

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FISCAL 1998 RESULTS

In fiscal 1998, ended March 31, 1998, Ricoh maintained its focus on customer satisfaction, as part of which it broadened the scope of Image Communication, its corporate slogan.

These efforts translated into gains in both revenues and earnings for the fourth consecutive year. Ricoh's net sales, operating income, income before income taxes, minority interests and equity in earnings of affiliates, and net income were all record highs.

## Revenues

Net sales advanced 6.6%, to ¥1,403.3 billion (\$10,631 million).

In the office equipment category, sales of copiers and related supplies were up 7.6%, reflecting strong demand for digital models. Sales of communications and information systems grew 4.6%. This improvement stemmed from steady performance of Ricoh's system solutions business, which includes the packaging of computer hardware and software systems.

As a result of these factors, office equipment sales rose 6.8%, to ¥1,213.5 billion (\$9,193 million). Office equipment constituted 86.5% of net sales, from 86.4% a year earlier.

Sales in Japan increased 1.3%, to ¥831.3 billion (\$6,298 million). This figure was 59.2% of net sales, down from 62.4%. Overseas sales jumped 15.5%, to ¥572.0 billion (\$4,333 million). This represented 40.8% of net sales, from 37.6% in fiscal 1997.

During the term, the yen weakened against the U.S. dollar but strengthened against the deutschemark. The average yen-dollar rate was ¥123, from ¥113 in fiscal 1997, and the yen-deutschemark rate was ¥69, from ¥73.

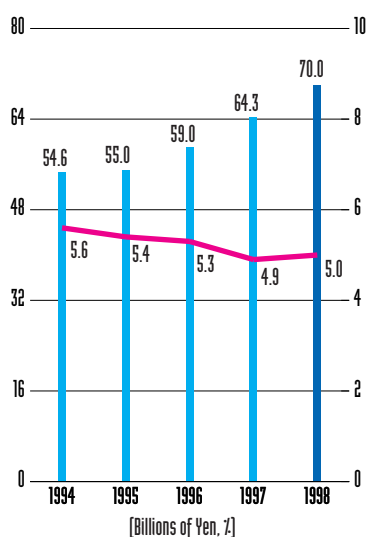
## Operating Income

Operating income advanced 7.6%, to ¥89.7 billion (\$680 million).

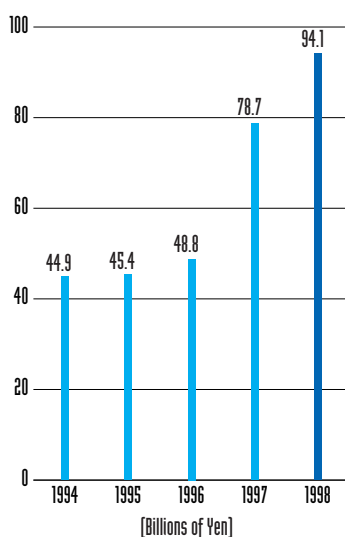
Forward investments boosted fixed costs, which lowered the gross margin 1.0 percentage point, to 40.3%.

Selling, general and administrative expenses were up 3.2%, to ¥475.2 billion (\$3,600 million). This owed primarily to higher research and development spending. R&D expenditures climbed 8.9%, to ¥70.0 billion (\$530 million). This constituted 5.0% of net sales, up 0.1 percentage point.

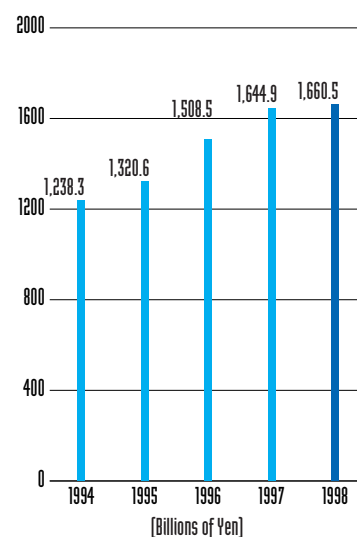
R&D EXPENDITURE AND PERCENT OF NET SALES



CAPITAL EXPENDITURES



TOTAL ASSETS



## Income before Income Taxes

Income before income taxes, minority interests and equity in earnings of affiliates rose 2.3%, to ¥68.4 billion (\$518 million). Net financial expenses were down 8.5%, to ¥6.3 billion (\$48 million). Foreign exchange losses totaled ¥3.7 billion (\$28 million), compared with ¥1.3 billion in exchange gains in fiscal 1997. The other expense included an impairment loss on goodwill, mainly in the United States, which was ¥5.0 billion (\$38 million).

## Net Income

Net income advanced 4.2%, to ¥30.1 billion (\$228 million).

Total provision for taxes was up 0.9%, to ¥40.2 billion (\$305 million). The deferred portion included an increase of ¥1.4 billion, owing to a change in the tax rate in Japan.

The basic and diluted earnings per share of common stock were ¥44.97 (\$0.34) and ¥41.35 (\$0.31), respectively.

Parent company cash dividends per share of common stock were ¥11.00 (\$0.08). This figure is consistent with management's commitment to stable shareholder returns. The previous year's result was ¥1.00 higher because of a special pledge made to holders of 1.5% convertible bonds, due in 2002.

## Segment Information

### SALES BY PRODUCT LINE

#### 1. Office Equipment

##### *Copiers and Related Supplies*

Sales in this segment gained 7.6%, to ¥891.0 billion (\$6,750 million). Sales of digital copiers overseas under the Aficio brand contributed significantly to this result. As in the previous term, this area accounted for 63.5% of net sales.

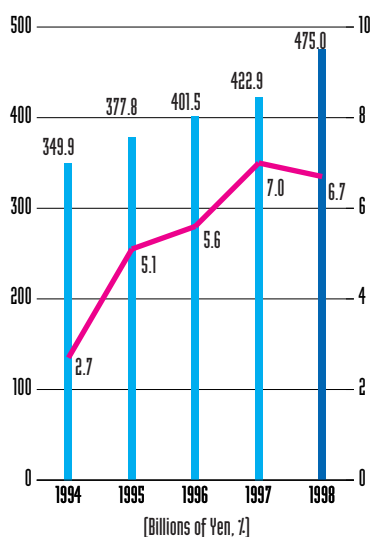
##### *Communications and Information Systems*

Here, sales grew 4.6%, to ¥322.4 billion (\$2,443 million). This was because of higher domestic sales of system solution packages of computers, printers, and other equipment and software, as well as increased sales overseas of computer-connective fax machines. This segment accounted for 23.0% of net sales, down 0.4 percentage point.

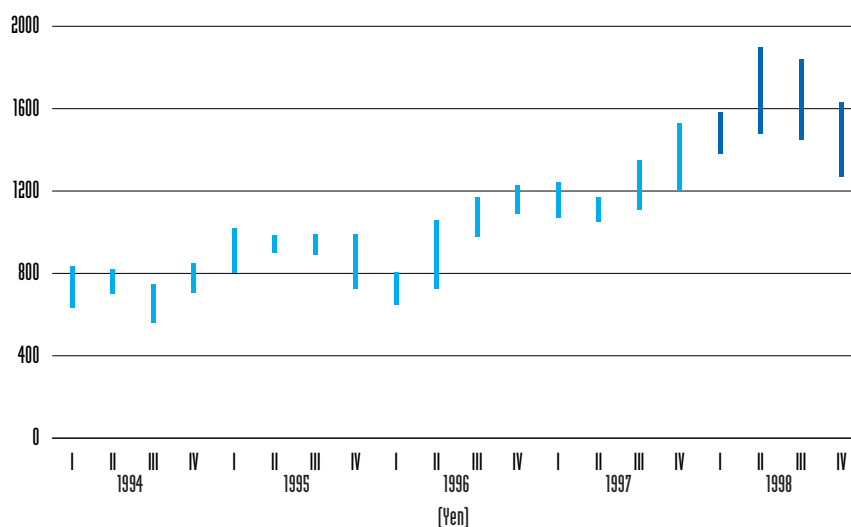
#### 2. Other Businesses

Sales in this category expanded 5.9%, to ¥189.9 billion (\$1,438 million). The gain was due mainly to brisk sales of digital cameras and CD-R and CD-RW drives and media. Other businesses represented 13.5% of net sales, down 0.1 percentage point.

