

FINANCIAL SECTION

FOUR-YEAR AND FIVE-YEAR SUMMARIES

Riken Corporation and Consolidated Subsidiaries
Years ended March 31

CONSOLIDATED	2001		2002		2003		2004	
	Millions of yen							
Net sales	¥	71,909	¥	69,249	¥	71,509	¥	71,738
Operating income		6,157		5,589		5,952		6,091
Net income (loss)		(3,173)		3,344		4,409		3,877
Total assets		76,877		72,849		72,144		74,459
Net assets per share (yen)		213.02		245.89		269.53		297.07
Net income (loss) per share (yen)		(29.80)		31.81		42.08		37.07
Diluted net income per share (yen)		–		–		–		37.06
Capital ratio (%)		29.5		35.3		38.9		41.5
Net cash provided by operating activities		8,213		5,333		8,917		6,529
Net cash used in investing activities		(1,863)		(3,314)		(6,120)		(4,283)
Net cash used in financing activities		(9,032)		(4,623)		(3,002)		(2,071)
Cash and cash equivalents at end of year		9,331		7,258		6,724		6,520
Number of employees		3,979		3,850		3,736		3,699

NON-CONSOLIDATED	2000		2001		2002		2003		2004	
	Millions of yen									
Net sales	¥	63,274	¥	64,253	¥	61,740	¥	62,909	¥	63,263
Operating income		3,644		5,175		4,465		5,427		4,497
Net income (loss)		1,319		(3,169)		2,639		3,711		2,891
Capital		8,573		8,573		8,573		8,573		8,573
Common shares issued (shares)		106,484,667		106,484,667		106,484,667		106,484,667		106,484,667
Total assets		73,634		63,428		58,574		58,496		60,639
Net assets per share (yen)		212.08		177.06		192.71		219.78		240.12
Amount of dividend per share (yen)		5		5		7.50		8.50		8.50
Net income (loss) per share (yen)		12.12		(29.76)		25.12		35.38		27.59
Diluted net income per share (yen)		10.71		–		–		–		27.58
Capital ratio (%)		30.7		29.7		34.4		39.1		41.2
Number of employees		1,698		1,634		1,564		1,501		1,466

FINANCIAL REVIEW

Operational Review

The main theme of our new medium-term business plan (PLAN 2005) is to establish a truly global operation and expand Group sales and earnings. Fiscal year 2003 was the first year of this plan. Based on this initiative, the entire Group continually strove to boost sales and improve its corporate value.

As a result of these efforts, the Group posted consolidated net sales of ¥71,738 million (up 0.3% from the previous year), consolidated gross profit of ¥16,979 million (up 1.1% from the previous year) and consolidated operating income of ¥6,091 million (up 2.4% from the previous year). Consolidated income before income taxes and minority interests was ¥6,050 million (down 22.8% from the previous year), and consolidated net income was ¥3,877 million (down 12.1% from the previous year).

The Group enhanced its overall competitiveness in quality, technology and price, and posted stable sales in the current fiscal year despite these sales being affected by a decline in unit prices and the strike-related reduced operations of Riken of Korea, Inc., a subsidiary.

As for the cost of sales and selling, general and administrative expenses, despite higher material costs and increase in various expenses, the Group's cost reduction measures made significant progress compared with the previous fiscal year. This progress was mainly the result of various measures including the streamlining of operations, and the reduction of retirement benefit obligations at domestic affiliates due to market value increases of pension assets. The performance of overseas affiliates was also favorable. Accordingly, both consolidated gross profit and operating income increased from the previous fiscal year.

The Group also added an equity method affiliate by acquiring an additional 5% of ordinary stock from Shriram Pistons & Rings Limited in India during the latter half of the fiscal year. Further, the performance of equity method affiliates mainly in the U.S. and Thailand was also favorable. As a result, equity earnings increased 64% over the previous fiscal year.

Consolidated income before income taxes and minority interests, and consolidated net income dropped more than 10% from the previous fiscal year. The decrease came about because the Group posted an extraordinary gain on return of the substitutional portion of a welfare pension fund plan amounting to ¥2,274 million as in the previous fiscal year.

