

FINANCIAL SECTION

TWO-YEAR AND FIVE-YEAR SUMMARIES

Riken Corporation and Consolidated Subsidiaries

Millions of yen

CONSOLIDATED

| | 2001 | 2002 |
|---|----------|----------|
| Net sales | ¥ 71,909 | ¥ 69,249 |
| Operating income | 6,157 | 5,589 |
| Net income (loss) | (3,173) | 3,344 |
| Total assets | 76,877 | 72,849 |
| Net assets per share (yen) | 213.02 | 245.89 |
| Net income (loss) per share (yen) | (29.80) | 31.81 |
| Diluted net income per share (yen) | — | — |
| Capital ratio (%) | 29.5 | 35.3 |
| Net cash provided by operating activities | 8,213 | 5,333 |
| Net cash used in investing activities | (1,863) | (3,314) |
| Net cash used in financing activities | (9,032) | (4,623) |
| Cash and cash equivalents at end of year | 9,331 | 7,258 |
| Number of employees | 3,979 | 3,850 |

Millions of yen

NON-CONSOLIDATED

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Net sales | ¥ 70,817 | ¥ 63,116 | ¥ 63,274 | ¥ 64,253 | ¥ 61,740 |
| Operating income | 2,390 | 764 | 3,644 | 5,175 | 4,465 |
| Net income (loss) | 1,034 | (5,352) | 1,319 | (3,169) | 2,639 |
| Capital | 8,573 | 8,573 | 8,573 | 8,573 | 8,573 |
| Common shares issued (shares) | 109,959,667 | 109,959,667 | 106,484,667 | 106,484,667 | 106,484,667 |
| Total assets | 77,720 | 73,774 | 73,634 | 63,428 | 58,574 |
| Net assets per share (yen) | 238.50 | 184.57 | 212.08 | 177.06 | 192.71 |
| Amount of a dividend per share (yen) | 5 | 3 | 5 | 5 | 7.50 |
| Net income (loss) per share (yen) | 9.41 | (48.68) | 12.12 | (29.76) | 25.12 |
| Diluted net income per share (yen) | 8.32 | — | 10.71 | — | — |
| Capital ratio (%) | 33.7 | 27.5 | 30.7 | 29.7 | 34.4 |
| Number of employees | 1,837 | 1,776 | 1,698 | 1,634 | 1,564 |

CONSOLIDATED BALANCE SHEETS

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|--|-----------------|-----------------|--|
| | 2002 | 2001 | 2002 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 7,258 | ¥ 9,331 | \$ 54,571 |
| Time deposits | 89 | 367 | 669 |
| Notes and accounts receivable | 18,955 | 21,106 | 142,519 |
| Less allowance for doubtful receivable | (2) | (63) | (15) |
| Marketable securities (Notes 1(f) and 3) | 5 | 6 | 38 |
| Inventories (Note 4) | 7,694 | 7,799 | 57,850 |
| Deferred tax assets (Notes 1(k) and 7) | 671 | 731 | 5,045 |
| Other current assets | 499 | 707 | 3,752 |
| Total current assets | 35,171 | 39,987 | 264,444 |
| Non-current assets: | | | |
| Property, plant and equipment, at cost (Notes 5 and 6): | | | |
| Land | 3,432 | 3,287 | 25,805 |
| Buildings | 8,301 | 8,532 | 62,414 |
| Machinery and equipment | 12,742 | 11,971 | 95,805 |
| Construction in progress | 755 | 1,182 | 5,677 |
| Total property, plant and equipment | 25,232 | 24,974 | 189,714 |
| Investments in unconsolidated subsidiaries and affiliates | 2,633 | 1,870 | 19,797 |
| Investments in other securities (Notes 1(f) and 3) | 1,639 | 1,699 | 12,323 |
| Deferred tax assets (Notes 1(k) and 7) | 5,679 | 5,745 | 42,699 |
| Other non-current assets | 2,493 | 2,601 | 18,744 |
| Total non-current assets | 37,678 | 36,889 | 283,293 |
| Total assets | ¥ 72,849 | ¥ 76,877 | \$ 547,737 |