SHAREHOLDERS' INVESTMENT AND RETURN ON SHAREHOLDERS' INVESTMENT



COMMON STOCK PRICE RANGE



## SALES BY REGION

Ricoh's sales expanded worldwide in fiscal 1998. Japan accounted for 59.2%. The Americas represented 16.4%, Europe 18.0%, and other areas 6.4%.

### 1. Japan

Domestic sales rose 1.3%, to ¥831.3 billion (\$6,298 million). With Japan deep in recession, sales of copiers were down slightly, for which sales of information equipment more than compensated.

### 2. The Americas

Here, sales rose 12.8%, to ¥230.3 billion (\$1,745 million). The gain stemmed from strong sales of digital copiers, assisted by the yen's depreciation.

### 3. Europe

Regional sales surged 20.3%, to ¥252.0 billion (\$1,909 million). This reflected expanded sales of digital copiers and stronger sales channels, which offset the yen's appreciation against European currencies.

### 4. Other areas

Sales in other areas jumped 10.2%, to ¥89.6 billion (\$679 million).

## SALES BY PRODUCT LINE

	1997		1998		
	Millions of yen	Percentage of net sales	Millions of yen	Percentage of net sales	Thousands of U.S. dollars
<b>Office Equipment:</b>					
Copiers and related supplies	¥ 828,387	63.0%	¥ 891,043	63.5%	\$ 6,750,326
Communications and information systems	308,325	23.4	322,425	23.0	2,442,613
<b>Other Businesses</b>	179,360	13.6	189,880	13.5	1,438,485
<b>Total</b>	¥ 1,316,072	100.0%	¥ 1,403,348	100.0%	\$ 10,631,424

## SALES BY REGION

	1997		1998		
	Millions of yen	Percentage of net sales	Millions of yen	Percentage of net sales	Thousands of U.S. dollars
Japan	¥ 821,004	62.4%	¥ 831,339	59.2%	\$ 6,298,023
The Americas*	204,157	15.5	230,342	16.4	1,745,015
Europe	209,548	15.9	252,042	18.0	1,909,409
Other	81,363	6.2	89,625	6.4	678,977
<b>Total</b>	¥ 1,316,072	100.0%	¥ 1,403,348	100.0%	\$ 10,631,424

\* Sales of Latin America, which were previously included in "Other," have been reclassified as part of "The Americas" (formerly "North America") category for all periods presented.

## Financial Position

At year-end, total assets were ¥1,660.5 billion (\$12,580 million), up 0.9% from the close of fiscal 1997.

Ricoh's borrowings—short-term borrowings, the current maturities of long-term indebtedness, and long-term indebtedness—were down 6.5%, to ¥674.9 billion (\$5,113 million). The drop followed the conversion of parent company bonds.

## Cash Flows

At the close of fiscal 1998, cash and cash equivalents stood at ¥141.3 billion (\$1,071 million), up 28.1%.

Net cash provided by operating activities amounted to ¥47.4 billion (\$359 million), down from ¥85.6 billion. This decline was mainly because of an increase in trade receivables and a decrease in accrued income taxes and accrued expenses and other.

Net cash used in investing activities was ¥1.6 billion (\$12 million), down significantly from the ¥111.4 billion recorded a year earlier. The fall owed mainly to decreases in time deposits and payments for purchases of available-for-sale securities.

Net cash used in financing activities was ¥16.4 million (\$124 million), compared with ¥26.4 million provided by financing activities in fiscal 1997. This change reflected a decrease in proceeds from long-term indebtedness.

## INDUSTRY SEGMENT INFORMATION BASED ON JAPANESE DISCLOSURE STANDARDS

	1997	1998	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
<b>Net Sales</b>			
Office Equipment:			
Unaffiliated Customers	¥ 1,136,712	¥ 1,213,468	\$ 9,192,939
Intersegment	—	—	—
Total	1,136,712	1,213,468	9,192,939
Other Businesses:			
Unaffiliated Customers	179,360	189,880	1,438,485
Intersegment	2,835	4,078	30,894
Total	182,195	193,958	1,469,379
Eliminations	(2,835)	(4,078)	(30,894)
Consolidated	¥ 1,316,072	¥ 1,403,348	\$ 10,631,424
<b>Operating Income</b>			
Office Equipment	¥ 117,315	¥ 129,969	\$ 984,614
Other Businesses	2,028	1,220	9,242
Corporate and Eliminations	(35,980)	(41,482)	(314,258)
Consolidated	¥ 83,363	¥ 89,707	\$ 679,598
<b>Identifiable Assets</b>			
Office Equipment	¥ 1,010,698	¥ 1,060,416	\$ 8,033,454
Other Businesses	176,930	186,877	1,415,735
Corporate and Eliminations	457,268	413,203	3,130,326
Consolidated	¥ 1,644,896	¥ 1,660,496	\$ 12,579,515
<b>Depreciation and Amortization</b>			
Office Equipment	¥ 42,500	¥ 49,328	\$ 373,697
Other Businesses	6,947	10,993	83,280
Corporate	1,553	1,650	12,500
Consolidated	¥ 51,000	¥ 61,971	\$ 469,477
<b>Capital Expenditures</b>			
Office Equipment	¥ 63,043	¥ 76,924	\$ 582,758
Other Businesses	14,049	15,484	117,303
Corporate	1,574	1,709	12,947
Consolidated	¥ 78,666	¥ 94,117	\$ 713,008

## GEOGRAPHIC SEGMENT INFORMATION BASED ON JAPANESE DISCLOSURE STANDARDS

	1998	
	Millions of yen	Thousands of U.S. dollars
<b>Net Sales</b>		
Japan		
Unaffiliated Customers	¥ 846,018	\$ 6,409,227
Intersegment	246,961	1,870,917
Total	1,092,979	8,280,144
The Americas		
Unaffiliated Customers	¥ 224,407	\$ 1,700,053
Intersegment	6,938	52,561
Total	231,345	1,752,614
Europe		
Unaffiliated Customers	¥ 260,093	\$ 1,970,402
Intersegment	3,533	26,765
Total	263,626	1,997,167
Other		
Unaffiliated Customers	¥ 72,830	\$ 551,742
Intersegment	48,090	364,318
Total	120,920	916,060
Eliminations	(305,522)	(2,314,561)
Consolidated	¥ 1,403,348	\$10,631,424
<b>Operating Income</b>		
Japan	¥ 70,681	\$ 535,462
The Americas	11,043	83,659
Europe	8,486	64,288
Other	4,829	36,583
Corporate and Eliminations	(5,332)	(40,394)
Consolidated	¥ 89,707	\$ 679,598
<b>Identifiable Assets</b>		
Japan	¥ 997,004	\$ 7,553,060
The Americas	127,719	967,568
Europe	147,419	1,116,811
Other	59,620	451,667
Corporate and Eliminations	328,734	2,490,409
Consolidated	¥ 1,660,496	\$ 12,579,515

## Capital Expenditures

Ricoh invested ¥94.1 billion (\$713 million) in additions to property, plant, and equipment during the year, up 19.6%. These funds were allocated mainly to build facilities for CD-R and CD-RW drives and media and copier consumables.

## Key Financial Ratios

We have provided the following ratios to facilitate analysis of Ricoh's operations for fiscal 1996, 1997, and 1998.

