

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FISCAL 1999 RESULTS

In fiscal 1999, ended March 31, 1999, Ricoh Company, Ltd., completed its 12th medium-term management plan. This initiative focused on reinforcing management's emphasis on customer satisfaction while making Ricoh a more valuable business. Ricoh strove companywide to develop products that match user needs, aggressively market, and bolster its production and supplies structure.

As a result of these endeavors, Ricoh achieved record net sales for the fourth consecutive year and record net income for the fifth year running.

Revenues

Net sales were up 1.6% from fiscal 1998, to ¥1,426.0 billion (\$11,785 million).

In the office equipment category, sales of copiers and related supplies rose 1.8%. This business benefited from a stronger sales structure overseas and favorable conditions in the European and U.S. markets, which offset stagnant conditions in Japan. Communications and information systems sales advanced 1.6%. New networkable offerings contributed to sales, especially in the domestic market.

Office equipment sales thus gained 1.7%, to ¥1,234.5 billion (\$10,202 million). Office equipment represented 86.6% of net sales.

Domestic sales were down 1.2%, to ¥821.0 billion (\$6,785 million). This figure constituted 57.6% of net sales, from 59.2%. Overseas sales climbed 5.8%, to ¥605.0 billion (\$5,000 million). This accounted for 42.4% of net sales, from 40.8% in fiscal 1998.

The average yen-dollar exchange rate for the term was down around ¥5, to ¥128. The yen-deutschemark average was ¥73, down around ¥4.

Operating Income

Operating income fell 18.0%, to ¥73.5 billion (\$608 million). The gross profit ratio slipped 0.4 percentage point, to 39.9%. This was mainly because of the domestic sales decline and stricter inventory controls, which increased manufacturing overheads.

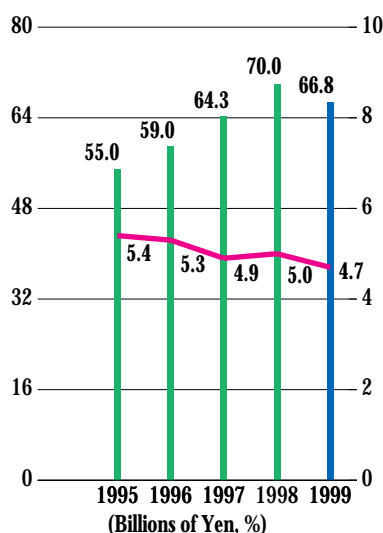
Selling, general and administrative expenses increased 4.2%, to ¥495.0 billion (\$4,091 million). This was due primarily to the yen's depreciation, which boosted the costs of foreign subsidiaries when translated into yen, and restructurings at some subsidiaries.

Research and development costs dipped 4.6%, to ¥66.8 billion (\$552 million), and represented 4.7% of net sales, down 0.3 percentage point.

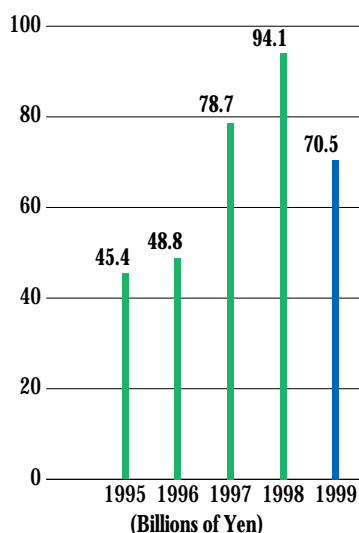
Income before Income Taxes

Income before income taxes, minority interests and equity in earnings of affiliates dropped 22.5%, to ¥53.1 billion (\$438 million). Net interest expense and interest and dividend income decreased 9.6%, to ¥5.7 billion (\$47 million). Foreign exchange losses were ¥3.5 billion (\$29 million). Other expenses included losses of ¥5.3 billion (\$43 million) from bankruptcies of companies in which Ricoh had investments or accounts receivable.

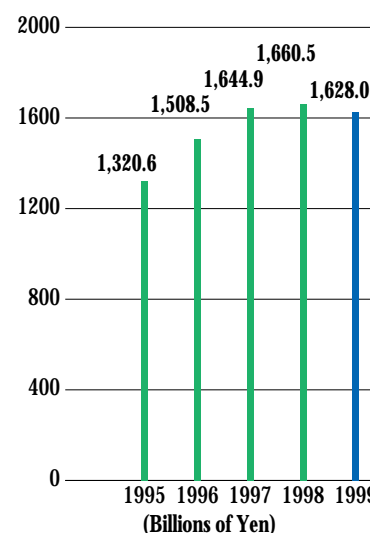
R&D EXPENDITURE AND PERCENT OF NET SALES



