

FINANCIAL SECTION

TWO-YEAR SUMMARY AND FIVE-YEAR SUMMARY

Riken Corporation and Consolidated, Non-Consolidated Subsidiaries

CONSOLIDATED	Millions of yen	
	2000	2001
Net sales	¥69,560	¥71,909
Operating income	4,523	6,157
Net income (loss)	2,365	(3,173)
Total assets	86,175	76,877
Net assets per share (yen)	258.64	213.02
Net income (loss) per share (yen)	21.73	(29.80)
Diluted net income per share (yen)	19.20	—
Capital ratio (%)	32.0	29.5
Net cash provided by operating activities	8,619	8,213
Net cash used in investing activities	(696)	(1,863)
Net cash used in financing activities	(5,964)	(9,032)
Cash and cash equivalents at end of year	11,555	9,331
Number of employees	3,999	3,979

NON-CONSOLIDATED	Millions of yen				
	1997	1998	1999	2000	2001
Net sales	¥72,406	¥70,817	¥63,116	¥63,274	¥64,253
Operating Income	3,535	2,390	764	3,644	5,175
Net income (Loss)	1,074	1,034	(5,352)	1,319	(3,169)
Capital	8,564	8,573	8,573	8,573	8,573
Common shares issued (shares)	109,921,037	109,959,667	109,959,667	106,484,667	106,484,667
Total assets	88,192	77,720	73,774	73,634	63,428
Net assets per share (yen)	234.27	238.50	184.57	212.08	177.06
Amount of a dividend per stock (yen)	5	5	3	5	5
Net income (loss) per share (yen)	9.80	9.41	(48.68)	12.12	(29.76)
Diluted net income per share (yen)	9.62	8.32	—	10.71	—
Capital ratio (%)	29.2	33.7	27.5	30.7	29.7
Number of employees	1,860	1,837	1,776	1,698	1,634

CONSOLIDATED BALANCE SHEETS

Riken Corporation and Consolidated Subsidiaries
March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
ASSETS			
Current assets :			
Cash and cash equivalents	¥ 9,331	¥11,555	\$ 75,250
Time deposits	367	465	2,960
Notes and accounts receivable	21,106	19,971	170,210
Less allowance for doubtful receivable	(63)	(176)	(508)
Marketable securities (Notes 1(f) and 3)	6	11,566	48
Inventories (Note 4)	7,799	7,709	62,895
Deferred tax assets (Notes 1(k) and 7)	731	366	5,895
Other current assets	707	571	5,702
Total current assets	39,987	52,029	322,476
Non-current assets :			
Property, plant and equipment, at cost (Notes 5 and 6):			
Land	3,287	3,248	26,508
Buildings	8,532	9,243	68,806
Machinery and equipment	11,971	12,263	96,540
Construction in progress	1,182	525	9,532
Total property, plant and equipment	24,974	25,281	201,403
Investments in unconsolidated subsidiaries and affiliates	1,870	1,471	15,081
Investments in other securities (Notes 1(f) and 3)	1,699	1,524	13,702
Deferred tax assets (Notes 1(k) and 7)	5,745	377	46,331
Other noncurrent assets	2,601	2,624	20,976
Total noncurrent assets	36,889	31,278	297,492
Translation adjustments (Notes 1(c) and 16)	—	2,867	—
Total assets	¥76,877	¥86,175	\$619,976

The accompanying notes are integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities :			
Notes and accounts payable	¥12,099	¥11,655	\$97,573
Short-term debt (Note 6)	12,942	13,988	104,371
Current portion of long-term debt (Note 6)	1,617	7,613	13,040
Accrued income taxes (Note 7)	3,076	216	24,806
Deferred tax liabilities (Notes 1(k) and 7)	—	18	—
Accrued expenses and other current liabilities (Note 8)	5,671	5,114	45,734
Total current liabilities	35,407	38,607	285,540
Long-term liabilities :			
Long-term debt (Note 6)	10,740	12,357	86,613
Deferred tax liabilities (Notes 1(k) and 7)	13	17	105
Accrued retirement benefits (Notes 1(j) and 9)	7,621	6,408	61,460
Accrued for loss on investments	—	103	—
Excess of net assets acquired over cost	167	103	1,347
Other long-term liabilities	7	8	56
Total long-term liabilities	18,550	18,999	149,597
Minority interests in consolidated subsidiaries	236	1,027	1,903
Shareholders' equity (Notes 10 and 17):			
Common stock, ¥50 par value:			
Authorized — 196,525,000 shares			
Issued and outstanding — 106,484,667 shares at March 31, 2001 and 2000	8,573	8,573	69,137
Capital surplus	6,604	6,604	53,258
Retained earnings	9,157	12,363	73,847
Translation adjustments (Notes 1(c) and 16)	(1,652)	—	(13,323)
Less treasury common stock, at cost	(0)	(0)	(3)
Total shareholders' equity	22,683	27,540	182,927
Contingent liabilities (Note 12)			
Total liabilities, minority interests and shareholders' equity	¥76,877	¥86,175	\$619,976

