

TO OUR SHAREHOLDERS



From left to right: Executive Vice President Toshinaga Koizumi, President Kunihiko Oguchi, Chairman Seiji Nemoto

MID-TERM MANAGEMENT POLICY

Since April 2000, the Riken Group has been implementing Plan 2002, our 3-year, mid-term business plan that was formulated on the theme of "Raising our competitive position and strengthening our presence in world markets." In Plan 2002, the Group strives to improve corporate value by 1) establishing technological superiority across all product lines, 2) improving global price competitiveness, and 3) making managerial reform part of our management policy.

1) To establish technological superiority, it is critical to develop highly functional piston rings that provide for low fuel consumption and high output to address global environmental issues. The Group is conducting R&D primarily on thin, light-weight piston rings and surface treatment technology that will result in higher compatibility between sealing strength and lubricity. Other key R&D projects include as-cast hollow camshafts and weight reduction of cast iron chassis parts.

2) To improve price competitiveness we will dramatically improve operational efficiency through gains made from current business reform activities, achieving broad cost reductions and globally competitive pricing. We will do so while upgrading and innovating our manufacturing processes.

3) To reform our managerial framework, we are planning to expedite and enhance management to more effectively meet international competition and increase corporate value. This will be accomplished by reassessing our organizational and managerial decision-making structures and by continually practicing management reform, including the creation of financial and accounting systems for consolidated group management.

BUSINESS ENVIRONMENT AND OPERATIONAL REVIEW

During the Group's consolidated fiscal year, the world economy suffered a setback when the rapidly ailing US economy, beset by the bursting of the IT bubble, extended its influence to the European and Asian economies. Domestically, exports and production fell off drastically following the world economic slowdown that led to lower personal consumption as unemployment fears grew. This in turn led to an even deeper setback in the economy and created a harsh business climate for the Group.

In the automobile industry, in which the Riken Group's consolidated businesses operate, automobile production peaked as a result of the slowdown in the

world economy. Overall automobile demand continued to fall, resulting in a 2.6% decline over the previous year to 5.81 million units. Contributing to the worsening overall demand was a decline in exports as a result of the auto manufacturers' increased production overseas. The ill effects of economic stagnation in Asia and Europe held domestic automobile production to only 9.8 million units. Additionally, despite support from rentals and subdivisions, the domestic housing and construction industry also saw a large decline in owner-occupied housing as a result of becoming less effective of tax relief measures. New housing starts were down to 1.17 million units, below the previous year's figures. Even square footage of non-residential construction was 10.8% less than the year before due to a large decline in demand for outlets and factories.

The Group endeavored to expand its business and secure new customers under this harsh business environment. As a result we raised sales revenues for piston rings, the Group's core product, by increasing our share of both domestic and overseas OEMs (Original Equipment Manufacturers) business and by expanding sales of stock supplies overseas. However, in our other business operations, staggering demand and a decline in sales prices, due to market competition, resulted in consolidated sales revenues of ¥69,249 million, a 3.7% decline from the previous year. Consolidated operating income was ¥5,589 million, a 9.2% decline from the previous year resulting from the lower level of sales revenue. We were able to maintain an operating income margin of 8% through continued rationalization measures that resulted in reduced costs. Consolidated net income was a record-breaking ¥3,344 million. (With the introduction of new accounting standards in Japan for retirement benefits we made a one-time ¥16,100 million write off unfunded pension liabilities. This resulted in a net loss of ¥3,100 million in the previous fiscal year.) Additionally the Group was able to achieve a consolidated ROA of 4.6%. As was initially planned, we declared a dividend of ¥7.5 per share, an increase of ¥2.5 per share for the year.

Furthermore, in order to strengthen the Group's sales capacity and realize efficiency gains from its sales related-companies, Riken Trading Co., Ltd. and Osaka Kiki Hanbai, Ltd., both wholly owned subsidiaries, merged on April 1st, 2001 to form Riken Trading Co., Ltd.

OUTLOOK FOR NEXT YEAR

With regard to future economic trends, we cannot expect a strong recovery from those economic doldrums over the short term. As for the automobile industry, we fear that slumping demand for passenger cars and trucks, and expansion of overseas production by automobile manufacturers will lead to reduced domestic production in the future.

It is in just such an environment that we will move forward to the next year, the final year of our mid-term business plan. During that period we will identify customer needs and expand sales of automotive parts, led by such core products as piston rings and camshafts, by developing environmentally-friendly and lighter products with enhanced technology. Between existing customers and new customer development in the world market, we expect this Group will achieve consolidated sales revenues of ¥68,000 million. This will be achieved by leveraging our production and sales bases across Europe, the Americas and Asia, with the Japanese base as the main hub. We plan to establish optimal business systems in each region while attaining competitive excellence based on the development, quality and price-competitiveness of new products.

We will enhance our profitability by improving turnover of inventory and accounts receivables, through operational reform practices that streamline the supply chain, while endeavoring to improve mass production technology and cost reduction. In addition to these managerial structure enhancements we will further increase the Group's corporate value by improving capital efficiency brought by making use of a commitment-line and the strict execution of a cash-management service. For next year we are forecasting a consolidated operating income of ¥5,600 million and a consolidated net income of ¥3,400 million. Finally, we intend to continue to declare a dividend of ¥7.5 per share for next year.

Thank you for your ongoing support.



Kunihiko Oguchi
President