

# Annual Report 2003

# NACCO

INDUSTRIES, INC.

Managing for long-term profit growth



# NACCO Industries, Inc.

## NACCO Materials Handling Group ("NMHG")

### NMHG Wholesale

- NMHG Wholesale designs, engineers, manufactures, sells and services a comprehensive line of lift trucks and aftermarket parts marketed globally under the Hyster® and Yale® brand names

### NMHG Retail

- NMHG Retail operates a small number of wholly owned dealers selling and leasing Hyster and Yale lift trucks and aftermarket parts

## NACCO Housewares Group

### Hamilton Beach♦Proctor-Silex ("HB/PS")

- HB/PS is a leading designer, manufacturer, importer and marketer of small electric kitchen and household appliances, as well as commercial products for restaurants, bars and hotels

### Kitchen Collection

- Kitchen Collection is a national specialty retailer of brand-name kitchenware, small electric appliances and related accessories, operating under the Kitchen Collection® name in outlet malls and under the Gadgets & More® name in traditional enclosed malls

## The North American Coal Corporation

- North American Coal mines and markets lignite coal primarily as fuel for power generation and provides selected value-added mining services for other natural resources companies

## Table of Contents

Selected Financial and Operating Data . . . . .	2
Letter to Stockholders . . . . .	4
NACCO Materials Handling Group . . . . .	10
NACCO Housewares Group . . . . .	16
The North American Coal Corporation . . . . .	24
Supplemental Data . . . . .	30
Officers and Directors . . . . .	31
Form 10-K . . . . .	33

# Managing for Long-term Profit Growth

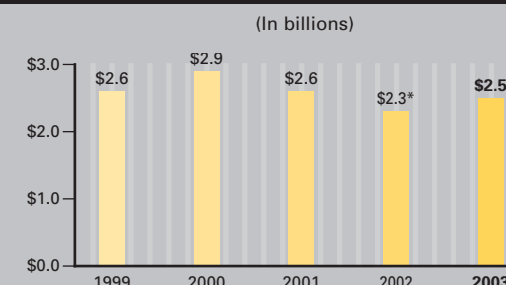
In 2002, a year with a difficult market environment, improved net income and cash flow resulted directly from continuing successful implementation of long-term profitability and growth programs initiated in previous years.

In 2003, challenging markets continued. Net income did not reach the level of our expectations. Importantly, however, the Company demonstrated its continued commitment to profit improvement and growth programs by increasing investments in these key change programs. The objective of these programs is to drive each subsidiary company to achieve its long-term financial goals by 2008, or sooner, as programs reach maturity. Further, the Board of Directors demonstrated its confidence in these programs by increasing the dividend by approximately 50 percent in 2003.

NACCO's long-term perspective is reflected in four guiding principles:

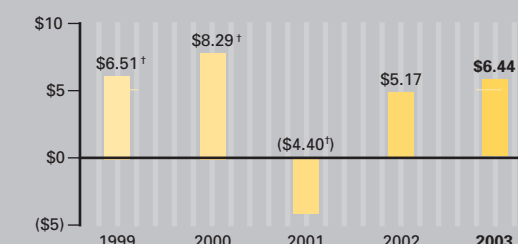
- Ensure highly professional management teams
- Attain industry-leading operational effectiveness and efficiencies
- Build industry-leading market positions
- Create sustainable competitive advantage positions

## Total Revenues



\* 2002 revenues were restated for the adoption of FIN No. 46 in 2003 retroactive to January 1, 2002. Prior years were not restated. Further discussion of FIN No. 46 is in the boxes on pages 2 and 25.









## Diluted Earnings Per Share



† 1999, 2000 and 2001 include goodwill amortization expense. Amortization of goodwill was discontinued in 2002 with the adoption of SFAS No. 142.

# NACCO Industries, Inc. at a Glance

NACCO Industries, Inc. is an operating holding company with three principal businesses: lift trucks, housewares and lignite coal mining. In 2003, total revenues were \$2.5 billion and net income was \$52.8 million.

	Principal Businesses	2003 Financial Results	Market Positions	Competitive Advantages	Financial Targets	Key Business Programs
 	<p><b>NACCO Materials Handling Group ("NMHG")</b>                      Headquarters: Portland, Oregon</p> <p>NMHG Wholesale designs, engineers, manufactures, sells and services a comprehensive line of lift trucks and aftermarket parts marketed globally under the Hyster® and Yale® brand names. Lift trucks and component parts are manufactured in the United States, Northern Ireland, Scotland, the Netherlands, China, Italy, Japan, Mexico, the Philippines and Brazil.</p> <p>NMHG Retail operates a small number of wholly owned dealers selling and leasing Hyster and Yale lift trucks and aftermarket parts.</p>	<p><b>NMHG Wholesale:</b>                      Revenues: \$1.6 billion                      Operating profit: \$55.5 million                      Net income: \$22.4 million</p> <p><b>NMHG Retail:</b>                      Revenues: \$162.6 million                      Operating loss: \$6.7 million                      Net loss: \$6.0 million</p>	<p>NACCO Materials Handling Group is a world leader in the lift truck industry with an estimated 13 percent market share worldwide, including a leading 27 percent market share in the Americas market.</p> <p>Lift trucks are distributed through a worldwide network of independent Hyster and Yale dealers and a limited number of wholly owned dealers.</p>	<ul style="list-style-type: none"> <li>• Leading market share positions</li> <li>• #1 market position in North America, #3 worldwide</li> <li>• Highly recognized Hyster and Yale brand names</li> <li>• Large installed population base of lift trucks; an estimated 700,000 Hyster and Yale lift trucks in operation worldwide</li> <li>• Highly diverse customer base with over 600 different end-user applications in 900 industries</li> <li>• Comprehensive global product line</li> <li>• Strong dealer network</li> <li>• Industry-leading national account coverage in the Americas</li> <li>• Globally integrated operations with significant economies of scale</li> </ul>	<p>Minimum operating profit target of 9 percent at average pre-recession market levels</p>	<ul style="list-style-type: none"> <li>• New product development</li> <li>• Manufacturing restructuring and quality improvement</li> <li>• Global procurement</li> <li>• Pricing optimization</li> <li>• National and global accounts expansion</li> <li>• Dealer network enhancement</li> <li>• Aftermarket parts and efficiency</li> <li>• Wholly owned dealer improvements</li> </ul>
    	<p><b>NACCO Housewares Group</b>                      Hamilton Beach♦Proctor-Silex ("HB/PS")                      Headquarters: Richmond, Virginia</p> <p>HB/PS is a leading designer, manufacturer, importer and marketer of small electric kitchen and household appliances, as well as commercial products for restaurants, bars and hotels.</p> <p>Kitchen Collection                      Headquarters: Chillicothe, Ohio</p> <p>Kitchen Collection is a national specialty retailer of brand-name kitchenware, small electric appliances and related accessories. The company operates stores under the Kitchen Collection® name in outlet malls and under the Gadgets &amp; More® name in traditional enclosed malls.</p>	<p><b>NACCO Housewares Group:</b>                      Revenues: \$598.7 million                      Operating profit: \$42.0 million                      Net income: \$19.5 million</p>	<p>Hamilton Beach♦Proctor-Silex has the #1 or #2 market share positions in 20 of its 38 product categories in the United States and has the #1 market share of commercial blenders and spindle mixers. HB/PS is the market share leader in Canada.</p> <p>HB/PS products are distributed through mass merchants, national discount department stores, warehouse clubs and other retail sales outlets.</p> <p>Kitchen Collection is the nation's leading specialty retailer of kitchen and related products in factory outlet malls with 180 stores throughout the United States.</p>	<p><b>HB/PS:</b></p> <ul style="list-style-type: none"> <li>• Strong heritage brands with leading market shares</li> <li>• Strong relationships with leading retailers</li> <li>• Highly professional and experienced management team</li> <li>• Successful track record of product line expansion and new product innovation</li> <li>• Industry-leading working capital management</li> </ul> <p><b>Kitchen Collection:</b></p> <ul style="list-style-type: none"> <li>• Highly analytical merchandising skills and disciplined operating controls</li> </ul>	<p><b>HB/PS:</b>                      Minimum operating profit target of 10 percent</p> <p><b>Kitchen Collection:</b>                      Minimum operating profit target of 5 percent</p>	<p><b>HB/PS:</b></p> <ul style="list-style-type: none"> <li>• Product development process</li> <li>• New product introductions</li> <li>• Manufacturing cost reduction</li> <li>• Continuous quality improvement</li> <li>• Supply chain optimization</li> <li>• Strategic brand application</li> <li>• Retailer and channel focus</li> </ul> <p><b>Kitchen Collection:</b></p> <ul style="list-style-type: none"> <li>• Economic Value Income</li> <li>• Margin enhancement and merchandising programs</li> <li>• Private label programs</li> <li>• Gadgets &amp; More store expansions in traditional enclosed malls</li> <li>• Larger format store testing in outlet malls</li> <li>• Internet sales growth</li> </ul>
 <p><b>North American Coal Corporation</b></p>	<p><b>The North American Coal Corporation</b>                      Headquarters: Dallas, Texas</p> <p>North American Coal mines and markets lignite coal primarily as fuel for power generation and provides selected value-added mining services for other natural resources companies.</p> <p>North American Coal operates six surface lignite coal mines and two dragline mining operations at limerock quarries.</p>	<p><b>North American Coal:</b>                      Revenues: \$94.1 million                      Operating profit: \$27.4 million                      Net income: \$14.3 million</p>	<p>North American Coal is the nation's largest miner of lignite coal and among the 10 largest coal producers. Lignite coal is delivered to power plants adjacent to mines in North Dakota, Texas, Louisiana and Mississippi.</p>	<ul style="list-style-type: none"> <li>• Mines provide steady income and cash flow before financing activities and high return on equity</li> <li>• Contracts structured to minimize exposure to market fluctuations of coal prices</li> <li>• 2.4 billion tons of lignite coal reserves, of which 1.1 billion tons are uncommitted (including unconsolidated project mines in both cases)</li> <li>• Outstanding operational and technological mining skills</li> <li>• Highly efficient heavy equipment utilization</li> <li>• Excellent record of environmental protection and employee safety</li> </ul>	<p>Minimum return on capital employed of 13 percent and delivery of substantial cash flow before financing activities</p>	<ul style="list-style-type: none"> <li>• Employee safety</li> <li>• Mississippi Lignite Mining Company efficiency improvements</li> <li>• San Miguel Lignite Mining Operations profitability improvements</li> <li>• Innovative mining methods</li> <li>• Environmental commitment</li> <li>• Value-added mining services for other natural resources companies</li> <li>• Lignite coal reserve development strategies</li> <li>• Clean coal power generation technologies</li> <li>• Limerock projects</li> </ul>

