Management Discussion and Analysis

Overview

Ricoh is engaged primarily in the development, manufacturing, sales and servicing of office automation equipment, such as PPCs/MFPs, laser printers, GELJET printers, production printing products and facsimile machines, as well as semiconductor devices, digital cameras and thermal media. Ricoh supports its office automation equipment business by offering customers various “solution” systems that work with personal computers and servers, network systems, application software and related product support and after-sales services to assist customers in fully utilizing the Ricoh products that they purchase. Ricoh’s product support services include assisting customers in setting up their information technology environment or network. Ricoh also offers various supplies and peripheral products to be used with its products and systems.

Ricoh distributes its products and competes in the following four geographic areas: (1) Japan, (2) the Americas, (3) Europe and (4) Other, which includes China, Southeast Asia and Oceania.

Because of the global nature of Ricoh’s operations, Ricoh’s results of operations and financial conditions are affected both by economic and political developments in Japan and the rest of the world, as well as by demand and competition in its lines of business. Furthermore, competition in the businesses Ricoh operates has increased significantly and is likely to continue increasing in the future. Significant trends in the office equipment market during the past several years consist of the movement towards digital networking systems from stand-alone models and the shift in customers’ demands toward color products from monochrome products. In addition, more recently, the needs of customers are changing such that customers are increasingly less willing to pay for hardware and software they must manage and optimize themselves. Rather, they seek solutions that enable them to pay only for what they actually use, which may change quickly based on changes in customers’ companies and the markets they serve. Based on Ricoh’s experience, customers also appear to be looking to outsource non-core business functions to third-party partners who are willing to invest, collaborate and work with them. In light of these recent trends, Ricoh is focusing on expanding its MDS business on a global basis.

In addition, in order to increase sales of its products, Ricoh has been expanding its sales infrastructure in the Imaging & Solutions segment during the last few fiscal years primarily through various acquisitions, including the acquisition of the European sales and service companies of Danka Business Systems PLC and the acquisition of the U.S.- based IKON and its subsidiaries, who supply and service a wide range of office equipment in the U.S., Canada and the Western European markets.

To further strengthen its printing and copying business, Ricoh and IBM formed a joint venture company, InfoPrint Solutions Company, to enter into the production printing business in fiscal year 2008, which joint venture company is now a wholly owned subsidiary of Ricoh. InfoPrint Solutions has contributed to expanding Ricoh’s production printing business, and Ricoh expects that this company will further strengthen its capabilities in output solutions, including large volume production printing products. Also, Ricoh entered into a global strategic cooperation alliance with Heidelberger Druckmaschinen AG, a Germany-based major printing company, to strengthen production printing business.

In the Industrial Products category, Ricoh has reinforced the development of new device and module businesses which are to be based on the cooperative planning, development/production and sale of, among others, semiconductors, electronic component and optical equipments.

Finally, in the projection system business which we newly entered as part of our mission to increase the value provided to our customers in the field of communications, including images and sounds, Ricoh launched the new projector. Ricoh offers the full spectrum of services from projector sales to solution proposals to meet customer demands.

Ricoh’s mid- and long-term management strategies contain followings;

In the Imaging and Solutions category, Ricoh will continue to release new products through ongoing reinforcement of product development that enhances compatibility with network and realizes high image quality and high environmental performance. Ricoh Group plans to utilize its strengths such as customer contact capabilities, excellent product line, ability to propose solutions, global business development abilities, and image processing technologies, to respond to increasingly diverse needs of more customers, and strengthen its business foundations.

Specifically, we will step up our efforts to provide customer value focusing on customers’ main concerns such as review of business process, assurance of information security, containment of the overall cost to introduce and operate office equipment, compliance, and reduction of environmental burden.

For example, we will provide solutions to customers’ business challenges along with enhancement of productivity, by offering services including the managed document services (MDS), which is outsourcing document management to enable the visualization and analysis of also the unseen aspects of operations to propose improvements, and the IT services which cover aspects including

support to customers for introduction and exploitation of IT, information security, provision of solutions to the problems such as those concerning business successions.
Production printing business has continued to strengthen. Ricoh provides optimum solutions for dealing with individual client requests including improvements of business process, along with enhanced product line.
Ricoh is upgrading color laser printers and GelSprinter line of color-inkjet printers to boost growth of its low-end business, and accelerating the production printing business, thus expanding its business areas in the printing market.
In the Industrial Products category, allocation of the resources is focused on businesses where large growth is expected. Ricoh will put efforts into strengthening cooperation between diverse technical fields and business areas in order to create new businesses.
Furthermore, for Imaging and Solutions category as well as Industrial Products category, Ricoh will be boosting its revenues in China and other emerging markets by marketing products that best fit the local market characteristics, in line with the expansion of the distribution network.
In order to increase and create customer value and boost our earning power across our various businesses, it is important to secure competitive superiority through technology. Ricoh will continue to actively undertake new initiatives designed to strengthen its technical abilities.

