

Business Climate and Operational Review

During the year under review, the world economy maintained steady growth. As for the U.S. economy, despite signs of deceleration due to oil price hikes and decreasing housing investment, it managed to maintain a solid trend, thanks mainly to a growth in consumer spending supported by an improving employment situation. The European economy showed stable expansion, driven mainly by an improved employment situation and increased capital investment. Both China and India maintained high growth and the Indonesian economy is in a recovery phase. The Asian economy overall showed stable growth. In the meantime, the Japanese economy sustained moderate expansion, centering on capital investment and consumer spending.

In the automobile industry, while domestic demand remained sluggish, as shown by lower new car sales (registered cars), domestic car production rose on growth of exports driven by growing demand in overseas markets. Domestic construction and the housing industry continued to expand on the back of an improved employment and earnings environment. Under such an operating environment, the Riken Group has endeavored to reinforce quality and technology as well as price competitiveness with a focus on core business products such as piston rings and camshafts, aiming to develop and market products that would satisfy the needs of our customers.

In the year under review, we recorded consolidated sales of ¥91,272 million, 2.9% increase from the previous year, due to increased sales of automotive parts as well as thermal engineering products. Profit-wise, in spite of our efforts to reduce procurement costs and to rationalize manufacturing process, operating income was ¥7,554 million, down 3.9% from the previous year and ordinary income was ¥9,058 million, down 5.1% from the previous year, reflecting lower overall unit sales prices, a further price hike of raw materials coupled with poor business performance of some overseas subsidiaries. Net income was ¥5,443 million, down 3.8% from the previous year.

Outlook for the Future

While the world economy is expected to show moderate expansion and the U.S. economy sustaining growth, there is a possibility that oil price hikes and excess housing supply may weigh on the U.S. economy. We expect the European economy to maintain stable growth and the Asian economy overall will also sustain stable growth driven by China and India; however, there is concern over the impact of restrictive investment policy and other measures of the Chinese government.

The Japanese economy is expected to sustain moderate expansion, mainly due to recovering consumer spending, high-level capital investment as well as continued export growth. However we expect difficulty in the operating environment to persist in view of concern over raw material prices that remain high, foreign exchange fluctuations as well as a slowing of the U.S. economy.

Our company aims at continuous enhancement of corporate value by assuming corporate responsibility over broad areas including economic, environmental and social, and we position establishment of corporate governance as an important issue of management. We will engage in securing corporate transparency, efficiency and soundness by way of thorough implementation of compliance and strengthening of risk management in accordance with the basic policy concerning internal control systems based on the Companies Act.

We have also organized the CSR committee to control the activities of our entire Group related to the following areas: Conservation of the environment, social contribution, accurate and adequate disclosure of information and CS (customer satisfaction) in addition to consolidation of internal control system. We will continue to improve the quality of the control systems.



President

Mid-Term Management Plan

The Riken Group promotes its mid-term management plan, “PLAN 2008,” for the period of fiscal years 2006 to 2008, aiming to achieve sustainable growth.

The plan prioritizes a thorough enhancement of our technology so as to better respond to the globalization of business activities and technological innovation.

Riken Group’s Mid-Term Management Plan “PLAN 2008”

S l o g a n : Think Big, Aim High, and Do Through.

Main theme: “Continuous improvement of corporate value through enhancement of technological development and expanded global operations”



Mid-Term Key Policies

1. Development of advanced technologies that create new value for customers.

2. Realization of the world’s highest and most unified quality.

3. Substantial improvement of productivity through manufacturing innovation.

4. Expansion of global operations.

5. Active recruiting and intensive and continuous training of human resources.

6. Further promotion of corporate social responsibility (CSR).