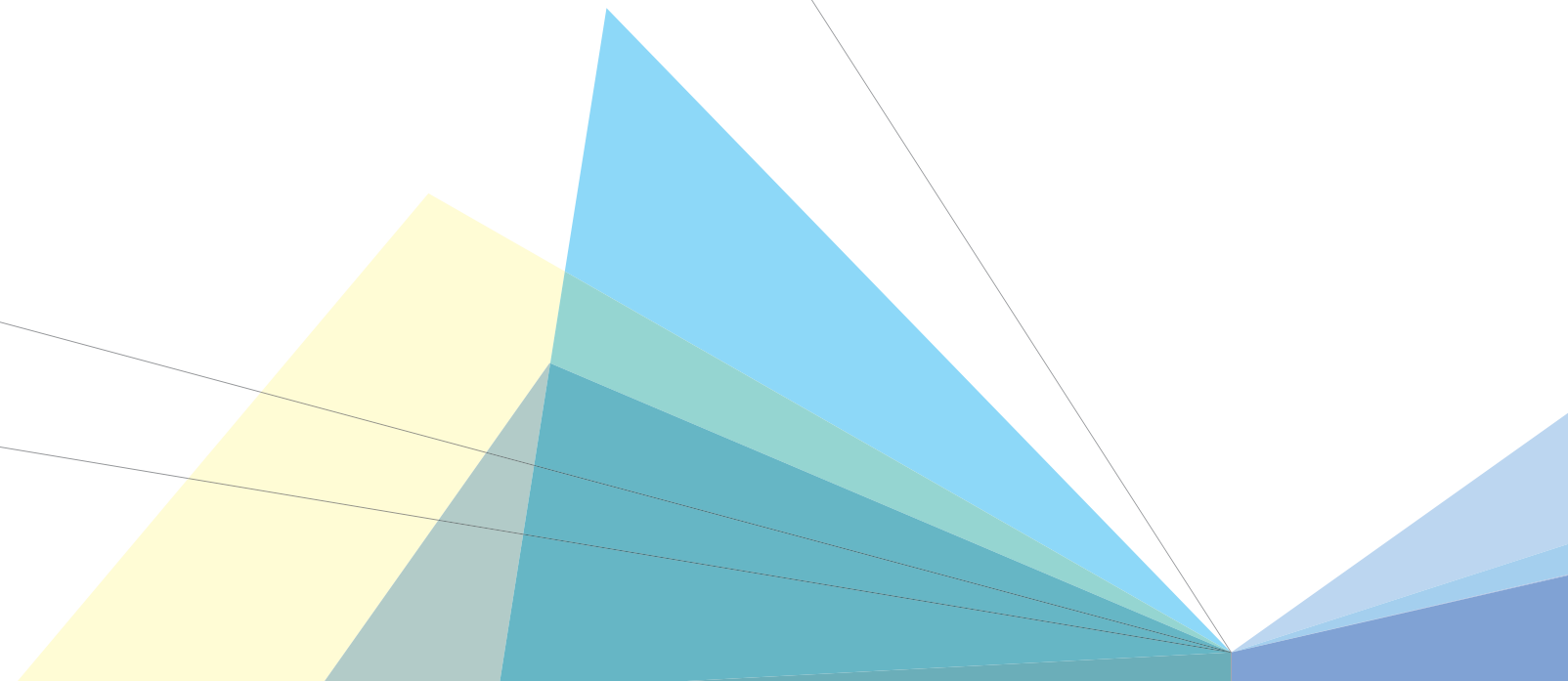




NORITZ Corporation

Annual Report 2003



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, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note)
	2002	2003	2003
For the year:			
Net sales	¥170,184	¥170,080	\$1,587,456
Net income	3,312	3,161	29,503
Per share data (Yen and U.S. dollars):			
Net income	¥ 65.23	¥ 61.42	\$ 0.573
Cash dividends	15.00	17.00	0.159
At year-end:			
Total assets	¥154,542	¥154,613	\$1,443,093
Total shareholders' equity	81,283	83,387	778,299

Note: The U.S. dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥107.14 to U.S.\$1.00, the rate prevailing at December 31, 2003.

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Forward-looking statements

Statements contained in the Annual Report 2003 regarding business results for fiscal 2003 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.

A Message from the Management

Consolidated Operating Results and Financial Position for 2003

Noritz is currently implementing its "Create 21 First-Phase Medium-Term Management Plan." Fiscal 2003, ended December 31, 2003, was the second year of this three-year plan, and key initiatives included managing operations from a customer-centric perspective, strengthening our management base to emphasize earnings, implementing policies for environmental coexistence, and enhancing our compliance systems.

Our net sales in 2003 amounted to ¥170.1 billion, approximately the same as for the previous year, and operating income expanded 17.5%, to ¥8.1 billion. Net income amounted to ¥3.2 billion, representing a decline of 4.6% from the previous year. The improvement in certain indicators of profitability was due to the positive results of management reforms placing greater emphasis on income, which we commenced in the previous year.

Although net sales were approximately level with the previous year, overall profitability rose because the substantial improvement in the cost-of-sales ratio led to a 4.4 percentage point rise in the gross profit ratio, to 31.1%. As a consequence of profit-focused marketing activities, the rate of decline in unit prices began to bottom out and was only 0.9% for the year. In addition, costs, principally expenditures for raw materials, were cut ¥4.6 billion. An important factor in reducing costs was the increase in parts sourcing overseas, which influenced domestic parts suppliers to lower their prices, thus leading to an improvement in the cost-of-sales ratio. The parent company, Noritz Corporation, alone reported an increase in operating income of 17.9%, to ¥6.5 billion, and recurring profit expanded 18.8%, to ¥7.2 billion, because of robust performance in the sales of hot-water heating systems and related parts and materials. Moreover, Harman Co., Ltd., which was formerly accounted for by the equity method, became a fully consolidated subsidiary in April 2003, and it reported a return to profitability in the second half of the year because of the strong sales of its built-in glass-top gas ranges.