	Fiscal 1996	Fiscal 1997	Fiscal 1998
Return on sales	2.0%	2.2%	2.1%
Return on shareholders' investment	5.6%	7.0%	6.7%
Current ratio	1.23	1.11	1.04
Debt-to-equity ratio (interest-bearing debt to shareholders' investment)	1.63	1.71	1.42
Interest coverage	5.0	6.4	7.8

## 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 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
US\$/¥	126.60	¥ 35,701	\$ 270,462
Dfl/¥	62.83	29,592	224,182

## 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 26 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.

**LONG-TERM INDEBTEDNESS**  
(Excluding Capital Lease Obligations)

	Average interest rate	Millions of yen							
		Total	Expected maturity date					2004 and thereafter	
			1999	2000	2001	2002	2003		
Convertible Bonds	0.90 %	¥ 75,178	¥ —	¥ —	¥ —	¥ 34,924	¥ 40,254	¥ —	
Bonds	5.81	75,164	—	65,164	—	10,000	—	—	
Medium-Term Notes	5.26	29,355	6,909	13,987	4,480	3,979	—	—	
Loans	3.89	213,351	93,725	16,048	34,867	6,566	8,308	53,837	
<b>Total</b>		<b>¥ 393,048</b>	<b>¥ 100,634</b>	<b>¥ 95,199</b>	<b>¥ 39,347</b>	<b>¥ 55,469</b>	<b>¥ 48,562</b>	<b>¥ 53,837</b>	

**INTEREST RATE SWAPS**

Notional amounts (Millions)	Type of swap	Average receive rate	Average pay rate	Millions of yen						
				Total	Expected maturity date					2004 and thereafter
					1999	2000	2001	2002	2003	
¥ 290,365	Receive floating/Pay fixed	0.70 %	2.60 %	¥ 290,365	¥ 105,960	¥ 32,000	¥ 13,600	¥ 13,100	¥ 120,100	¥ 5,605
49,500	Receive fixed/Pay floating	3.90	0.71	49,500	3,000	12,000	1,000	3,000	1,000	29,500
10,000	Receive floating/Pay floating	2.00	0.55	10,000	—	10,000	—	—	—	—
2,000	Receive fixed/Pay fixed	5.10	4.90	2,000	2,000	—	—	—	—	—
US\$ 60	Receive floating/Pay fixed	5.80	6.32	¥ 7,926	¥ 5,284	¥ —	¥ 1,321	¥ 1,321	¥ —	¥ —
10	Receive fixed/Pay floating	7.58	5.46	1,321	—	—	—	1,321	—	—

**LONG-TERM INDEBTEDNESS**  
(Excluding Capital Lease Obligations)

	Average interest rate	Thousands of U.S. dollars						
		Total	Expected maturity date					2004 and thereafter
			1999	2000	2001	2002	2003	
Convertible Bonds	0.90 %	\$ 569,530	\$ —	\$ —	\$ —	\$ 264,576	\$ 304,954	\$ —
Bonds	5.81	569,424	—	493,667	—	75,757	—	—
Medium-Term Notes	5.26	222,387	52,341	105,962	33,939	30,145	—	—
Loans	3.89	1,616,295	710,038	121,576	264,144	49,742	62,939	407,856
<b>Total</b>		<b>\$ 2,977,636</b>	<b>\$ 762,379</b>	<b>\$ 721,205</b>	<b>\$ 298,083</b>	<b>\$ 420,220</b>	<b>\$ 367,893</b>	<b>\$ 407,856</b>

**INTEREST RATE SWAPS**

Notional amounts (Millions)	Type of swap	Average receive rate	Average pay rate	Thousands of U.S. dollars						
				Total	Expected maturity date					2004 and thereafter
					1999	2000	2001	2002	2003	
¥ 290,365	Receive floating/Pay fixed	0.70 %	2.60 %	\$ 2,199,735	\$ 802,727	\$ 242,424	\$ 103,030	\$ 99,243	\$ 909,849	\$ 42,462
49,500	Receive fixed/Pay floating	3.90	0.71	375,000	22,727	90,909	7,576	22,727	7,576	223,485
10,000	Receive floating/Pay floating	2.00	0.55	75,758	—	75,758	—	—	—	—
2,000	Receive fixed/Pay fixed	5.10	4.90	15,152	15,152	—	—	—	—	—
US\$ 60	Receive floating/Pay fixed	5.80	6.32	\$ 60,045	\$ 40,029	\$ —	\$ 10,008	\$ 10,008	\$ —	\$ —
10	Receive fixed/Pay floating	7.58	5.46	10,008	—	—	—	10,008	—	—

## **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 a diversity of high credit rated financial institutions to minimize the concentration of credit risk. Therefore, Ricoh does not expect to incur material credit losses on its financial instruments.

## **Asian Economic Crisis**

During fiscal 1998, many Asian countries experienced severe economic crisis characterized by reduced economic activity, illiquidity, highly volatile foreign currency exchange and interest rates, and unstable equity prices. Ricoh primarily has sales activities through subsidiaries and affiliates in these countries. While Ricoh's sales were not significantly affected by the crisis, these companies suffered exchange losses due to net liabilities denominated in Japanese yen. However, the overall effect of the crisis on consolidated results were not material in fiscal 1998. Ricoh does not expect the crisis problem in these countries to have a significant effect on consolidated results.

## **Year 2000**

Ricoh is currently in the process of remediating its information technology infrastructure so it can properly handle transactions beyond January 1, 2000 ("Year 2000 Compliance"). Ricoh does not expect that the cost to modify its information technology infrastructure to be Year 2000 compliant will be material to its financial condition or results of operations. Ricoh does not anticipate any material disruption in its operations as a result of any failure by Ricoh to be in compliance. Ricoh does not currently have any information concerning the Year 2000 Compliance status of its suppliers and customers. In the event that any of Ricoh's significant suppliers or customers does not successfully and timely achieve Year 2000 Compliance, Ricoh's business or operations could be adversely affected.

## **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

	1989	1990
<b>For the Year:</b>		
Net sales	¥ 729,411	¥ 835,464
Cost of sales	463,855	550,088
Selling, general and administrative expenses	231,010	257,038
Income before income taxes, minority interests and equity in earnings of affiliates	37,130	31,207
Provision for income taxes	23,357	20,036
Net income	17,795	15,871
Capital expenditures	67,141	53,826
Depreciation and amortization	34,223	44,300
<b>Per Share Data</b> (in yen and dollars):		
Net income:		
Basic	¥ 28.68	¥ 26.18
Diluted	26.70	23.94
Cash dividends, applicable to the year	9.52	9.52
<b>At Year-End:</b>		
Total assets	¥ 730,224	¥ 831,627
Long-term indebtedness	73,136	86,147
Shareholders' investment	320,534	347,041
Working capital	168,165	183,008
Return on sales	2.4%	1.9%
Return on shareholders' investment	5.8	4.8
<b>Common Stock Price Range</b> (in yen and dollars):		
High	¥ 1,440	¥ 1,360
Low	1,000	1,010

Millions of yen								Thousands of U.S. dollars
1991	1992	1993	1994	1995	1996	1997	1998	1998
¥ 1,003,263	¥ 1,017,417	¥ 1,021,915	¥ 968,318	¥ 1,020,296	¥ 1,113,030	¥ 1,316,072	¥ 1,403,348	\$ 10,631,424
645,875	677,674	657,750	605,958	628,071	683,406	772,238	838,440	6,351,818
322,402	328,522	327,397	326,352	339,891	374,246	460,471	475,201	3,600,008
38,365	10,869	17,784	26,167	41,674	51,020	66,905	68,428	518,394
27,025	13,010	14,716	18,233	24,931	28,251	39,864	40,210	304,621
13,557	2,041	5,015	9,520	18,593	21,869	28,922	30,131	228,265
70,777	75,057	46,747	44,928	45,437	48,828	78,666	94,117	713,008
48,868	56,811	55,846	49,155	44,960	46,430	51,000	61,971	469,477
¥ 20.90	¥ 3.13	¥ 7.70	¥ 14.61	¥ 28.54	¥ 33.55	¥ 44.16	¥ 44.97	\$ 0.34
20.48	3.13	7.70	14.47	26.43	31.21	38.95	41.35	0.31
10.00	10.00	10.00	10.00	10.00	10.00	12.00	11.00	0.08
¥ 1,198,717	¥ 1,235,779	¥ 1,228,959	¥ 1,238,275	¥ 1,320,617	¥ 1,508,519	¥ 1,644,896	¥ 1,660,496	\$ 12,579,515
246,853	309,315	303,599	337,592	386,535	411,023	386,918	295,536	2,238,909
362,988	357,795	351,602	349,945	377,840	401,471	422,923	475,005	3,598,523
114,809	86,874	77,318	116,108	142,021	139,163	77,527	31,681	240,008
1.4%	0.2%	0.5%	1.0%	1.8%	2.0%	2.2%	2.1%	—
3.8	0.6	1.4	2.7	5.1	5.6	7.0	6.7	—
¥ 1,340	¥ 820	¥ 728	¥ 849	¥ 1,020	¥ 1,230	¥ 1,530	¥ 1,900	\$ 14.39
671	455	402	561	726	650	1,050	1,270	9.62