# Selected Financial and Operating Data

NACCO INDUSTRIES, INC. AND SUBSIDIARIES

	Year Ended December 31				
	2003	2002 <sup>(1)</sup> (3)	2001 <sup>(2)</sup>	2000 <sup>(2)</sup>	1999 <sup>(2)</sup>
	(In millions, except per share data)				
<b>Operating Statement Data:</b>					
Revenues	\$ 2,472.6	\$ 2,285.0	\$ 2,637.9	\$ 2,871.3	\$ 2,635.9
Earnings of unconsolidated project					
mining subsidiaries	\$ 31.7	\$ 30.3	\$ -	\$ -	\$ -
Goodwill amortization	\$ -	\$ -	\$ 15.9	\$ 15.7	\$ 15.2
Operating profit	\$ 117.2	\$ 115.5	\$ 5.7	\$ 117.9	\$ 131.3
Operating profit excluding goodwill amortization	\$ 117.2	\$ 115.5	\$ 21.6	\$ 133.6	\$ 146.5
Income (loss) before extraordinary gain (loss)					
and cumulative effect of accounting changes	\$ 49.8	\$ 49.6	\$ (34.7)	\$ 37.8	\$ 54.3
Extraordinary gain (loss), net-of-tax	1.8	(7.2)	-	29.9	-
Cumulative effect of accounting changes, net-of-tax	1.2	-	(1.3)	-	(1.2)
Net income (loss)	\$ 52.8	\$ 42.4	\$ (36.0)	\$ 67.7	\$ 53.1
<b>Diluted Earnings Per Share:</b>					
Income (loss) before extraordinary gain (loss)					
and cumulative effect of accounting changes	\$ 6.07	\$ 6.05	\$ (4.24)	\$ 4.63	\$ 6.66
Extraordinary gain (loss), net-of-tax	0.22	(0.88)	-	3.66	-
Cumulative effect of accounting changes, net-of-tax	0.15	-	(0.16)	-	(0.15)
Net income (loss)	\$ 6.44	\$ 5.17	\$ (4.40)	\$ 8.29	\$ 6.51
<b>Per Share and Share Data:</b>					
Cash dividends	\$ 1.260	\$ 0.970	\$ 0.930	\$ 0.890	\$ 0.850
Market value at December 31	\$ 89.48	\$ 43.77	\$ 56.79	\$ 43.69	\$ 55.56
Stockholders' equity at December 31	\$ 77.63	\$ 68.21	\$ 64.58	\$ 74.21	\$ 68.92
Actual shares outstanding at December 31	8,206	8,201	8,196	8,171	8,157
Average shares outstanding	8,204	8,198	8,190	8,167	8,150
<b>Balance Sheet Data at December 31:</b>					
Total assets	\$ 1,839.8	\$ 1,780.8	\$ 2,161.9	\$ 2,193.9	\$ 2,013.0
Long-term debt, excluding project					
mining subsidiaries	\$ 363.2	\$ 416.1	\$ 248.1	\$ 450.0	\$ 326.3
Stockholders' equity	\$ 637.0	\$ 559.4	\$ 529.3	\$ 606.4	\$ 562.2

(1) During 2003, the Company adopted Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities," retroactive to January 1, 2002. As a result, financial results for 2002 have been restated to reflect the adoption of this Interpretation. (The impact of the adoption of FIN No. 46 is further described in the box at the bottom of this page.)

(2) Selected Financial and Operating Data for 2001, 2000 and 1999 have not been restated to reflect the adoption of FIN No. 46.

(3) On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." The Company discontinued amortization of its goodwill in accordance with this Statement.

## Adoption of FIN No. 46

During the fourth quarter of 2003, NACCO Industries adopted Financial Accounting Standards Board Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities," retroactive to January 1, 2002. The adoption of FIN No. 46 significantly changed the presentation of the Company's financial statements. As a result of the adoption of FIN No. 46, the Company no longer consolidates the financial statements of three of North American Coal's wholly owned subsidiaries: The Coteau Properties Company, The Falkirk Mining Company and The Sabine Mining Company (collectively, the "project mines"). The Company still has a 100 percent equity investment in the project mines; however, the pre-tax earnings are now reported in the 2003 and 2002 Consolidated Statements of Operations and Comprehensive Income (Loss) as one line item entitled "Earnings of unconsolidated project mining subsidiaries." In addition, the assets and liabilities of the project mines are no longer consolidated within the Company's Consolidated Balance Sheets, although the balance sheets now reflect an investment in the project mines and related income tax obligations.

Since the adoption of FIN No. 46 was made retroactively to January 1, 2002, only the 2002 financial results shown above have been restated to reflect this new accounting Interpretation. The effect of adopting FIN No. 46 on the 2002 consolidated financial results was to reduce previously reported revenues by \$263.1 million, reduce previously reported operating profit by \$16.3 million and reduce previously reported total assets by \$343.1 million. Cash flow data and EBITDA for 2002 were also affected and, thus, restated.

	Year Ended December 31				
	2003	2002 <sup>(1)</sup> (3)	2001 <sup>(2)</sup>	2000 <sup>(2)</sup>	1999 <sup>(2)</sup>
	(In millions, except employee data)				
<b>Cash Flow Data:</b>					
<b>Operating Activities</b>					
NACCO Materials Handling Group	\$ 50.1	\$ 72.1	\$ 31.0	\$ 62.6	\$ 79.4
NACCO Housewares Group	41.2	52.0	28.5	24.4	9.3
North American Coal Corporation	37.3	36.3	69.5	39.4	49.6
NACCO and Other	(5.3)	(11.2)	7.0	6.6	(9.2)
Provided by operating activities	\$ 123.3	\$ 149.2	\$ 136.0	\$ 133.0	\$ 129.1
<b>Investing Activities</b>					
NACCO Materials Handling Group	\$ (11.1)	\$ (7.3)	\$ (47.2)	\$ (59.7)	\$ (116.1)
NACCO Housewares Group	(5.8)	(3.2)	(13.4)	(19.4)	(16.5)
North American Coal Corporation	(26.0)	(6.9)	(33.8)	(156.8)	(28.7)
NACCO and Other	0.1	(0.8)	(.7)	1.7	(.1)
Used for investing activities	\$ (42.8)	\$ (18.2)	\$ (95.1)	\$ (234.2)	\$ (161.4)
<b>Cash Flow before Financing Activities</b>					
NACCO Materials Handling Group	\$ 39.0	\$ 64.8	\$ (16.2)	\$ 2.9	\$ (36.7)
NACCO Housewares Group	35.4	48.8	15.1	5.0	(7.2)
North American Coal Corporation	11.3	29.4	35.7	(117.4)	20.9
NACCO and Other	(5.2)	(12.0)	6.3	8.3	(9.3)
Consolidated Cash Flow before Financing Activities	\$ 80.5	\$ 131.0	\$ 40.9	\$ (101.2)	\$ (32.3)
Provided by (used for) financing activities	\$ (71.9)	\$ (146.8)	\$ (1.6)	\$ 98.3	\$ 35.3
<b>Other Data:</b>					
Adjusted EBITDA <sup>(4)</sup>	\$ 181.3	\$ 179.1	\$ 78.3	\$ 165.1	\$ 182.6
Total employees at December 31 <sup>(5)</sup>	11,600	12,200	13,500	17,200	16,000

(4) Adjusted EBITDA is provided solely as a supplemental disclosure with respect to liquidity because management believes it provides useful information regarding a company's ability to service its indebtedness. Adjusted EBITDA does not represent cash flow from operations, as defined by accounting principles generally accepted in the United States. You should not consider Adjusted EBITDA as a substitute for net income or net loss, or as an indicator of our operating performance or whether cash flows will be sufficient to fund our cash needs. We define Adjusted EBITDA as income before income taxes, minority interest (income) expense, extraordinary gain (loss) and cumulative effect of accounting changes plus net interest expense and depreciation, depletion and amortization expense. However, interest expense, depreciation, depletion, and amortization attributable to the project mining subsidiaries are not included. Adjusted EBITDA is not a measurement under accounting principles generally accepted in the United States and is not necessarily comparable with similarly titled measures of other companies. Net cash flows from operating, investing and financing activities as determined using accounting principles generally accepted in the United States are presented above. A reconciliation of cash flow from operations to Adjusted EBITDA is presented below.

(5) Includes employees of the project mines.

	Year Ended December 31				
	2003	2002 <sup>(1)</sup> (3)	2001 <sup>(2)</sup>	2000 <sup>(2)</sup>	1999 <sup>(2)</sup>
	(In millions)				
<b>Reconciliation of Cash Flow</b>					
<b>From Operations to Adjusted EBITDA<sup>(4)</sup></b>					
Cash flow from operations	\$ 123.3	\$ 149.2	\$ 136.0	\$ 133.0	\$ 129.1
Change in working capital items	14.1	(10.2)	(25.9)	14.0	31.4
(Loss) gain on sale of assets	(1.5)	.4	(10.5)	(1.4)	(0.4)
Restructuring charges	1.2	(12.3)	(21.5)	(15.6)	(1.2)
Difference between deferred tax expense and total tax expense/benefit	4.9	(6.5)	(4.9)	34.8	28.4
Other non-cash items	(8.6)	9.4	(1.0)	1.3	3.3
Interest expense, net	47.9	49.1	36.7	27.7	20.8
Project mining subsidiaries' depreciation, depletion and amortization	-	-	(30.6)	(28.7)	(28.8)
Adjusted EBITDA <sup>(4)</sup>	\$ 181.3	\$ 179.1	\$ 78.3	\$ 165.1	\$ 182.6
<b>Calculation of Adjusted EBITDA<sup>(4)</sup></b>					
Net income (loss)	\$ 52.8	\$ 42.4	\$ (36.0)	\$ 67.7	\$ 53.1
Cumulative effect of accounting changes, net-of-tax	(1.2)	-	1.3	-	1.2
Extraordinary (gain) loss, net-of-tax	(1.8)	7.2	-	(29.9)	-
Minority interest (income) expense	(0.6)	(1.2)	(0.8)	(0.1)	0.6
Income tax provision (benefit)	15.8	11.3	(9.9)	22.3	31.7
Interest expense					
(excluding project mining subsidiaries)	51.0	52.9	40.5	30.2	25.7
Interest income	(3.1)	(3.7)	(3.8)	(2.5)	(4.9)
Depreciation, depletion and amortization expense					
(excluding project mining subsidiaries)	68.4	70.2	87.0	77.4	75.2
Adjusted EBITDA <sup>(4)</sup>	\$ 181.3	\$ 179.1	\$ 78.3	\$ 165.1	\$ 182.6

This Annual Report contains references to non-GAAP financial measures. Presentations of, and quantitative reconciliations to, the most directly comparable financial measures calculated and presented in accordance with GAAP appear on this page and page 30.



# To Our Stockholders

## Economic and Corporate Overview

In 2003, NACCO Industries had a reasonable year despite a more gradual economic recovery than expected and the impact of other unfavorable external factors, particularly adverse currency movements. Major change programs put in place at each of the subsidiary companies over the last several years continue to affect our view of future prospects positively. Overall, we believe these programs will continue to help drive NACCO's subsidiary companies toward their long-term minimum financial goals over the next five years.

The relatively slow pace of the economic recovery in 2003 affected all of NACCO's subsidiary companies. Lift truck markets continued to improve worldwide, but not to the levels previously expected. Consumer spending in North America strengthened in some areas, but both Hamilton Beach♦ Proctor-Silex ("HB/PS") and Kitchen Collection experienced weak retail markets for their products. Further, lignite coal demand at North American Coal was not as strong as had been expected.

Likewise, relative currency values negatively affected several of NACCO's subsidiary companies. For example, the extraordinary strength of the euro and British pound sterling compared with the U.S. dollar made European- and U.K.-produced lift trucks less competitive in the U.S. market.

Nevertheless, in the face of these external forces, NACCO's subsidiary companies responded commendably. Efforts to control costs were accelerated and revenue enhancement programs were pursued with even greater urgency. While financial results in 2003 were not at the level the Company had anticipated, each of NACCO's subsidiary companies emerged from 2003 strong or stronger relative to its competition, and each is well positioned to take full advantage of the expected continued global economic recovery in 2004 and beyond.

Reflecting increased confidence in the future potential of NACCO's businesses and in their prospects for generating cash flow before financing activities, as well as in the context of changed dividend taxation laws, the Board of Directors approved two dividend increases in 2003 that raised the annual dividend by more than 50 percent. The first increase, from \$0.98 to \$1.02 per share, was made in May 2003 as part of the Board of Directors' regular annual consideration of dividend rates. The second dividend increase, of approximately 50 percent from \$1.02 to \$1.52 per share, was approved in August 2003.

The discussion that follows is organized in a manner similar to the letters included in last year's Annual Report, and, in fact, some of the discussion itself is the same. This approach reflects the fact that NACCO's underlying strategies and key programs for each of its subsidiary companies are long-term oriented and constant. We believe this strategic consistency is one of NACCO's core strengths.

