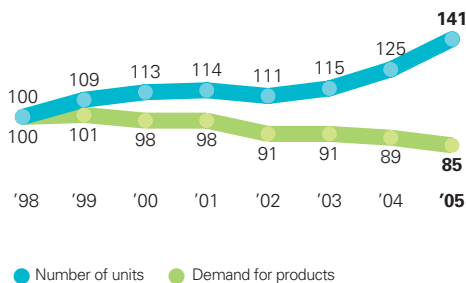
Total domestic demand for gas water heaters in 2005 decreased 4%, to 1.27 million units. However, the market share of Noritz brand units climbed 2.2 percentage points, to 30.0%. Noritz increased unit sales by promoting sales of moderately priced gas water heaters manufactured by Shanghai Noritz. In addition, exports of gas water heaters to the United States, Oceania, and Hong Kong rose significantly, thus contributing to a 4% rise in net sales, to ¥15.6 billion.

System Kitchens for Private Homes



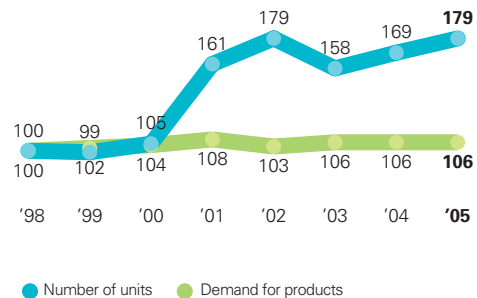
Although the total domestic demand for system kitchens for new residential units in 2005 declined 6%, to 600,000 units, Noritz was successful in selling 22,000 units, approximately the same as in the previous year. However, sales of midrange units did not increase, while sales of low-priced units rose. As a result, net sales were down 4%, to ¥7.0 billion.

Kerosene-Fired Water Heaters



Overall demand for kerosene-fired water heaters in 2005 declined 4%, to 449,500 units. Sales of Noritz brand units and OEM units manufactured by Noritz rose 13%, leading to an increase in market share of 1.4 percentage points, to 34.7%. As a result of these trends, net sales advanced 6% over the previous year, to ¥17.6 billion.

Vanity Units



In 2005, overall domestic demand for vanity units amounted to 1.88 million units, level with the previous year. Sales of moderately priced Noritz units held strong and total units sold expanded 6%, to 123,000. Net sales of this segment rose 2%, to ¥4.5 billion, and the market share of Noritz units rose 0.3 percentage point, to 6.5%.

* 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 2005, ended December 31, 2005, the Japanese economy continued on a moderate recovery trend supported by expansion in private capital investment against a background of improvement in corporate profitability and growth in consumer spending. However, concerns remained about the prolonged period of high crude oil prices, rising prices of industrial materials, and other circumstances, thus damping any possible optimism regarding future trends in the economy. In the Company's business fields, new housing starts, principally in the multi-unit dwelling area, experienced a rising trend, but overall demand was stagnant. Also, along with the movement toward using more electrical appliances, price competition grew substantially more intense, thus leading to a continuation of challenging operating conditions.

Amid this business environment, we at the Noritz Group began to implement our Create 21 Second-Phase Medium-Term Management Plan and moved forward with strategies in three specific areas: the "new value" strategy, which focuses on developing high-value-added products in response to the requests of our customers, the "Houresh" (house refresh) strategy, which calls for strengthening our marketing framework for housing reform and refurbishment services, and the global strategy, under which we are upgrading and strengthening our overseas marketing network.

As a result of these and other initiatives, consolidated net sales increased 2.6%, to ¥176.0 billion. However, as a consequence of slippage in sales prices and higher raw material costs, operating income was down 9.7%, to ¥6.9 billion, and net income declined 13.7%, to ¥4.3 billion.

Cost of Sales and SG&A Expenses

The cost of sales rose 3.2%, to ¥122.7 billion, and the cost of sales to net sales ratio increased 0.4 percentage point, to 69.7%, largely due to the increases in raw material costs. As during the previous fiscal year, sales prices were down, but this was due to a change in the product mix and the policy of manufacturers of gas-related water heaters to lower prices to counteract the rise in the number of all-electric housing units, a development that reflected the competition among energy suppliers in the gas and electric power fields.

