

## FINANCIAL SECTION

### THREE-YEAR AND FIVE-YEAR SUMMARIES

Riken Corporation and Consolidated Subsidiaries  
Years ended March 31

<b>CONSOLIDATED</b>	2001		2002		2003
	Millions of yen				
Net sales	¥	71,909	¥	69,249	¥ 71,509
Operating income		6,157		5,589	5,952
Net income (loss)		(3,173)		3,344	4,409
Total assets		76,877		72,849	72,144
Net assets per share (yen)		213.02		245.89	269.53
Net income (loss) per share (yen)		(29.80)		31.81	42.08
Diluted net income per share (yen)		–		–	–
Capital ratio (%)		29.5		35.3	38.9
Net cash provided by operating activities		8,213		5,333	8,917
Net cash used in investing activities		(1,863)		(3,314)	(6,120)
Net cash used in financing activities		(9,032)		(4,623)	(3,002)
Cash and cash equivalents at end of year		9,331		7,258	6,724
Number of employees		3,979		3,850	3,736

<b>NON-CONSOLIDATED</b>	1999		2000		2001		2002		2003
	Millions of yen								
Net sales	¥	63,116	¥	63,274	¥	64,253	¥	61,740	¥ 62,909
Operating income		764		3,644		5,175		4,465	5,427
Net income (loss)		(5,352)		1,319		(3,169)		2,639	3,711
Capital		8,573		8,573		8,573		8,573	8,573
Common shares issued (shares)		109,959,667		106,484,667		106,484,667		106,484,667	106,484,667
Total assets		73,774		73,634		63,428		58,574	58,496
Net assets per share (yen)		184.57		212.08		177.06		192.71	219.78
Amount of dividend per share (yen)		3		5		5		7.50	8.50
Net income (loss) per share (yen)		(48.68)		12.12		(29.76)		25.12	35.38
Diluted net income per share (yen)		–		10.71		–		–	–
Capital ratio (%)		27.5		30.7		29.7		34.4	39.1
Number of employees		1,776		1,698		1,634		1,564	1,501

## CONSOLIDATED BALANCE SHEETS

Riken Corporation and Consolidated Subsidiaries  
Years ended March 31, 2003 and 2002

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars (Note 2)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥ 6,724	¥ 7,258	\$ 56,033
Time deposits	62	89	517
Notes and accounts receivable	18,504	18,955	154,200
Less allowance for doubtful receivable	(14)	(2)	(117)
Marketable securities (Notes 1(f) and 3)	0	5	0
Inventories (Note 4)	7,080	7,694	59,000
Deferred tax assets (Notes 1(k) and 7)	851	671	7,092
Other current assets	378	499	3,150
<b>Total current assets</b>	<b>33,588</b>	<b>35,171</b>	<b>279,900</b>
<b>Non-current assets:</b>			
Property, plant and equipment, at cost (Notes 5 and 6):			
Land	3,448	3,432	28,733
Buildings	8,004	8,301	66,700
Machinery and equipment	13,225	12,742	110,208
Construction in progress	606	755	5,050
<b>Total property, plant and equipment</b>	<b>25,284</b>	<b>25,232</b>	<b>210,700</b>
Investments in unconsolidated subsidiaries and affiliates	2,755	2,633	22,958
Investments in other securities (Notes 1(f) and 3)	3,091	1,639	25,758
Deferred tax assets (Notes 1(k) and 7)	4,990	5,679	41,583
Other non-current assets	2,433	2,493	20,275
<b>Total non-current assets</b>	<b>38,555</b>	<b>37,678</b>	<b>321,292</b>
<b>Total assets</b>	<b>¥ 72,144</b>	<b>¥ 72,849</b>	<b>\$ 601,200</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED BALANCE SHEETS

Riken Corporation and Consolidated Subsidiaries  
Years ended March 31, 2003 and 2002