The accompanying notes are integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Riken Corporation and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2) 2001
	2001	2000	
Net sales	¥71,909	¥69,560	\$579,911
Cost of sales	55,347	54,111	446,347
Gross profit	16,561	15,449	133,556
Selling, general and administrative expenses	10,403	10,925	83,895
Operating income	6,157	4,523	49,653
Other income (expenses):			
Interest and dividend income	389	377	3,137
Interest expense	(529)	(612)	(4,266)
Gain on sales of marketable securities	—	338	—
Equity in earnings of investees	272	143	2,194
Loss on disposal of inventories	(155)	—	(1,250)
Gain on sales of fixed assets	595	30	4,798
Gain on reversal of allowance for doubtful receivables	113	—	911
Gain from contribution of securities to retirement benefit trust	3,619	—	29,185
Loss on disposal of fixed assets	(150)	(122)	(1,210)
Devaluation of investment in securities	(220)	—	(1,774)
Amortization of net retirement benefit obligation at transition (Note 9)	(16,158)	—	(130,306)
Provision for loss on investments	—	(40)	—
Other, net	221	(394)	1,782
Loss (income) before income taxes and minority interests	(5,844)	4,244	(47,129)
Income taxes (Notes 1(k) and 7):			
Current	3,160	311	25,484
Deferred	(5,770)	1,431	(46,532)
	(2,609)	1,742	(21,040)
Minority interests in earnings of consolidated subsidiaries	(61)	136	(492)
Net loss (income) (Note 15)	¥ (3,173)	¥ 2,365	\$ (25,589)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Riken Corporation and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
Common stock			
Beginning balance	¥ 8,573	¥ 8,573	\$ 69,137
Ending balance	¥ 8,573	¥ 8,573	\$ 69,137
Capital surplus			
Beginning balance	¥ 6,604	¥ 6,604	\$ 53,258
Ending balance	¥ 6,604	¥ 6,604	\$ 53,258
Retained earnings			
Beginning balance	¥12,363	¥ 9,028	\$ 99,702
Adjustment for adoption of tax-effect accounting (Note 1(k))	—	2,203	—
Beginning balance, as adjusted	12,363	11,231	99,702
Add:			
Adjustment for inclusion in consolidation or equity method of accounting	164	506	1,323
Adjustment for revaluation of fixed assets in a foreign consolidated subsidiary	362	—	2,919
Deduct:			
Net (loss) income	(3,173)	2,365	(25,589)
Cash dividends applicable to the year	(532)	(329)	(4,290)
Bonuses to directors and statutory auditors	(28)	—	(226)
Adjustment for inclusion and decrement in consolidation	—	(539)	—
Adjustment for merger	—	(80)	—
Adjustment for redemption and retirement of treasury stock	—	(790)	—
Ending balance	¥ 9,157	¥12,363	\$ 73,847
Translation adjustments			
Balance at beginning of the year	¥ —	¥ —	\$ —
Net change during the year	(1,652)	—	(13,323)
Ending balance (Notes 1(c) and 16)	¥(1,652)	¥ —	\$(13,323)