## Discussion of Results

In 2003, NACCO Industries reported net income of \$52.8 million, or \$6.44 per share, compared with net income of \$42.4 million, or \$5.17 per share, in 2002. Revenues for 2003 were \$2.5 billion compared with \$2.3 billion in 2002, an increase of approximately 9 percent primarily attributable to increased revenues at NACCO Materials Handling Group ("NMHG"). Additionally, 2003 and 2002 financial statements reflect the adoption of Financial Accounting Standards Board Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities," which requires the deconsolidation of North American Coal's three project mining subsidiaries. The effect of deconsolidation is to decrease reported revenues while leaving reported net income unchanged. Further, the assets and liabilities of these project mining subsidiaries are no longer consolidated. The Company believes this change, in

fact, provides a clearer view of North American Coal's and NACCO's operating and financial structure. The boxes on pages 2 and 25 of this Annual Report further discuss FIN No. 46.

Net income for 2003 and 2002 included a \$1.8 million after-tax extraordinary gain and a \$7.2 million after-tax extraordinary loss, respectively, recorded by Bellaire Corporation, a wholly owned non-operating subsidiary which manages ongoing liabilities related largely to closed Eastern U.S. underground coal mines. These extraordinary items relate to adjustments to Bellaire's estimated obligation to the United Mine Workers of America Combined Benefit Fund. The 2003 extraordinary gain is due to lower-than-estimated premium payments and number of assignees, along with adjustments to actual mortality rates as compared with previous estimates, resulting in a decrease in expected future obligations. The 2002 extraordinary loss was primarily the result of an unfavorable U. S. Supreme Court ruling. In addition, net income for 2003 included a net benefit of \$1.2 million, or \$0.15 per share, for the cumulative effect of a change in accounting for mine-closing obligations recognized as a result of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." This net benefit consisted of a \$2.5 million after-tax gain at Bellaire and a \$1.3 million after-tax charge at North American Coal to reflect this accounting change.

On a year-over-year comparable basis, income before extraordinary gain (loss) and cumulative effect of accounting change for 2003 was \$49.8 million, or \$6.07 per share, compared with \$49.6 million, or \$6.05 per share, in 2002. The Company

achieved slightly improved operating results despite a slower-than-anticipated recovery in lift truck markets and weak housewares and factory outlet mall markets.

In 2003, each of NACCO's subsidiary companies generated significant cash flow before financing activities: \$39.0 million at NMHG; \$35.4 million at NACCO Housewares Group; and \$11.3 million at North American Coal. In total, NACCO generated \$80.5 million in consolidated cash flow before financing activities in 2003 and \$131.0 million in 2002. Both 2003 and 2002 were significantly above 2001 levels when the company generated \$40.9 million in consolidated cash flow before financing activities.

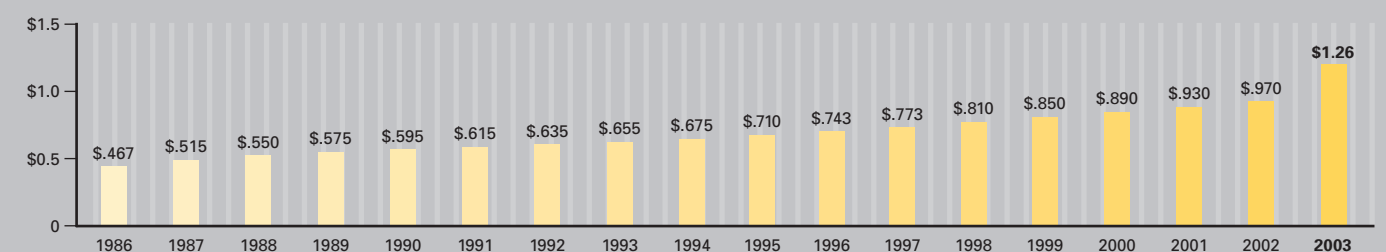
## NACCO Maintains a Long-term Perspective

NACCO has consistently maintained a long-term perspective with respect to its subsidiary companies, which is reflected in four guiding principles:

- Ensure highly professional management teams;
- Attain industry-leading operational effectiveness and efficiencies;
- Build industry-leading market positions; and
- Create sustainable competitive advantage positions.

To help achieve these guiding principles, the NACCO parent company, which consists of a small group of experienced specialists, plays a significant role through two key functions: oversight and consulting. As part of its oversight role, the parent company works closely with subsidiary company CEOs and senior managers to reinforce a process of constructive change designed to enhance long-term, sustainable

## Dividends Paid Per Share



competitive advantage, to ensure that programs are developed to enable each subsidiary company to achieve mutually agreed-upon financial targets, and to monitor the disciplined execution of key programs.

Through its consulting capabilities, the NACCO parent company provides its subsidiary companies with highly analytical, disciplined and dedicated value-added consulting services. These services include not only business operations and strategy consulting provided by the Company's internal consulting group, but also acquisition and divestiture services; financial, tax and accounting advisory services; and focused legal and compensation services. The parent company's oversight and consulting roles are reinforced by a stringent corporate governance program, as outlined in the box below.

#### Key Long-term Programs

Consistent with NACCO's long-term perspective, key long-term programs are designed both to increase the profitability of each subsidiary company to at least that subsidiary's minimum financial target and to generate growth in each subsidiary company. Following is a brief overview of the *Key Programs to Enhance Profitability* and the *Key Programs to Generate Growth* for each subsidiary company. Additional detail is provided in each subsidiary company's CEO's letter in this Annual Report.

#### Key Programs to Enhance Profitability

Key strategic cost reduction and operational improvement programs are designed to achieve each subsidiary company's long-term minimum financial target. The Company continued to make progress in implementing these key programs in

2003. The main objective of these profitability enhancement programs is to achieve minimum financial targets at each subsidiary company by 2007-2008 or before.

Minimum operating profit targets defined in the 2002 NACCO Annual Report remain the same at NMHG and at HB/PS. Kitchen Collection's minimum operating profit target was adjusted to 5 percent from 5.5 percent to more accurately reflect long-term trends in light of what now appears to have been extraordinary results in 2002. North American Coal's target was changed, due to the deconsolidation of its project mines, from a target based on operating profit to a minimum target based on return on capital employed.

#### NACCO Materials Handling Group

NMHG Wholesale's objective is to reach a minimum operating profit target of 9 percent at the mid-point of the market cycle, although minimum operating profit target expectations will vary appropriately when markets are higher or lower. In that regard, NMHG now believes that the mid-point of the market cycle may be reached by 2007-2008, rather than in 2006-2007 as stated in last year's Annual Report, due to the slow pace of market recovery in 2003.

NMHG continued the successful implementation of key programs in 2003, a process which will continue in 2004. NMHG will incur additional costs in 2004 related to product development programs as well as to some restructuring activities. Key programs in place are expected to improve results increasingly in 2005-2007 and to reach maturity in 2008 when major programs are expected to be largely complete and the worldwide lift truck market is expected to have returned to average pre-recession levels.

At NMHG, specific programs to enhance profitability include the following:

- **A new product development process** which is designed to improve product flexibility, increase speed to market, enhance quality and reduce costs. Significant investments in this program will continue in 2004, with most of the resulting new products to be introduced from 2005-2008.
- **A manufacturing restructuring and quality improvement program** which is increasing quality, optimizing plant capacity and reducing complexity and costs. Though elements of this program will continue for several years, the most substantial expenditures should be completed by the end of 2004.
- **A global procurement program** which will result in higher quality components procured at lower costs and sourced more efficiently from a smaller group of highly reliable suppliers. Many benefits of this program should be realized with the introduction of new products in 2005-2008.
- **A pricing optimization program** which seeks to deliver sound value to customers and more attractive margins to NMHG and its dealers. This program is largely linked to the introduction of new products in 2005-2008.
- **An aftermarket efficiency program** to assist independent dealers, on an ongoing basis, in optimizing service parts inventories.
- **A NMHG Retail improvement program** with an objective of reaching at least breakeven results for wholly owned dealers as quickly as possible.

#### Hamilton Beach♦Proctor-Silex

HB/PS' objective is to achieve a minimum operating profit target of 10 percent by 2005-2006, when its key programs are expected to mature.

At HB/PS, specific programs to enhance profitability include the following:

- **A new product development process** which is resulting in new products brought to market faster with increased innovation and lower costs. This program, initiated several years ago, is an ongoing focus for the company with both near-term and long-term benefits expected.

- **A manufacturing cost reduction program** which focuses on the company's evolution toward increased low-cost, high-quality sourcing from China. This program will likely continue through 2005, with the potential for implementation of an even more aggressive product sourcing strategy to ensure cost leadership.
- **A continuous quality improvement program** encompassing design, engineering, manufacturing and distribution. Significant expenditures in this program have been incurred and the largest expected gains are currently being realized.
- **A supply chain optimization program** which is lowering costs while increasing customer service to retailers. This program is being accomplished through staged, moderate investments with resulting benefits on a continual basis.

#### Kitchen Collection

Kitchen Collection's objective is to continue to achieve at least its minimum operating profit target of 5 percent. Specific programs to enhance profitability include the following:

- **An Economic Value Income analysis process** which is a highly analytical approach to achieving the greatest possible return per cubic foot of retail space. The primary investment in this proprietary tool has already been incurred and benefits are expected to continue from the ongoing application of this process.
- **Margin enhancement and merchandising programs** which are designed to strengthen key drivers of store profitability. This is a continuous process which prudently tests and applies low-risk approaches to improving profitability.
- **A private label program** which leverages use of the Hamilton Beach® and Proctor-Silex® brand names on non-electric kitchen products. This program requires minimal incremental investment and has resulted in product lines that are among the company's most profitable.

## Corporate Governance Program

Parent company oversight and consulting roles are reinforced by a corporate governance structure designed to ensure accountability, fiscal responsibility and the highest levels of ethical conduct. At NACCO, this corporate governance program has four key elements:

- A strong, independent board of directors to ensure effective board oversight. This oversight is reinforced by our subsidiary company structures, in which each subsidiary company has its own CEO and its own strong, independent board of directors, each of which includes, as core board members, the parent company directors.
- A strong nominating and governance committee to ensure continued board independence.
- A strong compensation committee, which will be separated from the nominating and governance committee in the near future, to ensure responsible compensation levels and no management self-dealing.
- A strong, independent audit review committee to ensure accounting integrity.

NACCO further addresses the issue of corporate governance in a publication entitled *CEO Perspectives*, which is available on the NACCO Web site at [www.nacco.com](http://www.nacco.com).

### North American Coal

North American Coal's financial objectives are to earn a return on capital employed in excess of 13 percent and to deliver substantial cash flow before financing activities. Programs with the objective of significant performance improvements are anticipated to mature in 2006-2007.

Specific programs to enhance profitability include the following:

- **Employee safety programs**, ongoing at North American Coal, which improve productivity and employee retention, and enhance profitability.
- **A Mississippi Lignite Mining Company optimization program** which focuses on attaining full operating efficiency in the context of higher costs due to mining deeper coal seams until 2006.
- **A San Miguel Lignite Mining Operations improvement program** which is intended to return this mine to profitability by 2006 through a revised mine plan and an anticipated new contract that is currently in negotiation.
- **Innovative mining methods** which continue to drive increased efficiency and effectiveness on an ongoing basis.
- **Environmental commitment programs** which utilize highly precise equipment to restore mined land to its original or improved condition in the most cost-effective manner.

### Summary of Programs to Enhance Profitability

Overall, the programs outlined above are designed to improve performance at each subsidiary company over the next few years, with the objectives of achieving both minimum financial targets at each subsidiary company by 2007-2008 or earlier and generating substantial cash flow before financing activities.