In addition, as a result of expenditures for future growth, including the costs of advertising and promotion as well as R&D, and after-service costs, selling, general and administrative (SG&A) expenses rose 3.2%, to ¥46.4 billion. This led to a 0.2 percentage point deterioration in the SG&A ratio and a 0.6 percentage point decline in the operating profit ratio, to 3.9%.

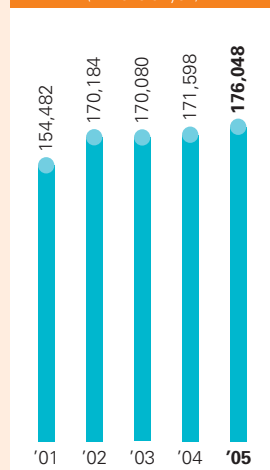
Other Income (Expenses)

Other income (expenses), net, which amounted to ¥1.3 billion in fiscal 2004, declined ¥0.5 billion for the fiscal year under review, to ¥0.7 billion. The principal reasons for this decline were the absence of the gain on the return of the substitutional portion of the employee pension fund reported in the previous fiscal year and a ¥0.3 billion increase in the loss on sales and disposal of property, plant and equipment. As a result, income before income taxes fell 14.0%, to ¥7.7 billion.

Reflecting the above items, net income was down 13.7%, to ¥4.3 billion, as mentioned previously. Return on sales deteriorated 0.5 percentage point, to 2.4%. Similarly, the return on equity (ROE) decreased from 5.9% in the previous year to 4.9% in fiscal 2005.

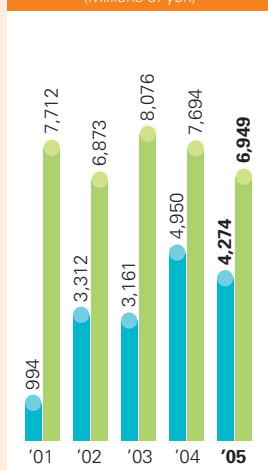
Net Sales

(Millions of yen)



Net Income and Operating Income

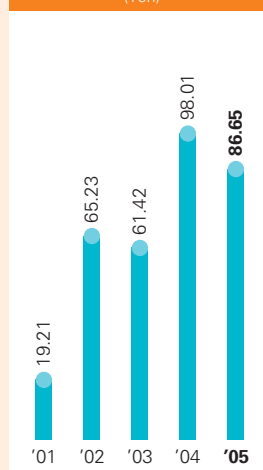
(Millions of yen)



● Net Income
● Operating Income

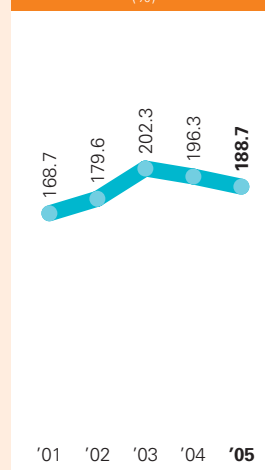
Net Income per Share

(Yen)



Current Ratio

(%)



Financial Position

The total assets of the Noritz Group at fiscal year-end amounted to ¥151.5 billion, ¥2.8 billion higher than at the previous fiscal year-end. Of this total, total current assets declined ¥0.7 billion, to ¥87.1 billion. This was primarily owing to a decline in cash and time deposits accompanying the purchase of ¥2.0 billion in Japanese government bonds, a decline in current assets due to the sale of ¥3.5 billion in trust beneficiary certificates, and other factors.

Total non-current assets expanded ¥3.5 billion, to ¥64.5 billion, largely due to purchases of Japanese government bonds, strategic investments, and other developments, which resulted in an increase in the balance of investment in securities of ¥7.3 billion. This more than offset a decline in long-term deferred tax assets of ¥2.3 billion accompanying reductions in the reserve for employees' retirement benefits and the reserve for directors' and statutory auditors' retirement benefits.