The accompanying notes are integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Riken Corporation and Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
Operating activities			
Loss (income) before income taxes and minority interests	¥(5,844)	¥ 4,244	\$(47,129)
Depreciation and amortization	4,153	4,572	33,492
Equity in earnings of investees	(272)	(143)	(2,194)
Amortization of net retirement benefit obligation at transition	16,158	—	130,306
Gain from contribution of securities to retirement benefit trust	(3,619)	—	(29,185)
Reversal of severance indemnities, less payments	—	(18)	—
(Reversal of) provision for loss on investments	(103)	40	(831)
(Reversal of) provision for allowance for doubtful receivables	(109)	42	(879)
Gain on sales of securities	—	(338)	—
Loss on devaluation of securities	220	—	1,774
Gain on sales of fixed assets	(595)	(30)	(4,798)
Loss on disposals of fixed assets	150	122	1,210
(Increase) decrease in notes and accounts receivable	(928)	300	(7,484)
Increase in inventories	(42)	(341)	(339)
Increase in notes and accounts payable	299	500	2,411
Decrease in notes receivable discounted	(100)	(695)	(806)
Other, net	(703)	769	(5,669)
Subtotal	8,660	9,022	69,839
Interest received	389	377	3,137
Interest paid	(525)	(622)	(4,234)
Income taxes paid	(310)	(157)	(2,500)
Net cash provided by operating activities	8,213	8,619	66,234
Investing activities			
Additions to marketable securities	—	(1,012)	—
Proceeds from sales of marketable securities	—	2,642	—
Additions to property, plant and equipment	(3,688)	(2,851)	(29,742)
Proceeds from sales of property, plant and equipment	1,894	470	15,274
Proceeds from sales of investments in securities	1,182	—	9,532
Additions to investments in securities	(1,124)	(35)	(9,065)
Other, net	(128)	90	(1,032)
Net cash used in investing activities	(1,863)	(696)	(15,024)
Financing activities			
Proceeds from short-term bank loans	15,453	3,215	124,621
Repayments of short-term bank loans	(16,833)	(6,868)	(135,750)
Proceeds from long-term bank loans	153	53	1,234
Repayments of long-term bank loans	(2,273)	(1,244)	(18,331)
Redemption of convertible bonds	(4,999)	—	(40,315)
Acquisition of treasury stock	(14)	(806)	(113)
Cash dividends paid	(532)	(329)	(4,290)
Other, net	14	15	113
Net cash used in financing activities	(9,032)	(5,964)	(72,839)
Effect of exchange rate changes on cash and cash equivalents	358	(446)	2,887
Net decrease (increase) in cash and cash equivalents	(2,323)	1,511	(18,734)
Cash and cash equivalents at beginning of the year	11,555	9,756	93,185
Increase in cash and cash equivalents due to inclusion in consolidation	99	287	798
Cash and cash equivalents at end of the year	¥ 9,331	¥11,555	\$ 75,250

The accompanying notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Riken Corporation and Consolidated Subsidiaries
March 31, 2001

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

Riken Corporation (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

As permitted by the regulations under the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

(B) PRINCIPLES OF CONSOLIDATION AND ACCOUNTING FOR INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions have been eliminated.

The excess of cost over the underlying equity in net assets at the dates of acquisition of the major consolidated subsidiaries is charged to income for the five years by the straight-line method.

Investments in unconsolidated subsidiaries and affiliates, not accounted for by the equity method, are stated at cost or less.

(C) FOREIGN CURRENCY TRANSLATION

Accounts of foreign consolidated subsidiaries are translated into yen as follows: all assets, liabilities, retained earnings at the end of the year and items in the statement of operations including net income, at the rate of exchange in effect at the year end; capital stock, at historical rates; and dividends paid, at the rate of exchange in effect when paid.

In accordance with a new accounting standard for foreign currency translation which became effective April 1, 2000, the Company has presented translation adjustments as a component of shareholders' equity and minority interests in consolidated subsidiaries (instead of as a component of assets or liabilities) in its consolidated financial statements for the year ended March 31, 2001. The Company has not reclassified the previously reported consolidated financial statements for the year ended March 31, 2000. However, the adoption of this new standard had no material impact on the consolidated statement of income for the year ended March 2001.

(D) APPROPRIATION OF RETAINED EARNINGS

Cash dividends paid, transfer to the legal reserve and bonuses to directors and statutory auditors are recorded in the financial year in which the proposed appropriations of retained earnings are approved by the Board of Directors and/or shareholders.

(E) CASH EQUIVALENTS

The Company and its consolidated subsidiaries substantially consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(F) SECURITIES

Until the year ended March 31, 2000, marketable securities had been stated at cost, determined by the moving average method.

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at cost except for securities written down the investments to reflect its impairment. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method. The carrying value and fair value of other securities at March 31, 2001 are ¥230 million and ¥232 million, respectively.

