

Management's Discussion and Analysis of Fiscal 2000 Results

Fiscal 2000, ended March 31, 2000, was another banner year for Ricoh Company, Ltd. The Company continued to launch many popular, high-margin offerings while slashing costs and otherwise streamlining operations.

These efforts helped Ricoh boost net sales and net income to new highs, for the fifth and sixth consecutive years, respectively.

Revenues

Net sales climbed 1.5%, to ¥1,447.2 billion (\$14,050 million). Despite Japan's prolonged recession, domestic sales advanced 6.4%, to ¥873.2 billion (\$8,477 million). This offset a 5.1% decline in overseas sales, which affected currency translations in the consolidated accounts as a result of the yen's appreciation. Sales in

Japan and abroad represented 60.3% and 39.7%, respectively, of net sales.

In the office equipment category, domestic sales soared for color copiers. New high-speed monochrome digital copiers proved very popular. The synergistic printer and solutions businesses also performed excellently. Overseas, color and other digital copiers sold very well under the Aficio brand. Expanded and streamlined marketing channels contributed much to performance, particularly in the United States.

As a result of these factors, office equipment sales gained 0.2%, to ¥1,253.1 billion (\$12,166 million).

The average yen-dollar rate for the term was down about ¥16, to ¥112. The yen-euro average was ¥115.

SALES BY PRODUCT LINE

	1999		2000		
	Millions of yen	Percentage of net sales	Millions of yen	Percentage of net sales	Thousands of U.S. dollars
Office Equipment:					
Copiers and related supplies	¥ 906,908	63.6%	¥ 870,291	60.1%	\$ 8,449,427
Communications and information systems	344,030	24.1	382,779	26.5	3,716,301
Other Businesses	175,061	12.3	194,087	13.4	1,884,340
Total	¥ 1,425,999	100.0%	¥ 1,447,157	100.0%	\$ 14,050,068

NEW SEGMENTATION

	1999		2000		
	Millions of yen	Percentage of net sales	Millions of yen	Percentage of net sales	Thousands of U.S. dollars
Office Equipment:					
Imaging solutions	¥ 954,306	66.9%	¥ 898,023	62.1%	\$ 8,718,670
Network Input/Output Systems	128,356	9.0	173,108	12.0	1,680,660
Network System Solutions	168,276	11.8	181,939	12.6	1,766,398
Other Businesses	175,061	12.3	194,087	13.4	1,884,340
Total	¥ 1,425,999	100.0%	¥ 1,447,157	100.0%	\$ 14,050,068

Note: The new business category composition is as follows:

Imaging Solutions

Digital and analog monochrome copiers, digital color copiers, stencil duplicators, facsimile machines, and supplies and services

Network Input/Output Systems

Multifunctional printers, laser printers, optical discs, scanners, software, and supplies and services

Network System Solutions

Personal computers and servers, network systems, networking software, and services and support

Other Businesses

Digital and analog cameras, semiconductors, and other equipment and devices

SALES BY GEOGRAPHIC AREA

	1999		2000		
	Millions of yen	Percentage of net sales	Millions of yen	Percentage of net sales	Thousands of U.S. dollars
Japan	¥ 820,975	57.6%	¥ 873,170	60.3%	\$ 8,477,379
The Americas	239,623	16.8	231,181	16.0	2,244,476
Europe	283,373	19.9	258,515	17.9	2,509,854
Other	82,028	5.8	84,291	5.8	818,359
Total	¥ 1,425,999	100.0%	¥ 1,447,157	100.0%	\$ 14,050,068

Operating Income

Operating income jumped 20.9%, to ¥88.9 billion (\$863 million). The gross profit ratio was up 0.2 percentage point, to 40.1%. This improvement was due primarily to increased shipments of high-margin digital office equipment.

Selling, general and administrative expenses declined 0.8%, to ¥491.1 billion (\$4,768 million). This stemmed from the yen's rise and ongoing cost-cutting programs.

Research and development costs were down 0.4%, to ¥66.5 billion (\$646 million). These costs accounted for 4.6% of net sales, down 0.1 percentage point.

Income before Income Taxes

Income before income taxes, minority interests and equity in earnings of affiliates rose 32.7%, to ¥70.4 billion (\$683 million). Net interest expense and interest and dividend income declined 27.0%, to ¥4.2 billion (\$41 million). Net foreign exchange loss rocketed 71.4%, to ¥6.0 billion (\$58 million). Other expenses included divestments of fixed assets.

Net Income

Net income soared 36.8%, to ¥41.9 billion (\$407 million).

Total taxes were up 15.5%, to ¥28.4 billion (\$275 million). The effective tax rate for the term dropped 6.0 percentage points, to 40.0%, mainly because of a decline in corporate tax rates.

The basic and diluted earnings per share of common stock were ¥60.61 (\$0.59) and ¥56.06 (\$0.54), respectively. These figures were 36.7% and 36.9% higher, respectively, than in fiscal 1999.

Parent company cash dividends per share of common stock were again ¥11.00 (\$0.11), in keeping with an ongoing management commitment to stable shareholder returns.

Segment Information

SALES BY PRODUCT LINE

1. Office Equipment

Copiers and Related Supplies

Segment sales declined 4.0%, to ¥870.3 billion (\$8,449 million). This was because overseas sales dropped 8.6% in line with the appreciation of the yen, overshadowing a rise in domestic sales. This area accounted for 60.1% of net sales.

Communications and Information Systems

Sales in this category climbed 11.3%, to ¥382.8 billion (\$3,716 million). This stemmed from soaring sales in domestic printer operations and growth in the Company's solutions business. This segment accounted for 26.5% of net sales.

New Business Segmentation

The Company has summarized results under the following new business segments to aid understanding of its new strategic direction as a provider of document solutions.

Imaging Solutions

Segment sales declined 5.9%, to ¥898.0 billion (\$8,719 million). This was despite

double-digit gains in Japan and abroad in digital color and monochrome copiers, and reflected slower sales of analog machines and the yen's appreciation.

Network Input/Output Systems

Here, sales soared 34.9%, to ¥173.1 billion (\$1,681 million), largely because of solid sales of multifunctional printers and laser printers.

The Company focused on marketing color printers in Japan and pushed ahead with efforts to boost printer and solutions sales internationally.

Network System Solutions

Sales in this segment climbed 8.1%, to ¥181.9 billion (\$1,766 million). This owed to solid showings by personal computers, networking peripherals, and software.

2. Other Businesses

In this category, sales advanced 10.9%, to ¥194.1 billion (\$1,884 million), or 13.4% of net sales. This rise stemmed from the Company's move to focus its semiconductor operations on analog devices, where it enjoys a strong competitive edge.

SALES BY GEOGRAPHIC AREA

Japan accounted for 60.3% of net sales. The Americas and Europe accounted for 16.0% and 17.9%, respectively, and other areas 5.8%.

1. Japan

Domestic sales increased 6.4%, to ¥873.2 billion (\$8,477 million). This was primarily because of solid sales of printers and other network peripherals, which more than compensated for plunging analog copier sales.

2. The Americas

Here, sales were down 3.5%, to ¥231.2 billion (\$2,244 million). But U.S. dollar-based sales actually gained 10.7% on the strength of solid showings by monochrome and color digital copiers and multifunctional printers.

3. Europe

Regional sales dropped 8.8%, to ¥258.5 billion (\$2,510 million), but rose 10.4% in local-currency terms. As in the Americas, the growth drivers were digital copiers and multifunctional printers.

4. Other Areas

Sales in other areas were up 2.8%, to ¥84.3 billion (\$818 million). In local currencies, the improvement was 15.3%. Economic recoveries in most Asian markets contributed to these gains.

FINANCIAL POSITION

At the end of fiscal 2000, total assets stood at ¥1,543.3 billion (\$14,984 million), down 5.2%. Interest-bearing debt plunged 21.2%, to ¥515.1 billion (\$5,001 million).

CASH FLOWS

At year-end, net cash provided by operating activities stood at ¥135.6 billion (\$1,317 million), up 27.1% from the close of fiscal 1999, on the strength of higher

	Average pay rate	Millions of yen						
		Total	Expected maturity date					2006 and thereafter
			2001	2002	2003	2004	2005	
LONG-TERM INDEBTEDNESS (Excluding Capital Lease Obligations)								
Convertible Bonds	0.90 %	¥ 73,793	¥ 2,990	¥ 34,704	¥ 36,099	¥ —	¥ —	¥ —
Bonds	1.88	85,000	—	10,000	—	15,000	10,000	50,000
Medium-Term Notes	3.69	12,179	4,086	5,205	2,159	—	—	729
Loans	1.51	190,171	48,946	71,520	11,185	25,287	17,994	15,239
Total		¥ 361,143	¥ 56,022	¥ 121,429	¥ 49,443	¥ 40,287	¥ 27,994	¥ 65,968

Notional amounts (Millions)	Type of swap	Average receive rate	Average pay rate	Millions of yen							
				Total	Expected maturity date					2006 and thereafter	
					2001	2002	2003	2004	2005		
¥	278,080	Receive floating/Pay fixed	0.22 %	1.00 %	¥ 278,080	¥ 20,000	¥ 6,570	¥ 110,595	¥ 66,911	¥ 67,600	¥ 6,404
	75,500	Receive fixed/Pay floating	2.40	0.22	75,500	4,000	6,000	1,000	17,000	23,500	24,000
	1,000	Receive floating/Pay floating	0.16	0.15	1,000	—	1,000	—	—	—	—
US\$	50	Receive floating/Pay fixed	7.21	6.55	¥ 5,309	¥ 1,062	¥ 1,062	¥ 1,062	¥ —	¥ 2,123	¥ —

	Average pay rate	Thousands of U.S. dollars						
		Total	Expected maturity date					2006 and thereafter
			2001	2002	2003	2004	2005	
LONG-TERM INDEBTEDNESS (Excluding Capital Lease Obligations)								
Convertible Bonds	0.90 %	\$ 716,437	\$ 29,029	\$ 336,932	\$ 350,476	\$ —	\$ —	\$ —
Bonds	1.88	825,243	—	97,087	—	145,631	97,087	485,438
Medium-Term Notes	3.69	118,243	39,670	50,534	20,961	—	—	7,078
Loans	1.51	1,846,320	475,204	694,369	108,592	245,505	174,699	147,951
Total		\$ 3,506,243	\$ 543,903	\$ 1,178,922	\$ 480,029	\$ 391,136	\$ 271,786	\$ 640,467

Notional amounts (Millions)	Type of swap	Average receive rate	Average pay rate	Thousands of U.S. dollars							
				Total	Expected maturity date					2006 and thereafter	
					2001	2002	2003	2004	2005		
¥	278,080	Receive floating/Pay fixed	0.22 %	1.00 %	\$ 2,699,806	\$ 194,175	\$ 63,786	\$ 1,073,738	\$ 649,621	\$ 656,311	\$ 62,175
	75,500	Receive fixed/Pay floating	2.40	0.22	733,010	38,835	58,252	9,709	165,049	228,155	233,010
	1,000	Receive floating/Pay floating	0.16	0.15	9,709	—	9,709	—	—	—	—
US\$	50	Receive floating/Pay fixed	7.21	6.55	\$ 51,545	\$ 10,311	\$ 10,311	\$ 10,311	\$ —	\$ 20,612	\$ —

net income and more efficient asset management.