The Noritz Group's total liabilities decreased ¥0.6 billion, to ¥60.7 billion. Of this total, current liabilities rose ¥1.4 billion, to ¥46.1 billion. This was mainly due to higher balances of notes payable and accounts payable in connection with purchases of raw materials. In addition, long-term liabilities declined ¥2.0 billion, to ¥14.6 billion. The principal factors accounting for this decrease were a ¥1.1 billion decline in the reserve for employees' severance and retirement benefits as the result of the transference of a portion of the Company's lump-sum retirement payment plan to a defined contribution pension plan and a decline of ¥0.4 billion in the reserve for directors' and statutory auditors' retirement benefits.

The Group's shareholders' equity increased ¥3.3 billion, to ¥89.1 billion. This was primarily due to an increase of ¥2.9 billion

in retained earnings and a gain of ¥2.3 billion in net unrealized holding gains on securities, which more than offset an increase of ¥2.2 billion in the item "treasury stock, at cost," which is deducted from shareholders' equity.

As a consequence of these developments, the Group's shareholders' equity ratio increased 1.2 percentage points, to 58.8%. In addition, shareholders' equity per share rose to ¥1,860.92, from ¥1,750.82 at the end of the previous fiscal year.

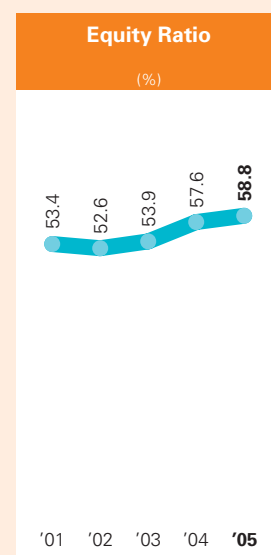
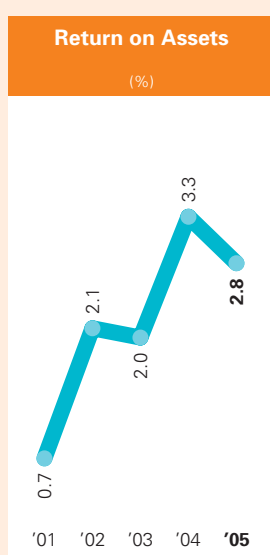
Cash Flows

As a result of the movements in cash flow items described below, cash and cash equivalents at the end of the fiscal year under review amounted to ¥15.9 billion, ¥5.2 billion lower than at the end of the previous fiscal year.

Net cash provided by operating activities increased ¥3.0 billion, to ¥8.1 billion. Principal factors that accounted for this development included income before income taxes of ¥7.7 billion, depreciation of ¥5.6 billion, a reduction in the reserve for employees' retirement benefits of ¥1.1 billion, an increase in trade notes and accounts receivable of ¥1.6 billion, and an increase in procurement payables of ¥1.4 billion.

Net cash used in investing activities declined ¥6.6 billion, to ¥9.7 billion. This was primarily due to a net withdrawal of time deposits of ¥1.0 billion as well as net outflows from acquisition and sale of securities of ¥5.5 billion, versus expenditures of ¥5.1 billion used for the acquisition of property, plant and equipment.

Net cash used in financing activities declined ¥0.1 billion, to ¥3.6 billion. The principal factors accounting for this included payments of dividends amounting to ¥1.4 billion and payments of ¥2.2 billion to purchase the Company's outstanding common stock.



