

# SEMIANNUAL REPORT 2001

For the six-month period ended September 30, 2000

The word "RIKEN" is rendered in a large, bold, sans-serif font. The letters are filled with a light orange color and are overlaid with a white outline that follows the contours of the characters. The background is a solid, darker orange color.

RIKEN

**RIKEN CORPORATION**

## **To Our Shareholders**

Riken Corporation presents this semiannual report of business performance for the six-month period ended September 30, 2000.

### **Operating Environment**

During the first half of the fiscal year under review, the global economy was in excellent condition, as evidenced by vigorous growth in the United States, a recovery in Asia and brisk conditions in Europe. The Japanese economy began to show signs of a recovery with a mild rise in consumer spending and increased capital investment on the back of higher corporate profits. As a result, the gross domestic product (GDP) appeared to record positive growth in the first and second quarters of the fiscal year under review.

In the Company's business fields, the automobile industry registered a consecutive yearly increase in demand of 1.4% compared with the same term in the previous fiscal year. The increase was due to a rise in sales of passenger vehicles, namely popular recreational vehicles (RVs) and compact cars, and the effect of car model changes. Total domestic production of automobiles expanded 3.5% to 4.9 million units, owing to growth in exports of completed vehicles to North America and Asia. In the construction and housing industries, demand driven by special tax reductions eroded, and concerns of rising interest rates constricted home purchases, leading to a 1.7% decrease in housing starts to 630,000 units compared with the same term in the previous fiscal year. In non-housing construction such as office buildings, construction of new floor space advanced 11.2% on account of growth in corporate capital investment.

Amid this operating environment, net sales edged up 0.5% to ¥31,192 million as a result of aggressive efforts to develop new markets overseas while expanding sales of core products, including piston rings and camshafts.

Steady progress in implementing our Management Reform Plan has shown results. By concentrating in core businesses, we shifted our product structure to focus on more profitable areas. We have also reduced costs through streamlining and boosting productivity by further renovating business practices. As a result, operating income advanced 59.2% to ¥2,391 million. The Company recorded extraordinary losses for adjustments to changes in accounting of ¥15,100 million with the application of severance benefit accounting. Extraordinary income included a gain on the establishment of a severance benefit investment trust of ¥3,600 million through stock funds. As a result, an interim loss of ¥5,397 million was recorded.

Management regrets the temporary suspension of interim dividend distribution. Plans call for annual dividends of ¥5.0 per share.

### **Sales Breakdown**

By product category, sales in Piston Rings grew 3.1% to ¥13,241 million due to higher sales overseas and for plastic seal rings. In Other Engine Parts, sales declined 7.4% to ¥5,230 million due to a slump in demand for ship parts and withdrawal from ceramics products. Despite efforts to expand sales, Piping Products recorded sales of ¥2,515 million, a decrease of 5.7%, owing to a substantial decline in large-scale projects. Demand for High-Strength Cast-Iron Products increased 4.1% to ¥4,403 million on the back of sales growth for knuckles spurred by favorable RV sales. In Industrial Plants and Other Products, sales advanced 2.8% to ¥5,803 million as large-scale facilities were delivered to overseas plants, despite the postponement of large-scale projects in shield rooms.

Overall, exports were up 2.4% to ¥5,200 million.

### **Outlook**

A mild recovery in domestic demand is projected due to increasing capital investment resulting from improvements in corporate profitability. However, consumer spending remains weak, and lackluster stock prices coupled with the adverse effects of a slowdown in the U.S. economy and the depreciation of the euro have caused reason for concern.

In the automobile industry, domestic vehicle sales and production volume are expected to steadily increase due to an upswing in demand. Overseas, sales volume may decline slightly in the U.S. Overall demand is expected to remain roughly the same as the previous fiscal year with growing demand centered in Asia.

In the construction and housing industries, harsh conditions are expected to continue, as consumers are uneasy about employment and income and anticipate rising housing loan interest rates.

Amid this operating environment, Riken is making efforts to develop new products and expand sales while implementing streamlining measures. We are in position to secure income and improve our corporate structure.

We thank our shareholders for their continuing support.

