NACCO
INDUSTRIES, INC.

Annual Report 2004

Managing for long-term profit growth

NACCO INDUSTRIES, INC. AT A GLANCE

Principal Businesses | **2004 Financial Results**

NACCO Materials Handling Group ("NMHG")

Headquarters: Portland, Oregon

NMHG Wholesale designs, engineers, manufactures and sells 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.

NMHG Retail operates a small number of wholly owned dealers selling, leasing and servicing Hyster® and Yale® lift trucks, including sales of related service parts.

NMHG Wholesale:
Revenues:
$1.9 billion
Operating profit:
$39.1 million
Net income:
$22.3 million

NMHG Retail:
Revenues:
$195.2 million
Operating loss:
$4.1 million
Net loss:
$7.2 million

NACCO Housewares Group

Hamilton Beach/Proctor-Silex ("HB/PS")
Headquarters: Richmond, Virginia

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
Headquarters: Chillicothe, Ohio

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 Kitchen Collection® and Gadgets & More® names in enclosed malls.

NACCO Housewares Group:
Revenues:
$614.8 million
Operating profit:
$31.9 million
Net income:
$17.2 million

The North American Coal Corporation

Headquarters: Dallas, Texas

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.

North American Coal operates six surface lignite coal mines and provides dragline mining services at three limerock quarries.

North American Coal:
Revenues:
$110.8 million
Operating profit:
$30.3 million
Net income:
$18.6 million

NACCO Industries, Inc. is an operating holding company with three principal businesses: lift trucks, housewares and mining. In 2004, total revenues were $2.8 billion and net income was $47.9 million.

Market Positions	Competitive Advantages	Financial Objectives	Key Business Programs
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. Lift trucks are distributed through a worldwide network of independent Hyster® and Yale® dealers and a limited number of wholly owned dealers.	• Leading market share positions • #1 market position in North America, #3 worldwide • Highly recognized Hyster® and Yale® brand names • Large installed population base of lift trucks; an estimated 750,000 Hyster® and Yale® lift trucks in operation worldwide • Highly diverse customer base with more than 600 different end-user applications in 900 industries • Comprehensive global product line • Strong dealer network • Industry-leading national account coverage in the Americas • Globally integrated operations with significant economies of scale	Minimum operating profit target of 9 percent by 2007-2008	• Material cost recovery • Pricing optimization • New product development and introduction • Manufacturing restructuring • Global procurement • Aftermarket parts and efficiency • Administrative efficiency • National and global accounts expansion • Dealer excellence enhancement program • NMHG retail improvements • Anchor Dealer program
Hamilton Beach/Proctor-Silex has the #1 or #2 market share positions in the majority 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. HB/PS products are distributed through mass merchants, national discount department stores, warehouse clubs and other retail sales outlets. Kitchen Collection is the nation's leading specialty retailer of kitchen and related products in factory outlet malls with 188 stores throughout the United States.	**HB/PS:** • Strong heritage brands with leading market shares • Strong relationships with leading retailers • Highly professional and experienced management team • Successful track record of product line expansion and new product innovation • Industry-leading working capital management **Kitchen Collection:** • Highly analytical merchandising skills and disciplined operating controls	**HB/PS:** Minimum operating profit target of 10 percent by 2006-2007 **Kitchen Collection:** Minimum operating profit target of 5 percent by 2008	**HB/PS:** • Product development • Continuous quality improvement • Manufacturing cost reduction • Supply chain optimization • Corporate reorganization • New product introductions • Strategic brand application • Retailer and channel focus **Kitchen Collection:** • Warehouse efficiency • Economic Value Income • Margin enhancement and merchandising programs • Private label programs • Internet sales growth • Enclosed mall stores • Large store format
North American Coal is the nation's largest miner of lignite coal and among the ten largest coal producers. Lignite coal is delivered to power plants adjacent to mines in North Dakota, Texas, Louisiana and Mississippi.	• Lignite coal mines provide steady income and cash flow before financing activities and high return on equity • Contracts structured to minimize exposure to market fluctuations of coal prices • 2.4 billion tons of lignite coal reserves, of which 1.3 billion tons are committed to current customers • Outstanding operational and technological mining skills • Highly efficient heavy equipment utilization • Excellent record of environmental protection and employee safety	Minimum return on capital employed of 13 percent and attain positive Economic Value Income from all existing consolidated mining operations as well as any new projects, and maintain or increase profitability of all existing unconsolidated project mining operations	• Employee safety • Mississippi Lignite Mining Company efficiency improvements • San Miguel Lignite Mining Operations profitability improvements • Innovative mining methods • Environmental commitment • Lignite coal reserve development strategies • Limerock dragline mining projects

NACCO INDUSTRIES, INC.

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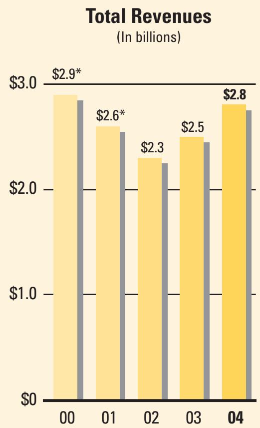
MANAGING FOR LONG-TERM PROFIT GROWTH

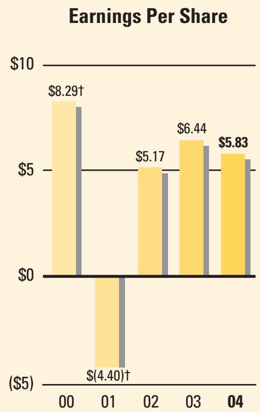
In 2003, NACCO pledged its commitment to profit improvement and growth programs intended to help each subsidiary company achieve challenging long-term financial goals.

In 2004, NACCO not only continued to implement these important programs, but also strengthened and enhanced them to further assure success in achieving the Company's objectives. Benefits directly derived from these profitability and growth programs mitigated the negative impact of external factors, such as high material costs, adverse currency movements and certain weaker-than-expected markets, which reduced profits in 2004. Still, the subsidiary companies remained very strong relative to their competitors and the Board of Directors once again demonstrated its confidence in the Company's businesses by increasing the dividend.

In 2005, a number of existing programs are expected to continue to deliver results, several key programs should begin to provide benefits, other programs will require further investment and additional new programs will be developed to address changing economic and market conditions. Though the pace may adjust as we respond to changes in external conditions, the basic landscape is the same: it is NACCO's objective that with continued intense focus on these profit improvement and growth programs, each subsidiary company will achieve its long-term financial goals within an increasingly near-term time horizon.



* Effective January 1, 2002, NACCO adopted FIN No. 46. Revenues for 2000 and 2001 were not restated for this adoption. Further discussion of FIN No. 46 is in Note 2 of the Consolidated Financial Statements.



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

SELECTED FINANCIAL AND OPERATING DATA

NACCO INDUSTRIES, INC. AND SUBSIDIARIES

	Year Ended December 31				
	2004	2003	2002[1]	2001[2]	2000[2]
	(In millions, except per share data)				
Operating Statement Data:					
Revenues	**$ 2,782.6**	$ 2,472.6	$ 2,285.0	$ 2,637.9	$ 2,871.3
Earnings of unconsolidated project mining subsidiaries	**$ 31.5**	$ 31.7	$ 30.3	$ –	$ –
Goodwill amortization	**$ –**	$ –	$ –	$ 15.9	$ 15.7
Operating profit	**$ 88.0**	$ 117.2	$ 115.5	$ 5.7	$ 117.9
Operating profit excluding goodwill amortization	**$ 88.0**	$ 117.2	$ 115.5	$ 21.6	$ 133.6
Income (loss) before extraordinary gain (loss) and cumulative effect of accounting changes	**$ 47.4**	$ 49.8	$ 49.6	$ (34.7)	$ 37.8
Extraordinary gain (loss), net-of-tax	**0.5**	1.8	(7.2)	–	29.9
Cumulative effect of accounting changes, net-of-tax	**–**	1.2	–	(1.3)	–
Net income (loss)	**$ 47.9**	$ 52.8	$ 42.4	$ (36.0)	$ 67.7
Earnings Per Share:					
Income (loss) before extraordinary gain (loss) and cumulative effect of accounting changes	**$ 5.77**	$ 6.07	$ 6.05	$ (4.24)	$ 4.63
Extraordinary gain (loss), net-of-tax	**0.06**	0.22	(0.88)	–	3.66
Cumulative effect of accounting changes, net-of-tax	**–**	0.15	–	(0.16)	–
Net income (loss)	**$ 5.83**	$ 6.44	$ 5.17	$ (4.40)	$ 8.29
Per Share and Share Data:					
Cash dividends	**$ 1.675**	$ 1.260	$ 0.970	$ 0.930	$ 0.890
Market value at December 31	**$ 105.40**	$ 89.48	$ 43.77	$ 56.79	$ 43.69
Stockholders' equity at December 31	**$ 83.76**	$ 77.63	$ 68.21	$ 64.58	$ 74.21
Actual shares outstanding at December 31	**8.214**	8.206	8.201	8.196	8.171
Average shares outstanding	**8.212**	8.204	8.198	8.190	8.167
Balance Sheet Data at December 31:					
Total assets	**$ 2,038.6**	$ 1,839.8	$ 1,780.8	$ 2,161.9	$ 2,193.9
Long-term debt, excluding project mining subsidiaries	**$ 407.4**	$ 363.2	$ 416.1	$ 248.1	$ 450.0
Stockholders' equity	**$ 688.0**	$ 637.0	$ 559.4	$ 529.3	$ 606.4

(1) 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.
(2) Selected Financial and Operating Data for 2001 and 2000 have not been restated to reflect the adoption of Financial Accounting Standards Board Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities," which was adopted in 2003, retroactive to January 1, 2002.

	Year Ended December 31				
	2004	2003	2002[1]	2001[2]	2000[2]
	(In millions, except employee data)				
Cash Flow Data:					
Operating Activities					
NACCO Materials Handling Group	**$ 80.0**	$ 50.1	$ 72.1	$ 31.0	$ 62.6
NACCO Housewares Group	**17.1**	41.2	52.0	28.5	24.4
North American Coal Corporation	**41.1**	36.1	36.6	69.5	39.4
NACCO and Other	**(12.0)**	(3.8)	(11.2)	7.0	6.6
Provided by operating activities	**$ 126.2**	$ 123.6	$ 149.5	$ 136.0	$ 133.0
Investing Activities					
NACCO Materials Handling Group	**$ (17.3)**	$ (11.1)	$ (7.3)	$ (47.2)	$ (59.7)
NACCO Housewares Group	**(7.7)**	(5.8)	(3.2)	(13.4)	(19.4)
North American Coal Corporation	**(15.3)**	(26.3)	(7.2)	(33.8)	(156.8)
NACCO and Other	**–**	0.1	(0.8)	(0.7)	1.7
Used for investing activities	**$ (40.3)**	$ (43.1)	$ (18.5)	$ (95.1)	$ (234.2)
Cash Flow before Financing Activities (3)					
NACCO Materials Handling Group	**$ 62.7**	$ 39.0	$ 64.8	$ (16.2)	$ 2.9
NACCO Housewares Group	**9.4**	35.4	48.8	15.1	5.0
North American Coal Corporation	**25.8**	9.8	29.4	35.7	(117.4)
NACCO and Other	**(12.0)**	(3.7)	(12.0)	6.3	8.3
Consolidated Cash Flow before Financing Activities	**$ 85.9**	$ 80.5	$ 131.0	$ 40.9	$ (101.2)
Provided by (used for) financing activities	**$ (4.1)**	$ (71.9)	$ (146.8)	$ (1.6)	$ 98.3
Other Data:					
Adjusted EBITDA (4)	**$ 160.4**	$ 181.3	$ 179.1	$ 78.3	$ 165.1
Total employees at December 31(5)	**11,600**	11,600	12,200	13,500	17,200

(3) Cash Flow before Financing Activities is equal to net cash provided by operating activities less net cash used for investing activities.

