

## FINANCIAL REVIEW

### Results of Operations

#### Net Sales

In fiscal 2002, ended December 31, 2002, the Japanese economy showed sporadic signs of recovery driven by exports to the United States and other countries. This trend petered out, however, and domestic demand was impacted by the increasing sluggishness of personal consumption and capital investment. Conditions for housing-related industries continued to be severe due to such trends as a 1.9% decline in new housing starts, to 1.15 million units.

Amid this environment, Noritz Corporation (the “Company”) and its consolidated subsidiaries (the “Group”) proceeded with the implementation of its current medium-term management strategy, the “Create 21” management plan. In line with this plan, the Group strove to better understand the needs of its customers and provide new products and services that further increase the amenity of bathrooms and kitchens.

As a result of these activities as well as the growth in sales of consolidated subsidiaries, Noritz saw increased consolidated net sales of ¥170.2 billion in fiscal 2002, a rise of 10.2%. Three companies were newly included within the scope of consolidation from fiscal 2002. RB Corporation (previously named Rocket Boiler Industry Co., Ltd.) became a consolidated subsidiary due to the parent company’s acquisition of additional shares in that company, while Noritz Capital Corporation was newly established as a consolidated subsidiary. Two other companies—Ritz kosan Co., Ltd., and Shanghai Noritz Co., Ltd.—were previously non-consolidated subsidiaries but were included within the scope of consolidation from fiscal 2002 due to an increase in their importance.

#### Costs, Expenses, and Earnings

The cost of sales rose 13.6%, to ¥124.7 billion. As the rate of increase in cost of sales exceeded the 10.2% rate of growth in net sales, the gross profit ratio fell 2.3 percentage points, to 26.7%. This mainly reflected the inclusion in consolidated accounts of such subsidiaries as Shanghai Noritz, which have relatively high cost-of-sales rates.

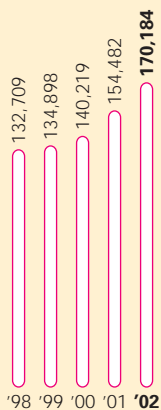
Selling, general and administrative (SG&A) expenses grew 4.3% from the previous fiscal year, to ¥38.6 billion. Because this rate of increase was less than the rate of growth in net sales, SG&A expenses as a percentage of net sales improved 1.3 percentage points, to 22.7%. A major factor underlying this improvement was a decrease in employee remuneration. Consequently, operating income dropped 10.9%, to ¥6.9 billion, and the operating income ratio deteriorated 1.0 percentage point, to 4.0%. R&D expenses amounted to ¥4.8 billion, with the ratio of R&D expenses to net sales remaining unchanged at 2.8%.

#### Other Income (Expenses)

Other income grew, mainly due to the recording of a ¥2.3 billion gain due to the return of the substitutional portion of the Company’s pension fund liabilities. Other expenses fell from ¥6.2 billion in the previous year to ¥3.9 billion, primarily owing to decreases in write-downs of investment securities and in the loss on sales and disposal of fixed assets as well as the expense of withdrawing from new software system implementation. Other income (expenses), net, shrank from expenses of ¥5.2 billion in the previous fiscal year, to ¥0.5 billion. As a result, income before income taxes surged 148.9%, to ¥6.4 billion.

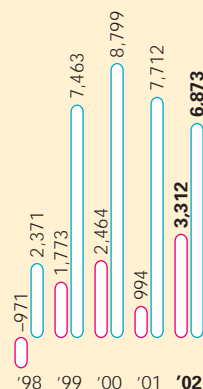
#### Net Sales

(Millions of yen)



#### Net Income (Loss) and Operating Income

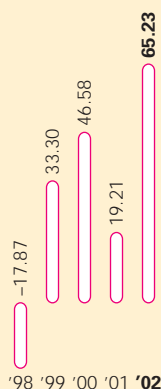
(Millions of yen)



Net Income (Loss)  
Operating Income

#### Net Income (Loss) per Share

(Yen)



#### Current Ratio

(%)



Reflecting this performance, net income advanced 233.2%, to ¥3.3 billion, or roughly 3.3 times the level in the previous year. The net income ratio improved to 1.9%, from 0.6% in the previous year, while return on equity improved to 4.1%, up from 1.3% at the previous year-end.

### Financial Position

The Group's total assets at fiscal year-end were 4.6%, or ¥6.8 billion, higher than at the previous fiscal year-end, at ¥154.5 billion.

The growth in total assets mainly reflected rises of ¥6.0 billion in trade notes and accounts receivable and ¥2.4 billion in other current assets. The former rise accompanied the increase in net sales, while the latter rise was greatly affected by a ¥2.0 billion growth in trust beneficiary rights. Factors restraining the growth in total assets included a ¥2.4 billion decrease in investment securities that resulted from the sale of ¥1.7 billion worth of bonds, the shift of ¥1.0 billion of securities maturing within one year to the current asset category, and a large drop in the market value of stocks.

The Group's total liabilities at fiscal year-end rose 6.4%, or ¥4.4 billion, from the previous fiscal year-end, to ¥73.3 billion. The growth in liabilities was mainly the result of increases of ¥1.2 billion in short-term debt and ¥1.0 billion in reserves for retirement benefits. The advance in short-term debt primarily resulted from the consolidation of additional subsidiaries.

Total shareholders' equity grew 3.1%, or ¥2.4 billion, to ¥81.3 billion. This growth mainly reflected a ¥2.7 billion rise in retained earnings that was principally attributable to the increase in net income. As a result, the shareholders' equity ratio decreased

0.8 percentage point, to 52.6%. The interest coverage ratio rose from 86.3 times in the previous period to 117.8 times in line with the Company's goal of further strengthening its financial position and reducing dependence on interest-bearing debt.

### Cash Flows

At the end of fiscal 2002, consolidated cash and cash equivalents totaled ¥28.0 billion, up ¥9.8 billion from the end of the previous fiscal year.

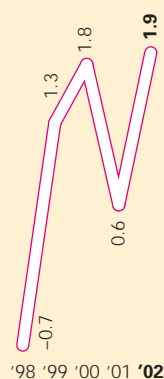
Net cash provided by operating activities decreased ¥7.8 billion, to ¥6.6 billion.

Net cash provided by investing activities totaled ¥2.6 billion, a ¥7.1 billion change from the ¥4.5 billion in net cash used in investing activities in the previous year. This resulted principally from a ¥1.5 billion increase in cash from net proceeds from investment in securities and a ¥3.1 billion increase in net proceeds from time deposits.

Net cash used in financing activities decreased ¥10.1 billion, to ¥0.4 billion. During the period, cash was used mainly for dividend payments and debt repayment. The decline from fiscal 2001 largely reflects ¥7.7 billion in outlays for repayments of short-term and long-term debt in the previous term.

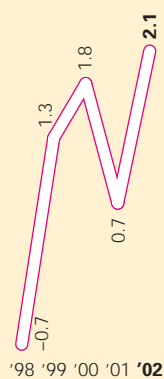
Return on Sales

(%)



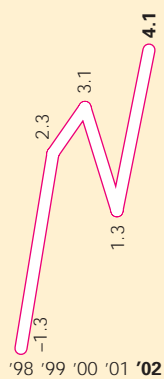
Return on Assets

(%)



Return on Equity

(%)



Equity Ratio

(%)