Financial Position

The Group's total assets as of the end of the fiscal year under review (March 31, 2004) increased ¥2,315 million from the previous fiscal year, amounting to ¥74,459 million. This was mainly due to an increase in investments by ¥1,227 million as a result of increased earnings on investments calculated by the equity method. Also, deferred tax assets increased by ¥662 million as a result of posting a deductible temporary difference related to accrued retirement benefits and accrued bonuses.

Total liabilities at the end of the fiscal year under review decreased

by ¥608 million from the previous fiscal year, amounting to ¥42,385 million. Interest-bearing debt at the end of the fiscal year under review decreased ¥1,235 million from the previous fiscal year and amounted to ¥19,114 million. This decrease was due to the Group's appropriation of funds generated by operating and other activities. Short-term debts decreased by ¥9,255 million, and long-term debts increased by ¥8,011 million from the previous fiscal year. This is because the "current portion of long-term debt (due within one year)" included in the short-term debt of the consolidated balance sheet decreased ¥7,765 as a result of refinancing long-term debt during the current fiscal year.

Shareholders' equity at the end of the current fiscal year increased by ¥2,849 million from the previous fiscal year to reach ¥30,888 million. This increase was the result of an increase in retained earnings of ¥3,300 million and a decrease of ¥582 million in currency translation adjustments from the previous fiscal year.

As a result, the net worth ratio as of the end of the current fiscal year was 41.5%, an increase of 2.6% from 38.9% as of the end of the previous fiscal year. Also, due to a decrease in consolidated net income and an increase in shareholders equity, return on equity (ROE) for the current fiscal year was 13.2%, a decrease of 3.2% from 16.4% for the previous fiscal year.

Shareholders' equity per share based on outstanding shares at the end of the current fiscal year was ¥297.07, an increase of ¥27.54 up from ¥269.53 as of the end of the previous fiscal year.

Cash Flows

Free cash flow, calculated by subtracting "cash flow from investing activities" from "cash flow from operating activities" amounted to ¥2,245 million for the fiscal year under review. Cash and cash equivalents decreased ¥204 million from the previous fiscal year, amounting to ¥6,520 million at the end of the current fiscal year. The decrease in cash was primarily related to the repayment of debt (¥1,167 million) and the payment of dividends (¥884 million).

Cash flow from operating activities decreased ¥2,387 million from the previous fiscal year, amounting to ¥6,529 million. Although cash increased by ¥1,135 million due to an increase in accounts payable, cash decreased by an increase in accounts receivable (¥1,139 million) and an increase in inventories (¥1,231 million). An increase in income tax payments of ¥1,291 million also contributed to the decrease in cash flow.

Cash flow used in investing activities amounted to ¥4,283 million, a decrease of ¥1,836 million from the previous fiscal year. This decrease was mainly due to the acquisition cost of tangible fixed assets at ¥4,077 million (a decrease of ¥368 million from the previous year), and, similarly, the acquisition cost of investment securities at ¥356 million (a decrease of ¥1,148 million from the previous year).

Cash flow used in financing activities amounted to ¥2,071 million, a decrease of ¥930 million from the previous fiscal year. This decrease was mainly due to a decrease of ¥878 million from the previous fiscal year in the amount of repayment of short- and long-term debts, which came to ¥1,167 million.

CONSOLIDATED BALANCE SHEETS

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 6,520	¥ 6,724	\$ 61,509
Time deposits	188	62	1,774
Notes and accounts receivable	19,133	18,504	180,500
Less allowance for doubtful receivables	(42)	(14)	(396)
Marketable securities (Notes 1(f) and 3)	2	0	19
Inventories (Note 4)	7,620	7,080	71,887
Deferred tax assets (Notes 1(k) and 7)	1,095	851	10,330
Other current assets	377	378	3,557
Total current assets	34,895	33,588	329,198
Non-current assets:			
Property, plant and equipment, at cost (Notes 5 and 6):			
Land	3,543	3,448	33,425
Buildings	7,664	8,004	72,302
Machinery and equipment	13,002	13,225	122,660
Construction in progress	780	606	7,358
Property, plant and equipment, net	24,991	25,284	235,764
Investments in unconsolidated subsidiaries and affiliates	3,169	2,755	29,896
Investments in other securities (Notes 1(f) and 3)	3,904	3,091	36,830
Deferred tax assets (Notes 1(k) and 7)	5,408	4,990	51,019
Other non-current assets	2,088	2,433	19,698
Total non-current assets	39,563	38,555	373,236
Total assets	¥ 74,459	¥ 72,144	\$ 702,443