NACCO Industries reported net income of \$52.8 million, or \$6.44 per share, in 2003. Had each of NACCO's subsidiary companies achieved its financial targets in 2003, the Company would have generated additional net income of \$82.9 million, or \$10.10 additional earnings per share. Further, assuming increased cash flow could eliminate debt and thereby interest costs, the Company could have had additional net income of

\$31.6 million, or \$3.85 additional earnings per share. (These calculations are explained on page 30 of this Annual Report.) Clearly, the stakes involved in executing the Company's profit enhancement and growth generation programs remain very high and continue to have NACCO's full commitment.

### Key Programs to Generate Growth

Programs have also been designed to increase revenues and expand market share at each subsidiary company. These programs supplement profitability enhancement programs aimed at reaching minimum financial targets. While some of these programs have specific timeframes for maturity, many are ongoing programs in which the subsidiary companies invest, and from which they gain benefits, on an ongoing basis.

#### NACCO Materials Handling Group

Specific programs to generate growth include the following:

- **New product introductions**, including aggressive programs for all lift truck categories, most of which will be introduced in 2005-2008.
- **Aftermarket parts programs** building upon important alliances made in 2002 to increase parts and service revenues, with benefits realized in 2003 and expected to increase in the future.
- **National and global account programs**, including fleet management, which will extend NMHG's lead in these areas and contribute to longer-term market share growth.
- **Dealer network programs** to enhance further the industry's most professional distribution network and contribute to long-term market share growth.

#### Hamilton Beach♦Proctor-Silex

Specific programs to generate growth include the following:

- **A new product introduction process** which is an ongoing process that aims to increase innovation, improve speed to market and reduce costs.
- **Strategic brand application programs** to leverage current brands and offer creative, new brand options to retailers. Two new brand concepts are being introduced for the 2004/2005 retail season.

- **Retailer and channel focus programs** which employ in-depth assortment analyses and flexible product and service solutions in order to maximize retail shelf placements and consumer sales. HB/PS has developed and improved this program over several years with increasing effectiveness.

#### Kitchen Collection

Specific programs to generate growth include the following:

- **The Gadgets & More® format**, focused on the high-margin gadget business, is expected to continue in test mode in 2004 and, if successful, will lead to more significant growth in 2005 and beyond.
- **A large store format** with increased product offerings, a new concept which is in testing and, which could, in future years, create another profitable format in the factory outlet mall market.
- **Internet sales programs** to accelerate profitable growth in this channel in 2004 and beyond.

#### North American Coal

Specific programs to generate growth include the following:

- **Reserve development strategies** which analyze reserve potential and help prioritize development efforts for future growth.
- **Clean coal power generation technologies**, the adoption of which could significantly improve reserve development potential in future decades.
- **Limerock dragline services projects** which continue to provide niche contract mining opportunities, and could result in benefits in both the short and long term.

### Outlook

In summary, the Company has comprehensive profit enhancement and growth programs in place at each of its subsidiary companies. The results of these programs will be increasingly visible in 2005-2006 as the Company moves toward its ultimate objective of reaching minimum financial targets at each subsidiary company by 2007-2008 or earlier as programs mature. Financial performance could also benefit from improved markets as well as the successful implementation of additional growth programs.

Throughout this period, NACCO's objective is to generate significant cash flow before financing activities. NACCO's intention is to use these cash flows to reduce debt levels unless other strategic opportunities of greater long-term benefit to the Company and its stockholders arise.

NACCO's share price (\$82.77 at the close of the financial markets on March 1, 2004) has begun, we believe, to reflect better the improved results of 2002 and 2003 and the potential impact of the profit enhancement and growth programs underway. If each subsidiary company successfully executes its programs in place and achieves its long-term objectives, we are hopeful that the Company will receive a further improved valuation in the future.

In closing, I would like to thank all NACCO employees for their continued support, hard work and commitment in meeting the challenges of 2003 and I look forward to working together toward a successful 2004.

\* \* \* \*

On a final note, all of us at NACCO are deeply saddened by the death in 2003 of Frank E. Taplin, Jr., a director from January 1946 to February 1997, a director emeritus since then, and the eldest son of our Company's founder. The contributions he made to the Company for over half a century are immeasurable. His wise guidance and sound counsel were instrumental in transforming a coal company with \$18 million of sales in 1946 into a diversified company with \$2.5 billion of sales in 2003. We are very grateful for his extraordinary service.

*Alfred M. Rankin, Jr.*

Alfred M. Rankin, Jr.  
Chairman, President and  
Chief Executive Officer  
NACCO Industries, Inc.





# NACCO Materials Handling Group

NMHG's vision is to be the leading globally integrated designer, manufacturer and marketer of a complete range of high-quality lift trucks. Delivering quality products and services, and increasing volume growth and market share, are the company's top priorities.

## 2003 Results – NMHG Wholesale

NMHG Wholesale reported net income of \$22.4 million on revenues of \$1.6 billion in 2003 compared with net income of \$21.5 million on revenues of \$1.4 billion in 2002. A slightly increased worldwide lift truck market in 2003 estimated at 577,000 units led to an increase in shipments to 70,406 compared with a market of 544,000 and shipments of 64,437 in 2002. NMHG Wholesale's 2003 shipments increased approximately 9 percent over 2002 shipments, exceeding worldwide market growth of approximately 6 percent. Backlog increased to 19,100 units at December 31, 2003 compared with 18,800 units at December 31, 2002.

## 2003 Results – NMHG Retail

NMHG Retail's operations (net of eliminations) reported a net loss of \$6.0 million on revenues of \$162.6 million in 2003 compared with a net loss of \$9.2 million on revenues of \$172.2 million in 2002, demonstrating progress but still a disappointment. Continued execution of NMHG Retail's global restructuring program, as well as an increased focus on sales, rental, parts and service, resulted in further improvements to financial performance on lower revenues in 2003. NMHG Retail's global restructuring program included the sale of the only U.S. wholly owned dealer at the beginning of 2003, which contributed to the decline in revenues.

## 2003 Results – NMHG Consolidated

NACCO Materials Handling Group ("NMHG"), including NMHG Wholesale and NMHG Retail, generated consolidated cash flow before financing activities of \$39.0 million in 2003 and \$64.8 million in 2002. In addition, NMHG reduced consolidated debt to \$307.7 million at December 31, 2003 compared with \$324.8 million at December 31, 2002. Net income and consolidated cash flow before financing activities in 2003 were negatively affected by adverse foreign currency movements and, as anticipated, by continued costs for the previously announced manufacturing restructuring programs and product development activities related to new Hyster® and Yale® products that will be introduced in 2005 through 2008.

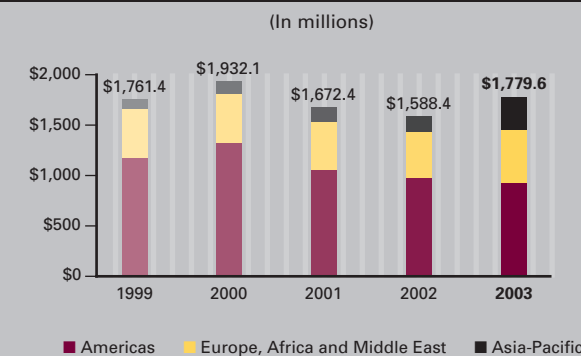
## Vision, Strategy and Core Competencies

NMHG's vision is to be the leading globally integrated designer, manufacturer and marketer of a complete range of high-quality lift trucks. Delivering quality products and services, and increasing volume growth and market share, are the company's top priorities.

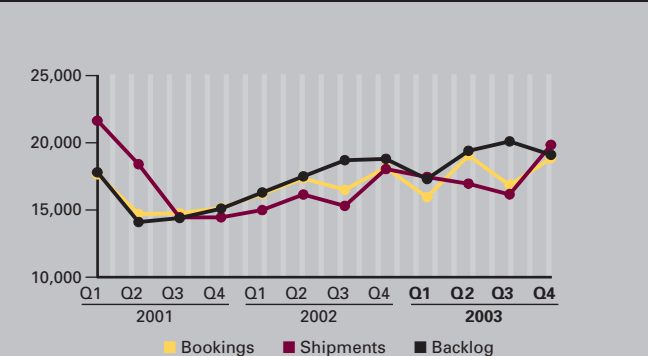
The company's strategies for achieving its vision include developing flexible, reliable, end-user-driven products; attaining low-cost, high-quality manufacturing and procurement; providing value-added marketing support services; and maintaining and strengthening highly professional dealer

Counter clockwise from top left: Hyster Challenger 25-40XM internal combustion lift truck designed to operate in the tightest of spaces, up to a capacity of 4,000 pounds. • Yale NTA narrow aisle lift truck offers exceptional performance, ergonomic design and operator comfort for increased productivity and reliability. • Hyster 36,000-45,000 pound lift truck designed for tough applications ranging from steel to logging yards, quarries and concrete works. • Yale MPE motorized hand truck provides capacity ranges from 6,000 to 8,000 pounds. • Hyster E70-120 XL3 series electric lift truck available for loads up to 12,000 pounds.

## Revenues by Geographic Region



## Unit Bookings, Shipments & Backlog







Above left to right: Yale MPE motorized hand truck is ergonomically designed for reduced operator fatigue and improved productivity. • Yale MPC motorized pallet truck with capacity ranges from 6,000 to 8,000 pounds and features for enhanced order-picking productivity and improved operator comfort.

distribution. These strategies, which are supplemented by high relative economies of scale and reinforced by the company's large global population of lift trucks in use, are designed to provide NMHG with sustainable competitive advantage versus its competition.

NMHG's core competencies supporting these strategies include translating end-user needs into globally flexible product designs; adapting operations to changing market conditions; managing the growing complexity of customer needs; and building and sustaining strong dealer partnerships.

#### Key Programs to Enhance Profitability

NMHG is successfully implementing several key programs to enhance long-term profitability.

**New product development process.** NMHG has completely re-engineered its process for developing new products. Complete ranges of products are being developed simultaneously rather than on a traditional series-by-series approach. Platforms, modules and components have been designed to be used across a full array of lift trucks. This decreases the overall number of components required and permits easier and more frequent future upgrades. Finally, design, prototyping and testing are guided by a rigorous, staged approval process that incorporates increasingly reliable engineering while reducing overall cycle time and increasing speed to market. This approach is expected to increase the quality of NMHG's products, as well as meet end-user requirements more cost effectively.

#### Manufacturing restructuring and quality improvement.

NMHG's manufacturing strategy is guided by a desire for high-quality, low-cost manufacturing with assembly generally in the market of sale to meet customer needs quickly and efficiently. To accomplish these goals, NMHG has been restructuring its global manufacturing facilities and processes. The company is working to optimize capacity among several key plants, including Greenville, North Carolina, and Berea, Kentucky, in the United States, and Irvine, Scotland, and Craigavon, Northern Ireland, in Europe. The final phases of this restructuring are underway and include the closing of the company's Lenoir, North Carolina, lift truck component facility, which is anticipated to be completed in the second quarter of 2004. The restructuring of the Irvine, Scotland, lift truck assembly plant is underway, with completion expected within the next 18 to 24 months.

The continued implementation of a lean manufacturing strategy called Demand Flow Technology® (DFT) is reducing inventory and manufacturing floor space requirements while improving productivity, lead times and quality. NMHG also continues to deliver cost reductions and product quality improvements through its Value Improvement Program (VIP).

**Global procurement.** NMHG has a number of procurement efforts underway to make its supplier base smaller, more reliable, faster and lower cost. Non-core components continue to be outsourced to low-cost suppliers around the world, with increased focus on China and Eastern Europe. NMHG is implementing new supplier partnerships and quality programs and setting standards for just-in-time delivery. These programs, along with global economies of scale, provide

At right: Hyster container handler truck, a solid performer for use at ports and railroad terminals for loading and stacking containers.





