

FINANCIAL SECTION

FIVE-YEAR SUMMARY

Riken Corporation and Consolidated Subsidiaries
Years ended March 31

| CONSOLIDATED | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|-----------------|----------|----------|----------|----------|
| | Millions of yen | | | | |
| Net sales | ¥ 71,909 | ¥ 69,249 | ¥ 71,509 | ¥ 71,738 | ¥ 78,429 |
| Operating income | 6,157 | 5,589 | 5,951 | 6,091 | 6,842 |
| Net income (loss) | (3,173) | 3,344 | 4,409 | 3,877 | 4,998 |
| Total assets | 76,877 | 72,849 | 72,144 | 74,459 | 80,747 |
| Net assets per share (yen) | 213.02 | 245.89 | 269.53 | 297.07 | 337.98 |
| Net income (loss) per share (yen) | (29.80) | 31.81 | 42.08 | 37.07 | 47.86 |
| Diluted net income per share (yen) | | | | 37.06 | 47.78 |
| Capital ratio (%) | 29.5 | 35.3 | 38.9 | 41.5 | 43.7 |
| Net cash provided by operating activities | 8,213 | 5,333 | 8,917 | 6,529 | 7,547 |
| Net cash used in investing activities | (1,863) | (3,314) | (6,120) | (4,283) | (5,427) |
| Net cash used in financing activities | (9,032) | (4,623) | (3,002) | (2,071) | (2,959) |
| Cash and cash equivalents at end of year | 9,331 | 7,258 | 6,724 | 6,520 | 5,578 |
| Number of employees | 3,979 | 3,850 | 3,736 | 3,699 | 3,723 |

| NON-CONSOLIDATED | 2001 | 2002 | 2003 | 2004 | 2005 |
|------------------------------------|-----------------|-------------|-------------|-------------|-------------|
| | Millions of yen | | | | |
| Net sales | ¥ 64,253 | ¥ 61,740 | ¥ 62,909 | ¥ 63,263 | ¥ 68,483 |
| Operating income | 5,175 | 4,465 | 5,427 | 4,497 | 4,665 |
| Net income (loss) | (3,169) | 2,639 | 3,711 | 2,891 | 3,245 |
| 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 | 63,428 | 58,574 | 58,496 | 60,639 | 65,460 |
| Net assets per share (yen) | 177.06 | 192.71 | 219.78 | 240.12 | 264.13 |
| Amount of dividend per share (yen) | 5.00 | 7.50 | 8.50 | 8.50 | 10.00 |
| Net income (loss) per share (yen) | (29.76) | 25.12 | 35.38 | 27.59 | 31.00 |
| Diluted net income per share (yen) | | | | 27.58 | 30.95 |
| Capital ratio (%) | 29.7 | 34.4 | 39.1 | 41.2 | 42.1 |
| Number of employees | 1,634 | 1,564 | 1,501 | 1,466 | 1,470 |

OPERATIONAL REVIEW AND ANALYSIS OF FINANCIAL POSITION

Significant Accounting Policies and Estimates

The accompanying consolidated financial statements of Riken Corporation (the Company) and its consolidated subsidiaries are prepared on the basis of accounting principals generally accepted in Japan. When compiling these financial statements, estimates that may have influence on the values of assets and liabilities as of the closing date and the values of income and expenses for the year under review are mainly the allowance for uncollectible accounts, accrued bonuses and accrued retirement benefits, and these are subject to continuous assessment.

Our estimates, judgments and assessments are made on the basis of factors that are deemed reasonable in light of past performance and conditions. However, since estimates inevitably involve uncertainties, actual values may differ from estimates.

In the fiscal year under review, the Company changed its accounting policy related to retirement benefits for directors. Accordingly, the accrued amount at the end of the year was established based on internal policy and is reported as a provision for accrued retirement benefits to directors. Until the previous year, this item had been expensed at the time of payment. This change was made because the accounting practice of reporting a provision for retirement benefits to directors has taken hold and also because we aimed to ensure proper periodic accounting of profit and loss and the Group's sound financial position by apportioning such provision during each director's term of office in a reasonable manner.

Operational Review

The main theme of our medium-term business plan is to establish a truly global operation and expand Group sales and earnings. In pursuit of this goal, we made significant efforts to increase sales and enhance our corporate value during the year under review.

As a result of these efforts, the Group posted net sales of ¥78,429 million (up 9.3% from the previous year), gross profit of ¥17,652 million (up 4.0%), operating income of ¥6,842 million (up 12.3%), ordinary income of ¥7,844 million (up 17.8%), income before income taxes and minority interests of ¥7,515 million (up 24.2%) and net income of ¥4,998 million (up 28.9%), all on a consolidated basis.

Net sales were increased by ¥6,691 million from the prior year by our efforts to expand sales of automotive parts and environmental and safety-related equipment.

Although surging raw material prices affected sales costs, production rationalization and other measures enabled reductions of costs to a greater extent than in the previous year. In addition, increased production and good performance at affiliated companies contributed to the year-to-year growth of gross profit.