December 2000



Kunihiko Oguchi  
President

Riken Corporation

Balance Sheets (Unaudited)

	<b>September 30,</b>		
	<b>2000</b>	<b>1999</b>	<b>2000</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	¥ 6,927	¥ 5,681	\$ 64,139
Marketable securities	–	12,692	–
Notes and accounts receivable:			
Subsidiaries and affiliates	3,797	3,002	35,157
Trade	16,863	16,788	156,139
Less allowance for doubtful receivables	(383)	(1,488)	(3,546)
Inventories	5,592	5,431	51,778
Deferred tax assets	500	–	4,630
Other current assets	328	1,153	3,037
Total current assets	33,626	43,259	311,352
Non-current assets:			
Property, plant and equipment, at cost <i>(Note 4)</i> :			
Land	1,536	1,428	14,222
Buildings	17,205	15,200	159,306
Machinery and equipment	44,297	44,541	410,157
Construction in progress	414	409	3,833
	63,453	61,578	587,528
Less accumulated depreciation	(45,544)	(43,830)	(421,704)
Property, plant and equipment, net	17,909	17,748	165,824
Investments in and advances to subsidiaries and affiliates	5,925	6,969	54,861
Other investments in securities	1,597	504	14,787
Deferred tax assets	5,056	–	46,815
Other non-current assets	2,167	3,370	20,065
Total non-current assets	32,655	28,591	302,361
Total assets	¥ 66,281	¥ 71,850	\$ 613,713

	<b>September 30,</b>		
	<b>2000</b>	<b>1999</b>	<b>2000</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 2)</i>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Short-term bank loans	¥ 9,110	¥ 9,531	\$ 84,352
Current portion of long-term debt	6,954	417	64,389
Notes and accounts payable:			
Subsidiaries and affiliates	3,280	4,398	30,370
Trade	6,924	6,994	64,111
Construction	671	434	6,213
Accrued income taxes	1,014	11	9,389
Accrued expenses and other current liabilities	3,000	2,971	27,778
Total current liabilities	<u>30,955</u>	<u>24,756</u>	<u>286,620</u>
Long-term liabilities:			
Long-term debt	11,428	18,319	105,815
Accrued retirement benefits	5,907	5,768	54,694
Accrual for loss on guarantees of indebtedness	891	916	8,250
Accrual for loss on investments	472	1,365	4,370
Total long-term liabilities	<u>18,700</u>	<u>26,368</u>	<u>173,148</u>
Shareholders' equity:			
Common stock, ¥50 par value:			
Authorized:			
– 196,525,000 shares at September 30, 2000			
– 199,300,000 shares at September 30, 1999			
Issued:			
– 106,484,667 shares at September 30, 2000	8,573	–	79,380
– 109,259,667 shares at September 30, 1999	–	8,573	–
Additional paid-in capital	6,604	6,605	61,148
Legal reserve	1,401	1,346	12,972
Retained earnings	45	4,202	417
Total shareholders' equity	<u>16,625</u>	<u>20,726</u>	<u>153,935</u>
Contingent liabilities (Note 5)			
Total liabilities and shareholders' equity	<u>¥66,281</u>	<u>¥71,850</u>	<u>\$613,713</u>

See notes to financial statements.

Riken Corporation

Statements of Income and Retained Earnings (Unaudited)

	<b>Six-month period ended September 30,</b>		
	<b>2000</b>	<b>1999</b>	<b>2000</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Net sales	¥31,192	¥31,032	\$288,815
Cost of sales	24,796	25,400	229,593
Gross profit	6,395	5,632	59,213
Selling, general and administrative expenses	4,004	4,130	37,074
Operating income	2,391	1,502	23,139
Other income (expenses):			
Interest and dividend income	129	114	1,194
Interest expense	(186)	(199)	(1,722)
Gain from contribution of securities to retirement benefit trust	3,619	–	33,509
Amortization of net retirement benefit obligation at transition <i>(Note 3)</i>	(15,126)	–	(140,056)
Other, net	(154)	(485)	(1,426)
(Loss) income before income taxes	(9,327)	932	(86,361)
Income taxes:			
Current	1,049	10	9,713
Deferred	(4,979)	–	(46,102)
Net (loss) income <i>(Note 7)</i>	(5,397)	922	(49,972)
Retained earnings at beginning of the period	6,059	3,804	56,102
Redemption and retirement of treasury stock	–	(161)	–
Less appropriations:			
Cash dividends paid	532	330	4,926
Bonuses to directors and statutory auditors	28	–	259
Transfer to legal reserve	56	33	519
Retained earnings at end of the period	¥ 45	¥ 4,202	\$ 417

See notes to financial statements.