(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 U.S. generally accepted accounting principles. 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. NACCO defines 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 U.S. generally accepted accounting principles and is not necessarily comparable with similarly titled measures of other companies. Net cash flows from operating, investing and financing activities as determined using U.S. generally accepted accounting principles are presented above. A reconciliation of cash flow from operations to Adjusted EBITDA is presented below.

(5) Includes employees of the unconsolidated project mining subsidiaries.

	Year Ended December 31				
	2004	2003	2002[1]	2001[2]	2000[2]
	(In millions)				
Reconciliation of Cash Flow From Operations to Adjusted EBITDA:(4)					
Cash flow from operations	**$ 126.2**	$ 123.6	$ 149.5	$ 136.0	$ 133.0
Change in working capital items	**0.6**	14.1	(10.3)	(25.9)	14.0
(Loss) gain on sale of assets	**(0.6)**	(1.5)	0.4	(10.5)	(1.4)
Restructuring charges	**(7.6)**	1.2	(12.3)	(21.5)	(15.6)
Difference between deferred income taxes and total tax provision (benefit)	**7.2**	4.9	(6.5)	(4.9)	34.8
Other non-cash items	**(10.6)**	(8.9)	9.1	(1.0)	1.3
Interest expense, net	**45.2**	47.9	49.2	36.7	27.7
Project mining subsidiaries' depreciation, depletion and amortization	**–**	–	–	(30.6)	(28.7)
Adjusted EBITDA (4)	**$ 160.4**	$ 181.3	$ 179.1	$ 78.3	$ 165.1
Calculation of Adjusted EBITDA: (4)					
Net income (loss)	**$ 47.9**	$ 52.8	$ 42.4	$ (36.0)	$ 67.7
Cumulative effect of accounting changes, net-of-tax	**–**	(1.2)	–	1.3	–
Extraordinary (gain) loss, net-of-tax	**(0.5)**	(1.8)	7.2	–	(29.9)
Minority interest income	**(0.4)**	(0.6)	(1.2)	(0.8)	(0.1)
Income tax provision (benefit)	**5.3**	15.8	11.3	(9.9)	22.3
Interest expense (excluding project mining subsidiaries)	**47.4**	51.0	52.9	40.5	30.2
Interest income	**(2.2)**	(3.1)	(3.7)	(3.8)	(2.5)
Depreciation, depletion and amortization expense (excluding project mining subsidiaries)	**62.9**	68.4	70.2	87.0	77.4
Adjusted EBITDA(4)	**$ 160.4**	$ 181.3	$ 179.1	$ 78.3	$ 165.1

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 38.

TO OUR STOCKHOLDERS

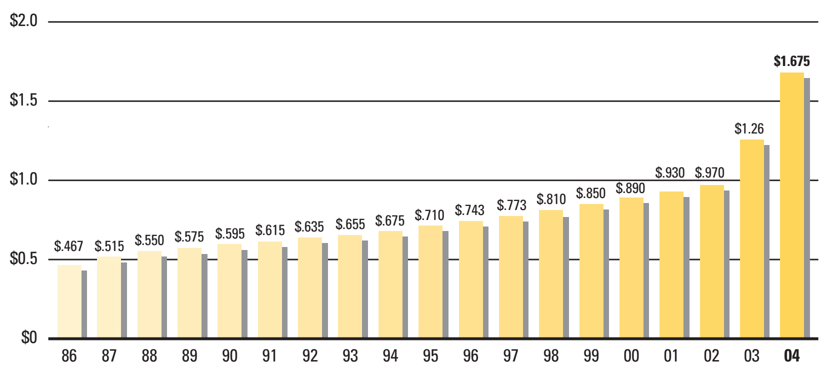
In 2004, NACCO's subsidiary companies maintained strong competitive positions and are poised to capitalize on improved economic conditions

Economic and Corporate Overview

NACCO Industries faced a demanding year in 2004, both externally and internally. Externally, certain sectors of the economy recovered more gradually than anticipated and material costs surged. Internally, each of the subsidiary companies worked hard to implement significant change programs to enhance profitability and growth. While the programs put in place at each of the subsidiary companies over the past several years continued to deliver substantial benefits, these programs were unable to offset the effects of substantial increases in material costs at NACCO Materials Handling Group ("NMHG") and continued weak retail sales in the Housewares sector. While many programs positively influenced profitability in 2004, others will require continued investment and commitment to assure success in achieving the Company's objectives over the next several years. NACCO continues to have confidence that these programs will help drive each subsidiary company and NACCO Industries to meet long-term financial goals over the next several years. Furthermore, in August 2004, the Board of Directors once again demonstrated its confidence in the Company's businesses by increasing the annual dividend rate 19 percent to $1.81 per share.

The most significant external factor influencing 2004 performance was the limited availability of and unprecedented cost increases in raw materials, which affected each of NACCO's subsidiary companies in some way. Dramatic steel price increases particularly affected lift truck costs at NMHG, but also had an impact on the cost of aluminum and stainless steel at Hamilton Beach/Proctor-Silex ("HB/PS") and the cost of heavy equipment parts at North American Coal ("NACoal"). Petroleum price increases affected the cost of diesel fuel used by NACoal, increased prices on petroleum-based plastic resin used in HB/PS'

Dividends Paid Per Share



small kitchen appliances and resulted in reduced customer visits at Kitchen Collection ("KCI") stores in outlet malls. Subsidiary companies, particularly NMHG, increased prices when possible to help cover these higher material costs, and further price increases are planned for 2005. The importance of future price increases is discussed later in this letter and in the separate NMHG subsidiary letter.

Currency exchange rates continued to challenge NMHG in particular. The Euro and British Pound Sterling grew even stronger compared with the U.S. dollar, causing European and U.K.- produced lift trucks to have higher costs and lower margins in the United States.

Global lift truck markets exceeded the Company's expectations in 2004 by rebounding to approximately the mid-point of the lift truck market cycle, although they have not yet reached peak cyclical volume levels. Housewares markets were mixed, with consumer spending in North America strengthening in some areas, but were negatively affected overall by high gasoline prices, inclement weather and economic uncertainty.

Faced with these difficult external forces, the subsidiary companies responded commendably. Increased focus was placed on cost reduction and revenue enhancement programs. While financial results in 2004 were not at the level the Company had anticipated, each of the subsidiary companies maintained a strong competitive position, and each is better poised to capitalize on improved economic conditions in 2005 and beyond.

This letter's discussion is organized in a manner similar to the letters included in the prior two Annual Reports. We believe that this consistent approach best portrays the key elements of continuity in NACCO's business philosophy of managing for long-term profit growth and is helpful to investors in reviewing our progress.

Discussion of Results

In 2004, NACCO Industries reported net income of $47.9 million, or $5.83 per share, compared with net income of $52.8 million, or $6.44 per share, in 2003. Revenues in 2004 were $2.8 billion compared with $2.5 billion in 2003, an increase of 12 percent. This revenue increase resulted primarily from increased unit and parts volumes at NMHG and a favorable shift in mix to higher-priced lift trucks.

Net income in 2004 and 2003 included a $0.5 million and a $1.8 million after-tax extraordinary gain, respectively, recorded by Bellaire Corporation ("Bellaire"), a wholly owned non-operating subsidiary which manages ongoing liabilities related primarily 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. In addition, net income for 2003 included a net benefit of $1.2 million 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 No. 143, "Accounting for Asset Retirement Obligations."

Income before extraordinary gain and cumulative effect of accounting change in 2004 was $47.4 million, or $5.77 per share, compared with $49.8 million, or $6.07 per share in 2003. During 2004, the Company recognized $9.4 million in pre-tax charges ($6.1 million after a tax benefit of $3.3 million) related to a restructuring program currently being implemented at HB/PS' manufacturing and distribution facilities. In addition, current year operations were negatively affected by significantly higher raw material costs, a continuing weak U.S. dollar and significant product development and marketing costs at NMHG. Furthermore, the Company faced a continued weak market for housewares products and reduced customer visits at factory outlet malls.

In 2004, NACCO generated $85.9 million in consolidated cash flow before financing activities, compared with $80.5 million in 2003 and $131.0 million in 2002. Each of NACCO's subsidiary companies generated significant cash flow before financing activities in 2004: $62.7 million at NMHG; $9.4 million at NACCO Housewares Group; and $25.8 million at NACoal.

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: secure highly professional management teams; build industry-leading market positions; create sustainable competitive advantage positions; and attain industry-leading operational effectiveness and efficiencies.

To help achieve these guiding principles, the NACCO parent company plays a significant role by providing oversight to reinforce the process of constructive change by ensuring that programs are developed to achieve sustainable, long-term competitive advantage and mutually agreed upon financial targets, and to monitor the execution of key programs. Consulting services are provided in areas such as strategy development and acquisition and divestiture support. Further information on these oversight and consulting roles, as well as on NACCO's strong corporate governance program, outlined in a publication entitled *CEO Perspectives,* is available on the NACCO website, www.nacco.com.

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 its minimum financial target and to generate growth. Following is an overview of the *Key Programs to Enhance Profitability* and the *Key Programs to Generate Growth*. Additional detail is provided in each subsidiary company'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 targets. Performance in 2004 was, as in 2003, helped by continued progress in implementing these key programs. In fact, without the positive impact of certain of these programs, the negative effects of outside factors, such as increased material costs, adverse currency movements and weak markets, would have been much more pronounced. The main objective of these profitability enhancement programs is to achieve defined minimum financial targets at each subsidiary company by 2007-2008 or before. Minimum financial targets defined in the 2003 NACCO Annual Report remain the same at all subsidiary companies. However, due primarily to external economic conditions, the pace for attaining these objectives has been modestly adjusted in some cases.

NACCO Materials Handling Group

NMHG's objective was to reach a minimum operating profit target of 9 percent at the mid-point of the market cycle. However, while global lift truck markets exceeded the company's expectations in 2004 by rebounding to approximately the mid-point of the lift truck market cycle, key programs to enhance profitability, which are designed to deliver minimum operating profits at target levels, have not yet reached maturity.

While NMHG faced significant challenges from external factors in 2004, the continued implementation of key programs further strengthened NMHG's solid foundation for profit improvement in future years. In 2004, NMHG incurred additional costs related to product development programs, as well as additional restructuring-related costs, some of which will continue into future years. Key programs in place are expected to improve results gradually through 2006 and to reach full maturity in 2007-2008, when major programs are expected to be largely complete. In particular, the launch of a completely new line of lift trucks from 2005-2007 is intended to significantly benefit overall performance over the next several years.