As of April 1, 2000, the Company and its subsidiaries assessed their intent to hold their investments in securities and classified their investments as "other securities" and accounted for the securities at March 31, 2001 in accordance with the new standard referred to above. As a result, marketable securities of ¥11,569 million (\$93,298 thousand) were reclassified to investments in other securities at April 1, 2000.

The effect of the adoption of this new standard for financial instruments was to decrease income before income taxes by ¥143 million (\$1,153 thousand) for the year ended March 31, 2001.

(G) INVENTORIES

Inventories are stated at cost, cost being determined mainly by the average method.

(H) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Depreciation of buildings and of machinery and equipment is determined mainly by the declining-balance method, except for buildings acquired in Japan subsequent to March 31, 1998 on which depreciation is computed by the straight-line method, at rates based on the estimated useful lives of the respective assets.

(I) LEASES

Non-cancelable lease transactions are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(J) RETIREMENT BENEFITS

Until the year ended March 31, 2000, accrued severance indemnities at March 31, are stated at 40 percent of the amount which would be required to be paid if all eligible employees covered by the severance indemnities plan voluntarily terminated their employment as of the respective balance sheet date.

In accordance with a new accounting standard for retirement benefits which became effective April 1, 2000, accrued employees' retirement benefits at March 31, 2001 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of March 31, 2001, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. The net retirement benefit obligation at transition was fully charged to income for the year ended March 31, 2001. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over periods (principally 10 years) which are shorter than the average remaining years of service of the employees.

The effect of the adoption of the new standard for retirement benefits was to decrease income before income taxes by ¥15,925 million (\$128,427 thousand) for the year ended March 31, 2001.

(K) INCOME TAXES

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

Effective April 1, 1999, in accordance with a change in accounting principles, the Company changed its method of accounting for income taxes to adopting tax-effect accounting following the deferred tax assets and liability method for the Company and its subsidiaries. Until the year ended March 31, 1999, tax effect accounting was adopted only by certain foreign subsidiaries. The effect of this change was to increase total assets and liabilities by ¥743 million (\$7,009 thousand) and ¥35 million (\$330 thousand), respectively, at March 31, 2000, to decrease net income by ¥1,430 million (\$13,491 thousand) and to increase retained earnings by ¥692 million (\$6,528 thousand) for the year ended March 31, 2000.

(L) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income when incurred.

A new accounting standard for research and development expenses became effective the fiscal year ended March 31, 2000. The effect of the adoption of this new standard was to increase research and development expenses by ¥57 million (\$538 thousand) for the year ended March 31, 2000.

(M) APPROPRIATION OF RETAINED EARNINGS

Dividends and other appropriations of retained earnings are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which such appropriations are applicable. The accompanying consolidated financial statements do, however, reflect the applicable appropriations of retained earnings as approved by the shareholders subsequent to the fiscal year end.

2 U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥124 = U.S.\$1.00, the approximate rate of exchange on March 31, 2001. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

3 SECURITIES

(a) Information regarding marketable securities classified as other securities as of March 31, 2001 is as follows:

	March 31, 2001					
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
	(Millions of yen)			(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Bonds:						
Government bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other debt securities	—	—	—	—	—	—
Others	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Securities whose acquisition cost exceeds their carrying value:						
Stock	50	50	—	403	403	—
Bonds:						
Government bonds	—	—	—	—	—	—
Corporate bonds	0	0	—	6	6	—
Other debt securities	—	—	—	—	—	—
Others	—	—	—	—	—	—
Subtotal	51	51	—	411	411	—
Total	¥ 51	¥ 51	¥ —	\$411	\$411	\$ —

(b) Sales of securities classified as other securities amounted to ¥15,800 million (\$127,419 thousand) with aggregate gain and loss of ¥3,625 million (\$29,234 thousand) and ¥2 million (\$16 thousand), respectively, for the year ended March 31, 2001. In addition, the Company contributed marketable securities with a fair value of ¥14,621 million (\$117,911 thousand) to its employees' retirement benefit trust, which resulted in a gain of ¥3,619 million (\$29,185 thousand) for the year ended March 31, 2001.

