



## 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.

# 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.

# A Message from the Management



**Katsuhiko Takeshita**  
Chairman and Representative Director



**Shigeharu Kanzaki**  
President and Representative Director

## ■ Review of Performance in Fiscal 2006

During fiscal 2006, ended December 31, 2006, Noritz Corporation reported consolidated net sales of ¥182.1 billion, 3.4% higher than for the previous fiscal year. Operating income amounted to ¥5.8 billion, 16.4% lower than a year earlier, and net income decreased 29.9%, to ¥3.0 billion.

The principal factors resulting in an increase in net sales with a decline in net income were as follows. First, sales of gas bath heaters were strong, and the inclusion of Noritz America Corporation within the scope of consolidation also contributed to growth in net sales. The unit sales price of gas bath heaters declined 1.2% on average, which was 0.2 percentage point larger than our planned 1.0%; however, the margin of decline in average prices is shrinking on a period-to-period basis. Second, the most significant factor affecting profitability was the greater-than-anticipated increase in raw material costs, especially copper. We cut costs by ¥2.6 billion, but this was insufficient to offset the ¥3.1 billion increase in raw material prices. Of this total rise, ¥2.5 billion was due to the increase in the price of copper.

Selling, general and administrative (SG&A) expenses rose 3.6%, to ¥48.1 billion. The reason for this ¥1.7 billion expansion in SG&A costs was the inclusion of Noritz America in the consolidated accounts. This subsidiary is making investments for expansion in sales going forward, including the establishment of its third U.S. office, in Dallas, in February 2007. In addition, the recall of bathroom heating, ventilation, and dehumidifying units manufactured by subsidiary Harmanpro Co., Ltd., resulted in an extraordinary loss of ¥752 million, which reduced net income by 29.9%.

By business segment, sales of water heater and air-conditioning related equipment rose 4.1%, to ¥115.0 billion. The principal reasons for this gain were an increase in overseas sales of 47.0%, or ¥3.0 billion, over the previous fiscal year, to ¥9.5 billion, and higher sales of water heater and air-conditioning related equipment by the parent company. Total market demand in Japan for gas-fired and kerosene-fired water heaters was 3.42 million units, a decrease of 2.2%. Nevertheless, demand for electric-powered water heaters rose 30.0%, to approximately 560,000 units, and the share of these units in total water-heating equipment climbed to 14.0%. Amid this operating environment, Noritz focused on selling high-efficiency, gas-fired water heating equipment that places a lower burden on the natural environment and on expanding sales in overseas markets.

Sales of system bathrooms and kitchens overall rose 1.7%, to ¥45.3 billion. Sales of system baths and other bathroom-related equipment were down 15.4%, to ¥13.1 billion. Noritz adopted a policy of selective acceptance of orders to avoid low sales prices. As a result of this policy and the absence of new products, the number of units sold fell 16.3%, to 43,000. Profitability conditions in the system bath field remain challenging. On the other hand, sales of system kitchens and related equipment rose 10.8%, to ¥32.2 billion. Although sales of system kitchen units for detached housing were lackluster, sales of built-in glass top ranges manufactured by subsidiary Harman Co., Ltd., climbed 18.2%, to ¥21.1 billion. In our service business, sales of other businesses rose as a result of the higher sales of parts for after-sales service and an increase in sales to other companies.

## ■ Dealing with Quality Issues in Domestic Water Heater Equipment

In Japan, the awareness of safety has risen as a result of accidents involving the gas-fired equipment of other manufacturers (caused by older gas equipment that had been in use for a prolonged period), and Noritz was obliged to deal with issues related to fires caused by bathroom heating and dehumidifying units manufactured by subsidiary Harmanpro. At Noritz, we have divided our products into two categories: namely, those that are in the design stages and units that remain on the market at present. We are moving forward with safety measures for gas-fired equipment, working in close cooperation with gas companies, and, for older units that are in use at present but have no safety equipment installed, we are cooperating with gas companies to encourage users to purchase new units. In addition, we have begun inspections in anticipation of the passage of legislation that will institute a system for periodic inspections. For products that we will develop going forward, we are considering the installation of fail-safe devices that will go into operation without fail when safety systems are out of order. These units will embody time point technology that prevents usage of the units for a set period. Moreover, from an organizational perspective, we formed a Quality Assurance Division in September 2006 that is operating across Group company lines. This division brings together the quality assurance activities formerly spread out into the development, production, sales, installation, and after-sales service functions in Noritz businesses and other Group companies and is working to enhance quality standards throughout the Noritz Group.

## ■ Outlook for Fiscal 2007

As a result of expansion in overseas business operations, the revision in our asking retail price system, and other factors, we are forecasting growth of 5.5% in consolidated net sales, to ¥192.0 billion. We anticipate that about ¥4.0 billion of the increase in net sales will come from expansion in overseas operations, ¥2.0 billion will be due to revision in the asking retail price system, ¥2.1 billion will come from growth in high-performance products, and the remainder will come from other sources. We believe that the prices of raw materials—including stainless steel, brass, and other materials—will continue to rise, but we are anticipating that the price of copper, which rose because of speculative demand in 2006,

will decline. On an overall basis, we are anticipating an increase in raw material prices for the parent company of ¥1.28 billion. However, we are planning to cut back on manufacturing costs, through changes in design and other measures, by ¥2.95 billion. Therefore, in comparison to 2006, we are looking for an overall reduction in raw material costs of ¥1.67 billion on a parent-company basis. We are forecasting an increase in SG&A expenses of 10.8%, to ¥53.3 billion. Factors accounting for this rise, totaling ¥5.2 billion, will be higher sales, higher retirement and severance payments, and other cost increases. We are anticipating a 36.8% increase in net income, to ¥4.1 billion. We are looking to pay a dividend of ¥28 per common share, the same as for the previous fiscal year.

By business segment, we are forecasting an increase in sales of water heater and air-conditioning related equipment of 4.1%, to ¥119.7 billion, with overseas sales in China and the United States expanding 42.6%, to ¥13.6 billion. In China, we will realign our sales route in Shanghai for supplying volume discount stores and will establish marketing bases on the East Coast and Midwestern areas of the United States. In the system bathroom and kitchen product sector, we are looking for 11.4% growth in sales, to ¥50.5 billion. Within this total, we are forecasting growth in bathroom-related equipment of 7.5%, to ¥14.1 billion. Among kitchen-related equipment, we are also planning to expand sales of built-in, glass-top ranges manufactured by subsidiary Harman, which are currently experiencing firm growth, to achieve overall growth in kitchen-related equipment of 13.0%, to ¥36.4 billion. In our service business, we are planning to expand sales by 3.5%, to ¥17.6 billion, and expect a decrease of 11.1%, to ¥4.2 billion, in other businesses.

## ■ Report on Progress under the Medium-Term Plan

Since 2002, Noritz has been implementing its 10-year Create 21 management plan, which provides direction for the development of the Noritz Group. The four key elements of this plan are to (1) implement management to win customer satisfaction, (2) strengthen the Group's business structure, (3) implement initiatives to achieve symbiosis with the natural environment, and (4) establish the Noritz Group as a vital and robust set of enterprises.

