

A Message from the Management



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Third-Phase Medium-Term Plan Begins

During the consolidated fiscal year ended December 31, 2008, in Japan, the rising worldwide financial uncertainty that began in the United States and the sudden fluctuations in stock and foreign exchange markets began to have an adverse impact on the real economy. The downtrend in the economy became clear, as evidenced by deterioration in employment conditions, the stagnation in consumer spending, and other factors.

In the domestic household equipment industry, although the number of new housing starts rose slightly above the level of the previous year, demand for the replacement of existing housing declined. As a consequence, the diminishing trend in overall demand continued and operating conditions remained severe. On the other hand, there was a clear trend toward the rising awareness of environmental

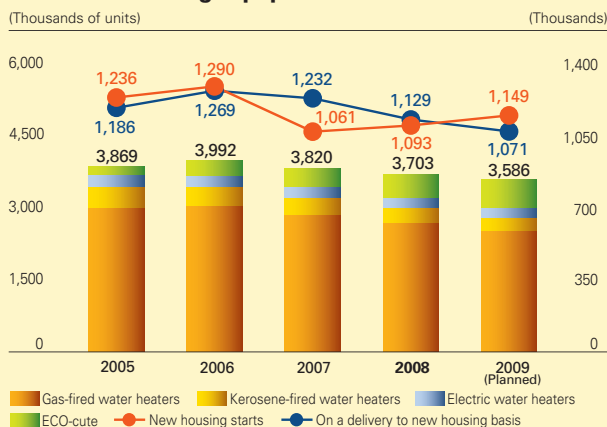
issues and the need for safety and security, thus making it important for us to respond proactively in the areas of product development, sales, and systems for providing after-sales service.

Amid these conditions, the Company began to implement its Create 21 Third-Phase Medium-Term Management Plan, which has the following three objectives:

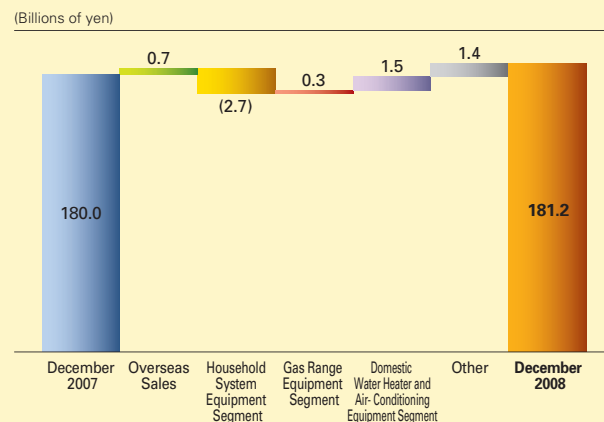
- **Restructuring domestic business operations,**
- **Expanding overseas operations, and**
- **Developing new businesses.**

Specific initiatives under the new plan included expanding sales of “ECO-JOZU” and other high-efficiency water heaters, broadening our marketing infrastructure overseas, and entering the field of gas fan heaters.

Number of New Housing Starts and Demand for Water Heating Equipment



Factors Influencing Sales



As a result, for the fiscal year under review, Noritz Corporation reported consolidated net sales of ¥181.3 billion, 0.7% higher than for the previous year. Operating income amounted to ¥3.4 billion, an improvement of 46.1% over the prior year, but, as a result of extraordinary expenses, including a loss on the write-down of securities of ¥2.5 billion and expenses of ¥0.7 billion in connection with product accidents, the Company reported a net loss of ¥1.8 billion.

However, the Company's review of its cost structure during the first year of its Third-Phase Medium-Term Management Plan resulted in reductions of ¥1.6 billion in fixed costs, cuts in material costs of ¥0.9 billion, and other cost reductions, which were larger than planned. Performances by business area were as follows.

Sales of the water heater and air-conditioning related equipment segment in total amounted to ¥126.6 billion, 1.8% higher than for the previous fiscal year, and operating income amounted to ¥3.6 billion. Unit sales of eco-friendly, high-efficiency gas water heating equipment, including "YUCORE GT ECO-JOZU" and "YUCORE GTH ECO-JOZU," showed steady expansion. In addition, gas fan heaters, a field that the Company newly entered in August, met with a favorable market response, and these units made an important contribution to net sales and net income. On the other hand, in overseas markets, sales of tankless

gas-fired water heaters in the United States, which had been expanding steadily, were below planned levels because of the effects of the subprime loan issue, but sales in China increased, owing to expansion in the Company's sales network in that country.

In the household system equipment segment, sales in 2008 were ¥20.1 billion, 12.1% lower than in the previous fiscal year, and the segment reported an operating loss amounting to ¥1.2 billion. The Company implemented measures to strengthen its marketing systems and to expand sales focusing on its original products, such as its "Riz" system bathrooms with self-cleaning functions, but because of intense competition, unit sales of system bathrooms, system kitchens, and bathroom washstands were all below the levels of the previous fiscal year.