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars (Note 2)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Notes and accounts payable	¥ 10,497	¥ 10,861	\$ 87,475
Short-term debt (Note 6)	10,846	11,301	90,383
Current portion of long-term debt (Note 6)	8,971	1,548	74,758
Accrued income taxes (Note 7)	1,963	964	16,358
Accrued expenses and other current liabilities (Note 8)	5,825	5,905	48,542
<b>Total current liabilities</b>	<b>38,104</b>	<b>30,581</b>	<b>317,533</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 6)	230	9,252	1,917
Deferred tax liabilities (Notes 1(k) and 7)	7	10	58
Accrued retirement benefits (Notes 1(j) and 9)	4,556	6,822	37,967
Excess of net assets acquired over cost	87	128	725
Other long-term liabilities	7	7	58
<b>Total long-term liabilities</b>	<b>4,889</b>	<b>16,221</b>	<b>40,742</b>
Minority interests in consolidated subsidiaries	1,111	351	9,258
<b>Shareholders' equity (Note 10):</b>			
Common stock:			
Authorized - 196,525,000 shares			
Issued - 106,484,667 shares at March 31, 2003 and 2002	8,573	8,573	71,442
Capital surplus	6,604	6,604	55,033
Retained earnings	15,220	12,152	126,833
Unrealized holding gains on other securities (Notes 1(f) and 3)	(2)	5	(17)
Translation adjustments (Note 1(c))	(1,386)	(835)	(11,550)
Less treasury common stock, at cost	(970)	(806)	(8,083)
<b>Total shareholders' equity</b>	<b>28,038</b>	<b>25,695</b>	<b>233,650</b>
<b>Contingent liabilities (Note 12)</b>			
<b>Total liabilities and shareholders' equity</b>	<b>¥ 72,144</b>	<b>¥ 72,849</b>	<b>\$ 601,200</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS

Riken Corporation and Consolidated Subsidiaries  
Years ended March 31, 2003 and 2002

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars (Note 2)
<b>Net sales</b>	<b>¥ 71,509</b>	¥ 69,249	<b>\$ 595,908</b>
<b>Cost of sales</b>	<b>54,713</b>	53,266	<b>455,942</b>
Gross profit	<b>16,795</b>	15,983	<b>139,958</b>
<b>Selling, general and administrative expenses</b>	<b>10,844</b>	10,393	<b>90,367</b>
Operating income	<b>5,951</b>	5,589	<b>49,592</b>
<b>Other income (expenses):</b>			
Interest and dividend income	<b>123</b>	312	<b>1,025</b>
Interest expense	<b>(378)</b>	(458)	<b>(3,150)</b>
Equity in earnings of investees	<b>508</b>	341	<b>4,233</b>
Loss on disposal of inventories	<b>(491)</b>	(296)	<b>(4,092)</b>
Gain on sales of fixed assets	<b>2</b>	–	<b>17</b>
Gain on reversal of allowance for doubtful receivables	<b>0</b>	3	<b>0</b>
Gain on return of the substitutional portion of a welfare pension fund plan (Note 9)	<b>2,274</b>	–	<b>18,950</b>
Loss on disposal of fixed assets	<b>(304)</b>	(120)	<b>(2,533)</b>
Devaluation of investment in securities	<b>(28)</b>	(62)	<b>(233)</b>
Other, net	<b>182</b>	146	<b>1,517</b>
Income before income taxes and minority interests	<b>7,839</b>	5,455	<b>65,325</b>
<b>Income taxes</b> (Notes 1(k) and 7):			
Current	<b>2,864</b>	1,928	<b>23,867</b>
Deferred	<b>444</b>	124	<b>3,700</b>
	<b>3,308</b>	2,052	<b>27,567</b>
Minority interests	<b>(121)</b>	58	<b>(1,008)</b>
<b>Net income</b> (Note 15)	<b>¥ 4,409</b>	¥ 3,344	<b>\$ 36,742</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Riken Corporation and Consolidated Subsidiaries  
Years ended March 31, 2003 and 2002