The accompanying notes are an integral part of these statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|-----------------|-----------------|--|
| | 2002 | 2001 | 2002 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Notes and accounts payable | ¥ 10,861 | ¥ 12,099 | \$ 81,662 |
| Short-term debt (Note 6) | 11,301 | 12,942 | 84,970 |
| Current portion of long-term debt (Note 6) | 1,548 | 1,617 | 11,639 |
| Accrued income taxes (Note 7) | 964 | 3,076 | 7,248 |
| Accrued expenses and other current liabilities (Note 8) | 5,905 | 5,671 | 44,398 |
| Total current liabilities | 30,581 | 35,407 | 229,932 |
| Long-term liabilities: | | | |
| Long-term debt (Note 6) | 9,252 | 10,740 | 69,564 |
| Deferred tax liabilities (Notes 1(k) and 7) | 10 | 13 | 75 |
| Accrued retirement benefits (Notes 1(j) and 9) | 6,822 | 7,621 | 51,293 |
| Excess of net assets acquired over cost | 128 | 167 | 962 |
| Other long-term liabilities | 7 | 7 | 53 |
| Total long-term liabilities | 16,221 | 18,550 | 121,962 |
| Minority interests in consolidated subsidiaries | 351 | 236 | 2,639 |
| Shareholders' equity (Note 10): | | | |
| Common stock: | | | |
| Authorized - 196,525,000 shares | | | |
| Issued - 106,484,667 shares at March 31, 2002 and 2001 | 8,573 | 8,573 | 64,459 |
| Capital surplus | 6,604 | 6,604 | 49,654 |
| Retained earnings | 12,152 | 9,157 | 91,368 |
| Unrealized holding gains on other securities (Notes 1(f) and 3) | 5 | — | 38 |
| Translation adjustments (Note 1(c)) | (835) | (1,652) | (6,278) |
| Less treasury common stock, at cost | (806) | (0) | (6,060) |
| Total shareholders' equity | 25,695 | 22,683 | 193,195 |
| Contingent liabilities (Note 12) | | | |
| Total liabilities and shareholders' equity | ¥ 72,849 | ¥ 76,877 | \$ 547,737 |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|--|-----------------|-----------|--|
| | 2002 | 2001 | 2002 |
| Net sales | ¥ 69,249 | ¥ 71,909 | \$ 520,669 |
| Cost of sales | 53,266 | 55,347 | 400,496 |
| Gross profit | 15,983 | 16,561 | 120,173 |
| Selling, general and administrative expenses | 10,393 | 10,403 | 78,143 |
| Operating income | 5,589 | 6,157 | 42,023 |
| Other income (expenses): | | | |
| Interest and dividend income | 312 | 389 | 2,346 |
| Interest expense | (458) | (529) | (3,444) |
| Equity in earnings of investees | 341 | 272 | 2,564 |
| Loss on disposal of inventories | (296) | (155) | (2,226) |
| Gain on sales of fixed assets | – | 595 | – |
| Gain on reversal of allowance for doubtful receivables | 3 | 113 | 23 |
| Gain from contribution of securities to retirement benefit trust | – | 3,619 | – |
| Loss on disposal of fixed assets | (120) | (150) | (902) |
| Devaluation of investment in securities | (62) | (220) | (466) |
| Amortization of net retirement benefit obligation at transition (Note 9) | – | (16,158) | – |
| Other, net | 146 | 221 | 1,098 |
| Income (loss) before income taxes and minority interests | 5,455 | (5,844) | 41,015 |
| Income taxes (Notes 1(k) and 7): | | | |
| Current | 1,928 | 3,160 | 14,496 |
| Deferred | 124 | (5,770) | 932 |
| | 2,052 | (2,609) | 15,429 |
| Minority interests in earnings of consolidated subsidiaries | 58 | (61) | 436 |
| Net income (loss) (Note 15) | ¥ 3,344 | ¥ (3,173) | \$ 25,143 |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|--|-----------------|-----------|--|
| | 2002 | 2001 | 2002 |
| Common stock | | | |
| Balance at beginning of the year | ¥ 8,573 | ¥ 8,573 | \$ 64,459 |
| Balance at end of the year | ¥ 8,573 | ¥ 8,573 | \$ 64,459 |
| Capital surplus | | | |
| Balance at beginning of the year | ¥ 6,604 | ¥ 6,604 | \$ 49,654 |
| Balance at end of the year | ¥ 6,604 | ¥ 6,604 | \$ 49,654 |
| Retained earnings | | | |
| Balance at beginning of the year | ¥ 9,157 | ¥ 12,363 | \$ 68,850 |
| Add: | | | |
| Net income (loss) | 3,344 | (3,173) | 25,143 |