Other income climbed 24% from the previous year, to ¥1,919 million. A major part of this growth was related to the gain in equity earnings (¥1,106 million) reflecting the strong performance of affiliates, including those in Asia, whose earnings are accounted for by using the equity-method. Meanwhile, other expenses were down 6% from the previous year, to ¥917 million, as loss on disposal of fixed assets and exchange loss were reduced.

Extraordinary profit of ¥155 million was posted, as the gain on sales of fixed assets increased, among other factors, while extraordinary loss amounted to ¥484 million due to the recording of a provision for retirement benefits to directors and other factors.

As a consequence of all of the factors above, the Group's operating income, ordinary income, net income before income taxes and minority interests and net income marked record highs for the year

under review.

Financial Position

The Group's net assets as of the end of the year under review (March 31, 2005) were up ¥6,288 million from a year earlier, to ¥80,747 million. This increase was due mainly to increased equity earnings and an increase in investments in securities (investment in Riken Automobile Parts (Wuhan) Co., Ltd. & other investments) of ¥2,277 million. Furthermore, tangible fixed assets rose by ¥1,435 million.

Total liabilities as of the end of the year under review came to ¥44,240 million, an increase of ¥1,854 million from a year earlier. The unsettled amount was up ¥4,142 million, due to notes and accounts payable and the Company's capital investment. On the other hand, interest-bearing debt at the end of the year declined ¥2,096 million from a year earlier, to ¥17,017 million, due to the appropriation of funds generated from operating and other activities.

Shareholders' equity at the end of the year under review amounted to ¥35,254 million, rising ¥4,366 million from a year earlier. This growth was brought about by an increase in retained earnings of ¥4,090 million, among other factors.

As a result, the net worth ratio as of the end of the year under review reached 43.7%, an increase of 2.2% from 41.5% at the end of the previous year. Meanwhile, return on equity (ROE) for the year under review rose to 15.1%, due to an increase in net income. This was up 1.9% from 13.2% at the end of the previous year.

Shareholders' equity per share based on outstanding shares at the end of the year under review was ¥337.98, an increase of ¥40.91 from ¥297.7 at the end of the previous year.

Cash Flows Overview

Free cash flow, calculated by subtracting "cash flow from investing activities" from "cash flow from operating activities," amounted to ¥2,120 million for the year under review. As a result of appropriation of funds for the repayment of debt (¥2,209 million) and payment of dividends (¥882 million), cash and cash equivalents at the end of the year under review dropped by ¥942 million from a year earlier, to ¥5,578 million.

Comparison with the Previous Year

Cash flow from operating activities reached ¥7,547 million, up ¥1,018 million from the preceding year. In addition to an increase of ¥1,465 million in income before income taxes and minority interests, cash increased by ¥1,288 million due to an increase in notes and accounts payable. Meanwhile cash decreased due to such factors as a ¥1,377 million increase in notes and accounts receivable, a ¥1,089 million rise in inventories, and a ¥477 million payment of income taxes.

Cash flow for investment activities amounted to ¥5,427 million, an increase of ¥1,143 million from the previous year. This growth was mainly due to the acquisition cost of tangible fixed assets totaling ¥4,368 million, an increase of ¥291 million, and the ¥1,190 million acquisition costs of investment securities, an increase of ¥834 million.

Cash flow for financing activities totaled ¥2,959 million, up ¥887 million from the previous year. The main factor behind this growth was the payment of short- and long-term debt rising ¥1,042 million from the previous year, to ¥2,209 million.

CONSOLIDATED BALANCE SHEETS

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

| | 2005 | 2004 | 2005 |
|---|-------------------|-----------------|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 2) |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 5,578 | ¥ 6,520 | \$ 52,131 |
| Time deposits | 61 | 188 | 570 |
| Notes and accounts receivable | 21,182 | 19,133 | 197,963 |
| Less allowance for doubtful receivables | (26) | (42) | (243) |
| Marketable securities (Notes 1(f) and 3) | | 2 | |
| Inventories (Note 4) | 9,322 | 7,620 | 87,121 |
| Deferred tax assets (Notes 1(k) and 7) | 1,000 | 1,095 | 9,346 |
| Other current assets | 712 | 377 | 6,654 |
| Total current assets | 37,831 | 34,895 | 353,561 |
| Non-current assets: | | | |
| Property, plant and equipment, at cost (Notes 5 and 6): | | | |
| Land | 3,568 | 3,543 | 33,346 |
| Buildings | 7,210 | 7,664 | 67,383 |
| Machinery and equipment | 12,074 | 13,002 | 112,841 |
| Construction in progress | 1,572 | 780 | 14,692 |
| Property, plant and equipment, net | 26,426 | 24,991 | 246,972 |
| Investments in unconsolidated subsidiaries and affiliates | 3,373 | 3,169 | 31,523 |
| Investments in other securities (Notes 1(f) and 3) | 5,978 | 3,904 | 55,869 |
| Deferred tax assets (Notes 1(k) and 7) | 5,049 | 5,408 | 47,187 |
| Other non-current assets | 2,088 | 2,088 | 19,514 |
| Total non-current assets | 42,916 | 39,563 | 401,084 |
| Total assets | ¥ 80,747 | ¥ 74,459 | \$ 754,645 |

