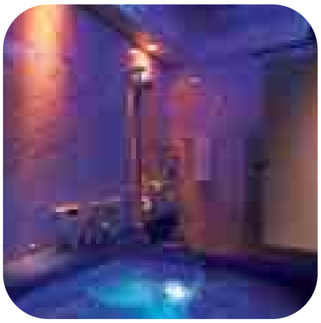
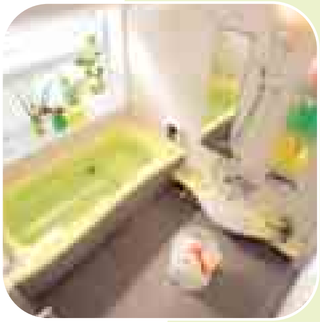
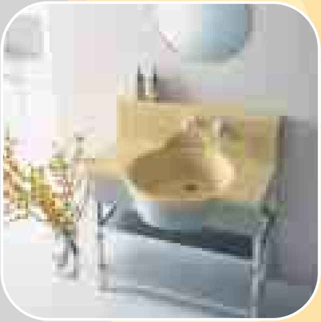
NORITZ







NORITZ Corporation

Annual Report 2002

PROFILE

Established in Kobe in 1951, Noritz Corporation is Japan's leading manufacturer of household water heaters and related products, including Japanese-style bath heaters as well as gas-related and kerosene-fired water heaters for residential and commercial use. As it strives to become a top supplier of a comprehensive range of household products, the Company is diversifying its product lineup to include such products as hot-water floor heaters and bathroom-use drying systems that circulate hot water to generate heat. Additionally, Noritz is continuing the production of such bathroom- and kitchen-related products as luxury baths, vanity units, and system kitchens.

At the end of 1994, in its quest toward creating healthier, more-pleasant, and people-friendly living spaces through the use of water, the Company introduced its new corporate philosophy—"Noritz: Hot water and health, gentleness and tranquillity, and the creation of better lifestyles." Furthermore, by continuing to "Change, Challenge, and Create," Noritz employees are striving to contribute to and play a more active role in society.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note)
	2001	**2002**	**2002**
For the year:			
Net sales	¥154,482	**¥170,184**	**$1,419,383**
Net income	994	**3,312**	**27,623**
Per share data (yen and U.S. dollars):			
Net income	¥ 19.21	**¥ 65.23**	**$ 0.544**
Cash dividends	15.00	**15.00**	**0.125**
At year-end:			
Total assets	¥147,716	**¥154,542**	**$1,288,925**
Total shareholders' equity	78,841	**81,283**	**677,924**

Note: The U.S. dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥119.9 to U.S.$1.00, the rate prevailing at December 31, 2002.

CONTENTS

Forward-looking statements

Statements contained in the Annual Report 2002 regarding business results for fiscal 2002 represent judgments based on currently available information. It should be noted that there is a possibility that actual results could differ significantly from those anticipated due to such factors as exchange rate fluctuations.

Toshiro Ota
Chairman and Representative Director

Katsuhiko Takeshita
President and Representative Director

■ 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.

Toshiro Ota

Toshiro Ota
Chairman and Representative Director

K. Takeshita

Katsuhiko Takeshita
President and Representative Director

Group Company Policies

Noritz Electronics Technology Established

In January 2003, Noritz spun off its components division, which designs and manufactures electronic components, to form Noritz Electronics Technology Co., Ltd. The new company has set up an office in Hong Kong and is building a manufacturing plant in China, which is scheduled to begin operating in May 2003.

In the electronics area, a global market is emerging, and competition is increasingly fierce. Noritz Electronics Technology was created after Noritz clearly recognized the need to further enhance efficiency, accelerate production, and delegate responsibility in the component business in order to create new demand, expand operations, and strengthen product development. Noritz believes that spinning off the division will afford greater flexibility, enhance services for a broader range of customers, strengthen competitiveness through overseas component procurement and other activities, and energize internal divisions. In addition, the Company aims to bolster all-around synergies in the Noritz Group through the new company.

Group Policy Initiatives

In April 2002, Noritz increased its stakes in several subsidiaries, raising its shareholdings in RB from 44% to 51%, in Taisei Kogyo Corporation from 52.3% to 83.6%, and in Shinwa Kogyo Corporation from 82% to 88.7%. Noritz Techno Service changed its name to NTS and began providing after-sale services for TOTO-brand gas-related water heaters as part of the business alignment between Noritz and TOTO.

Noritz Capital Corporation was founded in July 2002 and began operating in October. This company is introducing a cash management system integrating fundraising and financial management services for all Group companies. Noritz Capital will consolidate financial services, such as cash payments and receipts, as a provider of networking and shared services between Group companies. Furthermore, it will offer financial support for quickly nurturing new businesses. The new company will further strengthen Group operations through its focus on cash flow as a conduit for introducing the cash management system.

Noritz began outsourcing salary and social welfare administration to Ritz Kosan in January 2003. Looking ahead, Noritz will outsource wage accounting and other back-office operations to improve efficiency. We intend to accelerate administrative activities and reduce their costs across Group company lines through these initiatives.

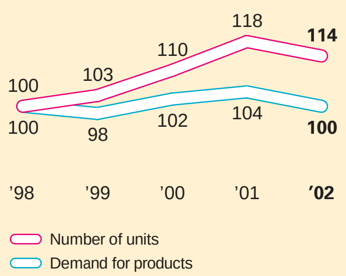
Conversion of Harman Co., Ltd., into a Subsidiary

On April 1, 2003, Noritz obtained 50% of the outstanding shares in Harman Co., Ltd., a gas equipment marketing company of Osaka Gas Co., Ltd. Having already acquired 40% of the outstanding shares in Harman on October 1, 2001, Noritz now has a 90% shareholding in the company.