At NMHG, specific projects to enhance profitability include:

- ***A material cost recovery program*** intended to increase lift truck prices aggressively to recover the record increases in material costs, particularly steel, which NMHG incurred in 2004 and may continue to incur in the future. This is an effort that began in early

2004, continued during the year and will likely continue in 2005. Similar price increases have been implemented successfully by numerous heavy equipment manufacturers worldwide and the Company believes that this program, in conjunction with programs to reduce these costs as supply and demand conditions warrant, is critical to achieving the target margins necessary for NMHG to meet short- and long-term financial goals.

- ***A pricing optimization program,*** unrelated to pricing programs designed to recover increases in material costs, that seeks to realize full value for NMHG's products, features and services. This program, which is linked to the introduction of new products in 2005-2007, will primarily affect gross margin, and the benefits are expected to occur during the 2005-2008 time frame, particularly in 2006-2008.
- ***A new product development process*** designed to improve product flexibility, increase speed to market, reduce costs through common components and enhance quality through reliability engineering. Significant investments in this program continued in 2004, particularly for the new products to be introduced in 2005-2007. This program will primarily affect gross margin, and the benefits are expected to occur during the 2005-2008 time frame, particularly in 2006-2008.
- ***A manufacturing restructuring program*** which has and will continue to optimize capacity, reduce complexity and increase efficiency. This program will help reduce manufacturing variances and selling, general and administrative expenses ("SG&A") and increase operating margins. With the most substantial restructuring-related expenditures completed in 2004 and early 2005 in the Americas and through 2006 in Europe, benefits should occur toward the end of 2005 in the U.S. and in 2007 in Europe.
- ***A global procurement program*** that will result in higher-quality and lower-cost components and assemblies, sourced more efficiently from a smaller group of highly reliable suppliers. Many benefits of this program, which will impact gross margin and SG&A, should be realized with the introduction of new products in 2005-2007.
- ***An aftermarket efficiency program*** to optimize parts availability and dealer customer service levels. These programs primarily affect SG&A and operating margin with benefits realized on an ongoing basis.
- ***Administrative efficiency programs*** to streamline the organization and processes. These programs primarily affect SG&A and operating margin, with benefits realized on an ongoing basis.
- ***A NMHG retail improvement program*** that aims at reaching at least break-even results and improved market position for wholly owned dealers. This program's goal is to further intensify efforts to realize the benefits by 2006.

Benefits from the continued implementation of key internal programs helped mitigate the impact of challenging external forces

Hamilton Beach/Proctor-Silex

HB/PS' objective was to achieve a minimum operating profit target of 10 percent by the 2005-2006 period, when its key programs were expected to mature. However, due to continued weak retail sales in the Housewares sector and some modest delays in implementing further product sourcing from China, the company has adjusted the timing of the objective to the 2006-2007 time period.

At HB/PS, specific projects to enhance profitability include:

- ***A product development process*** which is resulting in products coming to market faster with increased innovation and lower costs. This program, which impacts gross margin and SG&A, is an ongoing investment for the company, with both immediate and long-term benefits expected.
- ***A continuous quality improvement program*** encompassing design, engineering, manufacturing and distribution. The objective of this program is to lower return rates and increase customer satisfaction. Significant expenditures for this program have been incurred, and increased revenue and improved gross margins are currently being realized.
- ***A corporate reorganization program*** implemented in 2004 simplified the management structure in the company and integrated a variety of responsibilities into fewer centers of oversight. As relatively sluggish consumer demand continues, these proactive actions are required to size the organization appropriately to attain short- and long-term profitability goals, particularly within the context of reduced manufacturing directly by the company as sourcing of products from China increases.

Kitchen Collection

KCI's objective is to earn at least a minimum operating profit target of 5 percent, which the company had met consistently over the last several

The stakes involved in executing the Company's profit enhancement programs remain very high and have NACCO's full commitment

years. However, 2004 was a difficult year for the outlet mall channel, with traffic falling significantly for many retailers, partially as the result of higher gasoline prices, but also due to an above-average number of disruptive storms, such as hurricanes and blizzards, during peak selling seasons. Outlet malls also face growing competition from other retail channels, such as big-box retailers, the Internet and new mixed-use specialty malls. KCI's programs are designed to return the company to its 5 percent operating profit by 2008, or sooner if a more robust recovery in the outlet mall channel occurs.

- ***A manufacturing cost reduction program*** which is designed to lower product costs and increase flexibility through increased sourcing from China. These actions, including those related to the 2004 restructuring, are vital to meeting the company's financial goals as well as maintaining a leadership position with demanding retail customers. Significant focus on this program will continue through 2005, with the goals of reducing manufacturing variances in North America to nominal levels and lowering direct and indirect product costs through low-cost sourcing from China. Some benefits were realized in 2004 and more significant benefits are expected to be realized in 2005 and 2006.
- ***A supply chain optimization program*** which is lowering costs while increasing customer service to retailers. Benefits are being realized on a continual basis and include increased revenue, improved gross margin and reduced SG&A.

At KCI, specific projects to enhance profitability include:

- ***A warehouse efficiency program*** which resulted in a reorganization of the Chillicothe, Ohio warehouse in order to increase capacity and throughput and decrease overall operating costs. The investment in this program has already been incurred and benefits are being realized on an ongoing basis.

- ***An Economic Value Income program*** which is a highly analytical program designed to achieve the greatest possible return per cubic foot of retail space.
- ***Margin enhancement and merchandising programs*** which are designed to improve key drivers of store profitability. This is a continuous program that prudently tests and applies low-risk approaches to improving key drivers of 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 little incremental investment and has produced what is now among the company's most profitable product lines.

North American Coal

NACoal's objective is to earn a minimum return on capital employed of 13 percent and attain positive Economic Value Income from any new projects and from existing consolidated mining operations. In addition, the objective is to maintain or increase profitability of all existing project mining operations. Several challenges arose in 2004, including higher fuel and parts costs, and certain adverse geological conditions which temporarily affected mining efficiency. However, improvement programs remain largely on track to help attain profitability goals.

At NACoal, specific projects to enhance profitability include:

- ***Employee safety programs*** which improve productivity and employee retention, thereby lowering SG&A and enhancing operating margins. Benefits are currently being realized through these ongoing programs.
- ***A Mississippi Lignite Mining Company improvement program*** which focuses on attaining full operating efficiency and improved mining conditions. The primary impact of this program will be improved operating margins. Benefits are expected to be realized beginning in 2007.
- ***A San Miguel Lignite Mining Operations improvement program*** which is an effort intended to return San Miguel to profitability through a new contract. Benefits include improved operating margins, which are expected to be realized increasingly in 2006-2007.
- ***Innovative mining methods*** which continue to drive increased efficiency and effectiveness on an ongoing basis. Benefits, including improved operating margins and lower SG&A, are being realized on an ongoing basis.
- ***Environmental commitment programs*** which utilize highly efficient equipment to restore mined land to 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 objective of achieving minimum financial targets at each subsidiary company by 2008 or earlier. During this period, the Company also has an objective of generating substantial cash flow before financing activities.

NACCO Industries reported net income of $47.9 million, or $5.83 per share, in 2004. Had each of NACCO's subsidiary companies achieved its minimum financial targets in 2004, the Company would have generated additional net income of $110.3 million, or $13.43 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 $29.4 million, or $3.58 additional earnings per share. These non-GAAP calculations are explained in more detail on page 38 of this Annual Report. Clearly, the stakes involved in executing the Company's profit enhancement programs remain very high and have NACCO's full commitment.

Key Programs to Generate Growth

Each subsidiary company has important programs under way to increase revenues and expand market share. Programs to increase revenues at each subsidiary company have been designed to supplement programs aimed at reaching minimum financial targets. While some of these programs have specific time frames 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:

- ***New product introductions,*** which include aggressive programs for all lift truck categories, have the objective of gaining market share by providing a superior ability to tailor products to specific customer applications. Early 2005 marked the beginning of the launch of the new Hyster® Fortis™ and Yale® Veracitor™ lines of lift trucks. These programs are expected to help enhance revenue and margins as well as absorb unused capacity, primarily in the 2005-2008 time frame as these new products roll out in the market.
- ***National and global accounts programs,*** including fleet management, seek to increase market share and increase sales of both lift trucks and parts. These programs will also help enhance revenues and margins and absorb unused capacity. Benefits are ongoing, long-term and gradual.
- ***An Anchor Dealer program*** designed to further enhance the industry's most professional distribution network and contribute continually to NMHG's market share growth. This program has helped and is expected to continue to help enhance revenues and margins and absorb unused capacity. Benefits are ongoing, long-term and gradual.
- ***A dealer excellence enhancement program*** which includes a team of NMHG professionals to assist independent dealers in attaining best practice metrics in all aspects of their businesses. This program is expected to help enhance revenues and margins on an ongoing basis.
- ***Aftermarket parts programs*** aim to increase market share by enhancing the parts offerings for Hyster®, Yale® and other brands of lift trucks. Revenue and margin improvements are being realized and benefits are expected to continue to increase gradually over time.

Hamilton Beach/Proctor-Silex

Specific programs to generate growth include:

- ***New product introductions*** that aim to increase innovation, improve speed to market and reduce costs, with the ultimate objective of gaining additional retailer placements and increasing customer loyalty. Revenue and margin improvements are being delivered on an ongoing basis.
- ***Strategic brand application programs*** to leverage current brands and offer new brand options, such as the new Hamilton Beach® Eclectrics™ and Traditions by Proctor Silex™ brands, to retailers. Revenue and margin enhancements are expected to occur in 2005 and beyond.
- ***Retailer and channel focus programs*** which employ in-depth data analyses and flexible product and service solutions in order to maximize retail shelf placements and consumer sales. Revenues and margins have been and are expected to continue to be enhanced on an ongoing basis.

Kitchen Collection

Specific programs to generate growth include:

- ***Internet sales programs*** which are expected to accelerate profitable growth in this channel in 2005 and beyond.
- ***Enclosed mall stores,*** focused on the high-margin gadget business, will continue in test mode in 2005 and are currently expected to expand in 2006 and beyond.
- ***A large-store format program*** focused on an expanded product assortment in the factory outlet mall market.

North American Coal

Specific programs to generate growth include:

- ***Lignite coal reserve development strategies*** with the objectives of developing unutilized NACoal-owned lignite coal reserves for power companies and gas users and providing mining services to others.
- ***Limerock dragline mining projects*** which continue to provide niche contract mining opportunities and are expected to enhance revenues in both the short and long term.

Outlook

In summary, the Company has profit enhancement and growth programs at each of its subsidiary companies. Many programs contributed significantly to performance in 2004, but many will also require continued investment. Results of the most significant programs are expected to become increasingly visible in 2006 and 2007, and ultimately to reach maturity by 2008. In particular, the launch of the new line of lift trucks at NMHG is intended to provide significant long-term benefits to performance, although the precise timing of those benefits will depend on a number of factors, including product cost improvement, pricing, demand and a production ramp-up schedule designed to assure the highest-quality product. The pace of attaining long-term financial goals could also be affected, either favorably or unfavorably, by certain external economic factors, such as speed of market recovery, material costs and currency exchange rates. Although the timing may be adjusted as the Company responds to these conditions, NACCO is committed to achieving its long-term financial goals at each subsidiary company. These goals are being pursued with the utmost determination through continued intense focus on the companies' profitability and growth programs.