The Ricoh Group sets The RICOH Way, which is based on our founding principles and management philosophy, as basis of our business activity. In The RICOH Way, Ricoh Group aims “to be the most trusted brand with irresistible appeal in the global market” and has as its mission “committed to providing excellence to improve the quality of living” and “to save the precious earth and fulfill its responsibilities for creating sustainable society”.
To these ends, Ricoh is providing innovative products and services to all customers who handle information, based on RICOH Brand Benefits of “Harmonize with the environment”, “Simplify your life and work”, and “Support knowledge management”. Also, Ricoh aims to earn greater trust by continuing to contribute to the improvement of customers’ productivity and knowledge creation in aiming to continue growing.

Ricoh has established medium-term plan. Fiscal year 2011 was the third and last fiscal year of the 16th Mid Term Plan (“MTP”), which covered the period from fiscal year 2009 through fiscal year 2011. Under the 16th MTP, Ricoh’s objectives were to earn an even greater level of trust from its customers by placing greater emphasis on customer viewpoints and continuing to provide products and services which meet and exceed customer expectations. To achieve the objectives of the 16th MTP, Ricoh established the following five basic group management strategies: (1) become the market leader in each of the targeted business areas (such as the production printing business and the solutions business), (2) strengthen and accelerate its environmental management (which encompasses environment-related technological development, such as the development of products like color PxP toners, the management of resources and energy used in the entire lifecycles of Ricoh products, and the delivery to customers of Ricoh’s environmental philosophy and activities), (3) promote “Ricoh Quality” (which means to accelerate the innovation processes to achieve greater customer satisfaction), (4) create new business lines and (5) build a strong global RICOH brand.

During the 16th MTP, Ricoh made various efforts to achieve the plan's objectives. For example, Ricoh worked to achieve synergy with IKON, which it acquired in fiscal year 2009, in various ways, including making efforts to replace non-Ricoh products used by IKON customers with Ricoh products. In addition, Ricoh expanded in various countries its production printing business, its MDS business and its IT services business.
Ricoh also took steps to restructure its operations in accordance with the Corporate Restructuring Growth Project (“CRGP”) from October 2008, which is a group-wide project to reduce costs and restructure operations for future growth, implemented urgent cost reduction measures in fiscal year 2011 and started to shift resources to new growth areas.

The objective of the 17th MTP, which covers the period from April 2011 to March 2014, is to achieve growth and to restructure its organization simultaneously in order to develop new values that can be provided to customers. To achieve this objective, Ricoh has implemented the following two basic group management strategies: (1)“business creation and integration” and (2) “establish highly efficient management.”

By “business creation and integration,” Ricoh means that it will strive to strengthen its services business with the goal of increasing its market share not only in products but also in services. More specifically, Ricoh will focus on achieving five objectives under the “business creation and integration” strategy. First, Ricoh will work to maintain its top market share status in its core business (i.e., products that are used in the office environment), while streamlining its operations. Second, Ricoh will aim to expand its services business in developed countries and areas, such as the

United States, Western Europe and Japan, by enhancing its MDS offerings and expanding its IT services. Third, Ricoh will strive to expand its product line-up and market share in the emerging markets. Fourth, Ricoh will work to strengthen its production printing business by making necessary adjustments to its sales and service structures and expanding its product line-up so that its production printing business can realize a profit at an early stage. Lastly, Ricoh will continue to develop new businesses to achieve growth, which new businesses will include developing network appliances and Eco solutions.

By “establish highly efficient management,” Ricoh means that it will work to create a corporate environment through which its growth strategies can be accelerated. More specifically, Ricoh will strive to realize a corporate culture that encourages the accelerated implementation of growth strategies that seek to achieve in-depth restructuring as part of the CRGP.

Fiscal year 2011 Compared to Fiscal year 2010

Net sales:

Consolidated net sales for fiscal year 2011 decreased by 3.7% (or ¥74.3 billion) to ¥1,942.0 billion from ¥2,016.3 billion for fiscal year 2010. For fiscal year 2011, Ricoh recorded a decrease in net sales in the Imaging & Solutions operating segment and the Other operating segment. This decrease was due primarily to decreased demand for Ricoh products in light of the slow economic recovery after the global economic downturn and the increase in global competition. In addition, sales in Japan were adversely affected by the Great East Japan Earthquake because sales normally peak in March in Japan.

The net effect of the depreciation of the U.S. Dollar and the Euro in relation to the Japanese Yen also adversely affected Ricoh’s consolidated net sales in fiscal year 2011 as compared to fiscal year 2010. Had the foreign currency exchange rates remained the same as in fiscal year 2010, Ricoh’s consolidated net sales would have increased by 1.9%.

More specifically, the 3.7% decrease was due primarily to the 3.1% decrease in sale of products and the 5.2% decrease in sale of post sales and rentals, which completely offset the 5.6% increase in sales of other revenue.