NMHG with leverage to obtain high-quality components at lower prices and are expected to be an important source of profit improvement in the years ahead.

**Pricing optimization.** The goal of NMHG's pricing optimization program is to establish product pricing that delivers both good value to end users and attractive margins to dealers and the company. NMHG is pursuing this goal through implementation of the company's new product design philosophy, which, by incorporating a modular approach using fewer overall components, allows products to be more precisely configured and, therefore, priced to meet specific customer application needs. Product options will be bundled as appropriate to address additional application requirements.

**Aftermarket efficiency.** NMHG has several projects underway to increase aftermarket service efficiencies, including a program to help manage dealer parts inventories and a program to improve the management of after-sale contacts with dealers and customers.

**NMHG Retail improvements.** NMHG continues to implement cost reduction and revenue enhancement programs to improve the performance of its wholly owned retail dealerships. NMHG Retail reduced its net loss by 35 percent from 2002 to 2003. The objective of the programs in place is to reach at least breakeven results as quickly as possible, while still strengthening the distribution capability in each area.

### Key Programs to Generate Growth

As discussed in last year's Annual Report, NMHG's programs to enhance growth center on introducing newly developed products, increasing sales of aftermarket parts, expanding fleet management and financial services, increasing national and global accounts, and strengthening the dealer network.

**New product introductions.** NMHG continues to move forward with a significant new product development program that is expected to mature in 2005-2008. One program, the most comprehensive new product development project in the company's history, will result in a wide range of new internal combustion engine lift trucks in 2005-2007. Extensive use of interchangeable components and systems will increase flexibility to tailor these lift trucks to individual customer application requirements. Additional new product programs employing the same techniques are underway through 2008 for electric counterbalanced lift trucks. Big truck and warehouse lift truck product development programs are also underway.

**Aftermarket parts.** In 2003, NMHG continued to leverage an important strategic alliance made in 2002 with a leading aftermarket parts provider in the Americas, Europe and Asia-Pacific. This alliance has enhanced the ability of NMHG's Yale and Hyster dealers to expand their parts offerings for competitor lift trucks and thereby receive an increasing market share of their customers' parts and service business.

**National and global accounts.** NMHG has industry-leading fleet management and national account organizations and is enhancing its global account capabilities. The goal of these programs is to offer superior value and services to large customers that have centralized purchasing but geographically dispersed operations in multiple dealer territories around the world.

**Dealer network.** The company's Anchor Dealer strategy continues to strengthen a worldwide network of strong, professionally managed, well-capitalized independent dealers. NMHG's experience is that these exclusive Yale and Hyster Anchor Dealers gain higher market share, attract higher-quality employees and offer more specialized services to their customers.



Left to right: Yale order selector fills the needs for all mid-range warehouse applications. • Yale cushion tire lift truck has a 7,000 to 12,000 pound capacity. • Yale three wheel stand-up rider lift truck for 3,000 to 4,000 pound applications.

To drive further improvement in the Hyster and Yale dealer networks, NMHG is implementing a Dealer Excellence Enhancement program, which provides dealers with best-practices manuals and performance assessment tools in the areas of operational and financial management, lift truck sales, parts sales, service, rental and fleet management. NMHG also offers customized consulting assistance to help dealers implement these programs to drive improved sales and profitability.

### Corporate Initiatives

NMHG is improving quality by standardizing global processes and emphasizing continuous process improvement. In 2003, NMHG achieved ISO 9001-2000 certification. In addition, NMHG is implementing new tools and systems, which support parts sales, technicians and knowledge management, in order to become more responsive and improve service at all points of dealer and customer contact.

As previously stated, the objective of NMHG's overall strategy is to build sustainable competitive advantage versus its competition through strong market share, a large field population, which provides ongoing parts revenue, and significant economies of scale.

### Outlook for 2004 and Beyond

In 2004, NMHG expects modest strengthening of lift truck markets in the Americas and Japan, strong growth in the China lift truck market and relatively flat lift truck markets in Europe and the rest of Asia-Pacific. Because U.S. and global market growth in 2003 was more tempered than widely anticipated a year ago, NMHG now expects global lift truck markets to gradually return to average pre-recession levels by 2007-2008, rather than in 2006-2007 as indicated in last year's Annual Report.

As a result of this delay in achieving efficiencies available at higher market volumes, and in light of additional new product development programs, NMHG Wholesale's objective is to achieve its long-term operating profit target of 9 percent by 2007-2008, rather than in 2006-2007, as stated last year. NMHG's goal is to make increasing progress toward this objective in future years, especially in 2006, as programs begin to mature. During periods of lower or higher industry volumes, minimum operating profit target expectations should be appropriately scaled.

NMHG Retail's objective for its wholly owned dealerships is to reach at least break-even financial performance while building market position and to attain that goal in the near term.

We believe NMHG is increasingly offering the right products at the right costs through the right dealers. As a result, NMHG believes firmly in its prospects for long-term growth in market share and profitability in an improving market environment.

Finally, I would like to take this opportunity to recognize the excellent work of all NMHG employees in helping the company realize improved financial performance in 2003 during a slow recovery period, while continuing to make progress on initiatives to enhance NMHG's future prospects.

*Reginald R. Eklund*

Reginald R. Eklund  
President and Chief Executive Officer  
NACCO Materials Handling Group, Inc.



Left to right: Hyster 360-450 turbo-charged diesel-powered lift truck designed with a capacity up to 36,000 pounds. • Hyster order picker for fast and secure picking operations. • The S 80 Odyssey propane cushion tire lift truck handles loads ranging from 7,000 to 12,000 pounds.



# NACCO Housewares Group

## Hamilton Beach®



NACCO

Housewares Group consists of

Hamilton Beach♦Proctor-Silex, one of

North America's leading providers of a full

line of small electric kitchen and household appliances, and Kitchen Collection, America's

leading outlet mall retailer of specialty

brand-name kitchenware.



### 2003 Results

NACCO Housewares Group, which includes Hamilton Beach♦Proctor-Silex and Kitchen Collection, reported net income of \$19.5 million on revenues of \$598.7 million in 2003 compared with net income of \$17.8 million on revenues of \$610.3 million in 2002. Revenues for 2003 decreased primarily due to declines in consumer spending both for small electric kitchen and household appliances at key retail customers for Hamilton Beach♦Proctor-Silex, and in the factory outlet channel for Kitchen Collection.

Net income increased in 2003 due to continued improvement in manufacturing and sourcing efficiencies and profit improvement programs at Hamilton Beach♦Proctor-Silex, as well as increased sales of innovative products such as the Hamilton Beach® BrewStation™ coffeemaker.

In 2003, the Housewares Group generated \$35.4 million in cash flow before financing activities compared with \$48.8 million in 2002.

### Complementary Operations

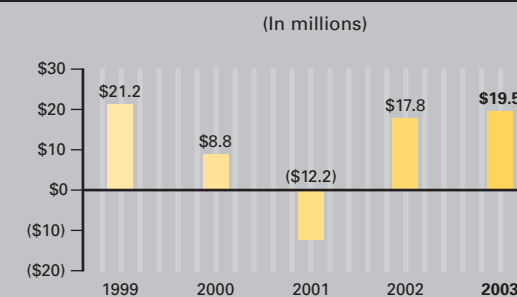
While the operations of Hamilton Beach♦Proctor-Silex and Kitchen Collection are separate, certain aspects of their businesses are complementary.

Hamilton Beach♦Proctor-Silex has a deep understanding of consumer preferences and product trends within the small electric kitchen and household appliance marketplace. Kitchen Collection understands the logic and criteria used by retailers in allocating limited shelf space among competing housewares products, brands and vendors.

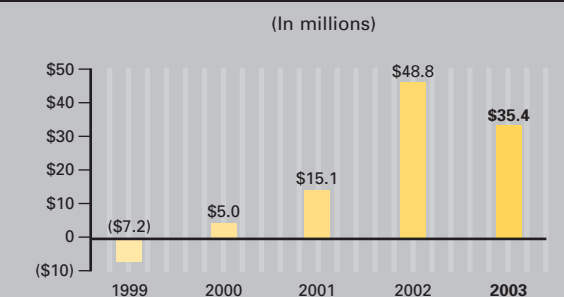
In addition to carrying a broad range of Hamilton Beach and Proctor-Silex® electric products, Kitchen Collection licenses these brand names for non-electric products. Products ranging from kitchen gadgets to cookware have benefited substantially from the use of these strong heritage brand names, making these among Kitchen Collection's most profitable product lines.

Finally, Kitchen Collection purchases overstocked merchandise from Hamilton Beach♦Proctor-Silex. This arrangement helps Hamilton Beach♦Proctor-Silex manage inventory, contributing to reductions in inventory and debt levels, and helps Kitchen Collection offer a steady stream of higher-value products to its customers.

Net Income (Loss)



Cash Flow before Financing Activities







# Hamilton Beach®



### 2003 Results

Hamilton Beach♦Proctor-Silex (“HB/PS”) had a good year in 2003, reporting improved net income despite lower revenues compared with 2002. Net income benefited from manufacturing, sourcing and distribution efficiencies, increased sales of higher-margin products and reduced expenses.

Revenues decreased in 2003, despite an increased number of HB/PS product placements on major retailers’ shelves, due to continued softness in the retail marketplace for small electric kitchen and household appliances and consumer purchases below expectations. Decreased revenues in several categories were partially offset by increased sales of innovative new products, such as the Hamilton Beach® BrewStation™ coffeemaker (shown at left), which eliminates the need for a carafe by brewing coffee into a built-in thermal container, allowing coffee with fresh-brewed flavor to be dispensed cup-by-cup.

### Vision, Strategy and Core Competencies

HB/PS’ vision is to be the leading North American provider of small electric kitchen and household appliances that are sold under strong heritage brand names and provide consumers with innovative features and superior value.

The company’s strategies for achieving its vision include developing innovative, high-quality products; continuously reducing costs; aligning brands with key consumer segments; and sustaining highly professional sales and marketing programs.

Core competencies supporting these strategies include researching, designing and testing new product concepts; driving improvement through detailed value chain analyses; understanding end-user buying behavior as a foundation for building brands; and matching products and services to specific retailer assortment needs.

Clockwise from top left: Hamilton Beach♦Proctor-Silex’s newest products include: Hamilton Beach BrewStation™ coffeemaker, Hamilton Beach Stay or Go™ blender, Proctor-Silex® 1.5 qt. slow cooker, TrueAir™ odor eliminator, Hamilton Beach 2-slice toaster.

## The Building of HB/PS – NACCO’s Long-term Perspective



The history of the formation and development of HB/PS exemplifies NACCO’s long-term perspective. NACCO acquired WearEver/Proctor-Silex in 1988. In order to create more focused businesses, Kitchen Collection, which had been purchased along with WearEver/Proctor-Silex, was established as an independent subsidiary company with dedicated management, and the WearEver cookware business was sold to Newell Co. In 1990, Hamilton Beach, a company that produced primarily motor-driven small kitchen appliances, was acquired and merged with Proctor-Silex, a company that produced primarily heat-driven small kitchen and garment care appliances.

In succeeding years, with consulting assistance from NACCO Industries, the company fully integrated the operations of its predecessors, repositioned the two heritage brands to serve different price-point segments with a broad array of both motor- and heat-driven products, began producing GE-branded products for Wal-Mart and successfully entered the home health category with the TrueAir™ brand. The company is currently introducing the Traditions™ by Proctor-Silex and the Hamilton Beach Eclectrics™ lines to serve additional price-point segments.

HB/PS has entered 17 new product categories over the last 14 years, now participates in a total of 38 categories, and has captured a #1 or #2 market share in 20 categories. Today, HB/PS is recognized by retailers for superior products and services and industry-leading category management capabilities. Other new programs are in development as the company pursues additional product categories, increased market share and long-term profitable growth.