Reasons for the relatively low rate of growth in operating income compared to the improvement in gross profits included the recording of ¥2.9 billion in expenses related to the full consolidation of Harman from April 2003, in addition to a ¥1.9 billion increase in other selling, general and administrative expenses, including ¥0.5 billion in employee severance and retirement benefits at the parent company. Nonoperating income amounted to ¥1.4 billion and consisted primarily of R&D related outsourcing costs and gains from the sale of securities. Among extraordinary items, the gain on the return of the substitutional portion of the employee pension fund reported in 2002, which amounted to ¥2.3 billion, was not recorded in 2003, and subsidiary RB Corporation reported extraordinary retirement costs of ¥0.4 billion. As a result of these and other factors, net income



Toshiro Ota
Chairman and Representative Director



Katsuhiko Takeshita
President and Representative Director

declined 4.6%, to ¥3.2 billion. In addition, the Company reported ¥1.8 billion for the amortization of differences arising as a result of the adoption of new standards for retirement allowances, but these differences were fully amortized in 2003.

By business segment, sales of gas-related water heaters, kerosene-fired water heaters, and air-conditioning equipment amounted to ¥109.2 billion, virtually the same as for the previous year. Sales of bathroom- and kitchen-related equipment totaled ¥44.5 billion, down 0.7% from the prior year, sales in the Company's service businesses slipped 0.3%, to ¥14.7 billion, and other business sales rose 9.7%, to ¥1.6 billion. These performance figures may suggest that no major changes occurred during the year, but, in the bathroom- and kitchen-related equipment segment, sales were down 15%, to ¥16.0 billion, in the bathroom-related area, while sales in the kitchen-related area rose 9%, to ¥28.5 billion. This was because of our policy decision to forego some orders for standard system bathrooms due to strong competition in this field, which led to lower overall sales of bathroom equipment. However, as a result of the full consolidation in April 2003 of subsidiary Harman, which markets built-in gas-fired range units, overall sales of kitchen-related equipment expanded.

In our marketing activities, we adopted a proactive program to approach final consumers and our best distributors as well as other corporate customers that have the closest ties with consumers, with the aim of medium-to-long-term business development. We instituted these marketing activities because one of the challenging features of our industry is that the distribution chain from manufacturers of housing equipment to consumers, who are the ultimate users of these products, is long and complicated. As a result, the voices of end users are more influential in the housing refurbishment market than in the market for new housing. However, to date, we do not believe that these marketing activities have had a major direct effect on our sales and net income. We are confident, though, that the results of this proactive marketing program will emerge in 2004 and subsequently. Along with these activities, we also stepped up our program of television and magazine advertising to increase customer awareness of the Noritz brand.

By principal product, because we adopted a profit-oriented policy in the water heater area, growth in the number of units sold was lower than the 2.7% rise in demand, resulting in a slight decline in our market share. However, sales of water heaters on an OEM basis expanded.

In the system bath, system kitchen, and vanity unit product areas, our share of units sold declined because of our emphasis on profitability. However, we sold 6,000 system bath units in our newly introduced Fine series, which is targeted at the medium-to-upper price segments. We expect this robust performance to continue.

In the kitchen-related equipment area, sales of system kitchens with built-in glass-top gas ranges were strong. These have relatively high unit prices, and sales rose to over 80,000 units, accounting for more than half the unit sales of system kitchens with built-in ranges. In addition, sales of Stylish Blink, our top-of-the-line system kitchens with built-in glass-top gas ranges, were extremely robust, rising to more than 1,000 units a month. Osaka Gas Co., Ltd., Toho Gas Co., Ltd., and Tokyo Gas Co., Ltd., have decided to market these units on an OEM basis, and each of these gas companies will begin a TV advertising campaign in 2004.

In production activities, we believe we are seeing the best results at present from the full-scale implementation of the Noritz Production System (NRPS) throughout the Noritz Group. We have completed the introduction of production systems that enable us to make shipments of all water heater equipment on the day following receipt of the order. As a result of this next-day delivery system, customer satisfaction has soared. Among

environment-related activities, we have completed the development of the ECOWILL energy-conserving cogeneration system in partnership with Osaka Gas and have begun to market it. Moreover, we are pleased to report that eight of our production plants, including all plants in Japan, have attained zero-emission status.

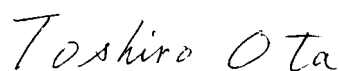
Outlook for 2004

The current year will be the final year of Create 21. We at Noritz intend to place top priority on profitability. We are working to increase net sales 1.1%, to ¥172.0 billion; operating income 18.9%, to ¥9.6 billion; current income 6.0%, to ¥10.0 billion; and net income 58.2%, to ¥5.0 billion.

By operating segment, in the water heating equipment area, we are aiming for an increase in sales of ¥800 million, to ¥110.0 billion, by boosting our exports to the Americas and other overseas markets and strengthening our OEM operations. Beginning in 2003, production of all gas-fired water heating equipment sold under the TOTO brand of TOTO Ltd. was shifted to Noritz on an OEM basis. In addition, in 2004, production of TOTO's kerosene-fired water heating equipment will also be shifted to Noritz. However, since the exact date when TOTO's subsidiaries will suspend production has not been set, we have not included the effect of this shift in our outlook for 2004. In the Americas, demand for tank storage water heating equipment is about 9 million units on an annual basis and about half of these units are gas-fired. Consumers are gradually becoming aware of the superiority of Japan's instantaneous gas-fired water heaters, and the number of units sold last year doubled to 6,200. We are planning to boost this total to approximately 15,000 in 2004. In China, we are planning to raise the number of gas-fired water heaters sold in Shanghai from 120,000 units in 2003 to 150,000 this year. In the bath- and kitchen-related equipment segment, we are targeting an increase of ¥500 million, to ¥45.0 billion, through expansion in sales of Harman's system kitchen units with built-in ranges.