Harman is engaged in the nationwide marketing of the Harman-brand gas kitchen products and gas water heaters manufactured by Harmanpro and Noritz. In particular, it has an approximately 30% share of the Japanese market for gas built-in ranges and boasts its own special marketing routes, principally involving gas utility companies. In addition, Harman provides products on an OEM basis to kitchen product manufacturers. Since they began collaborating in the gas equipment business in October 2002, Noritz and Osaka Gas have striven to strengthen Harman, which regained its net profitability in the latter half of the fiscal year ended March 31, 2003. Plans call for further augmenting cooperation among Harman, Harmanpro, and Noritz with the goal of quickly developing and launching products that match market needs, thereby bolstering and expanding Harman’s core business in kitchen products. Noritz’s recent acquisition of a majority stake in Harman has converted that marketing company into a Noritz subsidiary with a status similar to that of the development and manufacturing company Harmanpro, in which Noritz also has a 90% shareholding.

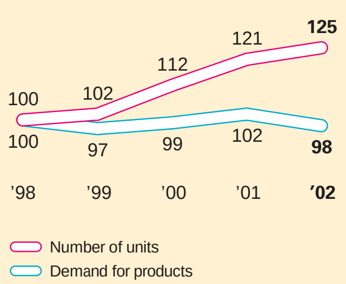
The following graphs show net unit sales, by product category, of Noritz products, along with total unit sales of such products in Japan (demand). The 1998 levels of both Noritz unit sales and total domestic unit sales are set at 100 to facilitate examination of subsequent trends.

Gas Bath Heaters



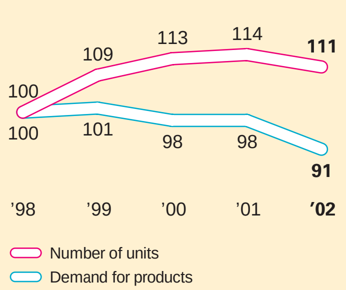
In 2002, domestic demand for gas bath heaters fell 4% from the 2001 level, to 1.81 million units, and the sales volume of Noritz gas bath heaters declined at approximately the same rate. As a result, the domestic market share of Noritz-brand products edged down 0.9 percentage point, to 37.3%. Demand for hot-water-heated flooring systems and other hot-water heating equipment increased 9% and the share of overall demand focused on such products rose. The Company's net sales in this field dropped 7%, to ¥47.1 billion.

Gas-Related Water Heaters



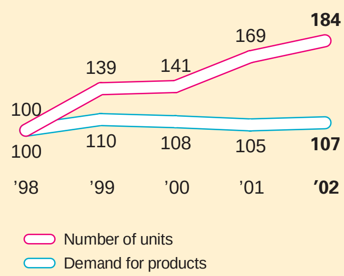
Domestic demand for gas-related water heaters decreased 4%, to below the 1.34 million-unit mark. Although Noritz's domestic sales volume of its own brand also declined, the market share of these products edged up 0.5 percentage point, to 29.1%. As the Company's sales of gas-related water heaters to other companies on an OEM basis also increased, the Company's worldwide sales volume grew. As a result, net sales of gas-related water heaters advanced 2%, to ¥15.4 billion.

Kerosene-Fired Water Heaters



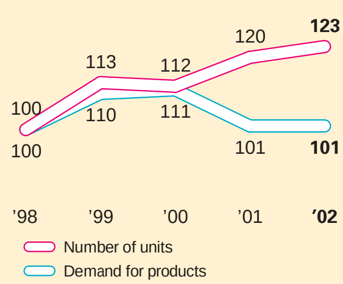
Domestic demand for kerosene-fired water heaters fell 8%, to below the 470,000-unit mark. Noritz was able to restrain the drop in its domestic sales volume to 2%, thereby boosting its market share 0.5 percentage point, to 30.5%. Consequently, the Company's net sales of kerosene-fired water heaters decreased 4%, to ¥15.2 billion.

System Bathrooms for Private Homes



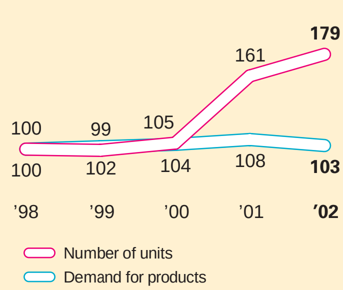
Domestic demand for system bathrooms edged up 2%, to above the 690,000-unit mark. Noritz expanded its domestic sales volume 9%, to above the 55,000-unit mark, thereby boosting its market share to 8%. As a result, the Company's net sales of system bathrooms rose 2%, to ¥16.9 billion, principally reflecting the increased use of those products by house manufacturers and other builders.

System Kitchens for Private Homes



Domestic demand for system kitchens remained stable at approximately 560,000 units, but Noritz increased its domestic sales volume 2%, to above the 30,000-unit mark. Growing unit sales of mid-range products launched in June were an important factor helping boost the Company's net sales of system kitchens 8%, to ¥9.1 billion.

Vanity Units



Domestic demand for vanity units dropped 4%, to below the 1.84 million-unit mark, but Noritz enjoyed strong sales of moderately priced new products, and the Company's domestic sales volume surged 12%, to above the 120,000-unit mark. As a result, Noritz's domestic market share advanced one percentage point, to 6.8%, and the Company's net sales of vanity units rose 9%, to ¥4.8 billion.

* The sales figures do not refer to total sales and include various items (back margins) deducted from non-consolidated sales. The items whose amounts are deducted from sales span a wide range of product categories, making it impossible to calculate total sales in each individual product category.

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

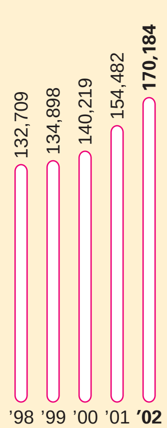
The cost of sales rose 13.6%, to ¥124.7 billion. As the rate of increase in cost of sales exceeded the 10.2% rate of growth in net sales, the gross profit ratio fell 2.3 percentage points, to 26.7%. This mainly reflected the inclusion in consolidated accounts of such subsidiaries as Shanghai Noritz,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

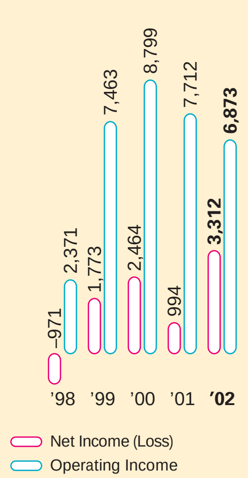
Other Income (Expenses)

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.