In the gas range equipment segment, sales rose to ¥25.0 billion, 1.2% above the level of the prior year, and operating income was ¥0.1 billion. Initiatives to increase sales focused on expanding the product lineup, including implementing model changes in September to incorporate the top-level S Brink Advance Safety Si Sensors on all burners.

In the other segment, the Company expanded sales of electronic-related parts and other items, and sales expanded to ¥9.5 billion, 17.8% higher than in the previous year, and operating income amounted to ¥0.9 billion.

Partial Revisions in Plans in Response to Sudden Changes in Operating Conditions

In February 2009, following major changes in the operating environment, including the deterioration in world economic and financial conditions and weakness in consumer spending, the Noritz Group identified the issues it must address. These were incorporated in the Company's "Management Issues and Measures for Increasing Corporate Value," and revisions were made in the Company's Third-Phase Medium-Term Management Plan.

Although market conditions are uncertain, the Company is anticipating improvement as it implements measures to attain the three objectives previously mentioned. However,

the Company has made downward adjustments in its original numerical targets.

However, no changes will be made in the positioning of the Third-Phase Medium-Term Management Plan as "a three-year period for changing the Company's management structure to respond effectively to the major changes in the business environment." Furthermore, no changes will be introduced in the Company's basic policy of working "to attain business growth in Japan and overseas and to develop demand in the midst of a fast-changing operating environment."

(Billions of yen)

	2008 (Actual)	2009 (Planned)		2010 (Planned)	
		Original Target	New Target	Original Target	New Target
Net sales	181.3	200.0	180.0	215.0	180.0
Operating income	3.4	7.0	3.5	9.0	5.0
Net income (loss)	(1.8)	4.1	0.5	5.5	2.5
ROE	(2.2%)	4.5%	0.6%	6.0%	3.1%

(Billions of yen)

	2008 (Actual)	2009 (Planned)		2010 (Planned)	
		Original Target	New Target	Original Target	New Target
Domestic water heater and air-conditioning equipment	111.9	109.0	110.5	112.5	107.5
Overseas water heating equipment	14.6	25.0	15.0	30.0	16.0
Household system equipment	20.1	25.0	20.5	27.5	21.5
Gas range equipment	25.0	33.0	26.0	36.0	27.0
Other	9.5	8.0	(no change)	9.0	8.0

Accelerating Management Reforms

The core ideas of our management plans from 2009 through 2010 are to renew growth in operating income through expansion in sales and expand operating income by

accelerating management reforms. We will then link these initiatives on to continuing growth by reviewing our Companywide cost structure, making our operating and

Review of Cost Structure

Principal Measures

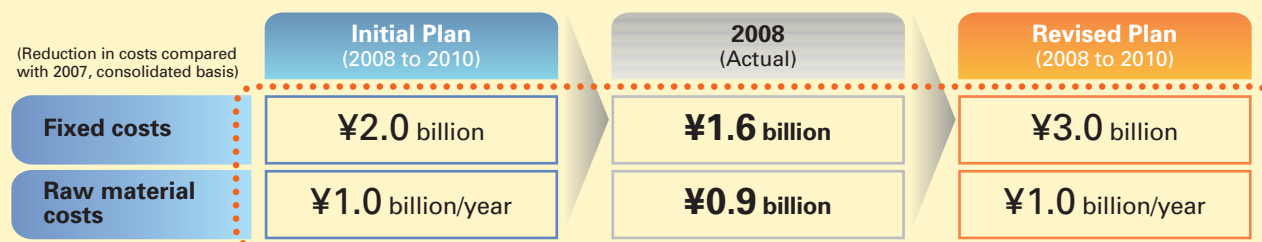
Reduction in SG&A Expenses

- Consolidation and relocation of sales offices
- Rationalization of overseas subsidiaries
- Reduction in after-sales service related costs
- Revision of human resource management system
- Reduction in distribution costs

Reduction in Manufacturing Costs

- Consolidation of production facilities
- Reduction in inventories through shortening of lead times
- Further reductions in raw material costs
- Reductions in procurement transport costs

(Reduction in costs compared with 2007, consolidated basis)



financial positions competitive, and implementing initiatives aimed at growth.

The basic policies for reviewing and enhancing our cost structure are to reduce our selling, general and administrative expenses and lower our manufacturing costs. Since the Company was able to lower its fixed costs by ¥1.6 billion over the past year and our initial plan was to lower these costs by ¥2.0 billion over three years in comparison with 2007, we have raised our cost reduction target to ¥3.0 billion over three years. We are continuing to implement our initial plan for reducing manufacturing costs by lowering our material costs by ¥1.0 billion annually.