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars (Note 2)
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes and accounts payable	¥ 11,219	¥ 10,497	\$ 105,840
Short-term debt (Note 6)	9,356	10,846	88,264
Current portion of long-term debt (Note 6)	1,206	8,971	11,377
Accrued income taxes (Note 7)	1,620	1,963	15,283
Accrued expenses and other current liabilities (Note 8)	5,840	5,825	55,094
Total current liabilities	29,244	38,104	275,887
Long-term liabilities:			
Long-term debt (Note 6)	8,242	230	77,755
Deferred tax liabilities (Notes 1(k) and 7)	4	7	38
Accrued retirement benefits (Notes 1(j) and 9)	4,831	4,556	45,575
Excess of net assets acquired over cost	54	87	509
Other long-term liabilities	7	7	66
Total long-term liabilities	13,141	4,889	123,972
Minority interests in consolidated subsidiaries	1,184	1,111	11,170
Shareholders' equity (Note 10):			
Common stock:			
Authorized - 196,525,000 shares			
Issued - 106,484,667 shares at March 31, 2004 and 2003	8,573	8,573	80,877
Capital surplus	6,605	6,604	62,311
Retained earnings	18,521	15,220	174,726
Unrealized holding gain on other securities (Notes 1(f) and 3)	141	(2)	1,330
Translation adjustments (Note 1(c))	(1,969)	(1,386)	(18,575)
Less treasury stock, at cost	(983)	(970)	(9,274)
Total shareholders' equity	30,888	28,038	291,396
Contingent liabilities (Note 12)			
Total liabilities, minority interests and shareholders' equity	¥ 74,459	¥ 72,144	\$ 702,443

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars (Note 2)
Net sales	¥ 71,738	¥ 71,509	\$ 676,774
Cost of sales	54,759	54,713	516,594
Gross profit	16,979	16,795	160,179
Selling, general and administrative expenses	10,888	10,844	102,717
Operating income	6,091	5,951	57,462
Other income (expenses):			
Interest and dividend income	138	123	1,302
Interest expense	(307)	(378)	(2,896)
Equity in earnings of investees	834	508	7,868
Loss on disposal of inventories	(175)	(491)	(1,651)
Gain on sales of fixed assets	30	2	283
Gain on reversal of allowance for doubtful receivables	-	0	-
Gain on return of substitutional portion of Welfare Pension Fund Plan (Note 9)	-	2,274	-
Loss on disposal of fixed assets	(133)	(304)	(1,255)
Devaluation of investments in securities	-	(28)	-
Other, net	(427)	182	(4,028)
Income before income taxes and minority interests	6,050	7,839	57,075
Income taxes (Notes 1(k) and 7):			
Current	2,813	2,864	26,538
Deferred	(783)	444	(7,387)
	2,030	3,308	19,151
Minority interests in earnings of consolidated subsidiaries	(143)	(121)	(1,349)
Net income (Note 15)	¥ 3,877	¥ 4,409	\$ 36,575