Net cash used in investing activities was ¥28.5 billion (\$277 million), a 68.1% decline. We allocated most of this cash to plant and equipment expenditures.

The free cash flow generated by operating and investing activities totaled ¥107.2 billion (\$1,040 million), a sixfold increase. This allowed us to reimburse corporate bonds and debts and maintain dividends.

Our cash flow for the year included additional deposits of ¥50.0 billion (\$485 million) based on corporate bond underwriting contracts. Financing activities reflected the repayment of corporate bonds for this amount.

Therefore, cash and cash equivalents at the close of fiscal 2000 were ¥111.8 billion (\$1,086 million), down ¥18.8 billion or 14.4%. This amount included a foreign exchange fluctuation effect of ¥4.7 billion (\$46 million).

Capital Expenditures

Additions to property, plant and equipment fell 17.2%, to ¥58.4 billion (\$567 million). These investments were mainly in dies and other regular production areas.

Key Financial Ratios

We have provided the following ratios to facilitate analysis of the Company's operations for fiscal 1998, 1999, and 2000:

	Fiscal 1998	Fiscal 1999	Fiscal 2000
Return on sales	2.1%	2.1%	2.9%
Return on shareholders' investment	6.7%	6.4%	8.1%
Current ratio	1.04	1.27	1.32
Debt-to-equity ratio (interest-bearing debt to shareholders' investment)	1.42	1.34	0.95
Interest coverage	7.8	6.8	9.3

Market Risk

MARKET RISK EXPOSURE

Ricoh is exposed to market risks primarily from changes in foreign currency exchange rates and interest rates, which affect outstanding debt and certain assets and liabilities denominated in foreign currencies. In order to manage these risks that arise in the normal course of business, Ricoh enters into hedging transactions pursuant to its policies and procedures covering such areas as counterparty exposure and hedging practices. Ricoh does not hold or issue derivative financial instruments for trading purposes, or to generate income.

Ricoh regularly assesses these market risks based on the policies and procedures established to protect against adverse effects of these risks and other potential exposures, primarily by reference to the market value of the financial instruments. As a result of the latest assessment, Ricoh does not anticipate any material losses in these areas.

FOREIGN CURRENCY RISK

In the ordinary course of business, Ricoh uses foreign exchange forward contracts to manage the effects of foreign currency exchange risk on monetary assets and liabilities denominated in foreign currencies. The contracts with respect to the

operating activities generally have maturities of less than six months, while the contracts with respect to the financing activities have the same maturities as underlying assets and liabilities.

The table below provides information about Ricoh's major derivative financial instruments that are sensitive to foreign currency exchange rates, except for the contracts with respect to the financial activities. For foreign exchange forward contracts, the table presents the notional amounts and weighted average exchange rates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contracts.

FOREIGN EXCHANGE FORWARD CONTRACTS

	Average contractual rates	Millions of yen	Thousands of U.S. dollars
		Contract amounts	Contract amounts
US\$/¥	105.02	¥ 37,494	\$ 364,019
EUR/¥	107.83	10,621	103,117

INTEREST RATE RISK

In the ordinary course of business, Ricoh enters into interest rate swap agreements to reduce interest rate risk and to modify the interest rate characteristics of its outstanding debt. These agreements primarily involve the exchange of fixed and floating rate interest payments over the life of the agreement without the exchange of the underlying principal amounts.

The table on page 23 provides information about Ricoh's major derivative and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations, the table presents principal cash flows by expected maturity date and related weighted average interest rates. For interest rate swaps, the table presents notional amounts by expected maturity date and weighted average interest rates. Notional amounts are generally used to calculate the contractual payments to be exchanged under the contract.

CREDIT RISK

Credit risk arising from the nonperformance of counterparties to meet the terms of financial instrument contracts is generally limited to the amounts by which the counterparties' obligations exceed the obligations of Ricoh. It is Ricoh's policy to only enter into financial instrument contracts with diverse high credit rated financial institutions to minimize credit risk concentration. Therefore, Ricoh does not expect to incur material credit losses on its financial instruments.

Year 2000

The Year 2000 problem did not harm Ricoh's operations. Related preparatory costs did not materially affect the performances of the parent company or its consolidated subsidiaries and affiliates.

Forward-Looking and Cautionary Statements

Certain statements contained in this annual report may constitute forward-looking statements, which involve a number of risks, uncertainties and other factors that would cause actual results to differ materially from those projected or implied elsewhere in this annual report.

Selected Financial Data

Ricoh Company, Ltd. and Consolidated Subsidiaries
For the Years Ended March 31

	1991	1992
For the Year:		
Net sales	¥ 1,003,263	¥ 1,017,417
Cost of sales	645,875	677,674
Selling, general and administrative expenses	322,402	328,522
Income before income taxes, minority interests and equity in earnings of affiliates	38,365	10,869
Provision for income taxes	27,025	13,010
Net income	13,557	2,041
Capital expenditures	70,777	75,057
Depreciation and amortization	48,868	56,811
Per Share Data (in yen and dollars):		
Net income:		
Basic	¥ 20.90	¥ 3.13
Diluted	20.48	3.13
Cash dividends, applicable to the year	10.00	10.00
At Year-End:		
Total assets	¥ 1,198,717	¥ 1,235,779
Long-term indebtedness	246,853	309,315
Shareholders' investment	362,988	357,795
Working capital	114,809	86,874
Return on sales	1.4 %	0.2 %
Return on shareholders' investment	3.8	0.6
Common Stock Price Range (in yen and dollars):		
High	¥ 1,340	¥ 820
Low	671	455

Millions of yen								Thousands of U.S. dollars	
1993	1994	1995	1996	1997	1998	1999	2000	2000	
¥ 1,021,915	¥ 968,318	¥ 1,020,296	¥ 1,113,030	¥ 1,316,072	¥ 1,403,348	¥ 1,425,999	¥ 1,447,157	\$14,050,068	
657,750	605,958	628,071	683,406	772,238	838,440	857,423	867,148	8,418,913	
327,397	326,352	339,891	374,246	460,471	475,201	495,029	491,088	4,767,844	
17,784	26,167	41,674	51,020	66,905	68,428	53,054	70,393	683,427	
14,716	18,233	24,931	28,251	39,864	40,210	24,555	28,363	275,369	
5,015	9,520	18,593	21,869	28,922	30,131	30,655	41,928	407,068	
46,747	44,928	45,437	48,828	78,666	94,117	70,469	58,356	566,563	
55,846	49,155	44,960	46,430	51,000	61,971	67,456	61,946	601,417	
¥ 7.70	¥ 14.61	¥ 28.54	¥ 33.55	¥ 44.16	¥ 44.97	¥ 44.33	¥ 60.61	\$ 0.59	
7.70	14.47	26.43	31.21	38.95	41.35	40.94	56.06	0.54	
10.00	10.00	10.00	10.00	12.00	11.00	11.00	11.00	0.11	
¥ 1,228,959	¥ 1,238,275	¥ 1,320,617	¥ 1,508,519	¥ 1,644,896	¥ 1,660,496	¥ 1,628,017	¥ 1,543,320	\$14,983,690	
303,599	337,592	386,535	411,023	386,918	295,536	344,580	307,962	2,989,922	
351,602	349,945	377,840	401,471	422,923	475,005	487,459	541,506	5,257,340	
77,318	116,108	142,021	139,163	77,527	31,681	176,161	187,553	1,820,903	
0.5 %	1.0 %	1.8 %	2.0 %	2.2 %	2.1 %	2.1 %	2.9 %	—	
1.4	2.7	5.1	5.6	7.0	6.7	6.4	8.1	—	
¥ 728	¥ 849	¥ 1,020	¥ 1,230	¥ 1,530	¥ 1,900	¥ 1,634	¥ 2,525	\$ 24.51	
402	561	726	650	1,050	1,270	969	1,078	10.47	



Consolidated Balance Sheets

Ricoh Company, Ltd. and Consolidated Subsidiaries
March 31, 1999 and 2000

ASSETS	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Current Assets:			
Cash and cash equivalents	¥ 130,655	¥ 111,838	\$ 1,085,806
Time deposits	16,477	17,076	165,786
Marketable securities	98,246	128,768	1,250,175
Trade receivables—			
Notes	77,784	87,155	846,165
Accounts	283,237	265,808	2,580,660
Less—Allowance for doubtful receivables	(13,887)	(11,717)	(113,757)
Inventories—			
Finished goods	112,505	98,312	954,485
Work in process and raw materials	49,793	44,849	435,427
Deferred income taxes	30,347	37,658	365,612
Cash deposits for assignment of debt securities	52,210	—	—
Total current assets	837,367	779,747	7,570,359
Plant and Equipment, at Cost:			
Land	44,445	43,287	420,262
Buildings	188,408	188,269	1,827,854
Machinery and equipment	574,468	574,744	5,580,039
Construction in progress	3,613	3,187	30,942
	810,934	809,487	7,859,097
Less—Accumulated depreciation	(546,017)	(565,973)	(5,494,883)
	264,917	243,514	2,364,214
Investments and Other Assets:			
Finance receivables	350,384	372,861	3,620,010
Investment securities	45,002	28,785	279,466
Investments in and advances to affiliates	46,152	44,502	432,058
Lease deposits and other	84,195	73,911	717,583
	525,733	520,059	5,049,117
	¥ 1,628,017	¥ 1,543,320	\$ 14,983,690

