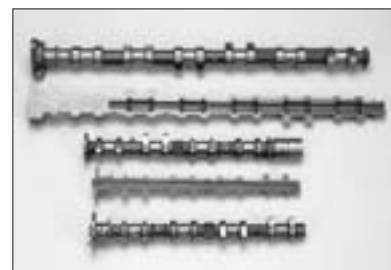


■Automotive and Industrial Machinery Parts

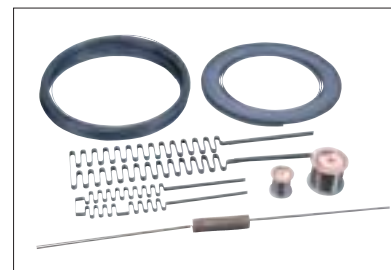
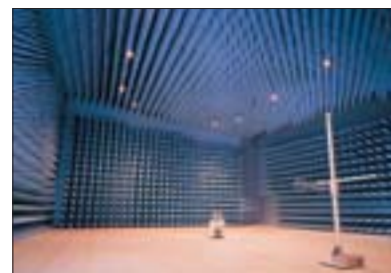
The automotive and industrial machinery parts segment deals with the Group's core products such as piston rings, camshafts, valve lifters, high-grade cast iron products and seal rings for transmissions. In the year under review, sales of camshafts and other cast iron parts increased due to aggressive sales activities, while sales of piston rings slightly increased. As a result, sales of this segment reached ¥77,691 million, up 4.6% from the previous year. Due to falling average unit sales price, adaptation to customers' requirements for higher quality and precision of products as well as increased raw material costs, operating income was ¥5,440 million, down 13.0% from the previous year despite our continuous efforts to rationalize the manufacturing process.



■Other Products and Services

In this segment, we mainly deal with piping components, radio frequency anechoic chambers, and thermal engineering products such as heating wires and industrial furnaces. In the year under review, sales of piping components grew due to healthy construction and housing industries.

Sales of such thermal engineering products as heating wires and industrial furnaces increased reflecting growing corporate capital investment. Meanwhile, sales of radio frequency anechoic chambers decreased. Consequently, sales of this segment were ¥13,581 million, down 5.8% from the previous year. Operating income reached ¥2,188 million, up 27.1% from the previous year due to improved profitability.



■ R&D Activities

The Riken Group is making utmost efforts to develop automotive and industrial machinery parts that will help lower fuel and oil consumption and emit cleaner exhaust gas, and thereby contribute to the conservation of the global environment.

Research and development of products and technologies in the Group's automotive and industrial machinery parts segment and other products and services segment are carried out by the Research and Development Department of the Company, as well as by the Production Development and Production Technology Sections of each production division.

The Group's R&D expenses in the fiscal year under review totaled ¥1,482 million (including research expenses for commercialization of certain developments), out of which ¥1,378 million was attributable to the automotive and industrial parts segment and the remaining ¥104 million to the other products and services segment.

Major R&D activities in each segment are as follows:

(1) Automotive and Industrial Machinery Parts Operation

- 1) Development of low-friction and long-life piston rings for gasoline engines that enable low-fuel consumption.
- 2) Development of piston rings for diesel engines that must conform to ever-demanding exhaust-gas emission regulations.
- 3) Research and development of valve components and transmission seal rings.
- 4) Research and development of various surface treatment technologies with superior sliding properties.
- 5) Research and development of undercarriage components that are low in weight and high in strength.
- 6) R&D of car-installed NOx sensors.

(2) Other Products and Services

- 1) Development of mechanical fittings applicable to various pipe types that can easily be installed, repaired and renewed.
- 2) Development of long-life water and hot water supply stainless steel piping systems with high installation reliability.
- 3) Development of nonflammable pyramidal absorbers with superior high-frequency properties for radio anechoic chambers.
- 4) Development of ceramic exothermic materials with superior high-temperature durability.