CAPITAL EXPENDITURES



TOTAL ASSETS



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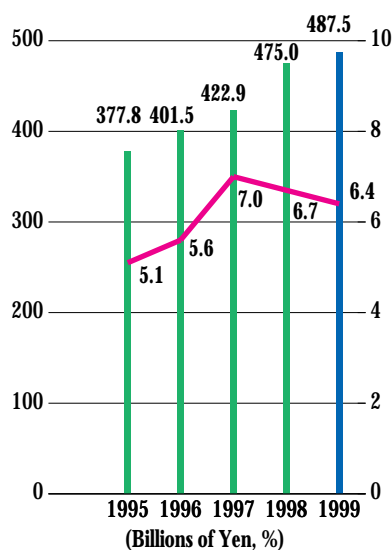
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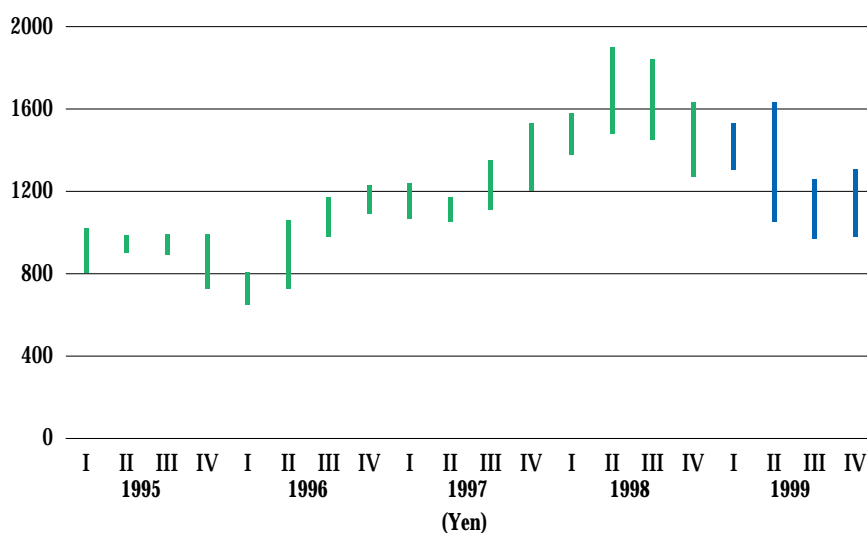
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SHAREHOLDERS' INVESTMENT AND RETURN ON SHAREHOLDERS' INVESTMENT



COMMON STOCK PRICE RANGE



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Income before Income Taxes

	Fiscal 1997	Fiscal 1998	Fiscal 1999
Return on sales	2.2%	2.1%	2.1%
Return on shareholders' investment	7.0%	6.7%	6.4%
Current ratio	1.11	1.04	1.27
Debt-to-equity ratio (interest-bearing debt to shareholders' investment)	1.71	1.42	1.34
Interest coverage	6.4	7.8	6.8

SALES BY PRODUCT LINE

	1998		1999		
	Millions of yen	Percentage of net sales	Millions of yen	Percentage of net sales	Thousands of U.S. dollars
Office Equipment:					
Copiers and related supplies	¥ 891,043	63.5%	¥ 906,908	63.6%	\$ 7,495,108
Communications and information systems	322,425	23.0	327,543	23.0	2,706,967
Other Businesses	189,880	13.5	191,548	13.4	1,583,041
Total	¥ 1,403,348	100.0%	¥ 1,425,999	100.0%	\$ 11,785,116

SALES BY GEOGRAPHIC AREA

	1998		1999		
	Millions of yen	Percentage of net sales	Millions of yen	Percentage of net sales	Thousands of U.S. dollars
Japan	¥ 831,339	59.2%	¥ 820,975	57.6%	\$ 6,784,918
The Americas	230,342	16.4	239,623	16.8	1,980,355
Europe	252,042	18.0	283,373	19.9	2,341,926
Other	89,625	6.4	82,028	5.7	677,917
Total	¥ 1,403,348	100.0%	¥ 1,425,999	100.0%	\$ 11,785,116