At present, we are moving forward with the second-phase of the medium-term management plan of Create 21, covering the period from fiscal 2005 through fiscal 2007. Under this plan, we have established three policies: namely, our "new value" strategy, our "Houresh" (house refresh) strategy, and our global strategy. Our Houresh strategy aims

to promote our housing refurbishment business activities, and our global strategy seeks to expand our water heater related operations into overseas markets. Our new value strategy supports these two other strategies from the perspectives of product development and the creation of new production technologies.

## ■ Initiatives under the Create 21 Second-Phase Medium-Term Management Plan

(Billions of yen)

Consolidated Performance Indicators		2005			2006			2007		
		Planned	Actual	Difference	Planned	Actual	Difference	Planned	Target	Difference
<b>Accounting Items</b>	Net sales	175.0	176.0	1.0	180.0	182.0	2.0	185.0	192.0	7.0
	Operating income	7.5	6.9	(0.6)	8.0	5.8	(2.2)	9.0	7.5	(1.5)
	Recurring income	7.7	8.4	0.7	9.0	7.0	(2.0)	10.0	8.3	(1.7)
	Net income	4.0	4.2	0.2	4.5	2.9	(1.6)	5.0	4.1	(0.9)
	ROE	4.8%	4.9%	0.1P	5.4%	3.3%	(2.1P)	6.0%	4.5%	(1.5P)
	ROA*	4.9%	5.6%	0.7P	5.8%	4.6%	(1.2P)	6.5%	5.3%	(1.2P)
<b>Sales by Segment</b>	Water heater and air-conditioning related equipment	110.5	110.5	0.0	113.1	115.0	1.9	115.8	119.7	3.9
	[Overseas]	7.1	6.5	(0.6)	10.0	9.5	(0.5)	13.0	13.6	0.6
	System bathrooms and kitchens	45.1	44.6	(0.5)	47.1	45.3	(1.8)	49.2	50.5	1.3
	Bathroom and other bathroom-related equipment	16.4	15.5	(0.9)	17.3	13.1	(4.2)	18.2	14.1	(4.1)
	System kitchens and other kitchen-related equipment	28.7	29.0	0.3	29.8	32.2	2.4	31.0	36.4	5.4
	[System kitchens and related equipment]	17.4	17.9	0.5	18.3	21.1	2.8	19.3	25.1	5.8
	Service business	16.2	16.9	0.7	16.4	17.0	0.6	16.4	17.6	1.2
	Other business	3.2	4.0	0.8	3.4	4.7	1.3	3.6	4.2	0.6
	Capital expenditure	7.0	6.1	(0.9)	9.6	6.6	(3.0)	7.9	10.7	2.8

\* ROA=Recurring income/Average total assets  
P= Percentage points

## ■ Objectives and Results

Fiscal 2007 will be the final year of our Create 21 Second-Phase Medium-Term Management Plan. Under the plan, we have been working to achieve consolidated net sales of ¥185 billion, operating income of ¥9 billion, recurring income of ¥10 billion, net income of ¥5 billion, ROE of 6.0%, and ROA of 6.5% by 2007. However, in view of the implications for the operating environment of the sharp rise in raw material prices in 2006, we have revised our profit targets for fiscal 2007 down to the level we achieved in fiscal 2006.

As we continue to work toward the objectives of Create 21 from a 10-year perspective, we look forward to your continuing advice and support.



Katsuhiko Takeshita  
Chairman and Representative Director



Shigeharu Kanzaki  
President and Representative Director



## ■ Third U.S. Office Established in Dallas

*On February 2, 2007, Noritz America Corporation set up its third marketing base in the United States, the Dallas Branch, located in Dallas, Texas. This will be one of the major areas of operations for Noritz America in the southwest region of North America.*

In addition to marketing, technical support, and customer service, the Dallas Branch will also have a delivery center for storing inventories and making shipments, making it possible to shorten delivery times compared to the past. The branch will also serve as a training center, exhibition hall for products, and conference hall, thus strengthening Noritz America's capabilities for making proposals to current and potential customers. Sales in this area have expanded rapidly since 2005, buoyed by the sales of institutional water heating equipment to large residences and restaurants. A number of leading pizza restaurant chains and other restaurant businesses have their head offices in Texas. The branch is working to further consolidate its position in the United States. These activities include active marketing of institutional gas water heater equipment based on qualifications the branch has obtained from the U.S. Machinery Academic Association for boiler and pressure vessels.

## ■ Investment in Taiwanese Company Hosun Universal and Commencement of Production of Noritz Brand Water Heaters

In December 2006, Noritz made an investment in Hosun Universal Co., Ltd., one of the leading gas stove manufacturers in Taiwan (based in Taichu Province). Noritz purchased a

third-party distribution of five million shares issued by Hosun Universal for a total of NT\$60 million (approximately ¥210 million), representing 10% of the issued shares of that company. This investment by Noritz in Hosun Universal resulted from common interests, with Noritz aiming to expand its position in the water heater business in China, including Hong Kong, and then the rest of Asia and Hosun Universal desiring to strengthen its position in the Taiwan market where expansion in demand for safer gas water heater equipment is anticipated as a result of revisions in the fire protection laws. The gas water heater manufacturing and sales company of the Noritz Group in Shanghai, Shanghai Noritz Co., Ltd., has offered production technology, equipment, and parts for gas water heaters to Hosun Universal, and that company has begun production and marketing of Noritz brand gas water heaters.



## ■ Third Harima Plant of Taisei Kogyo Goes into Operation

Subsidiary Taisei Kogyo Corporation's new plant, the third Harima plant, has been completed, and volume production of plate-type heat exchange equipment for use in water heating equipment has begun. The plant is dedicated to supplying an increased volume of such equipment outside the Noritz Group and will work to expand sales. In addition, the new plant has press equipment, ultrasonic cleaning equipment, and a large-scale vacuum furnace, along with automation equipment developed by Taisei Kogyo that is installed at various points along the production line to maintain high quality standards. Taisei Kogyo has focused on the development of technology for plate-type heat exchange units using a vacuum furnace for about six years. Taisei Kogyo has been highly evaluated not only for its high product quality and performance but also for its design capabilities that allow it to respond swiftly to



requests from users of its equipment, and it is expanding its sales to companies outside the Noritz Group.

# Corporate Governance

## Basic Perspective on Corporate Governance

Noritz regards improving corporate governance as one of its most important goals and seeks to increase corporate value for all its stakeholders, which include not only the Company's shareholders but also employees, business partners, consumers, and local communities, by strengthening its corporate governance system. To this end, the Company is working to implement various measures aimed at improving the soundness, transparency, and speed of management decision making and optimizing management judgment in the midst of rapidly changing markets and operating environments.