One of the factors that will help us meet our target for operating income will be a reduction in retirement benefit expenses of about ¥1.4 billion resulting from the introduction of a defined contribution pension plan at Noritz, beginning in April 2004. We are also anticipating an extraordinary gain arising from the transition to the defined contribution plan. Among other factors contributing to improvement in profitability in 2004 will be the completion in 2003 of the amortization of differences arising from the adoption of new standards for retirement allowances.

In summary, we are aiming to maintain profit-oriented management policies in 2004 and continue to increase net income, but, on the other hand, we do not intend to allow our market share to decline further. Instead, we will expand sales of our targeted product groups and aim for increases in net sales and net income.



Toshiro Ota
Chairman and Representative Director



Katsuhiko Takeshita
President and Representative Director

Strengthening Our Internal Corporate Ethics Systems and Establishing Employee Hotlines

On October 1, 2003, we issued a code of behavior to strengthen our compliance systems and established employee hotlines at the 23 corporate members of the Noritz Group in Japan, including the parent company, employing about 6,200 managers and staff members.

1. Noritz Group Code of Behavior Issued and Distributed to Staff Members

We have issued a written code of behavior covering our relationships with society, customers, business partners, employees, and other stakeholders. This code contains a definition of compliance and informs all employees that we have decided that they have a duty to inform their superiors and related department heads when laws have been breached and there have been major violations of internal rules and regulations. We have also begun to offer training courses on compliance for members of the Board of Directors, department managers, and compliance officers.

2. Noritz Hotlines Established to Facilitate Internal Communication

We have also established channels of communication, including dedicated phone lines as well as e-mail and postal addresses, to allow staff members to provide information regarding violations of the code of behavior and any related information and to provide counseling in such matters. Depending on the content of the information received, we call on our legal counsel members for their opinions and investigate all matters brought to our attention, while maintaining the anonymity of informers and protecting their interests. Anyone who disciplines an informer or a compliance counselor contrary to his or her interests may be subject to dismissal under the Company's Rules of Employment.

3. Appointment of Special Compliance Officers

When information is received regarding possible violations of the code of behavior, trained compliance officers respond and take appropriate action. Yutaka Nakayama, Managing Director and General Manager for Corporate Services, has been appointed as Chief Compliance Officer (CCO).

Noritz Airs TV Commercials for the First Time in Six Years

After a six-year hiatus, we have reinstated TV advertising, with an annual budget of approximately ¥300 million, to

support our customer relationship activities. We prepared two types of commercials, running for 15 seconds each, featuring our new system bath products, the Fine series and the Glacio series. These commercials were broadcast repeatedly from the latter half of July 2003 for about three weeks nationwide on all stations viewable in each region, with the exceptions of Hokkaido and Okinawa. To maximize viewership, we adopted an intensive spot advertising approach, concentrating on broadcasting the commercials during all time slots on Saturday and Sunday and in the peak morning, noon, and evening slots on weekdays. In response to requests from our marketing personnel, the commercials focused on key product features and were prepared with three aims in mind: (1) to increase consumer awareness, (2) to provide assistance for sales personnel, and (3) to enhance the sales consciousness of dealers. The commercials were prepared to create a strong awareness of the NORITZ brand through sound and visual logos at the ending, while inviting viewers to visit our showrooms and access our Web site.

NRK and Yubig Established

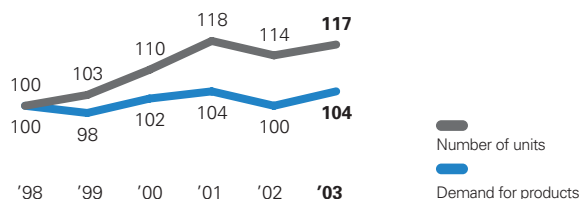
In June 2003, we established NRK Corporation to lower operating costs and improve efficiency at our Kakogawa Office, which is the production center for system baths in western Japan. Noritz provided 60% of the capital for the new company, which began operations in October 2003 and was fully consolidated from April 2004. Previously, the manufacturing departments of Noritz's system product divisions and their partner companies split off joint production operations into independent companies and, by transferring such operations as procurement to these companies and competing together with RB Corporation (51% owned by Noritz), which is in charge of system bath production in eastern Japan, worked to improve profitability.

In addition, we established Yubig Corporation in September 2003. This new company is responsible for creating Noritz's retail business model and for offering products for home refurbishment and related services. Yubig will be offering services to potential customers who visit Noritz showrooms, those customers who call for information about where to purchase Noritz products, and other potential customers who are not serviced by other existing marketing channels. Yubig began its operations in the Tokyo metropolitan region, but will expand its activities step-by-step to the central Japan region and the Kansai region. Yubig became a fully consolidated subsidiary in April 2004.

Review of Operations

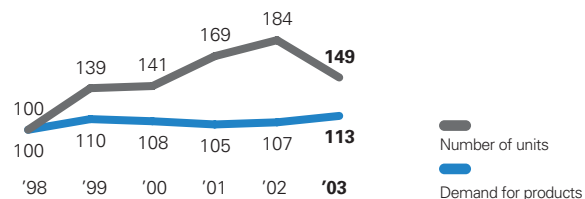
The following graphs show net unit sales, by product category, of Noritz products, along with total unit sales of such products in Japan (demand). The 1998 levels of both Noritz unit sales and total domestic unit sales are set at 100 to facilitate examination of subsequent trends.