Consolidated Balance Sheets

Noritz Corporation and Consolidated Subsidiaries
As of December 31, 2004 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Current assets:			
Cash and time deposits (Note 3)	¥ 19,667	¥ 18,980	\$ 160,752
Marketable securities (Note 4)	2,828	3,185	26,976
Receivables—			
Trade notes and accounts	48,885	50,936	431,405
Trade notes and accounts from non-consolidated subsidiaries and affiliates	1,053	953	8,071
Other	2,100	1,994	16,888
Allowance for doubtful receivables	(386)	(390)	(3,303)
	51,652	53,493	453,061
Inventories—			
Finished goods, purchased goods and work in process	5,437	5,861	49,640
Raw materials and supplies	1,939	2,356	19,954
	7,376	8,217	69,594
Deferred tax assets (Note 8)	719	830	7,030
Other	5,535	2,359	19,980
Total current assets	87,777	87,064	737,393
Investments and other assets:			
Investments in and loans to non-consolidated subsidiaries and affiliates	1,078	1,205	10,206
Investment in securities (Note 4)	17,676	24,512	207,606
Long-term loans receivable	202	291	2,465
Lease deposits	2,897	2,502	21,191
Long-term deferred tax assets (Note 8)	4,221	1,966	16,651
Allowance for doubtful receivables	(505)	(341)	(2,888)
Other	2,149	1,303	11,035
	27,718	31,438	266,266
Property, plant and equipment:			
Land	10,619	10,513	89,040
Buildings and structures	28,502	29,319	248,319
Machinery and equipment	52,883	53,931	456,771
Construction in progress	345	382	3,235
	92,349	94,145	797,365
Less accumulated depreciation	(61,888)	(64,149)	(543,312)
	30,461	29,996	254,053
Intangible assets			
	2,817	3,035	25,705
	¥148,773	¥151,533	\$1,283,417

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Current liabilities:			
Bank loans (Note 6)	¥ 462	¥ 540	\$ 4,574
Payables—			
Trade notes and accounts:			
Non-consolidated subsidiaries and affiliates	1	1	7
Other	33,490	34,995	296,393
Construction	1,204	1,129	9,562
Other	3,984	3,411	28,890
	38,679	39,536	334,852
Accrued expenses	2,872	2,819	23,876
Income taxes and enterprise tax payable	1,038	1,642	13,907
Other	1,667	1,598	13,533
Total current liabilities	44,718	46,135	390,742
Employees' severance and retirement benefits (Note 9)	10,929	9,854	83,459
Directors' and statutory auditors' retirement benefits	932	532	4,506
Long-term deposits received from customers	3,153	3,151	26,688
Long-term deferred tax liabilities (Note 8)	294	315	2,668
Other non-current liabilities	1,215	701	5,937
Minority interests in consolidated subsidiaries	1,752	1,756	14,873
Contingent liabilities (Note 7)			
Shareholders' equity (Note 10):			
Common stock—			
Authorized—156,369,000 shares			
Issued—50,797,651 shares	20,168	20,168	170,814
Capital surplus	22,957	22,957	194,436
Retained earnings	44,659	47,514	402,422
Net unrealized holding gains on securities	921	3,250	27,526
Foreign currency translation adjustments	(66)	239	2,024
Treasury stock, at cost—1,829,977 shares in 2004 and 2,944,532 shares in 2005	(2,859)	(5,039)	(42,678)
Total shareholders' equity	85,780	89,089	754,544
	¥148,773	¥151,533	\$1,283,417

Consolidated Statements of Shareholders' Equity

Noritz Corporation and Consolidated Subsidiaries

Years ended December 31, 2004 and 2005

	Number of shares of common stock (thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at December 31, 2003	50,798	¥20,168	¥22,957	¥40,803	¥ 424	¥ (30)	¥ (935)
Net income				4,950			
Net unrealized holding gains on securities					497		
Increase resulting from newly consolidated subsidiaries				83			
Adjustments from translation of foreign currency financial statements						(36)	
Cash dividends paid, ¥22.50 per share				(1,128)			
Bonuses to directors and statutory auditors				(49)			
Treasury stock purchased							(1,924)
Balance at December 31, 2004	50,798	¥20,168	¥22,957	¥44,659	¥ 921	¥ (66)	¥(2,859)
Net income				4,274			
Net unrealized holding gains on securities					2,329		
Adjustments from translation of foreign currency financial statements						305	
Cash dividends paid, ¥28.00 per share				(1,371)			
Bonuses to directors and statutory auditors				(48)			
Treasury stock purchased							(2,180)
Balance at December 31, 2005	50,798	¥20,168	¥22,957	¥47,514	¥3,250	¥239	¥(5,039)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock	
Balance at December 31, 2004	\$170,814	\$194,436	\$378,242	\$ 7,800	\$ (559)	\$(24,214)	
Net income			36,199				
Net unrealized holding gains on securities				19,726			
Adjustments from translation of foreign currency financial statements					2,583		
Cash dividends paid, \$0.237 per share			(11,612)				
Bonuses to directors and statutory auditors			(407)				
Treasury stock purchased						(18,464)	
Balance at December 31, 2005	\$170,814	\$194,436	\$402,422	\$27,526	\$2,024	\$(42,678)	

See accompanying notes.