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars (Note 2)
<b>Common stock</b>			
Balance at beginning of the year	¥ 8,573	¥ 8,573	\$ 71,442
Balance at end of the year	¥ 8,573	¥ 8,573	\$ 71,442
<b>Capital surplus</b>			
Balance at beginning of the year	¥ 6,604	¥ 6,604	\$ 55,033
Balance at end of the year	¥ 6,604	¥ 6,604	\$ 55,033
<b>Retained earnings</b>			
Balance at beginning of the year	¥ 12,152	¥ 9,157	\$ 101,267
Add:			
Net income	4,409	3,344	36,742
Adjustments for inclusion in or exclusion from consolidation or equity method of accounting	50	211	417
Deduct:			
Cash dividends applicable to the year	(783)	(532)	(6,525)
Bonuses to directors and statutory auditors	(28)	(28)	(233)
Prior period adjustments in foreign subsidiaries	(580)	–	(4,833)
Balance at end of the year	¥ 15,220	¥ 12,152	\$ 126,833
<b>Unrealized holding gains on other securities</b>			
Balance at beginning of the year	¥ 5	¥ –	\$ 42
Net change during the year	(7)	5	(58)
Balance at end of the year (Notes 1(f) and 3)	¥ (2)	¥ 5	\$ (17)
<b>Translation adjustments</b>			
Balance at beginning of the year	¥ (835)	¥ (1,652)	\$ (6,958)
Net change during the year	(551)	816	(4,592)
Balance at end of the year (Note 1(c))	¥ (1,386)	¥ (835)	\$ (11,550)
<b>Treasury stock</b>			
Balance at beginning of the year	¥ (806)	¥ (0)	\$ (6,717)
Net change during the year	(164)	(806)	(1,367)
Balance at end of the year	¥ (970)	¥ (806)	\$ (8,083)

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Riken Corporation and Consolidated Subsidiaries  
Years ended March 31, 2003 and 2002

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars (Note 2)
<b>Operating activities</b>			
Income before income taxes and minority interests	¥ 7,839	¥ 5,455	\$ 65,325
Depreciation and amortization	4,154	4,051	34,617
Equity in earnings of investees	(508)	(341)	(4,233)
Reversal of accrued retirement benefits	(2,268)	(821)	(18,900)
Provision for allowance for doubtful receivables	61	154	508
Loss on devaluation of securities	28	62	233
Gain on sales of fixed assets	(2)	–	(17)
Loss on disposals of fixed assets	304	120	2,533
Decrease in notes and accounts receivable	478	2,758	3,983
Decrease in inventories	637	235	5,308
Decrease in notes and accounts payable	(369)	(1,441)	(3,075)
Decrease in notes receivable discounted	–	(497)	–
Other, net	679	(234)	5,658
Subtotal	11,036	9,500	91,967
Interest received	123	312	1,025
Interest paid	(379)	(430)	(3,158)
Income taxes paid	(1,862)	(4,049)	(15,517)
Net cash provided by operating activities	8,917	5,333	74,308
<b>Investing activities</b>			
Additions to property, plant and equipment	(4,446)	(3,845)	(37,050)
Proceeds from sales of property, plant and equipment	19	435	158
Additions to investments in securities	(1,505)	(1,008)	(12,542)
Proceeds from sales of investments in securities	88	1,007	733
Other, net	(277)	97	(2,308)
Net cash used in investing activities	(6,120)	(3,314)	(51,000)
<b>Financing activities</b>			
Proceeds of short-term bank loans	3,275	10,469	27,292
Repayments of short-term bank loans	(3,721)	(12,168)	(31,008)
Proceeds of long-term bank loans	42	124	350
Repayments of long-term bank loans	(1,641)	(1,700)	(13,675)
Acquisition of treasury stock	(164)	(806)	(1,367)
Cash dividends paid	(783)	(532)	(6,525)
Other, net	(9)	(9)	(75)
Net cash used in financing activities	(3,002)	(4,623)	(25,017)
Effect of exchange rate changes on cash and cash equivalents	(327)	530	(2,725)
Net decrease in cash and cash equivalents	(533)	(2,073)	(4,442)
Cash and cash equivalents at beginning of the year	7,258	9,331	60,483
Cash and cash equivalents at end of the year	¥ 6,724	¥ 7,258	\$ 56,033

