

To our shareholders

Left : CHAIRMAN Seiji Nemoto  
Center : PRESIDENT Kunihiko Oguchi  
Right : VICE PRESIDENT Toshinaga Koizumi

TO OUR SHAREHOLDERS

## LOOKING TO THE FUTURE

### MISSION STATEMENT RENEWAL

Upon entering the 21st century, we reviewed our corporate mission statement. Increasing global competition and swiftly changing economic circumstances require us to deliver more value than ever to shareholders as well as customers through attractive products and services. In order to achieve Riken's ultimate goal of increasing economic value, it is essential that our global team share a common vision.

At the beginning of this fiscal year, we established a new mission statement for our worldwide operations. This statement reflects our fundamental commitment to be a leading corporate citizen. The key points in our new mission statement are building shareholder value, achieving customer delight, encouraging entrepreneurship and making a contribution to society.

#### MISSION STATEMENT

- We will provide superior long-term economic value for our shareholders through effective use of their invested capital.
- We will offer products and services that continually exceed our customer's increasing expectations through constant innovation and continued advancements in knowledge and technology.
- We will continuously renew ourselves by encouraging initiative and entrepreneurship and by being constantly committed to change.
- We will value the contributions of each member of our global team and provide a workplace where every employee can share a sense of ownership in the success of our organization.
- We will be a leading corporate citizen that always operates with respect for the laws, environment, safety and the overall wellbeing of the global communities where we conduct our business.

Through dedication and teamwork, RIKEN will deliver value to shareholders.

### A NEW MID-TERM OPERATING PLAN

The fiscal year ended March 31, 2001, marked the first year of our new three-year operating plan (PLAN 2002). PLAN 2002 aims to raise our competitive position and strengthen our presence in world markets by emphasizing a group-wide management system. The plan is composed of the following three main objectives:

#### 1. Achieve technological superiority in our products

We intend to maintain a half step advance in technology over rivals in every industry where we compete.

## 2. Attain global price competitiveness

We aim to reduce costs by half to be price competitive on a global basis. This will be accomplished through ongoing efforts to improve manufacturing processes and operational management.

## 3. Restructure business processes

We will continually renew business processes to achieve low-cost operation and acceleration in management.

This should lead to the next stage of the corporate plan during which we aim to establish operational excellence throughout our global operation.

On a quantitative basis we intend to achieve an operating income level of over ¥9 billion and ¥5 billion in net income by focusing on core businesses and further streamlining and improving productivity. We are also targeting an ROA of 8%. This will be accomplished by holding total assets at approximately ¥72 billion through the using retained earnings mainly to repay debt.

## OPERATING ENVIRONMENT

### REVIEW OF THE FISCAL YEAR 2001 (ENDED MARCH 31, 2001)

During the fiscal year under review, the world economy began to slow due to a faster than expected downturn in the U.S. economy in the second half, although in the first half a robust economy in the U.S. and recovery in Asia contributed favorably to results. The Japanese economy barely maintained positive growth because of prolonged weakness in personal consumption and a large-scale decrease in export demand in the latter half, despite recovering in the first half thanks to an increase in investment in both the public and private sectors.

In the automotive parts segment, which accounts for 70.7% of our sales, car sales in Japan increased 1.7% to 5.98 million cars thanks mainly to new models in passenger cars, despite declining returns from new standards for compact (less than 1000 cc engine-size) cars. Car production in Japan achieved over 10 million units for the first time in three years spurred by a slight increase in domestic car sales and high demand in exports for the North America markets in the first half.

The construction and housing industries in Japan were weak. Increased demand for apartment complexes fueled by special tax reduction offset weakened demand for private houses. As a result, housing starts constituted 1.2 million units, just comparable to the previous year's level. Floor space of non-housing construction starts declined 0.4% from the previous fiscal year due to drops in private sector constructions, which mainly consist of demand from manufactures in the first half.

Under those operational conditions, we strove to market new products and expand our customer base in order to achieve the objectives of PLAN 2002. As a result, net sales increased 3.4% to ¥71.9 billion led mainly by a sales increase in our automotive parts segment in such areas as piston ring exports. We posted a record-high operating income of ¥6.1 billion owing to improvements in cost

structure through streamlining efforts in business processes. With the introduction of new accounting standards in Japan for severance benefits, we wrote off unfunded pension liabilities amounting to ¥16.1 billion in a one-time extraordinary loss, resulting in a net loss of ¥3.1 billion.

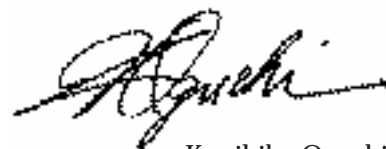
To improve management efficiency, effective on October 1st, 2000, we consolidated two subsidiaries, Riken Trading Co., Ltd. (a trading firm mainly for our automotive parts) and Sanken Engineering Co., Ltd. (a trading company mainly for our ship engine parts), into Riken Trading Co., Ltd.

#### BUSINESS OUTLOOK

We forecast that competition will remain harsh due to such factors as the global slowdown largely caused by the downturn in the U.S. economy, saturation in the world auto markets, and diffusion of price-sensitive global procurements among our customers. Nevertheless, we will pursue further growth under PLAN 2002. In the second year of the plan, we are planning net sales of ¥72 billion and aiming to achieve another record-high operating income of ¥6.5 billion and net income of ¥4 billion for the fiscal year ending March 31, 2002. These targets should be reached by further streamlining and global expansion of our new customer base. Indeed, we are already receiving numerous inquiries and new orders, especially from automobile manufactures in Europe, where our presence had been low compared to our strong business base in Japan. As well as improving productivity through continuous efforts in business process restructuring, we intend to further reduce costs and reinforce sales by strengthening supply chain management.

#### RESEARCH AND DEVELOPMENT

For the fiscal year ended March 31, 2001, we devoted ¥1 billion to R&D. Riken's research center develops cutting-edge products and technology in such advanced facilities as clean rooms and engine and analysis laboratories equipped with the latest equipment, including high-resolution scanning electron microscopes, calorimetric equipment and sputtering equipment that can produce film only microns thick. Making full use of these advanced tools, our researchers are engaged in the research and development of new production methods and equipment to dramatically advance tribology-related technologies and raise productivity in core businesses and existing products. In new fields, we are selectively developing such products as automobile NOx sensors and EMC-related products.



Kunihiko Oguchi,  
President