Consolidated Statements of Cash Flows

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Cash flows from operating activities:			
Income before income taxes	¥ 8,944	¥ 7,695	\$ 65,173
Depreciation	5,599	5,643	47,794
Loss on impairment of fixed assets	—	20	169
Interest and dividend income	(192)	(266)	(2,253)
Interest expense	66	81	686
Write-down of securities	16	2	17
Loss on sales and disposal of property, plant and equipment	376	691	5,852
Income from sales of property, plant and equipment	(3)	(4)	(34)
Increase in trade notes and accounts receivable	(1,250)	(1,638)	(13,873)
Decrease (increase) in inventories	946	(714)	(6,047)
Increase (decrease) in allowance for doubtful receivables	242	(160)	(1,355)
Decrease (increase) in trade notes and accounts payable	(4,642)	1,366	11,569
Decrease in employees' retirement benefits	(3,339)	(1,075)	(9,105)
Other	1,529	(1,363)	(11,543)
Subtotal	8,292	10,278	87,050
Interest and dividends received	187	257	2,177
Interest paid	(66)	(81)	(686)
Income taxes paid	(3,358)	(2,374)	(20,107)
Net cash provided by operating activities	5,055	8,080	68,434
Cash flows from investing activities:			
Investments in time deposits	(3,570)	(2,001)	(16,948)
Proceeds from time deposits	60	3,000	25,409
Additions to securities	(10,439)	(6,924)	(58,643)
Proceeds from sales of securities	3,537	1,459	12,357
Additions to property, plant and equipment	(4,753)	(5,116)	(43,330)
Proceeds from sales of property, plant and equipment	135	49	415
Payments for loans receivable	(736)	(7)	(59)
Proceeds from loans receivable	137	138	1,169
Other	(639)	(294)	(2,491)
Net cash used in investing activities	(16,268)	(9,696)	(82,121)
Cash flows from financing activities:			
Net decrease in short-term bank loans	(585)	(4)	(34)
Payments for purchases of treasury stock	(1,924)	(2,180)	(18,464)
Dividends paid	(1,128)	(1,371)	(11,612)
Dividends paid to minority shareholders of consolidated subsidiaries	(8)	(6)	(50)
Net cash used in financing activities	(3,645)	(3,561)	(30,160)
Foreign currency adjustments	(8)	(11)	(93)
Net decrease in cash and cash equivalents	(14,866)	(5,188)	(43,940)
Cash and cash equivalents at beginning of year	35,872	21,075	178,496
Increase in cash and cash equivalents due to newly consolidated subsidiaries	69	—	—
Cash and cash equivalents at end of year	¥21,075	¥15,887	\$134,556

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 translations 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, 2005, which was ¥118.07 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 18 (16 in 2004) 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

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.

(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, 2004 and 2005 were ¥4,239 million and ¥5,126 million (\$43,415 thousand), respectively.

(7) Software costs

The Companies include software in intangible assets and amortize 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 recognize tax effects of loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

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, 2004 and 2005 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

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.

(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.

(17) Enterprise taxes

Commencing in the year ended December 31, 2005, the value-added and capital portions of enterprise taxes amounting to ¥240 million (\$2,033 thousand) are treated as selling, general and administrative expenses in accordance with Practical Guidance Report No. 12, "Treatment of the Pro Forma Standard Tax Portion of Corporate Tax in the Statement of Income," announced by the Accounting Standards Board of Japan on February 13, 2004.