| Adjustment for inclusion in consolidation or equity method of accounting | 211 | 164 | 1,586 |
| Adjustment for revaluation of fixed assets in a foreign consolidated subsidiary | - | 362 | - |
| Deduct: | | | |
| Cash dividends applicable to the year | (532) | (532) | (4,000) |
| Bonuses to directors and statutory auditors | (28) | (28) | (211) |
| Balance at end of the year | ¥ 12,152 | ¥ 9,157 | \$ 91,368 |
| Unrealized holding gains on other securities | | | |
| Balance at beginning of the year | ¥ - | ¥ - | \$ - |
| Net change during the year | 5 | - | 38 |
| Balance at end of the year (Notes 1(f) and 3) | ¥ 5 | ¥ - | \$ 38 |
| Translation adjustments | | | |
| Balance at beginning of the year | ¥ (1,652) | ¥ - | \$ (12,421) |
| Net change during the year | 816 | (1,652) | 6,135 |
| Balance at end of the year (Note 1(c)) | ¥ (835) | ¥ (1,652) | \$ (6,278) |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|-----------------|-----------|--|
| | 2002 | 2001 | 2002 |
| Operating activities | | | |
| Income (loss) before income taxes and minority interests | ¥ 5,455 | ¥ (5,844) | \$ 41,015 |
| Depreciation and amortization | 4,051 | 4,153 | 30,459 |
| Equity in earnings of investees | (341) | (272) | (2,564) |
| Reversal of accrued retirement benefits | (821) | – | (6,173) |
| Amortization of net retirement benefit obligation at transition | – | 16,158 | – |
| Gain from contribution of securities to retirement benefit trust | – | (3,619) | – |
| Reversal of provision for loss on investments | – | (103) | – |
| Provision for (reversal of) allowance for doubtful receivables | 154 | (109) | 1,158 |
| Loss on devaluation of securities | 62 | 220 | 466 |
| Gain on sales of fixed assets | – | (595) | – |
| Loss on disposals of fixed assets | 120 | 150 | 902 |
| Decrease (increase) in notes and accounts receivable | 2,758 | (928) | 20,737 |
| Decrease (increase) in inventories | 235 | (42) | 1,767 |
| (Decrease) increase in notes and accounts payable | (1,441) | 299 | (10,835) |
| Decrease in notes receivable discounted | (497) | (100) | (3,737) |
| Other, net | (234) | (703) | (1,759) |
| Subtotal | 9,500 | 8,660 | 71,429 |
| Interest received | 312 | 389 | 2,346 |
| Interest paid | (430) | (525) | (3,233) |
| Income taxes paid | (4,049) | (310) | (30,444) |
| Net cash provided by operating activities | 5,333 | 8,213 | 40,098 |
| Investing activities | | | |
| Additions to property, plant and equipment | (3,845) | (3,688) | (28,910) |
| Proceeds from sales of property, plant and equipment | 435 | 1,894 | 3,271 |
| Additions to investments in securities | (1,008) | (1,124) | (7,579) |
| Proceeds from sales of investments in securities | 1,007 | 1,182 | 7,571 |
| Other, net | 97 | (128) | 729 |
| Net cash used in investing activities | (3,314) | (1,863) | (24,917) |
| Financing activities | | | |
| Proceeds of short-term bank loans | 10,469 | 15,453 | 78,714 |
| Repayments of short-term bank loans | (12,168) | (16,833) | (91,489) |
| Proceeds of long-term bank loans | 124 | 153 | 932 |
| Repayments of long-term bank loans | (1,700) | (2,273) | (12,782) |
| Redemption of convertible bonds | – | (4,999) | – |
| Acquisition of treasury stock | (806) | (0) | (6,060) |
| Cash dividends paid | (532) | (532) | (4,000) |
| Other, net | (9) | – | (68) |
| Net cash used in financing activities | (4,623) | (9,032) | (34,759) |
| Effect of exchange rate changes on cash and cash equivalents | 530 | 358 | 3,985 |
| Net decrease in cash and cash equivalents | (2,073) | (2,323) | (15,586) |
| Cash and cash equivalents at beginning of the year | 9,331 | 11,555 | 70,158 |
| Increase in cash and cash equivalents due to inclusion in consolidation | – | 99 | – |
| Cash and cash equivalents at end of the year | ¥ 7,258 | ¥ 9,331 | \$ 54,571 |