Cost of sales:

Consolidated cost of sales for fiscal year 2011 decreased by 3.5% (or ¥42.0 billion) to ¥1,151.9 billion from ¥1,193.9 billion for fiscal year 2010. This decrease was due primarily to the decrease in sales of products as well as the net effect of the depreciation of the U.S. Dollar and the Euro in relation to the Japanese Yen.

Gross profit:

Consolidated gross profit for fiscal year 2011 decreased by 3.9% (or ¥32.2 billion) to ¥790.0 billion from ¥822.3 billion for fiscal year 2010. This decrease in gross profit primarily reflects the decrease in net sales in Ricoh’s two operating segments as well as the net effect of the depreciation of the U.S. Dollar and the Euro in relation to the Japanese Yen.

Selling, general and administrative expenses:

Consolidated selling, general and administrative expenses for fiscal year 2011 decreased by 3.5% (or ¥26.4 billion) to ¥729.8 billion from ¥756.3 billion for fiscal year 2010. This decrease was due primarily to group-wide cost reduction efforts in the manufacturing and sales operations as well as the net effect of the depreciation of the U.S. Dollar and the Euro in relation to the Japanese Yen.

Operating income:

Consolidated operating income for fiscal year 2011 decreased by 8.8% (or ¥5.8 billion) to ¥60.1 billion from ¥65.9 billion for fiscal year 2010.

Operating income as a percentage of net sales decreased by 0.2 percentage points from 3.3% for fiscal year 2010 to 3.1% for fiscal year 2011. This decrease in operating income compared to fiscal year 2010 was due primarily to the decrease in gross profit resulting from the decrease in net sales, which was partially offset by the decrease in selling, general and administrative expenses, as group-wide cost reduction efforts in the manufacturing and sales operations contributed to a decrease in such expenses.

Interest and dividend income:

Consolidated interest and dividend income for fiscal year 2011 decreased by ¥0.4 billion to ¥2.9 billion from ¥3.4 billion for fiscal year 2010. This decrease in interest and dividend income was attributable to lower interest rates reflecting the adverse financial market conditions on a global basis.

Interest expense:

Consolidated interest expense for fiscal year 2011 increased by ¥0.3 billion to ¥8.4 billion from ¥8.1 billion for fiscal year 2010. This increase in interest expense reflected the increase in the average outstanding amount of bonds of the Company in fiscal year 2011, which lower interest rates could not fully offset.

Foreign currency exchange loss, net:

Consolidated foreign currency exchange loss, net included in other (income) expenses for fiscal year 2011 increased by ¥2.1 billion to ¥6.9 billion from ¥4.7 billion for fiscal year 2010. This increase was primarily due to the depreciation of the U.S. Dollar and the Euro in relation to the Japanese Yen.

Loss on impairment of securities:

Consolidated loss on impairment of securities for fiscal year 2011 increased by ¥1.6 billion to ¥1.8 billion from ¥0.1 billion for fiscal year 2010. This increase was attributable to a certain non-listed companies whose financial status deteriorated significantly in fiscal year 2011.

Other, net:

Consolidated other, net included in other (income) expenses changed to an expense of ¥0.4 billion for fiscal year 2011 from an income of ¥1.1 billion for fiscal year 2010.

Provision for income taxes:

Total consolidated provision for income taxes for fiscal year 2011 decreased by ¥5.0 billion to ¥22.6 billion from ¥27.6 billion for fiscal year 2010. The effective tax rate was 49.8% for fiscal year 2011 compared to 48.1% for fiscal year 2010. This increase in the effective tax rate was due primarily to an increase in the deferred tax asset valuation allowance for tax benefits from operating loss carry forwards at certain consolidated subsidiaries that Ricoh believes are unlikely to be realized.

Equity in earnings (losses) of affiliates:

Consolidated equity in earnings (losses) of affiliates for fiscal year 2011 decreased by ¥28 million to loss of ¥22 million from income of ¥6 million for fiscal year 2010.

Net income attributable to noncontrolling interests:

Consolidated net income attributable to noncontrolling interests for fiscal year 2011 increased by ¥1.1 billion to ¥3.1 billion from ¥1.9 billion for fiscal year 2010. This increase was due primarily to the improved performance of Ricoh Leasing Co., Ltd. for fiscal year 2011.

Net income attributable to Ricoh Company, Ltd.:

Consolidated net income attributable to the Company for fiscal year 2011 decreased by ¥8.2 billion to ¥19.6 billion from ¥27.8 billion for fiscal year 2010. This decrease was due primarily to a decrease in operating income of ¥5.8 billion and an increase in other expenses of ¥6.3 billion, which were partially offset by a decrease in the provision for income taxes of ¥5.0 billion.

