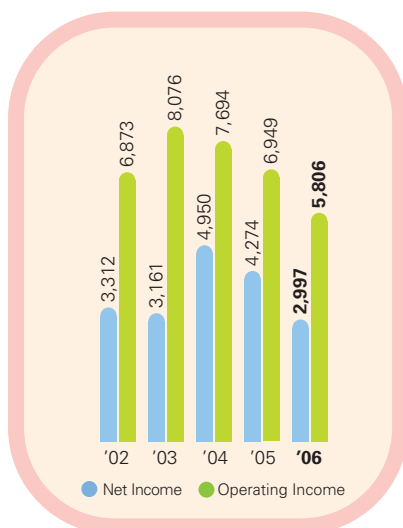


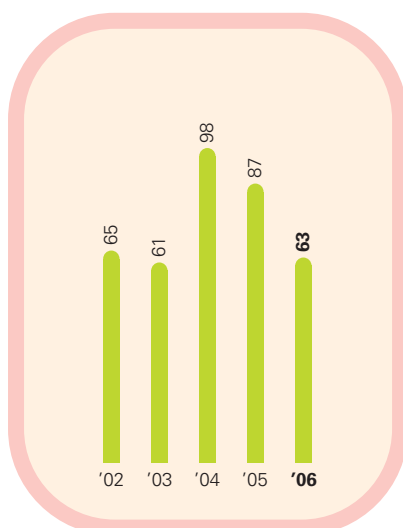
# Management's Discussion & Analysis



**Net Sales**  
(Millions of yen)



**Net Income and Operating Income**  
(Millions of yen)



**Net Income per Share**  
(Yen)

## ■ Net Sales

In fiscal 2006, ended December 31, 2006, the Japanese economy sustained a trend of moderate recovery supported by expansion in private capital investment and personal consumption against a background of improvement in corporate profitability and the employment environment. The housing equipment industry benefited from an uptrend in new housing starts compared with the previous year, and overall demand for housing equipment increased slightly. However, the industry continued to face a harsh operating environment due to such factors as the movement toward using more electrical appliances and the relentless intensity of price competition.

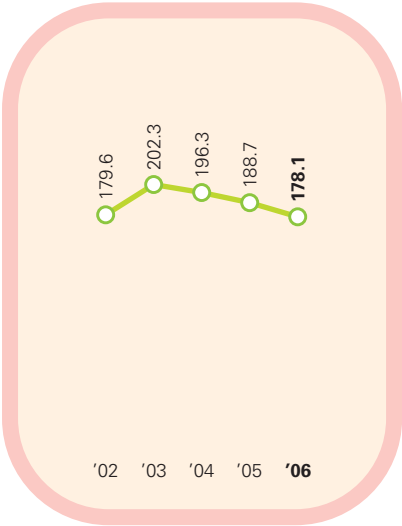
Amid this business environment, the Noritz Group implemented its Create 21 Second-Phase Medium-Term Management Plan for a second year. Aiming to increase its revenue and profit, the Group moved forward with various measures designed to promote the development of new products with outstanding safety and efficiency characteristics, strengthen its marketing framework for promoting sales of high-value-added products in connection with housing reform and refurbishment services, and expand its overseas marketing network in the United States and China, with an eye to cultivating new markets.

As a result, consolidated net sales increased 3.4% from the previous fiscal year, to ¥182.1 billion. However, although the Group proactively implemented price adjustment measures in view of surging prices of copper and other raw materials and endeavored to reduce costs, operating income decreased 16.4%, to ¥5.8 billion. Reflecting extraordinary costs incurred in connection with the Group's autonomous inspection program for bathroom heater/dryer products, net income was down 29.9%, to ¥3.0 billion.

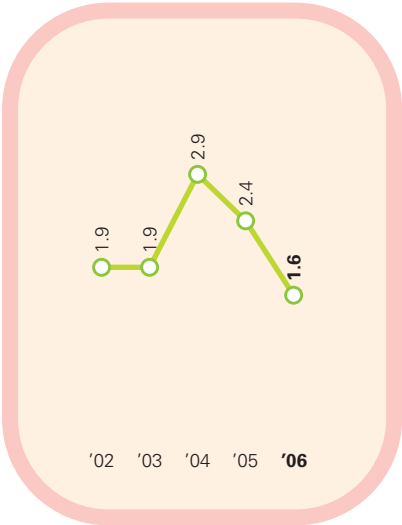
## ■ Cost of Sales and SG&A Expenses

The cost of sales rose 4.5%, to ¥128.2 billion, and the cost of sales to net sales ratio increased 0.7 percentage point, to 70.4%, owing to such factors as the rise in prices of copper and other raw materials.