# Riken Corporation

## Notes to financial statements (Unaudited)

1. (a) The accompanying financial statements relate to Riken Corporation (the "Company") only, with investments in subsidiaries and affiliates being stated at cost.
- (b) As permitted by the regulations under the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

2. U.S. dollar amounts

Amounts shown in U.S. dollars are included only for convenience. The rate of ¥108 = \$1, being the approximate exchange rate on September 30, 2000, has been used.

3. New accounting statements

- a) A new accounting standard for retirement benefits became effective the fiscal year beginning April 1, 2000. The net retirement benefit obligation at transition of ¥15,126 million (\$140,056 thousand) was fully amortized in the six-month period ended September 30, 2000. As a result, the effect of the adoption of this new standard was to increase loss before income taxes by ¥15,231 million (\$141,028 thousand) for the six-month period ended September 30, 2000.
- b) A new accounting standard for financial instruments became effective the fiscal year beginning April 1, 2000. The effect of the adoption of this new standard was to increase loss before income taxes by ¥177 million (\$1,639 thousand) for the six-month period ended September 30, 2000.
- c) A revised accounting standard for foreign currency transactions became effective the fiscal year beginning April 1, 2000. The effect of the adoption of this revised standard was immaterial.

4. Pledged assets:

As of September 30, 2000	¥6,955 million (U.S.\$64,398 thousand)
As of September 30, 1999	¥7,408 million

5. Contingent liabilities

At September 30, 2000 the Company had the following contingent liabilities:

	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
As endorser of trade notes discounted	¥ 279	\$ 2,583
As guarantor of indebtedness of subsidiaries and affiliates	2,002	18,537
Employees	215	1,991
	<u>¥2,496</u>	<u>\$23,111</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, 2000 and 1999 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:

	<b>Six-month period ended September 30,</b>		
	<u>2000</u>	<u>1999</u>	<u>2000</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Acquisition costs:			
Machinery and equipment	¥1,127	¥1,228	\$10,435
Other assets	281	276	2,602
	<u>¥1,411</u>	<u>¥1,504</u>	<u>\$13,065</u>
Accumulated depreciation:			
Machinery and equipment	¥ 342	¥ 330	\$ 3,167
Other assets	151	110	1,398
	<u>¥ 495</u>	<u>¥ 440</u>	<u>\$ 4,583</u>
Net book value:			
Machinery and equipment	¥ 785	¥ 898	\$ 7,269
Other assets	129	166	1,194
	<u>¥ 915</u>	<u>¥1,064</u>	<u>\$ 8,472</u>

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥106 million (\$981 thousand) and ¥114 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, 2000 and 1999, respectively.

6. Leases (continued)

Future minimum lease payments (including the interest portion thereon) subsequent to September 30, 2000 for finance lease transactions accounted for as operating leases are summarized as follows:

Twelve-month period ending September 30,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2001	¥189	\$1,750
2002 and thereafter	726	6,722
Total	¥915	\$8,472

7. 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:

	<b>Six-month period ended September 30,</b>		
	<b>2000</b>	<b>1999</b>	<b>2000</b>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net (loss) income	¥(50.69)	¥8.4	\$(0.47)

  

	<b>September 30,</b>		
	<b>2000</b>	<b>1999</b>	<b>2000</b>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net assets	¥156.1	¥189.7	\$1.45

## **Corporate Information** (As of September 30, 2000)

### **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

Takashi Ishitani

Shigekazu Kamiki

### **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*

1,667

#### *Transfer Agent of Common Stock*

The Chuo Mitsui Trust & Banking Co., Ltd.

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

Tokyo 104-8345, Japan

# **RIKEN**

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