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

NACCO's share price was $111.20 at the close of the financial markets on February 28, 2005. We believe the share price performance during the year has recognized work completed to improve and strengthen each subsidiary. By successfully executing the programs in place and achieving our long-term objectives, we are hopeful that the Company will receive a further improved valuation in the future.

In closing, I would like to recognize, with sadness, the passing of David H. Hoag, who contributed significantly to the NACCO Board of Directors beginning in 1999, and of Ward Smith, who was a Director of the Company from 1980 to 1994, serving as President and CEO from 1986 to 1991 and Chairman from 1987 to 1994. Under Ward's leadership, NACCO grew from a $600 million company to a more diversified $1.9 billion operating holding company. His contribution to both our Company and to the broader Cleveland business and arts community will be greatly missed.

I would also like to take this opportunity to welcome Dr. Eugene Wong to the NACCO Board of Directors. Dr. Wong is currently an Emeritus Professor at the University of California at Berkeley, where he was a member of the faculty of the Department of Electrical Engineering and Computer Sciences from 1962 to 1994, and Chairman of the Department from 1985 to 1989. Dr. Wong has also served as Associate Director of the Office of Science and Technology Policy for the Executive Office of the President of the United States. We are privileged to have him join us as a Director.

Finally, I would like to thank all NACCO employees for their continued support, hard work and commitment in meeting the challenges of 2004, and I look forward to working together for a successful 2005.

The most significant programs are expected to deliver benefits increasingly in 2006 and 2007

Alfred M. Rankin, Jr.

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

2004 Results – NMHG Wholesale

In a demanding year for the lift truck industry, NACCO Materials Handling Group ("NMHG") Wholesale generated net income of $22.3 million on revenues of $1.9 billion in 2004 compared with net income of $22.4 million on revenues of $1.6 billion in 2003. This 15 percent increase in revenues was driven by increased unit volumes, favorable foreign currency movements, a shift in mix to higher-priced lift trucks in the Americas, increased parts volume and the effect of price increases implemented during 2004. Growth in worldwide lift truck markets led to increased NMHG shipments of 77,493 units in 2004 compared with shipments of 70,406 units in 2003. Backlog increased to 25,700 units at December 31, 2004 compared with 19,100 units at December 31, 2003.

Net income for 2004 was comparable to 2003. In 2004, NMHG Wholesale net income benefited from increased volumes, a shift in mix to higher-margin lift trucks, lower restructuring-related expenses than in 2003, the receipt of a $6.7 million pre-tax anti-dumping settlement award from U.S. Customs and favorable income tax settlements. However, these benefits were completely offset by increased material costs of $48.3 million pre-tax, primarily due to increased costs for steel and adverse currency movements of $13.0 million pre-tax. These increased material costs significantly decreased NMHG Wholesale's profitability even though some of these cost increases were offset by the benefits of product price increases implemented throughout the year.

2004 Results – NMHG Retail

NMHG Retail's operations (net of eliminations) reported a net loss of $7.2 million on revenues of $195.2 million in 2004 compared with a net loss of $6.0 million on revenues of $162.6 million in 2003. Favorable foreign currency movements and improved unit sales in Europe accounted for the increase in revenues. Nevertheless, NMHG Retail experienced an increase in its net loss primarily as a result of the absence of a $2.8 million favorable tax adjustment recognized in 2003 as compared with a $0.8 million favorable tax adjustment in 2004. This reduced tax benefit was partially offset by an increase in profit due to higher service revenues in Europe and lower operating and rental costs in Asia-Pacific.

Continued execution of NMHG Retail's strategic plan as well as a heightened focus on rentals, parts and service resulted in improvements to operations in 2004.

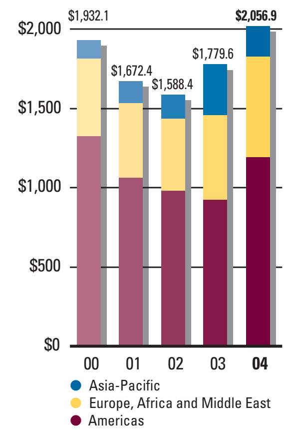
2004 Results – NMHG Consolidated

NMHG Consolidated, which includes NMHG Wholesale and NMHG Retail, generated consolidated cash flow before financing activities of $62.7 million in 2004 and $39.0 million in 2003. In addition, NMHG reduced net debt (total debt less cash and cash equivalents) to $193.1 million at December 31, 2004 compared with $246.4 million at December 31, 2003. In 2004, consolidated cash flow before financing activities significantly benefited from improved working capital management despite the negative effects of programs and costs for product development activities related to the roll-out of a new range of Hyster® and Yale® lift trucks being introduced in 2005 through 2007.

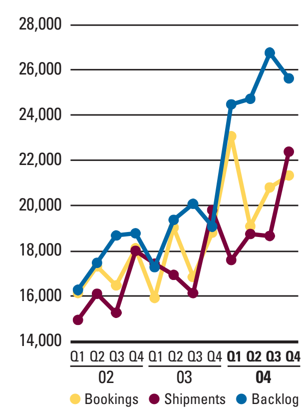
NACCO MATERIALS HANDLING GROUP

Growth in worldwide lift truck markets led to increased NMHG shipments of 77,493 units in 2004 compared with 70,406 units in 2003

Revenues by Geographic Region
(In millions)



Unit Bookings, Shipments and Backlog



Left: *The new Hyster® Fortis™ S50FT counterbalanced internal combustion lift truck can be configured to provide the appropriate lift truck for each user's application.*

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 application-tailored, quality products and services, and increasing value to the customer are the company's top priorities.

The company's strategies for reaching its vision include developing innovative, reliable and customer-driven products; attaining low-cost, high-quality manufacturing and procurement; providing comprehensive marketing support services; and maintaining and strengthening highly professional dealer distribution. These strategies, which are supplemented by economies of scale and reinforced by the company's large global population of lift trucks in use, are designed to provide NMHG with a sustainable competitive advantage.

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

Key Programs to Enhance Profitability

NMHG has implemented a number of key programs to improve both short- and long-term profitability. The company firmly believes that without these important profitability programs, the impact of external factors such as unprecedented increases in material costs and adverse currency movements would have been considerably more severe. Some of these programs include:

Material cost recovery program. During 2004, NMHG's material costs increased by $48.3 million compared with 2003, primarily as a result of increased costs for steel. As material cost trends became apparent early in 2004, NMHG implemented price increases in response to these material cost increases, as did numerous heavy equipment manufacturers worldwide. NMHG's price increases produced benefits totaling $11.4 million in 2004. Price increases implemented in 2004 are expected to offset increasingly the effect of increased material costs, although the company does not anticipate full cost recovery in 2005. The company continues to monitor material cost increases on a regular basis and evaluate the need and potential for future price increases. While challenging to achieve, NMHG believes that these pricing actions are critical to attaining its short- and long-term financial goals.

Pricing optimization. NMHG believes it will be able to deliver the lowest total cost of lift truck ownership to customers while delivering improved margins on new unit sales to both dealers and the company. This goal is being pursued through implementation of a new product design philosophy which, by incorporating a modular approach using fewer overall components, allows products to be more precisely configured and priced to meet specific customer application needs.

Top to bottom: *The new Yale ERC electric truck series is designed for productivity and provides capacity ranges from 3,000-4,000 pounds; the new Hyster Fortis™ S50FT lift truck; the Yale MPE motorized hand truck provides capacity ranges from 6,000-8,000 pounds; the new Yale Veracitor™ GC-VX lift truck is designed with component modularity for customization.*
Right: *The Hyster 36,000-45,000 pound lift truck is designed for tough applications ranging from steel to logging yards, quarries and concrete works.*

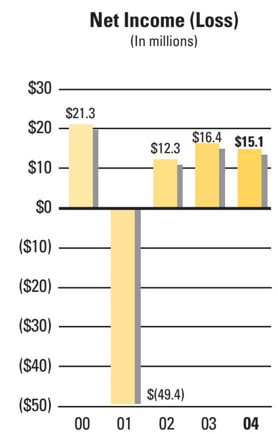
New product development process. In 2004, NMHG continued to implement its completely re-engineered approach to developing new products. Complete ranges of products are being developed simultaneously rather than on a traditional series-by-series approach. Platforms, modules and components have been designed to be used across a wide array of lift trucks. This approach decreases the overall number of components required and permits easier and more frequent upgrades. Increased component commonality, combined with engineering techniques designed to deliver a more efficient assembly process, will increase labor efficiency and result in improved quality of our products. In addition, design, prototyping and testing are guided by a rigorous, staged approval process that delivers increased levels of reliability while increasing speed to market. This approach will improve the quality of NMHG's products, while more cost effectively achieving end-user requirements. In the long term, these efficiencies are expected to increase the products' and the company's profitability. This new approach is being introduced in conjunction with the launch of new internal combustion engine ("ICE") lift trucks with lifting capacity ranges from 1 to 8 tons. These products, along with other new products that are scheduled to be introduced, will be rolled out from 2005 through 2008. A massive sales and technical training program supporting this new application-focused product range was successfully introduced and implemented in 2004 in preparation for the introduction of the first wave of these products in 2005. Dealer and customer responses to these new products have been very positive.

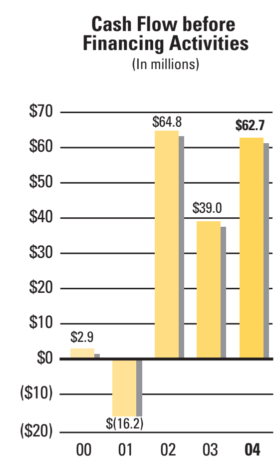
Manufacturing restructuring. NMHG's manufacturing strategy is guided by a commitment to high-quality, low-cost manufacturing, with assembly generally in the market of sale. To accomplish these goals, NMHG has been restructuring its global manufacturing facilities and processes. The company is working to optimize capacity among several key final assembly plants, including Greenville, North Carolina and Berea, Kentucky in the United States, and Irvine, Scotland and Craigavon, Northern Ireland in Europe. In addition, NMHG continues to redesign the layout of its production lines to improve productivity and reduce costs. The final phases of this restructuring are well under way and included the closing of the company's Lenoir, North Carolina lift truck component facility in 2004.

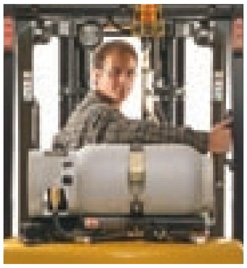
Increased component commonality and advanced assembly techniques are expected to increase efficiency and improve product quality

NMHG is also employing advanced assembly line technology in its Berea, Kentucky plant, which produces the new 1 to 8 ton ICE lift truck. On this new line, automated guided vehicles move trucks through key assembly stages only after quality is assured using the latest computer-aided testing and control equipment. NMHG plans to expand the use of these advanced assembly lines in the future.