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

LIABILITIES AND SHAREHOLDERS' INVESTMENT	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Current Liabilities:			
Short-term borrowings	¥ 214,290	¥ 150,081	\$ 1,457,097
Current maturities of long-term indebtedness	94,426	57,081	554,184
Trade payables—			
Notes	43,564	45,406	440,835
Accounts	205,595	215,694	2,094,117
Accrued income taxes	14,869	35,315	342,864
Accrued expenses and other	88,462	88,617	860,359
Total current liabilities	661,206	592,194	5,749,456
Long-Term Liabilities:			
Long-term indebtedness	344,580	307,962	2,989,922
Accrued pension and severance costs	82,283	37,837	367,350
Deferred income taxes	14,831	17,463	169,544
	441,694	363,262	3,526,816
Minority Interests	37,658	46,358	450,078

Commitments and Contingent Liabilities (Note 15)

Shareholders' Investment:

Common stock, par value ¥50 per share:			
Authorized—1,000,000,000 shares			
Issued and outstanding—691,598,631 shares in 1999 and 692,082,959 shares in 2000	102,849	103,112	1,001,087
Additional paid-in capital	154,055	154,314	1,498,194
Legal reserve	14,271	15,178	147,359
Retained earnings	238,592	272,004	2,640,816
Accumulated other comprehensive income (loss)	(22,308)	(3,102)	(30,116)
Total shareholders' investment	487,459	541,506	5,257,340
	¥ 1,628,017	¥ 1,543,320	\$ 14,983,690

Consolidated Statements of Income

Ricoh Company, Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 1998, 1999 and 2000

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Net Sales	¥ 1,403,348	¥ 1,425,999	¥ 1,447,157	\$ 14,050,068
Cost of Sales	838,440	857,423	867,148	8,418,913
Gross profit	564,908	568,576	580,009	5,631,155
Selling, General and Administrative Expenses	475,201	495,029	491,088	4,767,844
Operating income	89,707	73,547	88,921	863,311
Other (Income) Expenses:				
Interest and dividend income	(5,931)	(5,933)	(5,997)	(58,223)
Interest expense	12,270	11,661	10,181	98,845
Foreign currency exchange loss, net	3,695	3,503	6,004	58,291
Other, net	11,245	11,262	8,340	80,971
Total	21,279	20,493	18,528	179,884
Income before Income Taxes, Minority Interests and Equity in Earnings of Affiliates	68,428	53,054	70,393	683,427
Provision for Income Taxes:				
Current	42,108	28,052	46,416	450,641
Deferred	(1,898)	(3,497)	(18,053)	(175,272)
Total	40,210	24,555	28,363	275,369
Income before Minority Interests and Equity in Earnings of Affiliates	28,218	28,499	42,030	408,058
Minority Interests	2,154	1,939	2,599	25,233
Equity in Earnings of Affiliates	4,067	4,095	2,497	24,243
Net Income	¥ 30,131	¥ 30,655	¥ 41,928	\$ 407,068

	Yen			U.S. dollars
Per Share of Common Stock:				
Net income:				
Basic	¥ 44.97	¥ 44.33	¥ 60.61	\$ 0.59
Diluted	41.35	40.94	56.06	0.54
Cash dividends, applicable to the year	¥ 11.00	¥ 11.00	¥ 11.00	\$ 0.11
Per American Depositary Share, Each Representing 5 Shares of Common Stock:				
Net income:				
Basic	¥ 224.85	¥ 221.65	¥ 303.05	\$ 2.94
Diluted	206.75	204.70	280.30	2.72
Cash dividends, applicable to the year	¥ 55.00	¥ 55.00	¥ 55.00	\$ 0.53

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Shareholders' Investment

Ricoh Company, Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 1998, 1999 and 2000

	Millions of yen				Thousands of U.S. dollars	
	1998	1999	2000	2000		
Common Stock:						
Beginning balance	¥ 82,035	¥ 102,820	¥ 102,849	¥ 102,849	\$ 998,534	
Conversion of convertible bonds; 34,170,930 shares in 1998, 52,209 shares in 1999, and 484,328 shares in 2000	20,785	29	263	263	2,553	
Ending balance	¥ 102,820	¥ 102,849	¥ 103,112	¥ 103,112	\$ 1,001,087	
Additional Paid-in Capital:						
Beginning balance	¥ 133,463	¥ 154,026	¥ 154,055	¥ 154,055	\$ 1,495,680	
Conversion of convertible bonds	20,563	29	259	259	2,514	
Ending balance	¥ 154,026	¥ 154,055	¥ 154,314	¥ 154,314	\$ 1,498,194	
Legal Reserve:						
Beginning balance	¥ 12,327	¥ 13,407	¥ 14,271	¥ 14,271	\$ 138,553	
Transfer from retained earnings	1,080	864	907	907	8,806	
Ending balance	¥ 13,407	¥ 14,271	¥ 15,178	¥ 15,178	\$ 147,359	
Retained Earnings:						
Beginning balance	¥ 194,992	¥ 216,410	¥ 238,592	¥ 238,592	\$ 2,316,427	
Net income	30,131	30,655	41,928	41,928	407,068	
Cash dividends paid	(7,633)	(7,609)	(7,609)	(7,609)	(73,873)	
Transfer to legal reserve	(1,080)	(864)	(907)	(907)	(8,806)	
Ending balance	¥ 216,410	¥ 238,592	¥ 272,004	¥ 272,004	\$ 2,640,816	
Accumulated Other Comprehensive Income (Loss):						
Beginning balance	¥ 106	¥ (11,658)	¥ (22,308)	¥ (22,308)	\$ (216,582)	
Unrealized holding gains (losses) on available-for-sale securities, net of reclassification adjustment	(5,965)	(3,924)	9,355	9,355	90,825	
Foreign currency translation adjustments	(53)	(2,217)	(7,394)	(7,394)	(71,786)	
Minimum pension liability adjustments	(5,746)	(4,509)	17,245	17,245	167,427	
Ending balance	¥ (11,658)	¥ (22,308)	¥ (3,102)	¥ (3,102)	\$ (30,116)	
Comprehensive Income (Loss):						
Net income for the year	¥ 30,131	¥ 30,655	¥ 41,928	¥ 41,928	\$ 407,068	
Other comprehensive income (loss) for the year, net of tax	(11,764)	(10,650)	19,206	19,206	186,466	
Total comprehensive income for the year	¥ 18,367	¥ 20,005	¥ 61,134	¥ 61,134	\$ 593,534	

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Ricoh Company, Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 1998, 1999 and 2000

	Millions of yen				Thousands of U.S. dollars			
	1998		1999		2000			
Cash Flows from Operating Activities:								
Net income	¥	30,131	¥	30,655	¥	41,928	\$	407,068
Adjustments to reconcile net income to net cash provided by operating activities—								
Depreciation and amortization		61,971		67,456		61,946		601,417
Equity in earnings of affiliates, net of dividends received		(2,300)		(2,936)		(846)		(8,214)
Accrued pension and severance costs, net		278		7,198		8,618		83,670
Deferred income taxes		(1,898)		(3,497)		(18,053)		(175,272)
Loss on disposal and sales of plant and equipment		1,432		2,285		207		2,010
Impairment loss of goodwill		5,037		—		—		—
Changes in assets and liabilities, net of effects from acquisition—								
Decrease (increase) in trade receivables		(8,168)		5,818		(7,794)		(75,670)
Decrease (increase) in inventories		(15,387)		22,038		8,502		82,544
Decrease (increase) in finance receivables		(14,025)		16,921		(22,914)		(222,466)
(Decrease) increase in trade payables		10,479		(29,961)		23,852		231,573
(Decrease) increase in accrued income taxes and accrued expenses and other		(18,213)		(14,433)		27,620		268,155
Other, net		(1,944)		5,164		12,574		122,078
Net cash provided by operating activities		47,393		106,708		135,640		1,316,893
Cash Flows from Investing Activities:								
Proceeds from sales of plant and equipment		866		486		2,989		29,019
Expenditures for plant and equipment		(93,657)		(68,990)		(56,930)		(552,719)
Payments for purchases of available-for-sale securities		(23,059)		(60,883)		(54,194)		(526,155)
Proceeds from sales of available-for-sale securities		49,240		54,777		24,534		238,194
(Increase) decrease in investments in and advances to affiliates		3,676		(2,258)		4,254		41,301
Decrease (increase) in time deposits		52,841		3,794		(1,571)		(15,252)
Decrease (increase) in cash deposits for assignment of debt securities		—		(25,376)		50,000		485,437
Other, net		8,521		9,215		2,428		23,573
Net cash used in investing activities		(1,572)		(89,235)		(28,490)		(276,602)
Cash Flows from Financing Activities:								
Proceeds from long-term loans		30,110		129,816		8,362		81,184
Repayment of long-term loans		(101,062)		(128,917)		(36,699)		(356,301)
(Decrease) increase in short-term borrowings, net		62,177		(58,727)		(56,529)		(548,825)
Proceeds from issuance of long-term debt securities		—		40,000		35,000		339,806
Repayment of long-term debt securities		—		—		(66,620)		(646,796)
Cash dividends paid		(7,633)		(7,609)		(7,595)		(73,738)
Other, net		—		—		2,832		27,495
Net cash used in financing activities		(16,408)		(25,437)		(121,249)		(1,177,175)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		1,557		(2,715)		(4,718)		(45,805)
Net Increase (Decrease) in Cash and Cash Equivalents		30,970		(10,679)		(18,817)		(182,689)
Cash and Cash Equivalents at Beginning of Year		110,364		141,334		130,655		1,268,495
Cash and Cash Equivalents at End of Year	¥	141,334	¥	130,655	¥	111,838	\$	1,085,806
Supplemental Disclosures of Cash Flow Information:								
Cash Paid during the Year for—								
Interest	¥	26,473	¥	17,970	¥	17,305	\$	168,010
Income taxes		50,631		34,618		26,546		257,728

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Ricoh Company, Ltd. and Consolidated Subsidiaries

1. NATURE OF OPERATIONS

Ricoh Company, Ltd. (the "Company"), was established in 1936, and is headquartered in Tokyo, Japan. The Company and significant subsidiaries ("Ricoh" as a consolidated group) is a worldwide supplier of office automation equipment, including copiers, facsimile machines, data processing systems, printers and related supplies. Ricoh is also well known for its state-of-the-art electronic devices, photographic equipment and others.

