

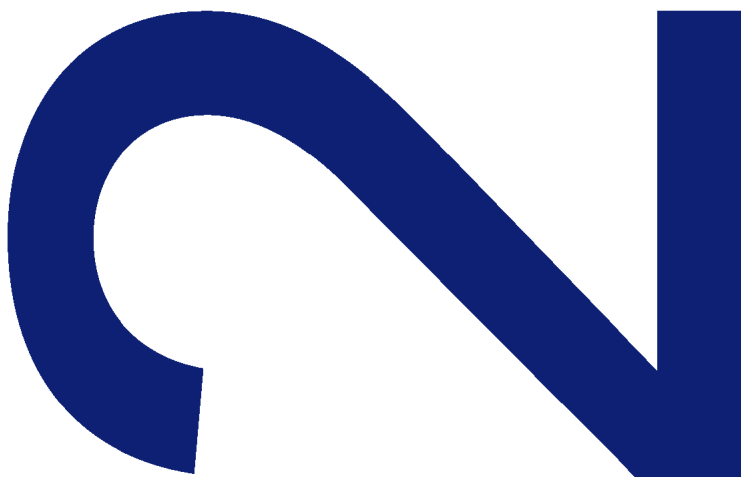


SEMIANNUAL REPORT

For the six-month period ended
September 30, 1999



RIKEN CORPORATION



To Our Shareholders

Riken Corporation presents this semiannual report of business performance for the six-month period ended September 30, 1999.

Operating Environment

During the first half of the fiscal year under review, the Japanese economy showed signs of a partial recovery in consumer spending and housing starts, owing to government economic measures and alleviated concern for the financial system. Public investment peaked, however, and the slowdown in private capital investment persisted, leading to an operating environment beleaguered with lingering concerns.

In the Company's business fields, the automobile industry produced a total of 4,740,000 vehicles in Japan during the term, virtually unchanged from the same term in the previous fiscal year despite favorable sales of compact cars due to new car regulations. In the construction and housing industries, demand for private housing was firm on account of low-interest rate policies and the introduction of tax reduction mechanisms. However, the slump in the construction industry persisted.

Amid this operating environment, net sales grew 1.6% to ¥31,032 million compared with the same period of the previous fiscal year, thanks to steady efforts to expand sales. Streamlining advanced under the Management Reform Plan, leading to higher profits. Operating income rose 394.1% to ¥1,502 million. Net income for the period under review increased ¥849 million to ¥922 million compared with the same period in the previous fiscal year.

By product category, sales in Piston Rings edged down 0.6% to ¥12,843 million due to lower export demand. In Other Engine Parts, strong demand for camshafts contributed to sales of ¥5,645 million, an increase of 16.1%. Piping Products finished adjustments to its distribution inventory last fiscal year and recorded sales of ¥2,667 million, an increase of 10.1%. Demand for High-Strength Cast-Iron Products increased 6.3% to ¥4,230 million, owing to a rise in exports. Sales in Industrial Plants and Other Products decreased 11.1% to ¥5,646 million as a result of a decline in private capital investment.

Overall, exports were down 10.7% to ¥4,639 million.

Dividends

Management regrets the temporary suspension of interim dividend distribution.

Plans call for annual dividends of ¥5.00 per share. The Company retired 700,000 shares of its treasury stock during the period under review, and aims to purchase and retire 600,000 shares in the second half of the fiscal year.

Outlook

Despite sustained growth from the beginning of the current fiscal year to the second quarter, the severe operating environment is forecast to continue based on projections of lackluster spending, owing to consumer unease, a tapering off of public investment and rising concerns over the accelerated appreciation of the yen.

Despite this operating environment, Riken is readying efforts to expand revenue and improve the financial structure by aiming to increase customer satisfaction and continuing to firmly advance the Management Reform Plan.

Management Reform Plan

Riken is advancing its Management Reform Plan, which will conclude at the end of fiscal 2001, to implement dramatic improvements to the financial structure and renew the corporate structure. The Plan's objectives are stated below:

- (1) Concentrate management resources on core operations
- (2) Reorganize the operational structure to boost profitability
- (3) Improve customer satisfaction and productivity through business reform

Year 2000 Preparations

Management recognizes the significance of the Year 2000 (Y2K) issue. Riken established a preparation team in April 1997 to take charge of analyzing and implementing readiness measures for the Company's core and peripheral information systems, information infrastructure equipment and production and development facility equipment. Preparations were completed in June 1999, and we conducted a comprehensive test in August to ascertain problem-free operations. We also assured smooth operations through participation in connectivity trials with customers and financial institutions.

We thank our shareholders for their continuing support.