# CONSOLIDATED BALANCE SHEETS

Ricoh Company, Ltd. and Consolidated Subsidiaries  
March 31, 1997 and 1998

ASSETS	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
<b>Current Assets:</b>			
Cash and cash equivalents	¥ 110,364	¥ 141,334	\$ 1,070,712
Time deposits	70,382	17,750	134,470
Marketable securities	95,976	86,487	655,205
Trade receivables—			
Notes	84,934	80,128	607,030
Accounts	259,384	279,057	2,114,068
Less—Allowance for doubtful receivables	(11,848)	(11,781)	(89,250)
Inventories—			
Finished goods	121,363	136,339	1,032,871
Work in process and raw materials	44,825	47,846	362,470
Deferred income taxes	33,058	34,918	264,530
<b>Total current assets</b>	<b>808,438</b>	<b>812,078</b>	<b>6,152,106</b>
<b>Plant and Equipment, at cost:</b>			
Land	40,291	41,628	315,364
Buildings	163,962	178,396	1,351,485
Machinery and equipment	515,587	541,502	4,102,288
Construction in progress	9,185	8,884	67,303
	729,025	770,410	5,836,440
Less—Accumulated depreciation	(481,473)	(502,857)	(3,809,523)
	247,552	267,553	2,026,917
<b>Investments and Other Assets:</b>			
Finance receivables	364,492	379,482	2,874,864
Investment securities	81,335	52,966	401,257
Investments in and advances to affiliates	56,183	52,694	399,197
Lease deposits and other	86,896	95,723	725,174
	588,906	580,865	4,400,492
	¥ 1,644,896	¥ 1,660,496	\$ 12,579,515

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
	1997	1998	1998
<b>Current Liabilities:</b>			
Short-term borrowings	¥ 212,793	¥ 278,114	\$ 2,106,924
Current maturities of long-term indebtedness	121,887	101,296	767,394
Trade payables—			
Notes	84,737	56,908	431,121
Accounts	176,683	222,312	1,684,182
Accrued income taxes	32,773	23,743	179,871
Accrued expenses and other	102,038	98,024	742,606
Total current liabilities	730,911	780,397	5,912,098
<b>Long-Term Liabilities:</b>			
Long-term indebtedness	386,918	295,536	2,238,909
Estimated retirement allowances	49,436	59,045	447,311
Deferred income taxes	33,267	26,292	199,182
	469,621	380,873	2,885,402
<b>Minority Interests</b>	21,441	24,221	183,492
<b>Commitments and Contingent Liabilities (Note 15)</b>			
<b>Shareholders' Investment:</b>			
Common stock, par value ¥50 per share:			
Authorized—1,000,000,000 shares			
Issued and outstanding—657,375,492 shares in 1997 and 691,546,422 shares in 1998	82,035	102,820	778,939
Additional paid-in capital	133,463	154,026	1,166,864
Legal reserve	12,327	13,407	101,568
Retained earnings	194,992	216,410	1,639,470
Net unrealized holding gains on available-for-sale securities	18,833	12,868	97,485
Pension liability adjustment	(8,590)	(14,336)	(108,606)
Cumulative translation adjustments	(10,137)	(10,190)	(77,197)
Total shareholders' investment	422,923	475,005	3,598,523
	¥ 1,644,896	¥ 1,660,496	\$ 12,579,515

# CONSOLIDATED STATEMENTS OF INCOME

Ricoh Company, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 1996, 1997 and 1998				Thousands of U.S. dollars
	Millions of yen			
	1996	1997	1998	1998
<b>Net Sales</b>	¥ 1,113,030	¥ 1,316,072	¥ 1,403,348	\$ 10,631,424
<b>Cost of Sales</b>	683,406	772,238	838,440	6,351,818
Gross profit	429,624	543,834	564,908	4,279,606
<b>Selling, General and Administrative Expenses</b>	374,246	460,471	475,201	3,600,008
Operating income	55,378	83,363	89,707	679,598
<b>Other (Income) Expenses:</b>				
Interest and dividend income	(6,948)	(7,150)	(5,931)	(44,932)
Interest expense	12,455	14,077	12,270	92,955
Foreign currency exchange (gain) loss, net	(4,875)	(1,302)	3,695	27,992
Other, net	3,726	10,833	11,245	85,189
Total	4,358	16,458	21,279	161,204
<b>Income before Income Taxes, Minority Interests and Equity in Earnings of Affiliates</b>	51,020	66,905	68,428	518,394
<b>Provision for Income Taxes:</b>				
Current	31,472	46,672	42,108	319,000
Deferred	(3,221)	(6,808)	(1,898)	(14,379)
Total	28,251	39,864	40,210	304,621
<b>Income before Minority Interests and Equity in Earnings of Affiliates</b>	22,769	27,041	28,218	213,773
<b>Minority Interests</b>	1,484	2,186	2,154	16,318
<b>Equity in Earnings of Affiliates</b>	584	4,067	4,067	30,810
<b>Net Income</b>	¥ 21,869	¥ 28,922	¥ 30,131	\$ 228,265
		Yen		U.S. dollars
<b>Per Share of Common Stock:</b>				
Net income:				
Basic	¥ 33.55	¥ 44.16	¥ 44.97	\$ 0.34
Diluted	31.21	38.95	41.35	0.31
Cash dividends, applicable to the year	¥ 10.00	¥ 12.00	¥ 11.00	\$ 0.08
<b>Per American Depositary Share, each representing 5 shares of common stock:</b>				
Net income:				
Basic	¥ 167.75	¥ 220.80	¥ 224.85	\$ 1.70
Diluted	156.05	194.75	206.75	1.57
Cash dividends, applicable to the year	¥ 50.00	¥ 60.00	¥ 55.00	\$ 0.42

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

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT

Ricoch Company, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 1996, 1997 and 1998	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
<b>Common Stock:</b>				
Beginning balance	¥ 79,375	¥ 79,741	¥ 82,035	\$ 621,477
Conversion of convertible bonds; 886,370 shares in 1996, 4,888,423 shares in 1997, and 34,170,930 shares in 1998	366	2,294	20,785	157,462
Ending balance	¥ 79,741	¥ 82,035	¥ 102,820	\$ 778,939
<b>Additional Paid-in Capital:</b>				
Beginning balance	¥ 130,814	¥ 131,179	¥ 133,463	\$ 1,011,083
Conversion of convertible bonds	365	2,284	20,563	155,781
Ending balance	¥ 131,179	¥ 133,463	¥ 154,026	\$ 1,166,864
<b>Legal Reserve:</b>				
Beginning balance	¥ 10,741	¥ 11,471	¥ 12,327	\$ 93,386
Transfer from retained earnings	730	856	1,080	8,182
Ending balance	¥ 11,471	¥ 12,327	¥ 13,407	\$ 101,568
<b>Retained Earnings:</b>				
Beginning balance	¥ 159,492	¥ 174,116	¥ 194,992	\$ 1,477,212
Net income	21,869	28,922	30,131	228,265
Cash dividends paid	(6,515)	(7,190)	(7,633)	(57,825)
Transfer to legal reserve	(730)	(856)	(1,080)	(8,182)
Ending balance	¥ 174,116	¥ 194,992	¥ 216,410	\$ 1,639,470
<b>Net Unrealized Holding Gains on Available-for-Sale Securities:</b>				
Beginning balance	¥ 21,885	¥ 29,498	¥ 18,833	\$ 142,674
Net increase (decrease)	7,613	(10,665)	(5,965)	(45,189)
Ending balance	¥ 29,498	¥ 18,833	¥ 12,868	\$ 97,485
<b>Cumulative Translation Adjustments:</b>				
Beginning balance	¥ (24,467)	¥ (18,417)	¥ (10,137)	\$ (76,795)
Aggregate adjustments for the year resulting from translation of foreign currency financial statements	7,373	9,015	(201)	(1,523)
Income tax effect on undistributed earnings affected by rate changes during the year	(1,323)	(735)	148	1,121
Ending balance	¥ (18,417)	¥ (10,137)	¥ (10,190)	\$ (77,197)