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

| | 2005 | 2004 | 2005 |
|--|-------------------|-----------------|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 2) |
| LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Notes and accounts payable | ¥ 13,300 | ¥ 11,219 | \$ 124,299 |
| Short-term debt (Note 6) | 8,399 | 9,356 | 78,495 |
| Current portion of long-term debt (Note 6) | 1,226 | 1,206 | 11,458 |
| Accrued income taxes (Note 7) | 1,050 | 1,620 | 9,813 |
| Accrued expenses and other current liabilities (Note 8) | 8,113 | 5,840 | 75,822 |
| Total current liabilities | 32,090 | 29,244 | 299,907 |
| Long-term liabilities: | | | |
| Long-term debt (Note 6) | 7,069 | 8,242 | 66,065 |
| Deferred tax liabilities (Notes 1(k) and 7) | 3 | 4 | 28 |
| Accrued retirement benefits (Notes 1(j) and 9) | 4,758 | 4,831 | 44,467 |
| Accrued retirement benefits to directors and statutory auditors (Notes 1(j) and 9) | 263 | – | 2,458 |
| Excess of net assets acquired over cost | 16 | 54 | 150 |
| Other long-term liabilities | 38 | 7 | 355 |
| Total long-term liabilities | 12,150 | 13,141 | 113,551 |
| Minority interests in consolidated subsidiaries | 1,252 | 1,184 | 11,701 |
| Shareholders' equity (Note 10): | | | |
| Common stock: | | | |
| Authorized - 196,525,000 shares | | | |
| Issued - 106,484,667 shares at March 31, 2005 and 2004 | 8,573 | 8,573 | 80,121 |
| Capital surplus | 6,608 | 6,605 | 61,757 |
| Retained earnings | 22,611 | 18,521 | 211,318 |
| Unrealized holding gain on other securities (Notes 1(f) and 3) | 260 | 141 | 2,430 |
| Translation adjustments (Note 1(c)) | (1,945) | (1,969) | (18,178) |
| Less treasury stock, at cost | (853) | (983) | (7,972) |
| Total shareholders' equity | 35,254 | 30,888 | 329,477 |
| Contingent liabilities (Note 12) | | | |
| Total liabilities, minority interests and shareholders' equity | ¥ 80,747 | ¥ 74,459 | \$ 754,645 |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

| | 2005 | 2004 | 2005 |
|---|-------------------|----------|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 2) |
| Net sales | ¥ 78,429 | ¥ 71,738 | \$ 732,981 |
| Cost of sales | 60,776 | 54,759 | 568,000 |
| Gross profit | 17,652 | 16,979 | 164,972 |
| Selling, general and administrative expenses | 10,809 | 10,888 | 101,019 |
| Operating income | 6,842 | 6,091 | 63,944 |
| Other income (expenses): | | | |
| Interest and dividend income | 116 | 138 | 1,084 |
| Interest expense | (255) | (307) | (2,383) |
| Equity in earnings of investees | 1,106 | 834 | 10,336 |
| Loss on disposal of inventories | (100) | (175) | (935) |
| Gain on sales of fixed assets | 101 | 30 | 944 |
| Gain on reversal of allowance for doubtful receivables | 50 | | 467 |
| Loss on disposal of fixed assets | (160) | (133) | (1,495) |
| Retirement benefits to directors and statutory auditors | (209) | | (1,953) |
| Other, net | 23 | (427) | 215 |
| Income before income taxes and minority interests | 7,515 | 6,050 | 70,234 |
| Income taxes (Notes 1(k) and 7): | | | |
| Current | 2,066 | 2,813 | 19,308 |
| Deferred | 380 | (783) | 3,551 |
| | 2,447 | 2,030 | 22,869 |
| Minority interests in earnings of consolidated subsidiaries | (70) | (143) | (654) |
| Net income (Note 15) | ¥ 4,998 | ¥ 3,877 | \$ 46,710 |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