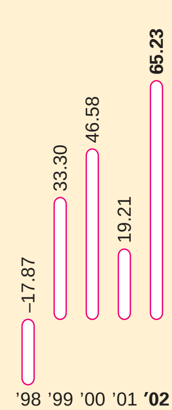
Net Sales
(Millions of yen)



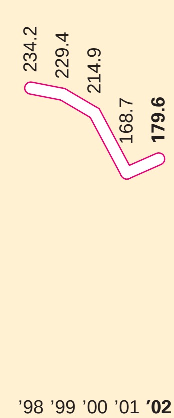
Net Income (Loss) and Operating Income
(Millions of yen)



Net Income (Loss) 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

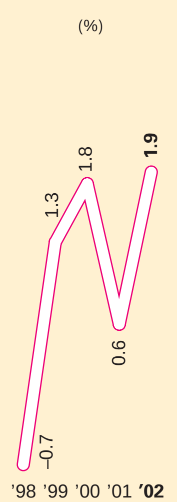
At the end of fiscal 2002, consolidated cash and cash equivalents totaled ¥28.0 billion, up ¥9.8 billion from the end of the previous fiscal year.

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

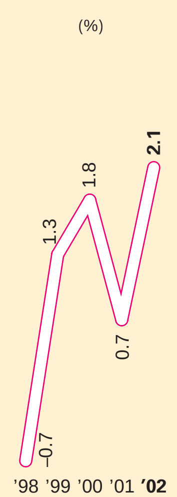
Net cash provided by investing activities totaled ¥2.6 billion, a ¥7.1 billion change from the ¥4.5 billion in net cash used in investing activities in the previous year. This resulted principally from a ¥1.5 billion increase in cash from net proceeds from investment in securities and a ¥3.1 billion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

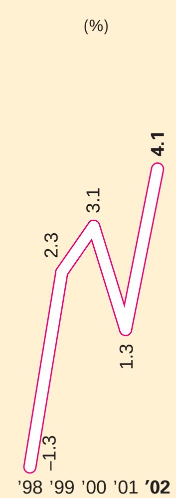
Return on Sales



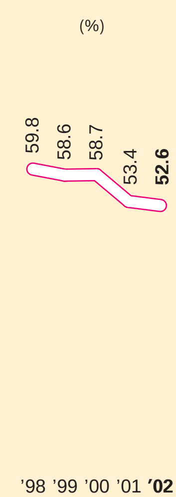
Return on Assets



Return on Equity



Equity Ratio



CONSOLIDATED BALANCE SHEETS

Noritz Corporation and Consolidated Subsidiaries
As of December 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2001	**2002**	**2002**
Current assets:			
Cash and time deposits (Note 3)	¥ 15,725	**¥ 16,475**	**$ 137,406**
Marketable securities (Note 4)	12,485	**13,364**	**111,460**
Receivables—			
Trade notes and accounts	47,697	**53,689**	**447,782**
Other	1,903	**1,873**	**15,621**
Allowance for doubtful receivables	(111)	**(150)**	**(1,251)**
	49,489	**55,412**	**462,152**
Inventories—			
Finished goods and work in process	6,846	**6,491**	**54,137**
Raw materials and supplies	1,668	**1,862**	**15,530**
	8,514	**8,353**	**69,667**
Deferred tax assets (Note 9)	547	**738**	**6,155**
Other	1,030	**3,502**	**29,208**
Total current assets	87,790	**97,844**	**816,048**
Investments and other assets:			
Investments in and loans to non-consolidated subsidiaries and affiliates	2,170	**191**	**1,592**
Investment securities (Note 4)	14,048	**11,649**	**97,156**
Loans receivable	2,274	**2,226**	**18,565**
Lease deposits	3,052	**2,957**	**24,662**
Long-term deferred tax assets (Note 9)	5,230	**5,797**	**48,349**
Allowance for doubtful receivables	(1,930)	**(1,986)**	**(16,564)**
Other	960	**1,303**	**10,868**
	25,804	**22,137**	**184,628**
Property, plant and equipment:			
Land	9,795	**10,385**	**86,614**
Buildings and structures	26,679	**28,350**	**236,447**
Machinery and equipment	46,866	**48,323**	**403,028**
Construction in progress	188	**505**	**4,212**
	83,528	**87,563**	**730,301**
Less accumulated depreciation	(51,538)	**(55,794)**	**(465,338)**
	31,990	**31,769**	**264,963**
Intangible assets	2,132	**2,792**	**23,286**
	¥147,716	**¥154,542**	**$1,288,925**

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2002
Current liabilities:			
Bank loans (Note 7)	¥ —	**¥ 1,046**	**$ 8,724**
Long-term debt due within one year (Note 7)	—	**200**	**1,668**
Payables—			
Trade notes and accounts:			
Non-consolidated subsidiaries and affiliates	3,589	**—**	**—**
Other	39,614	**43,288**	**361,034**
Construction	1,462	**726**	**6,055**
Other	2,644	**3,912**	**32,627**
	47,309	**47,926**	**399,716**
Accrued expenses	1,673	**2,058**	**17,164**
Income taxes and enterprise tax payable	1,454	**2,156**	**17,982**
Other	1,615	**1,102**	**9,191**
Total current liabilities	52,051	**54,488**	**454,445**
Long-term debt due after one year (Note 7)	600	**700**	**5,838**
Employees' severance and retirement benefits (Note 10)	10,399	**11,360**	**94,746**
Directors' and statutory auditors' retirement benefits	638	**801**	**6,681**
Long-term deposits received from customers	3,174	**3,236**	**26,989**
Long-term deferred tax liabilities (Note 9)	199	**189**	**1,576**
Other non-current liabilities	76	**566**	**4,721**
Minority interests in consolidated subsidiaries	1,738	**1,919**	**16,005**
Contingent liabilities (Note 8)			
Shareholders' equity (Note 11):			
Common stock			
Authorised—156,369,000 shares			
Issued—50,797,651 shares	20,168	**20,168**	**168,207**
Additional paid-in capital	22,957	**22,957**	**191,468**
Retained earnings	35,799	**38,494**	**321,051**
Net unrealised holding losses on securities	(239)	**(386)**	**(3,219)**
Foreign currency translation adjustments	163	**86**	**717**
Treasury stock, at cost—5,475 shares in 2001 and 34,473 shares in 2002	(7)	**(36)**	**(300)**
Total shareholders' equity	78,841	**81,283**	**677,924**
	¥147,716	**¥154,542**	**$1,288,925**