Gas Bath Heaters



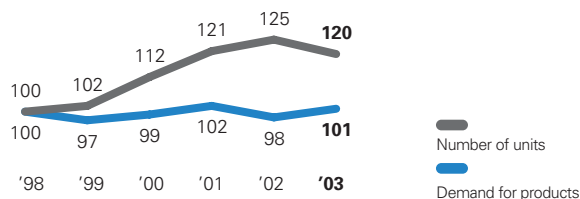
Total domestic demand for gas bath heaters in 2003 was 1.88 million units, representing a 4% rise over the previous year. Noritz reported growth of 2% over the previous year in its sales of these units. However, because our growth was below that of the rate of expansion in market demand, our market share slipped one percentage point, to 36.3%. This was due in part to our profit-oriented pricing policy, but unit sales prices are beginning to show signs of bottoming out. Net sales in this segment remained virtually level, at ¥47.3 billion.

System Bathrooms for Private Homes



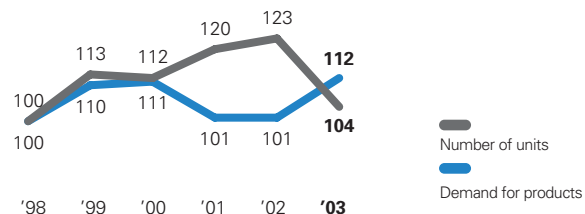
Overall domestic demand for system bathrooms for installation in unit housing in 2003 expanded 3%, to 720,000 units, but our sales volume of these units dropped a substantial 19%, to 45,000 units, and our market share declined 1.9 percentage points, to 6.2%. Net sales were down 12%, to ¥14.5 billion, mainly due to the shift in focus from selling to manufacturers of low-priced housing units to capturing orders for midrange-to-high-end units for refurbishment of existing housing.

Gas-Related Water Heaters



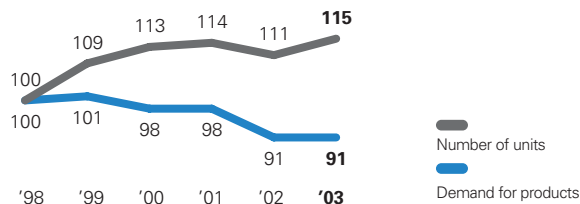
While the total domestic demand for gas-related water heaters in 2003 rose 2%, to 1.36 million units, our unit sales for this segment as a whole declined 1%, and the share of the Noritz brand was down one percentage point, to 28.1%. Net sales were down 4%, to ¥14.8 billion.

System Kitchens for Private Homes



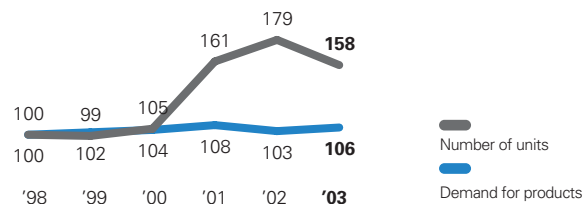
Although the total domestic demand for system kitchens for new residential units in 2003 was 630,000 units, an increase of 12% over the previous year, our unit sales were down 16%, to 25,000 units. This was because we shifted our marketing target to midrange-to-high-end units, which resulted in a substantial drop in sales of units to the mass market. Net sales declined 10%, to ¥8.2 billion.

Kerosene-Fired Water Heaters



Total domestic demand for kerosene-fired water heaters in 2003 was 460,000 units, virtually level with the previous year. We made extra efforts and were successful in increasing unit sales 3%, thus resulting in a 0.9 percentage point rise in market share, to 31.6%. As a result, net sales of kerosene-fired water heaters amounted to ¥15.7 billion, representing an increase of 3% over the prior year.

Vanity Units



In 2003, overall domestic demand for vanity units declined 3%, to 1.88 million. Although overall sales of moderately priced units were robust, our sales of these units fell 11%, to 110,000. Our market share also declined 0.9 percentage point, to 5.9%. The number of low-end units also decreased, but 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 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)

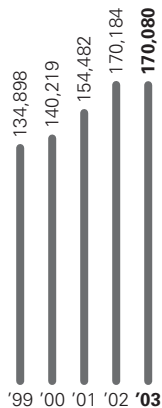
The cost of sales declined ¥6.1%, to ¥117.1 billion, and the cost of goods sold ratio dropped 4.4 percentage points, from 73.3%, to 68.9%. This was primarily the result of cost reduction measures related to materials and other items in Noritz's water heater and air-conditioning equipment business.

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%.

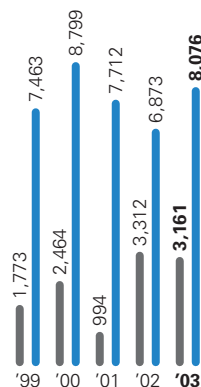
Other income (expenses)

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)

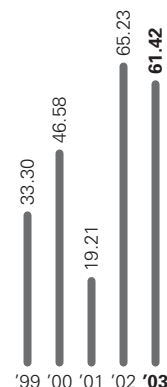


Net Income and Operating Income
(Millions of yen)

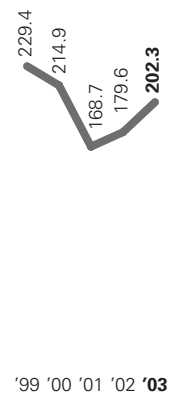


■ Net Income
■ Operating Income

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.