| | 2005 | 2004 | 2005 |
|---|-------------------|----------|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 2) |
| Common stock | | | |
| Balance at beginning of year | ¥ 8,573 | ¥8,573 | \$ 80,121 |
| Balance at end of year | ¥ 8,573 | ¥8,573 | \$ 80,121 |
| Capital surplus | | | |
| Balance at beginning of year | ¥ 6,605 | ¥6,604 | \$ 61,729 |
| Add: | | | |
| Gain on sales of treasury stock | 3 | 0 | 28 |
| Balance at end of year | ¥ 6,608 | ¥6,605 | \$ 61,757 |
| Retained earnings | | | |
| Balance at beginning of year | ¥18,521 | ¥15,220 | \$ 173,093 |
| Add: | | | |
| Net income | 4,998 | 3,877 | 46,710 |
| Adjustments for inclusion in or exclusion from consolidation or equity method of accounting | | 334 | |
| Prior period adjustments at foreign subsidiaries | | 1 | |
| Other adjustment | 0 | | 0 |
| Deduct: | | | |
| Cash dividends applicable to the year | (883) | (883) | (8,252) |
| Bonuses to directors and statutory auditors | (25) | (28) | (234) |
| Prior period adjustments at foreign subsidiaries | | | |
| Balance at end of year | ¥22,611 | ¥18,521 | \$ 211,318 |
| Unrealized holding gain on other securities | | | |
| Balance at beginning of year | ¥ 141 | ¥ (2) | \$ 1,318 |
| Net change during the year | 119 | 143 | 1,112 |
| Balance at end of year (Notes 1(f) and 3) | ¥ 260 | ¥ 141 | \$ 2,430 |
| Translation adjustments | | | |
| Balance at beginning of year | ¥(1,969) | ¥(1,386) | \$ (18,402) |
| Net change during the year | 23 | (583) | 215 |
| Balance at end of year (Note 1(c)) | ¥(1,945) | ¥(1,969) | \$ (18,178) |
| Treasury stock | | | |
| Balance at beginning of year | ¥ (983) | ¥ (970) | \$ (9,187) |
| Net change during the year | 129 | (13) | 1,206 |
| Balance at end of year | ¥ (853) | ¥ (983) | \$ (7,972) |

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Riken Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

| | 2005 | 2004 | 2005 |
|--|-------------------|---------|---|
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 2) |
| Operating activities | | | |
| Income before income taxes and minority interests | ¥ 7,515 | ¥ 6,050 | \$ 70,234 |
| Depreciation and amortization | 4,194 | 4,143 | 39,196 |
| Equity in earnings of investees | (1,106) | (834) | (10,336) |
| (Reversal of) provision for accrued retirement benefits | (122) | 321 | (1,140) |
| Reversal of allowance for doubtful receivables | (17) | (137) | (159) |
| Gain on sales of fixed assets | (101) | (30) | (944) |
| Loss on disposals of fixed assets | 160 | 133 | 1,495 |
| Increase in notes and accounts receivable | (2,039) | (661) | (19,056) |
| Increase in inventories | (1,684) | (594) | (15,738) |
| Increase in notes and accounts payable | 2,054 | 766 | 19,196 |
| Other, net | 1,511 | 718 | 14,121 |
| Subtotal | 10,365 | 9,873 | 96,869 |
| Interest received | 116 | 138 | 1,084 |
| Interest paid | (257) | (328) | (2,402) |
| Income taxes paid | (2,676) | (3,154) | (25,009) |
| Net cash provided by operating activities | 7,547 | 6,529 | 70,533 |
| Investing activities | | | |
| Increase in property, plant and equipment | (4,368) | (4,077) | (40,822) |
| Proceeds from sales of property, plant and equipment | 141 | 49 | 1,318 |
| Increase in investments in securities | (1,190) | (356) | (11,121) |
| Proceeds from sales of investments in securities | 2 | 160 | 19 |
| Other, net | (12) | (60) | (112) |
| Net cash used in investing activities | (5,427) | (4,283) | (50,720) |
| Financing activities | | | |
| Proceeds from short-term bank loans | 5,860 | 4,372 | 54,766 |
| Repayment of short-term bank loans | (6,859) | (5,809) | (64,103) |
| Proceeds from long-term bank loans | | 9,634 | |
| Repayment of long-term bank loans | (1,210) | (9,366) | (11,308) |
| Increase in treasury stock | (34) | (11) | (318) |
| Proceeds from sales of treasury stock | 166 | - | 1,551 |
| Cash dividends paid | (882) | (883) | 8,243 |
| Other, net | | (9) | |
| Net cash used in financing activities | (2,959) | (2,071) | (27,654) |
| Effect of exchange rate changes on cash and cash equivalents | (103) | (378) | (963) |
| Net decrease in cash and cash equivalents | (942) | (204) | (8,804) |
| Cash and cash equivalents at beginning of year | 6,520 | 6,724 | 60,935 |
| Cash and cash equivalents at end of year | ¥ 5,578 | ¥ 6,520 | \$ 52,131 |

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Riken Corporation and Consolidated Subsidiaries
March 31, 2005

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 which it controls directly or indirectly. 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, 2005 and 2004 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 the balance sheet date, 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.

In prior years, the Company expensed retirement benefits to directors and statutory auditors when paid. Effective the semiannual period ended September 30, 2004, the Company began accruing retirement benefits to directors and statutory auditors at the full amount which would be required to be paid if all directors and statutory auditors retired at the balance sheet date based on the Company's internal regulations. This change in method of accounting was made in order to reflect a more appropriate cost allocation to each period and to enhance the Company's financial position. The

effect of this change was to decrease net income by ¥250 million and to increase selling, general and administrative expenses by ¥41 million and other expenses by ¥209 million.