Operating Segments

Consolidated net sales of Ricoh for fiscal year 2011 decreased by 3.7% (or ¥74.3 billion) to ¥1,942.0 billion from ¥2,016.3 billion for fiscal year 2010.
This 3.7% percent decrease was due primarily to the 4.3% decrease in sales in the Imaging and Solutions segment, which accounted for 88.2% of consolidated net sales.
The 4.3% decrease in sales in the Imaging and Solutions segment was in turn due primarily to the 5.7% decrease in sales in the Imaging Solutions product category, which accounted for 73.6% of consolidated net sales. The 5.7% decrease in sales in the Imaging Solutions product category was partially offset by the 3.4% increase in net sales in the Network System Solutions product category.

Imaging & Solutions:

Net sales in the Imaging & Solutions segment for fiscal year 2011 decreased by 4.3% (or ¥76.9 billion) to ¥1,713.3 billion from ¥1,790.2 billion for fiscal year 2010.
This decrease was due primarily to lower sales generated in the Imaging Solutions product category.
More specifically, sales in the Imaging Solutions product category for fiscal year 2011 decreased by 5.7% (or ¥86.3 billion) to ¥1,429.8 billion from ¥1,516.1 billion for fiscal year 2010. This decrease was due primarily to the decrease in net sales of PPCs/MFPs and laser printers, and the net effect of the depreciation of the U.S. Dollar and the Euro in relation to the Japanese Yen. The decrease in net sales of PPCs/MFPs and laser printers was due primarily to the decrease in customer demand for Ricoh products in a slowly recovering economic environment as well as customers' tendencies to decrease printing costs by reducing the volume of color printing, which decreased sales of valueadded supplies for color products. In addition, Ricoh's decision to lower sales prices of certain products to stimulate sales in the sluggish and competitive market also contributed to the decrease in net sales.
Sales in the Network System Solutions product category for fiscal year 2011 increased by 3.4% (or ¥9.4 billion) to ¥283.4 billion from ¥274.0 billion for fiscal year 2010. Sales in the solutions business, such as support services that assist customers establish networked environments using Ricoh's imaging solutions products and software solutions to optimize total printing costs, continued to increase in the overseas markets in fiscal year 2011. Sales in the solutions business increased because customers sought products that streamlined the process of document scanning, indexing and distribution by integrating hardware and software. In addition, with the assistance from IKON, Ricoh increased sales in its MDS business in the U.S. , Europe and Japan in fiscal year 2011.
Excluding the net effect of the foreign currency exchange rate

fluctuations, sales in the Imaging & Solutions segment would have increased by 1.8% (or ¥32.7 billion) for fiscal year 2011 as compared to fiscal year 2010.

For fiscal year 2011, the cost of sales in the Imaging & Solutions segment decreased due primarily to the decrease in net sales, group-wide cost reduction efforts in manufacturing and the net effect of the appreciation of the Japanese Yen relative to the U.S. Dollar and the Euro. However lower pricing which resulted from high competition affected to decrease in gross profit. Due primarily to group-wide cost reduction efforts in sales operations as well as the net effect of the depreciation of the U.S. Dollar and the Euro in relation to the Japanese Yen, selling, general and administrative expenses decreased. As a result, operating expenses in the Imaging & Solutions segment for fiscal year 2011 decreased by 4.3% (or ¥70.9 billion) to ¥1,578.8 billion from ¥1,649.8 billion for fiscal year 2010.

As a result of the above, operating income for the Imaging & Solutions operating segment for fiscal year 2011 decreased by 4.3% (or ¥6.0 billion) to ¥134.4 billion from ¥140.4 billion for fiscal year 2010, however, the operating income ratio remained unchanged at 7.8%.

Industrial Products

Net sales in the Industrial Products segment for fiscal year 2011 increased by 5.8% (or ¥6.1 billion) to ¥112.2 billion from ¥106.1 billion for fiscal year 2010. This increase was due primarily to the increase in sales of optical equipment and electronic components. In optical equipment, sales of lens used in projection systems increased. In electronic components, Ricoh experienced an increase in net sales because the domestic market for systems controller units showed signs of recovery in fiscal year 2011.

Operating expenses in this segment for fiscal year 2011 increased by 3.5% (or ¥3.7 billion) to ¥111.2 billion from ¥107.4 billion for fiscal year 2010. This increase was due primarily to the increase in cost of sales resulting from the increase in net sales. In addition, the cost of sales ratio of optical equipments and electronic components to net sales improved as a result of the group-wide cost reduction efforts. In addition, sales of electronic component products with higher gross profit ratios increased, which contributed to the overall increase in gross profit. Due to group-wide cost reduction efforts in sales operations as well as the net effect of the depreciation of the U.S. Dollar and the Euro in relation to the Japanese Yen, selling, general and administrative expenses decreased.

As a result of the above, operating income (loss) for the Industrial Products segment for fiscal year 2011 was ¥1.0 billion (of income) from ¥1.3 billion (of loss) for fiscal year 2010.