Specifically, in Japan, we plan to close three domestic sales locations and one showroom as well as close our showroom in Shanghai. We are also working to improve efficiency at our overseas subsidiaries, reduce after-sales service costs, make improvements in our personnel management systems, and lower distribution costs.

The Company also plans to consolidate its two production facilities in Japan for system bathrooms into one location. In addition, the two production plants for gas-fired water heaters in Shanghai will be consolidated into a new plant that was completed in 2007.

Generating Earnings through Attaining Objectives Aimed at Growth

To achieve the previously mentioned three objectives (namely, restructuring its domestic business operations, expanding its overseas operations, and developing new businesses), Noritz will be implementing the following measures.

To strengthen domestic marketing systems, the Company will eliminate overlapping functions of Group companies as a whole and allocate resources strategically. Specifically, the Company will improve its systems for registering owners of products and conducting inspections of products that have been sold. The aim of these

improvements will be to increase customer satisfaction by providing support to owners of our products over the full life cycle of products, and, by providing repair and inspection services after products have been sold, we will work to position ourselves to capture demand for the replacement and renovation of units that have been sold. In addition, on March 2, 2009, we established H&N Corporation to unify our marketing activities aimed at companies of the Osaka Gas Co., Ltd., Group. By changing the previous marketing approach—under which representatives of Noritz and Harman Co., Ltd., conducted sales visits separately—and

Initiatives for Growth

Strengthening the domestic sales system

- Strengthening customer support
- Realizing marketing synergies
- Eliminating overlapping functions and allocating resources strategically

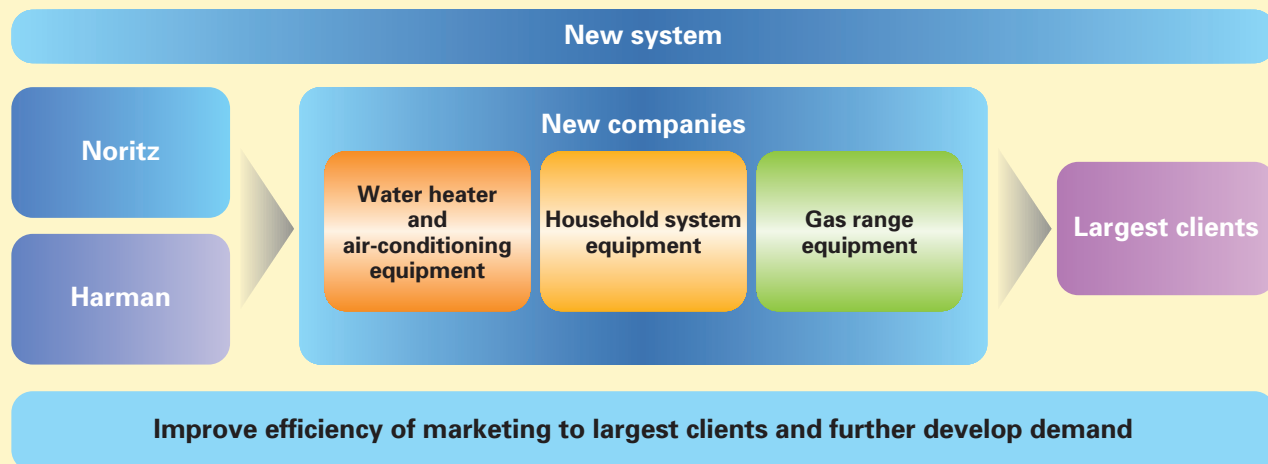
Strengthening overseas business systems

- Accelerating business development
- Promoting area marketing

Strengthening technology and product development capabilities

- Developing eco-friendly and energy-conserving products in Japan
- Further developing domestic product lineup
- Further developing overseas product lineup

Strengthening the Domestic Marketing System



consolidating the sales activities of Noritz and Harman, the Company will aim to increase marketing efficiency and expand sales. By eliminating the duplication of efforts in the three areas of marketing, sales technology, and after-sales service, we will strengthen our sales expansion drive by increasing sales staff by 7% and work to expand sales of eco-friendly and energy-conserving products as well as sales of equipment for institutional use.

To strengthen systems in overseas operations, we will implement area marketing programs and speed up the development of our business activities.

To strengthen technology and product development capabilities, we will accelerate the development of eco-friendly and energy-conserving products in Japan. For overseas markets, we will develop water heater equipment with advanced functions and high throughput capacity as well as expand the lineup of kitchen equipment products we offer.

By attaining the previously mentioned goals of the revised Third-Phase Medium-Term Management Plan, the Company will aim to increase operating income in this challenging environment by maintaining sales and reducing costs. In addition, through 2015, we will continue to respond to requirements for eco-friendly and energy-conserving products as well as meet customer needs for safety, security, and enhanced product diversity.

April 2008

Katsuhiko Takeshita
Chairman and Representative Director

Shigeharu Kanzaki
President and Representative Director