

## FINANCIAL REVIEW

### Results of Operations

#### Net Sales

In fiscal 2001, ended December 31, 2001, the Japanese economy remained in recession, evidenced by sluggish capital investment and personal spending, a high unemployment rate, and a drop in corporate earnings. In the housing-related industry, new housing starts in 2001 fell 4.6%, to 1.17 million units, marking the first year-on-year decline in three years. Amid these circumstances, Noritz Corporation (the "Company") and its consolidated subsidiaries (the "Group") endeavored to provide products and services that continued to take into consideration customer needs while implementing the final phase of its "Rebirth Noritz Three-Year Program." As a result, Noritz posted ¥154.5 billion in consolidated net sales in fiscal 2001, a year-on-year increase of 10.2%.

As for net sales by business segment, sales of gas-related water heaters grew 2.9%, to ¥77.8 billion, due to a continuing increase in sales of water heaters with a combined heater function. Sales of kerosene-fired water heaters and air conditioners rose 2.2%, to ¥23.1 billion. Bathroom- and kitchen-related equipment sales increased 23.0%, to ¥35.7 billion, boosted largely by strong sales of such new products as vanity units and consumer-conscious system bathrooms. Sales in the Others category surged 37.9%, to ¥17.9 billion.

#### Costs, Expenses, and Earnings

Cost of sales rose 13.5%, to ¥109.8 billion, expanding at a faster rate than net sales. Consequently, the gross profit ratio fell 2.0 percentage points, to 29.0%. The decline was caused

primarily by the Company's inability to reduce costs sufficiently enough to account for continuing competitive price cuts in the market as well as rising costs for new product development.

Selling, general and administrative expenses (SG&A) expenses grew 6.6% from the previous fiscal year, to ¥37.0 billion. This increase in SG&A expenses accompanied growing sales of system kitchens and system bathrooms, resulting in higher distribution and retirement-related costs associated with the introduction of new retirement benefit accounting.

SG&A expenses as a percentage of net sales improved 0.7 percentage point, to 24.0%. The operating income ratio fell 1.3 percentage points, to 5.0%. Operating income dropped 12.4%, to ¥7.7 billion. Furthermore, R&D expenses amounted to ¥4.4 billion, with the ratio of R&D expenses to net sales declining 0.1 percentage point, to 2.8%.

#### Other Income (Expenses)

Other expenses, net, expanded from ¥3.8 billion in the previous fiscal year, to ¥5.2 billion. Income before income taxes fell 49.1%, to ¥2.6 billion. The increase in other expenses, net, is attributable mainly to the amortisation of ¥2.8 billion in fiscal 2001 in net transition obligation, resulting from the introduction of a new standard for retirement benefit accounting. This is the first year of three that the amortisation resulting from the change in accounting standards has been implemented.



## Financial Position

The Group's total assets at fiscal year-end grew 7.5% from the previous fiscal year-end, up ¥10.3 billion, to ¥147.7 billion. Cash and cash equivalents expanded ¥3.7 billion.

Marketable securities decreased ¥17.2 billion. However, if the ¥13.0 billion transferred from marketable securities to investment securities (related to the introduction of market-value accounting for financial products at the beginning of fiscal 2001) is excluded, the actual decline would be ¥4.2 billion. The rise both in inventories and in trade notes and accounts receivable was due to growing sales. The real decline in marketable securities was due to sales having exceeded purchasing. If the aforementioned shift from marketable securities is taken into consideration, the current ratio, on a real basis, fell 46.1 percentage points, to 168.7%, maintaining the previous high liquidity levels. The increase in property, plant and equipment, less accumulated depreciation, was funded by higher net sales. This increase was attributable to capital investment that exceeded depreciation and amortisation and the impact of the consolidation of subsidiaries from fiscal 2001. Capital investment went primarily into molding equipment used in the manufacturing of new water-heater products.

The Group's total liabilities at fiscal year-end rose 21.3% from the previous fiscal year-end, up ¥11.8 billion, to ¥67.1 billion. The increase in liabilities was mainly the result of a ¥10.3 billion increase in trade notes and accounts payable, and retirement-benefit liabilities rose ¥5.0 billion accompanying the introduction

of new retirement benefit accounting. Long-term debt due within one year totaling ¥4.4 billion was redeemed.

Total shareholders' equity declined 2.3%, or ¥1.9 billion, to ¥78.8 billion. This decline basically reflected the purchase and retirement of ¥2.0 billion in common stock utilising retained earnings. As a result, the shareholders' equity ratio decreased 5.3 percentage points, to 53.4%. The debt-to-equity ratio declined 5.1 percentage points from the previous fiscal year-end, to 45.4%, indicating the Group's minimal dependence on interest-bearing liabilities.

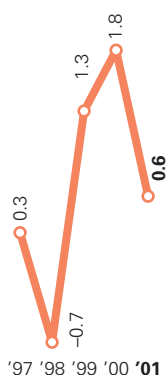
## Cash Flows

Net cash provided by operating activities was the primary source for operational capital demand, capital investment, the repayment of interest-bearing liabilities, and dividend payments to shareholders. Cash and cash equivalents decreased ¥0.6 billion, to ¥18.1 billion at the end of fiscal 2001.

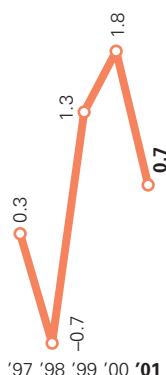
Net cash used in investing activities totaled ¥4.5 billion (¥3.0 billion less than the previous fiscal year). The decrease in cash outflows was the result of a decline in outlays for time deposits and marketable securities.

Net cash used in financing activities was ¥10.5 billion (up ¥8.2 billion from the previous fiscal year). This is because free cash flow was used for the repayment of interest-bearing liabilities and the retirement of common stock.

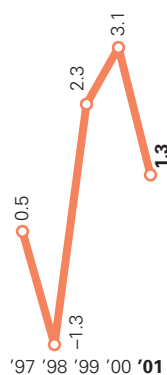
**Return on Sales**  
(%)



**Return on Assets**  
(%)



**Return on Equity**  
(%)



**Equity Ratio**  
(%)