## Corporate Governance System and Activities to Enhance Internal Controls

### Basic Outline of the Company's Governance System

To increase the speed of decision making by the Board of Directors, the Company has reduced the number of its directors on the Board to seven, beginning with the fiscal year under review. The Company has also implemented other measures to improve its governance system, including the adoption of the executive officer system. Under Japanese law, including Japan's Company Law, a company's board of directors is responsible for making overall management decisions and has the authority to supervise how individual directors conduct their duties. At Noritz, the term of the directors

has been shortened to one year, and the confidence shareholders have in the directors' performance is tested at the Annual General Meeting of Shareholders, as they must stand for reelection each year.

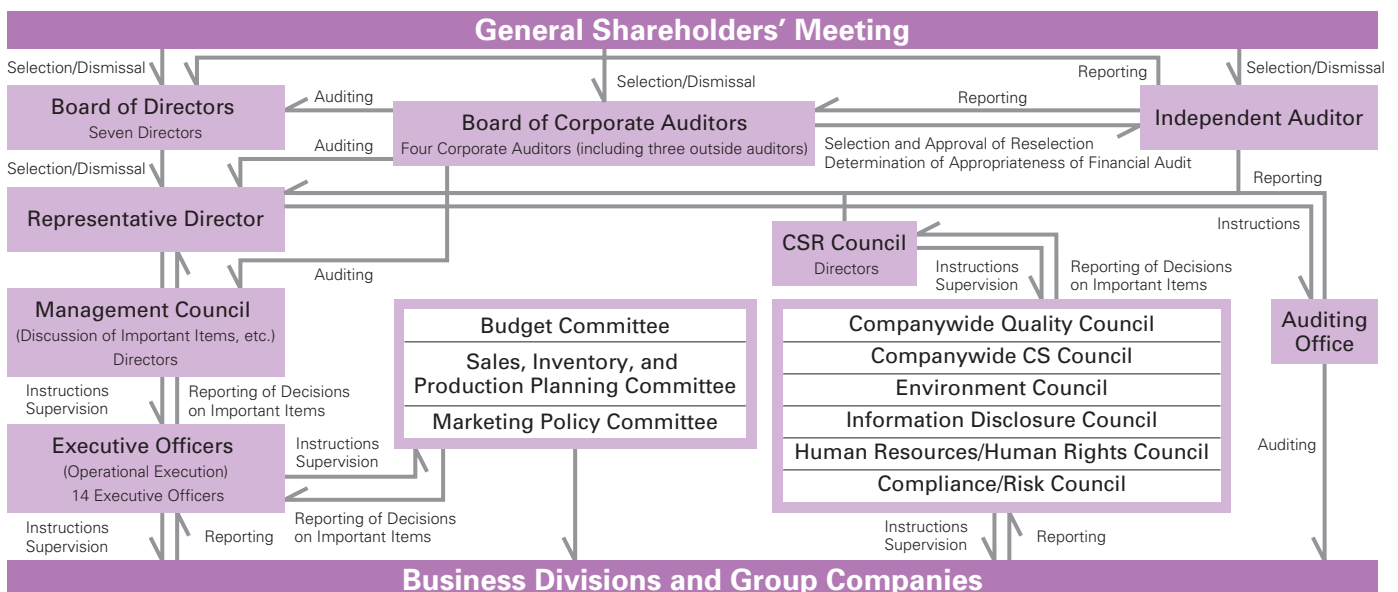
In addition, meetings of the Group Management Council are held to enable managers throughout the Noritz Group of companies to share information, and the Council seeks to make decisions on behalf of the Group appropriately and swiftly.

To provide for supervision of management, the Company has adopted the auditor system and has formed the Board of Corporate Auditors comprising four corporate auditors, three of whom are independent. The corporate auditors attend the meetings of the Board of Directors and other important meetings and express their opinions as they audit and evaluate the soundness of management and the appropriateness of the conduct of the Directors.

### Enhance of Internal Controls

Noritz defines compliance as the "observance of corporate ethics," which includes acting in accordance with relevant legal provisions, the Company's Articles of Incorporation and internal rules, social codes, and best practices. The Company has prepared the *Noritz Group Standards for Conduct* to provide guidance for management and employees and is working to enforce compliance with these standards.

To promote compliance management, the Company appoints a Chief Compliance Officer, who has overall responsibility for compliance matters throughout the Company.



As part of its internal control system, the Company has also instituted the “Noritz Hotline”, which allows Company personnel to provide information and obtain advice regarding operational matters that are related to possible violations of legal provisions or corporate ethics.

### Internal Auditing and the Auditing Functions of the Corporate Auditors

To promote joint coordination of the activities of the corporate auditors and the departments in charge of internal auditing, the Board of Corporate Auditors receives reports, as appropriate, from the Auditing Office, which is the unit in charge of internal auditing. Members of the Auditing Office

are requested to attend the monthly meetings of the Board of Corporate Auditors, actively exchange information with the members of the Board, and conduct other activities related to the supervision of management.

The Auditing Office, which conducts internal audits, has five members, including the manager of the office, and is actively engaged in carrying out its duties, with the aim of strengthening internal control functions.

The Company’s corporate auditors and its independent auditing firm also closely coordinate their activities by holding periodic meetings to exchange information on auditing policy and addressing issues that arise during the accounting term.



## Policy for Dealing with Bids to Purchase Large Blocks of the Company’s Shares

The Board of Directors of Noritz, at their meeting of February 13, 2007, made the decision, as during the previous year, to adopt a policy for responding to bids to purchase large blocks of the Company’s shares. The Directors decided to report this policy at the 57th Annual General Meeting of Shareholders, held on March 29, 2007, and then made the final decision to continue this policy at the Board of Directors meeting that followed the shareholders’ meeting.

In the event that bids are made to purchase large blocks of the Company’s shares, the Company will request the potential purchaser who is making such bids to provide information necessary for the Company’s shareholders to decide whether to allow such large-scale purchases, in the interest of protecting the rights of all the Company’s shareholders. The Board of Directors of the Company will give their opinions based on their evaluations and considerations, and, when deemed appropriate, the Board will ensure that the shareholders are given the opportunity to receive alternative proposals the Board may offer and to provide sufficient time for shareholders to give careful consideration to these proposals. Thereby, the Board will aim to make it possible for the Company’s shareholders to make appropriate decisions.

The Board’s decision to extend the policy for dealing with bids for large blocks of the Company’s shares means that, when a certain group of shareholders undertake to purchase Company shares representing 20% or more of the voting rights, the Company will (1) have the group submit a state-

ment containing a pledge, or other such declaration, that indicates the group will abide by the Company’s rules regarding purchases of large blocks of its shares, (2) have the group provide sufficient information to the Company’s Board of Directors, and, thereafter, (3) provide adequate time for the Board to evaluate the proposed share purchases and form opinions and prepare alternative proposals as well as provide adequate time for the Company’s shareholders to give careful consideration to the opinions and alternative proposals of the Board. If this procedural rule is not observed, to protect the interests of all shareholders, the Company will request the opinions of legal counsel, financial advisers, and independent professionals while also giving full consideration to the opinions of the Company’s corporate auditors. Thereupon, the Company may take defensive measures, including the issuance of rights to purchase new shares, issuance of new shares, or other measures that the Board of Directors can implement at their discretion under Japan’s Company Law, other legal provisions, and the Company’s Articles of Incorporation.