(c) The redemption schedule for securities with maturity dates classified as other securities is summarized as follows:

	March 31, 2001			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)			
Government bonds	¥ —	¥ —	¥ —	¥ —
Corporate bonds	—	—	—	—
Other debt securities	6	1	—	—
Total	¥ 6	¥ 1	¥ —	¥ —

March 31, 2001				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Thousands of U.S. dollars)			
Government bonds	\$ —	\$ —	\$ —	\$ —
Corporate bonds	—	—	—	—
Other debt securities	48	8	—	—
Total	\$ 48	\$ 8	\$ —	\$ —

(d) The carrying value and related fair value of current and non-current marketable securities at March 31, 2000 were as follows:

	March 31, 2000		
	Carrying value	Estimated fair value	Net unrealized gain
	(Millions of yen)		
(1) Current :			
Stock	¥11,485	¥16,912	¥5,426
Bonds	1	0	0
Others	—	—	—
Subtotal	11,486	16,913	5,426
(2) Non-current :			
Stock	—	—	—
Bonds	—	—	—
Others	—	—	—
Subtotal	—	—	—
Total	¥11,486	¥16,913	¥5,426

4 INVENTORIES

Inventories at March 31, 2001 and 2000 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished products	¥2,911	¥3,127	\$23,476
Goods for resale	738	730	5,952
Work in process	3,037	2,807	24,492
Other	1,111	1,044	8,960
	¥7,799	¥7,709	\$62,895

5 DEPRECIATION

Depreciation of property, plant and equipment for the years ended March 31, 2001 and 2000 amounted to ¥4,139 million (\$33,379 thousand) and ¥4,560 million, respectively.

Accumulated depreciation of property, plant and equipment at March 31, 2001 and 2000 amounted to ¥57,267 million (\$461,831 thousand) and ¥55,359 million, respectively.

6 SHORT-TERM DEBT AND LONG-TERM DEBT

At March 31, 2001 and 2000, short-term debt and the current portion of long-term debt consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Loans, principally from banks	¥12,942	¥13,988	\$104,371
Current portion of long-term debt	1,617	7,613	13,040
	¥14,559	¥21,602	\$117,411

The annual interest rates applicable to short-term debt outstanding at March 31, 2001 and 2000 ranged principally from 0.87 percent to 10.5 percent and from 0.663 percent to 9.5 percent, respectively.

At March 31, 2001 and 2000, long-term debt consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Secured loans from banks and insurance company, due through 2008 at interest rates ranging from 0.348 percent to 10.106 percent	¥11,971	¥13,816	\$96,540
Unsecured loans from banks, insurance company and others due through 2029 at interest rates ranging from 0.83 percent	385	1,155	3,105
Secured zero coupon convertible bonds, in yen, due 2001	—	4,999	—
	12,357	19,971	99,653
Less current portion	(1,617)	(7,613)	(13,040)
	¥10,740	¥12,357	\$86,613

The maturities of long-term debt are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥ 1,617	\$13,040
2003	1,566	12,629
2004	8,995	72,540
2005 and thereafter	179	1,444
	¥12,357	\$99,653

The assets pledged as collateral for short-term debt of ¥664 million (\$5,355 thousand) and long-term debt of ¥11,971 million (\$96,540 thousand) at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥ 9,158	\$73,855
Other	102	823
	¥ 9,261	\$74,685

7 INCOME TAXES

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of 41.8 percent for 2001 and 2000. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

As net loss, and as the difference of the effective tax rate from the statutory rate is less than 5%, the reason of the difference is omitted for 2001 and 2000.

The significant components of deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax asset:			
Current assets:			
Accrued bonuses	¥ 363	¥ 227	\$ 2,927
Foreign tax credit	—	61	—
Accrued enterprise tax	260	—	2,097
Other, net	107	78	863
Total deferred tax assets (current)	¥ 731	¥ 366	\$ 5,895
Non-current assets:			
Accrued retirement benefits	¥ 8,085	¥ 450	\$ 65,202
Depreciation	124	92	1,000
Loss carryforward	36	603	290
Other, net	57	70	460
Valuation allowance	—	(603)	—
Elimination to deferred tax liabilities (noncurrent)	(2,559)	(235)	(20,637)
Total deferred tax assets (noncurrent)	¥ 5,745	¥ 377	\$ 46,331
Deferred tax liabilities:			
Current liabilities	¥ —	¥ (18)	\$ —
Gain from contribution of securities to retirement benefit trust			
	¥(2,408)	¥ —	\$(19,419)
Depreciation	(108)	(234)	(871)
Other, net	(55)	(18)	(444)
Elimination to deferred tax assets (noncurrent)	2,559	235	20,637
Total deferred tax liabilities (noncurrent)	¥ (13)	¥ (17)	\$ (105)