CONSOLIDATED STATEMENTS OF INCOME

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	**2002**	**2002**
Net sales	¥154,482	**¥170,184**	**$1,419,383**
Cost of sales	109,754	**124,712**	**1,040,133**
Selling, general and administrative expenses	37,016	**38,599**	**321,927**
Operating income	7,712	**6,873**	**57,323**
Other income (expenses):			
Interest and dividend income	485	**315**	**2,627**
Interest expense	(95)	**(61)**	**(509)**
Equity in losses of affiliates	(159)	**(148)**	**(1,234)**
Write-down of securities	(1,128)	**(171)**	**(1,426)**
Loss on sales of securities	(177)	**(44)**	**(367)**
Gain on return of substitutional portion of employee pension fund	—	**2,298**	**19,167**
Loss on sales and disposal of property, plant and equipment	(1,027)	**(593)**	**(4,946)**
Write-down of golf club memberships	(78)	**(7)**	**(58)**
Effect of adopting new accounting standard for retirement benefits	(2,784)	**(2,625)**	**(21,893)**
Expenses of withdrawing from new software system implementation	(371)	**—**	**—**
Expenses for the repair of products on recall	(340)	**(298)**	**(2,485)**
Other, net	522	**832**	**6,937**
	(5,152)	**(502)**	**(4,187)**
Income before income taxes	2,560	**6,371**	**53,136**
Income taxes:			
Current	3,003	**3,744**	**31,226**
Deferred	(1,601)	**(771)**	**(6,430)**
Minority interests	(164)	**(86)**	**(717)**
Net income	¥ 994	**¥ 3,312**	**$ 27,623**

	Yen		U.S. dollars (Note 1)
Net income per share	¥ 19.21	**¥ 65.23**	**$ 0.54**

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2001 and 2002

		Millions of yen					
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings	Net unrealised holding losses on securities	Foreign currency translation adjustments	Treasury stock
Balance at December 31, 2000	52,318	¥20,168	¥22,957	¥37,594	¥ —	¥ —	¥ (1)
Net income				994			
Increase in retained earnings, resulting from merger of an unconsolidated subsidiary with a consolidated subsidiary				30			
Net unrealised holding losses on securities					(239)		
Adjustments from translation of foreign currency financial statements						163	
Cash dividends paid, ¥15.00 per share				(774)			
Bonuses to directors and statutory auditors				(66)			
Common stock purchased and retired	(1,520)			(1,979)			
Treasury stock purchased							(6)
Balance at December 31, 2001	50,798	¥20,168	¥22,957	¥35,799	¥(239)	¥163	¥ (7)
Net income				**3,312**			
Adjustment at beginning of year for initial inclusion of subsidiaries in consolidation				**189**			
Net unrealised holding losses on securities					**(147)**		
Adjustments from translation of foreign currency financial statements						**(77)**	
Cash dividends paid, ¥15.00 per share				**(761)**			
Bonuses to directors and statutory auditors				**(45)**			
Treasury stock purchased							**(29)**
Balance at December 31, 2002	**50,798**	**¥20,168**	**¥22,957**	**¥38,494**	**¥(386)**	**¥ 86**	**¥(36)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealised holding losses on securities	Foreign currency translation adjustments	Treasury stock
Balance at December 31, 2001	$168,207	$191,468	$298,574	$(1,997)	$1,357	$ (57)
Net income			**27,623**			
Adjustment at beginning of year for initial inclusion of subsidiaries in consolidation			**1,576**			
Net unrealised holding losses on securities				**(1,222)**		
Adjustments from translation of foreign currency financial statements					**(640)**	
Cash dividends paid, $0.125 per share			**(6,347)**			
Bonuses to directors and statutory auditors			**(375)**			
Treasury stock purchased						**(243)**
Balance at December 31, 2002	**$168,207**	**$191,468**	**$321,051**	**$(3,219)**	**$ 717**	**$(300)**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	**2002**	**2002**
Cash flows from operating activities:			
Income before income taxes	¥ 2,560	**¥ 6,371**	**$ 53,136**
Depreciation	4,527	**5,857**	**48,849**
Interest and dividend income	(485)	**(315)**	**(2,627)**
Interest expense	95	**61**	**509**
Write-down of securities	1,128	**171**	**1,426**
Equity in losses of affiliates	159	**148**	**1,234**
Loss on sales and disposal of property, plant and equipment	1,027	**593**	**4,946**
Increase in trade notes and accounts receivable	(1,556)	**(6,029)**	**(50,284)**
Decrease in inventories	1,134	**759**	**6,330**
Increase (decrease) in allowance for doubtful receivables	(45)	**66**	**551**
Increase in trade notes and accounts payable	5,438	**295**	**2,461**
Increase in employees' retirement benefits	5,044	**671**	**5,596**
Decrease in long-term accrued debt	(709)	**—**	**—**
Other	(1,296)	**805**	**6,714**
Subtotal	17,021	**9,453**	**78,841**
Interest and dividends received	494	**327**	**2,727**
Interest paid	(94)	**(60)**	**(500)**
Income taxes paid	(3,026)	**(3,111)**	**(25,947)**
Net cash provided by operating activities	14,395	**6,609**	**55,121**
Cash flows from investing activities:			
Investments in time deposits	(7,023)	**(7,785)**	**(64,929)**
Proceeds from time deposits	8,121	**11,936**	**99,550**
Additions to securities	(8,544)	**(3,338)**	**(27,840)**
Proceeds from sales of securities	11,115	**7,404**	**61,751**
Additions to property, plant and equipment	(5,640)	**(4,926)**	**(41,084)**
Proceeds from sales of property, plant and equipment	41	**173**	**1,443**
Payments for loans receivable	(1,336)	**(17)**	**(142)**
Proceeds from loans receivable	358	**68**	**567**
Cash acquired (paid) in purchases of stock of subsidiaries	(1,513)	**550**	**4,587**
Other	(95)	**(1,432)**	**(11,943)**
Net cash used in investing activities	(4,516)	**2,633**	**21,960**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(3,323)	**721**	**6,013**
Repayments of long-term debt	(4,364)	**(300)**	**(2,502)**
Payments for purchases of common stock retired	(1,984)	**—**	**—**
Dividends paid	(774)	**(761)**	**(6,347)**
Dividends paid to minority shareholders in consolidated subsidiaries	(8)	**(15)**	**(125)**
Other	—	**(27)**	**(225)**
Net cash used in financing activities	(10,453)	**(382)**	**(3,186)**
Foreign currency adjustments	—	**(36)**	**(300)**
Net increase (decrease) in cash and cash equivalents	(574)	**8,824**	**73,595**
Cash and cash equivalents at beginning of year	18,657	**18,107**	**151,026**
Increase in cash and cash equivalents due to:			
Merger of an unconsolidated and a consolidated subsidiary	24	**—**	**—**
Initial consolidation of subsidiaries	—	**1,023**	**8,532**
Cash and cash equivalents at end of year	¥18,107	**¥27,954**	**$233,153**