The Company announced the details of this policy in a press release entitled “Policy for Dealing with Bids to Purchase Large Blocks of the Company’s Shares (Corporate Takeover Defense Policy)” on February 13, 2007. This press release may be accessed at the following URL: [http://www.noritz.co.jp/about/ir/2007file/pdf\\_ks20070213\\_3.pdf](http://www.noritz.co.jp/about/ir/2007file/pdf_ks20070213_3.pdf)



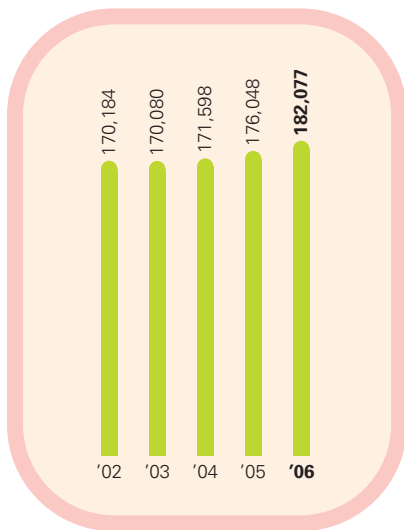
# Five-Year Consolidated Summary

Noritz Corporation and Consolidated Subsidiaries  
Years ended December 31

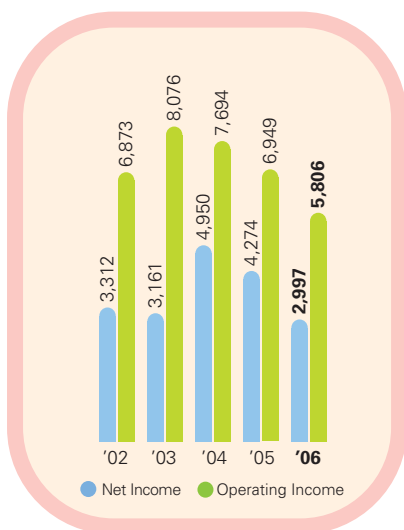
	Millions of yen					Thousands of U.S. dollars (Note)
	2002	2003	2004	2005	2006	2006
<b>For the year:</b>						
Net sales	¥170,184	¥170,080	¥171,598	¥176,048	<b>¥182,077</b>	<b>\$1,528,517</b>
Cost of sales	124,712	117,130	118,943	122,698	<b>128,179</b>	<b>1,076,049</b>
Selling, general and administrative expenses	38,599	44,874	44,961	46,401	<b>48,092</b>	<b>403,727</b>
Operating income	6,873	8,076	7,694	6,949	<b>5,806</b>	<b>48,741</b>
Income before income taxes	6,371	6,115	8,944	7,695	<b>6,022</b>	<b>50,554</b>
Current income taxes	3,744	3,286	2,716	2,738	<b>2,435</b>	<b>20,442</b>
Net income	3,312	3,161	4,950	4,274	<b>2,997</b>	<b>25,160</b>
<b>Per share data (Yen and U.S. dollars):</b>						
Net income	¥ 65.23	¥ 61.42	¥ 98.01	¥ 86.65	<b>¥ 62.62</b>	<b>\$ 0.526</b>
Cash dividends, applicable to the year	15.00	17.00	28.00	28.00	<b>28.00</b>	<b>0.235</b>
<b>At year-end:</b>						
Total assets	¥154,542	¥154,613	¥148,773	¥151,533	<b>¥155,151</b>	<b>\$1,302,476</b>
Total shareholders' equity	81,283	83,387	85,780	89,089	—	—
Total net assets	—	—	—	—	<b>92,237</b>	<b>774,320</b>
Number of employees	4,401	4,539	4,604	4,765	<b>4,907</b>	
<b>Ratios:</b>						
Return on equity	4.1%	3.8%	5.9%	4.9%	<b>3.3%</b>	
Return on sales	1.9	1.9	2.9	2.4	<b>1.6</b>	
Return on assets	2.1	2.0	3.3	2.8	<b>2.0</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.

# 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.

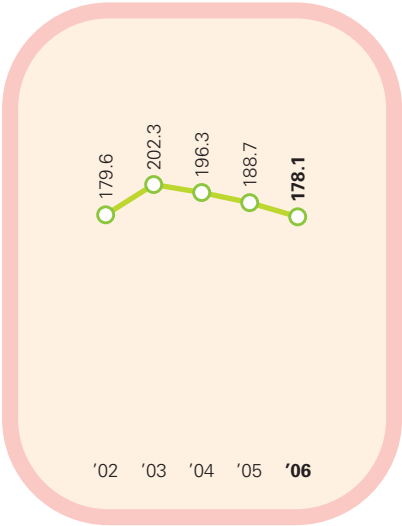
Amid this business environment, the Noritz Group implemented its Create 21 Second-Phase Medium-Term Management Plan for a second year. Aiming to increase its revenue and profit, the Group moved forward with various measures designed to promote the development of new products with outstanding safety and 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.

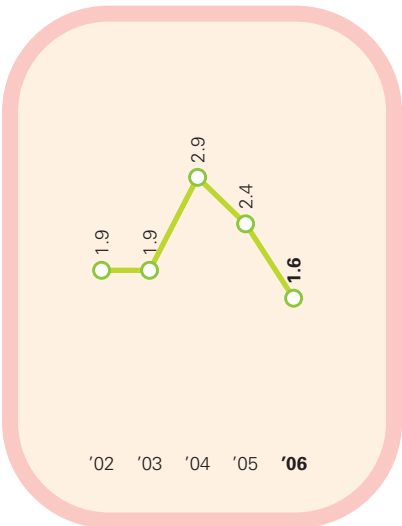
## ■ Cost of Sales and SG&A Expenses

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.

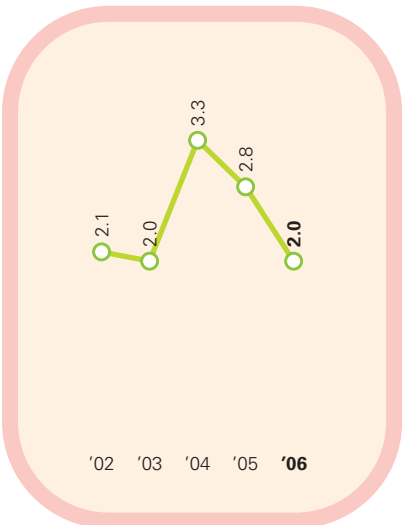
Increases in advertising and promotion expenses, R&D expenses, and other expenditures designed to promote future business growth, together with a rise in after-service costs, caused selling, general and administrative (SG&A) expenses to rise 3.6%, to ¥48.1 billion. This led to a 0.7 percentage point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

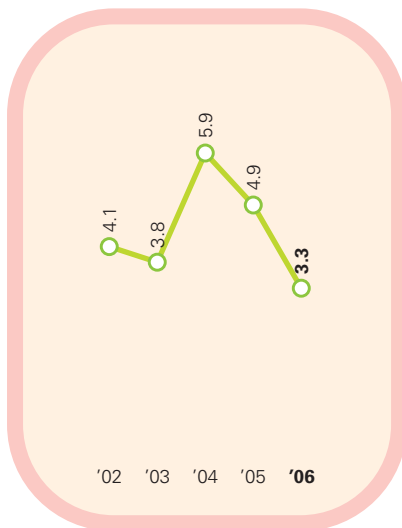
The total assets of the Noritz Group at fiscal year-end amounted to ¥155.2 billion, ¥3.6 billion higher than at the previous fiscal year-end.