See Note 9 for the method of accounting for the corporate portion of the retirement 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.

resentation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

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 ¥107 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2005. The translation should not be construed as a rep-

3. SECURITIES

(a) Information regarding marketable securities classified as other securities at March 31, 2005 is as follows:

| | March 31, 2005 | | | | | |
|---|-------------------|----------------|------------------------|-----------------------------|----------------|------------------------|
| | 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 | ¥251 | ¥727 | ¥476 | \$2,346 | \$6,794 | \$4,449 |
| Subtotal | 251 | 727 | 476 | 2,346 | 6,794 | 4,449 |
| Securities whose acquisition cost exceeds their carrying value: | | | | | | |
| Stock | 33 | 22 | (10) | 308 | 206 | (93) |
| Subtotal | 33 | 22 | (10) | 308 | 206 | (93) |
| Total | ¥284 | ¥749 | ¥465 | \$2,654 | \$7,000 | \$4,346 |

(b) Sales of securities classified as held-to-maturity debt securities and the related aggregate cost, gain and loss at March 31, 2005 were as follows:

| March 31, 2005 | | | | | |
|-------------------|------|---------------|-----------------------------|------|---------------|
| Sales | cost | Gain and loss | Sales | cost | Gain and loss |
| (Millions of yen) | | | (Thousands of U.S. dollars) | | |
| ¥ 2 | ¥ | ¥ | \$ 19 | \$ | \$ |

(c) The carrying value and details of securities with no determinable fair value at March 31, 2005, are summarized as follows:

| | Carrying value | |
|---|-------------------|-----------------------------|
| | (Millions of yen) | (Thousands of U.S. dollars) |
| Held-to-maturity debt securities: | | |
| Other | ¥ | \$ |
| Other securities: | | |
| Unlisted securities (except for securities traded on the over-the-counter market) | 2,620 | 24,486 |
| Others | 3 | 28 |

(d) 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) |
| | (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 |

(e) 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) |
| | (Millions of yen) | | |
| Securities whose carrying value exceeds their acquisition cost: | | | |
| Stock | ¥ 215 | ¥ 491 | ¥ 275 |
| Subtotal | 215 | 491 | 275 |
| Securities whose acquisition cost exceeds their carrying value: | | | |
| Stock | 65 | 54 | (11) |
| Subtotal | 65 | 54 | (11) |
| Total | ¥ 281 | ¥ 546 | ¥ 264 |

(f) Sales of securities classified as other securities and the related aggregate gain and loss at March 31, 2004 were 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 | \$ | \$ |

(g) The carrying value and details of securities not carried at fair value at March 31, 2004 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) | 2,620 |
| Others | 3 |

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

| March 31, 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 | ¥ | ¥ | ¥ |

4. INVENTORIES

Inventories at March 31, 2005 and 2004 were as follows:

| | March 31, | | |
|-------------------|-------------------|---------|-----------------------------|
| | 2005 | 2004 | 2005 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Finished products | ¥ 2,750 | ¥ 2,631 | \$ 25,701 |
| Goods for resale | 1,111 | 961 | 10,383 |
| Work in process | 4,201 | 2,961 | 39,262 |
| Other | 1,259 | 1,066 | 11,766 |
| | ¥ 9,322 | ¥ 7,620 | \$ 87,121 |

5. DEPRECIATION

Depreciation of property, plant and equipment for the years ended March 31, 2005 and 2004 amounted to ¥4,021 million (\$37,579 thousand) and ¥3,917 million, respectively. Accumulated depreciation of property, plant

and equipment at March 31, 2005 and 2004 amounted to ¥62,883 million (\$587,692 thousand) and ¥60,842 million, respectively.

6. SHORT-TERM DEBT AND LONG-TERM DEBT

At March 31, 2005 and 2004, short-term debt and the current portion of long-term debt consisted of the following:

| | March 31, | | |
|-----------------------------------|-------------------|----------|-----------------------------|
| | 2005 | 2004 | 2005 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Loans, principally from banks | ¥ 8,425 | ¥ 9,356 | \$ 78,738 |
| Current portion of long-term debt | 1,200 | 1,206 | 11,215 |
| | ¥ 9,625 | ¥ 10,562 | \$ 89,953 |

The annual interest rates applicable to short-term debt outstanding at March 31, 2005 and 2004 ranged principally from 0.58 percent to 8.17 percent and from 0.59 percent to 7.40 percent, respectively.

At March 31, 2005 and 2004, long-term debt consisted of the following:

| | March 31, | | |
|---|-------------------|---------|-----------------------------|
| | 2005 | 2004 | 2005 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Secured loans from banks, insurance companies, due through 2011 at interest rates ranging from 4.09 percent to 4.90 percent | ¥ 274 | ¥ 285 | \$ 2,561 |
| Unsecured loans from banks, insurance companies and others due through 2018 at interest rates ranging from 1.49 percent to 6.00 percent | 7,995 | 9,162 | 74,720 |
| | 8,270 | 9,448 | 77,280 |
| Less current portion | (1,200) | (1,206) | (11,215) |
| | ¥ 7,069 | ¥ 8,242 | \$ 66,065 |