Other:

Net sales in the Other segment for fiscal year 2011 decreased by 2.0% (or ¥2.5 billion) to ¥121.8 billion from ¥124.4 billion for fiscal year 2010. This decrease was due primarily to the decrease in net sales of digital cameras in the overseas market as customer demand for Ricoh's new digital camera products was weak. Net sales from the financing business conducted by Ricoh Leasing Co., Ltd. in Japan increased as leasing volume increased during fiscal year 2011 reflecting the fact that the Japanese economy experienced a moderate recovery. Net sales from logistics also increased due to an increase in services provided to dealers of PPCs/MFPs. Such net sales increases derived from the finance and logistics businesses, however, did not completely offset the decrease in net sales of digital cameras.

Operating expenses in this segment for fiscal year 2011 decreased by 0.8% (or ¥1.0 billion) to ¥126.7 billion from ¥127.8 billion for fiscal year 2010. This decrease was due primarily to the decrease in cost of sales resulting from the decrease in net sales.

However, the increase in gross profit was offset by the increase in selling, general and administrative expenses due primarily to advertisement expenses used to promote the new digital cameras introduced in fiscal year 2011.

As a result of the above, operating loss for the Other segment for fiscal year 2011 increased by ¥1.4 billion to ¥4.9 billion as compared to ¥3.4 billion for fiscal year 2010.

Liquidity and Capital Resources

Operating Cashflows:

As compared to fiscal year 2010, net cash provided by operating activities during fiscal year 2011 decreased by ¥60.6 billion primarily due to a decrease in cash collections from customers in Japan resulting from a) lower customer demand for PPCs/MFPs, laser printers and semiconductor devices due to the economic downturn, and b) a decrease in the sales price of certain products due to high competition. In addition, further appreciation of the Yen against the U.S. Dollar and the Euro resulted in decrease of overseas sales and resulting cash collections from customers.

As compared to fiscal year 2009, net cash provided by operating activities during fiscal year 2010 increased by ¥103.3 billion primarily due to the Company's cost reduction program in order to cope with the downturn in economy, which resulted in lower cash expended for inventory and other operating costs and expenses. In addition, the acquisition of IKON in October 2008, which had a full year impact on net cash flow increases in fiscal 2010, compared to a partial year impact in fiscal 2009.

Investing Cashflows:

For fiscal year 2011, net cash used in investing activities consisted mainly of ¥66.9 billion of expenditures for tangible fixed assets and ¥18.8 billion of expenditures for intangible fixed assets. Principal expenditures for tangible fixed assets in fiscal year 2011 consisted of ¥8.1 billion for the new building housing the Ricoh Technology Center, ¥4.6 billion for the second plant manufacturing polymerized PxP toners and ¥5.6 billion for mold casts used in the manufacturing of MFPs, production printing equipment and printers. Principal expenditures for intangible fixed assets in fiscal year 2011 were ¥7.9 billion for Enterprise Resource Planning (ERP) system, which is aimed to improve the efficiency of sales administration and accounting across the group. Net cash used in investing activities increased in fiscal year 2011 compared to fiscal year 2010 primarily because expenditures for intangible fixed assets increased, which was due mainly to Ricoh's investment in the ERP system.

For fiscal year 2010, net cash used in investing activities consisted mainly of ¥66.9 billion of expenditures for property, plant and equipment, ¥19.9 billion of other net, and ¥4.7 billion for the acquisition of new subsidiaries, net of cash acquired. Net cash used in investing activities decreased in fiscal year 2010 mainly because Ricoh did not make any major acquisitions that required the investment of cash.

For fiscal year 2009, net cash used in investing activities consisted mainly of, ¥157.4 billion for the acquisition of new subsidiaries, net of cash acquired, ¥96.9 billion of expenditures for property, plant and equipment and ¥27.1 billion of other, net. Net cash used in investing activities increased in fiscal year 2009 mainly because Ricoh used cash in connection with the establishment and commencement of IKON's operations.

Financing Cashflows:

For fiscal year 2011, net cash used in financing activities consisted primarily of ¥87.9 billion to repay outstanding long-term debt securities, ¥87.1 billion to repay outstanding long-term indebtedness, ¥30.7 billion of net decrease in short-term borrowings and ¥23.9 billion to pay dividends, which were partially offset by ¥79.7 billion of proceeds received from the issuance of long-term debt securities and ¥58.6 billion of proceeds received from long-term indebtedness. The Company issued the 9th series of unsecured straight bonds in the amount of ¥40.0 billion and the 10th series of unsecured straight bonds in the amount of ¥20.0 billion in June 2010. Ricoh Leasing Co., Ltd. issued the 13th series of unsecured straight bonds in the amount of ¥20.0 billion in May 2010. Proceeds from the issuance of long-term debt securities totaled ¥79.7 billion net of issuance costs. In December 2010, ¥52.8 billion aggregate principal amount of zero coupon convertible bonds (constituting a portion of the total outstanding principal amount thereof) were redeemed before maturity, upon the exercise of put options granted to the holders of the bonds. Ricoh redeemed bonds issued by IKON by tender offer before maturity in the amount of ¥25.1 billion. Ricoh Leasing Co., Ltd. repaid unsecured straight bonds in the amount of ¥10.0 billion in December 2010 upon maturity.