The accompanying notes are an integral part of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Riken Corporation and Consolidated Subsidiaries  
March 31, 2003

### 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.

#### (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

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. 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 fair value with changes in unrealized gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

#### (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

Accrued employees' retirement benefits at March 31, 2003 and 2002 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. 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.

See Note 9 for the method of accounting for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under Welfare Pension Fund Plan.

#### (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.

#### (m) TREASURY STOCK AND REDUCTION OF LEGAL RESERVES

Effective April 1, 2002 the Company adopted a new accounting standard for treasury stock and reduction of legal reserves. The effect of the adoption of this new accounting standard on operating results was immaterial for the year ended March 31, 2003.

## 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 ¥120 = U.S.\$1.00, the approximate rate of exchange on March 31,

2003. 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, 2003 is as follows:

	March 31, 2003					
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
	Millions of yen			Thousands of U.S. dollars		
Securities whose fair value exceeds carrying value:						
Corporate bonds	¥ 2	¥ 2	¥ 0	\$ 17	\$ 17	\$ 0
Subtotal	2	2	0	17	17	0
Securities whose carrying value exceeds fair value:						
Corporate bonds	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total	¥ 2	¥ 2	¥ 0	\$ 17	\$ 17	\$ 0

(b) Information regarding marketable securities classified as other securities as of March 31, 2003 is as follows:

<b>March 31, 2003</b>						
	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	¥ 72	¥ 126	¥ 54	\$ 600	\$ 1,050	\$ 450
Subtotal	72	126	54	600	1,050	450
Securities whose acquisition cost exceeds their carrying value:						
Stock	205	163	(42)	1,708	1,358	(350)
Subtotal	205	163	(42)	1,708	1,358	(350)
<b>Total</b>	<b>¥ 278</b>	<b>¥ 290</b>	<b>¥ 12</b>	<b>\$ 2,317</b>	<b>\$ 2,417</b>	<b>\$ 100</b>

Acquisition cost and Carrying Value are written down ¥22 million (\$183 thousand) to reflect its impairment.

(c) Sales of securities classified as other securities with aggregate gain and loss has been omitted as the amount is not significant, for the year ended March 31, 2003.

(d) The carrying value and details of securities not carried at fair value as of March 31, 2003, is as follows:

	<b>Carrying value</b>	
	Millions of yen	Thousands of U.S. dollars
Held-to-maturity debt securities:	¥ 0	\$ 0
Others		
Other securities:	2,795	23,292
Unlisted securities (Except for over-the-counter stock)	3	25
Others		

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

<b>March 31, 2003</b>				
	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			
Corporate bonds	¥ –	¥ 2	¥ –	¥ –
Other debt securities	0	0	–	–
Other securities	–	172	–	–
<b>Total</b>	<b>¥ 0</b>	<b>¥ 174</b>	<b>¥ –</b>	<b>¥ –</b>

<b>March 31, 2003</b>				
	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			
Corporate bonds	\$ –	\$ 17	\$ –	\$ –
Other debt securities	0	0	–	–
Other securities	–	1,433	–	–
<b>Total</b>	<b>\$ 0</b>	<b>\$ 1,450</b>	<b>\$ –</b>	<b>\$ –</b>

(f) Information regarding marketable securities classified as held-to-maturity debt securities as of March 31, 2002 is as follows:

<b>March 31, 2002</b>			
	Carrying value	Fair value	Unrealized gain (loss)
Millions of yen			
Securities whose fair value exceeds carrying value:			
Corporate bonds	¥ 2	¥ 2	¥ 0
Subtotal	2	2	0
Securities whose carrying value exceeds fair value:			
Corporate bonds	1	0	(0)
Subtotal	1	0	(0)
Total	¥ 3	¥ 3	¥ 0