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Riken Corporation and Consolidated Subsidiaries
March 31, 2002

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 any significant subsidiaries and affiliates controlled directly or indirectly by the Company. Subsidiaries and affiliates over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. 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) TRANSLATION OF FOREIGN CURRENCIES

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. 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.

A new accounting standard for financial instruments regarding valuation of other securities, which became effective April 1, 2001, requires the other securities be carried at fair value. The effect of this change is not significant.

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 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 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

Noncancelable 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, 2002 and 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 balance sheet dates, 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 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.

(l) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income when incurred.

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 ¥133 = U.S.\$1.00, the approximate rate of exchange on March 31, 2002. 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 held-to-maturity debt securities as of March 31, 2002 is as follows:

| March 31, 2002 | | | | | | |
|---|-----------------|------------|------------------------|---------------------------|------------|------------------------|
| | Millions of yen | | | Thousands of U.S. dollars | | |
| | Carrying value | Fair value | Unrealized gain (loss) | Carrying value | Fair value | Unrealized gain (loss) |
| Securities whose fair value exceeds carrying value: | | | | | | |
| Corporate bonds | ¥ 2 | ¥ 2 | ¥ 0 | \$ 15 | \$ 15 | \$ 2 |
| Subtotal | 2 | 2 | 0 | 15 | 15 | 2 |
| Securities whose carrying value exceeds fair value: | | | | | | |
| Corporate bonds | 1 | 0 | (0) | 8 | 7 | (1) |
| Subtotal | 1 | 0 | (0) | 8 | 7 | (1) |
| Total | ¥ 3 | ¥ 3 | ¥ 0 | \$ 23 | \$ 23 | \$ 1 |

(b) Information regarding marketable securities classified as other securities as of March 31, 2002 is as follows:

| March 31, 2002 | | | | | | |
|---|------------------|----------------|------------------------|---------------------------|----------------|------------------------|
| | Millions of yen | | | Thousands of U.S. dollars | | |
| | Acquisition cost | Carrying value | Unrealized gain (loss) | Acquisition cost | Carrying value | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | | | | |
| Stock | ¥ 23 | ¥ 60 | ¥ 37 | \$ 173 | \$ 451 | \$ 278 |
| Subtotal | 23 | 60 | 37 | 173 | 451 | 278 |
| Securities whose acquisition cost exceeds their carrying value: | | | | | | |
| Stock | 199 | 171 | (27) | 1,496 | 1,286 | (203) |
| Subtotal | 199 | 171 | (27) | 1,496 | 1,286 | (203) |
| Total | ¥ 222 | ¥ 232 | ¥ 10 | \$ 1,669 | \$ 1,744 | \$ 75 |

Acquisition cost and Carrying Value are written down ¥61 million (\$459 thousand) to reflect its impairment.

(c) Sales of securities classified as other securities amounted to ¥1,000 million (\$7,519 thousand) with aggregate gain and loss of ¥0 million (\$0 thousand) and ¥0 million (\$1 thousand), respectively, for the year ended March 31, 2002.

(d) The carrying value and details of securities not carried at fair value as of March 31, 2002, is as follows:

| | Carrying value | |
|---|-----------------------|---------------------------|
| | Millions of yen | Thousands of U.S. dollars |
| Held-to-maturity debt securities: | | |
| Others | ¥ 6 | \$ 45 |
| Other securities: | | |
| Unlisted securities (Except for over-the-counter stock) | 1,400 | 10,526 |
| Others | 2 | 15 |

(e) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities is summarized as follows:

| March 31, 2002 | | | | |
|-----------------------|----------------------------|--|---|------------------------|
| Millions of yen | | | | |
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Corporate bonds | ¥ – | ¥ 3 | ¥ – | ¥ – |
| Other debt securities | 5 | 0 | – | – |
| Other securities | – | 278 | – | – |
| Total | ¥ 5 | ¥ 281 | ¥ – | ¥ – |

| March 31, 2002 | | | | |
|---------------------------|----------------------------|--|---|------------------------|
| Thousands of U.S. dollars | | | | |
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Corporate bonds | \$ – | \$ 23 | \$ – | \$ – |
| Other debt securities | 38 | 7 | – | – |
| Other | – | 2,090 | – | – |
| Total | \$ 38 | \$ 2,113 | \$ – | \$ – |

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

| March 31, 2001 | | | |
|---|------------------|----------------|---------------------------|
| Millions of yen | | | |
| | Acquisition cost | Carrying value | Unrealized gain (loss) |
| Securities whose acquisition cost exceeds their carrying value: | | | |
| Stock | ¥ 50 | ¥ 50 | ¥ – |
| Bonds: | | | |
| Corporate bonds | 0 | 0 | – |
| Total | ¥ 51 | ¥ 51 | ¥ – |

Acquisition cost and Carrying Value are written down ¥205 million to reflect its impairment.