A few of the newest products from Hamilton Beach Proctor-Silex also include (from left to right): Hamilton Beach Stay or Go™ coffeemaker, General Electric® 2-slice toaster, Proctor-Silex 12 cup coffeemaker, Hamilton Beach Professional iron.

### Key Programs to Enhance Profitability

**Product development process.** HB/PS' product development process, which has evolved over the last several years, is designed to increase each product's probability of market success. Elements of this approach include a rigorous product strategy process that includes detailed analysis of consumer preferences, highly efficient design techniques and collaborative engineering with multiple Chinese partners who often contribute meaningfully to product development. The goals are to deliver high consumer satisfaction at competitive costs on both current and innovative new products, and to enter new product categories. Because of HB/PS' up-front attention to consumer preferences and retailer needs, the company's products sell well with lower promotional expenses than many competitors' products require.

**Manufacturing cost reduction.** A number of manufacturing efficiency programs are contributing to HB/PS' successful record of continuous cost reduction. Programs include continued consolidation of Mexican manufacturing plants and increased low-cost, high-quality sourcing from China, where HB/PS has established a permanent office. HB/PS hopes to have these efforts completed by 2005. Also, at both company-owned and Chinese suppliers' plants, HB/PS implements its ongoing Value Improvement Program (VIP), which seeks to reduce process and component costs while continuously maintaining high quality.

**Continuous quality improvement.** Product and service quality is a top priority at HB/PS. The company is committed to continuous quality improvement and has successfully

implemented quality programs from design and engineering through manufacturing and distribution. As a result, HB/PS has achieved significant quality improvements as evidenced by product return rates, which declined significantly again in 2003.

**Supply chain optimization.** Intense focus on supply chain management in 2003 resulted in significant performance improvements both within the company and for HB/PS' retailer customers. Process and software enhancements helped reduce overall inventory while improving customer service. Further efficiencies should be gained in 2004 from implementation of a collaborative planning, forecasting and replenishment (CPFR) process with some key retailers. HB/PS continues to improve distribution performance at its Memphis, Tennessee, facility as well as to offer further efficiencies through direct-ship programs to retailers' warehouses.

### Key Programs to Generate Growth

**New product introductions.** HB/PS continues to increase the pace of new product introductions sold under its various brand names. In-depth consumer research enables the company to develop products with innovative consumer-preferred features and high rates of market success. In the company's consumer business, the Hamilton Beach BrewStation™ coffeemaker is an example of a breakthrough new product that has driven significant growth, with shelf placement in nearly every major housewares retailer. Sales of home health products continue to grow under the TrueAir™ brand name, and other new product areas remain under consideration. In the company's commercial

business, new blenders, coffeemakers and coffee urns were successfully introduced in 2003, and more new products are planned for 2004.

**Strategic brand application.** HB/PS has developed and utilizes a proprietary consumer "value proposition" segmentation analysis that helps the company and retailers apply brand names most effectively in the marketplace. Proctor-Silex, Hamilton Beach, TrueAir™, and the new Traditions™ by Proctor-Silex and Hamilton Beach Eclectrics™ brands will be deployed across multiple retailers to reach specific target markets. Other brands produced by the company are sold exclusively at certain retailers, such as the well-known General Electric brand at Wal-Mart. Product and service costs associated with each brand are aligned with the needs of its target segment through detailed value chain analysis. New brand names and licensing opportunities are constantly evaluated to generate end-user excitement and fuel growth.

**Retailer and channel focus.** HB/PS helps each retailer develop an optimal product assortment strategy, a process that lies at the heart of HB/PS' marketing and sales approach. In-depth analyses are performed for each retailer to help determine the combination of products, features and prices most likely to succeed. These detailed analyses drive the product development process, improve speed-to-market, increase retailer acceptance and have resulted in HB/PS being named category manager at a number of key North American accounts. The company applies this approach to strengthen current retailer relationships and to pursue new distribution opportunities throughout North America and other selected international markets.

### Corporate Initiatives

In addition to profitability and growth programs in specific areas, HB/PS has two general performance improvement programs that span all areas of the company. A focused expense management effort, which helped the company increase net income despite lower revenue in 2003, will continue in 2004. The company also utilizes Economic Value Income (EVI) analyses, a measure of return on invested capital, to identify and prioritize opportunities for growth and profit improvement.

The objective of HB/PS' overall strategy is to grow profitably through increased sales of high-margin, innovative new products sold through a wide range of retailers and distribution channels.

### Outlook for 2004 and Beyond

HB/PS is hopeful that consumer markets will improve in 2004. Since the small electric kitchen and household appliance market declined more than expected in 2003, it is possible that the pace of recovery through 2004 will be slow. In this uncertain and competitive environment, continued product innovations, reduced costs, strong brands and heightened channel efforts are expected to help HB/PS maintain leading market share positions.

The longer-term objective for HB/PS is that the combination of profit improvement programs and some growth programs move the company to achieve its minimum operating profit target of 10 percent in the 2005-2006 time period, as well as to generate significant cash flow before financing activities. Additional growth programs are designed to help the company go beyond its minimum operating profit target and to add profitable volume to this enhanced profit base.

Last year, I extended my gratitude to all Hamilton Beach Proctor-Silex employees for their contributions in making the company successful in a difficult 2002. The market challenges continued in 2003. Once again, Hamilton Beach Proctor-Silex employees demonstrated creativity, commitment and diligence in helping the company again achieve financial improvement. I continue to be truly thankful for the quality of our team in this demanding business environment.

Dr. Michael J. Morecroft  
President and Chief Executive Officer  
Hamilton Beach Proctor-Silex, Inc.







### 2003 Results

Kitchen Collection had a good year in 2003 taking into account lower traffic in outlet malls, which led to moderately lower sales and lower net income than in 2002. Comparisons of 2003 to 2002 require recognition that 2002 was an extraordinary year for Kitchen Collection, with unusually high sales growth of 13.5 percent above 2001 and high levels of profitability partly attributable to its major competitor, Lechter's, leaving the outlet mall business. Over the longer term, Kitchen Collection should continue to benefit from the closing of the Lechter's stores in 2001.

The modest sales decrease in 2003 was driven by a reduced number of transactions in comparable stores, offset slightly by a small increase in the amount of the average sales transaction and sales from new stores. In addition, sales were adversely affected by severe weather in the first and fourth quarters. The number of Kitchen Collection® and Gadgets & More® stores increased from 173 in 2002 to 180 in 2003.

### Vision, Strategy and Core Competencies

Kitchen Collection's vision is to be a leading specialty retailer of housewares, including cookware, bakeware, kitchen gadgets and related items, in outlet and traditional malls for consumers seeking outstanding value.

The company's strategy is to maintain a strong position in the outlet mall channel and to develop complementary store formats that can be profitably expanded to large numbers of stores in traditional malls.

Core competencies supporting this strategy include analyzing assortment performance to optimize store profitability and creating and refining store concepts to ensure profitable expansion.

### Key Programs to Enhance Profitability

Kitchen Collection has in place several key programs to grow profitably in a highly competitive retail environment:

**Economic Value Income.** Kitchen Collection utilizes disciplined operating controls to improve margins. The

company continues to utilize its proprietary Economic Value Income (EVI) business tool to assist in determining how to achieve the greatest possible return per cubic foot of retail space. Combined with other revenue and margin enhancement programs, EVI assists in optimizing the most profitable mix of products, the amount of space allocated to each product and the most appropriate store size.

**Margin enhancement and merchandising programs.** Kitchen Collection continually tests and implements new approaches to increase traffic, to increase the percentage of individuals who make purchases after they enter a store, to encourage customers to purchase higher-margin items and to increase the average purchase amount of those who buy.

**Private label.** Kitchen Collection continues to expand its lines of sourced private label merchandise featuring the Hamilton Beach® and Proctor-Silex® brand names, which are among Kitchen Collection's most successful and profitable product lines. These product lines now feature nearly 400 items, including gadgets, cutlery, cutting boards, barbecue tools, bakeware and cookware.

### Key Programs to Generate Growth

**Gadgets & More.** The Gadgets & More store format, which is still in test mode, continues to represent the company's most promising driver of future growth. Located primarily in traditional enclosed malls, Gadgets & More stores sell a broad range of higher-margin kitchen gadgets and other selected housewares products. The company currently has only eight Gadgets & More stores in a potential market of more than 500 traditional enclosed malls. However, Kitchen Collection will be prudent in the pace with which it opens additional stores in order to ensure that sales volumes and profit structure meet Kitchen Collection's objectives.

**Large store format.** In the outlet channel, Kitchen Collection is currently testing a larger format store that will offer an expanded assortment in several key areas, including tabletop, dinnerware and glassware items. If this

concept proves to be adequately profitable, additional larger stores could be added, which would contribute to Kitchen Collection's growth.

**Internet sales.** Sales from the company's Web site, www.kitchencollection.com, although modest, grew by 37.5 percent in 2003 compared with 2002, and this channel is profitable for the company. As marketing activities increase, such as direct e-mail campaigns and Web partner programs, Internet sales are expected to increase further.

### Corporate Initiatives

Kitchen Collection constantly strives to control costs in every area of the company in order to improve store profitability. Significant store costs, such as rent and labor, are rigorously analyzed and efforts to reduce further the costs of distributing products to the stores are underway.

The objective of Kitchen Collection's overall strategy is to maintain the profitability of the current Kitchen Collection stores while successfully achieving growth by rolling out profitable new store formats.

### Outlook for 2004 and Beyond

Kitchen Collection expects moderate growth in 2004 from opening new stores and from the continued success of Internet sales. The company's objective is to continue earning

a minimum operating profit of 5 percent and to generate substantial cash flow before financing activities by focusing on its core programs: optimizing store selling space, enhancing store merchandise mix, expanding private label lines, developing new store formats and aggressively managing costs.

Last year, the company communicated a long-term minimum operating profit objective of 5.5 percent, a goal that was set following what, in retrospect, was an extraordinarily strong 2002 as outlined above. Accordingly, the objective has now been reduced to a more appropriate level of 5 percent, which would still permit well-above-average returns on capital.

Finally, I want to take this opportunity to thank all of our Kitchen Collection employees for helping the company achieve solid results in 2003, a year in which the company faced significant challenges in the retail marketplace.

Randolph J. Gawelek  
President and Chief Executive Officer  
The Kitchen Collection, Inc.



Kitchen Collection's Gadgets & More store in the Beachwood Place mall near Cleveland, Ohio, features higher-margin, brand-name kitchen gadgets, small electric appliances and a variety of other kitchen- and housewares-related products.





# The North American Coal Corporation



**North American Coal's  
vision is to be the leading low-cost miner  
of lignite coal used in power generation and  
coal gasification plants and to provide  
selected value-added mining services  
for other natural resources  
companies.**

## 2003 Results

North American Coal operates mines, which, in total, delivered 35.5 million tons of lignite coal in 2003 compared with 34.2 million tons in 2002, maintaining North American Coal's position as the nation's largest lignite coal producer and among the top 10 coal producers nationwide. The Florida dragline operations increased limerock deliveries by approximately 4 percent in 2003 over 2002. The Company's lignite coal reserve position, including unconsolidated project mines, remains strong with a total of 2.4 billion tons of which 1.3 billion tons are committed to current customers. Unconsolidated project mines account for 1.1 billion tons of total reserves, all of which are committed to project mine customers.

Although North American Coal delivered more tons of lignite coal in 2003 than in 2002, net income declined to \$14.3 million in 2003 compared with \$19.6 million in 2002. The decrease was primarily the result of losses at North American Coal's San Miguel Lignite Mining Operations attributable to high operating and maintenance costs of aged equipment, and receipt in 2002 of the last liquidated damage payments related to the delayed start up of the Mississippi Lignite Mining Company's customer's power plant.