See accompanying notes.

1. BASIS OF FINANCIAL STATEMENTS

Noritz Corporation (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at December 31, 2002, which was ¥119.9 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 12 (8 in 2001) significant companies over which the Company has power of control through majority voting right or existence of certain conditions evidencing control by the Company. Investments in a nonconsolidated subsidiary and 1 (2 in 2001) affiliate over which the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for on the equity method.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The difference, if considered significant, between the cost of investments and equity in subsidiaries' net assets at dates of acquisition is amortised over five years.

(2) Securities

Prior to January 1, 2001, securities of the Company and its consolidated subsidiaries (the "Companies") were stated at moving-average cost.

Effective January 1, 2001, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Trading securities are stated at fair market value. Gains and losses realised on disposal and unrealised gains and losses from market value fluctuations are recognised as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortised cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealised gains and unrealised losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realised gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortised cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognised as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

As a result of adopting the new accounting standard for financial instruments, income before income taxes in 2001 increased by ¥636 million.

(3) Derivatives and hedge accounting
The new accounting standard for financial instruments, effective from the year ended December 31, 2001, requires companies to state derivative financial instruments at fair value and to recognise changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognised.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(4) Inventories
With respect to the Company, finished products and work in process are valued at weighted-average cost, whereas purchased goods, raw materials and supplies are valued at moving-average cost.

With respect to the consolidated subsidiaries, inventories are valued at weighted-average cost, last purchase costs or the first-in, first-out cost method.

(5) Property, plant and equipment
Property, plant and equipment are carried at cost. Depreciation is provided on a declining-balance method over the estimated useful lives of the assets. However, in accordance with changes in the Corporation Tax Law, effective April 1, 1998, the Companies depreciate newly acquired buildings on the straight-line method.

(6) Research and development expenses
Research and development expenses are charged to income as incurred. Such expenses for the years ended December 31, 2001 and 2002 were ¥4,367 million and ¥4,777 million ($39,841 thousand), respectively.

(7) Software costs
The Companies include software in intangible assets and depreciate it using the straight-line method over the estimated useful lives (five years).

(8) Allowance for doubtful receivables
The allowance for doubtful receivables is provided for in an amount sufficient to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

(9) Bonuses
The Companies follow the general Japanese practice of paying bonuses to employees in July and December. Accrued bonus liabilities of the Companies at the balance sheet date are calculated based upon management's estimate of annual amounts thereof. Accrued bonuses are included in the liability for accrued expenses in the consolidated balance sheets.

Bonuses to directors and statutory auditors, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

(10) Reserve for product warranty
The reserve for product warranty is calculated on the basis of sales of products and actual product warranties in the past. The reserve is included in the liability for accrued expenses in the consolidated balance sheets.

(11) Income taxes
The Companies use the asset and liability approach to recognise deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(12) Retirement benefits

(i) Employees
The Companies provide two types of post-employment benefit plans: unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

Effective January 1, 2001, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Companies provided for employees' severance and retirement benefits at December 31, 2001 and 2002 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of January 1, 2001 and the liabilities for severance and retirement benefits recorded as of January 1, 2001 (the "net transition obligation") amounted to ¥8,583 million and is being recognised in expenses in approximately equal amounts primarily over three years commencing with the year ended December 31, 2001. Prior service costs are recognised in expenses in equal amounts over three years, and actuarial gains and losses are recognised in expenses using the straight-line method over 10 years commencing with the following period.

As a result of the adoption of the New Accounting Standard, in the year ended December 31, 2001, severance and retirement benefit expenses increased by ¥3,052 million and income before income taxes decreased by ¥3,052 million compared with what would have been recorded under the previous accounting standard.

The Company obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion that the Company operates for the government (the so-called substitutional portion) on November 26, 2002. Pursuant to transitional measures of Paragraph 47-2 of "Practical Guidelines of Accounting for Retirement Benefits (JICPA's Accounting Committee Report No. 13)," the Company recognised a gain on the relinquishment of the substitutional portion of the retirement benefit obligations of welfare pension funds on the date when the exemption was approved. The amount of the relinquished fair value of pension assets for the year ended December 31, 2002 is ¥6,295 million ($52,502 thousand).

(ii) Directors and statutory auditors

The liability for directors' and statutory auditors' retirement benefits is provided based upon the Company's internally established criteria.