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

| Year ending March 31, | (Millions of yen) | (Thousands of U.S. dollars) |
|-----------------------|-------------------|-----------------------------|
| 2006 | ¥ 1,200 | \$ 11,215 |
| 2007 | 1,525 | 14,252 |
| 2008 | 1,135 | 10,607 |
| 2009 and thereafter | 4,410 | 41,206 |
| | ¥ 8,270 | \$ 77,280 |

The assets pledged as collateral for short-term debt of ¥535 million (\$5,000 thousand) and long-term debt of ¥274 million (\$2,561 thousand) at March 31, 2005 and 2004 were as follows:

| | March 31, | | |
|--|-------------------|---------|-----------------------------|
| | 2005 | 2004 | 2005 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Property, plant and equipment, at net book value | ¥ 1,964 | ¥ 1,611 | \$ 18,355 |
| Other | 25 | 95 | 234 |
| | ¥ 1,991 | ¥ 1,708 | \$ 18,607 |

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. However, in accordance with an amendment to local tax laws which became effective April 1, 2004, the

statutory tax rate of 40.5 percent was adopted subsequent to March 31, 2004.

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, 2005 and 2004 were as follows:

| | March 31, | | |
|---|-------------------|----------------|-----------------------------|
| | 2005 | 2004 | 2005 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Deferred tax assets: | | | |
| Current assets: | | | |
| Accrued bonuses | ¥ 778 | ¥ 737 | \$ 7,271 |
| Accrued enterprise tax | 79 | 205 | 738 |
| Other, net | 219 | 228 | 2,047 |
| Valuation allowance | (76) | (75) | (701) |
| Total deferred tax assets (current) | ¥ 1,000 | ¥ 1,095 | \$ 9,346 |
| Non-current assets: | | | |
| Accrued retirement benefits | ¥ 6,595 | ¥ 7,023 | \$ 61,636 |
| Depreciation | 63 | 58 | 589 |
| Loss carryforward | 14 | 22 | 131 |
| Accrued retirement benefits to directors and statutory auditors | 106 | | 991 |
| Other, net | 331 | 282 | 3,093 |
| Valuation allowance | (309) | (300) | (2,888) |
| Elimination of deferred tax liabilities (non-current) | (1,753) | (1,678) | (16,383) |
| Total deferred tax assets (non-current) | ¥ 5,049 | ¥ 5,408 | \$ 47,187 |
| Deferred tax liabilities: | | | |
| Current liabilities | | | |
| Non-current liabilities: | | | |
| Gain on contribution of securities to retirement benefit trust | ¥ (1,472) | ¥ (1,470) | \$ (13,757) |
| Depreciation | (66) | (74) | (617) |
| Other, net | (217) | (137) | (2,028) |
| Elimination to deferred tax assets (non-current) | 1,753 | 1,678 | 16,383 |
| Total deferred tax liabilities (non-current) | ¥ (3) | ¥ (4) | \$ (28) |

The effective tax rates reflected in the consolidated statement of income for the years ended March 31, 2005 and 2004 differ from the statutory tax rates for the following reasons:

| | 2005 | 2004 |
|--|--------------|--------------|
| Statutory tax rate | 40.5% | 41.8% |
| Effect of: | | |
| Expenses not deductible for income tax purposes | 0.3 | 0.4 |
| Dividend income deductible for income tax purposes | (0.6) | (0.4) |
| Per capita portion of inhabitants taxes | 0.3 | 0.4 |
| Differences in tax rates applicable to overseas subsidiaries | (1.1) | (1.6) |
| Equity in earnings of investees | (6.0) | (5.8) |
| Other, net | (0.8) | (1.2) |
| Effective tax rates | 32.6% | 33.6% |

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

At March 31, 2005 and 2004, accrued expenses and other current liabilities consisted of the following:

| | March 31, | | |
|-----------------|-------------------|---------|-----------------------------|
| | 2005 | 2004 | 2005 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Accrued bonuses | ¥ 1,921 | ¥ 1,820 | \$ 17,953 |
| Other | 6,191 | 4,020 | 57,860 |
| | ¥ 8,113 | ¥ 5,840 | \$ 75,822 |

9. RETIREMENT BENEFIT PLANS

The Company has defined benefit plans, i.e., welfare pension fund plans (WPFP), 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, 2005 and 2004 for the Company's and the subsidiaries' defined benefit plans:

| | March 31, | | |
|--|-------------------|-----------|-----------------------------|
| | 2005 | 2004 | 2005 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Retirement benefit obligation | ¥(23,177) | ¥(23,461) | \$ (216,607) |
| Plan assets at fair value | 20,020 | 18,390 | 187,103 |
| Unfunded retirement benefit obligation | (3,157) | (5,071) | (29,505) |
| Unrecognized actuarial gain or loss | (735) | 239 | (6,869) |
| Unrecognized prior service cost | (865) | | (8,084) |
| Accrued retirement benefits | ¥ (4,758) | ¥ (4,831) | \$ (44,467) |

On February 1, 2005, 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 past employee services under the

substitutional portion of the WPFP. The remaining corporate portion of the WPFP is transferred to a corporate defined benefit pension plan.