Repayments of long-term debt securities totaled ¥87.9 billion. For long-term indebtedness and short-term borrowings, Ricoh continued its efforts to decrease interest bearing debts worldwide. As a result, repayment of long-term indebtedness totaled ¥87.1 billion, short-term borrowings decreased by ¥30.7 billion net, while proceeds from longterm indebtedness totaled ¥58.6 billion. As compared to fiscal year 2010, net cash used in financing activities decreased in fiscal year 2011 primarily because short-term borrowings decreased by a smaller amount in fiscal year 2011 compared to fiscal year 2010.

For fiscal year 2010, net cash used in financing activities consisted primarily of ¥105.2 billion of net decrease in short-term borrowings, ¥66.5 billion to repay long-term indebtedness, ¥22.8 billion to pay dividends and ¥20.0 billion to repay outstanding longterm debt securities, which were partially offset by ¥55.0 billion of proceeds received from the issuance of long-term debt securities and ¥46.9 billion of proceeds received from long-term indebtedness. As compared to fiscal year 2009, net cash used in financing activities increased in fiscal year 2010 as Ricoh repaid some of its outstanding interest-bearing debt by using the additional cash generated from operations as a result of various cost cutting efforts and applying additional cash and cash equivalents on hand.

For fiscal year 2009, net cash provided by financing activities consisted primarily of ¥237.1 billion of proceeds from long-term indebtedness, ¥110.2 billion of net increase in short-term borrowings and ¥85.0 billion of proceeds from the issuance of long-term debt securities. Ricoh repaid ¥59.5 billion of long-term indebtedness, ¥50.5 billion of long-term debt securities and ¥25.3 billion of dividends. As compared to fiscal year 2008, net cash provided from financing activities increased in fiscal year 2009 as Ricoh increased its short-term borrowings and received proceeds from the issuance of long-term debt.

Cash and Asset-Liability Management

Ricoh has in recent years tried to achieve greater efficiencies in the utilization of cash balances held by its subsidiaries pursuant to its policy of ensuring adequate financing and liquidity for its operations and growth, and maintaining the strength of its balance sheet. One method that Ricoh has implemented to achieve greater efficiency is building up its group cash management system in Japan, the

United States and Europe.
This cash management system functions as an arrangement whereby Ricoh's funds are pooled together and cash resources are lent and borrowed from one group company to another company, with finance companies located in Japan, the United States, the United Kingdom and the Netherlands coordinating this arrangement. This pooling-of-funds arrangement has reduced the occurrence of excess accumulation of cash in one group company while another group company engages in unnecessary borrowing from third party institutions to meet its cash requirements. As such, the pooling-of-funds arrangement has reduced interest expense and related costs paid to third parties in connection with borrowings to finance operations.
Ricoh also enters into various derivative financial instrument contracts in the normal course of its business and in connection with the management of its assets and liabilities. In order to hedge against the potentially adverse impacts of foreign currency fluctuations on its assets and liabilities denominated in foreign currencies, Ricoh enters into foreign currency contracts and foreign currency options. Another form of derivative financial contracts that Ricoh enters into is interest rate swap agreements to hedge against the potentially adverse impacts of fair value or cashflow fluctuations on its outstanding debt interests. Ricoh uses these derivative instruments to reduce its risk and to protect the market value of its assets and liabilities in conformity with Ricoh's policy. Ricoh does not use derivative financial instruments for trading or speculative purposes, nor is it a party to leveraged derivatives.