Ricoh distributes its products primarily through domestic (Japanese) and foreign sales subsidiaries. Overseas, Ricoh owns and distributes not only Ricoh brand products but also other brands, such as Gestetner and Savin.

Ricoh manufactures its products primarily in 15 plants in Japan and eight plants overseas, which are located in the United States, United Kingdom, France, and China.

2. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries have been prepared in conformity with accounting principles generally accepted in the United States of America, modified for the accounting for stock splits (see 2 (m) below). Significant accounting and reporting policies are summarized below:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Ricoh. Investments in generally 20% to 50% owned companies are accounted for on the equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Translation of Foreign Currency Accounts

Under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation," assets and liabilities are translated at the exchange rates in effect at each fiscal year-end, and income and expenses are translated at the average rates of exchange prevailing during each fiscal year. The resulting translation adjustments are accumulated as part of other comprehensive income (loss) included in shareholders' investment.

(c) Derivatives

Ricoh enters into foreign currency contracts and interest rate swap agreements to manage risk exposure. Gains and losses on hedges of existing assets or liabilities are included in the carrying amounts of those assets or liabilities and are ultimately recognized in income as part of those carrying amounts. Gains and losses related to qualifying hedges of firm commitments and anticipated transactions are deferred and recognized in income, or as adjustments of carrying amounts, when the hedged transaction occurs.

(d) Securities

Ricoh conforms with SFAS No.115, "Accounting for Certain Investments in Debt and Equity Securities," which requires certain investments in debt and equity securities to be classified as either held-to-maturity, trading, or available-for-sale securities. As of March 31, 1999 and 2000, a substantial part of Ricoh's investments in debt and equity securities is classified to available-for-sale securities. Those classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related taxes, excluded from earnings and reported in accumulated other comprehensive income (loss).

The cost of the securities sold was computed based on the average cost of each security held at the time of sale.

(e) Inventories

Inventories are stated at the lower of average cost or market. Inventory costs include raw materials, labor and manufacturing overheads.

(f) Plant and Equipment

Depreciation of plant and equipment is computed principally by using the declining-balance method over the estimated useful lives. Most of the foreign subsidiaries have adopted the straight-line method for computing depreciation, which currently accounts for approximately 26% of the consolidated depreciation expense.

Effective rates of depreciation for the three years ended March 31, 2000 are summarized below:

	1998	1999	2000
Buildings	7.9%	8.0%	7.9%
Machinery and equipment	36.8	38.3	37.6

Certain leased buildings, machinery and equipment are accounted for as capital leases in conformity with SFAS No. 13, "Accounting for Leases." The aggregate cost included in plant and equipment and related accumulated depreciation as of March 31, 1999 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Aggregate cost	¥ 6,958	¥ 6,648	\$ 64,544
Accumulated depreciation	3,083	3,388	32,893

The related future minimum lease payments and the present value of the net minimum lease payments as of March 31, 2000 were ¥4,355 million (\$42,282 thousand) and ¥3,900 million (\$37,864 thousand), respectively.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the property and related accumulated depreciation accounts are relieved of the applicable amounts, and any differences are included in other income or expenses.

(g) Goodwill

Ricoh has classified as goodwill the cost in excess of fair value of the net assets of major companies acquired in purchase transactions. Goodwill is being amortized on a straight-line method over the estimated periods benefited, not to exceed 20 years.

(h) Pension and Retirement Allowances Plans

Ricoh conforms with SFAS No. 87, "Employers' Accounting for Pensions" in accounting for pension and retirement allowances plans.

In the year ended March 31, 1999, Ricoh adopted SFAS No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits," which revised SFAS No. 87 for disclosures about pension and retirement allowance plans.

(i) Income Taxes

Ricoh conforms with SFAS No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for financial accounting and reporting for income taxes.

Income taxes are currently provided for undistributed earnings of foreign subsidiaries and affiliates, except for those deemed to be permanent investments.

(j) Advertising

The costs of advertising are expensed as incurred.

(k) Impairment Loss on Long-Lived Assets

Ricoh conforms with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," in accounting for impairment loss on long-lived assets and certain identifiable intangibles. In performing the review for recoverability of long-lived assets and certain identifiable intangibles, Ricoh estimates the future cash flows expected to result from the use of the asset and its eventual disposition. An impairment loss is recognized if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset. For purposes of such comparison, portions of unallocated excess of cost over net assets acquired were attributed to related long-lived assets and identifiable intangible assets, based upon the relative fair values of such assets at acquisition. Measurement of an impairment loss for long-lived assets and identifiable intangibles is based on the fair value of the asset.

(l) Earnings Per Share

Ricoh conforms with SFAS No. 128, "Earnings Per Share," which establishes standards for computing and presenting earnings per share (EPS) and requires a dual presentation of basic and diluted EPS.

(m) Accounting for Stock Splits

The stock splits of common stock made at various times have been accounted for by transferring an amount equivalent to the par value of such stocks from additional paid-in capital to common stock in the case of capitalization by resolution of the Board of Directors. However, no accounting recognition is made for stock splits when common stock already includes a portion of the proceeds from shares issued at a price in excess of par value (see Note 11).

In the United States, distributions of shares in comparable circumstances are required to be accounted for by transferring from retained earnings amounts equal to the fair market value of the shares issued, and by increasing additional paid-in capital by the excess of the market value over par value of the shares issued.

(n) Consolidated Statements of Cash Flows

Cash and cash equivalents include highly liquid investments with a maturity of three months or less at the date of purchase.

The following noncash transactions have been excluded from the consolidated statements of cash flows:

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Conversion of convertible bonds	¥ 41,348	¥ 58	¥ 4,676	\$ 45,398
Capital lease obligations incurred	1,760	1,446	1,426	13,845
Transfer of securities to pension fund	—	—	20,760	201,553
Assets and liabilities of Ricoh Elemex Corporation				
Fair value of assets acquired	—	55,633	—	—
Liabilities assumed	—	32,826	—	—

(o) Use of Estimates

Management of the Company has made a number of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities, to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(p) Comprehensive Income

In the year ended March 31, 1999, Ricoh adopted SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components. The disclosures required by SFAS No. 130 are presented in the consolidated statements of shareholders' investment and in Note 12.

(q) Segment Information

In the year ended March 31, 2000, Ricoh adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which establishes standards for the reporting of information about operating segments in the financial statements. Prior years' information was restated as required in SFAS No. 131. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by Ricoh's management in deciding how to allocate resources and in assessing performance. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect results of operations or financial position but did affect the disclosure of segment information, as presented in Note 17.

(r) New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments. It requires an entity to recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value. Adjustments in the fair value will impact shareholders' investment through either net income or other comprehensive income, depending on whether the derivative instruments qualify as hedges and, if so, the nature of the hedging activity. SFAS No. 133, as amended, is effective for fiscal years beginning after June 15, 2000. Ricoh has not determined the effect on the consolidated financial statements.

3. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accounts of the Company and its domestic subsidiaries are maintained in yen. The accompanying consolidated financial statements as of March 31, 2000 and for the three years then ended have been presented in yen, and for the convenience of the reader the consolidated financial statements for fiscal 2000 have also been presented in U.S. dollars by arithmetically translating all yen amounts by using the exchange rate of ¥103 to US\$1 in effect at March 31, 2000.

The books of the Company and its domestic subsidiaries are maintained in conformity with Japanese accounting principles and accounting practices. Foreign subsidiaries maintain their books in conformity with those of the countries of their domicile.

The accompanying financial statements are presented on a consolidated basis and reflect certain adjustments, not recorded in the companies' books, to present them in conformity with accounting principles generally accepted in the United States of America, modified for the accounting for stock splits (see Note 2(m)). The principal adjustments relate to accounting for the bonds with detachable stock purchase warrants, translating bonds in foreign currencies at the current exchange rates, accounting for certain investments in debt and equity securities, accounting for the impairment of long-lived assets and for long-lived assets to be disposed of, adjusting accrued pension and severance costs and certain other accrued expenses, accounting for sales-type leases and providing for the income tax effect of such adjustments.

The Company's financial statements distributed to its shareholders in Japan and filed with the Ministry of Finance in Japan are prepared in conformity with Japanese accounting principles and accounting practices and are not consolidated. Such financial statements reported the following amounts for the three years ended March 31, 2000:

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Net sales	¥752,631	¥720,503	¥777,501	\$7,548,553
Net income	22,505	18,977	22,613	219,544

The amount of retained earnings legally available for distribution (and for the requisite appropriation to legal reserve) is that recorded in the Company's books and amounted to ¥197,224 million (\$1,914,796 thousand) as of March 31, 2000 (see Note 11).

Since 1978, the Company has translated its consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America for filing with the Ministry of Finance in Japan.

4. FINANCE RECEIVABLES

Finance receivables as of March 31, 1999 and 2000 are comprised of lease receivables and installment loans.

The Company's products are leased to customers primarily through Ricoh Leasing Company, Ltd., a major subsidiary. These leases are accounted for as sales-type leases in conformity with SFAS No.13. Revenues from sales-type leases are recognized at the inception of the lease.

Information pertaining to Ricoh's lease receivables as of March 31, 1999 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Minimum lease payments receivable	¥ 369,186	¥ 383,488	\$3,723,184
Unearned income	(39,454)	(41,477)	(402,689)
Allowance for doubtful receivables	(12,588)	(12,518)	(121,534)
Net lease receivables	¥ 317,144	¥ 329,493	\$3,198,961

As of March 31, 2000, the minimum lease payments receivable due in each of the next five years and thereafter are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥125,561	\$1,219,039
2002	101,314	983,631
2003	77,971	757,000
2004	52,142	506,233
2005	21,950	213,106
2006 and thereafter	4,550	44,175
Total	¥383,488	\$3,723,184

Installment loans, net of allowance for doubtful receivables, as of March 31, 1999 and 2000 are primarily comprised of housing loans and term loans aggregating ¥33,240 million and ¥43,368 million (\$421,049 thousand), respectively.