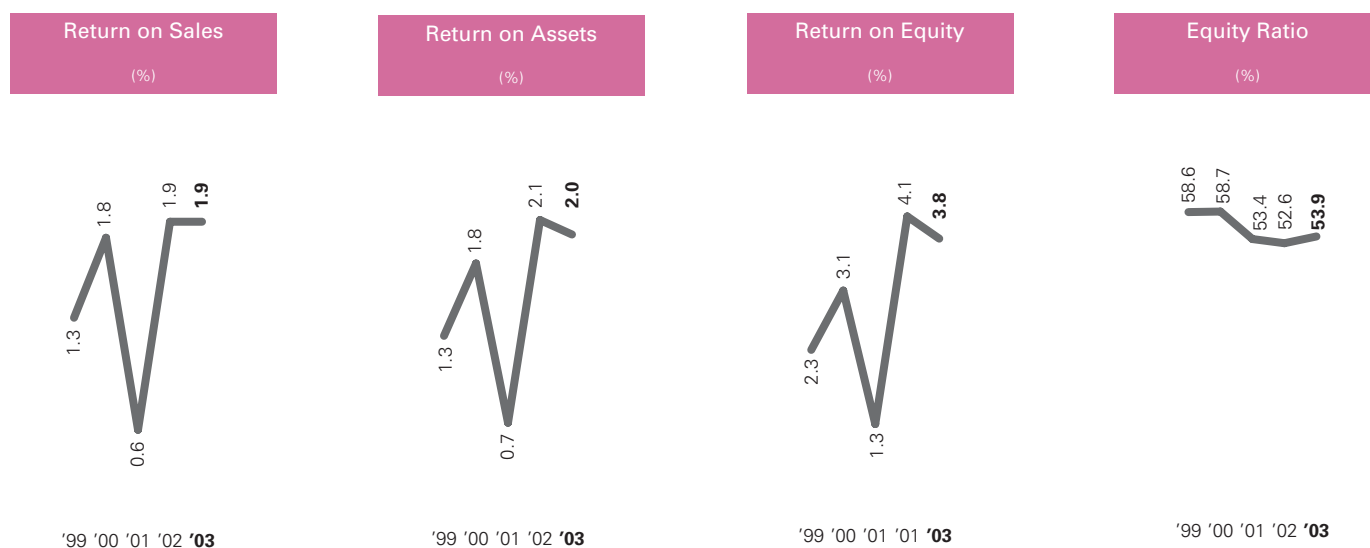
Total shareholders' equity rose ¥2.1 billion, or 2.6%, to ¥83.4 billion. This increase was primarily due to a rise of ¥2.3 billion in retained earnings, primarily accounted for by net income for the period. As a result, the Group's ratio of shareholders' equity to total assets rose 1.3 percentage points, 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.



Consolidated Balance Sheets

Noritz Corporation and Consolidated Subsidiaries
As of December 31, 2002 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Current assets:			
Cash and time deposits (Note 3)	¥ 16,475	¥ 30,166	\$ 281,557
Marketable securities (Note 4)	13,364	9,395	87,689
Receivables—			
Trade notes and accounts	53,689	47,969	447,722
Trade note and accounts to non-consolidated subsidiaries and affiliates	—	512	4,779
Other	1,873	2,480	23,147
Allowance for doubtful receivables	(150)	(103)	(961)
	55,412	50,858	474,687
Inventories—			
Finished goods and work in process	6,491	6,395	59,688
Raw materials and supplies	1,862	1,732	16,166
	8,353	8,127	75,854
Deferred tax assets (Note 9)	738	737	6,879
Other	3,502	2,880	26,881
Total current assets	97,844	102,163	953,547
Investments and other assets:			
Investments in and loans to non-consolidated subsidiaries and affiliates	191	668	6,235
Investment in securities (Note 4)	11,649	8,474	79,093
Long-term loans receivable	2,226	77	719
Lease deposits	2,957	2,916	27,217
Long-term deferred tax assets (Note 9)	5,797	5,657	52,800
Allowance for doubtful receivables	(1,986)	(541)	(5,049)
Other	1,303	1,244	11,609
	22,137	18,495	172,624
Property, plant and equipment:			
Land	10,385	10,619	99,113
Buildings and structures	28,350	28,421	265,269
Machinery and equipment	48,323	50,391	470,329
Construction in progress	505	851	7,943
	87,563	90,282	842,654
Less accumulated depreciation	(55,794)	(59,165)	(552,221)
	31,769	31,117	290,433
Intangible assets			
	2,792	2,838	26,489
	¥154,542	¥ 154,613	\$ 1,443,093

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Current liabilities:			
Bank loans (Note 7)	¥ 1,046	¥ 1,960	\$ 18,294
Long-term debt due within one year (Note 7)	200	—	—
Payables—			
Trade notes and accounts:			
Non-consolidated subsidiaries and affiliates	—	285	2,660
Other	43,288	37,029	345,613
Construction	726	1,232	11,499
Other	3,912	3,939	36,765
	47,926	42,485	396,537
Accrued expenses	2,058	2,515	23,474
Income taxes and enterprise tax payable	2,156	1,632	15,232
Other	1,102	1,901	17,744
Total current liabilities	54,488	50,493	471,281
Long-term debt due after one year (Note 7)	700	—	—
Employees' severance and retirement benefits (Note 10)	11,360	14,268	133,172
Directors' and statutory auditors' retirement benefits	801	821	7,663
Long-term deposits received from customers	3,236	3,170	29,587
Long-term deferred tax liabilities (Note 9)	189	300	2,800
Other non-current liabilities	566	514	4,797
Minority interests in consolidated subsidiaries	1,919	1,660	15,494
Contingent liabilities (Note 8)			
Shareholders' equity (Note 11):			
Common stock			
Authorised—156,369,000 shares			
Issued—50,797,651 shares	20,168	20,168	188,240
Capital surplus	22,957	22,957	214,271
Retained earnings	38,494	40,803	380,838
Net unrealised holding gains (losses) on securities	(386)	424	3,957
Foreign currency translation adjustments	86	(30)	(280)
Treasury stock, at cost—34,473 shares in 2002 and 2,966,395 shares in 2003	(36)	(935)	(8,727)
Total shareholders' equity	81,283	83,387	778,299
	¥154,542	¥154,613	\$1,443,093