The continued implementation of a lean manufacturing strategy based on Demand Flow Technology 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. These activities, coupled with a corporate-wide emphasis on quality, contributed to a significant reduction in warranty costs per truck in 2004.







Global procurement. Demands on NMHG's global procurement group were significantly intensified in 2004 as the result of raw material shortages and record cost increases. In addition to the short-term programs established to manage these challenges, NMHG has embarked on an effort to optimize its supplier base, making it 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 a complete supply chain process enhancement effort is under way. These programs, along with global economies of scale, provide NMHG with leverage to obtain high-quality components at lower prices, an important part of maintaining profitability in the near term and increasing profitability in the long term.

Aftermarket efficiency. Several projects are under way to increase aftermarket service efficiencies, including programs to improve the ability of NMHG and its dealers to capture parts sales, manage parts inventories and enhance the training and electronic connectivity of service technicians.

Administrative efficiencies. During 2004, NMHG implemented a new web-based Contact Management System designed to improve customer support and yield a more cost-effective customer response system. Also, NMHG began the expansion of its Transaction Processing Center organization to include Europe. NMHG will continue to expand its use of web-based technology with an extension of this concept to include marketing and logistics transactions.

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 operating loss by 39 percent in 2004 compared with 2003. NMHG Retail's objective is to reach at least breakeven results by 2006, while still strengthening NMHG's distribution capability in each geographic area.

Key Programs to Generate Growth

New product introductions. In 2004, NMHG successfully launched a new line of electric lift trucks featuring AC electric motors and a new heavy-duty container handler. Most importantly, NMHG continues to move forward with the launch of the 1 to 8 ton ICE lift truck line, which represents the most significant new product launch in the history of the company. This momentous launch began early in 2005 with the introduction of the new Hyster® Fortis™ series and the Yale® Veracitor™ series of lift trucks. The new line will be introduced in phases over three years, with completion of the rollout expected in 2007. Lift trucks utilizing interchangeable components and systems assembled on highly automated, computer-controlled assembly lines will increase NMHG's flexibility to tailor lift trucks to individual customer application requirements. Additional new product lines using the same re-engineered full range development processes employed for the 1 to 8 ton ICE line are under way through 2008 for electric counterbalanced lift trucks, warehouse lift trucks and big trucks.

National and global accounts. NMHG has industry-leading fleet management and national account organizations in North America and is enhancing its global account capabilities. NMHG's goal is to offer superior value and services to large customers that have centralized purchasing but geographically dispersed operations.

The introduction of the 1 to 8 ton ICE lift truck line represents the most significant new product launch in the history of the company

Above: *A few of the many ergonomic features added to the new Hyster® Fortis™ and Yale® Veracitor™ lift truck series for operator comfort; Top to bottom: rear driving comfort, on-board diagnostics and ergonomic hydraulic controls.*
Right: *The new Yale® Veracitor™ GC-VX internal combustion lift trucks provide capacity ranges from 4,000-7,000 pounds and have been designed with component commonality for simplified maintenance and customizable productivity packages for specific application needs.*


Veracitor 50VX
Yale
Yale


HYSTER
1150
HYSTER

Anchor Dealer program. 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 Hyster® and Yale® Anchor Dealers attain higher market shares, attract higher-quality employees and offer higher-value services to their customers than other dealers.

Dealer excellence enhancement program. This program, designed to drive improvement at the company's dealers, provides dealers with best practices and performance assessment tools in the areas of operational and financial management, lift truck and 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.

Aftermarket parts. In 2004, 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 NMHG's Hyster® and Yale® dealers' competitive lift truck parts offering to help increase NMHG's share of its customers' parts and service business.

Outlook for 2005 and Beyond

Global lift truck markets exceeded NMHG's expectations in 2004 by rebounding to approximately the mid-point of the lift truck market cycle, although they have not yet reached peak cyclical volume levels. The company is hopeful that these increased levels will be sustained and will continue to improve going forward.

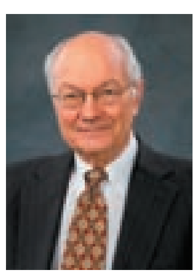
The company expects stronger lift truck markets in 2005 in the Americas and Asia-Pacific and relatively flat lift truck markets in Europe compared with 2004. Fourth-quarter backlog rose significantly compared with a year ago and orders are anticipated to remain strong. As a result, NMHG Wholesale expects to have increased volumes in 2005 in comparison with 2004 levels. However, NMHG anticipates that its unit shipment levels for 2005 will increase at controlled rates to accommodate the phase-in of newly designed products at its manufacturing facilities throughout 2005. Costs associated with the phase-in of the 1 to 8 ton ICE product line are expected to place limitations on profitability in the near term, with profitability improving as the phase-in is completed and the company's manufacturing locations move into full production. As lift truck markets grow, NMHG expects to increase unit shipments in the coming years.

NMHG's financial objective is to achieve its operating profit target of 9 percent by 2007-2008. Given unprecedented increases in material costs, continued fluctuations in foreign currency exchange rates and continuation of established product development and manufacturing restructuring projects, attainment of the target in this time frame is still the company's objective but will be challenging. The timing of reaching the company's objective could be adjusted in the future if some of these external factors cannot be overcome in the near term.

NMHG's objective for its wholly owned retail dealerships continues to be reaching at least break-even financial performance while building market position, a goal which is expected to be reached by 2006.

The company continues to believe it is offering the right products, manufactured at the right costs and sold by the right dealers. The company believes firmly in its prospects for long-term growth in market share and profitability in an improving market and global economic environment.

Finally, I would like to take this opportunity to recognize the excellent work of all NMHG employees in executing the biggest product launch in the company's history, implementing many vital programs and sustaining profitability levels in 2004 amid extremely challenging conditions. I look forward to working together to successfully meet the challenges of 2005.



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

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


Hamilton Beach
Hamilton Beach

NACCO HOUSEWARES GROUP

Revenues improved in 2004 as HB/PS increased sales of higher-priced products and KCI increased its number of stores

2004 Results

NACCO Housewares Group, which includes Hamilton Beach/Proctor-Silex ("HB/PS") and Kitchen Collection, reported net income of $17.2 million on revenues of $614.8 million in 2004 compared with net income of $19.5 million on revenues of $598.7 million in 2003. Revenues increased in 2004 compared with 2003 primarily as a result of an improved mix of higher-priced products, especially new product introductions, increased volumes at HB/PS and an increase in sales at Kitchen Collection as a result of increases in the number of stores and the amount of the average sales transaction. This revenue increase was achieved despite overall declines in consumer spending for small electric kitchen and household appliances and reduced customer visits to outlet malls.

Net income declined in 2004 primarily due to $9.4 million in pre-tax restructuring charges recognized at HB/PS ($6.1 million after a tax benefit of $3.3 million). However, significantly offsetting this charge were continued improvements in manufacturing and sourcing efficiencies and increased sales of higher-margin, innovative products such as the Hamilton Beach® BrewStation™ coffeemaker, the number-one-selling product family in America.

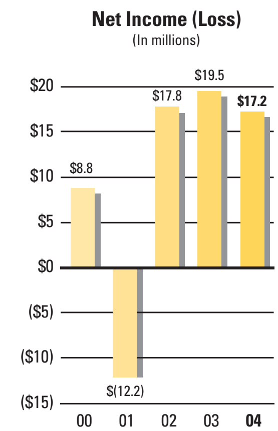
In 2004, the Housewares Group generated $9.4 million in cash flow before financing activities compared with $35.4 million in 2003.

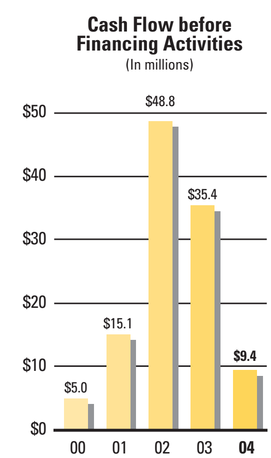
Complementary Operations

While the operations of HB/PS and Kitchen Collection are separate, certain aspects of their businesses are complementary. While both are consumer goods businesses, they operate at opposite ends of the retail industry. HB/PS develops products using a deep understanding of consumer preferences and product trends within the small electric kitchen and household appliance marketplace. Kitchen Collection, on the other hand, is a retailer focused on optimal allocation of limited shelf space among competing housewares products, brands and vendors.

Further, while Kitchen Collection carries a broad range of HB/PS electric products, it also licenses the Hamilton Beach® and Proctor Silex® brand names for use on non-electric products. These strong heritage brand names have allowed products ranging from kitchen gadgets to cookware to achieve substantial margin and sales volume increases.

Finally, Kitchen Collection purchases overstocked merchandise from HB/PS. This arrangement helps HB/PS manage inventory, contributing to reductions in inventory and debt levels, and helps Kitchen Collection offer a steady stream of higher-value offerings to its customers.





Clockwise from top left: *Hamilton Beach® cookware set with two-quart sauce pan, three-quart sauce pan, eight-quart stock pot, eight-inch fry pan and ten-inch fry pan; Hamilton Beach® insulated mug; Hamilton Beach® silicone high-temperature spatulas; Proctor Silex® 24-cup mini-muffin and crisping pans; Hamilton Beach® stainless steel garlic press; Hamilton Beach® stainless steel measuring spoons; Hamilton Beach® rosewood handled knife set containing a chef knife, carving knife and paring knife; Hamilton Beach® cutting board; Hamilton Beach® stainless steel barbeque tools: turner, grill brush and basting brush.*

HAMILTON BEACH/PROCTOR-SILEX

HB/PS' performance in 2004 was very strong, especially when compared with its competition

2004 Results

Hamilton Beach/Proctor-Silex ("HB/PS") had a good year in 2004, though it reported only slightly higher revenues and lower net income compared with 2003. HB/PS' performance was very strong, particularly when compared with its competition, within the context of overall weaker retail markets for housewares products, continued price pressure from large retailers and rising material costs.

Revenues increased in 2004 primarily as the result of a shift in sales mix to newer, higher-priced products. In addition, HB/PS revenue benefited from a high number of store shelf placements and promotions by retailers in support of fourth-quarter direct-response television advertising, specifically for newly introduced products.

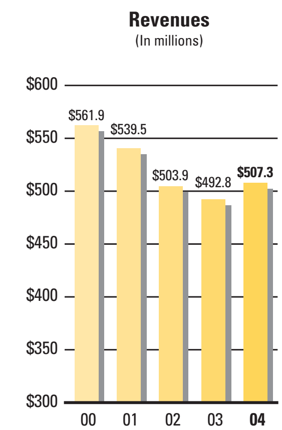
The decline in 2004 net income compared with 2003 net income is primarily attributable to $9.4 million in pre-tax charges ($6.1 million after a tax benefit of $3.3 million) related to a restructuring program currently being implemented at HB/PS' manufacturing and distribution facilities. Also affecting net income were unfavorable material cost increases as a result of higher petroleum-based plastic resin and other raw material costs. These unfavorable items were partially offset by gross margin improvements resulting from a shift in mix to higher-margin and sourced products, and reduced manufacturing costs as a result of the restructuring program.

