

TO OUR SHAREHOLDERS AND CUSTOMERS

The going got tougher in fiscal 1998. So we got going—with record net sales and net income, a bigger global customer base, and our best product lineup ever.

- Consolidated net sales climbed 6.6%, to ¥1,403.3 billion (\$10,631 million). Net income rose 4.2%, to ¥30.1 billion (\$228 million). These figures were both up for the fourth straight year.
- Basic net income per share was up 1.8%, to ¥44.97 (\$0.34). The diluted figure was up 6.2%, to ¥41.35 (\$0.31).
- Return on equity was down 0.3 percentage point, to 6.7%. This may seem low, but it reflected a 12.3% jump in our total shareholders' investment through the conversion of convertible bonds into common stock.

Japan's economy was bad, which hampered sales of analog machines. But it was great that our digital machines continued to go from strength to strength. Why? Because companies accept that these products make a real productivity difference, and the key is connectivity and multifunctionality. More on this soon.

Overseas, Aficio, our unified global brand for digital office equipment, took off in the Americas, Europe, and even elsewhere in Asia.

Analog products are still important, but digital is the future, and a multifunctional one at that, for more and more customers.

We saw the future in fiscal 1998. In Japan alone, unit sales of our digital products, including multifunctional systems, soared 40%. We rolled out a wide variety of digital machines domestically and abroad to match that demand.

Most of these products are truly what you want them to be. Our R&D has harnessed our great strengths in image processing technologies to deliver tremendous flexibility in terms of networking and multifunctionality. The many benefits include high-resolution copying, laser printing, scanning, and a host of handy functions like electronic sorting. And throughout our Aficio range you will find other modular options, like faxing.



HIROSHI HAMADA (right), chairman, and
MASAMITSU SAKURAI, president

Once upon a time, you could label our office machines as peripherals. But our multifunctional systems are central paper and data management tools.

Ricoh is now the No. 1 player in many markets around the world. That didn't happen by accident.

We've come a long way in recent years because we realized from the mid-1980s that we needed to go local—in sales, service, and in manufacturing where appropriate—to be global.

And in fiscal 1998, we finally captured top spot in digital monochrome copiers in Europe and North America. We also ranked highly in our other business areas. They are real feathers in the cap because we've also led the Japanese digital copier market since its inception.

Just as telling, 40.8% of our net sales were overseas. That's a significant jump over fiscal 1994, for example, when they were 25.7%. The international market will become even more important to us in the years ahead.

We have accelerated localization throughout the 1990s because of the nature of our offerings. Keeping our digital products and systems as simple as their analog predecessors means that we must make larger investments of human and capital resources.

We now maintain five headquarters to coordinate our international sales and customer support—the Americas; Europe, Africa, and the Middle East; Asia and Oceania; China; and Japan. Each region is managed autonomously and has genuine decision-making clout. We are extremely proud of what our people overseas have achieved to date, and we will continue to provide them with whatever they need to keep serving customers well.



We're reducing the operational complexity of digital equipment to the appliance-like press of a button to make people more creative, productive, and happier. To us at Ricoh, that's customer satisfaction.

Complexity should not hamper results. All users need good cost-performance and the ability to enjoy all the functions their machines are capable of. Whether it be a computer, copier, fax machine, or printer, an office machine should be an appliance for the many, not a weapon for the few.

Image Communication is Ricoh's strategy for making the office a better place to work. Through Image Communication, we are working hard to make the one-touch simplicity of home appliances central to the ideal office experience.

Our definition of an appliance is a product, system, or service that promotes ease of use at every level. The customer buys the device, plugs it in, and it's ready to operate. No more excessive reliance on manuals. No more complicated software upgrading procedures. Even maintenance is a snap, since the product has a built-in system that senses trouble before the customer does. Appliance even covers upgrading and disposal.

In the years ahead, you'll see many more appliance-like innovations as we strive to make the office a better place to work.

Fiscal 1999 is already a challenge. But we know we'll do well.

The Japanese economy has a long way to go before it improves to our satisfaction. But we're not waiting around for that to happen. In fact, as we're a big player in the information technology industry, our products and services are just what our customers in Japan need to beat adversity.

Based on the instant successes of our many new digital products in the first few months of fiscal 1999, we're sure to hold our own. Overseas, we're certain to improve our position. Because of the Japan factor, however, we're being a little conservative on our financials.

One area we're very excited about is printers. We recently rolled out our very first color laser and color inkjet machines in Japan, as well as fast monochrome laser printers, as part of a full print-

er line. We expect them to contribute meaningfully to our results this year. Together, these printers and multifunctional digital systems form part of our strategy to become a world leader in output systems. We're just as confident about CD-Recordable and CD-ReWritable drives and media and digital cameras, in which we are now seeing a mass market emerge.

We'll also maintain the momentum of the Ricoh Product Development System, which we launched several years ago to improve our margins and bring products to market faster through parts sharing.

Just as important, we will strive to become an even better corporate citizen, which is central to customer satisfaction. We have therefore instituted an Environmental Action Plan so we can make recycling and conserving energy integral to our operations.

There's every reason to be upbeat about Ricoh. Stay confident. We'll continue to deliver the goods.

June 26, 1998

Sincerely,



Hiroshi Hamada, Chairman



Masamitsu Sakurai, President