The components of retirement benefit expenses for the years ended March 31, 2005 and 2004 are outlined as follows:

| | March 31, | | |
|--|-------------------|---------|-----------------------------|
| | 2005 | 2004 | 2005 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Service cost | ¥ 1,044 | ¥ 845 | \$ 9,757 |
| Interest cost | 386 | 472 | 3,607 |
| Expected return on plan assets | | | |
| Amortization of actuarial gain or loss | 157 | 854 | 1,467 |
| Past service cost | 66 | | 617 |
| Other | 40 | 37 | 374 |
| Subtotal | 1,694 | 2,209 | 15,832 |
| Total | ¥ 1,694 | ¥ 2,209 | \$ 15,832 |

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

| | March 31, | |
|---|-----------|------|
| | 2005 | 2004 |
| Discount rates | 1.7% | 2.0% |
| Expected rates of return on plan assets | 0.0% | 0.0% |

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, 2005 and 2004 amounted to ¥1,359 million (\$12,701 thousand) and ¥1,397 million, respectively.

12. CONTINGENT LIABILITIES

At March 31, 2005 and 2004, the Company and its consolidated subsidiaries had the following contingent liabilities:

| | March 31, | | |
|--|-------------------|-------|-----------------------------|
| | 2005 | 2004 | 2005 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| As endorser of trade notes discounted and endorsed | ¥ 307 | ¥ 253 | \$ 2,869 |
| As guarantor of transferred accounts receivable | 197 | 156 | 1,841 |
| As guarantor of indebtedness of employees | 136 | 138 | 1,271 |
| | ¥ 640 | ¥ 547 | \$ 5,981 |

13. LEASES

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased properties at March 31, 2005 and 2004, 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:

| | March 31, | | |
|---------------------------|-------------------|---------|-----------------------------|
| | 2005 | 2004 | 2005 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Acquisition costs: | | | |
| Machinery and equipment | ¥ 1,687 | ¥ 1,911 | \$ 15,766 |
| Other assets | 95 | 134 | 888 |
| | ¥ 1,783 | ¥ 2,046 | \$ 16,664 |
| Accumulated depreciation: | | | |
| Machinery and equipment | ¥ 1,091 | ¥ 1,120 | \$ 10,196 |
| Other assets | 56 | 82 | 523 |
| | ¥ 1,148 | ¥ 1,203 | \$ 10,729 |
| Net book value: | | | |
| Machinery and equipment | ¥ 595 | ¥ 790 | \$ 5,561 |
| Other assets | 38 | 51 | 355 |
| | ¥ 634 | ¥ 842 | \$ 5,925 |

Lease payments relating to finance leases accounted for as operating leases amounted to ¥253 million (\$2,364 thousand) and ¥306 million for the years ended March 31, 2005 and 2004, 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, 2005 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,

| | (Millions of yen) | (Thousands of U.S. dollars) |
|---------------------|-------------------|-----------------------------|
| 2006 | ¥ 211 | \$ 1,972 |
| 2007 and thereafter | 423 | 3,953 |
| Total | ¥ 634 | \$ 5,925 |

14. DERIVATIVES

The Company enters into foreign forward exchange contracts to reduce its exposure to adverse fluctuation in foreign exchange rates relating to receivables and payables denominated in foreign currencies. In addition, the Company enters into interest-rate swap agreements to reduce its exposure to adverse fluctuation in interest rates relating to long-term debt.

Disclosure of fair value information for interest-related derivatives positions has been omitted since all derivatives were accounted for as hedges at March 31, 2005 and 2004.

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.

| | 2005 | 2004 | 2005 |
|---------------------------------------|---------|---------|----------------|
| | (yen) | | (U.S. dollars) |
| Net income: | | | |
| Basic | ¥ 47.86 | ¥ 37.07 | \$ 0.447 |
| Diluted | 47.78 | 37.06 | 0.447 |
| Net assets | 337.98 | 297.07 | 3.159 |
| Cash dividends applicable to the year | 10.00 | 8.50 | 0.093 |

16. SEGMENT INFORMATION

(a) Business segments

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 is summarized as follows:

| Year ended March 31, 2005 | | | | | | |
|--|------------|--------------|---------|---------|------------------------------|--------------|
| | Automobile | Construction | Other | Total | Eliminations or corporate | Consolidated |
| (Millions of yen) | | | | | | |
| I. Sales: | | | | | | |
| Sales to third parties | ¥55,745 | ¥5,337 | ¥17,345 | ¥78,429 | ¥ | ¥78,429 |
| Intersegment sales and transfers | | | | | () | |
| Total | 55,745 | 5,337 | 17,345 | 78,429 | () | 78,429 |
| Operating expenses | 51,710 | 4,913 | 14,962 | 71,586 | () | 71,586 |
| Operating income | ¥ 4,035 | ¥ 424 | ¥ 2,383 | ¥ 6,842 | ¥ () | ¥ 6,842 |
| II. Assets, depreciation expenses, capital expenditures: | | | | | | |
| Assets | ¥51,107 | ¥5,861 | ¥12,349 | ¥69,318 | ¥11,428 | ¥80,747 |
| Depreciation expenses | ¥ 3,380 | ¥ 217 | ¥ 516 | ¥ 4,115 | ¥ 58 | ¥ 4,173 |
| Capital expenditures | ¥ 5,127 | ¥ 158 | ¥ 411 | ¥ 5,697 | ¥ | ¥ 5,697 |