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, 2004 and 2005 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Cash and time deposits in the consolidated balance sheets	¥19,667	¥18,980	\$160,752
Marketable securities	2,828	3,185	26,976
Other (trust)	3,500	—	—
Time deposits with maturities exceeding 3 months	(4,093)	(3,095)	(26,213)
Bonds with maturities exceeding 3 months	(827)	(3,183)	(26,959)
Cash and cash equivalents in the consolidated statements of cash flows	¥21,075	¥15,887	\$134,556

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, 2004 and 2005:

Marketable securities to be held to maturity

Type	Millions of yen						Thousands of U.S. dollars		
	2004			2005			2005		
	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	¥5,508	¥5,512	¥ 4	\$46,650	\$46,684	\$ 34
Securities whose market value equals or is less than book value									
Japanese government and regional government bonds	¥3,518	¥3,516	¥ (2)	¥4,514	¥4,497	¥(17)	\$38,232	\$38,088	\$(144)

Available-for-sale securities

Securities with book values exceeding acquisition costs are as follows:

Type	Millions of yen						Thousands of U.S. dollars		
	2004			2005			2005		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥4,166	¥5,884	¥1,718	¥ 9,241	¥14,829	¥5,588	\$78,267	\$125,595	\$47,328
Bonds	2,723	2,781	58	1,927	1,945	18	16,321	16,473	152
Others	36	39	3	10	26	16	85	220	135
Total	¥6,925	¥8,704	¥1,779	¥11,178	¥16,800	¥5,622	\$94,673	\$142,288	\$47,615

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

Type	Millions of yen						Thousands of U.S. dollars		
	2004			2005			2005		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 457	¥ 428	¥ (29)	¥ 27	¥ 26	¥ (1)	\$ 229	\$ 220	\$ (9)
Bonds	500	444	(56)	500	497	(3)	4,235	4,209	(26)
Others	250	177	(73)	222	171	(51)	1,880	1,449	(431)
Total	¥1,207	¥1,049	¥(158)	¥749	¥694	¥(55)	\$6,344	\$5,878	\$(466)

The following table summarizes book values of securities with no available fair values as of December 31, 2004 and 2005.

Available-for-sale securities

Type	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Non-listed equity securities	¥ 151	¥165	\$1,397
Mutual funds	52	2	17
Venture capital investment limited partnership	14	14	119
Commercial paper	2,000	—	—
Total	¥2,217	¥181	\$1,533

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

	Millions of yen										Thousands of U.S. dollars				
	2004					2005					2005				
	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	¥618	¥10,600	—	¥500	¥11,718	¥3,000	¥8,900	—	¥500	¥12,400	\$25,408	\$75,379	—	\$4,235	\$105,022
Others	—	12	—	—	12	—	25	—	—	25	—	212	—	—	212
Total	¥618	¥10,612	—	¥500	¥11,730	¥3,000	¥8,925	—	¥500	¥12,425	\$25,408	\$75,591	—	\$4,235	\$105,234

Total sales of available-for-sale securities in the year ended December 31, 2004 amounted to ¥32,678 million and the related gains and losses amounted to ¥52 million and ¥109 million, respectively.

Total sales of available-for-sale securities in the year ended December 31, 2005 amounted to ¥793 million (\$6,716 thousand) and the related gains and losses amounted to ¥38 million (\$322 thousand) and ¥3 million (\$26 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, 2004 and 2005 are as follows:

	Millions of yen						Thousands of U.S. dollars
	2004			2005			2005
	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total	Total
Original lease obligation (including finance charges)	¥1,929	¥227	¥2,156	¥1,549	¥170	¥1,719	\$14,559
Payments remaining	683	66	749	548	47	595	5,039
Payments due within one year			319			219	1,855
Payments due after one year			430			376	3,184
Total			¥ 749			¥ 595	\$ 5,039

Total lease payments under non-capitalized finance leases for the years ended December 31, 2004 and 2005 were ¥478 million and ¥335 million (\$2,837 thousand), respectively.

Future minimum rents under non-cancellable operating leases at December 31, 2004 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Due within one year	¥2	¥ 1	\$ 1
Due after one year	1	—	—
	¥3	¥ 1	\$ 1

6. BANK LOANS

Short-term bank loans at December 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Short-term bank loans—4.70%	¥462	¥540	\$4,574

7. CONTINGENT LIABILITIES

At December 31, 2005, the Companies were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes endorsed	¥ 1	\$ 1
As guarantor of indebtedness of an affiliate and other companies	604	5,116
	¥605	\$5,117

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 40.7% for the years ended December 31, 2004 and 2005.