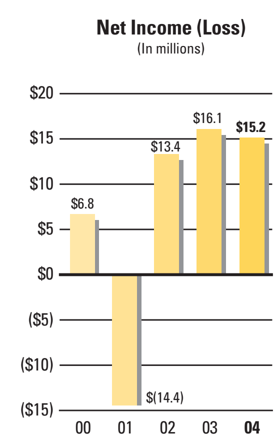
Vision, Strategies and Core Competencies

HB/PS' vision is to be the leading North American provider of small electric kitchen and household appliances sold under strong heritage brand names and to provide profitable growth from innovative solutions that improve everyday living.

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

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





Left: *Clockwise from top: Hamilton Beach/Proctor-Silex's newest products include: True Air® Air Purifier, Hamilton Beach® Classic Stainless coffeemaker, Proctor Silex® iron with retractable cord, Proctor Silex® iron, Traditions by Proctor Silex™ electric knife, General Electric two-slice toaster, Hamilton Beach® indoor grill with removable grids.*

Key Programs to Enhance Profitability

Product development process. HB/PS' product development process is designed to increase each product's probability of market success. As it enters 2005, the company continues to use its extensive experience in bringing innovative, successful products to market. A key focus now will be for HB/PS to share its wealth of experience in manufacturing with its key Chinese partners which produce products for the company. As HB/PS continues to perform high-value functions such as market research, idea generation and market testing, the company's manufacturing sources are increasingly able to contribute to the design and engineering process, thereby further reducing costs. HB/PS' goal is to deliver the most innovative, consumer-preferred quality products at the most competitive costs possible.

Continuous quality improvement. HB/PS is committed to quality improvement and continues to implement quality programs throughout all areas of the company. HB/PS' reputation for superior quality was demonstrated again in 2004 by product return rates that remained at relatively low levels. Product quality also has become a significant focus at HB/PS' key suppliers in China. HB/PS is actively transferring specific quality manufacturing processes and techniques to its key suppliers in China to assure quality, consistency and efficiency. It is expected that these efforts will contribute to further improvement in already very high levels of quality performance.

Manufacturing cost reduction. A number of manufacturing efficiency programs are helping HB/PS continuously reduce delivered product costs. One key program is designed to reduce manufacturing inefficiencies to minimal levels in 2005 by focusing owned manufacturing for retail products in a single plant in Mexico, and increasing low-cost, high-quality sourcing from China. Activities related to this program resulted in the recognition of a $9.4 million pre-tax restructuring charge in 2004. The company expects continued margin improvements from increased sourcing of products from China, including improved margins on commercial products that have been transferred from an owned factory in the United States to high-quality, strategic sources in China. As manufacturing in China increases, HB/PS is working with its key supplier partners to share plant efficiency, technical and management expertise. Also, at both company-owned and Chinese suppliers' plants, HB/PS is implementing its ongoing Value Improvement Program, which seeks to reduce process, component and product costs while continuously maintaining high quality. The company's objective is to maintain important competitive advantages by combining China's high-volume, low-cost manufacturing capabilities with HB/PS' deep manufacturing experience.

Top to bottom: *Hamilton Beach® has created a full line of Eclectrics™ all-metal appliances in intrigue blue, apple, Moroccan red, licorice, pineapple and sugar. The full line of products includes: Eclectrics™ coffeemaker (shown in intrigue blue), Eclectrics™ stand mixer (shown in apple), Eclectrics™ toaster (shown in Moroccan red), Eclectrics™ blender (shown in licorice).*
Right: *Eclectrics™ drink mixer (shown in pineapple).*

Supply chain optimization. HB/PS' continued intense focus on supply chain management in 2004 resulted in performance improvements for the company and for HB/PS' retail customers. HB/PS continues to implement improvement projects at its Memphis, Tennessee distribution facility, including the introduction of new Transport Management System software that enables the company to better track merchandise from the point of its initial entry into the United States to its final destination. The company is increasingly offering customers additional efficiencies through direct-ship programs, which route products directly from suppliers to retailers' warehouses. Also, HB/PS is expected to benefit from continued implementation of a collaborative planning, forecasting and replenishment process with several key retailers.

The new Hamilton Beach® Eclectrics™ brand targets a higher-end consumer who demands the best in performance and style

Corporate reorganization effort. In 2004, the company implemented a program to significantly reduce overhead costs. The intent of this program is to simplify the management structure of the company and integrate a variety of responsibilities into fewer centers of oversight in the context of increased sourcing of products from China. The company believes that by streamlining its operations to capitalize on current sourcing patterns and technologies, it will improve the likelihood of delivering future potential volumes at appropriate profit levels.

Key Programs to Generate Growth

New product introductions. HB/PS strives to develop and market a steady stream of innovative products which exceed current offerings in features, performance, style and value. HB/PS utilizes in-depth consumer research that enables the company to develop products with consumer-preferred features and high rates of market success. HB/PS believes it has an excellent track record in this area. In 2004, approximately half of the company's net sales were from products introduced in the last three years. The revolutionary Hamilton Beach® BrewStation™, featuring carafe-less cup-activated dispensing, is the number-one-selling coffeemaker product family in America. Other examples include strongly performing indoor grills, the Hamilton Beach® Big Mouth™ food processor and the Hamilton Beach® Stay or Go™ coffeemaker, which brews coffee into a carafe for home use or into one or two thermal "to-go" cups. In addition, in 2004, HB/PS successfully introduced a complete line of higher-end, color-coordinated, die-cast kitchen appliances under the new Hamilton Beach® Eclectrics™ brand name. All product areas within the company have aggressive new product introduction schedules, including small electric kitchen and household appliances, commercial products, home health products and new product areas under exploration by HB/PS. Additionally, patent protection is always sought, when appropriate, for new products, product features or designs.

Strategic brand application. HB/PS now has a full complement of key brand names designed to target distinct consumer segments. The new Hamilton Beach® Eclectrics™ brand targets a higher-end consumer who demands the best in performance and style and is willing to pay more for those benefits. The Eclectrics™ launch was well received, inspiring high levels of national and local media coverage about the product line's colorful, stylish appearance and the products' ability to help people "counterscape" their kitchens. Hamilton Beach® branded products target a mid-to-higher-end consumer desiring a strong brand name, innovative features and style. Additionally, HB/PS produces products under the General Electric brand name for Wal-Mart, which also target this consumer segment. Proctor Silex® branded products target the middle-market consumer who prefers a strong, heritage brand


Hamilton Beach
LITERS
Hamilton Beach
COMMERCIAL
START
OFF
PULSE
TIME
STATUS
A
B
C
20 25 30
35
40
60

name with good features and appearance at a reasonable price. The new Traditions by Proctor Silex™ brand targets the entry-level consumer with basic, lower-featured, lower-priced products. The TrueAir™ brand, used for home health products, continues to demonstrate strong appeal, as does the Hamilton Beach® Commercial brand, which targets restaurants, bars and the hotel amenities market.

Retailer and channel focus. HB/PS works closely with retailers to develop product assortment strategies to optimize category profits. In-depth data analyses are used to recommend the most profitable combination of products, features and price points in each product category. These analyses also drive the HB/PS product development process, improve speed to market and increase the success rate of new products. The HB/PS category management approach is applied across all types of retailers, from the largest mass merchants to smaller regional retailers, and is being applied in the United States, Mexico, Canada and other selected international markets.

Corporate Initiatives

HB/PS' overall strategy is to grow profitably through increased sales of innovative new products sold through a wide range of retailers and distribution channels. With markets for small electric kitchen and household appliances remaining relatively weak, 2004 was very challenging. However, HB/PS has maintained its market position compared with its competition by relentlessly pursuing excellence in all areas of the company. Specifically, the Economic Value Income program measures the return on invested capital to identify and prioritize opportunities for growth and profit improvement. Also, an expense reduction program covering all functional areas within the company is expected to help HB/PS move toward its financial objectives.

Outlook for 2005 and Beyond

HB/PS is hopeful that consumer markets will improve in 2005. However, regardless of market conditions, product innovations, strong brands, heightened channel efforts and reduced costs will continue to be HB/PS' focus in 2005.

The longer-term objectives for HB/PS are to achieve its minimum operating profit target of 10 percent, as well as 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 in the future.

In last year's Annual Report, HB/PS communicated its objective of reaching its minimum operating profit target in the 2005-2006 time period. While HB/PS will continue to work toward its 10 percent minimum operating profit target, a slower-than-expected market recovery and some modest delays in implementing further sourcing of products from China have led the company to adjust the timing of this objective to the 2006-2007 time period.

In 2004, a team of highly motivated professionals at HB/PS worked together to accomplish our objectives. While the pace for reaching our long-term goals has been slightly delayed, I believe our team has made very significant accomplishments and has set the standard for our industry in many ways. My thanks go out to every one of the company's employees for sustained effort in a difficult retail environment.

Product innovations, strong brands, heightened channel efforts and reduced costs will continue to be HB/PS' focus in 2005

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

Left: *The Hamilton Beach® Commercial Tempest™ blender features a high-torque motor, high-performance blades and a patented, durable 32-ounce polycarbonate container.*

KITCHEN COLLECTION

The number of Kitchen Collection's outlet and enclosed mall stores increased to 188 in 2004 from 180 in 2003

Above: *Kitchen Collection's store at Aurora Farms Premium Outlets near Cleveland, Ohio features higher-margin, brand-name kitchen gadgets, small electric appliances and a variety of other kitchen- and housewares-related products.*

2004 Results

Kitchen Collection had a challenging year in 2004. Sales increased slightly despite significantly reduced customer visits to outlet malls. However, additional profits from the modest sales increase were not enough to offset fixed operating costs and slightly lower gross margins, resulting in a decline in net income compared with 2003. Nevertheless, Kitchen Collection remains very strong compared with its competitors in the outlet mall channel. In 2004, the company delivered a solid return on equity[(1)] ("ROE") of 19.4 percent, demonstrated solid growth in Internet sales and continued to explore promising formats in enclosed malls.

The modest sales increase in 2004 was driven by increased sales from new permanent and temporary store locations as well as an increase in the amount of the average sales transaction.

(1) ROE = 2004 net income divided by 2004 average equity (a five-point average of equity at December 31, 2003 and each of 2004's quarter ends).

The number of transactions per store declined 2 percent as a result of a decrease in outlet mall traffic, primarily driven by record gasoline prices, which reduced the number of customers willing to drive significant distances to outlet mall destinations. Hurricanes in the Southeastern United States in the third quarter and blizzards in the Midwest during the year-end holiday season also negatively affected sales and, ultimately, profitability. The number of Kitchen Collection® outlet and enclosed mall stores increased to 188 in 2004 from 180 in 2003. In addition, the company operated 16 temporary stores in traditional enclosed malls during the 2004 fourth-quarter holiday season.

Vision, Strategy and Core Competencies

Kitchen Collection's vision is to be the 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 enhance profitability in a highly competitive retail environment:

Warehouse efficiency program. In 2004, Kitchen Collection reorganized its warehouse in Chillicothe, Ohio to increase capacity and throughput and decrease overall operating costs. The warehouse was reconfigured, new rack and conveyor systems were installed and new lift trucks were incorporated into streamlined processes. Specifically, this program increased warehouse capacity by 40 percent, increased store shipment accuracy by 10 percent and reduced labor costs.

