

Highlights

The following information indicates changes in net sales of Noritz products by category, along with changes in total unit sales of such products in Japan (total domestic demand).

Kerosene-Fired Water Heaters



In 2006, consolidated Group sales of kerosene-fueled water heaters in unit terms rose to 178,000 units, down 4.1% from the level of the previous year. This figure includes domestic OEM sales but not overseas OEM sales. While Japan's total domestic demand for kerosene-fueled water heaters in 2006 was down 9%, to 0.4 million units, Noritz-brand product

sales were roughly stable, at 137,000 units; however, the volume of sales including OEM sales decreased 12%, to 178,000 units. Electric power companies' promotion of all-electric housing units has led to growth in the number of such units, particularly in non-metropolitan regions. Because these regions are the locus of a major portion of demand for kerosene-fueled water heaters, the rise in all-electric housing is causing a noteworthy contraction in the scale of the domestic market for kerosene-fueled water heaters. As this trend is expected to continue, the domestic market for kerosene-fueled water heaters is projected to shrink another 10% during 2007, and Noritz's sales can also be expected to decrease approximately 10%, to 160,000 units. In view of this, in December 2006, Noritz launched the EcoFeel line of high-efficiency kerosene-fueled water heaters developed in cooperation with the Petroleum Association of Japan. EcoFeel products are being marketed with emphasis on their environment-friendly characteristics.

System Bathrooms for Private Homes



Noritz's system bathroom operations are focused exclusively on products for installation in single-family housing structures in Japan, as the designs of these products differ considerably from those of products for multiple-family buildings. In 2006, Japan's total domestic demand for system bathrooms for installation in single-family houses amounted to 770,000

units, roughly unchanged from the previous year. The market share of Noritz-brand units declined 0.7 percentage point, to 5.6%, as the Company sold approximately 43,000 of these units, down 16% from the previous year. Noritz did not launch any new products in this sector during the year, and the Company restrained its marketing programs for the JUB series of low-priced, standard products that offer relatively low profit margins while shifting greater marketing emphasis to intermediate-class heaters in the Fine series of products. These factors combined to considerably reduce sales volume. Noritz has been improving the profitability of bathroom-related business, including system bathroom business, through cost-reduction and efficiency-boosting measures, but the operations have not yet recovered their operating profitability. Based on its "Houresh" (house refresh) strategy, Noritz is strengthening its marketing systems focused on existing housing and working to increase sales through those systems. However, net sales of system bathroom products decreased 14%, to ¥12.1 billion.

Vanity Units



Noritz markets vanity units in Japan only. In 2006, Japan's total domestic demand for vanity units amounted to 1.9 million units, approximately unchanged from the previous year. Noritz's sales volume for vanity units decreased 5%, to 117,000 units, but the decline in the segment's net sales was restrained to 2%, and the level of net sales was ¥4.4 billion.

Thus, the market share of Noritz units declined 0.3 percentage point, to 6.2%. As in other segments, Noritz is shifting the emphasis of its marketing programs from moderately priced products to intermediate-class products. Lower-priced models are generally installed in newly constructed single- and multiple-family housing buildings, while intermediate-class products are most commonly sold for renovation projects.

Built-In Gas Stoves



The Group engages in built-in gas stove business in Japan only, with manufacturing of Harman-brand products handled by Harman alone and marketing handled by Harman and Noritz. In addition to supplying its products to system kitchen manufacturers for incorporation into their products, Harman supplies its products to city- and LP-gas distributors,

who market the products for replacement applications. Noritz and Harman coordinate their marketing operations to ensure that each company focuses exclusively on the market segments in which it has relatively strong marketing capabilities as well as ensuring that the two companies do not compete with each other in the same market segments. In 2006, Japan's total domestic demand for built-in gas stoves increased 3%, to 1.3 million, while the Noritz Group's sales volume surged to 377,000 units, up 21% from the previous year. The Group's ability to generate sales considerably outpacing growth in the market reflected its launch of new products with improved safety characteristics in advance of competing companies. It also reflected the proactive efforts of gas distributors to overcome electric power companies' aggressive promotion of all-electric houses. Households with system kitchens purchased from 7 to 12 years ago have entered a replacement purchasing period.

* 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.