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, 1996, 1997 and 1998	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
<b>Cash Flows from Operating Activities:</b>				
Net income	¥ 21,869	¥ 28,922	¥ 30,131	\$ 228,265
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization	46,430	51,000	61,971	469,477
Equity in earnings of affiliates, net of dividends received	116	(3,297)	(2,300)	(17,424)
Estimated retirement allowances, net	2,054	6,244	278	2,106
Deferred income taxes	(3,221)	(6,808)	(1,898)	(14,379)
Loss on disposal and sales of plant and equipment	200	1,615	1,432	10,848
Impairment loss of goodwill	—	6,510	5,037	38,159
Changes in assets and liabilities, net of effects from acquisition—				
(Increase) decrease in trade receivables	(10,745)	11,754	(8,168)	(61,879)
(Increase) decrease in inventories	2,050	(10,210)	(15,387)	(116,568)
(Increase) in finance receivables	(25,252)	(15,880)	(14,025)	(106,250)
Increase in trade payables	3,043	2,441	10,479	79,386
(Decrease) increase in accrued income taxes and accrued expenses and other	3,428	14,518	(18,213)	(137,977)
Other, net	1,723	(1,175)	(1,944)	(14,727)
Net cash provided by operating activities	41,695	85,634	47,393	359,037
<b>Cash Flows from Investing Activities:</b>				
Proceeds from sales of plant and equipment	3,447	234	866	6,561
Expenditures for plant and equipment	(48,828)	(78,302)	(93,657)	(709,523)
Payments for purchases of available-for-sale securities	(38,791)	(41,300)	(23,059)	(174,689)
Proceeds from sales of available-for-sale securities	36,310	29,502	49,240	373,030
Decrease (increase) in investments in and advances to affiliates	(1,572)	(3,989)	3,676	27,848
Decrease (increase) in time deposits	(44,892)	(23,834)	52,841	400,311
Proceeds from sale of subsidiaries' common stock	9,926	—	—	—
Other, net	5,421	6,246	8,521	64,553
Net cash used in investing activities	(78,979)	(111,443)	(1,572)	(11,909)
<b>Cash Flows from Financing Activities:</b>				
Proceeds from long-term indebtedness	97,287	88,658	30,110	228,106
Repayment of long-term indebtedness	(75,527)	(79,388)	(101,062)	(765,621)
Increase (decrease) in short-term borrowings, net	(15,988)	24,301	62,177	471,038
Cash dividends paid	(6,515)	(7,190)	(7,633)	(57,825)
Net cash provided by (used in) financing activities	(743)	26,381	(16,408)	(124,302)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	864	3,046	1,557	11,795
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(37,163)	3,618	30,970	234,621
<b>Cash and Cash Equivalents at Beginning of Year</b>	143,909	106,746	110,364	836,091
<b>Cash and Cash Equivalents at End of Year</b>	¥ 106,746	¥ 110,364	¥ 141,334	\$ 1,070,712
<b>Supplemental Disclosures of Cash Flow Information:</b>				
<b>Cash Paid during the Year for—</b>				
Interest	¥ 25,144	¥ 24,155	¥ 26,473	\$ 200,553
Income taxes	21,315	37,987	50,631	383,568

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. The Company and significant subsidiaries ("Ricoh" as a consolidated group) is one of the world's leading suppliers 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 and foreign sales subsidiaries. Overseas, Ricoh distributes not only Ricoh brand products but also other brands, such as Gestetner and Savin.

Ricoh manufactures its products primarily in 16 plants in Japan and 8 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 (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 in a separate component of shareholders' investment.

### (c) Derivatives

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 to 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 held-to-maturity, trading, or available-for-sale securities. As of March 31, 1997 and 1998, 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 a separate component of shareholders' investment.

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 overhead.

### (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 29% of the consolidated depreciation expense.

Effective rates of depreciation for the three years ended March 31, 1998 are summarized below:

	1996	1997	1998
Buildings	8.0%	7.7%	7.9%
Machinery and equipment	40.5	36.2	36.8

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, 1997 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Aggregate cost	¥ 4,679	¥ 6,365	\$ 48,220
Accumulated depreciation	2,189	2,617	19,826

The related future minimum lease payments and the present value of the net minimum lease payments as of March 31, 1998 were ¥4,906 million (\$37,167 thousand) and ¥3,784 million (\$28,667 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.

**(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.

**(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**

In the year ended March 31, 1998, Ricoh adopted 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. All EPS's previously presented have been restated to conform to the provisions of SFAS No. 128.

**(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 12).

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 date of purchase.

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

	Millions of yen			Thousands of
	1996	1997	1998	U.S. dollars
Conversion of convertible bonds	¥ 731	¥4,578	¥41,348	\$313,243
Capital lease obligations incurred	223	364	1,760	13,333
Assets and liabilities of Gestetner Holdings PLC (see Notes 4 and 7):				
Fair value of assets acquired	122,254	—	—	—
Liabilities assumed	100,211	—	—	—

**(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) Reclassifications**

Minority interests which were previously included in the consolidated statements of income under the caption "Other Expenses" have been reclassified to "Minority Interests" for all periods presented. As a result of this reclassification, both "Income before Income Taxes, Minority Interests and Equity in Earnings of Affiliates" and "Income before Minority Interests and Equity in Earnings of Affiliates" have been increased by ¥1,484 million in 1996 and ¥2,186 million in 1997 from the amounts previously reported, while net income and earnings per share have not been affected.

**(q) New Accounting Standards**

The Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information," in June 1997, and SFAS No. 132, "Employers' Disclosures about Pensions and Other Post Retirement Benefits," in February 1998. These standards will not affect Ricoh's financial position or results of operations as they only require changes in or additions to current disclosures.

### 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, 1998 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 1998 have also been presented in U.S. dollars by arithmetically translating all yen amounts by using the exchange rate of ¥132 to US\$1 in effect at March 31, 1998.

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 estimated retirement allowances and certain other

accrued expenses, accounting for sales-type leases and providing for the income tax effect of such adjustments and other temporary differences.

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, 1998:

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Net sales	¥646,294	¥698,837	<b>¥752,631</b>	<b>\$5,701,750</b>
Net income	17,048	19,816	<b>22,505</b>	<b>170,492</b>

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 ¥157,634 million (\$1,194,197 thousand) as of March 31, 1998 (see Note 12).

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. ACQUISITION

In September 1995, Ricoh completed a take-over bid ("TOB") for Gestetner Holdings PLC ("Gestetner"), which had been a 28.8% owned affiliate since October 1991. As a result of this acquisition, Gestetner became a wholly-owned subsidiary which distributes the Gestetner brand name office equipment products primarily supplied by Ricoh in the global marketplace.

The initial acquisition in 1991 and the TOB in 1995 were accounted for as purchase transactions. The excess of purchase price over the estimated fair value of the net assets acquired (goodwill) in the TOB was immaterial and written off through the income statement. The goodwill incurred in connection with the initial acquisition was being amortized over 20 years through March 31, 1997.

At March 31, 1997, in accordance with SFAS No. 121 Ricoh recorded as an impairment loss ¥6,510 million of goodwill which was the remaining balance of goodwill after the sale of certain Gestetner business to a third party during fiscal 1997. The impairment loss is included in "Other Expense" in the accompanying consolidated statement of income.

Investment in Gestetner through September 30, 1995 was accounted for on an equity basis (see Note 7). The post-acquisition period for the 3 months ended December 31, 1995, the most recently available Gestetner financial reporting year, was consolidated in the accompanying financial statements. The following unaudited pro forma information presents the consolidated results of operations for the year ended March 31, 1996 as if the acquisition had occurred as of the beginning of the year presented:

	Millions of yen	
	1996	
Net sales	¥ 1,197,249	
Net income	18,956	
	Yen	
Net income per share of common stock		
Basic	¥	29.08
Diluted		27.17

The pro forma results of operations are not necessarily indicative of the actual results of operations that would have occurred had the acquisition

been made at the beginning of the years or of results which may occur in the future.

