

## Results of Operations

### Net Sales

In fiscal 2003, ended December 31, 2003, the Japanese economy continued to experience deflation, and employment as well as income conditions remained severe. However, beginning in the latter half of the year, signs of recovery began to emerge gradually, including recovery in private capital investment and exports. On the other hand, the international economy faced additional risk factors, including anxiety regarding terrorist activities following the end of the military action in Iraq and concern about another outbreak of SARS as well as other possible developments.

Conditions in Japan's housing-related industries remained challenging. Although new housing starts in 2003 rose above the levels of the previous year for the first time in three years, competition in the market for housing refurbishment became more intense.

Amid this environment, Noritz Corporation (the "Company") and its consolidated subsidiaries (the "Group") proceeded with the implementation of their current management strategy, the "Create 21 First-Phase Medium-Term Management Plan." Under this plan, the Group endeavored to better understand and focus on the needs of its customers and provide products and services that enhance the amenity and ambience of bathrooms and kitchens. Although the operating environment was difficult and price competition was intense, the Group focused especially on securing appropriate levels of profitability by offering value-added products. The Group also concentrated on making further reductions in costs and improving productivity through application of the Noritz Production System (NRPS) in all its production facilities, while insisting on placing top priority on quality.

As a result of these activities, net sales amounted to ¥170.1 billion, representing a slight decline of 0.1% from the previous fiscal year, but operating income posted a gain of 17.5%, to ¥8.1 billion. Net income declined 4.6%, to ¥3.2 billion. The decline in net income despite the upward trend in operating income was because of the absence in 2003 of a ¥2.3 billion gain in the previous fiscal year due to the return of the substitutional portion of the Company's pension fund liabilities.

### Costs of Sales, SG&A, and Other Income (Expenses)

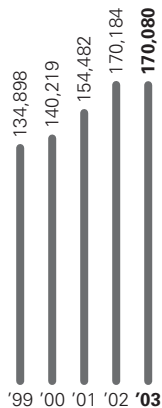
The cost of sales declined ¥6.1%, to ¥117.1 billion, and the cost of goods sold ratio dropped 4.4 percentage points, from 73.3%, to 68.9%. This was primarily the result of cost reduction measures related to materials and other items in Noritz's water heater and air-conditioning equipment business.

On the other hand, selling, general and administrative (SG&A) expenses were up 16.3%, to ¥44.9 billion. As a consequence, the ratio of SG&A to sales rose 3.7 percentage points, to 26.4%. Major factors accounting for this rise were the increases in personnel expenses and retirement benefit costs accompanying the consolidation of additional subsidiaries. As a result of these and other factors, operating income climbed 17.5%, to ¥8.1 billion, and the ratio of operating income to sales rose 0.7 percentage point, to 4.7%. R&D expenditures reported for the year were ¥4.4 billion, and the ratio of R&D costs to sales declined 0.2 percentage point, to 2.6%.

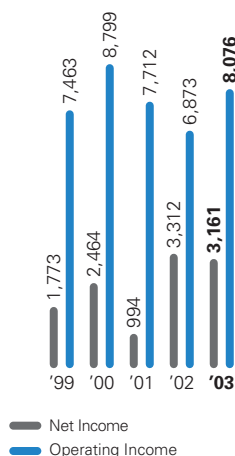
### Other income (expenses)

Other income (expenses), net, which amounted to expenses of ¥0.5 billion in the previous year rose to expenses of ¥2.0 billion in the year under review. The major factors influencing the level of net expenses were the absence in fiscal 2003 of the

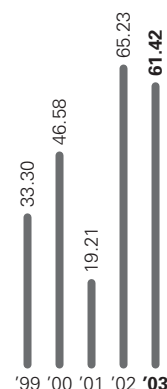
**Net Sales**  
(Millions of yen)



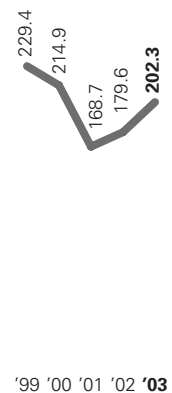
**Net Income and Operating Income**  
(Millions of yen)



**Net Income per Share**  
(Yen)



**Current Ratio**  
(%)



mentioned gain on the return of the substitutional portion of the employee pension fund reported in fiscal 2002. As a result of these factors, income before income taxes decline 4.0%, to ¥6.1 billion.

Reflecting the above mentioned items, net income declined a slight 4.6%, to ¥3.2 billion. The return on sales also decreased marginally, to 1.9%. Similarly, the ratio of net income to total shareholders' equity was down 0.3 percentage point, from 4.1%, to 3.8%.

## Financial Position

The Group's total assets at fiscal year-end amounted to ¥154.6 billion, or virtually the same as for the previous fiscal year-end. Of this total, current assets rose ¥4.3 billion over the prior year, but this was almost exactly offset by a decline in fixed assets of ¥4.2 billion. Among current assets, cash and time deposits rose ¥13.7 billion, owing to inflows from the maturing of securities and a reduction in assets management by Noritz Capital Corporation. On the other hand, marketable securities declined ¥4.0 billion, while trade notes and accounts and other receivables were down ¥5.2 billion, accompanying the decline in Noritz sales. Among fixed assets, the sale of stocks and other securities resulted in a decline of ¥3.2 billion, and long-term loans receivable were down ¥2.1 billion.

The Group's total liabilities declined ¥1.8 billion, or 2.5%, to ¥69.6 billion. Of this total, current liabilities fell ¥4.0 billion, and fixed liabilities were up ¥2.2 billion. Among current liabilities, the drop in payables accompanying the Noritz sales and other factors contributed to the decline. Within fixed liabilities, the gain in employees' severance and retirement benefits was the main item accounting for the overall increase. Long-term debt due after one year of ¥0.7 billion reported in fiscal 2002 was reduced

to zero at the end of fiscal 2003. As a result, the Group's only interest-bearing debt was ¥2.0 billion in short-term borrowings.

Total shareholders' equity rose ¥2.1 billion, or 2.6%, to ¥83.4 billion. This increase was primarily due to a rise of ¥2.3 billion in retained earnings, primarily accounted for by net income for the period. As a result, the Group's ratio of shareholders' equity to total assets rose 1.3 percentage points, from 52.6%, to 53.9%. In addition, the Group's current ratio increased from 179.6% to 202.3%. The ratio of interest-bearing debt to shareholders' equity was 2.4%, virtually the same as for the previous fiscal year. As these figures suggest, the Group continues to maintain a strong financial position.

## Cash Flows

Net cash provided by operating activities increased ¥3.7 billion, to ¥10.3 billion. The principal factors accounting for this were income before income taxes of ¥6.1 billion, depreciation of ¥5.4 billion, an increase in employees' retirement benefits of ¥2.5 billion, a decrease in trade notes and accounts receivable of ¥5.5 billion, and a decrease in trade notes and accounts payable of ¥6.1 billion.

Net cash provided by investing activities was ¥37 million, a decline of ¥2.6 billion from the previous year. This was mainly due to net proceeds from repayment of time deposits of ¥0.3 billion, net proceeds from the acquisition and sale of securities of ¥3.6 billion, and expenditures for the purchase of property, plant and equipment of ¥3.9 billion.

Net cash used in financing activities rose ¥2.0 billion in fiscal 2002 to ¥2.3 billion in fiscal 2003. Principal factors accounting for this included repayments of long-term debt amounting to ¥0.7 billion and ¥0.9 billion in expenditures for the purchase of the Company's outstanding shares.