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

<b>March 31, 2002</b>			
	Acquisition cost	Carrying value	Unrealized gain (loss)
Millions of yen			
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 23	¥ 60	¥ 37
Subtotal	23	60	37
Securities whose acquisition cost exceeds their carrying value:			
Stock	199	171	(27)
Subtotal	199	171	(27)
Total	¥ 222	¥ 232	¥ 10

Acquisition cost and Carrying Value are written down ¥61 million to reflect its impairment.

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

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

	<b>Carrying value</b>
Millions of yen	
Held-to-maturity debt securities:	
Others	¥ 6
Other securities:	
Unlisted securities (Except for over-the-counter stock)	1,400
Others	2

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

<b>March 31, 2002</b>				
	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	¥ –	¥ –

#### 4. INVENTORIES

Inventories at March 31, 2003 and 2002 were as follows:

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars
	<b>¥ 2,544</b>	¥ 2,897	<b>\$ 21,200</b>
Finished products	<b>732</b>	778	<b>6,100</b>
Goods for resale	<b>2,820</b>	2,952	<b>23,500</b>
Work in process	<b>981</b>	1,065	<b>8,175</b>
Other	<b>¥ 7,080</b>	¥ 7,694	<b>\$ 59,000</b>

#### 5. DEPRECIATION

Depreciation of property, plant and equipment for the years ended March 31, 2003 and 2002 amounted to ¥3,879 million (\$32,325 thousand) and ¥3,795 million, respectively.

Accumulated depreciation of property, plant and equipment at March 31, 2003 and 2002 amounted to ¥59,635 million (\$496,958 thousand) and ¥59,041 million, respectively.

#### 6. SHORT-TERM DEBT AND LONG-TERM DEBT

At March 31, 2003 and 2002, short-term debt and the current portion of long-term debt consisted of the following:

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars
Loans, principally from banks	<b>¥ 10,846</b>	¥ 11,301	<b>\$ 90,383</b>
Current portion of long-term debt	<b>8,971</b>	1,548	<b>74,758</b>
	<b>¥ 19,817</b>	¥ 12,849	<b>\$ 165,142</b>

The annual interest rates applicable to short-term debt outstanding at March 31, 2003 and 2002 ranged principally from 0.560 percent to 6.800 percent and from 0.614 percent to 7.341 percent, respectively.

At March 31, 2003 and 2002, long-term debt consisted of the following:

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars
Secured loans from banks, insurance company, due through 2009 at interest rates ranging from 2.190 percent to 5.920 percent	<b>¥ 9,110</b>	¥ 10,544	<b>\$ 75,917</b>
Unsecured loans from banks, insurance company and others due through 2029 at interest rates ranging from 1.90 percent to 6.00 percent	<b>90</b>	256	<b>750</b>
	<b>9,201</b>	10,800	<b>76,675</b>
Less current portion	<b>(8,971)</b>	(1,548)	<b>(74,758)</b>
	<b>¥ 230</b>	¥ 9,252	<b>\$ 1,917</b>

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

**Year ending March 31,**

	Millions of yen	Thousands of U.S. dollars
2004	¥ 8,971	\$ 74,758
2005	62	517
2006	37	308
2007 and thereafter	131	1,092
	¥ 9,201	¥ 76,675

The assets pledged as collateral for short-term debt of ¥9,374 million (\$78,117 thousand) and long-term debt of ¥168 million (\$1,400 thousand) at March 31, 2003 were as follows:

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥ 7,522	¥ 7,812	\$ 62,683
Other	94	61	783
	¥ 7,617	¥ 7,873	\$ 63,475