Sources of Funding

Ricoh's principal sources of funding are a combination of cash and cash equivalents on hand, various lines of credit and the issuance of commercial paper, medium-term notes and long-term debt securities. In assessing its liquidity and capital resources needs, Ricoh places importance on the balances of cash and cash equivalents in the balance sheet and operating cashflows in the cashflow statements.
As of March 31, 2011, Ricoh had ¥179.1 billion in cash and cash equivalents and ¥685.0 billion in aggregate borrowing facilities. Of the ¥685.0 billion in aggregate borrowing facilities, ¥637.4 billion was available to be borrowed by Ricoh as of March 31, 2011. As of March 31, 2011, amount available by bank loans, commercial paper and medium-term notes were ¥294.3 billion, ¥260.0 billion and ¥83.1 billion, respectively. More specifically, Ricoh Leasing Co., Ltd. has a ¥50.0 billion committed credit line with several banks having credit ratings satisfactory to Ricoh. This ¥50.0 billion committed credit line amount is included in the ¥685.0 billion figure for aggregate borrowing facilities.
The Company, Ricoh Leasing Co., Ltd. and certain overseas subsidiaries raise capital by issuing commercial paper, medium-term notes and long-term debt securities. Ricoh Leasing Co., Ltd. and certain overseas subsidiaries of the Company issue commercial paper to meet their short-term funding requirements. Utilization of such capacity depends on Ricoh's financing needs, investor demand and market conditions, as well as the ratings outlook for Ricoh's securities. Interest rates for commercial paper issued by the Company and its subsidiaries ranged from 0.25% to 0.30%, interest rates for bank loans ranged from 0.41% to 11.95% and interest rates for long-term debt securities ranged from 0.57% to 7.30% during fiscal year 2011. For fiscal year 2011, the Company and its subsidiaries did not have any medium-term notes outstanding.
Ricoh believes that it has adequate resources for funding its working capital needs, repaying its outstanding indebtedness and executing new transactions, due to its diverse funding sources and the inflow of cash generated from its operating activities. Even if Ricoh is unable to access the capital markets by offering its own securities on acceptable terms, Ricoh has access to other sources of liquidity, including bank loans, cash flows from operations and sales of assets. Ricoh is also of the opinion its working capital is sufficient for its present requirements.
The Company obtains ratings from the following major rating agencies: Standard & Poor's Rating Services, a division of McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Services ("Moody's"), and another local rating agency in Japan. As of March 31, 2011, S&P assigned long-term and short-term credit ratings for the Company of A+ and A-1 , respectively, and Moody's assigned a long-term credit rating for the Company of A1.
While some of its subsidiaries may be restricted from paying dividends for various reasons, such as capital adequacy requirements, Ricoh does not expect such restrictions to have a significant impact on its ability to meet its cash obligations.
As is customary in Japan, substantially all of the bank loans are subject to general agreements with each lending bank which provide, among other things, that the bank may request additional security for loans if there is reasonable and probable cause for the necessity of such additional security and the bank may treat any security furnished, as well as any cash deposited in such bank, as security for all present and future indebtedness. The Company has never been requested to furnish such additional security.
In some cases, the Company's long-term debt securities contain customary covenants, including a "limitation on liens" covenant. The Company was in compliance with the covenants in its bank agreements and securities as of March 31, 2011. The Company is not subject to any covenants limiting its ability to incur additional indebtedness.

Cash Requirements and Commitments

Ricoh believes that its cash and cash equivalents and funds expected to be generated from its operations are sufficient to meet its cash requirements at least through fiscal year 2012. Even if there were a decrease in cashflows from operations as a result of fluctuations in customer demands from one year to another due to unexpected changes in global economic conditions, Ricoh believes that current funds on hand along with funds available under existing borrowing facilities would be sufficient to finance its anticipated operations. In addition, Ricoh believes that it is able to secure adequate resources to fund ongoing operating requirements and investments related to the expansion of existing businesses and the development of new projects through its access to the financial and capital markets. While interest rates of such instruments may fluctuate, Ricoh believes that the effect of such fluctuations will not significantly affect Ricoh's liquidity, mainly due to the adequate amount of Ricoh's cash and cash equivalents on hand, stable cashflow generated from its operating activities and groupwide cash management system.

Ricoh expects that its capital expenditures for fiscal year 2012 will amount to approximately ¥67.0 billion, which will principally be used for investments in manufacturing facilities of digital and networking equipment with new engines, toners, semiconductors and thermal media. In addition, Ricoh is obligated to repay long-term indebtedness in the aggregate principal amount of ¥111.0 billion during fiscal year 2012, and in the aggregate principal amount of ¥346.2 billion during fiscal years 2013 through 2015.

The Company and certain of its subsidiaries have various employee pension plans covering all of their employees. The unfunded portion of these employee pension plans amounted to ¥140.9 billion, as of March 31, 2011. The unfunded amount was recorded as an asset of ¥7.1 billion and a liability of ¥148.0 billion on the consolidated balance sheet of Ricoh as of March 31, 2011. The amounts contributed to pension plans for fiscal years 2009, 2010 and 2011 were ¥14.7 billion, ¥14.5 billion and ¥14.4 billion, respectively.

Ricoh believes that its cashflow from operating and investing activities together with existing lines of credit and borrowing facilities constitute adequate sources of funding to satisfy its liquidity needs and future obligations as described above.

Research and Development

Since its formation, Ricoh's basic management philosophy has been to contribute to society by developing and providing innovative and useful products with an emphasis on the relationship between people and information. Based on this management philosophy, Ricoh undertakes a variety of R&D activities to develop new technologies, products and systems to facilitate better communication. The Research and Development Group and the Corporate Technology Development Group function as the headquarters of Ricoh's R&D activities, which are conducted at its R&D bases throughout Japan and certain satellite R&D bases overseas. Ricoh conducts a wide range of R&D activities, from seeds research (i.e., early stage research) to research in elemental technologies, product applications and manufacturing technologies, including environmental technologies.