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.

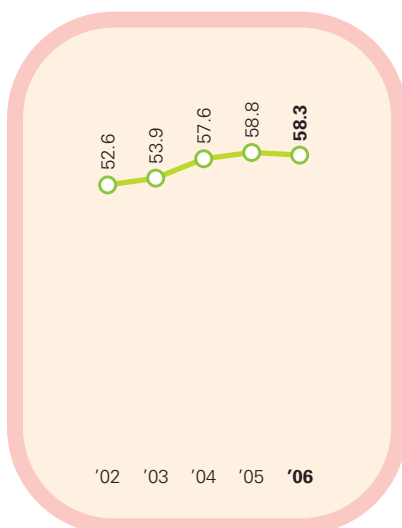
Total non-current assets grew ¥0.8 billion, to ¥65.3 billion, largely due to a rise in construction in progress that accompanied factory construction by Noritz (Shanghai) Home Appliance Co., Ltd., which was newly included within the scope of consolidation in fiscal 2005. This rise more than offset a 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.



# Consolidated Balance Sheets

Noritz Corporation and Consolidated Subsidiaries  
As of December 31, 2005 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<b>Current assets:</b>			
Cash and time deposits (Note 3)	¥ 18,980	¥ 19,424	\$ 163,062
Marketable securities (Note 4)	3,185	3,682	30,910
Receivables—			
Trade notes and accounts	50,936	50,370	422,851
Trade notes and accounts from non-consolidated subsidiaries and affiliates	953	501	4,206
Other	1,994	3,399	28,534
Allowance for doubtful receivables	(390)	(331)	(2,779)
	53,493	53,939	452,812
Inventories—			
Finished goods, purchased goods and work-in-process	5,861	7,443	62,483
Raw materials and supplies	2,356	2,380	19,980
	8,217	9,823	82,463
Deferred tax assets (Note 8)	830	792	6,649
Other	2,359	2,204	18,503
Total current assets	87,064	89,864	754,399
<b>Investments and other assets:</b>			
Investments in and loans to non-consolidated subsidiaries and affiliates	1,205	378	3,173
Investment in securities (Note 4)	24,512	24,878	208,848
Long-term loans receivable	291	234	1,964
Lease deposits	2,502	2,448	20,551
Long-term deferred tax assets (Note 8)	1,966	1,532	12,861
Allowance for doubtful receivables	(341)	(419)	(3,517)
Other	1,303	1,474	12,374
	31,438	30,525	256,254
<b>Property, plant and equipment:</b>			
Land	10,513	10,509	88,222
Buildings and structures	29,319	29,925	251,217
Machinery and equipment	53,931	55,115	462,685
Construction-in-progress	382	2,364	19,845
	94,145	97,913	821,969
Less accumulated depreciation	(64,149)	(65,868)	(552,955)
	29,996	32,045	269,014
<b>Intangible assets</b>	3,035	2,717	22,809
	¥151,533	¥155,151	\$1,302,476

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<b>Current liabilities:</b>			
Bank loans (Note 6)	¥ 540	¥ 907	\$ 7,614
Payables—			
Trade notes and accounts:			
Non-consolidated subsidiaries and affiliates	1	—	—
Other	34,995	37,962	318,687
Construction	1,129	1,357	11,392
Other	3,411	4,111	34,511
	39,536	43,430	364,590
Accrued expenses	2,819	3,006	25,235
Income taxes and enterprise tax payable	1,642	1,018	8,546
Other	1,598	2,097	17,604
Total current liabilities	46,135	50,458	423,589
<b>Employees' severance and retirement benefits</b> (Note 9)	9,854	8,553	71,802
<b>Directors' and statutory auditors' retirement benefits</b>	532	158	1,326
<b>Long-term deposits received from customers</b>	3,151	2,955	24,807
<b>Long-term deferred tax liabilities</b> (Note 8)	315	319	2,678
<b>Other non-current liabilities</b>	701	471	3,954
<b>Minority interests in consolidated subsidiaries</b>	1,756	—	—
<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	—	—
Capital surplus	22,957	—	—
Retained earnings	47,514	—	—
Net unrealized holding gains on securities	3,250	—	—
Foreign currency translation adjustments	239	—	—
Treasury stock, at cost—2,944,532 shares in 2005	(5,039)	—	—
Total shareholders' equity	89,089	—	—
	¥151,533	—	—
<b>Net assets</b> (Note 12):			
Common stock:			
Authorized—156,369,000 shares			
Issued—50,797,651 shares	—	20,168	169,308
Capital surplus	—	22,957	192,722
Retained earnings	—	48,746	409,218
Treasury stock, at cost—2,949,942 shares in 2006	—	(5,050)	(42,394)
Net unrealized holding gains on securities	—	3,205	26,906
Foreign currency translation adjustments	—	432	3,627
Minority interests in consolidated subsidiaries	—	1,779	14,933
Total net assets	—	92,237	774,320
	—	¥155,151	\$1,302,476



# Consolidated Statements of Shareholders' Equity

Noritz Corporation and Consolidated Subsidiaries  
Years ended December 31, 2005 and 2006

	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
<b>Balance at December 31, 2004</b>	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)
<b>Balance at December 31, 2005</b>	50,798	¥20,168	¥22,957	¥47,514	¥3,250	¥239	¥(5,039)

# Consolidated Statements of Changes in Net Assets

Noritz Corporation and Consolidated Subsidiaries  
Years ended December 31, 2005 and 2006

	Number of shares of common stock (thousands)	Millions of yen							
		Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total
Shareholders' equity at December 31, 2005	50,798	¥20,168	¥22,957	¥47,514	¥(5,039)	¥3,250	¥239	¥ —	¥89,089
Adoption of new accounting standards for presentation of net assets in the balance sheet at January 1, 2006								1,756	1,756
Net assets at January 1, 2006	50,798	¥20,168	¥22,957	¥47,514	¥(5,039)	¥3,250	¥239	¥1,756	¥90,845
Net income				2,997				23	3,020
Adjustments at beginning of year for initial inclusion of subsidiaries				(386)					(386)
Net unrealized holding gains on securities						(45)			(45)
Adjustments from translation of foreign currency financial statements							193		193
Cash dividends paid, ¥28.00 per share				(1,340)					(1,340)
Bonuses to directors and statutory auditors				(39)					(39)
Treasury stock purchased					(11)				(11)
<b>Balance at December 31, 2006</b>	<b>50,798</b>	<b>¥20,168</b>	<b>¥22,957</b>	<b>¥48,746</b>	<b>¥(5,050)</b>	<b>¥3,205</b>	<b>¥432</b>	<b>¥1,779</b>	<b>¥92,237</b>