## 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 2003 and 2002. However, in accordance with amendment of Local Tax Law which become effective April 1, 2004, the statutory tax rate of 40.5 percent is adopted subsequent to March 31, 2004. The effect of the

adoption of this rate, is to decrease non-current deferred tax assets by ¥154 million (\$1,283 thousand) and net income by ¥154 million (\$1,283 thousand). 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, 2003 and 2002 were as follows:

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars
Deferred tax asset:			
Current assets:			
Accrued bonuses	¥ 657	¥ 474	\$ 5,475
Accrued enterprise tax	157	142	1,308
Other, net	99	104	825
Valuation allowance	(61)	(50)	(508)
Total deferred tax assets (current)	¥ 851	¥ 671	\$ 7,092
Non-current assets:			
Accrued retirement benefits	¥ 6,442	¥ 8,113	\$ 53,683
Depreciation	99	138	825
Loss carryforward	50	84	417
Other, net	350	260	2,917
Valuation allowance	(361)	(350)	(3,008)
Elimination to deferred tax liabilities (non-current)	(1,591)	(2,566)	(13,258)
Total deferred tax assets (non-current)	¥ 4,990	¥ 5,679	\$ 41,583
Deferred tax liabilities:			
Current liabilities	¥ -	¥ -	\$ -
Non-current liabilities:			
Gain from contribution of securities to retirement benefit trust	¥(1,469)	¥(2,430)	\$ (12,242)
Depreciation	(87)	(100)	(725)
Other, net	(41)	(45)	(342)
Elimination to deferred tax assets (non-current)	1,591	2,566	13,258
Total deferred tax liabilities (non-current)	¥ (7)	¥ (10)	\$ (58)

As net loss, and as the difference of the effective tax rate from the statutory rate is less than 5%, the reconciliation of the difference has been omitted for the year ended March 31, 2003.

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
<b>Effective tax rate</b>	<b>37.6%</b>

## 8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

At March 31, 2003 and 2002, accrued expenses and other current liabilities consisted of the following:

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars
Accrued bonuses	¥ 1,871	¥ 1,917	\$ 15,592
Other	3,954	3,987	32,950
	<b>¥ 5,825</b>	<b>¥ 5,905</b>	<b>\$ 48,542</b>

## 9. RETIREMENT BENEFIT PLANS

The Company has defined benefit plans, i.e., funded non-contributory tax-qualified, lump-sum payments and a welfare pension fund plan (WFPF), 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, 2003 and 2002, for the Company's and the subsidiaries' defined benefit plans:

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars
Retirement benefit obligation	¥ (22,679)	¥ (47,138)	\$ (188,992)
Plan assets at fair value	10,049	30,612	83,742
Unfunded retirement benefit obligation	(12,629)	(16,526)	(105,242)
Unrecognized actuarial gain or loss	8,072	9,704	67,267
Unrecognized prior service cost	-	-	-
<b>Accrued retirement benefits</b>	<b>¥ (4,556)</b>	<b>¥ (6,822)</b>	<b>\$ (37,967)</b>

The substitutional portion of the benefits under the WFPF has been included in the amounts shown in the table.

On March 14, 2003, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the obligation for benefits related to future employee services under the substitutional portion of the WFPF. In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company accounted for the separation of the substitutional portion of the benefit obligation from the corporate portion of

the benefit obligation under its WFPF as of the date of approval of its exemption assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and related pension plan assets had been completed as of that date. As a result, the Company recognized a gain of ¥2,274 million (\$18,950 thousand) for the year ended March 31, 2003. The pension assets which are to be transferred were calculated at ¥14,890 million (\$124,083 thousand) at March 31, 2003.

The components of retirement benefit expenses for the years ended March 31, 2003 and 2002, are outlined as follows:

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars
Service cost	¥ 1,341	¥ 1,266	\$ 11,175
Interest cost	1,037	1,366	8,642
Expected return on plan assets	(343)	(559)	(2,858)
Amortization of actuarial gain or loss	936	121	7,800
Other	37	38	308
Subtotal	3,009	2,233	25,075
Gain on return of the substitutional portion of a welfare pension fund plan	(2,274)	-	(18,950)
Total	¥ 734	¥ 2,233	\$ 6,117

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

	2003	2002
Discount rates	2.5%	2.5%
Expected return on plan assets	2.5%	3.5%

## 10. SHAREHOLDERS' EQUITY

The Commercial Code of Japan (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, 2003 and 2002 amounted to ¥1,286 million (\$10,717 thousand) and ¥1,200 million, respectively.