8 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

At March 31, 2001 and 2000, accrued expenses and other current liabilities consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Accrued bonuses	¥2,069	¥1,962	\$16,685
Other	3,601	3,151	29,040
	¥5,671	¥5,114	\$45,734

9 RETIREMENT BENEFIT PLANS

The Company has defined benefit plans, i.e., funded non-contributory tax-qualified, lump-sum payments and a welfare pension plan by the Welfare Pension Law of Japan, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. In addition, domestic subsidiaries have primarily defined benefit plans, funded non-contributory tax-qualified, and lump-sum payments. Certain foreign subsidiaries have defined benefit plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2001 for the Company's and the subsidiaries' defined benefit plans:

March 31, 2001	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation	¥(42,537)	\$(343,040)
Plan assets at fair value	33,695	271,734
Unfunded retirement benefit obligation	(8,841)	(71,298)
Unrecognized actuarial gain or loss	1,219	9,831
Unrecognized prior service cost	—	—
Accrued retirement benefits	¥ (7,621)	\$ (61,460)

The components of retirement benefit expenses for the year ended March 31, 2001 are outlined as follows:

March 31, 2001	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 1,276	\$ 10,290
Interest cost	1,359	10,960
Expected return on plan assets	(632)	(5,097)
Amortization of net retirement benefit obligation at transition	16,158	130,306
Amortization of actuarial gain or loss	—	—
Amortization of prior service cost	—	—
Total	¥18,162	\$146,468

On June 19, 2000, the Company entered into a retirement benefit trust agreement with a trust bank, and entrusted securities with an aggregate book value and market value of ¥11,002 million and ¥14,621 million, respectively, to a trust account legally segregated from the Company's assets for the future payments of employees' retirement benefits. This action was taken to mitigate the impact on the Company's future operating results of a new accounting standard in Japan for employees' retirement benefits which will become effective the year ended March 31, 2001.

The gain arising from this trust transaction of ¥3,619 million will be recorded as other income. The amount of ¥14,621 million, which is equivalent to the market value of the securities entrusted, is included in amortization of net retirement benefit obligation at transition of ¥16,158 million.

The assumptions used in accounting for the above plans were as follows:

	March 31, 2001
Discount rates	3.5%
Expected return on plan assets	3.5%

Charges to income for retirement benefits including pension costs were to ¥2,255 million for the year ended March 31, 2000.

10 SHAREHOLDERS' EQUITY

Retained earnings include a legal reserve provided in accordance with the provisions of the Commercial Code of Japan. This reserve is not available for dividends, but it may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

Retained earnings also include retained earnings appropriated for special reserves in accordance with the Special Taxation Measures Law and the Commercial Code of Japan. The reserves are deducted from taxable income when provided and are to be reversed to taxable income in subsequent years through direct appropriations of retained earnings.

11 RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended March 31, 2001 and 2000 amounted to ¥1,152 million (\$9,290 thousand) and ¥1,329 million, respectively.

12 CONTINGENT LIABILITIES

At March 31, 2001, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
As endorser of trade notes discounted and endorsed	¥ 628	\$ 5,065
As guarantor of indebtedness of:		
Employees	190	1,532
Affiliated companies	321	2,589
Other	120	968
	¥1,261	\$10,169

13 LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2001 and 2000, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

March 31,	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Acquisition costs:			
Machinery and equipment	¥2,511	¥2,441	\$20,250
Other assets	355	339	2,863
	¥2,867	¥2,780	\$23,121
Accumulated depreciation:			
Machinery and equipment	¥1,023	¥1,020	\$8,250
Other assets	220	168	1,774
	¥1,243	¥1,188	\$10,024
Net book value:			
Machinery and equipment	¥1,487	¥1,420	\$11,992
Other assets	135	171	1,089
	¥1,623	¥1,591	\$13,089

Lease payments relating to finance leases accounted for as operating leases amounted to ¥434 million (\$3,500 thousand) and ¥455 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2001 and 2000, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2001 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥ 383	\$ 3,089
2003 and thereafter	1,240	10,000
Total	¥1,623	\$13,089

14 DERIVATIVE TRANSACTIONS

The Company has entered into foreign exchange contracts to reduce its exposure to adverse fluctuations in foreign exchange rates relating to receivables and payables denominated in foreign currencies.

In addition, the Company has entered into interest rate swap agreements to reduce its exposure to adverse fluctuations in interest rates relating to long-term debt. At March 31, 2000, the total notional principal amounts of these interest rate swap agreements whose terms extend more than one year after the balance sheet date were ¥3,500 million.

