



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

## BUSINESS CLIMATE AND OPERATIONAL REVIEW

During the fiscal year ended March 31, 2004 (fiscal 2003), the world economy showed some signs of recovery, as the U.S. economy recovered and the European economy picked up in the latter half of the fiscal year. In addition, the Asian economy showed continued growth, especially in China and Thailand. Japan was on track to economic recovery with improved corporate revenues, as a result of increased exports, active capital investment by corporations and increased consumer spending.

In the automobile industry where the Riken Group is most active, domestic vehicle sales grew slightly by 0.3% from a year earlier to 5.88 million units in fiscal 2003. Despite the trend of shifting production overseas by many automobile manufacturers, domestic automobile output continued to exceed 10 million units as in the previous fiscal year, reaching a total of 10.35 million units for the fiscal year.

In the domestic housing and construction industry, both the employment market and household income appeared to be improving, with tax breaks for housing loans being continued past the original cutoff date. As a result, new residential housing starts increased by 2.5%, year on year, to 1.17 million units, with the total of new non-residential construction in terms of the total square footage increasing 8.0% from a year earlier.

Facing this business environment, the Group endeavored to enhance its overall competitiveness in quality, technology and price focusing mainly on its core products, including piston rings and camshafts. Our efforts to expand sales were effective despite the fact that unit prices have continued to fall since the previous fiscal year. As a result, we posted consolidated net sales of ¥71,738 million, up 0.3% from the previous fiscal year. Despite the effects of a stronger yen (\$1=¥119.9 at March 31, 2003 to \$1=¥107.1 at March 31, 2004), higher raw material costs, increases of various expenses, etc., consolidated operating income grew by 2.4%, year on year, to ¥6,091 million, thanks to improvements in production efficiency and cost reduction achieved by ongoing rationalization efforts to curb procurement and other expenses. Net income decreased by 12.1%, year on year, posting ¥3,877 million. (Gain on return of the substitutional portion of a welfare pension fund plan amounting to ¥2,274 million [previously disbursed as a proxy of the state] was recorded in the previous fiscal year.)

Based on these business results, we declared an annual dividend of ¥8.5 per share as was the case for the previous fiscal year.

## OUTLOOK FOR THE FUTURE

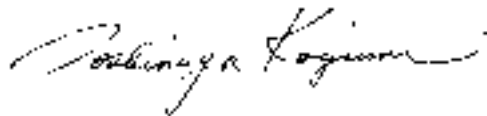
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Although political uncertainties abound throughout the world, the U.S. economy is strong, the European Union has grown in members, and continued economic growth is anticipated throughout Asia, including China. The Japanese economy is likely to recover, since strong export growth, as well as increases in corporate revenues and capital investment are expected. However, there are some concerns over internal and external political factors, unstable stock markets, weak recovery of consumer spending, the stronger yen, etc. As a result, the pace of economic recovery is considered to be slow. For the automobile industry, markets in the U.S., Europe, China and the ASEAN countries are anticipated to grow and Japanese manufacturers are rapidly expanding their overseas production capacities. In these circumstances, the varied customer demands, including quality, technology and price, are becoming increasingly complex. In addition, rapid industrialization in China is leading to tighter supplies and higher prices of raw materials, which is substantially affecting the procurement of materials.

In this business environment, the Group aims to expand sales and earnings. In order to boost its sales, it seeks to enhance competitiveness by further improving product quality and technology, devise marketing activities to meet global market demand, and reinforce cooperation among Group firms at home and abroad. In addition, while proceeding with the "cutting-cost-in-half" campaign, we will step up our efforts to improve profitability, enhance our financial standing, and increase our corporate value. Also, the entire Group has been promoting quality innovation activities since last year in order to optimally improve design and product quality to the maximum extent so that the Group can meet customers' requests for higher quality anywhere in the world.

Through such measures, we forecast consolidated net sales of ¥73 billion, a consolidated operating income of ¥6.2 billion, and a consolidated net income of ¥4.2 billion for fiscal 2004.

We are grateful for the support and encouragement of our shareholders.



Toshinaga Koizumi  
President