



## Profile

Established in Kobe in 1951, Noritz Corporation (the "Company") 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, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note)
	2005	2006	2006
<b>For the year:</b>			
Net sales	¥176,048	<b>¥182,077</b>	<b>\$1,528,517</b>
Net income	4,274	<b>2,997</b>	<b>25,160</b>
<b>Per share data</b>			
(Yen and U.S. dollars):			
Net income	¥ 86.65	<b>¥ 62.62</b>	<b>\$ 0.526</b>
Cash dividends, applicable to the year	28.00	<b>28.00</b>	<b>0.235</b>
<b>At year-end:</b>			
Total assets	¥151,533	<b>¥155,151</b>	<b>\$1,302,476</b>
Total shareholders' equity	89,089	—	—
Total net assets	—	<b>92,237</b>	<b>774,320</b>

Note: The U.S. dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥119.12 to U.S.\$1.00, the rate prevailing at December 31, 2006.

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# Operating Performance

## Gas Water Heaters



In 2006, consolidated Group sales of gas water heaters in unit terms, including OEM and export sales, rose to 1,473,000 units, up 58,000 units, or 4.1%, from the level of the previous year.

Looking at the structure of sales volume, Noritz gas bath heater sales, including OEM and export sales, rose to 1,261,000 units, up 10.1%, while Harman Co., Ltd., gas

bath heater sales decreased 21.7%, to 49,000 units. Shanghai Noritz Co., Ltd.'s sales volume fell 21.7%, to 163,000 units. Although Japan's total domestic demand for gas bath heaters in 2006 was down 1.1%, to 3.03 million units, the rise in Group sales reflected an increase in sales of water heaters with room-heating functions and sales of relatively low-priced water heaters. Regarding water heaters with bathwater-reheating functions, an increase was seen in the share of Group sales accounted for by high-efficiency, environment-friendly "Ecojozu" products. The rise in Group sales also reflected a large surge in sales of gas water heater products exported to North American markets through Noritz America Corporation. The decrease in sales of Harman gas water heater products stemmed from Harman's strategy of focusing on the built-in gas stove market. The considerable decrease in Shanghai Noritz's sales resulted from the merger of two large-scale retailing companies that are major Shanghai Noritz customers.

## System Kitchens for Private Homes



Noritz's system kitchen operations are focused exclusively on products for installation in single-family housing structures in Japan. Manufacturers of system kitchens for multiple-family buildings bear considerable burdens related to responses to special design orders, managing timely deliveries, overseeing installation work, and performing periodic inspections after

installation. In view of this, the Noritz Group does not market its system kitchen products for installation in newly built apartment or condominium buildings.

Although Japan's total domestic demand for system kitchens in 2006 grew 3%, to 620,000 units, Noritz's sales volume decreased 13%, to 19,000 units. 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. However, the Company deemphasized marketing programs for the Beste series of low-priced, standard products while shifting greater marketing emphasis in showrooms to the intermediate-class Estudio series of products. This strategy and cost-reduction measures combined to restrain the decrease in net sales, which declined only 3%, to ¥6.8 billion. Noritz's domestic market share for system kitchens for single-family homes declined 0.4 percentage point, to 3.1%.

## Forward-looking statements

Statements contained in the *Annual Report 2006* regarding business results for fiscal 2006 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.