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars (Note 2)
Common stock			
Balance at beginning of the year	¥ 8,573	¥ 8,573	\$ 80,877
Balance at end of the year	¥ 8,573	¥ 8,573	\$ 80,877
Capital surplus			
Balance at beginning of the year	¥ 6,604	¥ 6,604	\$ 62,302
Add:			
Gain on sales of treasury stock	0	-	0
Balance at end of the year	¥ 6,605	¥ 6,604	\$ 62,311
Retained earnings			
Balance at beginning of the year	¥ 15,220	¥ 12,152	\$ 143,585
Add:			
Net income	3,877	4,409	36,575
Adjustments for inclusion in or exclusion from consolidation or equity method of accounting	334	50	3,151
Prior period adjustments at foreign subsidiaries	1	-	9
Deduct:			
Cash dividends applicable to the year	(883)	(783)	(8,330)
Bonuses to directors and statutory auditors	(28)	(28)	(264)
Prior period adjustments in foreign subsidiaries	-	(580)	-
Balance at end of the year	¥ 18,521	¥ 15,220	\$ 174,726
Unrealized holding gain on other securities			
Balance at beginning of the year	¥ (2)	¥ 5	\$ (19)
Net change during the year	143	(7)	1,349
Balance at end of the year (Notes 1(f) and 3)	¥ 141	¥ (2)	\$ 1,330
Translation adjustments			
Balance at beginning of the year	¥ (1,386)	¥ (835)	\$ (13,075)
Net change during the year	(583)	(551)	(5,500)
Balance at end of the year (Note 1(c))	¥ (1,969)	¥ (1,386)	\$ (18,575)
Treasury stock			
Balance at beginning of the year	¥ (970)	¥ (806)	\$ (9,151)
Net change during the year	(13)	(164)	(123)
Balance at end of the year	¥ (983)	¥ (970)	\$ (9,274)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars (Note 2)
Operating activities			
Income before income taxes and minority interests	¥ 6,050	¥ 7,839	\$ 57,075
Depreciation and amortization	4,143	4,154	39,085
Equity in earnings of investees	(834)	(508)	(7,868)
Provision for (reversal of) accrued retirement benefits	321	(2,268)	3,028
(Reversal of) provision for allowance for doubtful receivables	(137)	61	(1,292)
Loss on devaluation of securities	-	28	-
Gain on sales of fixed assets	(30)	(2)	(283)
Loss on disposals of fixed assets	133	304	1,255
(Increase) decrease in notes and accounts receivable	(661)	478	(6,236)
(Increase) decrease in inventories	(594)	637	(5,604)
Increase (decrease) in notes and accounts payable	766	(369)	7,226
Other, net	718	679	6,774
Subtotal	9,873	11,036	93,142
Interest received	138	123	1,302
Interest paid	(328)	(379)	(3,094)
Income taxes paid	(3,154)	(1,862)	(29,755)
Net cash provided by operating activities	6,529	8,917	61,594
Investing activities			
Increase in property, plant and equipment	(4,077)	(4,446)	(38,462)
Proceeds from sales of property, plant and equipment	49	19	462
Increase in investments in securities	(356)	(1,505)	(3,358)
Proceeds from sales of investments in securities	160	88	1,509
Other, net	(60)	(277)	(566)
Net cash used in investing activities	(4,283)	(6,120)	(40,406)
Financing activities			
Proceeds from short-term bank loans	4,372	3,275	41,245
Repayment of short-term bank loans	(5,809)	(3,721)	(54,802)
Proceeds from long-term bank loans	9,634	42	90,887
Repayment of long-term bank loans	(9,366)	(1,641)	(88,358)
Increase in treasury stock	(11)	(164)	(104)
Cash dividends paid	(883)	(783)	(8,330)
Other, net	(9)	(9)	(85)
Net cash used in financing activities	(2,071)	(3,002)	(19,538)
Effect of exchange rate changes on cash and cash equivalents	(378)	(327)	(3,566)
Net decrease in cash and cash equivalents	(204)	(533)	(1,925)
Cash and cash equivalents at beginning of year	6,724	7,258	63,434
Cash and cash equivalents at end of year	¥ 6,520	¥ 6,724	\$ 61,509

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Riken Corporation and Consolidated Subsidiaries
March 31, 2004

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 of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

As permitted by the regulations under the Securities and Exchange Law, 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 over a five-year period 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, including net income, in the

statement of 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.

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 the accompanying consolidated financial statements.

(d) APPROPRIATION OF RETAINED EARNINGS

Cash dividends paid, transfers 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 any 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 determined principally by the moving average method.