Also contributing to lower net income was the adoption of SFAS No. 143, which requires that future mine closure costs be recognized sooner than under North American Coal's previous accounting methodology. The effect of this methodology change was a charge of \$1.3 million, net of tax, recognized as a cumulative effect of an accounting change. Income before the cumulative effect of an accounting change in 2003 was \$15.6 million, compared with \$19.6 million in 2002.

The adoption of Financial Accounting Standards Board Interpretation No. 46 ("FIN No. 46") has dramatically changed the presentation of North American Coal's financial statements. For many years, the company has explained the unique financial characteristics of three subsidiaries: The Coteau Properties Company, The Falkirk Mining Company and The Sabine Mining Company (collectively the "project mines"), in which ownership of modest equity investments resulted in the consolidation of the debt obligations of the project mines which were fully guaranteed by its customers, and in fact, non-recourse to North American Coal. FIN No. 46 requires the deconsolidation of the project mines from North American Coal's financial statements. The company believes the resulting financial statements better reflect the fundamental economics of the project mines. (The adoption of FIN No. 46 is further described in the boxes at the bottom of this page and page 2.)

Top left: The dragline at The Coteau Properties Company in North Dakota, North American Coal's largest unconsolidated project mining operation. Middle: North American Coal's limerock mining operation at White Rock Quarry in South Florida. During 2003, the contract for these mining services was extended to 2010. Bottom: North American Coal is committed to protecting the environment by restoring mined land to its original or better condition. At The Falkirk Mining Company in North Dakota, one of North American Coal's unconsolidated project mines, land once used for surface mining now hosts migrating waterfowl in the fall and spring.

## Adoption of FIN No. 46

During the fourth quarter of 2003, North American Coal adopted Financial Accounting Standards Board Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities," which the company chose to retroactively apply to January 1, 2002. As a result of the adoption of FIN No. 46, the company no longer consolidates the financial statements of three of its wholly owned subsidiaries: The Coteau Properties Company, The Falkirk Mining Company and The Sabine Mining Company (collectively, the "project mines"). These project mines sell lignite coal at a formula price based on actual costs plus an agreed pre-tax profit per ton. These entities are capitalized primarily with debt financing, which has been arranged and guaranteed by the project mines' customers.

Previously disclosed financial results for 2002 have been restated to reflect the adoption of FIN No. 46. The effect of deconsolidation was to decrease previously reported 2002 revenues by \$263.1 million, but to leave reported net income unchanged. The company still has a 100 percent equity investment in the project mines; however, the pre-tax earnings are now included in one line on the statement of operations entitled "Earnings of unconsolidated project mining subsidiaries." In addition, the assets and liabilities of the project mines are no longer consolidated within the company's balance sheet, although the balance sheet now reflects an investment in the project mines and related income tax obligations. The company's invested capital in the project mines was \$4.9 million at December 31, 2003 and 2002.

The adoption of FIN No. 46 did not change North American Coal's reported net income. However, North American Coal's reported revenues from mining operations were reduced significantly. In 2002, previously reported revenues were \$349.3 million before the adoption of FIN No. 46. After the adoption of FIN No. 46, restated 2002 revenues were \$86.2 million. Revenues in 2003 were \$94.1 million. North American Coal generated \$11.3 million of cash flow before financing activities in 2003 and \$29.4 million in 2002.

### Vision, Strategy and Core Competencies

North American Coal's vision is to be the leading low-cost miner of lignite coal used in power generation and coal gasification plants and to provide selected value-added mining services for other natural resources companies.

North American Coal's strategy is to leverage low-cost mining expertise at existing mines while pursuing new mining opportunities.

Core competencies supporting this strategy include operating mines in a safe, low-cost and environmentally responsible manner through disciplined, efficient and responsible processes; fostering successful, long-term partnerships with power generating customers; and analyzing regional opportunities, understanding new coal-based power generating technologies and identifying potential partners for future development.

### Key Programs to Enhance Profitability

**Employee safety.** Employee safety is the number one priority at North American Coal. Each of the mines emphasizes safety as part of its daily routine and annually conducts extensive safety training courses. Red River Mining Company has not had a lost-time accident since it was opened in 1989. In addition, five of the company's seven operations worked the entire 2003

calendar year without incurring a single lost-time accident. North American Coal continues to believe that its commitment to safety and strong employee relations improves productivity and employee retention and thereby enhances profitability.

**Mississippi Lignite Mining Company.** With this new mine and its customer's power plant now fully operational, North American Coal is aggressively focused on achieving planned profitability through the application of its extensive mining expertise. While mining of deeper coal seams will increase mining costs in the near term, lower costs are expected by 2006, with more profitable mining beginning in 2007.

**San Miguel Lignite Mining Operations.** Over the past several years, North American Coal has mined more lignite coal at this mine than originally anticipated. While higher volume would normally be desirable, this increased production has led to higher mining costs, increased equipment needs and higher equipment maintenance costs. These cost increases, which are generally not covered by contractual coal price increases, resulted in a significant loss at this operation for 2003. North American Coal is currently renegotiating the mining contract with the mine's customer to take into account a revised mine plan. The current proposal for these contract revisions, if implemented, is expected to reduce near-term losses in 2004 and 2005, lead to profitability in 2006 and 2007, and enhance the long-term working relationship with the customer.

**Innovative mining methods.** North American Coal continues to be a leader in developing innovative mining methods, which have improved mining efficiency and coal recovery, reduced costs, enhanced safety and lessened the environmental impact of mining. These methods, also described in last year's Annual Report, include:

- Utilizing Easi-Miners, equipment resembling road resurfacers, to extract thinner seams of coal, thereby improving coal recovery and reducing costs.
- Designing a unique slurry wall dewatering system at Red River Mining Company in Louisiana. This system, derived from drainage systems used to keep basements dry in wet areas, enables workers to mine lignite coal safely and efficiently in a flood plain.
- Developing specialized non-stick linings applied to the inside of truck beds and buckets on earth-moving equipment to improve efficiencies and lower costs.
- Using special proprietary software to track equipment utilization and optimize service intervals for lower overall maintenance costs.

**Environmental commitment.** North American Coal is committed to protecting the environment by restoring mined land to its original or improved condition. North American Coal utilizes the latest geological and technological approaches to mining as well as to reclaiming mined land. For instance, the Company pioneered the use of Global Positioning Systems (GPS) on mining equipment to reduce the amount of dirt moved, improve efficiencies, lower costs, reduce the environmental impact of mining and improve the precision of land reclamation activities.

### Key Programs to Generate Growth

**Reserve development strategies.** North American Coal owns what it believes is the most extensive bank of geological data on lignite coal reserves in the country, consisting of data on its own company-owned lignite coal reserves as well as lignite coal reserves owned or controlled by others. This wealth of data provides a strategic advantage to North American Coal as it works to identify, prioritize and pursue opportunities to develop its own reserves or other new mining opportunities.

The foundation for new mining projects is the ongoing, in-depth analysis of power generation supply and demand in each of the regions where North American Coal has reserves. In areas where future power generation demand outpaces supply, there is potential for the development of new power plants, which could utilize lignite coal mined by North American Coal. Based on the results of these analyses, North American Coal adjusts both its ownership plans for its own lignite coal reserves as well as the direction of its efforts to develop new mining opportunities.

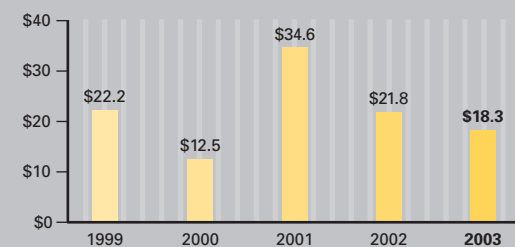
**Limerock projects.** The company is increasingly optimistic that niche growth opportunities to provide high value-added services for other natural resource mining applications, such as limerock dragline services, will continue to emerge. The contract with White Rock Quarries ("WRQ"), under which North American Coal provides dragline mining services to WRQ at its limerock mining operation in South Florida, was automatically extended at the end of December 2003 for a term that ends in 2010. Discussions are currently ongoing with WRQ about further expansion of its limerock requirements. The company is optimistic these discussions will lead to a revised contract in 2004.

North American Coal also began providing dragline mining services to the Krome Avenue Quarry owned by Rinker Materials of Florida, Inc. ("Rinker") in the fourth quarter of 2003. The company expects to deliver approximately 4.0 million cubic yards of limerock per year based on the mining services agreement, which has a seven-year term ending in 2010 and includes three one-year extensions. In January 2004, North American Coal and Rinker signed a new agreement for the company to provide dragline mining services to Rinker's Alico Road Quarry near Ft. Myers, Florida beginning in the second quarter of 2004. The company expects to deliver an additional 3.0 million cubic yards of limerock annually through 2011 based on this mining services agreement.

**Long-term positioning.** North American Coal believes that, in the long term, development of additional coal reserves in the United States will depend greatly upon the adoption of new power plant technologies that substantially lower emissions. One of the most promising new technologies involves gasifying coal to produce synthetic natural gas (syngas) for power generation. Lignite coal is among the best types of coal to be used for gasification. This process can reduce overall emissions, allow the complete capture of mercury and carbon dioxide, and create an opportunity to produce marketable by-products such as synthetic diesel fuel. This coal gasification process can also extract hydrogen, which could eventually be used in fuel cells for emission-free power generation or for vehicles. The company continues to invest significant effort in understanding and promoting these new technologies and is a member of a national coalition of power and mining companies, called FutureGen, organized to help bring to fruition President Bush's vision of the coal-fired

## Income Before Taxes

(In millions)



## Lignite Coal Tons Delivered

(In millions)







power plant of the future. Concurrently, North American Coal has developed its own vision for a clean, economical and flexible power plant, called FlexGen, which would allow power companies to generate power from natural gas, coal-based synthetic gas or fuel cells, to produce a variety of by-products, including hydrogen, and to significantly reduce, or even eliminate, many harmful emissions. The company's hope is that adoption of these new technologies will create new opportunities for lignite coal mining in the long term.

### Corporate Initiatives

Central to North American Coal's successes are its efforts to minimize exposure to the market price of coal. This goal is accomplished through carefully structured long-term mining agreements, which essentially establish the specific mining services that North American Coal will perform for its customers and the mechanisms by which it will be compensated for performing those activities. Because North American Coal is selling its services in addition to its coal, these agreements include various cost escalation procedures and often include performance incentives. Through these mining agreements, North American Coal and its customers share a common goal of minimizing costs. By eliminating speculation on the future price of coal, this approach allows the company to consistently earn sound margins for its services and earn, on a regular basis, returns on capital employed substantially in excess of the company's cost of capital.

The objective of North American Coal's overall strategy is the profitable operation of all current mines coupled with the development of new mines that utilize the company's lignite coal reserves or its mining expertise.

### Outlook for 2004 and Beyond

North American Coal's financial objectives are to earn a minimum return on capital employed of 13 percent and to deliver substantial cash flow before financing activities. In light of the company's deconsolidation of its project mines pursuant to FIN No. 46 in 2003, the company has moved from a financial goal based on operating profit to a financial goal based on return on capital employed.

The company has programs with the objective of significant improvements in return on capital employed by 2006-2007:

- While mine development at Mississippi Lignite Mining Company is now complete, higher levels of operating costs, including depreciation of higher mine development costs attributable to the customer's power plant startup delay and other depreciation and amortization, must now be expensed. Mississippi Lignite Mining Company, like many mining operations, will have lower returns on capital employed early in the project's life. Also, reaching long-term potential operating efficiency following start-up will continue to take time, since some higher-cost mining due to deeper coal seams is still required until 2006. More profitable mining is expected beginning in 2007.
- Cost pressures will continue at San Miguel Lignite Mining Operations, although contract provisions under negotiation, if successful, should improve the mine's operating results, with the greatest benefit occurring in 2006 and 2007.
- The customer at Red River Mining Company is expected to continue, at least in the immediate future, to elect to take only the contractual minimum number of tons. The company's objective is to increase deliveries over the longer term, which would add significantly to profitability. With implementation of these programs, the company anticipates improvement in returns on capital employed as well as increased cash flow before financing activities.