5. SECURITIES

Marketable securities and investment securities as of March 31, 1999 and 2000 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Marketable securities:			
Available-for-sale securities	¥98,246	¥128,768	\$1,250,175
Investment securities:			
Available-for-sale securities	¥39,799	¥ 26,164	\$ 254,019
Non-marketable equity securities	5,203	2,621	25,447
	¥45,002	¥ 28,785	\$ 279,466

The investment equity securities as of March 31, 1999 and 2000 primarily relate to less than 20% owned companies and are stated at cost.

The current and noncurrent security types of available-for-sale securities, and the respective cost, gross unrealized holding gains, gross unrealized holding losses and fair value as of March 31, 1999 and 2000 are as follows:

	Millions of yen							
	1999				2000			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:								
Equity securities	¥ 2,740	¥ 55	¥ 385	¥ 2,410	¥ 2,993	¥ 238	¥ 480	¥ 2,751
Japanese and foreign governmental bond securities	1,021	74	2	1,093	1,012	43	2	1,053
Corporate debt securities	26,825	236	—	27,061	33,640	602	10	34,232
Bank debt securities	2,837	—	38	2,799	158	—	5	153
Other	64,988	—	105	64,883	90,508	106	35	90,579
	¥ 98,411	¥ 365	¥ 530	¥ 98,246	¥128,311	¥ 989	¥ 532	¥128,768
Noncurrent:								
Equity securities	¥ 14,327	¥ 18,107	¥ 223	¥ 32,211	¥ 6,791	¥15,441	¥ 221	¥ 22,011
Corporate debt securities	7,927	—	355	7,572	4,147	—	34	4,113
Other	16	—	—	16	40	—	—	40
	¥ 22,270	¥ 18,107	¥ 578	¥ 39,799	¥ 10,978	¥15,441	¥ 255	¥26,164

	Thousands of U.S. dollars			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Equity securities	\$ 29,058	\$ 2,311	\$ 4,660	\$ 26,709
Japanese and foreign governmental bond securities	9,825	417	19	10,223
Corporate debt securities	326,602	5,845	97	332,350
Bank debt securities	1,534	—	49	1,485
Other	878,719	1,029	340	879,408
	\$1,245,738	\$ 9,602	\$ 5,165	\$1,250,175
Noncurrent:				
Equity securities	\$ 65,932	\$ 149,913	\$ 2,146	\$ 213,699
Corporate debt securities	40,262	—	330	39,932
Other	388	—	—	388
	\$ 106,582	\$ 149,913	\$ 2,476	\$ 254,019

Other current securities include money management funds of ¥25,633 million and ¥38,868 million (\$377,359 thousand) as of March 31, 1999 and 2000, respectively, and investment trusts consisting of investments in marketable debt and equity securities.

The contractual maturities of debt securities classified as available-for-sale as of March 31, 2000, regardless of their balance sheet classification, are as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair value	Cost	Fair value
Due within one year	¥101,242	¥101,828	\$ 982,932	\$ 988,621
Due after one year through five years	28,265	28,342	274,417	275,165
	¥129,507	¥130,170	\$1,257,349	\$ 1,263,786

Proceeds from the sales of available-for-sale securities were ¥49,240 million, ¥54,777 million and ¥24,534 million (\$238,194 thousand) for the years ended March 31, 1998, 1999 and 2000, respectively.

In March 2000, Ricoh contributed certain marketable equity securities, not including those of its subsidiaries and affiliated companies, to an employee retirement benefit trust fully administered and controlled by an independent bank trustee, with no cash proceeds thereon. The transfer of the available-for-sale securities has been accounted for as a sale in accordance with SFAS No. 125 and accordingly the recorded pension liability has been reduced by the fair market value amount of the transferred securities. The fair value of these securities at the time of contribution was ¥20,760 million (\$201,553 thousand). The net unrealized

gain of these available-for-sale securities amounting to ¥13,095 million (\$127,136 thousand) continues to be included in "Accumulated other comprehensive income (loss)" on the consolidated balance sheets and will only be reflected in realized gains in the statements of income upon the future sale of the transferred securities by the trustee.

The gross realized gains on sale of available-for-sale securities were ¥2,969 million, ¥1,589 million and ¥1,601 million (\$15,544 thousand) for the years ended March 31, 1998, 1999 and 2000, respectively.

There were no significant realized losses on sales of available-for-sale securities for the three years ended March 31, 2000.

6. INVESTMENTS IN AND ADVANCES TO AFFILIATES

The investments in and advances to affiliates primarily relate to 20% to 50% owned companies. Ricoh's proportionate share of assets, revenues and income before income taxes of each of these companies is less than 20% of the corresponding consolidated amounts. Included in these companies is COCA-COLA WEST JAPAN COMPANY, LIMITED, a 22.4% owned major affiliate. The common stock of this company is publicly traded. The carrying value of the investment in this company was equal to its underlying book value and amounted to ¥33,761 million (\$327,777 thousand) as of March 31, 2000. The quoted market value of this company was ¥44,207 million (\$429,194 thousand) as of March 31, 2000.

In May 1999, KITAKYUSHU COCA-COLA BOTTLING COMPANY, LIMITED made a special allotment offering of new securities to a third party. Also, it merged with SANYO COCA-COLA BOTTLING CO., LTD., as of July 1, 1999 and changed its entity's name to COCA-COLA WEST JAPAN COMPANY, LIMITED. As a result of these events, the Company's ownership interest in this company decreased to 22.4% while the underlying equity value was not adversely affected.

Ricoh Elemex Corporation, a 44.8% owned major affiliate of which common stock is publicly traded, became a consolidated subsidiary in fiscal 1999, as a result of it being merged with a consolidated subsidiary and purchase of certain ownership interest. In the accompanying consolidated financial statements, the investment in Ricoh Elemex Corporation through September 30, 1998, was accounted for on the equity basis, while the post-acquisition period for the six months ended March 31, 1999 was consolidated. The effect on the consolidated results of operations for the three years ended March 31, 1999, if Ricoh Elemex Corporation had been consolidated at the beginning of each year, was not significant.

The underlying book value of the other 20% to 50% owned companies is approximately the same as their carrying value.

Summarized unaudited financial information for all affiliates as of March 31, 1999 and 2000 and for the three years ended March 31, 2000 is as follows:

Financial Position

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Assets—			
Current assets	¥108,158	¥134,795	\$1,308,689
Other assets	71,751	108,514	1,053,534
	¥179,909	¥243,309	\$2,362,223
Liabilities and shareholders' investment—			
Current liabilities	¥ 34,045	¥ 38,619	\$ 374,942
Short-term borrowings and long-term indebtedness	7,530	7,670	74,466
Other liabilities	6,727	6,358	61,728
Shareholders' investment	131,607	190,662	1,851,087
	¥179,909	¥243,309	\$2,362,223

Operations

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Sales	¥288,816	¥240,422	¥229,825	\$2,231,311
Costs and expenses	275,058	228,547	217,316	2,109,864
Net income	¥ 13,758	¥ 11,875	¥ 12,509	\$ 121,447

The significant transactions of Ricoh with these affiliates for the three years ended March 31, 2000, and the related account balances at March 31, 1999 and 2000 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Transactions—				
Sales	¥38,335	¥32,057	¥23,231	\$225,544
Purchases	60,083	34,992	13,412	130,214
Dividend income	1,767	1,168	1,651	16,029

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Account balances—			
Receivables	¥10,861	¥4,406	\$42,777
Payables	2,171	3,030	29,417

As of March 31, 2000, consolidated retained earnings included undistributed earnings of 20% to 50% owned companies accounted for by the equity method in the amount of ¥32,134 million (\$311,981 thousand).

7. INCOME TAXES

Income before income taxes, minority interests and equity in earnings of affiliates and provision for income taxes for the three years ended March 31, 2000 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Income before income taxes, minority interests and equity in earnings of affiliates—				
Domestic	¥ 58,144	¥35,873	¥49,135	\$477,039
Foreign	10,284	17,181	21,258	206,388
	¥ 68,428	¥53,054	¥70,393	\$683,427
Provision for income taxes—				
Current:				
Domestic	¥ 34,533	¥20,389	¥38,105	\$369,952
Foreign	7,575	7,663	8,311	80,689
	42,108	28,052	46,416	450,641
Deferred:				
Domestic	(2,153)	(4,297)	(19,110)	(185,534)
Foreign	255	800	1,057	10,262
	(1,898)	(3,497)	(18,053)	(175,272)
Consolidated provision for income taxes	¥ 40,210	¥24,555	¥28,363	\$275,369

Total income taxes are allocated as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Provision for income taxes	¥ 40,210	¥24,555	¥28,363	\$275,369
Shareholders' investment:				
Net unrealized holding gains (losses) on available-for-sale securities	(7,794)	(3,442)	2,072	20,117
Pension liability adjustment	(3,971)	(4,052)	15,572	151,184
Translation adjustments	(242)	(3,467)	(3,723)	(36,146)
	¥ 28,203	¥13,594	¥42,284	\$410,524

Reconciliations of the normal tax rates in Japan with the effective tax rates for the three years ended March 31, 2000, are as follows:

	1998	1999	2000
Normal tax rate	51%	47%	42%
Permanently nondeductible expenses, net of nontaxable income	5	(2)	3
Decrease in the beginning-of-the-year balance of the valuation allowance for deferred tax assets	(3)	(10)	(2)
Nondeductible goodwill impairment loss	3	—	—
Effect of change in enacted tax rate	2	8	—
Other, net	1	3	(3)
Effective tax rate	59%	46%	40%

Permanently nondeductible expenses include directors' bonuses and entertainment expenses. Permanently nontaxable income includes dividends received and exported technology fees.