(h) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Depreciation of buildings and of machinery and equipment is determined primarily 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 leases 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 retirement benefits at March 31, 2004 and 2003 have been provided principally 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. Unrecognized 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 from the corporate portion of the benefit obligation under the 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 the consolidated results of operations 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 ¥106=U.S.\$1.00, the approximate rate of exchange prevailing on

March 31, 2004. 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 at March 31, 2004 is as follows:

March 31, 2004						
	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	\$ 19	\$ 19	\$ 0
Subtotal	2	2	0	19	19	0
Securities whose carrying value exceeds fair value:						
Corporate bonds	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total	¥ 2	¥ 2	¥ 0	\$ 19	\$ 19	\$ 0

(b) Information regarding marketable securities classified as other securities at March 31, 2004 is as follows:

March 31, 2004						
	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	¥ 215	¥ 491	¥275	\$ 2,028	\$ 4,632	\$ 2,594
Subtotal	215	491	275	2,028	4,632	2,594
Securities whose acquisition cost exceeds their carrying value:						
Stock	65	54	(11)	613	509	(104)
Subtotal	65	54	(11)	613	509	(104)
Total	¥ 281	¥ 546	¥264	\$ 2,651	\$ 5,151	\$ 2,491

(c) Sales of securities classified as other securities and the related aggregate gain and loss at March 31, 2004 is as follows:

March 31, 2004						
	Sales	Aggregate gain	Aggregate loss	Sales	Aggregate gain	Aggregate loss
	Millions of yen			Thousands of U.S. dollars		
	¥ 172	¥ -	¥ -	\$ 1,623	\$ -	\$ -

(d) The carrying value and details of securities with no determinable fair value at March 31, 2004, is as follows:

Carrying value		
	Millions of yen	Thousands of U.S. dollars
Held-to-maturity debt securities:		
Other	¥ 0	\$ 0
Other securities:		
Unlisted securities (except for securities traded on the over-the-counter market)	2,620	24,717
Others	3	28

(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, 2004				
	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	-	-	-
Other securities	-	-	-	-
Total	¥ 2	¥ -	¥ -	¥ -

March 31, 2004				
	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	\$ 19	\$ -	\$ -	\$ -
Other debt securities	0	-	-	-
Other	-	-	-	-
Total	\$ 19	\$ -	\$ -	\$ -

- (f) Information regarding marketable securities classified as held-to-maturity debt securities at March 31, 2003 is as follows:

March 31, 2003			
	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	-	-	-
Subtotal	-	-	-
Total	¥ 2	¥ 2	¥ 0

- (g) Information regarding marketable securities classified as other securities at March 31, 2003 is as follows:

March 31, 2003			
	Acquisition cost	Carrying value	Unrealized gain (loss)
Millions of yen			
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 72	¥ 126	¥ 54
Subtotal	72	126	54
Securities whose acquisition cost exceeds their carrying value:			
Stock	205	163	(42)
Subtotal	205	163	(42)
Total	¥ 278	¥ 290	¥ 12

The above acquisition cost and carrying value have been written down by ¥22 million to reflect impairment of value.

- (h) Sales of securities classified as other securities and the related aggregate gain and loss have been omitted for the year ended March 31, 2003 as the amount was not significant.
- (i) The carrying value and details of securities not carried at fair value at March 31, 2003 are summarized as follows:

	Carrying value
Millions of yen	
Held-to-maturity debt securities:	
Others	¥ 0
Other securities:	
Unlisted securities (Except for securities traded on the over-the-counter market)	2,795
Others	3

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

March 31, 2003				
	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	¥ -	¥ 2	¥ -	¥ -
Other debt securities	0	0	-	-
Other securities	-	172	-	-
Total	¥ 0	¥ 174	¥ -	¥ -

4. INVENTORIES

Inventories at March 31, 2004 and 2003 were as follows:

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars
Finished products	¥ 2,631	¥ 2,544	\$ 24,821
Goods for resale	961	732	9,066
Work in process	2,961	2,820	27,934
Other	1,066	981	10,057
	¥ 7,620	¥ 7,080	\$ 71,887

5. DEPRECIATION

Depreciation of property, plant and equipment for the years ended March 31, 2004 and 2003 amounted to ¥3,917 million (\$36,953 thousand) and ¥3,879 million, respectively.

Accumulated depreciation of property, plant and equipment at March 31, 2004 and 2003 amounted to ¥60,842 million (\$573,981 thousand) and ¥59,635 million, respectively.