## 12. CONTINGENT LIABILITIES

At March 31, 2003 and 2002, the Company and its consolidated subsidiaries had the following contingent liabilities:

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars
As endorser of trade notes discounted and endorsed	¥ 274	¥ 186	\$ 2,283
As guarantor of transferred account receivable	310	500	2,583
As guarantor of indebtedness of:	153	207	1,275
Employees	–	127	–
Other	¥ 738	¥ 1,021	\$ 6,150

## 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, 2003 and 2002, 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:

	2003	2002	2003
	Millions of yen		Thousands of U.S. dollars
Acquisition costs:			
Machinery and equipment	¥ 2,185	¥ 2,406	\$ 18,208
Other assets	257	263	2,142
	¥ 2,443	¥ 2,669	\$ 20,358
Accumulated depreciation:			
Machinery and equipment	¥ 1,167	¥ 1,126	\$ 9,725
Other assets	203	116	1,692
	¥ 1,370	¥ 1,293	\$ 11,417
Net book value:			
Machinery and equipment	¥ 1,018	¥ 1,279	\$ 8,483
Other assets	54	96	450
	¥ 1,072	¥ 1,375	\$ 8,933

Lease payments relating to finance leases accounted for as operating leases amounted to ¥358 million (\$2,983 thousand) and ¥415 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, 2003 and 2002, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥ 299	\$ 2,492
2005 and thereafter	773	6,442
Total	¥ 1,072	\$ 8,933

## 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, 2003 and 2002.

## 15. AMOUNTS PER SHARE

The computation of basic net income 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.

	2003	March 31, 2002	2003
		Yen	U.S. dollars
Net income:			
Basic	¥ 42.08	¥ 31.81	\$ 0.351
Diluted	—	—	—
Net assets	269.53	245.89	2.246
Cash dividends applicable to the year	8.50	7.50	0.071

No diluted net income per share is presented for the year ended March 31, 2003 and 2002.

## 16. SEGMENT INFORMATION

### (a) Business segments

The business segments information for the Company and its subsidiaries for the years ended March 31, 2003 and 2002 is summarized as follows:

	Year ended March 31, 2003					
	Automobile	Construction	Other	Total	Eliminations or corporate	Consoli- dated
	Millions of yen					
I. Sales:						
Sales to third parties	¥ 52,622	¥ 4,993	¥ 13,892	¥ 71,509	¥ —	¥ 71,509
Intersegment sales and transfers	—	—	—	—	(—)	—
Total	52,622	4,993	13,892	71,509	(—)	71,509
Operating expenses	47,841	5,163	12,552	65,558	(—)	65,558
Operating income (loss)	¥ 4,780	¥ (169)	¥ 1,340	¥ 5,951	¥ (—)	¥ 5,951
II. Assets, depreciation expenses, capital expenditures:						
Assets	¥ 46,849	¥ 6,301	¥ 10,243	¥ 63,394	¥ 8,749	¥ 72,144
Depreciation expenses	¥ 3,104	¥ 249	¥ 718	¥ 4,073	¥ 67	¥ 4,140
Capital expenditures	¥ 2,987	¥ 135	¥ 891	¥ 4,014	¥ —	¥ 4,014