The tax effects of temporary differences giving rise to the consolidated deferred income tax assets and liabilities at March 31, 1999 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Assets:			
Intercompany profits and inventory write-downs	¥ 17,969	¥ 21,571	\$ 209,427
Accrued expenses	5,626	11,197	108,709
Depreciation	6,500	5,399	52,417
Accrued pension and severance costs	23,888	14,585	141,602
Net operating losses carryforward	10,130	6,919	67,175
Translation adjustment	1,597	5,320	51,650
Other	7,701	17,283	167,796
	73,411	82,274	798,776
Less—Valuation allowance	(8,271)	(8,157)	(79,194)
	¥ 65,140	¥ 74,117	\$ 719,582
Liabilities:			
Sales-type leases	¥ (10,511)	¥ (8,029)	\$ (77,952)
Undistributed earnings of foreign subsidiaries and affiliates	(6,023)	(7,652)	(74,291)
Net unrealized holding gains on available-for-sale securities	(7,511)	(9,583)	(93,039)
Other	(2,129)	(1,928)	(18,718)
	¥ (26,174)	¥ (27,192)	\$ (264,000)
Net deferred tax assets	¥ 38,966	¥ 46,925	\$ 455,582

Net deferred tax assets as of March 31, 1999 and 2000 are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Deferred income taxes (Current Assets)	¥ 30,347	¥ 37,658	\$ 365,612
Lease deposits and other	24,954	26,951	261,660
Accrued expenses and other	(1,504)	(221)	(2,146)
Deferred income taxes (Long-Term Liabilities)	(14,831)	(17,463)	(169,544)
	¥ 38,966	¥ 46,925	\$ 455,582

The net changes in the total valuation allowance for the three years ended March 31, 2000 were decreases of ¥2,297 million, ¥5,486 million and ¥114 million (\$1,107 thousand), respectively.

The valuation allowance was established to reduce the deferred tax assets to the amount that is expected to be realized. The valuation allowance principally relates to the tax effects of net operating losses recorded by certain subsidiaries.

At March 31, 2000, certain subsidiaries had net operating losses carried forward for income tax purposes of approximately ¥20,716 million (\$201,126 thousand) which were available to reduce future income taxes, if any. Approximately ¥12,036 million (\$116,854 thousand) of the operating losses expire within a five-year period while the remainder principally have an indefinite carryforward period.

8. SHORT-TERM BORROWINGS AND TRADE NOTES RECEIVABLE DISCOUNTED WITH BANKS

Short-term borrowings as of March 31, 1999 and 2000 consist of the following:

	Weighted average interest rate		Millions of yen		Thousands of U.S. dollars
	1999	2000	1999	2000	2000
Borrowings, principally from banks	2.5%	2.1%	¥ 178,072	¥ 118,081	\$ 1,146,417
Commercial paper	0.7	0.1	36,218	32,000	310,680
			¥ 214,290	¥ 150,081	\$ 1,457,097

The Company and certain of its subsidiaries regularly discount trade notes receivable on a full recourse basis with banks. These trade notes receivable discounted are contingent liabilities. The weighted average interest rates on these trade notes receivable discounted were 1.5% as of March 31, 1999 and 4.3% as of March 31, 2000, respectively.

As is the customary practice in Japan, certain subsidiaries have substantial time deposits with banks from which they have short-term borrowings, trade

notes receivable discounted and/or long-term loans; however, there are no formal compensating balance agreements with any banks. The weighted average interest rate on these time deposits was 0.1% as of March 31, 2000.

The Company and certain of its subsidiaries had unused lines of credit amounting to ¥314,348 million (\$3,051,922 thousand) of which ¥209,483 million (\$2,033,816 thousand) related to commercial paper and medium-term notes programs at prevailing interest rates.

9. LONG-TERM INDEBTEDNESS

Long-term indebtedness as of March 31, 1999 and 2000 consists of the following:

	Conversion price	Millions of yen		Thousands of U.S. dollars
	(Per share)	1999	2000	2000
Convertible bonds—				
1.8%, payable in yen, due March 2002	¥ 824.70	¥ 1,485	¥ 1,417	\$ 13,757
1.5%, payable in yen, due March 2002	993.00	33,421	33,287	323,175
0.35%, payable in yen, due March 2003	1,210.00	30,214	29,891	290,204
0.4%, payable in yen, due September 2002 issued by a consolidated subsidiary	2,296.00	10,000	6,208	60,272
0.375%, payable in yen, due March 2001 issued by a consolidated subsidiary	1,100.00	4,920	2,990	29,029
Total convertible bonds		80,040	73,793	716,437
Bonds—				
2.075%, straight bonds, payable in yen, due April 2005		40,000	40,000	388,350
2.9%, straight bonds, payable in yen, due August 2001		10,000	10,000	97,087
1.17%, straight bonds, payable in yen, due June 2004		—	10,000	97,087
0.9%, straight bonds, payable in yen, due June 2003		—	5,000	48,544
2.1%, straight bonds, payable in yen, due October 2009		—	10,000	97,087
1.1%, straight bonds, payable in yen, due February 2004		—	10,000	97,087
7.0%, straight bonds, payable in yen, due January 2000		50,072	—	—
3.75%, straight bonds, payable in yen, due October 1999		15,000	—	—
Medium term notes, 0.05%–6.33%, due through 2008		19,827	12,179	118,243
Total bonds		134,899	97,179	943,485
Unsecured loans—				
Banks and insurance companies, 0.31%–8.50%, due through 2012		209,878	179,498	1,742,699
Secured loans—				
Banks, insurance companies, and other financial institution, 0%–18.36%, due through 2020		10,106	10,673	103,621
Capital lease obligations (see Note 2 (f))		4,083	3,900	37,864
Total		439,006	365,043	3,544,106
Less—Current maturities included in current liabilities		(94,426)	(57,081)	(554,184)
		¥ 344,580	¥ 307,962	\$ 2,989,922

Secured loans are collateralized by land, buildings and lease receivables with a book value of ¥11,558 million (\$112,214 thousand) as of March 31, 2000.

The convertible bonds are convertible into common stock at the option of the holders, currently at applicable conversion prices per share as listed in the above table. These conversion prices are subject to adjustment in certain events including subsequent stock splits and shares subsequently issued at less than market value.

The convertible bonds and some straight bonds outstanding as of March 31, 2000 are redeemable at the option of the Company at prices ranging from 102% to 100% of the principal amount under certain conditions as provided in the applicable agreements.

Convertible bonds and the other bonds are subject to certain covenants such as restrictions on dividends, earnings and certain additional secured indebtedness, as defined in the agreements. The Company presently estimates that none of such covenants would be applicable to the outstanding bonds.

If all convertible bonds of the Company were converted as of March 31, 2000, 59,943 thousand shares of common stock would be issuable.

Certain loan agreements provide, among other things, that the lender may request the Company to submit proposals for appropriations of earnings (including payment of dividends) to the lender for its review and approval prior to presentation to the shareholders. The Company has never been requested to submit such proposals for approval. In addition, as is customary in Japan, substantially all of the bank borrowings are subject to general agreements with each bank which provide, among other things, that the banks may request additional security for these loans if there is reasonable and probable cause and may treat any security furnished to the banks as well as cash deposited as security for all present and future indebtedness. The Company has never been requested to submit such additional security.

In March and September 1995 and March 1999, the Company entered into agreements with the banks under which it assigned to the banks outstanding obligations to make payment of principal and the 7% interest on straight bonds aggregating to ¥50,000 million and made cash deposits (earning interest of 1.5%) with the banks to fulfill such obligations. These transactions do not conform with the requirements of SFAS No. 76 "Extinguishment of Debt" and SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities"; therefore, the applicable obligations and cash deposits (time deposits) are reflected in the accompanying balance sheets. The cash deposits are presented as cash deposits for assignment of debt securities as of March 31, 1999. In the year ended March 31, 2000, the bonds were redeemed and the cash deposits were assigned to repay the bonds. Therefore, no cash deposits are recorded in the balance sheets as of March 31, 2000.

The aggregate annual maturities of long-term indebtedness subsequent to March 31, 2001 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 122,477	\$ 1,189,097
2003	50,116	486,563
2004	40,882	396,912
2005	28,240	274,175
2006 and thereafter	66,247	643,175
Total	¥ 307,962	\$ 2,989,922

10. PENSION AND RETIREMENT ALLOWANCES PLANS

The Company and certain of its subsidiaries have various trustee contributory and noncontributory employees pension fund ("EPF") plans covering substantially all of their employees. Under the plans, employees are entitled to lump-sum payments at the time of termination or retirement, or to pension payments. Under the terms of the domestic EPF plan, the Government welfare pension insurance benefit is substituted and commingled with the primary benefit provided by the plan.

The amounts of lump-sum or pension payments under the plans are generally determined on the basis of length of service and remuneration at the time of termination.

It is the Company's policy to fund amounts required to maintain sufficient plan assets to provide for accrued benefits based on a certain percentage of wage and salary costs. The plan assets consist principally of interest-bearing bonds and listed equity securities.

The changes in the benefit obligation and plan assets of the defined benefit plans for the two years ended March 31, 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Change in benefit obligation:			
Benefit obligation at beginning of year	¥ 331,484	¥ 364,814	\$3,541,883
Service cost	17,141	16,872	163,806
Interest cost	13,365	13,282	128,951
Plan participants' contribution	1,522	1,496	14,524
Actuarial losses (gains)	13,775	(12,464)	(121,010)
Benefits paid	(8,819)	(11,526)	(111,903)
Foreign exchange impact	(3,654)	(4,448)	(43,183)
Benefit obligation at end of year	¥ 364,814	¥ 368,026	\$3,573,068
Change in plan assets:			
Fair value of plan assets at beginning of year	¥ 212,635	¥ 227,909	\$2,212,709
Actual return on plan assets	10,639	37,147	360,650
Employer contribution	13,874	34,030	330,388
Plan participants' contribution	1,522	1,496	14,524
Benefits paid	(7,100)	(10,078)	(97,845)
Foreign exchange impact	(3,661)	(4,674)	(45,378)
Fair value of plan assets at end of year	¥ 227,909	¥ 285,830	\$2,775,048
Funded status	¥ (136,905)	¥ (82,196)	\$ (798,020)
Unrecognized actuarial loss	96,597	52,495	509,660
Unrecognized net asset at transition, net of amortization	(4,256)	(3,783)	(36,727)
Net amount recognized	¥ (44,564)	¥ (33,484)	\$ (325,087)
Amounts recognized in the balance sheets consist of:			
Prepaid benefit cost	¥ 2,558	¥ 1,742	\$ 16,913
Accrued benefit liability	(82,984)	(38,271)	(371,563)
Accumulated other comprehensive income, gross of tax	35,862	3,045	29,563
Net amount recognized	¥ (44,564)	¥ (33,484)	\$ (325,087)
	1999	2000	
Discount rate	3.5%–7.25%	3.0%–7.25%	
Rate of increase in compensation levels	3.7%–5.5%	3.7%–5.5%	
Expected long-term rate of return on plan assets	3.5%–9.0%	4.5%–9.0%	

The discount rate, rate of increase in compensation and expected long-term rate of return on plan assets of the domestic pension plans were 3.5%, 3.7% and 3.5%, respectively, for the year ended March 31, 1999 and 3.0%, 3.7% and 4.5%, respectively, for the year ended March 31, 2000. The other data shown above are those of foreign pension plans.