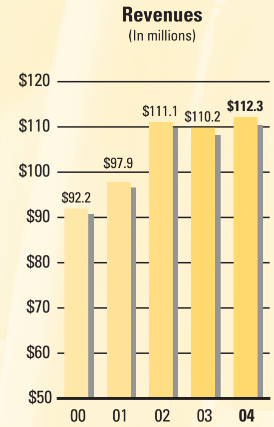
Economic Value Income. Kitchen Collection utilizes disciplined operating controls to improve margins. The company continues to use its proprietary Economic Value Income ("EVI") business tool to assist in determining how to maximize its return per cubic foot of retail space. When combined with other revenue 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.

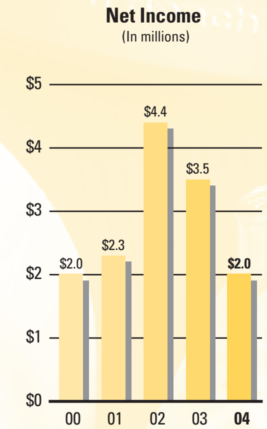
Margin enhancement and merchandising programs. Kitchen Collection continually tests and implements new approaches to increase traffic in its stores, to increase the percentage of individuals who make purchases after they enter a store, to encourage customers to purchase higher-margin items and to increase 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 private label non-electric product lines now feature nearly 400 items, including gadgets, cutlery, cutting boards, barbecue tools, bakeware and cookware.

Key Programs to Generate Growth

Internet sales. Sales from the company's website, www.kitchencollection.com, although still modest, grew by 39 percent in 2004 compared with 2003, making this channel profitable for the company. As marketing activities such as direct e-mail campaigns and Web partner programs increase, sales and profits from this channel are expected to rise significantly.





Enclosed mall stores. The enclosed mall store format, which continues to operate in test mode, still represents the company's most promising driver of future growth. Located in traditional enclosed malls, Gadgets & More® and Kitchen Collection® stores sell a broad range of higher-margin kitchen gadgets and other selected housewares products. The company currently has only 18 permanent enclosed mall stores in a potential market of more than 500 traditional enclosed malls. The company continues to gain important insight from those currently operating stores focused on the mid-market consumer. However, Kitchen Collection remains prudent in the pace with which it opens additional stores to ensure that potential sales volumes and profit structures meet Kitchen Collection's objectives.

Large store format. Kitchen Collection has selectively introduced a larger store format in the outlet mall channel. These stores offer an expanded assortment in several key areas, including tabletop, dinnerware and glassware items. Larger stores will be used where cost of space can be justified.

Corporate Initiatives

In 2004, as always, Kitchen Collection strived to control costs in every area of the company to improve store profitability. Significant store costs, such as rent and labor, are rigorously monitored and efforts to reduce the costs of distributing products to the stores are ongoing.

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. Lower traffic in the outlet mall channel has made this objective challenging in the near term, though efforts to realize profitable growth in other channels continue to show promise.

Outlook for 2005 and Beyond

Kitchen Collection expects growth in 2005 from improving markets, the addition of new stores and continued growth of Internet sales. Kitchen Collection achieved a sound ROE in 2004, and that level of performance is expected to continue. However, the company's objectives are to earn a minimum operating profit of 5 percent and to generate substantial positive cash flow before financing activities. In 2004, Kitchen Collection fell well below its operating profit target and is not likely to reach its goal in the next few years unless outlet mall traffic returns to previous levels.

Kitchen Collection expects growth in 2005 from improving markets, the addition of new stores and continued growth of Internet sales

Should low traffic levels persist, the company's operating profit goal may not be attained until 2008. In the meantime, Kitchen Collection will continue to work hard to reach its objectives 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.

In closing, I want to thank all of our Kitchen Collection employees for their hard work and determination during a difficult year for the outlet mall industry. I look forward to working with this extraordinary team of people as we dedicate ourselves to a successful 2005.

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

Right: *Kitchen Collection's store at Aurora Farms Premium Outlets near Cleveland, Ohio.*


Best Brands
KITCHEN COLLECTION
Better Prices
Hamilton Beach
Proctor Silex
Nonstick Electric Griddle


P&H

THE NORTH AMERICAN COAL CORPORATION

NACoal's limerock dragline mining operations had an excellent year in 2004, with deliveries 72 percent higher than in 2003

2004 Results

North American Coal ("NACoal") operates six surface lignite coal mining operations which delivered 34.4 million tons of lignite coal in 2004 compared with 35.5 million tons in 2003, maintaining NACoal's position as the nation's largest lignite coal producer and among the top ten coal producers nationwide. Lignite coal deliveries decreased primarily due to reduced customer fuel requirements caused by an increase in scheduled and unscheduled customer power plant outages. The company's lignite coal reserve position, including reserves related to unconsolidated project mining operations, remains strong with a total of 2.4 billion tons, of which 1.3 billion tons are committed to current customers.

NACoal's limerock dragline mining operations had an excellent year, with limerock deliveries 72 percent higher in 2004 compared with 2003. Deliveries were 18.9 million cubic yards of limerock during 2004 compared with 11.0 million cubic yards during 2003. Increased limerock deliveries in 2004 were primarily attributable to the start-up of new limerock dragline mining operations in the fourth quarter of 2003 and the second quarter of 2004.

NACoal had a strong year in 2004, with net income increasing 30 percent over 2003. Net income in 2004 was $18.6 million compared with $14.3 million in 2003. This increase resulted primarily from the addition of new limerock dragline mining operations, better performance at the San Miguel Lignite Mining Operations ("San Miguel"), increased royalty income, lower interest expense and the absence of a $1.3 million charge for the cumulative effect of an accounting change recognized in 2003. However, these favorable results were partially offset by increased employee-related costs and increased costs at the Mississippi Lignite Mining Company.

During 2004, NACoal was awarded an investment-grade rating (BBB low) by Dominion Bond Rating Services, an accredited rating agency with expertise in the mining industry, in conjunction with the company's private placement of $35 million of unsecured senior notes in October 2004. An additional placement of $10 million in January 2005 increased the total amount funded to $45 million. The company believes it is the only operating coal company in the United States with an investment-grade rating.

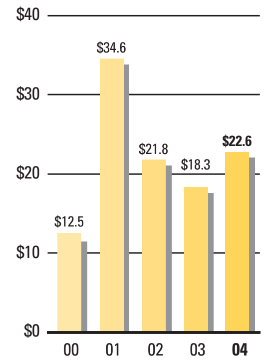
Vision, Strategy and Core Competencies

NACoal'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.

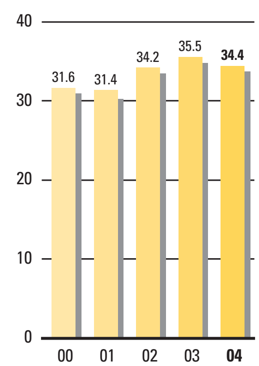
NACoal's strategy is to leverage low-cost mining expertise at existing mines while pursuing new mining opportunities.

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.

Income Before Taxes
(In millions)



Lignite Coal Tons Delivered
(In millions)



(Including project mines)

Left: *North American Coal's limerock dragline mining operation at the Krome Quarry in South Florida.*

Key Programs to Enhance Profitability

Employee safety. Employee safety is the number-one priority at NACoal. Each of the mines emphasizes safety as part of its daily routine. Red River Mining Company ("Red River") has not had a lost-time accident since it began operations in 1989. In addition, five of the company's seven operations worked the entire 2004 calendar year without incurring a single lost-time accident. NACoal 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. Because this mine and its customer's power plant were fully operational for all of 2004, NACoal was able to aggressively focus on achieving planned profitability through the application of its extensive mining expertise. In 2004, the mine gained efficiencies by using power plant ash, a waste product from the process of burning coal, on its roads to significantly enhance the productivity of trucks used to haul lignite coal. However, mining efficiency was affected in 2004 by certain adverse geological conditions in the current mining area and by mining through a hill, which required the removal of an unusually large amount of soil to reach the lignite coal below. Mining efficiency is expected to continue to be affected by these factors in 2005. Improvements in mining efficiency and profitability are expected during 2006.

San Miguel Lignite Mining Operations. NACoal continues to mine more lignite coal at this mine than originally anticipated, which has positively affected volume but resulted in higher mining costs, increased equipment needs and higher equipment maintenance costs. These growing cost pressures were not covered by contractual cost escalators, which historically resulted in significant losses at this operation. In early 2004, NACoal renegotiated the contract with the operation's customer in order to reduce near-term losses. This amended contract also is expected to continue to solidify a strong working relationship with the customer. Because of this amended contract, results at San Miguel improved significantly in 2004 compared with 2003. The company currently anticipates that San Miguel will return to profitability by 2007, the final year of the contract.

Innovative mining methods. NACoal continues to be a leader in developing innovative mining methods, which have improved mining efficiencies and coal recovery, reduced costs, enhanced safety and lessened the environmental impact of mining. These methods, also described in previous Annual Reports, 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 in Louisiana. This system enables workers to mine lignite coal safely and efficiently in flood plain areas.
- Developing specialized non-stick linings for 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. NACoal is committed to protecting the environment by restoring mined land to its original or an improved condition. The company has been a prominent recipient of environmental awards over the years.

Key Programs to Generate Growth

Lignite coal reserve development strategies. The foundation for new lignite coal mining projects continues to be the ongoing, in-depth analysis of power generation supply and demand in each of the regions where NACoal 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 owned or controlled by NACoal. Based on results of this ongoing analysis, NACoal adjusts ownership plans for existing lignite coal reserves as well as strategies to secure ownership or leases for additional reserves which offer potential for future development. In addition, NACoal owns

NACoal continues to be a leader in developing innovative mining methods, which have improved mining efficiencies and reduced costs

Above: *At The Sabine Mining Company's South Hallsville #1 Mine in Texas, an Easi-Miner loads lignite coal into a 160-Ton Capacity Bottom Dump Truck, which will deliver the lignite coal to the customer's power generation facility adjacent to the mine.*

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

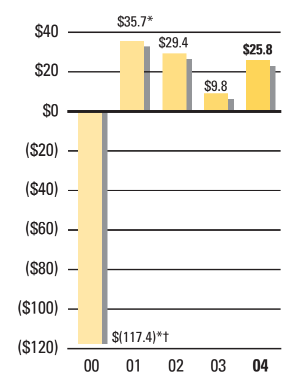
Limerock dragline mining projects. The company continues to be very optimistic that niche growth opportunities to provide high-value-added services for other natural resource mining applications, such as limerock dragline mining services, will continue to emerge. Discussions are ongoing with NACoal's existing limerock customers, as well as other potential new customers, about their future increased limerock requirements.