6. SHORT-TERM DEBT AND LONG-TERM DEBT

At March 31, 2004 and 2003, short-term debt and the current portion of long-term debt consisted of the following:

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars
Loans, principally from banks	¥ 9,356	¥ 10,846	\$ 88,264
Current portion of long-term debt	1,206	8,971	11,377
	¥ 10,562	¥ 19,817	\$ 99,642

The annual interest rates applicable to short-term debt outstanding at March 31, 2004 and 2003 ranged principally from 0.59 percent to 7.40 percent and from 0.56 percent to 6.80 percent, respectively.

At March 31, 2004 and 2003, long-term debt consisted of the following:

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars
Secured loans from banks, insurance companies, due through 2011 at interest rates ranging from 4.84 percent to 4.90 percent	¥ 285	¥ 9,110	\$ 2,689
Unsecured loans from banks, insurance companies and others due through 2018 at interest rates ranging from 1.49 percent to 2.10 percent	9,162	90	86,434
	9,448	9,201	89,132
Less current portion	(1,206)	(8,971)	(11,377)
	¥ 8,242	¥ 230	\$ 77,755

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

Year ending March 31,

	Millions of yen	Thousands of U.S. dollars
2005	¥ 1,206	\$ 11,377
2006	1,196	11,283
2007	1,520	14,340
2008 and thereafter	5,524	52,113
	¥ 9,448	¥ 89,132

The assets pledged as collateral for short-term debt of ¥521 million (\$4,915 thousand) and long-term debt of ¥285 million (\$2,689 thousand) at March 31, 2004 and 2003 were as follows:

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥ 1,611	¥ 7,522	\$ 15,198
Other	95	94	896
	¥ 1,708	¥ 7,617	\$ 16,113

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 2004 and 2003. However, in accordance with amendment to a local tax law which become effective April 1, 2004, a statutory tax rate of 40.5 percent has been adopted

subsequent to March 31, 2004. The effect of this adoption was to decrease non-current deferred tax assets by ¥154 million and net income by ¥154 million at March 31, 2003. Income taxes of the overseas subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars
Deferred tax assets:			
Current assets:			
Accrued bonuses	¥ 737	¥ 657	\$ 6,953
Accrued enterprise tax	205	157	1,934
Other, net	228	99	2,151
Valuation allowance	(75)	(61)	(708)
Total deferred tax assets (current)	¥ 1,095	¥ 851	\$ 10,330
Non-current assets:			
Accrued retirement benefits	¥ 7,023	¥ 6,442	\$ 66,255
Depreciation	58	99	547
Loss carryforward	22	50	208
Other, net	282	350	2,660
Valuation allowance	(300)	(361)	(2,830)
Elimination of deferred tax liabilities (non-current)	(1,678)	(1,591)	(15,830)
Total deferred tax assets (non-current)	¥ 5,408	¥ 4,990	\$ 51,019
Deferred tax liabilities:			
Current liabilities	¥ -	¥ -	\$ -
Non-current liabilities:			
Gain from contribution of securities to retirement benefit trust	¥(1,470)	¥(1,469)	\$ (13,868)
Depreciation	(74)	(87)	(698)
Other, net	(137)	(41)	(1,292)
Elimination to deferred tax assets (non-current)	1,678	1,591	15,830
Total deferred tax liabilities (non-current)	¥ (4)	¥ (7)	\$ (38)

The effective tax rate reflected in the consolidated statement of income for the year ended March 31, 2004 differs from the statutory tax rate for the following reasons:

	2004
Statutory tax rate	41.8%
Effect of:	
Expenses not deductible for income tax purposes	0.4
Dividend income deductible for income tax purposes	(0.4)
Per capita portion of inhabitants' taxes	0.4
Differences in tax rates applicable to overseas subsidiaries	(1.6)
Equity in earnings of investees	(5.8)
Other, net	(1.2)
Effective tax rate	33.6%

As the difference between the effective tax rate and the statutory rate is less than 5%, a reconciliation for the year ended March 31, 2003 has been omitted.