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains on securities	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total
Shareholders' equity at December 31, 2005	\$169,308	\$192,722	\$398,874	\$(42,302)	\$27,284	\$2,007	\$ —	\$747,893
Adoption of new accounting standards for presentation of net assets in the balance sheet at January 1, 2006							14,740	14,740
Net assets at January 1, 2006	\$169,308	\$192,722	\$398,874	\$(42,302)	\$27,284	\$2,007	\$14,740	\$762,633
Net income			25,160				193	25,353
Adjustments at beginning of year for initial inclusion of subsidiaries			(3,240)					(3,240)
Net unrealized holding gains on securities					(378)			(378)
Adjustments from translation of foreign currency financial statements						1,620		1,620
Cash dividends paid, \$0.235 per share			(11,249)					(11,249)
Bonuses to directors and statutory auditors			(327)					(327)
Treasury stock purchased				(92)				(92)
<b>Balance at December 31, 2006</b>	<b>\$169,308</b>	<b>\$192,722</b>	<b>\$409,218</b>	<b>\$(42,394)</b>	<b>\$26,906</b>	<b>\$3,627</b>	<b>\$14,933</b>	<b>\$774,320</b>

See accompanying notes.



# Consolidated Statements of Cash Flows

Noritz Corporation and Consolidated Subsidiaries  
Years ended December 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 7,695	¥ 6,022	\$ 50,554
Depreciation	5,643	5,229	43,897
Loss on impairment of fixed assets	20	9	76
Interest and dividend income	(266)	(322)	(2,703)
Interest expense	81	77	646
Write-down of securities	2	141	1,184
Loss on sales and disposal of property, plant and equipment	691	332	2,787
Income from sales of property, plant and equipment	(4)	(1)	(8)
Increase / decrease in trade notes and accounts receivable	(1,638)	1,009	8,470
Increase in inventories	(714)	(1,213)	(10,183)
Decrease / increase in allowance for doubtful receivables	(160)	15	126
Increase in trade notes and accounts payable	1,366	2,823	23,699
Decrease in employees' retirement benefits	(1,075)	(1,301)	(10,922)
Other	(1,363)	(1,433)	(12,030)
Subtotal	10,278	11,387	95,593
Interest and dividends received	257	323	2,712
Interest paid	(81)	(74)	(621)
Income taxes paid	(2,374)	(2,940)	(24,682)
Net cash provided by operating activities	8,080	8,696	73,002
<b>Cash flows from investing activities:</b>			
Investments in time deposits	(2,001)	(11)	(92)
Proceeds from time deposits	3,000	—	—
Additions to securities	(6,924)	(3,635)	(30,515)
Proceeds from sales of securities	1,459	3,813	32,010
Additions to property, plant and equipment	(5,116)	(6,336)	(53,190)
Proceeds from sales of property, plant and equipment	49	29	243
Payments for loans receivable	(7)	(625)	(5,247)
Proceeds from loans receivable	138	728	6,111
Other	(294)	(480)	(4,030)
Net cash used in investing activities	(9,696)	(6,517)	(54,710)
<b>Cash flows from financing activities:</b>			
Net decrease / increase in short-term bank loans	(4)	213	1,788
Payments for purchases of treasury stock	(2,180)	(11)	(92)
Dividends paid	(1,371)	(1,337)	(11,224)
Dividends paid to minority shareholders of consolidated subsidiaries	(6)	(5)	(42)
Net cash used in financing activities	(3,561)	(1,140)	(9,570)
<b>Foreign currency adjustments</b>	(11)	127	1,066
<b>Net decrease / increase in cash and cash equivalents</b>	(5,188)	1,166	9,788
<b>Cash and cash equivalents at beginning of year</b>	21,075	15,887	133,370
<b>Increase in cash and cash equivalents due to newly consolidated subsidiaries</b>	—	270	2,267
<b>Cash and cash equivalents at end of year</b>	¥15,887	¥17,323	\$145,425

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, 2006, which was ¥119.12 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 20 (18 in 2005) significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control by the Company.

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

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

### (2) Securities

Available-for-sale securities that mature within one year are classified as 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 sales 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 the 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, 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, 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 the 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, 2005 and 2006 were ¥5,126 million and ¥5,841 million (\$49,035 thousand), respectively.

### (7) Software costs

The Companies include software in intangible assets and amortize it using the straight-line method over the estimated useful life of 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 and to directors and statutory auditors in March. Accrued bonus liabilities of the Companies at the balance sheet date are calculated based upon managements' estimates of annual amounts thereof. Accrued bonuses are included in accrued expenses in the consolidated balance sheets.

The Companies have adopted "Accounting Standards for Directors' Bonuses" (issued by the Accounting Standards Board of Japan on November 29, 2005 as "the Corporate Accounting Standard No. 4") beginning with the 2006 fiscal year. As a result of this change in accounting policy, income before income taxes was ¥34 million (\$285 thousand) lower than it would have been without this change.

### (10) Reserve for product warranty

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

### (11) Income taxes

The Companies recognize the 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, 2005 and 2006 based on the estimated amounts of projected benefit obligation and the fair value of 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.

#### (ii) Directors and statutory auditors

The Company and some of its consolidated subsidiaries, in accordance with their internal rules, have included certain amounts in fiscal year-end figures that will be necessary for the payment of retirement benefits to directors and statutory auditors.

The Company decided to terminate its retirement benefit plan for directors and statutory auditors at the annual general meeting

of the shareholders held on March 30, 2006, and the shareholders approved a resolution to make lump-sum payments of their accumulated retirement benefits to the directors and statutory auditors. As a result, the Company has reversed the full amount of accrued retirement benefits for directors and statutory auditors for the year ended December 31, 2006, and the aggregate amount of the outstanding lump-sum payments to the directors and statutory auditors has been included in "other non-current liabilities" at December 31, 2006.

### (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 are 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 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. For the years ended December 31, 2005 and 2006, enterprise taxes amounted to ¥240 million and ¥238 million (\$1,998 thousand), respectively.

## 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, 2005 and 2006 is as follows:

	Millions of yen		Thousands of
	2005	2006	U.S. dollars
Cash and time deposits in			
the consolidated balance sheets	¥18,980	<b>¥19,424</b>	<b>\$163,062</b>
Marketable securities	3,185	<b>3,682</b>	<b>30,910</b>
Time deposits with maturities			
exceeding 3 months	(3,095)	<b>(3,103)</b>	<b>(26,049)</b>
Bonds with maturities			
exceeding 3 months	(3,183)	<b>(2,680)</b>	<b>(22,498)</b>
Cash and cash equivalents in			
the consolidated statements			
of cash flows	¥15,887	<b>¥17,323</b>	<b>\$145,425</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, 2005 and 2006.