December 1999



Kunihiko Oguchi
President

Riken Corporation

Balance Sheets (Unaudited)

	September 30,		
	1999	1998	1999
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Assets			
Current assets:			
Cash and cash equivalents	¥ 5,681	¥ 10,748	\$ 53,093
Marketable securities <i>(Note 3)</i>	12,692	15,891	118,617
Notes and accounts receivable:			
Subsidiaries and affiliates	3,002	4,911	28,056
Trade	16,788	13,928	156,897
Less allowance for doubtful receivables	(1,488)	(276)	(13,906)
Inventories	5,431	6,324	50,757
Other current assets	1,153	663	10,776
Total current assets	43,259	52,189	404,290
Non-current assets:			
Property, plant and equipment, at cost <i>(Note 4)</i> :			
Land	1,428	1,441	13,346
Buildings	15,200	15,219	142,056
Machinery and equipment	44,541	47,788	416,271
Construction in progress	409	791	3,822
	61,578	65,239	575,495
Less accumulated depreciation	(43,830)	(44,830)	(409,626)
Property, plant and equipment, net	17,748	20,409	165,869
Investments in and advances to subsidiaries and affiliates	6,969	7,163	65,131
Other investments in securities	504	4,361	4,710
Other non-current assets	3,370	1,606	31,495
Total non-current assets	28,591	33,539	267,205
Total assets	¥ 71,850	¥ 85,728	\$ 671,495

	September 30,		
	1999	1998	1999
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans	¥ 9,531	¥11,023	\$ 89,075
Current portion of long-term debt	417	7,814	3,897
Notes and accounts payable:			
Subsidiaries and affiliates	4,398	4,406	41,103
Trade	6,994	6,888	65,364
Construction	434	1,234	4,056
Accrued income taxes	11	120	103
Accrued expenses and other current liabilities	2,971	3,375	27,766
Total current liabilities	<u>24,756</u>	<u>34,860</u>	<u>231,364</u>
Long-term liabilities:			
Long-term debt	18,319	18,807	171,206
Accrued severance indemnities	5,768	5,635	53,906
Accrual for loss on guarantees of indebtedness	916	200	8,561
Accrual for loss on investments	1,365	506	12,757
Total long-term liabilities	<u>26,368</u>	<u>25,148</u>	<u>246,430</u>
Shareholders' equity:			
Common stock, ¥50 par value:			
Authorized – 199,300,000 shares;			
Issued:			
– 109,259,667 shares at September 30, 1999	8,573	–	80,122
– 109,959,667 shares at September 30, 1998	–	8,573	–
Additional paid-in capital	6,605	6,605	61,729
Legal reserve	1,346	1,313	12,579
Retained earnings	4,202	9,229	39,271
Total shareholders' equity	<u>20,726</u>	<u>25,720</u>	<u>193,701</u>
Contingent liabilities <i>(Note 5)</i>			
Total liabilities and shareholders' equity	<u>¥71,850</u>	<u>¥85,728</u>	<u>\$671,495</u>

See notes to financial statements.

Riken Corporation

Statements of Income and Retained Earnings (Unaudited)

	Six-month period ended September 30,		
	1999	1998	1999
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Net sales	¥31,032	¥30,535	\$290,019
Cost of sales	25,400	25,821	237,383
Gross profit	5,632	4,714	52,636
Selling, general and administrative expenses	4,130	4,410	38,599
Operating income	1,502	304	14,037
Other income (expenses):			
Interest and dividend income	114	144	1,065
Interest expense	(199)	(219)	(1,860)
Other, net	(485)	16	(4,532)
Income before income taxes	932	245	8,710
Income taxes	10	173	93
Net income (<i>Note 8</i>)	922	72	8,617
Retained earnings at beginning of the period	3,804	9,793	35,551
Redemption and retirement of treasury stock	(161)	–	(1,505)
Less appropriations:			
Cash dividends paid	330	550	3,084
Bonuses to directors and statutory auditors	–	28	–
Transfer to legal reserve	33	58	308
Retained earnings at end of the period	<u>¥ 4,202</u>	<u>¥ 9,229</u>	<u>\$ 39,271</u>

See notes to financial statements.

Riken Corporation

Notes to financial statements (Unaudited)

1. The accompanying financial statements relate to Riken Corporation (the Company) only, with investments in subsidiaries and affiliates being stated at cost.

2. U.S. dollar amounts

Amounts shown in U.S. dollars are included only for convenience. The rate of ¥107 = \$1, being the approximate exchange rate on September 30, 1999, has been used.