(13) Translation of foreign currencies

Short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to January 1, 2001, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective January 1, 2001, the Companies adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated income statement of adopting the Revised Accounting Standard was immaterial.

Due to the adoption of the Revised Accounting Standard, the Companies report foreign currency translation adjustments in shareholders' equity.

(14) Accounting for leases

Finance leases which do not transfer ownership may be accounted for in the same manner as operating leases under generally accepted accounting principles in Japan.

(15) Net income per share

Computations of net income per share of common stock are based on the weighted average number of shares adjusted for any stock splits. Diluted net income per share is not disclosed because there were no potentially dilutive securities.

(16) Cash and cash equivalents and statements of cash flow

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

3. STATEMENTS OF CASH FLOWS

The reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2001 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Cash and time deposits in the consolidated balance sheets	¥15,725	**¥16,475**	**$137,406**
Marketable securities	12,485	**13,364**	**111,460**
Other (trust)	—	**2,000**	**16,685**
Time deposits with maturities exceeding 3 months	(5,795)	**(1,849)**	**(15,419)**
Bonds with maturities exceeding 3 months	(4,308)	**(2,036)**	**(16,979)**
Cash and cash equivalents in the consolidated statements of cash flows	¥18,107	**¥27,954**	**$233,153**

4. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

The following tables summarise acquisition costs and book values (fair values) of securities with available fair values as of December 31, 2001 and 2002:

Available-for-sale securities

Securities with book values exceeding acquisition costs are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2001			**2002**			**2002**		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥2,811	¥3,511	¥700	**¥1,348**	**¥1,704**	**¥356**	**$11,243**	**$14,212**	**$2,969**
Bonds	1,526	1,564	38	**1,432**	**1,452**	**20**	**11,943**	**12,110**	**167**
Others	102	109	7	**—**	**—**	**—**	**—**	**—**	**—**
Total	¥4,439	¥5,184	¥745	**¥2,780**	**¥3,156**	**¥376**	**$23,186**	**$26,322**	**$3,136**

Other securities are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2001			**2002**			**2002**		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 1,860	¥ 1,510	¥ (350)	**¥ 3,110**	**¥2,524**	**¥ (586)**	**$25,938**	**$21,051**	**$(4,887)**
Bonds	11,525	10,950	(575)	**6,828**	**6,530**	**(298)**	**56,947**	**54,462**	**(2,485)**
Others	1,931	1,698	(233)	**976**	**761**	**(215)**	**8,140**	**6,347**	**(1,793)**
Total	¥15,316	¥14,158	¥(1,158)	**¥10,914**	**¥9,815**	**¥(1,099)**	**$91,025**	**$81,860**	**$(9,165)**

The following tables summarise book values of securities with no available fair values as of December 31, 2001 and 2002.

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
Type	2001	**2002**	**2002**
Non-listed equity securities	¥ 131	**¥ 151**	**$ 1,259**
Mutual funds	5,658	**185**	**1,543**
Commercial paper	1,399	**11,794**	**98,365**
Total	¥7,188	**¥12,130**	**$101,167**

Available-for-sale securities with maturities mature as follows:

	Millions of yen									Thousands of U.S. dollars				
	2001				**2002**					**2002**				
	Within one year	Within five years	Within ten years	Total	Within one year	Within five years	Within ten years	Over ten years	Total	Within one year	Within five years	Within ten years	Over ten years	Total
Bonds	¥4,250	¥5,177	¥500	¥ 9,927	**¥1,000**	**¥5,118**	**¥700**	**¥500**	**¥7,318**	**$8,340**	**$42,685**	**$5,838**	**$4,170**	**$61,033**
Others	—	339	—	339	**9**	**333**	**—**	**—**	**342**	**75**	**2,777**	**—**	**—**	**2,852**
Total	¥4,250	¥5,516	¥500	¥10,266	**¥1,009**	**¥5,451**	**¥700**	**¥500**	**¥7,660**	**$8,415**	**$45,462**	**$5,838**	**$4,170**	**$63,885**

Total sales of available-for-sale securities in the year ended December 31, 2001 amounted to ¥11,276 million and the related gains and losses amounted to ¥165 million and ¥342 million, respectively.

Total sales of available-for-sale securities in the year ended December 31, 2002 amounted to ¥7,400 million ($61,718 thousand) and the related gains and losses amounted to ¥49 million ($408 thousand) and ¥86 million ($717 thousand), respectively.

The loss on write-down of other securities for the year ended December 31, 2002 was ¥138 million ($1,150 thousand).

5. DERIVATIVE TRANSACTIONS

The Company entered into interest rate swap contracts to manage risk and reduce exposure to interest rate fluctuations in respect of time certificates and other monetary assets. As a part of investment of available funds, at December 31, 2001 and 2002, the Company also utilises some compound financial investments which include derivatives within the specified limits on the amounts of transactions allowed. The compound financial instruments are exposed to the risk of the fluctuation of the Nikkei Stock Average. To minimise credit risk, the Company uses highly rated financial institutions as counterparties to these transactions. The Company has established policies that restrict dealing in derivatives and that require reviews and reporting to the Board of Directors.

At December 31, 2001 and 2002, the Company had no interest rate swap contracts.

The compound financial instruments, which cannot be evaluated separately from a part of an embedded derivative, are evaluated at market value. This information is included in Note 4.

6. LEASES

Finance leases, except for those in which ownership is deemed to be transferred to the lessee, are accounted for as operating leases. Equivalent purchase amount, accumulated depreciation and future minimum lease payments on an "as if capitalized" basis at December 31, 2001 and 2002 are as follows:

	Millions of yen						Thousands of U.S. dollars
	2001			**2002**			**2002**
	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total	Total
Original lease obligation (including finance charges)	¥2,167	¥149	¥2,316	**¥2,337**	**¥137**	**¥2,474**	**$20,634**
Payments remaining	1,181	93	1,274	**1,156**	**77**	**1,233**	**10,284**
Payments due within one year			386			**425**	**3,545**
Payments due after one year			888			**808**	**6,739**
Total			¥1,274			**¥1,233**	**$10,284**

Total lease payments under non-capitalised finance leases for the years ended December 31, 2001 and 2002 were ¥512 million and ¥468 million ($3,903 thousand), respectively.