The net periodic benefit costs of the defined benefit plans for the three years ended March 31, 2000 consisted of the following components:

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Service costs	¥ 13,090	¥ 18,662	¥ 16,872	\$ 163,806
Interest costs	12,713	13,365	13,282	128,951
Expected return on plan assets	(8,341)	(10,306)	(8,611)	(83,602)
Net amortization	2,411	3,210	3,812	37,010
Net periodic benefit cost	¥ 19,873	¥ 24,931	¥ 25,355	\$ 246,165

The projected benefit obligations, accumulated benefit obligations, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were ¥281,012 million, ¥226,871 million and ¥182,280 million respectively, as of March 31, 1999 and ¥23,178 million (\$225,029 thousand), ¥18,566 million (\$180,252 thousand) and ¥8,253 million (\$80,126 thousand), respectively, as of March 31, 2000.

In accordance with the provisions of SFAS No. 87, the Company was required to record an adjustment for minimum pension liability at March 31, 1999 and 2000. This liability represents the excess of the accumulated benefit obligations over the fair value of plan assets. This excess is primarily attributable to a substantial reduction in the discount rate used in pension calculation and represents a net loss not yet recognized as net periodic pension cost. Since there is no unrecognized prior service cost, this excess is reported in an accumulated other com-

prehensive income (loss), at net of tax benefits. The net changes in pension liability adjustment were an increase of ¥4,509 million for the year ended March 31, 1999 and a decrease of ¥17,245 million (\$167,427 thousand) for the year ended March 31, 2000, respectively.

As discussed in Note 5, Ricoh contributed certain marketable equity securities to an employee retirement benefit trust. The securities held in this trust are qualified as plan assets under SFAS No. 87.

Employees of certain subsidiaries not covered by the EPF plan and directors of Ricoh are primarily covered by unfunded retirement allowances plans. The payments to directors are subject to shareholders' approval.

The tables presented in the preceding paragraph were restated to reflect the funded status of those retirement benefit plans for employees of certain subsidiaries.

11. SHAREHOLDERS' INVESTMENT

The Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings with respect to each fiscal or interim six-month period be appropriated as a legal reserve until such reserve equals 25% of the stated capital. This reserve and additional paid-in capital are not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

Semiannual cash dividends are approved by the shareholders after the end of each fiscal period or are declared by the Board of Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of each such fiscal or interim six-month period. At the general meeting held on June 29, 2000, the shareholders approved the declaration of a cash

dividend on the common stock totaling ¥3,806 million (\$36,951 thousand), which will be paid to shareholders of record as of March 31, 2000, and the related appropriation of retained earnings totaling ¥397 million (\$3,854 thousand) by a transfer to the legal reserve. In accordance with the Japanese Commercial Code, the declaration of this dividend and the related transfer of retained earnings to the legal reserve have not been reflected in the consolidated financial statements as of March 31, 2000.

The Japanese Commercial Code provides that at least one-half of the proceeds from shares issued at a price in excess of par value be included in common stock. In conformity therewith, the Company has divided the principal amount of bonds converted into common stock equally between common stock and additional paid-in capital.

12. OTHER COMPREHENSIVE INCOME (LOSS)

Tax effects allocated to each component of other comprehensive income (loss) are as follows:

	Millions of yen		
	Before-tax amount	Tax expense	Net-of-tax amount
1998:			
Foreign currency translation adjustments	¥ (295)	¥ 242	¥ (53)
Unrealized gain on securities:			
Unrealized holding gains arising during the year	(10,790)	6,275	(4,515)
Less—Reclassification adjustment for gains realized in net income	(2,969)	1,519	(1,450)
Net unrealized gains	(13,759)	7,794	(5,965)
Minimum pension liability adjustment	(9,717)	3,971	(5,746)
Other comprehensive income (loss)	¥ (23,771)	¥ 12,007	¥ (11,764)
1999:			
Foreign currency translation adjustments	¥ (5,684)	¥ 3,467	¥ (2,217)
Unrealized gain on securities:			
Unrealized holding gains arising during the year	(5,777)	2,688	(3,089)
Less—Reclassification adjustment for gains realized in net income	(1,589)	754	(835)
Net unrealized gains	(7,366)	3,442	(3,924)
Minimum pension liability adjustment	(8,561)	4,052	(4,509)
Other comprehensive income (loss)	¥ (21,611)	¥ 10,961	¥ (10,650)
2000:			
Foreign currency translation adjustments	¥ (11,117)	¥ 3,723	¥ (7,394)
Unrealized gain on securities:			
Unrealized holding gains arising during the year	13,028	(2,742)	10,286
Less—Reclassification adjustment for gains realized in net income	(1,601)	670	(931)
Net unrealized gains	11,427	(2,072)	9,355
Minimum pension liability adjustment	32,817	(15,572)	17,245
Other comprehensive income (loss)	¥ 33,127	¥ (13,921)	¥ 19,206
2000:			
	Thousands of U.S. dollars		
Foreign currency translation adjustments	\$ (107,932)	\$ 36,146	\$ (71,786)
Unrealized gain on securities:			
Unrealized holding gains arising during the year	126,485	(26,621)	99,864
Less—Reclassification adjustment for gains realized in net income	(15,544)	6,505	(9,039)
Net unrealized gains	110,941	(20,116)	90,825
Minimum pension liability adjustment	318,612	(151,185)	167,427
Other comprehensive income (loss)	\$ 321,621	\$ (135,155)	\$ 186,466

Changes in accumulated other comprehensive income (loss) are as follows:

	Millions of yen				Accumulated other comprehensive income (loss)
	Foreign currency translation adjustments	Unrealized gains on securities	Minimum pension liability adjustment		
1998:					
Beginning balance	¥ (10,137)	¥ 18,833	¥ (8,590)	¥	106
Change during the year	(53)	(5,965)	(5,746)		(11,764)
Ending balance	¥ (10,190)	¥ 12,868	¥ (14,336)	¥	(11,658)
1999:					
Beginning balance	¥ (10,190)	¥ 12,868	¥ (14,336)	¥	(11,658)
Change during the year	(2,217)	(3,924)	(4,509)		(10,650)
Ending balance	¥ (12,407)	¥ 8,944	¥ (18,845)	¥	(22,308)
2000:					
Beginning balance	¥ (12,407)	¥ 8,944	¥ (18,845)	¥	(22,308)
Change during the year	(7,394)	9,355	17,245		19,206
Ending balance	¥ (19,801)	¥ 18,299	¥ (1,600)	¥	(3,102)
Thousands of U.S. dollars					
2000:					
Beginning balance	\$ (120,457)	\$ 86,835	\$ (182,961)	\$	(216,583)
Change during the year	(71,786)	90,825	167,427		186,466
Ending balance	\$ (192,243)	\$ 177,660	\$ (15,534)	\$	(30,117)

13. PER SHARE DATA

Dividends per share shown in the consolidated statements of income have been presented on an accrual basis and include, in each fiscal year ended March 31, dividends approved or to be approved after such March 31, but applicable to the year then ended.

The following table sets forth the computation of basic and diluted earnings per share showing the reconciliation of the numerators and denominators used for the computation.

	Thousands of shares		
	1998	1999	2000
Average common shares outstanding	669,959	691,592	691,745
Effect of dilutive securities:			
Convertible bonds—			
1.8%, payable in yen, due March 2002	1,921	1,802	1,743
1.5%, payable in yen, due March 2002	34,662	33,658	33,604
0.35%, payable in yen, due March 2003	27,810	24,974	24,934
Diluted common shares outstanding	734,352	752,026	752,026

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Net income applicable to common shareholders	¥ 30,131	¥ 30,655	¥ 41,928	\$ 407,068
Effect of dilutive securities:				
Convertible bonds—				
1.8%, payable in yen, due March 2002	14	15	15	146
1.5%, payable in yen, due March 2002	258	272	300	2,913
0.35%, payable in yen, due March 2003	109	110	120	1,165
Other	(145)	(266)	(204)	(1,981)
Diluted net income	¥ 30,367	¥ 30,786	¥ 42,159	\$ 409,311

	Yen			U.S. dollars
	1998	1999	2000	2000
Earnings per share:				
Basic	¥ 44.97	¥ 44.33	¥ 60.61	\$ 0.59
Diluted	41.35	40.94	56.06	0.54

14. DERIVATIVE FINANCIAL INSTRUMENTS

The Company and certain of its subsidiaries enter into various financial instrument contracts in the normal course of business and in connection with the management of their assets and liabilities.

The Company and certain of its subsidiaries enter into foreign currency contracts to hedge assets and liabilities denominated in foreign currencies. The contracted amounts outstanding as of March 31, 1999 and 2000 were ¥105,022 million and ¥91,627 million (\$889,583 thousand), respectively. Gains or losses on those contracts used to hedge existing assets and liabilities are recognized in income currently.

In connection with short-term borrowings and long-term indebtedness, the Company and certain of its subsidiaries have used interest rate swap agreements as a means of managing their interest exposure; at March 31, 1999 and 2000,

they had ¥351,893 million and ¥378,010 million (\$3,670,000 thousand) of contractual amounts under interest rate swap agreements. Interest rate swap transactions generally involve the exchange of floating rate for fixed rate interest payment obligations without an exchange of underlying principal amounts. The differentials to be paid or received under the interest rate swap agreements are accrued.

The counterparties to the above financial instrument contracts are major financial institutions and, therefore, the Company and certain of its subsidiaries are exposed to credit risk in the event of nonperformance by counterparties. However, the Company does not anticipate nonperformance by them.

15. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2000, Ricoh had outstanding contractual commitments for acquisition or construction of plant, equipment and other assets aggregating ¥12,174 million (\$118,194 thousand).

Ricoh is contingently liable for discounted trade notes receivable on a full recourse basis with banks of ¥251 million (\$2,437 thousand) as of March 31, 2000. As of March 31, 2000, Ricoh is also contingently liable as guarantor for employees' housing loans of ¥1,241 million (\$12,049 thousand).

Ricoh made rental payments totaling ¥37,160 million in fiscal 1998, ¥46,307

million in fiscal 1999, and ¥43,797 million (\$425,214 thousand) in fiscal 2000, under operating lease agreements for office space and machinery and equipment, which are primarily cancelable and renewable.