| Year ended March 31, 2005 | | | | | | |
|--|------------|--------------|-----------|-----------|------------------------------|--------------|
| | Automobile | Construction | Other | Total | Eliminations or corporate | Consolidated |
| (Thousands of U.S. dollars) | | | | | | |
| I. Sales: | | | | | | |
| Sales to third parties | \$ 520,981 | \$ 49,879 | \$162,103 | \$732,981 | \$ | \$732,981 |
| Intersegment sales and transfers | | | | | () | |
| Total | 520,981 | 49,879 | 162,103 | 732,981 | () | 732,981 |
| Operating expenses | 483,271 | 45,916 | 139,832 | 669,028 | () | 669,028 |
| Operating income | \$ 37,710 | \$ 3,963 | \$ 22,271 | \$ 63,944 | \$ () | \$ 63,944 |
| II. Assets, depreciation expenses, capital expenditures: | | | | | | |
| Assets | \$ 477,636 | \$ 54,776 | \$115,411 | \$647,832 | \$106,804 | \$754,645 |
| Depreciation expenses | \$ 31,589 | \$ 2,028 | \$ 4,822 | \$ 38,458 | \$ 542 | \$ 39,000 |
| Capital expenditures | \$ 47,916 | \$ 1,477 | \$ 3,841 | \$ 53,243 | \$ | \$ 53,243 |

Year ended March 31, 2004

| | Automobile | Construction | Other | Total | Eliminations and corporate | Consolidated |
|--|------------|--------------|---------|---------|-------------------------------|--------------|
| (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 |

(b) Geographical segments

The geographical segment information for the Company and its subsidiaries for the years ended March 31, 2005 and 2004 is summarized as follows:

Year ended March 31, 2005

| | Japan | Other geographic areas | Total | Eliminations and corporate | Consolidated |
|-------------------------------|----------|------------------------------|----------|-------------------------------|--------------|
| (Millions of yen) | | | | | |
| Sales to third parties | ¥ 65,615 | ¥ 12,813 | ¥ 78,429 | ¥ | ¥ 78,429 |
| Interarea sales and transfers | 6,512 | 470 | 6,982 | (6,982) | |
| Total | 72,128 | 13,284 | 85,412 | (6,982) | 78,429 |
| Operating expenses | 65,962 | 12,688 | 78,650 | (7,063) | 71,586 |
| Operating income | ¥ 6,165 | ¥ 595 | ¥ 6,761 | ¥ 80 | ¥ 6,842 |
| Total assets | ¥ 59,644 | ¥ 9,674 | ¥ 69,318 | ¥ 11,428 | ¥ 80,747 |

Year ended March 31, 2005

| | Japan | Other geographic areas | Total | Eliminations and corporate | Consolidated |
|-------------------------------|------------|------------------------------|------------|-------------------------------|--------------|
| (Thousands of U.S. dollars) | | | | | |
| Sales to third parties | \$ 613,224 | \$ 119,747 | \$ 732,981 | \$ | \$ 732,981 |
| Interarea sales and transfers | 60,860 | 4,393 | 65,252 | (65,252) | |
| Total | 674,093 | 124,150 | 798,243 | (65,252) | 732,981 |
| Operating expenses | 616,467 | 118,579 | 735,047 | (66,009) | 669,028 |
| Operating income | \$ 57,617 | \$ 5,561 | \$ 63,187 | \$ 748 | \$ 63,944 |
| Total assets | \$ 557,421 | \$ 90,411 | \$ 647,832 | \$ 106,804 | \$ 754,645 |

| 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 |

(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, 2005 and 2004 are summarized as follows:

| Year ended March 31, 2005 | | | |
|---|-------------------|----------|----------|
| | Asia | Other | Total |
| | (Millions of yen) | | |
| Overseas sales | ¥ 9,292 | ¥ 13,060 | ¥ 22,352 |
| Consolidated net sales | | | ¥ 78,429 |
| Overseas sales as a percentage of consolidated net sales | 11.8% | 16.7% | 28.5% |

| Year ended March 31, 2005 | | | |
|---|-----------------------------|-----------|-----------|
| | Asia | Other | Total |
| | (Thousands of U.S. dollars) | | |
| Overseas sales | \$86,841 | \$122,056 | \$208,897 |
| Consolidated net sales | | | \$732,981 |
| Overseas sales as a percentage of consolidated net sales | 11.8% | 16.7% | 28.5% |

| 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% |

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, 2005 and 2004, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 1(j), Riken Corporation changed its method of accounting for retirement benefits to directors and statutory auditors for the year ended March 31, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.



June 29, 2005