

TO OUR SHAREHOLDERS



From left to right: President Toshinaga Koizumi, Senior Managing Director Fumio Kiyota

BUSINESS CLIMATE AND OPERATIONAL REVIEW

During the Group's consolidated fiscal year ended March 31, 2003 (fiscal 2002), the world economy failed to fully recover. The U.S. economy decelerated and the future outlook, exacerbated by the situation in Iraq, became uncertain in the latter half, although there were some signs of improvement mainly in the U.S. and Asia. In Japan, despite some movement towards economic improvement thanks to the expansion of exports, the economy did not get off the ground in the latter half of the fiscal year. This was due to deflation and the resultant misgivings about future prospects along with a stalling U.S. economy.

In the automobile industry, where the Riken Group's consolidated businesses operate, domestic sales grew slightly by 0.8% from a year earlier to 5.86 million units. Domestic automobile output ultimately exceeded 10 million units and reached a total of 10.32 million units for fiscal 2002, thanks to sharp increases in exports primarily to the U.S. and other parts of Asia.

The domestic housing and construction industry remained inactive due to slackening public works projects, increases in the number of corporate bankruptcies, uncertainty over the prospects for the employment climate as well as falling household income. The total square footage of non-residential construction declined by 2.9% from the year before, while new residential housing starts also dropped by 2.4%, year-on-year, to 1.14 million units.

In this harsh market climate the Group endeavored to enhance its technological and price competitiveness in its core products, including piston rings and camshafts, while developing and marketing products to meet customer needs. Although unit prices again fell in fiscal 2002 (similar to fiscal 2001) and some of our operations were affected by the market sluggishness, our efforts to expand sales in automotive parts, including piston rings, proved effective. As a result, we posted consolidated sales revenues of ¥71,509 million, up 3.3% from the previous year. Consolidated operating income grew by 6.5%, year-on-year, to ¥5,951 million, thanks to improvements in production efficiency and ongoing efforts to curb procurement expenses. Gain on return of the substitutional portion of a welfare pension fund plan brought an extraordinary profit of ¥2,274 million, thus bringing income before income tax and other effects to ¥7,839 million. After subtracting corporate taxes, the adjusted tax effects and losses from minority interests from the figure, net income was record high at ¥4,409 million, a 31.9% increase compared to the year before.

Based on these business results, we declared an annual dividend of ¥8.5 per share, an increase of ¥1 per share for the year.

OUTLOOK FOR THE FUTURE

While the U.S. economy is gradually recovering, the European economy remains in the doldrums. With such unstable factors as the slow progress of postwar restoration work in Iraq and apprehensions about worsening worldwide deflation, concerns over the world economy are mounting. Against this backdrop the overall business climate is expected to remain harsh.

Due to the global business downturn, automobile sales and production are projected to slow down, particularly in the U.S., the world's largest market, as well as in Europe. In Japan, the automobile output will likely decrease due to an increasing shift of production sites to overseas locations and declining exports. Moreover, the prospects for recovery in the domestic construction/housing market remain dim.

Under such circumstances the Group has been pushing forward with a new medium-term business plan (PLAN2005), for the three year period from fiscal 2003 through 2005. As part of PLAN2005, with its main theme of "establishing a truly global operation and expanding Group sales/earnings," the Group strives to boost sales. This is to be achieved by enhancing competitiveness through further improvement of product quality and technologies, enhancing marketing activities to meet global market demand, and strengthening cooperation among Group firms at home and abroad. In addition, while moving forward with the "cutting-cost-in-half" campaign, we will step up our efforts to improve profitability and enhance our financial standing to prevail against the intensified price competition in Japan and overseas. Through such measures we forecast consolidated sales revenues of ¥71.5 billion, a consolidated operating income of ¥6 billion and a consolidated net income of ¥4 billion for fiscal 2003.

[MANAGEMENT POLICIES OF “PLAN2005” MEDIUM-TERM BUSINESS PLAN]

1. Enhance our capability to meet the global market demand

To establish optimal global supply structures through close intra-Group cooperation in production, sales, logistics and data communication.

2. Realize technological transformation

To improve technologies for products, materials and economies-of-scale production in order to establish technological predominance over the peers in the sector.

3. Improve absolute quality levels

To attain globally homogeneous quality by establishing Riken’s role as a central “mother” plant.

4. Strengthen Group profitability

To reduce costs through the “cutting-cost-in-half” campaign and expand sales of price-competitive, high value-added products.

5. Accelerate business process

To reduce the overall lead time from development, manufacturing and marketing to actual delivery, as well as to improve management quality and efficiency.

With these policies, we intend to enhance competitiveness through the concerted efforts of the entire Group and to raise corporate value, targeting a minimum consolidated ROE of 18% and a consolidated ROA of 8% or more.

Thank you for your ongoing support.



Toshinaga Koizumi
President