(g) Sales of securities classified as other securities amounted to ¥15,800 million with aggregate gain and loss of ¥3,625 million and ¥2 million, respectively, for the year ended March 31, 2001. The Company contributed marketable securities with a fair value of ¥14,621 million to its employees' retirement benefit trust, which resulted in a gain of ¥3,619 million included in the above aggregate gain.

(h) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities is summarized as follows:

| March 31, 2001 | | | | |
|-----------------------|----------------------------|--|---|------------------------|
| Millions of yen | | | | |
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Other debt securities | ¥ 6 | ¥ 1 | ¥ – | ¥ – |
| Total | ¥ 6 | ¥ 1 | ¥ – | ¥ – |

4. INVENTORIES

Inventories at March 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------|-----------------|---------|------------------------------|
| | 2002 | 2001 | 2002 |
| Finished products | ¥ 2,897 | ¥ 2,911 | \$ 21,782 |
| Goods for resale | 778 | 738 | 5,850 |
| Work in process | 2,952 | 3,037 | 22,195 |
| Other | 1,065 | 1,111 | 8,008 |
| | ¥ 7,694 | ¥ 7,799 | \$ 57,850 |

5. DEPRECIATION

Depreciation of property, plant and equipment for the years ended March 31, 2002 and 2001 amounted to ¥3,795 million (\$28,534 thousand) and ¥4,139 million, respectively.

Accumulated depreciation of property, plant and equipment at March 31, 2002 and 2001 amounted to ¥59,041 million (\$443,917 thousand) and ¥57,267 million, respectively.

6. SHORT-TERM DEBT AND LONG-TERM DEBT

At March 31, 2002 and 2001, short-term debt and the current portion of long-term debt consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------|-----------------|----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Loans, principally from banks | ¥ 11,301 | ¥ 12,942 | \$ 84,970 |
| Current portion of long-term debt | 1,548 | 1,617 | 11,639 |
| | ¥ 12,849 | ¥ 14,559 | \$ 96,609 |

The annual interest rates applicable to short-term debt outstanding at March 31, 2002 and 2001 ranged principally from 0.614 percent to 7.341 percent and from 0.87 percent to 10.5 percent, respectively.

At March 31, 2002 and 2001, long-term debt consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Secured loans from banks, insurance company, due through 2009 at interest rates ranging from 0.348 percent to 10.106 percent | ¥ 10,544 | ¥ 11,971 | \$ 79,278 |
| Unsecured loans from banks, insurance company and others due through 2029 at interest rates ranging from 0.83 percent to 7.25 percent | 256 | 385 | 1,925 |
| | 10,800 | 12,357 | 81,203 |
| Less current portion | (1,548) | (1,617) | (11,639) |
| | ¥ 9,252 | ¥ 10,740 | \$ 69,564 |

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

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|---------------------------|
| 2003 | ¥ 1,548 | \$ 11,639 |
| 2004 | 8,997 | 67,647 |
| 2005 | 76 | 571 |
| 2006 and thereafter | 177 | 1,331 |
| | ¥ 10,800 | \$ 81,203 |

The assets pledged as collateral for short-term debt of ¥1,955 million (\$14,699 thousand) and long-term debt of ¥9,088 million (\$68,331 thousand) at March 31, 2002 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------------|---------------------------|
| | 2002 | 2001 | 2002 |
| Property, plant and equipment, at net book value | ¥ 7,812 | ¥ 9,158 | \$ 58,737 |
| Other | 61 | 102 | 459 |
| | ¥ 7,873 | ¥ 9,261 | \$ 59,195 |