Lease payments and equivalent depreciation for the years ended December 31, 2001 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Lease payments	¥512	**¥468**	**$3,903**
Equivalent depreciation	512	**468**	**3,903**

Future minimum rents under non-cancellable operating leases at December 31, 2001 and 2002 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Due within one year	¥2	**¥ 6**	**$ 50**
Due after one year	3	**6**	**50**
	¥5	**¥12**	**$100**

7. BANK LOANS AND LONG-TERM DEBT

Short-term bank loans and long-term debt at December 31, 2001 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
1.08% bank loans	¥ —	**¥1,046**	**$8,724**
Short-term bank loans	¥ —	**¥1,046**	**$8,724**
1.5% to 1.68% bank loans	¥600	**¥ 900**	**$7,506**
Less: due within one year	—	**200**	**1,668**
Long-term debt due after one year	¥600	**¥ 700**	**$5,838**

8. CONTINGENT LIABILITIES

At December 31, 2002, the Companies were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes endorsed	¥ 1	$ 8
As guarantor of indebtedness of an affiliate and other companies	1,712	14,279
	¥1,713	$14,287

9. INCOME TAXES

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 42% for the years ended December 31, 2001 and 2002.

The following table summarises the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended December 31, 2001 and 2002.

	Percentage	
	2001	**2002**
Statutory tax rate:	42.0%	**42.0%**
Permanently non-deductible expenses	6.4	**1.7**
Permanently non-taxable dividend income	(1.0)	**(0.5)**
Per capita inhabitants' tax	1.9	**0.8**
Equity in loss of affiliates	4.0	**1.0**
Other	1.5	**1.7**
Effective tax rate	54.8%	**46.7%**

Significant components of the Companies' deferred tax assets and liabilities as of December 31, 2001 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Deferred tax assets:			
Employees' retirement benefits	¥3,635	**¥4,039**	**$33,687**
Excess bad-debt expenses	1,146	**1,146**	**9,558**
Directors' and statutory auditors' retirement benefits	268	**336**	**2,802**
Accrued enterprise tax	137	**200**	**1,668**
Write-down of securities	388	**573**	**4,779**
Loss carryforwards (for tax purposes)	—	**215**	**1,793**
Other	236	**183**	**1,526**
Total deferred tax assets	5,810	**6,692**	**55,813**
Valuation allowance	(33)	**(158)**	**(1,318)**
Net deferred tax assets	5,777	**6,534**	**54,495**
Deferred tax liabilities:			
Land	(199)	**(188)**	**(1,568)**
Net deferred tax assets	¥5,578	**¥6,346**	**$52,927**

10. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

As explained in Note 2 (12) Retirement benefits, (i) Employees, effective January 1, 2001, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheet as of December 31, 2001 and 2002 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Projected benefit obligation	¥29,864	**¥24,846**	**$207,223**
Unrecognised prior service costs	1,099	**62**	**517**
Unrecognised actuarial differences	(1,540)	**(4,611)**	**(38,457)**
Less fair value of pension assets	(13,309)	**(7,043)**	**(58,741)**
Less unrecognised net transition obligation	(5,715)	**(1,894)**	**(15,796)**
Liabilities for severance and retirement benefits	¥10,399	**¥11,360**	**$ 94,746**

Included in the consolidated statements of income for the years ended December 31, 2001 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	**2002**	**2002**
Service costs—benefits earned during the year	¥1,723	**¥1,545**	**$12,886**
Interest cost on projected benefit obligation	811	**799**	**6,664**
Expected return on plan assets	(706)	**(416)**	**(3,469)**
Amortisation of prior service costs	(99)	**(339)**	**(2,827)**
Amortisation of actuarial differences	5	**149**	**1,243**
Amortisation of net transition obligation	2,786	**2,687**	**22,409**
Severance and retirement benefit expenses	¥4,520	**¥4,425**	**$36,906**

The discount rates and the rates of expected return on plan assets used by the Company are 2.7%–3.0% and 3.5%–5.5% in 2001 and 2.7% and 3.5% in 2002, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

11. SHAREHOLDERS' EQUITY

(1) Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Effective October 1, 2001, the Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of the legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalised by resolution of the Board of Directors. On condition that the total amount of the legal reserve and additional paid-in capital remains equal to or exceeding 25% of common stock, they are available for dividends by the resolution of the shareholders' meeting. The legal reserve is included in retained earnings in the accompanying financial statements.

(2) The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

(3) The Company repurchased with aggregate value of ¥1,979 million and retired 1,520,000 shares of its common stock in accordance with resolutions of the directors' meeting held on April 6, 2001.

12. SEGMENT INFORMATION

The Companies primarily are engaged in the manufacture and sale of household-related products, bath heaters, water heaters and bathroom- and kitchen-related products.

As these activities comprise one industry segment, segment information by industry is not disclosed. As sales outside Japan are less than 10% of the Company's consolidated net sales, segment information by geographic area is not disclosed.

13. SUBSEQUENT EVENT

Appropriation of retained earnings

At the ordinary shareholders' meeting of the Company held on March 28, 2003, the following appropriations of retained earnings for the year ended December 31, 2002 were duly approved:

	Millions of yen	Thousands of U.S. dollars
Appropriations:		
Cash dividends	¥380	$3,169
Bonuses to directors and statutory auditors	42	35

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of Noritz Corporation:

We have audited the accompanying consolidated balance sheets of Noritz Corporation (a Japanese corporation) and subsidiaries as of December 31, 2001 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Noritz Corporation and subsidiaries at December 31, 2001 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis, except as noted in the following paragraphs.

As explained in Note 2, in the year ended December 31, 2001, Noritz Corporation and subsidiaries prospectively adopted new Japanese accounting standards for financial instruments, retirement benefits and foreign currency translations.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

ASAHI & CO.