Consolidated Statements of Shareholders' Equity

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2002 and 2003

	Number of shares of common stock (thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealised holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
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)
Net income				3,161			
Net unrealised holding gains on securities					810		
Adjustments from translation of foreign currency financial statements						(116)	
Cash dividends paid, ¥17.00 per share				(812)			
Bonuses to directors and statutory auditors				(40)			
Treasury stock purchased							(899)
Balance at December 31, 2003	50,798	¥20,168	¥22,957	¥40,803	¥ 424	¥ (30)	¥(935)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealised holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at December 31, 2002	\$188,240	\$214,271	\$359,287	\$(3,063)	\$ 803	\$ (336)
Net income			29,503			
Net unrealised holding gains on securities				7,560		
Adjustments from translation of foreign currency financial statements					(1,083)	
Cash dividends paid, \$0.159 per share			(7,579)			
Bonuses to directors and statutory auditors			(373)			
Treasury stock purchased						(8,391)
Balance at December 31, 2003	\$188,240	\$214,271	\$380,838	\$ 3,957	\$ (280)	\$(8,727)

See accompanying notes.

Consolidated Statements of Cash Flows

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Cash flows from operating activities:			
Income before income taxes	¥ 6,371	¥ 6,115	\$ 57,075
Depreciation	5,857	5,425	50,635
Interest and dividend income	(315)	(224)	(2,091)
Interest expense	61	53	495
Write-down of securities	171	345	3,220
Equity in (income) losses of affiliates	148	(80)	(747)
Loss on sales and disposal of property, plant and equipment	593	411	3,836
Income of sales of property, plant and equipment	—	(109)	(1,017)
Decrease (increase) in trade notes and accounts receivable	(6,029)	5,479	51,139
Decrease in inventories	759	218	2,035
Increase in allowance for doubtful receivables	66	69	644
Increase (decrease) in trade notes and accounts payable	295	(6,052)	(56,487)
Increase in employees' retirement benefits	671	2,536	23,670
Other	805	(286)	(2,670)
Subtotal	9,453	13,900	129,737
Interest and dividends received	327	231	2,156
Interest paid	(60)	(51)	(476)
Income taxes paid	(3,111)	(3,819)	(35,645)
Net cash provided by operating activities	6,609	10,261	95,772
Cash flows from investing activities:			
Investments in time deposits	(7,785)	(2,515)	(23,474)
Proceeds from time deposits	11,936	2,779	25,938
Additions to securities	(3,338)	(25,895)	(241,693)
Proceeds from sales of securities	7,404	29,488	275,229
Additions to property, plant and equipment	(4,926)	(3,855)	(35,981)
Proceeds from sales of property, plant and equipment	173	220	2,053
Payments for loans receivable	(17)	(218)	(2,035)
Proceeds from loans receivable	68	168	1,568
Cash acquired in purchases of stock of subsidiaries	550	436	4,069
Other	(1,432)	(571)	(5,329)
Net cash provided by investing activities	2,633	37	345
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	721	81	756
Repayments of long-term debt	(300)	(700)	(6,534)
Payments for purchases of common stock	—	(899)	(8,391)
Dividends paid	(761)	(814)	(7,598)
Dividends paid to minority shareholders of consolidated subsidiaries	(15)	(9)	(84)
Other	(27)	1	10
Net cash used in financing activities	(382)	(2,340)	(21,841)
Foreign currency adjustments	(36)	(40)	(373)
Net increase in cash and cash equivalents	8,824	7,918	73,903
Cash and cash equivalents at beginning of year	18,107	27,954	260,911
Increase in cash and cash equivalents due to newly consolidated subsidiaries	1,023	—	—
Cash and cash equivalents at end of year	¥27,954	¥35,872	\$334,814

See accompanying notes.

Notes to Consolidated Financial Statements

Noritz Corporation and Consolidated Subsidiaries

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 subsidiary are based on its accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in China. 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 consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated 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 consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2003, which was ¥107.14 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 14 (12 in 2002) significant companies over which the Company has power of control through majority voting right or existence of certain conditions evidencing control by the Company. Investment in 2002 and portion 2003 in an affiliate over which the Company has the ability to exercise significant influence over operating and financial policies of the investees is 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

Available for sales securities with maturities that mature within one year are classified in marketable securities.

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 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.

(3) Derivatives and hedge accounting

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.

(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, 2002 and 2003 were ¥4,777 million and ¥4,443 million (\$41,469 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.

The Companies provided for employees' severance and retirement benefits at December 31, 2002 and 2003 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" at the time of adopting a new accounting standard) 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.

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.

(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

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

(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.

Effective January 1, 2003, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standards for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

Net income per share for year ended December 31, 2002 would have been ¥64.42, if this new accounting standard were applied retroactively.