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 2002 and 2001. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The significant components of deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-----------|---------------------------|
| | 2002 | 2001 | 2002 |
| Deferred tax asset: | | | |
| Current assets: | | | |
| Accrued bonuses | ¥ 424 | ¥ 363 | \$ 3,188 |
| Accrued enterprise tax | 142 | 260 | 1,068 |
| Other, net | 104 | 107 | 782 |
| Total deferred tax assets (current) | ¥ 671 | ¥ 731 | \$ 5,045 |
| Non-current assets: | | | |
| Accrued retirement benefits | ¥ 7,970 | ¥ 8,085 | \$ 59,925 |
| Depreciation | 138 | 124 | 1,038 |
| Loss carryforward | 27 | 36 | 203 |
| Other, net | 110 | 57 | 827 |
| Elimination to deferred tax liabilities (non-current) | (2,566) | (2,559) | (19,293) |
| Total deferred tax assets (non-current) | ¥ 5,679 | ¥ 5,745 | \$ 42,699 |
| Deferred tax liabilities: | | | |
| Current liabilities | ¥ - | ¥ - | \$ - |
| Non-current liabilities: | | | |
| Gain from contribution of securities to retirement benefit trust | ¥ (2,430) | ¥ (2,408) | \$ (18,271) |
| Depreciation | (100) | (108) | (752) |
| Other, net | (45) | (55) | (338) |
| Elimination to deferred tax assets (non-current) | 2,566 | 2,559 | 19,293 |
| Total deferred tax liabilities (non-current) | ¥ (10) | ¥ (13) | \$ (75) |

The effective tax rate reflected in the consolidated statement of income for the year ended March 31, 2002 differs from the statutory tax rate for the following reasons:

| | 2002 |
|---|-------|
| Statutory tax rate | 41.8% |
| Effect of: | |
| Expenses not deductible for income tax purposes | 0.5 |
| Dividend income deductible for income tax purposes | (0.5) |
| Parity taxation of inhabitants' taxes | 0.5 |
| Differences in tax rates applicable to foreign subsidiaries | (2.2) |
| Equity in earnings of investees | (2.6) |
| Other, net | 0.1 |
| Effective tax rate | 37.6% |

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.

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

At March 31, 2002 and 2001, accrued expenses and other current liabilities consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------|-----------------|---------|------------------------------|
| | 2002 | 2001 | 2002 |
| Accrued bonuses | ¥ 1,917 | ¥ 2,069 | \$ 14,414 |
| Other | 3,987 | 3,601 | 29,977 |
| | ¥ 5,905 | ¥ 5,671 | \$ 44,398 |

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, 2002 and 2001, for the Company's and the subsidiaries' defined benefit plans:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|------------|------------------------------|
| | 2002 | 2001 | 2002 |
| Retirement benefit obligation | ¥ (47,138) | ¥ (42,537) | \$ (354,421) |
| Plan assets at fair value | 30,612 | 33,695 | 230,165 |
| Unfunded retirement benefit obligation | (16,526) | (8,841) | (124,256) |
| Unrecognized actuarial gain or loss | 9,704 | 1,219 | 72,962 |
| Unrecognized prior service cost | - | - | - |
| Accrued retirement benefits | ¥ (6,822) | ¥ (7,621) | \$ (51,293) |

The components of retirement benefit expenses for the year ended March 31, 2002 and 2001, are outlined as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Service cost | ¥ 1,266 | ¥ 1,276 | \$ 9,519 |
| Interest cost | 1,366 | 1,359 | 10,271 |
| Expected return on plan assets | (559) | (632) | (4,203) |
| Amortization of net retirement benefit obligation at transition | – | 16,158 | – |
| Amortization of actuarial gain or loss | 121 | – | 910 |
| Amortization of prior service cost | – | – | – |
| Other | 38 | – | 286 |
| Total | ¥ 2,233 | ¥ 18,162 | \$ 16,789 |

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:

| | 2002 | 2001 |
|--------------------------------|-------------|------|
| Discount rates | 2.5% | 3.5% |
| Expected return on plan assets | 3.5% | 3.5% |

10. SHAREHOLDERS' EQUITY

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all shares issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment became effective, the Company's shares had a par value of ¥50 per share.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

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, 2002 and 2001 amounted to ¥1,200 million (\$9,023 thousand) and ¥1,152 million, respectively.