## 5. FINANCE RECEIVABLES

Finance receivables as of March 31, 1997 and 1998 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, 1997 and 1998 is as follows:

	Millions of yen		Thousands of
	1997	1998	U.S. dollars
Minimum lease payments receivable	¥396,141	¥407,461	\$3,086,826
Unearned income	(40,894)	(41,253)	(312,523)
Allowance for doubtful receivables	(9,549)	(10,508)	(79,606)
Net lease receivables	¥345,698	¥355,700	\$2,694,697

As of March 31, 1998, 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
1999	¥135,007	\$1,022,780
2000	112,840	854,849
2001	84,801	642,432
2002	52,177	395,280
2003	19,907	150,811
2004 and thereafter	2,729	20,674
Total	¥407,461	\$3,086,826

Installment loans as of March 31, 1997 and 1998 are primarily comprised of housing loans and term loans aggregating ¥18,794 million and ¥23,782 million (\$180,167 thousand), respectively.

## 6. SECURITIES

Marketable securities and investment securities as of March 31, 1997 and 1998 consist of the following:

	Millions of yen		Thousands of
	1997	1998	U.S. dollars
Marketable securities:			
Available-for-sale securities	¥95,976	¥86,487	\$655,205
Investment securities:			
Available-for-sale securities	¥73,600	¥44,337	\$335,886
Equity securities	7,735	8,629	65,371
	¥81,335	¥52,966	\$401,257

The investment equity securities as of March 31, 1997 and 1998 primarily relate to 20% less 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, 1997 and 1998 are as follows:

	Millions of yen							
	1997				1998			
	Cost	Gross unre- alized hold- ing gains	Gross unre- alized hold- ing losses	Fair value	Cost	Gross unre- alized hold- ing gains	Gross unre- alized hold- ing losses	Fair value
Current:								
Equity securities	¥ 1,586	¥ 120	¥ 229	¥ 1,477	¥ 2,723	¥ 72	¥ 111	¥ 2,684
Japanese and foreign governmental bond securities	997	81	—	1,078	997	83	—	1,080
Corporate debt securities	53,918	1,899	63	55,754	54,016	1,408	15	55,409
Bank debt securities	5,045	55	—	5,100	1,190	3	3	1,190
Fund in trust	32,523	63	19	32,567	26,162	42	80	26,124
	¥ 94,069	¥ 2,218	¥ 311	¥ 95,976	¥ 85,088	¥ 1,608	¥ 209	¥ 86,487
Noncurrent:								
Equity securities	¥ 13,441	¥ 37,755	¥ 386	¥ 50,810	¥ 13,269	¥ 24,696	¥ 355	¥ 37,610
Corporate debt securities	21,190	—	84	21,106	6,890	—	180	6,710
Bank debt securities	1,631	—	3	1,628	—	—	—	—
Fund in trust	64	—	8	56	16	1	—	17
	¥ 36,326	¥ 37,755	¥ 481	¥ 73,600	¥ 20,175	¥ 24,697	¥ 535	¥ 44,337

	Thousand of U.S. dollars			
	1998			
	Cost	Gross unre- alized hold- ing gains	Gross unre- alized hold- ing losses	Fair value
Current:				
Equity securities	\$ 20,629	\$ 545	\$ 841	\$ 20,333
Japanese and foreign governmental bond securities	7,553	629	—	8,182
Corporate debt securities	409,212	10,667	113	419,766
Bank debt securities	9,015	23	23	9,015
Fund in trust	198,197	318	606	197,909
	\$ 644,606	\$ 12,182	\$ 1,583	\$ 655,205
Noncurrent:				
Equity securities	\$ 100,523	\$ 187,091	\$ 2,689	\$ 284,925
Corporate debt securities	52,197	—	1,364	50,833
Bank debt securities	—	—	—	—
Fund in trust	121	7	—	128
	\$ 152,841	\$ 187,098	\$ 4,053	\$ 335,886

The contractual maturities of debt securities classified as available-for-sale as of March 31, 1998, 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	¥28,728	¥29,597	\$217,636	\$224,220
Due after one year through five years	53,630	54,007	406,288	409,144
Due after five years	6,913	6,926	52,371	52,469
	¥89,271	¥90,530	\$676,295	\$685,833

Proceeds from the sale of available-for-sale securities were ¥36,310 million, ¥29,502 million and ¥49,240 million (\$373,030 thousand) for the years ended March 31, 1996, 1997 and 1998, respectively.

The gross realized gain on sale of available-for-sale securities was

¥2,969 million (\$22,492 thousand), while no significant realized loss was recognized for the year ended March 31, 1998.

There were no significant realized gains or losses on sales of available-for-sale securities for the two years ended March 31, 1997.

## 7. 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. These companies include the following two major companies.

Name	Principal business	Ownership interest
Ricoh Elemex Corporation	Manufacture and sales of office equipment and precision instruments	44.8%
Kita Kyushu Coca-Cola Bottling Co., Ltd.	Bottling and distribution of Coca-Cola products	34.1

The common stock of these two companies are publicly traded. The aggregate carrying value of the investments in these companies was equal to their underlying book value and amounted to ¥37,465 million (\$283,826 thousand) as of March 31, 1998. The aggregate quoted market

value of these companies was ¥50,674 million (\$383,894 thousand) as of March 31, 1998.

Included in equity in earnings of affiliates in the accompanying financial statements was the 28.8% interest in Gestetner, a major affiliate through September 30, 1995 (see Note 4).

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, 1997 and 1998 and for the three years ended March 31, 1998 is as follows (except that Gestetner's accounts are included using its most recent available financial statements as of September 30, 1995):

### Financial Position

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Assets—			
Current assets	¥154,346	¥152,821	\$1,157,735
Other assets	88,352	87,799	665,144
	¥242,698	¥240,620	\$1,822,879
Liabilities and shareholders' investment—			
Current liabilities	¥ 56,467	¥ 59,300	\$ 449,242
Short-term borrowings and long-term indebtedness	18,088	23,239	176,053
Other liabilities	20,640	14,495	109,811
Shareholders' investment	147,503	143,586	1,087,773
	¥242,698	¥240,620	\$1,822,879

### Operations

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Sales	¥ 330,492	¥ 281,170	¥288,816	\$ 2,188,000
Costs and expenses	327,237	268,989	275,058	2,083,773
Net income	¥ 3,255	¥ 12,181	¥ 13,758	\$ 104,227

Shareholder's investment as of March 31, 1998, decreased despite net income earned during the year, attributable primarily to a Korean affiliate's translation adjustment due to a significant depreciation of the Korean won against other currencies.

The significant transactions of Ricoh with these affiliates for the three years ended March 31, 1998 and the related account balances at March 31, 1997 and 1998 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Transactions—				
Sales	¥44,388	¥24,112	¥38,335	\$290,417
Purchases	43,107	47,698	60,083	455,174
Dividend income	700	770	1,767	13,386

## 8. 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, 1998 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Income before income taxes, minority interests and equity in earnings of affiliates—				
Domestic	¥45,627	¥68,108	¥58,144	\$440,485
Foreign	5,393	(1,203)	10,284	77,909
	¥51,020	¥66,095	¥68,428	\$518,394
Provision for income taxes—				
Current:				
Domestic	¥28,140	¥41,831	¥34,533	\$261,614
Foreign	3,332	4,841	7,575	57,386
	31,472	46,672	42,108	319,000
Deferred:				
Domestic	(2,584)	(9,443)	(2,153)	(16,311)
Foreign	(637)	2,635	255	1,932
	(3,221)	(6,808)	(1,898)	(14,379)
Consolidated provision for income taxes	¥28,251	¥39,864	¥40,210	\$304,621

Total income taxes were allocated as follows:

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Provision for income taxes	¥28,251	¥39,864	¥40,210	\$304,621
Shareholders' investment:				
Net unrealized holding gains on available-for-sale securities	8,018	(10,935)	(7,794)	(59,046)
Pension liability adjustment	(6,411)	(2,583)	(3,971)	(30,083)
Translation adjustments	(1,821)	727	(242)	(1,833)
	¥28,037	¥27,073	¥28,203	\$213,659

Reconciliations of the normal tax rates in Japan with the effective tax rates for the three years ended March 31, 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Account balances—			
Receivables	¥ 8,013	¥17,571	\$133,114
Payables	18,003	19,574	148,288

As of March 31, 1998, consolidated retained earnings included undistributed earnings of 20% to 50% owned companies accounted for by the equity method in the amount of ¥38,015 million (\$287,992 thousand).