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, 2005.

	Percentage
	2005
Statutory tax rate:	40.7%
Permanently non-deductible expenses	2.1
Permanently non-taxable dividend income	(0.3)
Per capita inhabitants' tax	1.7
Amortization of consolidation goodwill	(0.6)
Other	(0.7)
Effective tax rate	42.9%

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, 2004 and 2005 are as follows:

	Millions of yen		Thousands of
	2004	2005	U.S. dollars
			2005
Deferred tax assets:			
Employees' retirement benefits	¥3,921	¥3,705	\$31,380
Excess bad-debt expenses	389	303	2,566
Directors' and statutory auditors' retirement benefits	347	217	1,838
Accrued enterprise tax	97	179	1,516
Write-down of securities	239	110	932
Loss carryforwards (for tax purposes)	245	309	2,617
Other	553	614	5,200
Total deferred tax assets	5,791	5,437	46,049
Valuation allowance	(219)	(377)	(3,193)
Deferred tax assets	5,572	5,060	42,856
Deferred tax liabilities:			
Net unrealized holding gains on securities	(632)	(2,265)	(19,184)
Land	(294)	(315)	(2,668)
Deferred tax liabilities	(926)	(2,580)	(21,852)
Net deferred tax assets	¥4,646	¥2,480	\$21,004

	Millions of yen		Thousands of
	2004	2005	U.S. dollars
			2005
Short-term deferred tax assets	¥ 719	¥ 830	\$ 7,030
Short-term deferred tax liabilities	—	(1)	(9)
Long-term deferred tax assets	4,221	1,966	16,651
Long-term deferred tax liabilities	(294)	(315)	(2,668)
	¥4,646	¥2,480	\$21,004

9. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

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, 2004 and 2005 consist of the following:

	Millions of yen		Thousands of
	2004	2005	U.S. dollars
			2005
Projected benefit obligation	¥22,236	¥23,314	\$197,459
Unrecognized prior service costs	2,011	1,006	8,520
Unrecognized actuarial differences	(4,966)	(3,281)	(27,788)
Less fair value of pension assets	(8,443)	(11,304)	(95,740)
Prepaid pension cost	91	119	1,008
Liabilities for severance and retirement benefits	¥10,929	¥ 9,854	\$ 83,459

Included in the consolidated statements of income for the years ended December 31, 2004 and 2005 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of
	2004	2005	U.S. dollars
			2005
Service costs—			
benefits earned during the year	¥ 918	¥ 983	\$8,326
Interest cost on projected benefit obligation	509	461	3,904
Expected return on plan assets	(139)	(166)	(1,406)
Amortization of prior service costs	(1,032)	(1,005)	(8,512)
Amortization of actuarial differences	479	584	4,946
Other	—	240	2,033
Severance and retirement benefit expenses	¥ 735	¥1,097	\$9,291

The discount rates and the rates of expected return on plan assets used by the Company are 2.3% and 2.3%, 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.

The Commercial Code of Japan 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. ADOPTION OF ACCOUNTING POLICY FOR IMPAIRMENT OF FIXED ASSETS

Companies have been allowed to apply Accounting Principles for Impairment of Fixed Assets (contained in the "Opinion Regarding Accounting Principles for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002) and "Guidelines for Application of Accounting Principles for Impairment of Fixed Assets" (issued by the Business Accounting Standards Committee on October 31, 2003 as "Guideline No. 6 for Application of Corporate Accounting Standards") in preparing financial statements for fiscal years ending after March 31, 2004. Accordingly, the Company has applied these principles and guidelines beginning with the 2005 fiscal year. As a result of this change in accounting policy, income before income taxes was ¥20 million (\$169 thousand) lower than it would have been without this change.

Accumulated losses on impairment of fixed assets were deducted directly from the amount of land.

12. 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.