At March 31, 2000, the Company and certain of its subsidiaries were parties to litigation involving routine matters, such as patent rights. In the opinion of management, the ultimate liability, if any, resulting from such litigation will not materially affect the consolidated financial position or the results of operations of Ricoh.

16. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Cash and cash equivalents, Time deposits, Trade receivables, Short-term borrowings, Current maturities of long-term indebtedness, Trade payables and Accrued expenses

The carrying amounts approximate fair values because of the short maturities of these instruments.

(b) Marketable securities and Investment securities

The fair value of the marketable securities and investment securities is principally based on quoted market price.

(c) Cash deposits for assignment of debt securities

The fair value of the long-term cash deposits is based on the present value of future cash flows using estimated interest rates and maturities, discounted using estimated market discount rates (see Note 9).

(d) Long-term indebtedness

The fair value of each of the long-term indebtedness instruments is based on the quoted price in the most active market or the present value of future cash flows associated with each instrument discounted using the current borrowing rate for similar instruments of comparable maturity.

(e) Interest rate swap agreements

The fair value of interest rate swap agreements is estimated by obtaining quotes from brokers.

(f) Foreign currency contracts

The fair value of foreign currency contracts (used for hedging purposes) is estimated by obtaining quotes from brokers.

The estimated fair value of the financial instruments as of March 31, 1999 and 2000 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	1999		2000		2000	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Marketable securities and Investment securities	¥ 143,248	¥ 143,248	¥ 157,553	¥ 157,553	\$ 1,529,641	\$ 1,529,641
Cash deposits for assignment of debt securities	52,210	52,763	—	—	—	—
Long-term indebtedness	(344,580)	(363,377)	(307,962)	(379,727)	(2,989,922)	(3,686,670)
Interest rate swap agreements, net	12	2,018	(47)	2,685	(456)	26,068
Foreign currency contracts—net credit	(1,462)	(2,276)	2,314	2,102	22,466	20,408

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment

and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

17. SEGMENT INFORMATION

The operating segments presented below are the segments of Ricoh for which separate financial information is available and for which income (or loss) before income taxes is evaluated regularly by Ricoh's management in deciding how to allocate resources and in assessing performance. The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies, as discussed in Note 1.

Ricoh's operating segments are comprised of office equipment, including copiers and related supplies, communications and information systems, and others, including optical equipment and electronic devices.

The following tables present certain information regarding Ricoh's operating segments and operations by geographic areas as of March 31, 1998, 1999 and 2000 and for the periods then ended.

(a) Operating Segment Information

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Sales—				
Office equipment	¥ 1,226,670	¥ 1,250,938	¥ 1,253,070	\$ 12,165,728
Other	180,756	179,084	197,490	1,917,379
Intersegment transaction	(4,078)	(4,023)	(3,403)	(33,039)
Consolidated	¥ 1,403,348	¥ 1,425,999	¥ 1,447,157	\$ 14,050,068
Operating expenses—				
Office equipment	¥ 1,096,894	¥ 1,139,690	¥ 1,124,675	\$ 10,919,175
Other	179,343	175,239	191,447	1,858,709
Intersegment transaction	(3,924)	(4,049)	(3,410)	(33,107)
Unallocated expense	41,328	41,572	45,524	441,980
Consolidated	¥ 1,313,641	¥ 1,352,452	¥ 1,358,236	\$ 13,186,757
Operating income—				
Office equipment	¥ 129,776	¥ 111,248	¥ 128,395	\$ 1,246,553
Other	1,413	3,845	6,043	58,670
Elimination	(41,482)	(41,546)	(45,517)	(441,912)
Consolidated	¥ 89,707	¥ 73,547	¥ 88,921	\$ 863,311
Other expenses	¥ (21,279)	¥ (20,493)	¥ (18,528)	\$ (179,884)
Income before minority interests and equity in earnings of affiliates	¥ 68,428	¥ 53,054	¥ 70,393	\$ 683,427

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Total assets—				
Office equipment	¥ 1,065,918	¥ 1,050,067	¥ 965,316	\$ 9,372,000
Other	181,375	161,246	161,017	1,563,272
Elimination	(10,487)	(7,690)	(7,509)	(72,903)
Corporate assets	423,690	424,394	424,496	4,121,321
Consolidated	¥ 1,660,496	¥ 1,628,017	¥ 1,543,320	\$ 14,983,690
Expenditure for segment assets—				
Office equipment	¥ 83,844	¥ 61,626	¥ 51,817	\$ 503,078
Other	8,564	7,370	5,561	53,990
Corporate assets	1,709	1,473	978	9,495
Consolidated	¥ 94,117	¥ 70,469	¥ 58,356	\$ 566,563
Depreciation—				
Office equipment	¥ 51,218	¥ 57,033	¥ 54,046	\$ 524,718
Other	9,103	8,887	6,838	66,388
Corporate assets	1,650	1,536	1,062	10,311
Consolidated	¥ 61,971	¥ 67,456	¥ 61,946	\$ 601,417

(b) Geographic Information

Sales which are attributed to countries based on location of customers and long-lived assets for the years ended March 31, 1998, 1999 and 2000 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Sales—				
Japan	¥ 831,339	¥ 820,975	¥ 873,170	\$ 8,477,379
The Americas	230,342	239,623	231,181	2,244,476
Europe	252,042	283,373	258,515	2,509,854
Other	89,625	82,028	84,291	818,359
Consolidated	¥ 1,403,348	¥ 1,425,999	¥ 1,447,157	\$ 14,050,068
Long-lived assets—				
Japan	¥ 263,890	¥ 249,494	¥ 227,980	\$ 2,213,398
The Americas	38,544	33,658	27,490	266,893
Europe	20,436	25,962	22,459	218,049
Other	21,639	13,256	11,181	108,553
Consolidated	¥ 344,509	¥ 322,370	¥ 289,110	\$ 2,806,893

(c) Additional Information

The following information shows net sales and operating income recognized by geographic origin for the years ended March 31, 1998, 1999 and 2000. In addition to the disclosure requirements under SFAS No. 131, Ricoh discloses this infor-

mation as supplemental information in light of the disclosure requirements of the Japanese Securities and Exchange Law, which a Japanese public company is subject to.

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Sales—				
Japan				
External customers	¥ 846,018	¥ 830,731	¥ 885,998	\$ 8,601,922
Intersegment	246,961	240,352	259,792	2,522,253
Total	1,092,979	1,071,083	1,145,790	11,124,175
The Americas				
External customers	224,407	237,420	230,496	2,237,825
Intersegment	6,938	8,019	5,988	58,136
Total	231,345	245,439	236,484	2,295,961
Europe				
External customers	260,093	290,159	265,621	2,578,844
Intersegment	3,533	6,032	3,355	32,573
Total	263,626	296,191	268,976	2,611,417
Other				
External customers	72,830	67,689	65,042	631,476
Intersegment	48,090	39,218	36,026	349,767
Total	120,920	106,907	101,068	981,243
Elimination of intersegment sales	(305,522)	(293,621)	(305,161)	(2,962,728)
Consolidated	¥ 1,403,348	¥ 1,425,999	¥ 1,447,157	\$ 14,050,068
Operating expense—				
Japan	¥ 1,022,298	¥ 1,020,515	¥ 1,083,227	\$ 10,516,767
The Americas	220,302	233,292	226,210	2,196,213
Europe	255,140	283,816	255,698	2,482,505
Other	116,091	103,701	95,802	930,117
Elimination of intersegment sales	(300,190)	(288,872)	(302,701)	(2,938,845)
Consolidated	¥ 1,313,641	¥ 1,352,452	¥ 1,358,236	\$ 13,186,757
Operating profit—				
Japan	¥ 70,681	¥ 50,568	¥ 62,563	\$ 607,408
The Americas	11,043	12,147	10,274	99,748
Europe	8,486	12,375	13,278	128,912
Other	4,829	3,206	5,266	51,126
Elimination of intersegment profit	(5,332)	(4,749)	(2,460)	(23,883)
Consolidated	¥ 89,707	¥ 73,547	¥ 88,921	\$ 863,311
Other revenue (expense)	¥ (21,279)	¥ (20,493)	¥ (18,528)	\$ (179,884)
Income before income tax	¥ 68,428	¥ 53,054	¥ 70,393	\$ 683,427
Total assets—				
Japan	¥ 997,004	¥ 1,008,764	¥ 956,670	\$ 9,288,058
The Americas	127,719	111,768	93,191	904,767
Europe	147,419	138,697	120,587	1,170,748
Other	59,620	53,715	52,791	512,534
Elimination	(94,956)	(109,321)	(104,415)	(1,013,738)
Corporate assets	423,690	424,394	424,496	4,121,321
Consolidated	¥ 1,660,496	¥ 1,628,017	¥ 1,543,320	\$ 14,983,690

Corporate assets consist primarily of cash and cash equivalents and marketable securities maintained for general corporate purposes.

Intersegment sales between geographic areas are made at cost plus profit.

Operating income by geographic area is sales less expense related to the

area's operating revenue.

No single customer accounted for 10% or more of the total revenues for the periods ended March 31, 1998, 1999 and 2000.

18. RESEARCH AND DEVELOPMENT EXPENSES AND ADVERTISING COSTS

The following amounts were charged to costs and expenses for the three years ended March 31, 2000:

	Millions of yen			Thousands of
	1998	1999	2000	U.S. dollars
Research and development costs	¥ 69,988	¥ 66,777	¥ 66,524	\$ 645,864
Advertising costs	22,033	15,555	16,081	156,126

Report of Independent Public Accountants

To the Shareholders and the Board of Directors
of Ricoh Company, Ltd.:

We have audited the accompanying consolidated balance sheets of RICOH COMPANY, LTD. (a Japanese corporation) and consolidated subsidiaries as of March 31, 1999 and 2000, and the related consolidated statements of income, shareholders' investment and cash flows for each of the three years in the period ended March 31, 2000, expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ricoh Company, Ltd. and its consolidated subsidiaries as of March 31, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States of America (see Note 2).

In our opinion, the amounts translated into U.S. dollars and presented in the accompanying consolidated financial statements have been computed on the basis set forth in Note 3.

Arthur Andersen

Tokyo, Japan
June 29, 2000