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

Type	Millions of yen						Thousands of U.S. dollars			
	2005			2006			2006			
	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	¥5,508	¥5,512	¥ 4	—	—	—	—	—	—	—
Securities whose market value equals or is less than book value										
Japanese government and regional government bonds	¥4,514	¥4,497	¥(17)	¥10,011	¥9,934	¥(77)	\$84,041	\$83,395	\$(646)	

##### Available-for-sale securities

Securities with book values exceeding acquisition costs were as follows:

Type	Millions of yen						Thousands of U.S. dollars		
	2005			2006			2006		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 9,241	¥14,829	¥5,588	¥8,276	¥13,936	¥5,660	\$69,476	\$116,991	\$47,515
Bonds	1,927	1,945	18	914	917	3	7,673	7,698	25
Others	10	26	16	10	17	7	84	143	59
Total	¥11,178	¥16,800	¥5,622	¥9,200	¥14,870	¥5,670	\$77,233	\$124,832	\$47,599

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

Type	Millions of yen						Thousands of U.S. dollars		
	2005			2006			2006		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 27	¥ 26	¥ (1)	¥2,229	¥2,099	¥(130)	\$18,712	\$17,621	\$(1,091)
Bonds	500	497	(3)	—	—	—	—	—	—
Others	222	171	(51)	221	174	(47)	1,855	1,461	(394)
Total	¥749	¥694	¥(55)	¥2,450	¥2,273	¥(177)	\$20,567	\$19,082	\$(1,485)

The following table summarizes book values of securities with no available fair values as of December 31, 2005 and 2006.

##### Available-for-sale securities

Type	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Non-listed equity securities	¥165	¥ 390	\$ 3,274
Mutual funds	2	3	25
Venture capital investment in limited partnership	14	13	109
Commercial paper	—	1,000	8,395
Total	¥181	¥1,406	\$11,803

Available-for-sale securities with maturities become due as follows:

	Millions of yen										Thousands of U.S. dollars				
	2005					2006					2006				
	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	¥3,000	¥8,900	—	¥500	¥12,400	¥2,500	¥7,400	¥1,000	—	¥10,900	\$20,987	\$62,122	\$8,395	—	\$91,504
Others	—	25	—	—	25	18	—	—	—	18	151	—	—	—	151
<b>Total</b>	<b>¥3,000</b>	<b>¥8,925</b>	<b>—</b>	<b>¥500</b>	<b>¥12,425</b>	<b>¥2,518</b>	<b>¥7,400</b>	<b>¥1,000</b>	<b>—</b>	<b>¥10,918</b>	<b>\$21,138</b>	<b>\$62,122</b>	<b>\$8,395</b>	<b>—</b>	<b>\$91,655</b>

Total sales of available-for-sale securities in the year ended December 31, 2005 amounted to ¥793 million, and the related gains and losses amounted to ¥38 million and ¥3 million, respectively.

Total sales of available-for-sale securities in the year ended December 31, 2006 amounted to ¥313 million (\$2,628 thousand), and the related gains amounted to ¥271 million (\$2,275 thousand).

## 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, 2005 and 2006 were as follows:

	Millions of yen						Thousands of U.S. dollars
	2005			2006			2006
	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total	Total
Original lease obligation (including finance charges)	¥1,549	¥170	¥1,719	¥1,196	¥124	¥1,320	\$11,081
Payments remaining	548	47	595	424	36	460	3,862
Payments due within one year			219			174	1,461
Payments due after one year			376			286	2,401
<b>Total</b>			¥ 595			¥ 460	\$ 3,862

Total lease payments under non-capitalized finance leases for the years ended December 31, 2005 and 2006 were ¥335 million and ¥239 million (\$2,006 thousand), respectively.

Future minimum rents under non-cancellable operating leases at December 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥ 1	—	—
Due after one year	—	—	—
	¥ 1	—	—

## 6. BANK LOANS

Short-term bank loans at December 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Short-term bank loans—4.30%	¥540	¥907	\$7,614

## 7. CONTINGENT LIABILITIES

At December 31, 2006, the Companies were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of an affiliate or other companies	¥429	\$3,601

## 8. INCOME TAXES

The Companies are subject to a number of taxes in Japan based on income. In the aggregate, these taxes amount to a statutory tax rate of approximately 40.7% for the years ended December 31, 2005 and 2006.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended December 31, 2005 and 2006.

	Percentage	
	2005	2006
Statutory tax rate:	40.7%	<b>40.7%</b>
Permanently non-deductible expenses	2.1	<b>2.8</b>
Permanently non-taxable dividend income	(0.3)	<b>(0.6)</b>
Per capita inhabitants tax	1.7	<b>2.2</b>
Amortization of consolidation goodwill	(0.6)	<b>(1.4)</b>
Loss carryforwards	—	<b>3.6</b>
Other	(0.7)	<b>1.5</b>
Effective tax rate	42.9%	<b>48.8%</b>

Significant components of the Companies' deferred tax assets and liabilities as of December 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Employees' retirement benefits	¥3,705	<b>¥3,344</b>	<b>\$28,073</b>
Excess bad-debt expenses	303	<b>303</b>	<b>2,544</b>
Directors' and statutory auditors' retirement benefits	217	<b>64</b>	<b>537</b>
Long-term accounts payable	—	<b>145</b>	<b>1,217</b>
Accrued enterprise tax	179	<b>124</b>	<b>1,041</b>
Write-down of securities	110	<b>133</b>	<b>1,116</b>
Loss carryforwards (for tax purposes)	309	<b>437</b>	<b>3,669</b>
Other	614	<b>604</b>	<b>5,070</b>
Total deferred tax assets	5,437	<b>5,154</b>	<b>43,267</b>
Valuation allowance	(377)	<b>(595)</b>	<b>(4,995)</b>
Deferred tax assets	5,060	<b>4,559</b>	<b>38,272</b>
Deferred tax liabilities:			
Net unrealized holding gains on securities	(2,265)	<b>(2,235)</b>	<b>(18,762)</b>
Land and others	(315)	<b>(320)</b>	<b>(2,687)</b>
Deferred tax liabilities	(2,580)	<b>(2,555)</b>	<b>(21,449)</b>
Net deferred tax assets	¥2,480	<b>¥2,004</b>	<b>\$16,823</b>

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Short-term deferred tax assets	¥ 830	<b>¥ 792</b>	<b>\$ 6,649</b>
Short-term deferred tax liabilities	(1)	<b>(1)</b>	<b>(9)</b>
Long-term deferred tax assets	1,966	<b>1,532</b>	<b>12,861</b>
Long-term deferred tax liabilities	(315)	<b>(319)</b>	<b>(2,678)</b>
	¥2,480	<b>¥2,004</b>	<b>\$16,823</b>

## 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, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligation	¥23,314	<b>¥24,610</b>	<b>\$206,599</b>
Unrecognized prior service costs	1,006	—	—
Unrecognized actuarial differences	(3,281)	<b>(2,434)</b>	<b>(20,433)</b>
Less: fair value of pension assets	(11,304)	<b>(13,786)</b>	<b>(115,732)</b>
Prepaid pension cost	119	<b>163</b>	<b>1,368</b>
Liabilities for severance and retirement benefits	¥ 9,854	<b>¥ 8,553</b>	<b>\$ 71,802</b>