	1996	1997	1998
Normal tax rate	51%	51%	51%
Permanently nondeductible expenses, net of nontaxable income	5	3	5
Tax benefits not recognized on operating losses of certain consolidated subsidiaries	2	5	0
Decrease in the beginning-of-the-year balance of the valuation allowance for deferred tax assets	—	(3)	(3)
Nondeductible goodwill impairment loss	—	5	3
Effect of change in enacted tax rate	—	—	2
Other, net	(3)	(1)	1
Effective tax rate	55%	60%	59%

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

The tax effect of temporary differences giving rise to the consolidated deferred income tax assets and liabilities at March 31, 1997 and 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
<b>Assets:</b>			
Intercompany profits and inventory write-downs	¥ 19,381	¥ 20,300	\$ 153,788
Accrued expenses	9,711	6,747	51,114
Deferred charges	5,164	4,526	34,288
Estimated retirement allowances	15,313	20,669	156,583
Net operating losses carryforward	18,770	14,107	106,871
Other	7,641	8,363	63,356
	75,980	74,712	566,000
Less—Valuation allowance	(16,054)	(13,757)	(104,220)
	¥ 59,926	¥ 60,955	\$ 461,780
<b>Liabilities:</b>			
Sales-type leases	¥ (17,220)	¥ (12,997)	\$ (98,462)
Undistributed earnings of foreign subsidiaries and affiliates	(7,905)	(5,949)	(45,068)
Net unrealized holding gains on available-for-sale securities	(20,041)	(12,139)	(91,962)
Other	(6,809)	(7,225)	(54,735)
	¥ (51,975)	¥ (38,310)	\$ (290,227)
Net deferred tax assets	¥ 7,951	¥ 22,645	\$ 171,553

Net deferred tax assets as of March 31, 1997 and 1998 are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Deferred income taxes (Current Assets)	¥ 33,058	¥ 34,918	\$ 264,530
Lease deposits and other	8,431	17,129	129,765
Accrued expenses and other	(271)	(3,110)	(23,560)
Deferred income taxes (Long-Term Liabilities)	(33,267)	(26,292)	(199,182)
	¥ 7,951	¥ 22,645	\$ 171,553

The net changes in the total valuation allowance for the years ended March 31, 1996, 1997 and 1998 were an increase of ¥15,324 million, a decrease of ¥8,655 million and a decrease of ¥2,297 million (\$17,402 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, 1998, certain subsidiaries had net operating losses carried forward for income tax purposes of approximately ¥38,477 million

(\$291,492 thousand), which were available to reduce future income taxes, if any. Approximately ¥20,233 million (\$153,280 thousand) of the operat-

ing losses expire within a five-year period while the remainder principally have an indefinite carryforward period.

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

Short-term borrowings as of March 31, 1997 and 1998 consist of the following:

	Weighted average interest rate		Millions of yen		Thousands of U.S. dollars
	1997	1998	1997	1998	1998
Borrowings, principally from banks	2.5%	2.5%	¥168,505	¥209,871	\$ 1,589,932
Commercial paper and medium-term notes	1.8	1.9	44,288	68,243	516,992
			¥212,793	¥278,114	\$ 2,106,924

The Company and certain of its domestic 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 1.6% and 1.5% as of March 31, 1997 and 1998, 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 0.3% as of March 31, 1998.

The Company and certain of its subsidiaries had unused lines of credit amounting to ¥283,898 million (\$2,150,742 thousand) of which ¥166,366 million (\$1,260,348 thousand) related to commercial paper programs and medium-term notes at prevailing interest rates.

## 10. LONG-TERM INDEBTEDNESS

Long-term indebtedness as of March 31, 1997 and 1998 consists of the following:

	Conversion price	Millions of yen		Thousands of U.S. dollars
	(Per share)	1997	1998	1998
Convertible bonds—				
1.9%, payable in yen, due March 1998	¥1,264.40	¥ 29,827	¥ —	\$ —
1.8%, payable in yen, due March 2002	824.70	1,852	1,490	11,288
1.5%, payable in yen, due March 2002	993.00	37,292	33,434	253,288
0.35%, payable in yen, due March 2003	1,210.00	39,768	30,254	229,197
0.4%, payable in yen, due September 2002, issued by a consolidated subsidiary	2,296.00	10,000	10,000	75,757
Total convertible bonds		118,739	75,178	569,530
Bonds—				
7.0%, straight bonds, payable in yen, due January 2000		50,257	50,164	380,030
3.75%, straight bonds, payable in yen, due October 1999		15,000	15,000	113,637
2.9%, straight bonds, payable in yen, due August 2001		10,000	10,000	75,757
Medium-term notes, 0.4%–7.7%, due through 2002		29,642	29,355	222,387
Total bonds		104,899	104,519	791,811
Unsecured loans—				
Banks and insurance companies, 0.6%–8.0%, due through 2012		259,727	195,470	1,480,833
Japanese government sponsored agencies, 2.9%, due through 2003		263	—	—
Total unsecured loans		259,990	195,470	1,480,833
Secured loans—				
Banks and insurance companies, 1.1%–7.1%, due through 2020		22,304	17,881	135,462
Capital lease obligations (see Note 2 (f))		2,873	3,784	28,667
Total		508,805	396,832	3,006,303
Less—Current maturities included in current liabilities		(121,887)	(101,296)	(767,394)
		¥386,918	¥ 295,536	\$ 2,238,909

Secured loans are collateralized by land and buildings with a book value of ¥28,001 million (\$212,129 thousand) as of March 31, 1998.

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, 1998 are redeemable at the option of the Company at prices ranging from 103% 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, 1998, 60,480 thousand shares of common stock would be issuable.

On April 28, 1998, the Company issued 2.075% unsecured straight bonds of ¥40,000 million (\$303,030 thousand) payable in yen, due April 28, 2005.

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, 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 the straight bond aggregating to ¥25,000 million and made cash deposits (earning interest of 2.9%) with the banks to fulfill such obligations. These transactions do not conform to the requirements of SFAS No. 76, "Extinguishment of Debt"; therefore, the applicable obligations and cash deposits (time deposits) are reflected in the accompanying balance sheets. The cash deposits are included in lease deposits and other.

The aggregate annual maturities of long-term indebtedness subsequent to March 31, 1999 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥ 95,880	\$ 726,364
2001	39,909	302,341
2002	56,008	424,303
2003	48,969	370,977
2004 and thereafter	54,770	414,924
Total	¥295,536	\$ 2,238,909

## 11. PENSION AND RETIREMENT ALLOWANCES PLANS

The Company and certain of its subsidiaries have various trustee 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.

A summary of the components of the net periodic pension cost for 1996, 1997 and 1998 is as follows:

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Service cost-benefits earned during the period	¥ 7,437	¥ 9,861	¥ 11,503	\$ 87,144
Interest cost on projected benefit obligation	8,425	10,198	10,893	82,523
Actual return on plan assets	(6,365)	(12,183)	(10,924)	(82,758)
Net amortization and deferral	(1,961)	6,780	5,459	41,356
Net periodic pension cost	¥ 7,536	¥ 14,656	¥ 16,931	\$ 128,265

The funded status of the plans referred to above as of March 31, 1997 and 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Actuarial present value of benefit obligations:			
Vested benefit obligation	¥ 186,457	¥214,823	\$1,627,447
Accumulated benefit obligation	201,446	232,925	1,764,583
Projected benefit obligation	249,894	284,825	2,157,765
Plan assets at fair value	180,534	202,005	1,530,341
Projected benefit obligation in excess of plan assets	(69,360)	(82,820)	(627,424)
Unrecognized net loss	72,332	85,875	650,568
Unrecognized net asset at transition, net of amortization	(5,442)	(4,730)	(35,833)
Additional minimum pension liability	(17,584)	(27,301)	(206,826)
Accrued pension cost included in estimated retirement allowances	¥ 20,054	¥ 28,976	\$ 219,515

The actuarial assumptions used in the accounting for the plans as of March 31, 1996, 1997 and 1998 are:

	1996	1997	1998
Discount rate	4.5~9.0%	4.0~8.0%	3.75~7.75%
Rate of increase in compensation levels	3.7~6.5%	3.7~6.0%	3.7~5.5%
Expected long-term rate of return on plan assets	4.0~9.0%	3.75~8.5%	3.75~8.5%

In accordance with the provisions of SFAS No. 87, the Company was required to record an additional minimum pension liability at March 31, 1997 and 1998. This amount 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 as a separate component of shareholders' investment, at net of tax benefits. The net changes in pension liability adjustment for the years ended March 31, 1997 and 1998 were both increases of ¥2,473 million and ¥5,746 million (\$43,530 thousand), respectively.