3. Marketable securities

The carrying and related aggregate market values of marketable securities at September 30, 1999 and 1998 were as follows:

	Six-month period ended		
	September 30,		
	1999	1998	1999
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Carrying value	¥12,692	¥15,841	\$118,617
Aggregate market value	21,307	15,589	199,131
Net unrealized gain (loss)	¥ 8,615	¥ (252)	\$ 80,514

4. Pledged assets:

As of September 30, 1999 ¥7,408 million (U.S.\$69,234 thousand)
As of September 30, 1998 ¥8,296 million

5. Contingent liabilities

At September 30, 1999 the Company had the following contingent liabilities:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
As endorser of trade notes discounted	¥1,484	\$13,869
As guarantor of indebtedness of subsidiaries and affiliates	2,603	24,327
Employees	164	1,533
	<u>¥4,251</u>	<u>\$39,729</u>

6. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of September 30, 1999 and 1998 which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Six-month period ended September 30,		
	1999 <i>(Millions of yen)</i>	1998 <i>(Millions of yen)</i>	1999 <i>(Thousands of U.S. dollars)</i>
Acquisition costs:			
Machinery and equipment	¥1,228	¥1,274	\$11,477
Other assets	276	154	2,579
	<u>¥1,504</u>	<u>¥1,428</u>	<u>\$14,056</u>
Accumulated depreciation:			
Machinery and equipment	¥ 330	¥ 281	\$ 3,084
Other assets	110	109	1,028
	<u>¥ 440</u>	<u>¥ 390</u>	<u>\$ 4,112</u>
Net book value:			
Machinery and equipment	¥ 898	¥ 993	\$ 8,393
Other assets	166	45	1,551
	<u>¥1,064</u>	<u>¥1,038</u>	<u>\$ 9,944</u>

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥114 million (\$1,065 thousand) and ¥88 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms for the six-month periods ended September 30, 1999 and 1998, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to September 30, 1999 for finance lease transactions accounted for as operating leases are summarized as follows:

<u>Twelve-month period ending September 30,</u>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2000	¥ 206	\$1,925
2001 and thereafter	857	8,010
Total	<u>¥1,063</u>	<u>\$9,935</u>

7. Derivative Transactions

The Company has entered into interest rate swap agreements to reduce its exposure to adverse fluctuations in interest rates relating to long-term debt.

Summarized below are the contract amounts and estimated fair value of the Company's financial instruments at September 30, 1999 and 1998.

	1999		1998		1999	
	<u>Contract amount</u>	<u>Estimated fair value</u>	<u>Contract amount</u>	<u>Estimated fair value</u>	<u>Contract amount</u>	<u>Estimated fair value</u>
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>	
Interest rate swaps:						
Receive-fixed,						
pay-variable	¥3,500	¥144	¥3,500	¥181	\$32,710	\$1,346

8. Amounts per share

The Company has computed amounts per share of net income and net assets, as shown below, based on the weighted average number of shares of common stock outstanding during each period and the number of shares of common stock outstanding at the period end, respectively:

	Six-month period ended		
	September 30,		
	<u>1999</u>	<u>1998</u>	<u>1999</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net income	¥8.4	¥0.7	\$0.08
	September 30,		
	<u>1999</u>	<u>1998</u>	<u>1999</u>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net assets	¥189.7	¥233.9	\$1.77

9. Subsequent Events

- a) On December 1, 1999, the Company entered into an agreement to merge with its wholly-owned subsidiary, Riken Planning K.K. (Riken Planning), whose assets, liabilities and shareholder's equity as of September 30, 1999 amounted to ¥1,586 million (\$14,822 thousand), ¥1,305 million (\$12,196 thousand) and ¥281 million (\$2,626 thousand), respectively.

The merger will take place on February 1, 2000 and the Company will assume the balances of all assets and liabilities of Riken Planning as of that date. Riken Planning will be liquidated subsequent to the date of the merger.

- b) On November 18, 1999, the Board of Directors of the Company approved a resolution to repurchase and retire 600 thousand shares of the Company's common stock for the aggregate acquisition cost of ¥160 million (\$1,495 thousand).

Corporate Information

Board of Directors

President

Kunihiko Oguchi

Vice President

Seiji Nemoto

Managing Directors

Masa Maezawa

Tetsuo Kodama

Fumio Kiyota

Masaki Munakata

Directors

Koichi Yamazaki

Junji Shirogane

Satoshi Hoshihara

Michio Furuta

Michiru Furuichi

Noritada Okano

Auditors

Junshichi Nakao

Takio Shibano

Shoji Ishikawa

Hiroshi Usui

Overseas Network

Taiwan Riken Ind. Co., Ltd.

P. T. Pakarti Riken Indonesia

Siam Riken Ind. Co., Ltd.

Riken of Korea Inc.

Xiamen Riken Ind. Co., Ltd.

Riken of America Inc.

Riken Metal Products Corp.

Allied Ring Corporation

Euro-Riken GmbH

Riken España, S.A.

Riken Corporation of America

Riken International U.S.A. Inc.

Corporate Data

Established

December 1, 1949

Head Office

13-5, Kudan-kita 1-chome, Chiyoda-ku,

Tokyo 102-8202, Japan

Tel 81-3-3230-3911

Fax 81-3-3230-3431

Capital

¥8.5 billion

Number of Employees

1,743

Transfer Agent of Common Stock

The Chuo Trust & Banking Co., Ltd.

7-1, Kyobashi 1-chome, Chuo-ku

Tokyo 104-8345, Japan

(As of September 30, 1999)

RIKEN

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