(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, 2002 and 2003 is as follows:

	Millions of yen		Thousands of
	2002	2003	U.S. dollars
Cash and time deposits in			
the consolidated balance sheets	¥16,475	¥30,166	\$281,557
Marketable securities	13,364	9,395	87,689
Other (trust)	2,000	1,000	9,334
Time deposits with maturities			
exceeding 3 months	(1,849)	(1,583)	(14,775)
Bonds with maturities			
exceeding 3 months	(2,036)	(3,106)	(28,991)
Cash and cash equivalents in			
the consolidated statements			
of cash flows	¥27,954	¥35,872	\$334,814

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, 2002 and 2003:

Available-for-sale securities

Securities with book values exceeding acquisition costs are as follows:

Type	Millions of yen						Thousands of U.S. dollars		
	2002			2003			2003		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥1,348	¥1,704	¥356	¥2,431	¥3,586	¥1,155	\$22,690	\$33,470	\$10,780
Bonds	1,432	1,452	20	2,802	2,830	28	26,153	26,414	261
Others	—	—	—	11	13	2	102	121	19
Total	¥2,780	¥3,156	¥376	¥5,244	¥6,429	¥1,185	\$48,945	\$60,005	\$11,060

Other securities are as follows:

Type	Millions of yen						Thousands of U.S. dollars		
	2002			2003			2003		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 3,110	¥2,524	¥ (586)	¥1,372	¥1,272	¥(100)	\$12,806	\$11,872	\$ (934)
Bonds	6,828	6,530	(298)	1,785	1,670	(115)	16,660	15,587	(1,073)
Others	976	761	(215)	790	601	(189)	7,374	5,610	(1,764)
Total	¥10,914	¥9,815	¥(1,099)	¥3,947	¥3,543	¥(404)	\$36,840	\$33,069	\$(3,771)

The following tables summarise book values of securities with no available fair values as of December 31, 2002 and 2003.

Available-for-sale securities

Type	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Non-listed equity securities	¥ 151	¥ 147	\$ 1,372
Mutual funds	185	50	467
Commercial paper	11,794	7,697	71,841
Total	¥12,130	¥7,894	\$73,680

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

Type	Millions of yen										Thousands of U.S. dollars				
	2002					2003					2003				
	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	Within one year	Within five years	Within ten years	Over ten years	Total
Bonds	¥1,000	¥5,118	¥700	¥500	¥7,318	¥1,350	¥2,418	¥300	¥500	¥4,568	\$12,600	\$22,569	\$2,800	\$4,667	\$42,636
Others	9	333	—	—	342	—	282	—	—	282	—	2,632	—	—	2,632
Total	¥1,009	¥5,451	¥700	¥500	¥7,660	¥1,350	¥2,700	¥300	¥500	¥4,850	\$12,600	\$25,201	\$2,800	\$4,667	\$45,268

Total sales of available-for-sale securities in the year ended December 31, 2002 amounted to ¥7,400 million and the related gains and losses amounted to ¥49 million and ¥86 million, respectively.

Total sales of available-for-sale securities in the year ended December 31, 2003 amounted to ¥30,548 million (\$285,122 thousand) and the related gains and losses amounted to ¥149 million (\$1,391 thousand) and ¥13 million (\$121 thousand), respectively.

5. DERIVATIVE TRANSACTIONS

As a part of investment of available funds, at December 31, 2001 and 2002, the Company also utilised 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.

At December 31, 2003, the Company had no compound financial investments.

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.

6. LEASES

Finance leases, except for those in which ownership is deemed to be transferred to the lessee, are accounted for as operating leases. Original lease obligations and future minimum lease payments at December 31, 2002 and 2003 are as follows:

	Millions of yen						Thousands of U.S. dollars
	2002			2003			2003
	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total	Total
Original lease obligation (including finance charges)	¥2,337	¥137	¥2,474	¥2,143	¥230	¥2,373	\$22,149
Payments remaining	1,156	77	1,233	956	114	1,070	9,987
Payments due within one year			425			464	4,331
Payments due after one year			808			606	5,656
Total			¥1,233			¥1,070	\$ 9,987

Total lease payments under non-capitalised finance leases for the years ended December 31, 2002 and 2003 were ¥468 million and ¥509 million (\$4,751 thousand), respectively.

Lease payments for the years ended December 31, 2002 and 2003 were ¥468 million and ¥509 million (\$4,751 thousand), respectively.

Future minimum rents under non-cancellable operating leases at December 31, 2002 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Due within one year	¥ 6	¥3	\$28
Due after one year	6	2	19
	¥12	¥5	\$47

7. BANK LOANS AND LONG-TERM DEBT

Short-term bank loans and long-term debt at December 31, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Short-term bank loans—0.65%	¥1,046	¥1,960	\$18,294
Long-term bank loans—			
1.5% to 1.68%	¥ 900	¥ —	\$ —
Less: due within one year	200	—	—
Long-term debt due after one year	¥ 700	¥ —	\$ —

8. CONTINGENT LIABILITIES

At December 31, 2003, the Companies were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes endorsed	¥ 10	\$ 93
As guarantor of indebtedness of an affiliate and other companies	1,763	16,455
	¥1,773	\$16,548

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, 2002 and 2003.

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, 2002 and 2003.

	Percentage	
	2002	2003
Statutory tax rate:	42.0%	42.0%
Permanently non-deductible expenses	1.7	2.3
Permanently non-taxable dividend income	(0.5)	(0.4)
Per capita inhabitants' tax	0.8	2.1
Equity in income (losses) of affiliates	1.0	(0.5)
Decrease in deferred tax assets due to change in tax rate	—	3.0
Other	1.7	3.3
Effective tax rate	46.7%	51.8%

Significant components of the Companies' deferred tax assets and liabilities as of December 31, 2002 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets:			
Employees' retirement benefits	¥4,039	¥5,332	\$49,767
Excess bad-debt expenses	1,146	319	2,978
Directors' and statutory auditors' retirement benefits	336	286	2,669
Accrued enterprise tax	200	152	1,419
Write-down of securities	573	274	2,557
Loss carryforwards (for tax purposes)	215	226	2,109
Other	183	330	3,080
Total deferred tax assets	6,692	6,919	64,579
Valuation allowance	(157)	(145)	(1,353)
Net deferred tax assets	6,535	6,774	63,226
Deferred tax liabilities:			
Net unrealised holding gains on securities	—	(258)	(2,408)
Land	(189)	(422)	(3,939)
Net deferred tax assets	¥6,346	¥6,094	\$56,879

