

Business Climate and Operational Review

With respect to the economic environment during the consolidated fiscal year under review, we witnessed a decline in economic growth not just in the U.S., but also in Europe especially in the second half of the year due mainly to turmoil in the housing, stock and financial markets which was triggered by the subprime woes in the U.S. While such countries as China and India maintained high economic growth, the increased demand for crude oil, and other resources in support of growth momentum has caused hikes in relevant prices globally.

While the Japanese economy stayed fairly strong in the first half of the year helped by increased capital investment and exports as well as solid consumer spending, it started to decelerate sharply in the second half.

In the automobile industry, in spite of the growth in exports and overseas production by Japanese automobile manufacturers reflecting a global increase in the demand for cars in the first half of the year, domestic car production remained unchanged from the previous year due primarily to reduced domestic sales.

Regarding the construction and housing industry, we saw a drastic decline in new construction works started by the effect of the revision of the Building Standards Law effectuated in June 2007.

Within this business environment, the Riken Group has endeavored to strengthen its competitiveness in quality, technology and price for piston rings, camshafts, seal rings for transmissions and other products, and to develop and sell products which would satisfy the needs of customers.

During the consolidated fiscal year under review, we were forced to suspend operation of our factories and consolidated subsidiaries in Kashiwazaki district which were stricken by the Niigata Chuetsu Offshore Earthquake. However, restoration of damaged facilities was completed earlier than expected thanks to the support of many people. We were able to restore normal production systems, and we have tried hard to recover delayed production since August. As a result, sales of automobile related parts and other products increased from the same period a year ago enabling us to record consolidated sales of ¥95,765 million, a 4.9% increase from the previous year. In terms of profit though, in spite of our efforts to rationalize our manufacturing processes in the face of a changing product mix and rise in raw material costs, operating income was ¥7,346 million, down 2.7% from the previous year and ordinary income was ¥8,765 million, down 3.2% from the previous year. Net income was ¥4,165 million, down 23.5% from the previous year due to retirement of property damaged by the Niigata Chuetsu Offshore Earthquake and allocation of restoration expenses, etc. as extraordinary losses.

With respect to Riken of Korea Inc., we sold all of its outstanding shares in January this year. As an amount of the impact, we allocated ¥279 million of extraordinary loss.

Outlook for the Future

Considering the current situation of world economy, while we expect economic growth will be sustained in such countries like China and India, a negative impact on the economy is anticipated in developed countries due to confusion and stagnation in the stock and financial markets and hike in crude oil and raw material prices.

Domestically as well, we have concern for the hike in crude oil and raw material prices, stronger yen, declined exports and the like, which lead us to anticipate the difficult business environment to continue.

In regard to the primary customers of Riken Group, Japanese automobile manufacturers, in contrast to increased demand in China, India and some other nations, a sales decline in the U.S. market is expected, and there is concern for the future in the midst of a progressively uncertain business environment as seen in elevated crude oil and raw material prices coupled with the stronger yen.

As for the construction and housing industry, some time is required for the reduced number of new construction starts caused by the revised Building Standards Law to recover to former levels.

Riken Group positions the establishment of corporate governance as an important issue of management aiming at continuous enhancement of corporate value by assuming responsibility in a wide spectrum of areas such as the economy, environment and society. To make this possible, we will engage in securing of corporate transparency, efficiency and soundness by way of a thorough implementation of compliance and enrichment of risk management based on our basic policy concerning internal control systems.

Through the organization of the CSR committee, we have consolidated control of such activities as environmental conservation, social contribution, accurate and adequate disclosure of information, and customer satisfaction (CS) under one group heading.

Setting up a specialized section, we are enhancing our internal control system by taking such measures as instituting internal regulations on internal control, and are further boosting up the level.

In June 2007, we signed a memorandum of understanding concerning a global business cooperation with MAHLE GmbH of Germany. While both companies respect each other's mutual independence, we aim at the establishment of a strategic and global cooperation system in each area of production, technological development and others through this cooperation trying to explore effective mutual use of managerial resources to produce synergetic effects, provide more valued products and services and enhance the corporate value of both companies. From now on, we will launch joint projects regarding piston rings, camshafts and a wide variety of technological development.



President

Midterm Management Plan

Riken Group has promoted its midterm management plan [PLAN 2008] since the fiscal year 2006 in order to realize sustainable growth for the future, and the fiscal year 2008 falls on the last year of the plan. In this midterm management plan, we positioned a thorough reinforcement of our technological competency as the most significant managerial issue in the midst of the trends of globalization of business activities and technological innovation.

Riken Group Midterm Management Plan

Slogan: Think Big, Aim High, and Do Through.

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



Midterm 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 in productivity through manufacturing innovation.
- 4 Expansion and enhancement of global operations.
- 5 Securing of capable personnel and intensive and continuous training of human resources.
- 6 Further promotion of corporate social responsibility (CSR).