In Japan, Ricoh conducts basic and advanced research in connection with optical technologies, new materials, devices, information electronics, environmental technologies and software technologies as well as elemental development for new products. In addition, Ricoh has established satellite R&D bases in the United States and China through which it conducts R&D activities that focus on developing products that can be marketed globally and that take into consideration the needs of such particular geographic area. All aspects of Ricoh's research efforts are focused on developing products and services that are suitable for the new work environment. Ricoh also engages in R&D activities to protect the environment in every stage of each of its products' life cycles to realize Ricoh's three core values of "harmonizing with the environment (i.e., reducing and minimizing environmental impact)," "simplifying your life and work (i.e., enhancing user friendliness and striving towards simplification)," and "supporting knowledge management (i.e., offering solutions to process information)." For fiscal years 2009, 2010 and 2011, Ricoh's consolidated R&D expenditures totaled ¥124.4 billion, ¥109.8 billion and ¥110.8 billion, respectively.

Out of total consolidated R&D expenditures of ¥110.8 billion for fiscal year 2011, ¥81.7 billion was used for R&D activities relating to the Imaging & Solutions segment. Ricoh's R&D activities in the Imaging & Solutions segment continued to include (1) designing new optical designs for copiers, printers and production printing products, (2) developing imaging data processing technology, (3) developing electrophotographic supply technology, (4) advancing elemental technology for the next-generation of image producing engines, (5) developing cutting edge software technology and (6) developing applications for the advancement of IT solutions.

Out of total consolidated R&D expenditures of ¥110.8 billion for fiscal year 2011, ¥10.3 billion was used for R&D activities relating to the Industrial Products segment. In the Industrial Products segment, Ricoh's R&D activities continued to include (1) designing ASICs and ASSPs for imaging, audio and communication use, (2) developing methods to utilize electronic design automation, (3) developing optical element technologies and new recording methods and (4) research and development for supply parts such

as thermal media.
Out of total consolidated R&D expenditures of ¥110.8 billion for fiscal year 2011, ¥2.3 billion was used for R&D activities relating to the Other segment. In this segment, Ricoh continued to develop its image capturing device technology for digital cameras and its related applications technology.
In addition, Ricoh continues to engage in the development of its fundamental research fields, which focus on R&D activities that can be applied to various products and that are difficult to categorize into a specific operating segment. Out of total consolidated R&D expenditures of ¥110.8 billion for fiscal year 2011, ¥16.5 billion was used for R&D activities relating to fundamental research fields. Such R&D activities include R&D in nanotechnology, micro-machining, general technologies in measuring, analysis and simulation, new materials and devices, next-generation image display technologies, manufacturing technology, system software modules, photonics technology for high speed and high quality image processing, the next-generation of office systems and office solutions, and environmental technologies.
The following table sets Ricoh's R&D expenditures by segments for fiscal years 2009, 2010 and 2011.

	Millions of Yen		
	2009	2010	**2011**
Imaging & Solutions	¥ 98,639	¥ 79,200	**¥ 81,697**
Industrial Products	10,792	9,766	**10,351**
Other	1,956	1,955	**2,268**
Fundamental research	13,019	18,905	**16,506**
Consolidated	¥ 124,406	¥ 109,826	**¥ 110,822**

Principal Capital Investments

Ricoh's capital investments for fiscal years 2009, 2010 and 2011 were ¥96.9 billion, ¥66.9 billion and ¥66.9 billion, respectively.
Ricoh directed a significant portion of its capital investments for fiscal years 2009, 2010 and 2011 towards digital and networking equipment, such as digital PPCs/MFPs, laser printers and production printing products, and manufacturing facilities to maintain or enhance its competitiveness in the industry.
For fiscal year 2011, Ricoh's capital investments included ¥8.1 billion for the construction of a new building at the Ricoh Technology Center, ¥5.6 billion for purchasing mold casts used in the manufacturing of MFPs, production printing equipment and printers and ¥4.6 billion for the construction of a second plant that manufactures polymerized PxP toner. More specifically, in fiscal year 2011, Ricoh completed the construction of a new building to expand the Ricoh Technology Center that is located in Kanagawa, Japan, which was established in 2005 as Ricoh's main development center.
The following table sets Ricoh's capital investments by segments for fiscal years 2009, 2010 and 2011.

	Millions of Yen		
	2009	2010	**2011**
Imaging & Solutions	¥ 87,658	¥ 60,482	**¥ 59,383**
Industrial Products	4,581	3,325	**3,235**
Other	2,776	1,553	**2,487**
Headquarters and asset for all segment	1,943	1,619	**1,871**
Consolidated	¥ 96,958	¥ 66,979	**¥ 66,976**