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Short-term deferred tax assets	¥ 738	¥ 737	\$ 6,879
Long-term deferred tax assets	5,797	5,657	52,800
Long-term deferred tax liabilities	(189)	(300)	(2,800)
	¥6,346	¥6,094	\$56,879

The aggregate statutory income tax rate will be reduced for the years commencing on January 1, 2005 or later due to the revised local tax law. At December 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.7% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on January 1, 2005 or later. As a result, deferred taxes assets decreased by ¥170 million (\$1,587 thousand), net unrealised holding gains on securities increased by ¥11 million (\$103 thousand) and provision for deferred income taxes increased by ¥181 million (\$1,689 thousand) compared with what would be reported using the currently applicable tax rate of 42.0%.

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, 2002 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Projected benefit obligation	¥24,846	¥22,821	\$213,002
Unrecognised prior service costs	62	3,043	28,402
Unrecognised actuarial differences	(4,611)	(4,381)	(40,890)
Less fair value of pension assets	(7,043)	(7,262)	(67,781)
Less unrecognised net transition obligation	(1,894)	—	—
Prepaid pension cost	—	47	439
Liabilities for severance and retirement benefits	¥11,360	¥14,268	\$133,172

Included in the consolidated statements of income for the years ended December 31, 2002 and 2003 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Service costs—			
benefits earned during the year	¥1,545	¥1,384	\$12,918
Interest cost on projected benefit obligation	799	618	5,768
Expected return on plan assets	(416)	(138)	(1,288)
Amortisation of prior service costs	(339)	(35)	(327)
Amortisation of actuarial differences	149	490	4,574
Amortisation of net transition obligation	2,687	1,812	16,912
Severance and retirement benefit expenses	¥4,425	¥4,131	\$38,557

The discount rates and the rates of expected return on plan assets used by the Company are 2.7% and 3.5% in 2002 and 2.7% and 2.3% in 2003, 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 and additional paid-in capital is included in capital surplus 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.

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 30, 2004, the following appropriations of retained earnings for the year ended December 31, 2003 were duly approved:

	Millions of yen	Thousands of U.S. dollars
Appropriations:		
Cash dividends—¥8.5 per share	¥426	\$3,976
Bonuses to directors and statutory auditors	42	392



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 and subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Noritz Corporation and subsidiaries at December 31, 2002 and 2003, 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 as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended December 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.

Osaka, Japan
March 30, 2004

Five-Year Consolidated Summary

Noritz Corporation and Consolidated Subsidiaries
Years ended December 31

	Millions of yen					Thousands of U.S. dollars (Note)
	1999	2000	2001	2002	2003	2003
For the year:						
Net sales	¥134,898	¥140,219	¥154,482	¥170,184	¥170,080	\$1,587,456
Cost of sales	92,850	96,696	109,754	124,712	117,130	1,093,243
Selling, general and administrative expenses	34,585	34,724	37,016	38,599	44,874	418,835
Operating income	7,463	8,799	7,712	6,873	8,076	75,378
Income before income taxes	5,098	5,025	2,560	6,371	6,115	57,075
Current income taxes	3,261	3,205	3,003	3,744	3,286	30,670
Net income	1,773	2,464	994	3,312	3,161	29,503
Per share data (Yen and U.S. dollars):						
Net income	¥ 33.30	¥ 46.58	¥ 19.21	¥ 65.23	¥ 61.42	\$ 0.573
Diluted net income per share	32.94	45.84	—	—	—	—
Cash dividends	15.00	15.00	15.00	15.00	17.00	0.159
At year-end:						
Total assets	¥132,439	¥137,422	¥147,716	¥154,542	¥154,613	\$1,443,093
Total shareholders' equity	77,674	80,718	78,841	81,283	83,387	778,299
Number of employees	3,475	3,377	4,090	4,401	4,539	
Ratios:						
Return on equity	2.3%	3.1%	1.3%	4.1%	3.8%	
Return on sales	1.3	1.8	0.6	1.9	1.9	
Return on assets	1.3	1.8	0.7	2.1	2.0	

Note: The U.S. dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥107.14 to U.S.\$1.00, the rate prevailing at December 31, 2003.

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

Kenji Tokumoto

Tomosaburo Kinda

Takeshi Okamoto

(As of March 31, 2004)

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

4,908

Head Office

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Kobe 650-0033, Japan

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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, 2003)

Major Shareholders

	Number of shares held (Thousands)	Percentage of total shares issued (%)
Japan Trustee Services Bank, Ltd.	5,000	9.8
The Dai-ichi Mutual Life Insurance Company	2,967	5.8
The Master Trust Bank of Japan, Ltd.	2,657	5.2
The Mitsui Sumitomo Bank, Ltd.	1,932	3.8
State Street Bank & Trust Company	1,733	3.4
The Employees' Shareholding Association	1,422	2.8
Toshiro Ota	1,350	2.6
The Noritz Customer Shareholding Association	1,346	2.6
The UFJ Bank, Ltd.	1,186	2.3
The Gunma Bank, Ltd.	1,087	2.1

(As of December 31, 2003)

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 ¹	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
Harman Co., Ltd. ²	300	90.0	Sale of Housing-Related Products
Noritz Electronics Technology ¹	400	100.0	Manufacture and Sale of Water Heater Components

Notes: 1. This is specially classified subsidiary.

2. The ratio of sales (after eliminations for intercompany transactions) of Harman Co., Ltd., was in excess of 10% of the Company's consolidated net sales.

(As of December 31, 2003)

NORITZ CORPORATION

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