Included in the consolidated statements of income for the years ended December 31, 2005 and 2006 are severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service costs—			
benefits earned during the year	¥ 983	<b>¥1,184</b>	<b>\$9,940</b>
Interest cost on projected benefit obligation	461	<b>494</b>	<b>4,147</b>
Expected return on plan assets	(166)	<b>(241)</b>	<b>(2,023)</b>
Amortization of prior service costs	(1,005)	<b>(1,006)</b>	<b>(8,445)</b>
Amortization of actuarial differences	584	<b>500</b>	<b>4,197</b>
Other	240	<b>179</b>	<b>1,502</b>
Severance and retirement benefit expenses	¥1,097	<b>¥1,110</b>	<b>\$9,318</b>

Both the discount rate and the rate of expected return on plan assets used by the Company were 2.3%. 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 Company Law 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 Company Law requires that an amount equal to at least 10% of cash dividends and other cash appropriations are appropriated and set aside as legal reserve until the total amount of 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. If the total amount of the legal reserve and additional paid-in capital remains equal to or exceeding 25% of common stock, the legal reserve and additional paid-in capital are available for dividends by resolution of the shareholders' meeting. In the accompanying financial statements, the legal reserve is included in retained earnings and additional paid-in capital is included in capital surplus.

(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 Company Law.

## 11. ACCOUNTING STANDARDS FOR PRESENTATION OF NET ASSETS IN THE BALANCE SHEETS

For the consolidated financial statements for the fiscal year under review, the Company has adopted "Accounting Standards for Presentation of Net Assets in the Balance Sheets" (Corporate Accounting Standard No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and "Implementation Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheets" (Implementation Guidance on Corporate Accounting Standards No. 8, issued by the Accounting Standards Board of Japan on December 9, 2005).

The figure corresponding to Shareholders' Equity previously appearing in the financial statements is ¥90,458 million (\$759,387 thousand).

Please note that as a result of revisions in the Rules for Presentation of Consolidated Financial Statements, the revised Rules for Presentation of Consolidated Financial Statements have been applied in preparing the Net Assets section of the consolidated balance sheets.

## 12. ACCOUNTING STANDARDS FOR STATEMENT OF CHANGES IN NET ASSETS

For the consolidated financial statements for the fiscal year under review, the Company has adopted "Accounting Standard for Statement of Changes in Net Assets (Corporate Accounting Standard No. 6, issued by the Accounting Standards Board of Japan on December 27, 2005) and "Implementation Guidance on Accounting Standards for Accounting Standard for Statement of Changes in Net Assets" (Implementation Guidance on Corporate Accounting Standards No. 9, issued by the Accounting Standards Board of Japan on December 27, 2005). Previously, consolidated statements of shareholders' equity were prepared for purposes of inclusion in the consolidated financial statements although such statements were not required in Japan.

## 13. ADOPTION OF ACCOUNTING POLICY FOR IMPAIRMENT OF FIXED ASSETS

Companies have been allowed to apply Accounting Standards for Impairment of Fixed Assets (contained in the "Opinion Regarding Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002) and "Implementation Guidance on Accounting Standards for Impairment of Fixed Assets" (issued by the Accounting Standards Board of Japan on October 31, 2003 as "Implementation Guidance on Corporate Accounting Standards No. 6") in preparing financial statements for fiscal years ending after March 31, 2004. Accordingly, the Company has applied the standards and guidance beginning with the 2005 fiscal year. As a result of this change in accounting policy, income before income taxes for the years ended December 31, 2005 and 2006 was ¥20 million lower and was ¥9 million (\$76 thousand) lower, respectively, than it would have been without this change.

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

## 14. SEGMENT INFORMATION

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

As the Companies' primary activities make up 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.

## 15. SUBSEQUENT EVENT

### Appropriation of retained earnings

At the ordinary shareholders' meeting of the Company held on March 29, 2007, the following appropriations of retained earnings for the year ended December 31, 2006 were duly approved:

	Millions of yen	Thousands of U.S. dollars
Appropriations:		
Cash dividends—¥14.0 per share	¥670	\$5,625



# 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, 2005 and 2006, the related consolidated statements of income for the years then ended, the consolidated statement of shareholders' equity for the year ended December 31, 2005, the consolidated statement of changes in net assets for the year ended December 31, 2006, and the consolidated statements of cash flows for the years ended December 31, 2005 and 2006, 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, 2005 and 2006, 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, 2006 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 29, 2007

KPMG AZSA & Co.



# Directors, Corporate Auditors, and Executive Officers

Noritz Corporation

## **DIRECTORS**

### **Chairman and Representative Director**

Katsuhiko Takeshita

### **President and Representative Director**

Shigeharu Kanzaki

### **Directors**

Hidekazu Kumazawa

Yutaka Nakayama

Toshiaki Kabe

Soichiro Kokui

Yuji Nishibata

Toshiyuki Otaki

## **CORPORATE AUDITORS**

Kenji Tokumoto

Tomosaburo Kinda

Takeshi Okamoto

Noriaki Nagahara

(As of March 30, 2007)

## **EXECUTIVE OFFICERS**

### **President**

Shigeharu Kanzaki

### **Vice President**

Hidekazu Kumazawa

### **Senior Managing Director**

Yutaka Nakayama

### **Managing Directors**

Toshiaki Kabe

Soichiro Kokui

Yuji Nishibata

Toshiyuki Otaki

### **Executive Officers**

Hideo Ueda

Takafumi Nakamura

Keiichi Nagahashi

Koji Morita

Tsutomu Mizuma

Sadao Sasaki

Masaaki Tokuno

### Established

March 10, 1951

### Stated Capital

¥20,168 million

### Common Stock

Authorized: 156,369,000 shares

Issued: 50,797,651 shares

### Number of Shareholders

3,844

### 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, 2006)

### Major Shareholders

	Number of shares held (Thousands)	Percentage of total shares issued (%)
Steel Partners Japan Strategic Fund Offshore, LP	7,353	14.47
The Dai-ichi Mutual Life Insurance Company	2,967	5.84
Noritz Corporation	2,949	5.80
Sumitomo Mitsui Banking Corporation	2,188	4.30
Bank of New York GCM Client Accounts EISG	1,525	3.00
The Noritz Customer Shareholding Association	1,389	2.73
Toshiro Ota	1,350	2.65
The Employees' Shareholding Association	1,215	2.39
The Gunma Bank, Ltd.	1,087	2.13
Japan Trustee Services Bank, Ltd.	1,056	2.07

(As of December 31, 2006)

### 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 <sup>1</sup>	88	51.0	Manufacture and Sale of System Bath Products
Shanghai Noritz Co., Ltd.	US\$14,600 thousand	100.0	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>2</sup>	300	90.0	Sale of Housing-Related Products
Noritz Electronics Technology Corporation <sup>1</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
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
Noritz Hong Kong Holdings Co., Ltd.	HK\$12,400 thousand	100.0	Procurement and Sale of Water Heater Components
Noritz America Corporation	US\$8,700 thousand	100.0	Sale 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, 2006)

# NORITZ CORPORATION

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