12. CONTINGENT LIABILITIES

At March 31, 2002 and 2001, the Company and its consolidated subsidiaries had the following contingent liabilities:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2002 | 2001 | 2002 |
| As endorser of trade notes discounted and endorsed | ¥ 186 | ¥ 628 | \$ 1,398 |
| As guarantor of transferred account receivable | 500 | – | 3,759 |
| As guarantor of indebtedness of: | | | |
| Employees | 207 | 190 | 1,556 |
| Affiliated companies | – | 321 | – |
| Other | 127 | 120 | 955 |
| | ¥ 1,021 | ¥ 1,261 | \$ 7,677 |

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, 2002 and 2001, 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:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------|-----------------|---------|------------------------------|
| | 2002 | 2001 | 2002 |
| Acquisition costs: | | | |
| Machinery and equipment | ¥ 2,406 | ¥ 2,511 | \$ 18,090 |
| Other assets | 263 | 355 | 1,977 |
| | ¥ 2,669 | ¥ 2,867 | \$ 20,068 |
| Accumulated depreciation: | | | |
| Machinery and equipment | ¥ 1,126 | ¥ 1,023 | \$ 8,466 |
| Other assets | 166 | 220 | 1,248 |
| | ¥ 1,293 | ¥ 1,243 | \$ 9,722 |
| Net book value: | | | |
| Machinery and equipment | ¥ 1,279 | ¥ 1,487 | 9,617 |
| Other assets | 96 | 135 | 722 |
| | ¥ 1,375 | ¥ 1,623 | \$ 10,338 |

Lease payments relating to finance leases accounted for as operating leases amounted to ¥415 million (\$3,120 thousand) and ¥434 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, 2002 and 2001, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2002 for finance leases accounted for as operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|-----------------------|-----------------|------------------------------|
| 2003 | ¥ 359 | \$ 2,699 |
| 2004 and thereafter | 1,016 | 7,639 |
| Total | ¥ 1,375 | \$ 10,338 |

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.

The disclosure of fair value information for interest-related derivative transactions has been omitted since all derivatives have been accounted for as hedges at March 31, 2002 and 2001.

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 stock option plan.

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 |
|---------------------------------------|---------|--------------|
| | 2002 | 2001 |
| | | 2002 |
| Net income (loss): | | |
| Basic | ¥ 31.81 | ¥ (29.80) |
| Diluted | — | — |
| Net assets | 245.89 | 213.02 |
| Cash dividends applicable to the year | 7.50 | 5.00 |
| | | 0.239 |
| | | 1.849 |
| | | 0.056 |

No diluted net income per share is presented for the year ended March 31, 2002 and 2001.

16. SEGMENT INFORMATION

(a) BUSINESS SEGMENTS

The business segments information for the Company and its subsidiaries for the years ended March 31, 2002 and 2001 is summarized as follows:

| Year ended March 31, 2002 | | | | | | |
|---|------------|--------------|----------|----------|------------------------------|--------------|
| Millions of yen | | | | | | |
| | Automobile | Construction | Other | Total | Eliminations or corporate | Consolidated |
| I. Sales: | | | | | | |
| Sales to third parties | ¥ 49,882 | ¥ 5,578 | ¥ 13,788 | ¥ 69,249 | ¥ — | ¥ 69,249 |
| Intersegment sales and transfers | — | — | — | — | (—) | — |
| Total | 49,882 | 5,578 | 13,788 | 69,249 | (—) | 69,249 |
| Operating expenses | 45,122 | 5,685 | 12,852 | 63,659 | (—) | 63,659 |
| Operating income (loss) | ¥ 4,760 | ¥ (106) | ¥ 936 | ¥ 5,589 | ¥ (—) | ¥ 5,589 |
| II. Assets, depreciation expenses, capital expenditures: | | | | | | |
| Assets | ¥ 47,443 | ¥ 7,609 | ¥ 10,398 | ¥ 65,451 | ¥ 7,398 | ¥ 72,849 |
| Depreciation expenses | ¥ 3,017 | ¥ 276 | ¥ 716 | ¥ 4,011 | ¥ 38 | ¥ 4,049 |
| Capital expenditures | ¥ 3,094 | ¥ 152 | ¥ 866 | ¥ 4,113 | ¥ — | ¥ 4,113 |