**Year ended March 31, 2003**

	Automobile	Construction	Other	Total	Eliminations or corporate	Consoli- dated
Thousands of U.S. dollar						
I. Sales:						
Sales to third parties	\$ 438,517	\$ 41,608	\$ 115,767	\$ 595,908	\$ -	\$ 595,908
Intersegment sales and transfers	-	-	-	-	(-)	-
Total	438,517	41,608	115,767	595,908	(-)	595,908
Operating expenses	398,675	43,025	104,600	546,317	(-)	546,317
Operating income (loss)	\$ 39,833	\$ (1,408)	\$ 11,167	\$ 49,592	\$ (-)	\$ 49,592
II. Assets, depreciation expenses, capital expenditures:						
Assets	\$ 390,408	\$ 52,508	\$ 85,358	\$ 528,283	\$ 72,908	\$ 601,200
Depreciation expenses	\$ 25,867	\$ 2,075	\$ 5,983	\$ 33,942	\$ 558	\$ 34,500
Capital expenditures	\$ 24,892	\$ 1,125	\$ 7,425	\$ 33,450	\$ -	\$ 33,450

**Year ended March 31, 2002**

	Automobile	Construction	Other	Total	Eliminations or corporate	Consoli- dated
Millions of yen						
I. Sales:	¥ 49,882	¥ 5,578	¥ 13,788	¥ 69,249	¥ -	¥ 69,249
Sales to third parties	-	-	-	-	(-)	-
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

**(b) Geographical segment**

The geographical segment information for the Company and its subsidiaries for the years ended March 31, 2003 and 2002 is summarized as follows:

**Year ended March 31, 2003**

	Japan	Other geographic	Total	Eliminations and corporate	Consolidated
Millions of yen					
Sales to third parties	¥ 61,006	¥ 10,502	¥ 71,509	¥ -	¥ 71,509
Interarea sales and transfers	5,014	554	5,569	(5,569)	-
Total	66,021	11,057	77,078	(5,569)	71,509
Operating expenses	60,608	10,579	71,187	(5,629)	65,558
Operating income	¥ 5,412	¥ 478	¥ 5,891	¥ 60	¥ 5,951
Total assets	¥ 54,617	¥ 8,777	¥ 63,394	¥ 8,749	¥ 72,144

Year ended March 31, 2003					
	Japan	Other geographic	Total	Eliminations and corporate	Consolidated
Thousands of U.S. dollar					
Sales to third parties	\$ 508,383	\$ 87,517	\$ 595,908	\$ –	\$ 595,908
Interarea sales and transfers	41,783	4,617	46,408	(46,408)	–
Total	550,175	92,142	642,317	(46,408)	595,908
Operating expenses	505,067	88,158	593,225	(46,908)	546,317
Operating income	\$ 45,100	\$ 3,983	\$ 49,092	\$ 500	\$ 49,592
Total assets	\$ 455,142	\$ 73,142	\$ 528,283	\$ 72,908	\$ 601,200

Year ended March 31, 2002					
	Japan	Other geographic	Total	Eliminations and corporate	Consolidated
Millions of yen					
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

**(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, 2003 and 2002 are summarized as follows:

Year ended March 31, 2003			
	Asia	Other	Total
Millions of yen			
Overseas sales	¥ 8,242	¥ 10,921	¥ 19,164
Consolidated net sales			¥ 71,509
Overseas sales as a percentage of consolidated net sales	11.5%	15.3%	26.8%

Year ended March 31, 2003			
	Asia	Other	Total
Thousands of U.S. dollars			
Overseas sales	\$ 68,683	\$ 91,008	\$ 159,700
Consolidated net sales			\$ 595,908
Overseas sales as a percentage of consolidated net sales	11.5%	15.3%	26.8%

Year ended March 31, 2002	
	Millions of yen
Overseas sales	¥ 16,834
Consolidated net sales	¥ 69,249
Overseas sales as a percentage of consolidated net sales	24.3%

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

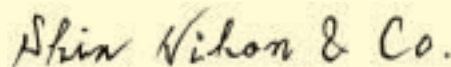
The Board of Directors  
Riken Corporation

We have audited the accompanying consolidated balance sheets of Riken Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Riken Corporation and consolidated subsidiaries at March 31, 2003 and 2002, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit 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, 2003

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