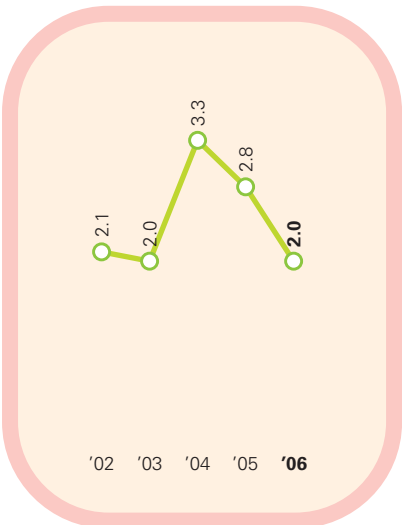
Increases in advertising and promotion expenses, R&D expenses, and other expenditures designed to promote future business growth, together with a rise in after-service costs, caused selling, general and administrative (SG&A) expenses to rise 3.6%, to ¥48.1 billion. This led to a 0.7 percentage point decline in the operating profit ratio, to 3.2%.



**Current Ratio**  
(%)



**Return on Sales**  
(%)



**Return on Assets**  
(%)

## Other Income (Expenses)

Other income (expenses), net, which amounted to net income of ¥0.7 billion in fiscal 2005, declined to net income of ¥0.2 billion for the fiscal year under review. The principal reason for this decline was a ¥0.8 billion expense incurred in connection with the Group's autonomous inspection program for bathroom heater/dryer products. As a result, income before income taxes fell 21.7%, to ¥6.0 billion.

Reflecting the above items, net income was down 29.9%, to ¥3.0 billion, as mentioned previously. Return on sales declined 0.8 percentage point, to 1.6%. Similarly, return on equity (ROE) decreased from 4.9% in the previous year to 3.3% in fiscal 2006.

## Financial Position

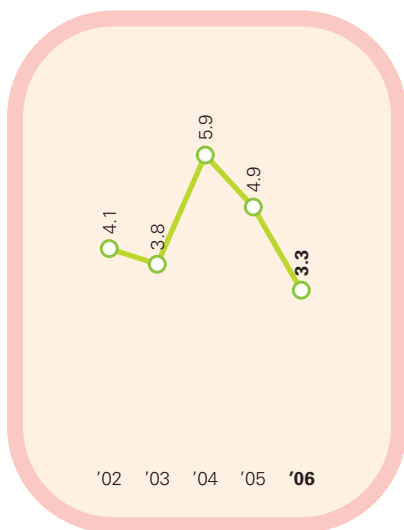
The total assets of the Noritz Group at fiscal year-end amounted to ¥155.2 billion, ¥3.6 billion higher than at the previous fiscal year-end.

Of this total, total current assets increased ¥2.8 billion, to ¥89.9 billion. This was primarily owing to the inclusion of Noritz America Corporation within the scope of consolidation, which caused a rise in inventory assets.

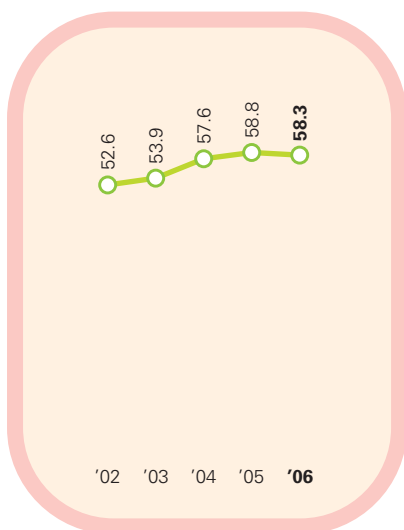
Total non-current assets grew ¥0.8 billion, to ¥65.3 billion, largely due to a rise in construction in progress that accompanied factory construction by Noritz (Shanghai) Home Appliance Co., Ltd., which was newly included within the scope of consolidation in fiscal 2005. This rise more than offset a decline in long-term deferred tax assets of ¥0.4 billion mainly 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 increased ¥2.2 billion, to ¥62.9 billion. Of this total, current liabilities rose ¥4.3 billion, to ¥50.5 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 ¥2.1 billion, to ¥12.5 billion. The principal factors accounting for this decrease were a ¥1.3 billion decline in the reserve for employees' severance and retirement benefits (as the result of the transfer 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 net assets, including minority interests in consolidated subsidiaries, amounted to ¥92.2 billion, up ¥1.4 billion. This was primarily due to an increase of



**Return on Equity**  
(%)



**Equity Ratio**  
(%)

¥1.2 billion in retained earnings, which more than offset an increase 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 decreased 0.5 percentage point, to 58.3%. In addition, shareholders’ equity per share rose to ¥1,890.54, from ¥1,860.92 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 ¥17.3 billion, ¥1.4 billion higher than at the end of the previous fiscal year.

Net cash provided by operating activities increased ¥0.6 billion, to ¥8.7 billion. Principal factors that accounted for this development included income before income taxes of ¥6.0 billion, depreciation of ¥5.2 billion, a decrease in trade notes and accounts receivable of ¥1.0 billion, an increase in inventories of ¥1.2 billion, an increase in trade notes and accounts payable of ¥2.8 billion, and a decrease in the reserve for employees’ retirement benefits of ¥1.3 billion.

Net cash used in investing activities declined ¥3.2 billion, to ¥6.5 billion. This was primarily due to ¥6.3 billion of expenditures for the additions to property, plant and equipment.

Net cash used in financing activities declined ¥2.4 billion, to ¥1.1 billion. The principal factor accounting for this was payments of dividends amounting to ¥1.3 billion.