Osaka, Japan
March 28, 2003

FIVE-YEAR CONSOLIDATED SUMMARY

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31

	Millions of yen					Thousands of U.S. dollars (Note)
	1998	1999	2000	2001	**2002**	**2002**
For the year:						
Net sales	¥132,709	¥134,898	¥140,219	¥154,482	**¥170,184**	**$1,419,383**
Cost of sales	94,752	92,850	96,696	109,754	**124,712**	**1,040,133**
Selling, general and administrative expenses	35,586	34,585	34,724	37,016	**38,599**	**321,927**
Operating income	2,371	7,463	8,799	7,712	**6,873**	**57,323**
Income before income taxes	644	5,098	5,025	2,560	**6,371**	**53,136**
Current income taxes	994	3,261	3,205	3,003	**3,744**	**31,226**
Net income (loss)	(971)	1,773	2,464	994	**3,312**	**27,623**
Per share data (yen and U.S. dollars):						
Net income (loss)	¥ (17.87)	¥ 33.30	¥ 46.58	¥ 19.21	**¥ 65.23**	**$ 0.544**
Diluted net income per share	—	32.94	45.84	19.21	**65.23**	**0.544**
Cash dividends	15.00	15.00	15.00	15.00	**15.00**	**0.125**
At year-end:						
Total assets	¥128,395	¥132,439	¥137,422	¥147,716	**¥154,542**	**$1,288,925**
Total shareholders' equity	76,731	77,674	80,718	78,841	**81,283**	**677,924**
Number of employees	3,728	3,475	3,377	4,090	**4,401**	
Ratios:						
Return on equity	(1.3)%	2.3%	3.1%	1.3%	**4.1%**	
Return on sales	(0.7)	1.3	1.8	0.6	**1.9**	
Return on assets	(0.7)	1.3	1.8	0.7	**2.1**	

Note: The U.S. dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥119.9 to U.S.$1.00, the rate prevailing at December 31, 2002.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

Noritz Corporation

Chairman and Representative Director
Toshiro Ota

President and Representative Director
Katsuhiko Takeshita

Vice President
Katsushi Okamura

Senior Managing Directors
Shigeharu Kanzaki
Hidekazu Kumazawa

Managing Directors
Yutaka Nakayama
Tatsuhiko Funahashi
Toshiaki Kabe

Directors
Kunio Koenuma
Osamu Yoshida
Masao Kodera
Hideo Ueda
Yuji Nishibata
Hirokazu Ueda
Soichiro Kokui
Toshiyuki Otaki

Corporate Auditors
Minoru Uehara
Fumio Nakayama
Takeshi Okamoto

(As of March 31, 2003)

CORPORATE DATA

Noritz Corporation

Established
March 10, 1951

Paid-in Capital
¥20,168 million

Common Stock
Authorized: 156,369,000 shares
Issued: 50,797,651 shares

Number of Shareholders
5,930

Head Office
93 Edo-machi, Chuo-ku,
Kobe 650-0033, Japan
Telephone: (078) 391-3361
Facsimile: (078) 332-3046
Telex: 05622688 NORITZ J
Cable Address: KJNORITZ KOBE

Research Facilities
Akashi, Hyogo Prefecture
Asahikawa, Hokkaido
Hachioji, Tokyo

Factories
Hyogo Prefecture: 3
Ibaraki Prefecture: 1

(As of December 31, 2002)

Major Shareholders

	Number of shares held (Thousands)	Percentage of total shares issued (%)
Japan Trustee Services Bank, Ltd.	5,015	9.9
The Dai-ichi Mutual Life Insurance Company	2,967	5.8
The Master Trust Bank of Japan, Ltd.	2,876	5.7
The Mitsui Sumitomo Bank, Ltd.	2,533	5.0
The UFJ Bank, Ltd.	1,695	3.3
State Street Bank & Trust Company	1,549	3.0
The Employees' Shareholding Association	1,496	2.9
Toshiro Ota	1,350	2.7
The Noritz Customer Shareholding Association	1,289	2.5
The Gunma Bank, Ltd.	1,087	2.1

(As of December 31, 2002)

Subsidiaries

Name	Issued share capital (Millions of yen, unless otherwise noted)	Percentage owned by Noritz (%)	Principal business
NTS Corporation	50	100.0	After-Sales Service and Product Installation
Noritz Jusetsu Corporation	10	100.0	Sale of Housing-Related Products
Taisei Kogyo Corporation	95	83.6	Manufacture and Sale of Water Heater Components
Shinwa Kogyo Corporation	10	88.7	Manufacture and Sale of Water Heater Components
Kanto Sangyo Co., Ltd.	22	100.0	Manufacture and Sale of Kitchen Products
Harmanpro Co., Ltd.	800	90.0	Manufacture and Sale of Water Heater Components
Tada-Smith Company, Ltd.	100	100.0	Manufacture and Sale of Water Heater Components
Suoh Kinzoku Kogyo Co., Ltd.	50	100.0	Manufacture and Sale of Water Heater Components
Ritz Kosan Co., Ltd.	20	100.0	Real Estate and Casualty Insurance Agency Operations
RB Corporation	88	51.0	Manufacture and Sale of Water Heater Components
Shanghai Noritz Co., Ltd.	US$14,600 thousand	95.0	Manufacture and Sale of Water Heater Components
Noritz Capital Corporation	30	100.0	Provision of Accounting and Financing Services for Noritz Group Companies

Notes: 1. Anchor Systems, Noritz America Corporation, Kitano Noritz Corporation, and Noritz Electronics (H.K.) Technology Co., Ltd., have been eliminated from Noritz's consolidated account.
2. Harman Co., Ltd. (in which Noritz has a 40% investment), is a consolidated subsidiary accounted for by the equity method.

(As of December 31, 2002)

NORITZ CORPORATION

93 Edo-machi, Chuo-ku, Kobe 650-0033, Japan
Telephone: (078) 391-3361
Facsimile: (078) 332-3046
Telex: 05622688 NORITZ J
Cable Address: KJNORITZ KOBE

Printed on recycled paper
Printed in Japan