Employees of certain subsidiaries not covered by the EPF plan and directors of Ricoh are primarily covered by unfunded retirement allowances plans.

Under the unfunded plans described in the preceding paragraph, the amounts required if all employees and directors had voluntarily terminated their employment at each balance sheet date are fully accrued. The payments to directors are subject to shareholders' approval. The total provisions charged to income under these plans in fiscal 1996, 1997 and 1998 were ¥4,486 million, ¥4,498 million and ¥2,942 million (\$22,288 thousand), respectively.

## 12. 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 26, 1998, the shareholders approved the declaration of a cash dividend on the common stock

totaling ¥3,803 million (\$28,811 thousand), which will be paid to shareholders of record as of March 31, 1998, and the related appropriation of retained earnings totaling ¥395 million (\$2,992 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, 1998.

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.

### 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		
	1996	1997	1998
Average common shares outstanding	651,776	655,010	669,959
Effect of dilutive securities:			
Convertible bonds—			
1.9%, payable in yen, due March 1998	23,633	23,629	—
1.8%, payable in yen, due March 2002	4,886	2,603	1,921
1.5%, payable in yen, due March 2002	40,279	39,354	34,662
0.35%, payable in yen, due March 2003	—	31,405	27,810
Diluted common shares outstanding	720,574	752,001	734,352

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Net income applicable to common shareholders	¥ 21,869	¥ 28,922	¥ 30,131	\$ 228,265
Effect of dilutive securities:				
Convertible bonds—				
1.9%, payable in yen, due March 1998	286	286	—	—
1.8%, payable in yen, due March 2002	35	19	14	106
1.5%, payable in yen, due March 2002	302	292	258	1,955
0.35%, payable in yen, due March 2003	—	130	109	826
Other	—	(356)	(145)	(1,098)
Diluted net income	¥ 22,492	¥ 29,293	¥ 30,367	\$ 230,054

	Yen			U.S. dollars
	1996	1997	1998	1998
Earnings per Share:				
Basic	¥ 33.55	¥ 44.16	¥ 44.97	\$ 0.34
Diluted	31.21	38.95	41.35	0.31

### 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 its 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, 1997 and 1998 were ¥135,883 million and ¥134,023 million (\$1,015,326 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 its interest exposure; at March 31, 1997 and 1998, they had ¥379,856 million and ¥412,020 million (\$3,121,364 thousand) of contractual amounts under interest rate swap agreements. Interest rate swap transactions generally involve the exchange of fixed and floating 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, 1998, Ricoh had outstanding contractual commitments for acquisition or construction of plant, equipment and other assets aggregating ¥6,523 million (\$49,417 thousand).

Ricoh is contingently liable for discounted trade notes receivable on a full recourse basis with banks of ¥410 million (\$3,106 thousand) as of March 31, 1998. As of March 31, 1998, Ricoh is also contingently liable as guarantor for employees' housing loans of ¥2,181 million (\$16,523 thousand) and an affiliate's borrowing of ¥1,551 (\$11,750 thousand).

Ricoh made rental payments totaling ¥31,119 million in fiscal 1996,

¥37,930 million in fiscal 1997 and ¥37,160 million (\$281,515 thousand) in fiscal 1998, under operating lease agreements for office space and machinery and equipment, which are primarily cancellable and renewable.

At March 31, 1998, 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, 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) Installment loans

The fair value of the installment loans is based on the present value of future cash flows using estimated interest rates and maturities, discounted using estimated market discount rates. The carrying amounts approximate the computed fair values (see Note 5).

### (d) Long-term cash deposits

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 10).

### (e) 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.

### (f) Interest rate swap agreements

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

### (g) 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, 1997 and 1998 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	1997		1998		1998	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Marketable securities and Investment securities	¥ 177,311	¥ 177,311	¥ 139,453	¥ 139,453	\$ 1,056,462	\$1,056,462
Long-term cash deposits	27,707	28,602	26,736	27,767	202,545	210,356
Long-term indebtedness	(386,918)	(418,665)	(295,536)	(322,453)	(2,238,909)	(2,442,826)
Interest rate swap agreements—net credit	(144)	(4,727)	(233)	(466)	(1,765)	(3,530)
Foreign currency contracts—net credit	(7,479)	(6,473)	(8,324)	(7,406)	(63,061)	(56,106)

### 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

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

## 17. SEGMENT INFORMATION

Ricoh's industry segments are comprised of office equipment, including copiers and related supplies, communications and information systems, and others, including optical equipment and electronic devices. The office equipment segment accounted for 85% in fiscal 1996 and 86% in

fiscal 1997 and 1998 of consolidated sales.

Selected data by geographic area for the three years ended March 31, 1998 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Sales—				
Total domestic	¥ 951,083	¥ 1,031,305	¥1,092,979	\$ 8,280,144
Less—Transfers to foreign subsidiaries	(138,552)	(199,874)	(246,961)	(1,870,917)
To unaffiliated customers	812,531	831,431	846,018	6,409,227
Total foreign subsidiaries	322,061	512,893	599,581	4,542,280
Less—Transfers to domestic subsidiaries	(21,562)	(28,252)	(42,251)	(320,083)
To unaffiliated foreign customers	300,499	484,641	557,330	4,222,197
Consolidated	¥ 1,113,030	¥ 1,316,072	¥1,403,348	\$10,631,424
Operating income—				
Domestic	¥ 51,931	¥ 73,906	¥ 70,681	\$ 535,462
Foreign	12,567	15,535	24,328	184,303
Eliminations	(9,120)	(6,078)	(5,302)	(40,167)
Consolidated	¥ 55,378	¥ 83,363	¥ 89,707	\$ 679,598
Identifiable assets—				
Domestic	¥ 892,268	¥ 977,189	¥ 997,004	\$ 7,553,060
Foreign	245,534	301,320	331,725	2,513,068
Eliminations	(60,676)	(100,384)	(91,923)	(696,386)
Total	1,077,126	1,178,125	1,236,806	9,369,742
Investments in and advances to affiliates	52,939	56,183	52,694	399,197
Corporate assets	378,454	410,588	370,996	2,810,576
Consolidated	¥ 1,508,519	¥ 1,644,896	¥1,660,496	\$12,579,515
Export sales—				
The Americas	¥ 7,317	¥ 5,209	¥ 5,935	\$ 44,962
Europe	5,217	927	1,224	9,273
Other	17,870	4,291	7,520	56,970
Total	¥ 30,404	¥ 10,427	¥ 14,679	\$ 111,205

Intercompany sales between geographic areas are made at cost plus profit. Operating income by geographic area is sales less expenses related to the area's operating revenue. Identifiable assets are those associated with the operations of each geographic area. Export sales are sales to un-

affiliated foreign distributors and are included in domestic sales to unaffiliated customers to comply with SFAS No. 14 on financial reporting for segments.

## 18. RESEARCH AND DEVELOPMENT EXPENSES AND ADVERTISING COSTS

The following amounts were charged to costs and expenses for the three years ended March 31, 1998:

	Millions of yen			Thousands of U.S. dollars
	1996	1997	1998	1998
Research and development costs	¥ 58,992	¥ 64,297	¥ 69,988	\$530,212
Advertising costs	14,510	18,551	22,033	166,917

# 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, 1997 and 1998, and the related consolidated statements of income, shareholders' investment and cash flows for each of the three years in the period ended March 31, 1998, 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. 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.

Generally accepted accounting principles in the United States of America require that financial statements include information concerning a company's operations in different industries and geographical areas. The Company has not presented such segment information as would be appropriate in its consolidated financial statements.

In our opinion, except for the omission of segment information referred to in the preceding paragraph, 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, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in the United States of America (see Note 2).

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

*Arthur Andersen*

Tokyo, Japan  
June 26, 1998