At March 31, 2001, the disclosure of fair value information for interest-related derivative transactions has been omitted since all derivatives have been accounted for as hedges.

Summarized below are the contract amounts and estimated fair value of the Company's financial instruments at March 31, 2000.

	2000	
	Contract amount	Estimated fair value
	(Millions of yen)	
Interest rate swaps:		
Receive-fixed, pay-variable	¥3,500	¥104

The following methodologies and assumptions were used by the Company in estimating the fair value of its financial instruments:

Interest rate swaps:

2000 : Estimated fair value provided by financial institutions

15 AMOUNTS PER SHARE

The computation of basic net income (loss) per share is based on the weighted average number of shares of common stock outstanding during each year. If applicable, diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of the shares of common stock to be issued upon the conversion of convertible bonds.

Cash dividends per share represent dividends declared as applicable to the year.

Net assets per share are based on the number of shares outstanding at year end.

	Yen		U.S. dollars
	2001	2000	2001
Net income (loss):			
Basic	¥(29.80)	¥21.73	\$(0.240)
Diluted	—	19.20	—
Net assets	213.02	258.64	1.718
Cash dividends applicable to the year	5.00	5.00	0.040

Due to a net loss, no diluted net income per share is presented for the year ended March 31, 2001.

16 SEGMENT INFORMATION

(A) BUSINESS SEGMENTS

The business segments information for the Company and its subsidiaries for the years ended March 31, 2001 and 2000 is summarized as follows:

	Year ended March 31, 2001					
	Automobile	Construction	Other	Total	Eliminations or corporate	Consoli- dated
	(Millions of yen)					
I. Sales:						
Sales to third parties	¥50,835	¥6,651	¥14,422	¥71,909	¥ —	¥71,909
Intersegment sales and transfers	—	—	—	—	(—)	—
Total	50,835	6,651	14,422	71,909	(—)	71,909
Operating expenses	45,636	7,002	13,112	65,751	(—)	65,751
Operating income (loss)	¥ 5,198	¥ (350)	¥ 1,309	¥ 6,157	¥ (—)	¥ 6,157
II. Assets, depreciation expenses, capital expenditures:						
Assets	¥49,779	¥8,821	¥11,648	¥70,249	¥6,627	¥76,877
Depreciation expenses	¥ 3,131	¥ 366	¥ 553	¥ 4,051	¥ 88	¥ 4,139
Capital expenditures	¥ 3,175	¥ 412	¥ 655	¥ 4,243	¥ —	¥ 4,243

	Year ended March 31, 2001					
	Automobile	Construction	Other	Total	Eliminations or corporate	Consoli- dated
	(Thousands of U.S. dollar)					
I. Sales:						
Sales to third parties	\$409,960	\$53,637	\$116,306	\$579,911	\$ —	\$579,911
Intersegment sales and transfers	—	—	—	—	(—)	—
Total	409,960	53,637	116,306	579,911	(—)	579,911
Operating expenses	368,032	56,468	105,742	530,250	(—)	530,250
Operating income (loss)	\$ 41,919	\$ (2,823)	\$ 10,556	\$ 49,653	\$ (—)	\$ 49,653
II. Assets, depreciation expenses, capital expenditures:						
Assets	\$401,444	\$71,137	\$ 93,935	\$566,524	\$53,444	\$619,976
Depreciation expenses	\$ 25,250	\$ 2,952	\$ 4,460	\$ 32,669	\$ 710	\$ 33,379
Capital expenditures	\$ 25,605	\$ 3,323	\$ 5,282	\$ 34,218	\$ —	\$ 34,218

As a result of the adoption of the new standard for foreign currency translation as explained in Note 1(c), assets of Eliminations or corporate decreased by ¥1,652 million (\$13,323 thousand).