Finally, on a personal note, I would like to express my gratitude to all North American Coal employees for their hard work and dedication in making 2003 another safe and successful year for the company.

*Clifford R. Miercort*

Clifford R. Miercort  
President and Chief Executive Officer  
The North American Coal Corporation



Left: The Mississippi Lignite Mining Company uses a variety of heavy-duty equipment to mine lignite coal, including a Marion® 8200 dragline, Huron® 1224 Easi-Miner and Caterpillar® 785 haul trucks.



# Supplemental Data

## RECONCILIATION OF FINANCIAL TARGETS TO NET INCOME:

### Minimum Operating Profit Target, Minimum Return on Capital Employed Target and Interest Expense as of December 31, 2003

Subsidiaries with Minimum Operating Profit Targets	(U.S. dollars in millions, except per share amounts)		
	NMHG	Housewares	Total
2003 Revenues, as reported	\$ 1,779.6	\$ 598.7	\$ 2,378.3
x Operating profit target percentage	9%	9.2%*	N/A
= Operating profit at target	\$ 160.2	\$ 55.1	\$ 215.3
Less: 2003 Operating profit, as reported for NMHG and Housewares	(48.8)	(42.0)	(90.8)
Difference between 2003 operating profit, as reported, and operating profit target	\$ 111.4	\$ 13.1	\$ 124.5
Less: Income tax expense at 38%**	(42.3)	(5.0)	(47.3)
Net income difference between reported operating profit and operating profit target for NMHG and Housewares	\$ 69.1	\$ 8.1	\$ 77.2

### Subsidiaries with Minimum Return on Capital Employed Targets

	NACoal	
2003 Average Equity (12/31/2002 and at each of 2003's quarter ends)	\$ 65.5	
2003 Average Debt (12/31/2002 and at each of 2003's quarter ends)	131.1	
Total 2003 average capital employed	\$ 196.6	
Return on capital employed target percentage	13%	
Return on capital employed target = target net income before interest expense, net-of-tax	\$ 25.6	
2003 Net income, as reported	\$ 14.3	
Plus: 2003 Interest expense, as reported	9.1	
Less: Income taxes on 2003 interest expense at 38%**	(3.5)	
Actual return on capital employed = actual net income before interest expense, net-of-tax	\$ 19.9	
Return on capital employed target = target net income before interest expense, net-of-tax	\$ 25.6	
Actual return on capital employed = actual net income before interest expense, net-of-tax	(19.9)	
Return on capital employed difference between actual and target	\$ 5.7	
Return on capital employed target = target net income before interest expense, net-of-tax	\$ 25.6	
Less: 2003 Interest expense, as reported	(9.1)	
Plus: Income taxes on 2003 interest expense at 38%**	3.5	
Target net income at target return on capital employed	\$ 20.0	
Less: 2003 Net income, as reported	(14.3)	
Net income difference between reported net income and target net income at target return on capital employed	\$ 5.7	5.7

Total of net income differences from subsidiaries with minimum operating profit targets and minimum return on capital employed targets \$ 82.9

Earnings per share impact at 8.204 million average shares outstanding \$ 10.10

Return on capital employed is provided solely as a supplemental disclosure with respect to income generation because management believes it provides useful information with respect to earnings in a form that is comparable to the Company's cost of capital employed, which includes both equity and debt securities.

### Interest Expense

2003 Interest expense, as reported	\$ 51.0
Less: Income tax expense at 38%**	(19.4)
2003 Interest expense, net-of-tax	\$ 31.6

Earnings per share impact at 8.204 million average shares outstanding \$ 3.85

\* The weighted average minimum operating profit target for the Housewares segment is 9.2% (HB/PS at 10% and Kitchen Collection at 5%).  
\*\* Tax rate of 38% represents the Company's marginal tax rate as compared to 2003's effective tax rate of 24.3%.

# Officers & Directors

## Officers and Directors of NACCO Industries, Inc.

### Officers:

**Alfred M. Rankin, Jr.**  
Chairman, President and Chief Executive Officer

**Charles A. Bittenbender**  
Vice President, General Counsel and Secretary

**J.C. Butler, Jr.**  
Vice President-Corporate Development and Treasurer

**Lauren E. Miller**  
Vice President-Consulting Services

**Kenneth C. Schilling**  
Vice President and Controller

**Dean E. Tsipis**  
Assistant General Counsel and Assistant Secretary

### Directors:

**Owsley Brown II**  
Chairman and Chief Executive Officer, Brown-Forman Corporation

**Robert M. Gates**  
President, Texas A&M University  
Former Director of Central Intelligence

**Leon J. Hendrix, Jr.**  
Chairman, Remington Arms Company, Inc.

**David H. Hoag**  
Retired Chairman and Chief Executive Officer, The LTV Corporation

**Dennis W. LaBarre**  
Partner, Jones Day

**Richard de J. Osborne**  
Retired Chairman and Chief Executive Officer, ASARCO Incorporated

**Alfred M. Rankin, Jr.**  
Chairman, President and Chief Executive Officer, NACCO Industries, Inc.

**Ian M. Ross**  
President Emeritus, AT&T Bell Laboratories

**Michael E. Shannon**  
President, MESHannon & Associates, Inc.  
Retired Chairman, Chief Financial and Administrative Officer, Ecolab, Inc.

**Britton T. Taplin**  
Principal, Western Skies Group, Inc.

**David F. Taplin**  
Self employed (tree farming)

**John F. Turben**  
Chairman of the Board  
Kirtland Capital Corporation

### Director Emeritus

**Thomas E. Taplin**

## Officers of Subsidiaries

### Officers of The North American Coal Corporation

**Clifford R. Miercort**  
President and Chief Executive Officer

**Charles B. Friley**  
Senior Vice President and Chief Financial Officer

**Robert L. Benson**  
Vice President-Eastern & Southern Operations

**Thomas A. Koza**  
Vice President-Law and Administration, and Secretary

**Clark A. Moseley**  
Vice President-Business Development and Engineering

**Bob D. Carlton**  
Controller and Director of Tax

**K. Donald Grischow**  
Treasurer

### Officers of NACCO Materials Handling Group, Inc.

#### Corporate:

**Reginald R. Eklund**  
President and Chief Executive Officer

**Frank G. Muller**  
Executive Vice President, Chief Operating Officer

**Michael Brogan**  
Senior Vice President, Product Development and Procurement

**Gregory J. Dawe**  
Vice President, Manufacturing and Quality Strategy

**James P. Gorzalski**  
Vice President, Procurement and Supply

**Ron J. Leptich**  
Vice President, Engineering and Big Trucks

**Geoffrey D. Lewis**  
Vice President, Corporate Development, General Counsel and Secretary

**James M. Phillips**  
Vice President, Human Resources

**Victoria L. Rickey**  
Vice President, Chief Strategy Officer

**Michael K. Smith**  
Vice President, Finance and Information Systems, and Chief Financial Officer

**Gopi Somayajula**  
Vice President, Counterbalanced Engineering

**Daniel P. Gerrone**  
Controller

**Jeffrey C. Mattern**  
Treasurer

## Americas:

**Colin Wilson**  
Vice President, President, Americas

**David Clarke**  
Vice President, Marketing, Americas

**Raymond C. Ulmer**  
Vice President, Finance and Information Systems, Americas

**Donald L. Chance, Jr.**  
Vice President, President, Yale Materials Handling Corporation

**David O'Dell**  
Vice President, President, Hyster Company

## Europe:

**Richard H. Close**  
Vice President, Managing Director, Europe, Africa and Middle East

**Stephen R. West**  
Vice President, Finance and Information Systems, Europe, Africa and Middle East

## Asia-Pacific:

**Donna M. Baxter**  
Vice President, Managing Director, Asia-Pacific

**Yoshinori Ohno**  
Managing Director, Sumitomo NACCO Materials Handling Co., Ltd.

## Officers of Hamilton Beach Proctor-Silex, Inc.

**Dr. Michael J. Morecroft**  
President and Chief Executive Officer

**Charles B. Hoyt**  
Senior Vice President-Finance and Chief Financial Officer

**Paul C. Smith**  
Senior Vice President-Sales

**Keith B. Burns**  
Vice President-Engineering and Product Development

**Kathleen L. Diller**  
Vice President, General Counsel and Secretary

**Gregory E. Salyers**  
Vice President-Operations

**W. Lance Servais**  
Vice President/General Manager-Global Commercial Products

**James H. Taylor**  
Vice President and Treasurer

**Gregory H. Trepp**  
Vice President-Marketing

## Officers of The Kitchen Collection, Inc.

**Randolph J. Gawelek**  
President and Chief Executive Officer

**Darlene Denman-Jones**  
Senior Vice President-General Merchandise Manager

[This Page Intentionally Left Blank]

#### ***Annual Meeting***

The Annual Meeting of Stockholders of NACCO Industries, Inc. will be held on May 12, 2004, at 9 a.m. at the corporate office located at:  
5875 Landerbrook Drive  
Mayfield Heights, Ohio.

#### ***Form 10-K***

Additional copies of the Company's Form 10-K filed with the Securities and Exchange Commission are available through NACCO's Web site ([www.nacco.com](http://www.nacco.com)) or by request to Investor Relations, NACCO Industries, Inc., 5875 Landerbrook Drive, Mayfield Heights, Ohio 44124.

#### ***Stock Transfer Agent and Registrar***

National City Bank  
Corporate Trust Operations  
P.O. Box 92301, Dept. 5352  
Cleveland, Ohio 44193-0900  
1-800-622-6757

#### ***Legal Counsel***

Jones Day  
North Point  
901 Lakeside Avenue  
Cleveland, Ohio 44114

#### ***Independent Auditors***

Ernst & Young LLP  
1300 Huntington Building  
925 Euclid Avenue  
Cleveland, Ohio 44115

#### ***Investor Relations Contact***

Investor questions may be addressed to:  
Christina Kmetko, Manager-Finance  
NACCO Industries, Inc.  
5875 Landerbrook Drive  
Mayfield Heights, Ohio 44124  
(440) 449-9669  
E-mail: [ir@naccoind.com](mailto:ir@naccoind.com)

#### ***Stock Exchange Listing***

The New York Stock Exchange  
Symbol: NC

#### ***Web Sites***

The Web sites of NACCO Industries and several Company subsidiaries and product brands can be found at the following locations:

NACCO Industries:  
[www.nacco.com](http://www.nacco.com)

North American Coal:  
[www.nacoal.com](http://www.nacoal.com)

NACCO Materials Handling Group:  
[www.nmhg.com](http://www.nmhg.com)

Hyster North America:  
[www.hyster.com](http://www.hyster.com)

Hyster Europe:  
[www.hyster.co.uk](http://www.hyster.co.uk)

Hyster Asia-Pacific:  
[www.hyster.com.au](http://www.hyster.com.au)

Yale North America:  
[www.yale.com](http://www.yale.com)

Yale Europe:  
[www.yale-europe.com](http://www.yale-europe.com)

Yale Asia-Pacific:  
[www.yale.com.au](http://www.yale.com.au)

Hamilton Beach♦Proctor-Silex:  
[www.hamiltonbeach.com](http://www.hamiltonbeach.com)  
[www.proctorsilex.com](http://www.proctorsilex.com)  
[www.trueair.com](http://www.trueair.com)  
<http://commercial.hamiltonbeach.com>

Kitchen Collection:  
[www.kitchencollection.com](http://www.kitchencollection.com)





**NACCO Industries, Inc.**  
5875 Landerbrook Drive • Mayfield Heights, Ohio 44124  
An Equal Opportunity Employer



Printed in U.S.A.