Year ended March 31, 2002

| Thousands of U.S. dollar | | | | | | |
|----------------------------------|------------|--------------|------------|------------|------------------------------|--------------|
| | Automobile | Construction | Other | Total | Eliminations or corporate | Consolidated |
| I. Sales: | | | | | | |
| Sales to third parties | \$ 375,053 | \$ 41,940 | \$ 103,669 | \$ 520,669 | \$ - | \$ 520,669 |
| Intersegment sales and transfers | - | - | - | - | (-) | - |
| Total | 375,053 | 41,940 | 103,669 | 520,669 | (-) | 520,669 |
| Operating expenses | 339,263 | 42,744 | 96,632 | 478,639 | (-) | 478,639 |
| Operating income (loss) | \$ 35,789 | \$ (797) | \$ 7,038 | \$ 42,023 | \$ (-) | \$ 42,023 |

II. Assets, depreciation expenses,
capital expenditures:

| | | | | | | |
|-----------------------|------------|-----------|-----------|------------|-----------|------------|
| Assets | \$ 356,714 | \$ 57,211 | \$ 78,180 | \$ 492,113 | \$ 55,624 | \$ 547,737 |
| Depreciation expenses | \$ 22,684 | \$ 2,075 | \$ 5,383 | \$ 30,158 | \$ 286 | \$ 30,444 |
| Capital expenditures | \$ 23,263 | \$ 1,143 | \$ 6,511 | \$ 30,925 | \$ - | \$ 30,925 |

Year ended March 31, 2001

| Millions of yen | | | | | | |
|----------------------------------|------------|--------------|----------|---------|------------------------------|--------------|
| | Automobile | Construction | Other | Total | Eliminations or corporate | Consolidated |
| 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 |

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

(b) GEOGRAPHICAL SEGMENT

The geographical segment information for the Company and its subsidiaries for the years ended March 31, 2002 and 2001 is summarized as follows:

Year ended March 31, 2002

| Millions of yen | | | | | |
|-------------------------------|----------|---------------------|----------|-------------------------------|--------------|
| | Japan | Other geographic | Total | Eliminations and corporate | Consolidated |
| Sales to third parties | ¥ 60,462 | ¥ 8,787 | ¥ 69,249 | ¥ - | ¥ 69,249 |
| Interarea sales and transfers | 4,183 | 932 | 5,116 | (5,116) | - |
| Total | 64,645 | 9,720 | 74,365 | (5,116) | 69,249 |
| Operating expenses | 58,782 | 9,248 | 68,031 | (4,371) | 63,659 |
| Operating income | ¥ 5,863 | ¥ 471 | ¥ 6,334 | ¥ (744) | ¥ 5,589 |
| Total assets | ¥ 56,697 | ¥ 8,753 | ¥ 65,451 | ¥ 7,398 | ¥ 72,849 |

Year ended March 31, 2002

| Thousands of U.S. dollar | | | | | |
|-------------------------------|------------|---------------------|------------|-------------------------------|--------------|
| | Japan | Other geographic | Total | Eliminations and corporate | Consolidated |
| Sales to third parties | \$ 454,602 | \$ 66,068 | \$ 520,669 | \$ – | \$ 520,669 |
| Interarea sales and transfers | 31,451 | 7,008 | 38,466 | (38,466) | – |
| Total | 486,053 | 73,083 | 559,135 | (38,466) | 520,669 |
| Operating expenses | 441,970 | 69,534 | 511,511 | (32,865) | 478,639 |
| Operating income | \$ 44,083 | \$ 3,541 | \$ 47,624 | \$ (5,594) | \$ 42,023 |
| Total assets | \$ 426,293 | \$ 65,812 | \$ 492,113 | \$ 55,624 | \$ 547,737 |

Year ended March 31, 2001

| Millions of yen | | | | | |
|-------------------------------|----------|---------------------|----------|-------------------------------|--------------|
| | Japan | Other geographic | Total | Eliminations and corporate | Consolidated |
| 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 |

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

(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, 2002 and 2001 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Overseas sales | ¥ 16,834 | ¥ 15,173 | \$ 126,571 |
| Consolidated net sales | 69,249 | 71,909 | 520,669 |
| Overseas sales as a percentage of consolidated net sales | 24.3% | 21.1% | 24.3% |

As overseas sales of each segment constituted less than 10% of the consolidated totals for the years ended March 31, 2002 and 2001, the overseas sales information has been omitted.

AUDITOR'S REPORT

The Board of Directors
Riken Corporation

We have examined the consolidated balance sheets of Riken Corporation and consolidated subsidiaries as of March 31, 2002 and 2001, 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 consolidated subsidiaries at March 31, 2002 and 2001, 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 consolidated subsidiaries have adopted new accounting standards 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.

June 27, 2002

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