	Year ended March 31, 2000					
	Automobile	Construction	Other	Total	Eliminations or corporate	Consoli- dated
	(Millions of yen)					
I. Sales:						
Sales to third parties	¥48,721	¥6,851	¥13,988	¥69,560	¥ —	¥69,560
Intersegment sales and transfers	—	—	—	—	(—)	—
Total	48,721	6,851	13,988	69,560	(—)	69,560
Operating expenses	45,076	6,998	12,963	65,037	(—)	65,037
Operating income (loss)	¥ 3,645	¥ (147)	¥ 1,024	¥ 4,523	¥ (—)	¥ 4,523
II. Assets, depreciation expenses, capital expenditures:						
Assets	¥43,708	¥8,428	¥11,950	¥64,088	¥22,087	¥86,175
Depreciation expenses	¥ 3,111	¥ 370	¥ 969	¥ 4,451	¥ 108	¥ 4,560
Capital expenditures	¥ 2,184	¥ 150	¥ 472	¥ 2,808	¥ —	¥ 2,808

(B) GEOGRAPHICAL SEGMENT

The geographical segment information for the Company and its subsidiaries for the year ended March 31, 2001 is summarized as follows:

As net sales and total assets of the Japan constituted more than 90% of the consolidated totals for the years ended March 31, 2000, the geographical segment information has been omitted.

Year ended March 31, 2001					
	Japan	Other geographic	Total	Eliminations or corporate	Consolidated
(Millions of yen)					
Sales to third parties	¥64,210	¥7,699	¥71,909	¥ —	¥71,909
Interarea sales and transfers	4,101	753	4,855	(4,855)	—
Total	68,311	8,453	76,765	(4,855)	71,909
Operating expenses	61,755	8,175	69,931	(4,179)	65,751
Operating income	¥ 6,556	¥ 277	¥ 6,833	¥ (675)	¥ 6,157
Total assets	¥62,099	¥8,150	¥70,249	¥6,627	¥76,877

Year ended March 31, 2001					
	Japan	Other geographic	Total	Eliminations or corporate	Consolidated
(Thousands of U.S. dollar)					
Sales to third parties	\$517,823	\$62,089	\$579,911	\$ —	\$579,911
Interarea sales and transfers	33,073	6,073	39,153	(39,153)	—
Total	550,895	68,169	619,073	(39,153)	579,911
Operating expenses	498,024	65,927	563,960	(33,702)	530,250
Operating income	\$ 52,871	\$ 2,234	\$ 55,105	\$ (5,444)	\$ 49,653
Total assets	\$500,798	\$65,726	\$566,524	\$ 53,444	\$619,976

As a result of the adoption of the new standard for foreign currency translation as explained in Note 1(c), assets of eliminations or corporate decreased by ¥1,652 million (\$13,323 thousand).

(C) OVERSEAS SALES

Overseas sales, which include export sales of the Company and its domestic subsidiaries and sales (other than exports to Japan) of the foreign subsidiaries, for the years ended March 31, 2001 and 2000 are summarized as follows:

Year ended March 31, 2001	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Overseas sales	¥15,173	¥14,141	\$122,363
Consolidated net sales	71,909	69,560	579,911
Overseas sales as a percentage of consolidated net sales	21.1%	20.3%	21.1%

As overseas sales of each segment constituted less than 10% of the consolidated totals for the years ended March 31, 2001 and 2000, the overseas sales information has been omitted.

17 SUBSEQUENT EVENTS

(a) The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended March 31, 2001, were approved at a shareholders' meeting held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5 = U.S.\$0.040 per share)	¥532	\$4,290
Bonuses to directors and statutory auditors	28	226

(b) On June 28, 2001, the shareholders of the Company approved the stock option plan which entitles the directors and employees to purchase shares of the Company's common stock which had been purchased by the Company on stock exchanges in accordance with the Commercial Code. Under the plan, 2,410 thousand of shares are granted to each vested director and employee.

The stock option prices are determined, subject to adjustment, by multiplying the higher of the average final price of the Company's common stock traded on the Tokyo Stock Exchange in the month prior to the date of the granting of the option by a factor of 1.1 or the corresponding final price on the day of the granting of the option.

The stock option will become exercisable during the period from July 1, 2003 to June 30, 2006.

AUDITOR'S REPORT

Century Ota Showa & Co.

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The Board of Directors and Shareholders
Riken Corporation

We have examined the consolidated balance sheets of Riken Corporation as of and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied 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 accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Riken Corporation and subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1 to the consolidated financial statements, Riken Corporation and subsidiaries have adopted new accounting standards for consolidation and research and development expenses and tax effect accounting for the year ended March 31, 2000 and for employees' retirement benefits, financial instruments and foreign currency translation for the year ended March 31, 2001 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Century Ota Showa & Co.

June 28, 2001

See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Riken Corporation and subsidiaries under Japanese accounting principles and practices.