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

At March 31, 2004 and 2003, accrued expenses and other current liabilities consisted of the following:

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars
Accrued bonuses	¥ 1,820	¥ 1,871	\$ 17,170
Other	4,020	3,954	37,925
	¥ 5,840	¥ 5,825	\$ 55,094

9. RETIREMENT BENEFIT PLANS

The Company has defined benefit plans, i.e., welfare pension fund plans (WFPF), tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, 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 overseas 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 at March 31, 2004 and 2003 for the Company's and the subsidiaries' defined benefit plans:

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars
Retirement benefit obligation	¥ (23,461)	¥ (22,679)	\$ (221,330)
Plan assets at fair value	18,390	10,049	173,491
Unfunded retirement benefit obligation	(5,071)	(12,629)	(47,840)
Unrecognized actuarial gain or loss	239	8,072	2,255
Unrecognized prior service cost	-	-	-
Accrued retirement benefits	¥ (4,831)	¥ (4,556)	\$ (45,575)

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 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 for the year ended March 31, 2003. The pension assets to be transferred were calculated at ¥14,890 million at March 31, 2003.

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars
Service cost	¥ 845	¥ 1,341	\$ 7,972
Interest cost	472	1,037	4,453
Expected return on plan assets	–	(343)	–
Amortization of actuarial gain or loss	854	936	8,057
Other	37	37	349
Subtotal	2,209	3,009	20,840
Gain on return of substitutional portion of Welfare Pension Fund Plan	–	(2,274)	–
Total	¥ 2,209	¥ 734	\$ 20,840

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

	2004	2003
Discount rates	2.0%	2.5%
Expected rates of return on plan assets	0.0%	2.5%

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 sum of 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, 2004 and 2003 amounted to ¥1,397 million (\$13,179 thousand) and ¥1,286 million, respectively.

12. CONTINGENT LIABILITIES

At March 31, 2004 and 2003, the Company and its consolidated subsidiaries had the following contingent liabilities:

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars
As endorser of trade notes discounted and endorsed	¥ 253	¥ 274	\$ 2,387
As guarantor of transferred accounts receivable	156	310	1,472
As guarantor of indebtedness of: Employees	138	153	1,302
	¥ 547	¥ 738	\$ 5,160

13. LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased properties at March 31, 2004 and 2003, 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:

	2004	2003	2004
	Millions of yen		Thousands of U.S. dollars
Acquisition costs:			
Machinery and equipment	¥ 1,911	¥ 2,185	\$ 18,028
Other assets	134	257	1,264
	¥ 2,046	¥ 2,443	\$ 19,302
Accumulated depreciation:			
Machinery and equipment	¥ 1,120	¥ 1,167	\$ 10,566
Other assets	82	203	774
	¥ 1,203	¥ 1,370	\$ 11,349
Net book value:			
Machinery and equipment	¥ 790	¥ 1,018	\$ 7,453
Other assets	51	54	481
	¥ 842	¥ 1,072	\$ 7,943

Lease payments relating to finance leases accounted for as operating leases amounted to ¥306 million (\$2,887 thousand) and ¥358 million for the years ended March 31, 2004 and 2003, respectively which were almost equal to the depreciation expense of the leased assets

computed by the straight-line method over the lease terms,

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 251	\$ 2,368
2006 and thereafter	591	5,575
Total	¥ 842	\$ 7,943

14. DERIVATIVES

The Company has entered into foreign forward 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 derivatives positions has been omitted since all derivatives were accounted for as hedges at March 31, 2004 and 2003.

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 pursuant to 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 the year end.

	2004	March 31, 2003	2004
		Yen	U.S. dollars
Net income:			
Basic	¥ 37.07	¥ 42.08	\$ 0.350
Diluted	37.06	—	0.350
Net assets	297.07	269.53	2.803
Cash dividends applicable to the year	8.50	8.50	0.080

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

16. SEGMENT INFORMATION

(a) Business segments

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 is summarized as follows:

	Year ended March 31, 2004					
	Automobile	Construction	Other	Total	Eliminations or corporate	Consoli- dated
	Millions of yen					
I. Sales:						
Sales to third parties	¥51,694	¥ 5,114	¥ 14,929	¥ 71,738	¥ —	¥ 71,738
Intersegment sales and transfers	—	—	—	—	(—)	—
Total	51,694	5,114	14,929	71,738	(—)	71,738
Operating expenses	47,602	5,068	12,976	65,647	(—)	65,647
Operating income	¥ 4,092	¥ 46	¥ 1,952	¥ 6,091	¥ (—)	¥ 6,091
II. Assets, depreciation expenses, capital expenditures:						
Assets	¥47,953	¥ 6,278	¥ 10,430	¥ 64,662	¥ 9,796	¥ 74,459
Depreciation expenses	¥ 3,276	¥ 246	¥ 539	¥ 4,061	¥ 61	¥ 4,123
Capital expenditures	¥ 3,421	¥ 136	¥ 702	¥ 4,260	¥ —	¥ 4,260

Year ended March 31, 2004						
	Automobile	Construction	Other	Total	Eliminations or corporate	Consoli- dated
Thousands of U.S. dollars						
I. Sales:						
Sales to third parties	\$ 487,679	\$ 48,245	\$ 140,840	\$ 676,774	\$ -	\$ 676,774
Intersegment sales and transfers	-	-	-	-	(-)	-
Total	487,679	48,245	140,840	676,774	(-)	676,774
Operating expenses	449,075	47,811	122,415	619,311	(-)	619,311
Operating income	\$ 38,604	\$ 434	\$ 18,415	\$ 57,462	\$ (-)	\$ 57,462
II. Assets, depreciation expenses, capital expenditures:						
Assets	\$ 452,387	\$ 59,226	\$ 98,396	\$ 610,019	\$ 92,415	\$ 702,443
Depreciation expenses	\$ 30,906	\$ 2,321	\$ 5,085	\$ 38,311	\$ 575	\$ 38,896
Capital expenditures	\$ 32,274	\$ 1,283	\$ 6,623	\$ 40,189	\$ -	\$ 40,189

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

(b) Geographical segment

The geographical segment information for the Company and its subsidiaries for the years ended March 31, 2004 and 2003 is summarized as follows:

Year ended March 31, 2004					
	Japan	Other geographic areas	Total	Eliminations and corporate	Consolidated
Millions of yen					
Sales to third parties	¥ 61,158	¥ 10,580	¥ 71,738	¥ -	¥ 71,738
Interarea sales and transfers	5,455	523	5,979	(5,979)	-
Total	66,613	11,104	77,717	(5,979)	71,738
Operating expenses	61,206	10,434	71,641	(5,994)	65,647
Operating income	¥ 5,406	¥ 669	¥ 6,076	¥ 15	¥ 6,091
Total assets	¥ 55,690	¥ 8,972	¥ 64,662	¥ 9,796	¥ 74,459

Year ended March 31, 2004					
	Japan	Other geographic areas	Total	Eliminations and corporate	Consolidated
Thousands of U.S. dollars					
Sales to third parties	\$576,962	\$99,811	\$676,774	\$ -	\$676,774
Interarea sales and transfers	51,462	4,934	56,406	(56,406)	-
Total	628,425	104,755	733,179	(56,406)	676,774
Operating expenses	577,415	98,434	675,858	(56,547)	619,311
Operating income	\$ 51,000	\$ 6,311	\$ 57,321	\$ 142	\$ 57,462
Total assets	\$525,377	\$84,642	\$610,019	\$92,415	\$702,443

Year ended March 31, 2003					
	Japan	Other geographic areas	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

(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, 2004 and 2003 are summarized as follows:

Year ended March 31, 2004			
	Asia	Other	Total
Millions of yen			
Overseas sales	¥ 7,614	¥ 10,854	¥ 18,468
Consolidated net sales			¥ 71,738
Overseas sales as a percentage of consolidated net sales	10.6%	15.1%	25.7%
Year ended March 31, 2004			
	Asia	Other	Total
Thousands of U.S. dollars			
Overseas sales	\$ 71,830	\$ 102,396	\$ 174,226
Consolidated net sales			\$ 676,774
Overseas sales as a percentage of consolidated net sales	10.6%	15.1%	25.7%
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%

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Riken Corporation

We have audited the accompanying consolidated balance sheets of Riken Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, 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 express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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, 2004 and 2003, 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, 2004 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.

Shin Wilson & Co.

June 29, 2004