13. SUBSEQUENT EVENT

Appropriation of retained earnings

At the ordinary shareholders' meeting of the Company held on March 30, 2006, the following appropriations of retained earnings for the year ended December 31, 2005 were duly approved:

	Millions of yen	Thousands of U.S. dollars
Appropriations:		
Cash dividends—¥14.0 per share	¥670	\$5,675
Bonuses to directors and statutory auditors	34	288

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 consolidated subsidiaries as of December 31, 2004 and 2005, 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 independently 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 as of December 31, 2004 and 2005, 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, 2005 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, 2006

KPMG AZSA & Co.

Five-Year Consolidated Summary

Noritz Corporation and Consolidated Subsidiaries

Years ended December 31

	Millions of yen					Thousands of U.S. dollars (Note)
	2001	2002	2003	2004	2005	2005
For the year:						
Net sales	¥154,482	¥170,184	¥170,080	¥171,598	¥176,048	\$1,491,048
Cost of sales	109,754	124,712	117,130	118,943	122,698	1,039,197
Selling, general and administrative expenses	37,016	38,599	44,874	44,961	46,401	392,996
Operating income	7,712	6,873	8,076	7,694	6,949	58,855
Income before income taxes	2,560	6,371	6,115	8,944	7,695	65,173
Current income taxes	3,003	3,744	3,286	2,716	2,738	23,190
Net income	994	3,312	3,161	4,950	4,274	36,199
Per share data (Yen and U.S. dollars):						
Net income	¥ 19.21	¥ 65.23	¥ 61.42	¥ 98.01	¥ 86.65	\$ 0.734
Cash dividends, applicable to the year	15.00	15.00	17.00	28.00	28.00	0.237
At year-end:						
Total assets	¥147,716	¥154,542	¥154,613	¥148,773	¥151,533	\$1,283,417
Total shareholders' equity	78,841	81,283	83,387	85,780	89,089	754,544
Number of employees	4,090	4,401	4,539	4,604	4,765	
Ratios:						
Return on equity	1.3%	4.1%	3.8%	5.9%	4.9%	
Return on sales	0.6	1.9	1.9	2.9	2.4	
Return on assets	0.7	2.1	2.0	3.3	2.8	

Note: The U.S. dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥118.07 to U.S.\$1.00, the rate prevailing at December 31, 2005.

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

Toshiaki Kabe

Soichiro Kokui

Yuji Nishibata

Corporate Auditors

Kenji Tokumoto

Tomosaburo Kinda

Takeshi Okamoto

Noriaki Nagahara

(As of March 30, 2006)

Corporate Data

Noritz Corporation

Established

March 10, 1951

Stated Capital

¥20,168 million

Common Stock

Authorized: 156,369,000 shares

Issued: 50,797,651 shares

Number of Shareholders

4,205

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

Hachioji, Tokyo

Factories

Hyogo Prefecture: 3

Ibaraki Prefecture: 1

(As of December 31, 2005)

Major Shareholders

	Number of shares held (Thousands)	Percentage of total shares issued (%)
Steel Partners Japan Strategic Fund Offshore, LP	5,050	9.94
The Dai-ichi Mutual Life Insurance Company	2,967	5.84
Noritz Corporation	2,945	5.79
Sumitomo Mitsui Banking Corporation	2,189	4.30
Japan Trustee Services Bank, Ltd.	1,664	3.27
Bank of New York GCM Client Accounts EISG	1,607	3.16
Toshiro Ota	1,350	2.65
The Employees' Shareholding Association	1,341	2.64
The Noritz Customer Shareholding Association	1,339	2.64
CB Hong Kong Cogent Hunter Hall ValGR	1,130	2.22

(As of December 31, 2005)

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	100.0	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 ¹	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. ²	300	90.0	Sale of Housing-Related Products
Noritz Electronics Technology Corporation ¹	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
NORITZ (CHINA) CO., LTD.	US\$30,000 thousand	100.0	Management of Manufacturing Subsidiaries in China
Noritz (Shanghai) Home Appliance Co., Ltd.	US\$22,000 thousand	100.0	Manufacture of Water Heater Components

Notes: 1. This is a specially classified subsidiary.

2. 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.

(As of December 31, 2005)

NORITZ CORPORATION

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