

A MESSAGE FROM THE MANAGEMENT



Toshiro Ota
Chairman and Representative Director



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■ Fiscal 2002 in Review

Noritz Corporation inaugurated the first medium-term phase of the “Create 21” management plan in fiscal 2002, ended December 31, 2002. In the first fiscal year of the three-year plan running through fiscal 2004, the Noritz Group improved its customer consultation centers, enlarged and strengthened its showrooms, and began operating a Web site for even better two-way communication with customers. The Group worked to develop products from a customer perspective, enhance marketing, and increase customer satisfaction.

In the fiscal year under review, consolidated sales rose sharply, as Harmanpro Co., Ltd., made a full-year contribution and RB Corporation, Shanghai Noritz Co., Ltd., and Ritz Kosan Co., Ltd., were consolidated. Harmanpro registered a recurring loss of ¥597 million in the first half of the fiscal year, but income of ¥239 million in the second half. Moreover, all consolidated subsidiaries except Shanghai Noritz turned structurally profitable in the second half and made fairly solid earnings contributions.

The Parent Company's Performance

Sales of the parent company declined ¥2,154 million year on year, due to extremely poor demand in the water heater market. Selling prices rebounded 0.6% in the second half of the fiscal year, and we believe they have bottomed out. Personnel costs fell ¥200 million as bonuses and other remuneration were correlated with results for the term.

However, selling, general and administrative costs increased ¥150 million, due to strategic investments for strengthening sales contact points with customers, and higher sales of system products boosted distribution and other costs ¥150 million, prompting a ¥169 million rise in net costs. The Company booked a ¥2.3 billion extraordinary profit on the return of the portion of employee pension funds managed on behalf of the government.

Consolidated Performance

Consolidated net sales totaled ¥170.2 billion, up 10.2% year on year, compared with parent company sales of ¥141.0 billion, down 1.5%. Consolidated operating income came to ¥6.9 billion, down 10.9%, versus ¥5.5 billion for the parent company, down 13.1%, as the latter's decline hampered consolidated results. Consolidated recurring income was ¥7.8 billion, about ¥1 billion higher than operating income, which reflected a nearly ¥500 million increase in profits from consolidated account adjustments and other factors and a nearly ¥500 million decline in losses on sales of securities. Net income totaled ¥3.3 billion—the highest profit ever—but this was largely attributable to the return of the portion of employee pension funds.

Noritz worked to implement a number of reform measures during the fiscal year. These efforts showed tangible results only in the second half, owing partially to poor market conditions in the first half and the time needed to retool infrastructure.

Looking at the results in each of the six-month periods, both consolidated and parent company sales and profits recovered significantly in the second half of the term.

Consolidated subsidiaries also recorded stronger results in the second half. Of particular note, all subsidiaries except Shanghai Noritz turned profitable in the second half after posting losses before income taxes in the first half. Noritz Techno Service Corporation, which changed its name to NTS Corporation, recorded recurring income of ¥464 million in fiscal 2002 following a loss a year earlier.

Sales by Product Group on Recovery Footing

Turning to consolidated sales by product segment, gas-related water heater and air conditioner sales were ¥112.0 billion, up 5.5% year on year, mainly reflecting ¥9.4 billion in sales from the consolidation of Harmanpro. Bathroom and kitchen equipment sales totaled ¥45.9 billion, up 24.8%, buoyed by ¥7.6 billion in sales of Harmanpro's gas ranges and other products. Service segment sales edged up 0.5%, to ¥10.6 billion, and other business sales were ¥1.5 billion, up 81.3%, meaning that sales in all four categories exceeded fiscal 2001 levels.

In the gas-related water heater and air conditioner segment, we think demand has already bottomed out. In fiscal 2002, the average selling price began falling less rapidly, from 4.3% in the first quarter to 2.3% in the second and third quarters and 1.4% in the fourth quarter. We attribute this to more effective sales from expended contact points with customers. For hot-water heating equipment, a growth area, parent company sales were ¥22.7 billion, up 5.0%, including related component and material sales of ¥4.7 billion, up 8.0%.

In the bathroom and kitchen equipment segment, system bath sales rose 9.0% year on year, system kitchen sales increased 2.0%, and vanity unit sales climbed 12.0%, as all three of these leading products gained market share. New additions to the Grasio series of system baths for remodeled homes boosted sales. Both sales of New Estudio system kitchens, launched in June 2002, and vanity sets contributed to an increased ratio of sales of high-value-added products to total sales. In the kitchen-related area, sales of Harmanpro's glass-top gas ranges came to about 35,000 units, generating sales of almost ¥1.4 billion and sparking an earnings recovery. Sales of built-in gas ranges through replacement channels to gas companies and other sources rose 23.0%, to nearly ¥3.1 billion, putting results on a recovery track.

Structural Reforms Pushing Down Costs

Noritz aggressively promoted changes to its product development, production, and distribution practices during fiscal 2002. The Company transferred system bath manufacturing from its Tsukuba plant to production subsidiary RB Corporation and system kitchen manufacturing from its Maebashi complex to production subsidiary Kanto Sangyo Co., Ltd. In this way, Noritz has consigned all operations ranging from production and administration to distribution for these products to outside sources with the aim of reducing headcount and costs through efficiency improvements. In addition, the Company is making diligent efforts to trim production lead times and enhance efficiency through research into the Noritz New Production System (NRPS) geared toward consuming only those components and materials corresponding to actual production needs and demand. In product development, we are focusing on value-added offerings and water heater systems as we promote standardization.

■ Initiatives for the Future

Healthy Prospects in Growth Fields

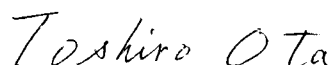
Noritz is starting full-fledged OEM shipments of gas-related water heaters to TOTO Ltd. and projects sales of nearly ¥1 billion annually. For our sales policies this year, we intend to build greater confidence and continue promoting success on the back of the valuable efforts we made last year to strengthen sales contact points with customers. In addition, we plan to further increase our sales of high-value-added products and are targeting water heater systems equipment and gas ranges as growth areas. Based on these factors, we are establishing themes this year for forging sales and profit growth.

In its policies for business, production, and development divisions, the Company has extended NRPS activities to Noritz Akashi Messe (NAM), its largest production facility. The aim is to greatly reduce costs. We are striving to cut material costs in conjunction with subsidiaries and affiliated companies. In the bathroom and kitchen equipment area, the Company introduced the New Yupatio system bath for newly constructed homes in April 2003. New Yupatio has already made a strong impact on customers, and we have major expectations for it to become a strategic new product.

■ Outlook for Fiscal 2003

In fiscal 2003, on a consolidated basis, Noritz forecasts gas-related water heater and air conditioner sales of ¥111.7 billion, unchanged from the previous term. The Company expects bathroom and kitchen equipment sales of ¥49.7 billion, up ¥3.8 billion, or 8.4% year on year, owing to ongoing efforts to enhance the value-added component in systems equipment and to full-fledged strategic integration with Harman products in the kitchen equipment area.

Noritz forecasts consolidated sales of ¥174 billion (up 2.2% year on year), operating income of ¥8 billion (up 16.4%), recurring income of ¥8.4 billion (up 7.5%), and net income of ¥3 billion (down 9.4%) in fiscal 2003.



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