NACoal provided dragline mining services at Rinker Materials of Florida Inc.'s ("Rinker") Krome Quarry for its first full year in 2004, with the company delivering more limerock than expected. That mining service agreement has a seven-year term that ends in 2010 and includes three potential one-year extensions. In addition, mining commenced at Rinker's Alico Quarry in the third quarter of 2004. This contract runs through 2011. In 2004, NACoal signed new agreements with White Rock Quarries ("WRQ") for the expansion of limerock dragline mining services at the current White Rock Quarry location and new locations at that same quarry beginning in 2005. These agreements extend through 2020 and 2009, respectively. Finally, in early 2005, NACoal signed agreements with Rinker to start mining at Rinker's FEC Quarry in late 2005 and with WRQ to start mining at WRQ's new quarry, White Rock Quarry South, in late 2006 or early 2007. These agreements run through 2013 and 2016, respectively. All of these operations are located in Florida.

Corporate Initiatives

Central to NACoal's successes are its efforts to minimize exposure to the market price of coal. This goal is accomplished through carefully structured coal supply agreements, which essentially establish the specific mining services that NACoal will perform for its customers and the mechanisms by which it will be compensated for performing those activities. Because NACoal is selling its services in addition to its coal, these agreements include various cost escalation mechanisms and may include performance incentives. Through these mining agreements, NACoal and its customers share a common goal of minimizing costs. By eliminating speculation on the future price of coal, these contracts allow 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.

Cash Flow before Financing Activities*
(In millions)



* Cash Flow before Financing Activities for 2000 and 2001 has not been restated to reflect the 2003 adoption of FIN No. 46 retroactive to January 1, 2002.

† Includes the Phillips Coal asset acquisition

The expected outcome of NACoal's overall strategy is the profitable operation of all existing mines coupled with the development of new mines that utilize the company's lignite coal reserves or its mining experience.

Outlook for 2005 and Beyond

NACoal's financial objectives are to earn a minimum return on capital employed of 13 percent, attain positive Economic Value Income from all existing consolidated mining operations as well as any new projects, maintain or increase the profitability of all existing unconsolidated project mining operations and deliver substantial consolidated cash flow before financing activities.

In addition to key programs outlined previously, NACoal is working to improve profitability at Red River. Certain adverse geological conditions have recently contributed to slightly higher mining costs than anticipated, and the customer continues to take only the contractual minimum number of tons. The company is working to develop a solution to its temporary mining challenges in the near term and expects that the mine will experience improved geological mining conditions in the long term. The company's objective is to work with the customer to increase deliveries over the long term, which would add significantly to profitability.

With implementation of all of NACoal's programs, the company anticipates further improvement in return on capital employed, particularly in 2006 and 2007, as well as increased cash flow before financing activities.

NACoal believes that in the long term, future development of coal reserves in the United States will depend greatly upon the adoption of newer power plant technologies that substantially lower emissions. One of the most promising new technologies involves gasifying coal, which can significantly reduce key emissions, such as SO_2 (sulfur dioxide), NOx (nitrous oxides), particulate matter and mercury, and create an opportunity to produce marketable byproducts, such as synthetic diesel or jet fuel. This highly efficient process of coal gasification also produces lower levels of CO_2 (carbon dioxide) and allows for CO_2 separation and sequestration. This process can also extract hydrogen, which can be used in fuel cells to produce emission-free power generation.

The company continues to invest significant effort in understanding and promoting these new clean coal power technologies. In fact, NACoal has developed its own flexible power plant vision, 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 byproducts, including hydrogen, and to significantly reduce, or even eliminate, many harmful emissions, including CO_2. In the context of sustained, relatively high natural gas prices in the United States, it is the company's hope that adoption of new coal-based technologies will create new lignite coal mining opportunities.

Finally, I would like to thank all NACoal employees for their hard work and dedication in making 2004 another safe and successful year for the company. I look forward to working with all of our employees to accomplish our goals in 2005.

As NACoal implements its programs, the company anticipates further improvement in return on capital employed, particularly in 2006–2007

Clifford R. Miercort

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

Right: *At The Coteau Properties Company's Freedom Mine in North Dakota, an Electric Shovel loads overburden, or soil that must be removed to mine the lignite coal below, into a Caterpillar End Dump Truck.*


BUCYRUS
COTEAU
793
260
CAT

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, 2004

(U.S. dollars in millions, except per share amounts)

Subsidiaries with Minimum Operating Profit Targets	**NMHG**	**Housewares**	**Total**
2004 revenues, as reported	$ 2,056.9	$ 614.8	$ 2,671.7
x Operating profit target percentage	9%	9.2%*	N/A
= Operating profit at target	$ 185.1	$ 56.6	$ 241.7
Less: 2004 operating profit, as reported for NMHG and Housewares	(35.0)	(31.9)	(66.9)
Difference between 2004 operating profit, as reported, and operating profit target	$ 150.1	$ 24.7	$ 174.8
Less: Income tax expense at 38%**	(57.0)	(9.4)	(66.4)
Net income difference between reported operating profit and operating profit target for NMHG and Housewares	$ 93.1	$ 15.3	$ 108.4

Subsidiaries with Minimum Return on Capital Employed Targets	**NACoal**	
2004 average equity (12/31/2003 and at each of 2004's quarter ends)	$ 74.9	
2004 average debt (12/31/2003 and at each of 2004's quarter ends)	119.9	
Total 2004 average capital employed	$ 194.8	
Return on capital employed target percentage	13%	
Return on capital employed target = target net income before interest expense, net-of-tax	$ 25.3	
2004 net income, as reported	$ 18.6	
Plus: 2004 interest expense, as reported	7.8	
Less: Income taxes on 2004 interest expense at 38%**	(3.0)	
Actual 2004 return on capital employed = actual net income before interest expense, net-of-tax	$ 23.4	
Actual 2004 return on capital employed percentage	12%	
Return on capital employed target = target net income before interest expense, net-of-tax	$ 25.3	
Actual return on capital employed = actual net income before interest expense, net-of-tax	(23.4)	
Return on capital employed difference between actual and target	$ 1.9	
Return on capital employed target = target net income before interest expense, net-of-tax	$ 25.3	
Less: 2004 interest expense, as reported	(7.8)	
Plus: Income taxes on 2004 interest expense at 38%**	3.0	
Target net income at target return on capital employed	$ 20.5	
Less: 2004 net income, as reported	(18.6)	
Net income difference between reported net income and target net income at target return on capital employed	$ 1.9	1.9
Total of net income differences from subsidiaries with minimum operating profit targets and minimum return on capital employed targets		$ 110.3
Earnings per share impact at 8.212 million average shares outstanding		$ 13.43

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

2004 interest expense, as reported	$ 47.4
Less: Income tax expense at 38%**	(18.0)
2004 interest expense, net-of-tax	$ 29.4
Earnings per share impact at 8.212 million average shares outstanding	$ 3.58

*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 with 2004's effective tax rate of 10.1%.

OFFICERS AND DIRECTORS

Officers and Directors of NACCO Industries, Inc.

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Chairman, President
and Chief Executive Officer

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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

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Chairman and Chief Executive Officer,
Brown-Forman Corporation

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Former Director of Central Intelligence

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

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Partner, Jones Day

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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

Eugene Wong
Emeritus Professor at the
University of California at Berkeley

Director Emeritus

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Vice President, Engineering and Big Trucks

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Vice President, Human Resources

Seppo O. Saarinen
Vice President, Global Product Development

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Vice President, Finance and Information
Systems, and Chief Financial Officer

Gopi Somayajula
Vice President, Counterbalanced Engineering

Daniel P. Gerrone
Controller

Jeffrey C. Mattern
Treasurer

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Vice President; President, Americas

David Clarke
Vice President, Marketing, Americas

Gregory J. Dawe
Vice President, Manufacturing, Americas

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Systems, Americas

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Vice President; President, Yale Materials
Handling Corporation

David O'Dell
Vice President; President, Hyster Company

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Vice President, Marketing and Retail
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Stephen R. West
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Systems, Europe, Africa and Middle East

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Vice President, Managing Director, Asia-Pacific

Nobuo Kimura
President, Sumitomo NACCO Materials
Handling Co., Ltd.

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President and Chief Executive Officer

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Senior Vice President-Sales

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

Kathleen L. Diller
Vice President, General Counsel and
Human Resources

Gregory E. Salyers
Vice President-Operations and
Information Services

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Vice President-Finance and Treasurer

Gregory H. Trepp
Vice President-Marketing

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President and Chief Executive Officer

Darlene Denman-Jones
Senior Vice President-General Merchandise
Manager

Officers of The North American Coal Corporation

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President and Chief Executive Officer

Robert L. Benson
Vice President-Eastern & Southern Operations

Bob D. Carlton
Vice President-Financial Services,
and Controller

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

Clark A. Moseley
Vice President-Business Development
and Engineering

K. Donald Grischow
Treasurer

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Annual Meeting

The Annual Meeting of Stockholders of NACCO Industries, Inc. will be held on May 11, 2005, at 9 a.m. at the corporate office located at:
5875 Landerbrook Drive, Suite 300
Cleveland, 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 website (**www.nacco.com**) or by request to Investor Relations, NACCO Industries, Inc., 5875 Landerbrook Drive, Suite 300 Cleveland, 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

Stock Exchange Listing

The New York Stock Exchange
Symbol: NC

Annual CEO Certification

On June 1, 2004, in accordance with Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, our Chief Executive Officer, Alfred M. Rankin, Jr., submitted his annual certification to the New York Stock Exchange following our annual stockholders' meeting stating, that he is not aware of any violations by NACCO Industries, Inc. of the NYSE's Corporate Governance listing standards as of that date.

Investor Relations Contact

Investor questions may be addressed to:
Christina Kmetko, Manager-Finance
NACCO Industries, Inc.
5875 Landerbrook Drive, Suite 300
Cleveland, Ohio 44124
(440) 449-9669
E-mail: **ir@naccoind.com**

NACCO Industries Website

Additional information on NACCO Industries may be found at the corporate website, **www.nacco.com**. The Company considers this website, which was significantly updated in January 2005, to be one of the primary sources of information for investors and other interested parties. Recent enhancements to the website include:

- Historical timeline charting NACCO's evolution
- In-depth background data on each subsidiary company
- Investor Relations section with detailed financial data
- Specific section on Corporate Governance
- News room section with archived news releases
- Calendar of events with e-mail alert sign-up

Subsidiary Company Websites

The websites of several subsidiary companies and their brands can be found at the following locations:

NACCO Materials Handling Group:
www.nmhg.com

Hyster® North America:
www.hyster.com

Hyster® Europe:
www.hyster.co.uk

Hyster® Asia-Pacific:
www.hyster.com.au

Yale® North America:
www.yale.com

Yale® Europe:
www.yale-europe.com

Yale® Asia-Pacific:
www.yale.com.au

Hamilton Beach/Proctor-Silex–U.S.:
www.hamiltonbeach.com
www.proctorsilex.com
www.hbeclectrics.com
www.buytraditions.com
www.trueair.com
http://commercial.hamiltonbeach.com

Hamilton Beach/Proctor-Silex–Mexico:
www.hamiltonbeach.com.mx
www.proctorsilex.com.mx
www.trueair.com.mx

Kitchen Collection:
www.kitchencollection.com

North American Coal:
www.nacoal.com

NC Listed NYSE
THE NEW YORK STOCK EXCHANGE

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