INDUSTRY SEGMENT INFORMATION BASED ON JAPANESE DISCLOSURE STANDARDS

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Net Sales			
Office Equipment:			
Unaffiliated Customers	¥ 1,213,468	¥ 1,234,451	\$ 10,202,075
Intersegment	—	—	—
Total	1,213,468	1,234,451	10,202,075
Other Businesses:			
Unaffiliated Customers	189,880	191,548	1,583,041
Intersegment	4,078	4,023	33,248
Total	193,958	195,571	1,616,289
Eliminations	(4,078)	(4,023)	(33,248)
Consolidated	¥ 1,403,348	¥ 1,425,999	\$ 11,785,116
Operating Income			
Office Equipment	¥ 129,969	¥ 113,897	\$ 941,297
Other Businesses	1,220	1,196	9,884
Corporate and Eliminations	(41,482)	(41,546)	(343,355)
Consolidated	¥ 89,707	¥ 73,547	\$ 607,826
Identifiable Assets			
Office Equipment	¥ 1,060,416	¥ 1,001,219	\$ 8,274,537
Other Businesses	186,877	210,094	1,736,314
Corporate and Eliminations	413,203	416,704	3,443,835
Consolidated	¥ 1,660,496	¥ 1,628,017	\$ 13,454,686
Depreciation and Amortization			
Office Equipment	¥ 49,328	¥ 54,551	\$ 450,835
Other Businesses	10,993	11,369	93,959
Corporate	1,650	1,536	12,694
Consolidated	¥ 61,971	¥ 67,456	\$ 557,488
Capital Expenditures			
Office Equipment	¥ 76,924	¥ 59,469	\$ 491,479
Other Businesses	15,484	9,527	78,735
Corporate	1,709	1,473	12,174
Consolidated	¥ 94,117	¥ 70,469	\$ 582,388

GEOGRAPHIC SEGMENT INFORMATION BASED ON JAPANESE DISCLOSURE STANDARDS

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Net Sales			
Japan			
Unaffiliated Customers	¥ 846,018	¥ 830,731	\$ 6,865,546
Intersegment	246,961	240,352	1,986,380
Total	1,092,979	1,071,083	8,851,926
The Americas			
Unaffiliated Customers	¥ 224,407	¥ 237,420	\$ 1,962,149
Intersegment	6,938	8,019	66,272
Total	231,345	245,439	2,028,421
Europe			
Unaffiliated Customers	¥ 260,093	¥ 290,159	\$ 2,398,009
Intersegment	3,533	6,032	49,851
Total	263,626	296,191	2,447,860
Other			
Unaffiliated Customers	¥ 72,830	¥ 67,689	\$ 559,413
Intersegment	48,090	39,218	324,116
Total	120,920	106,907	883,529
Eliminations	(305,522)	(293,621)	(2,426,620)
Consolidated	¥ 1,403,348	¥ 1,425,999	\$ 11,785,116
Operating Income			
Japan	¥ 70,681	¥ 50,568	\$ 417,917
The Americas	11,043	12,147	100,388
Europe	8,486	12,375	102,273
Other	4,829	3,206	26,496
Corporate and Eliminations	(5,332)	(4,749)	(39,248)
Consolidated	¥ 89,707	¥ 73,547	\$ 607,826
Identifiable Assets			
Japan	¥ 997,004	¥ 1,008,764	\$ 8,336,893
The Americas	127,719	111,768	923,702
Europe	147,419	138,697	1,146,256
Other	59,620	53,715	443,926
Corporate and Eliminations	328,734	315,073	2,603,909
Consolidated	¥ 1,660,496	¥ 1,628,017	\$ 13,454,686

Market Risk

MARKET RISK EXPOSURE

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

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

FOREIGN CURRENCY RISK

In the ordinary course of business, Ricoh uses foreign exchange forward contracts to manage the effects of foreign currency exchange risk on monetary assets and liabilities denominated in foreign currencies. The contracts with respect to the operating activities generally have maturities of less than six months, while the contracts with respect to the financing activities have the same maturities as underlying assets and liabilities.

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

FOREIGN EXCHANGE FORWARD CONTRACTS

	Average contractual rates	Thousands of	
		Millions of yen	U.S. dollars
US\$/¥	116.12	¥ 31,724	\$ 262,182
Dfl/¥	59.88	21,136	174,678

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 obli-

gations, the table presents principal cash flows by expected maturity date and related weighted average interest rates. For interest rate swaps, the table presents notional amounts by expected maturity date and weighted average interest rates. Notional amounts are generally used to calculate the contractual payments to be exchanged under the contract.

CREDIT RISK

Credit risk arising from the nonperformance of counterparties to meet the terms of financial instrument contracts is generally limited to the amounts by which the counterparties' obligations exceed the obligations of Ricoh. It is Ricoh's policy to only enter into financial instrument contracts with 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.

Year 2000

The Year 2000 (Y2K) problem has occurred because computer systems and equipment and facilities incorporating microchips express years in two digits instead of four. As a result, programs could misinterpret "00" as the year 1900, causing miscalculations and failure with date-sensitive information.

Ricoh is tackling Y2K for its products through specialized teams within its sales operations in Japan and overseas.

Ricoh has appointed a director to oversee its overall in-house systems. This director reports directly to the president. In addition, the Company maintains a groupwide information systems committee to address Y2K issues.

Ricoh's Y2K responses cover four phases. The first is to conduct initial surveys. The second is to plan responses. The third is to implement responses. The fourth is to monitor progress.

The Company's Y2K effort encompasses the four following areas:

1. Products

In June 1998, Ricoh began notifying customers for core products through sales companies. Changes to avoid Y2K problems are almost complete. Ricoh aims to finish work on other offerings by the end of September 1999. The Company has publicized its Y2K information and relevant contact details at the following website: <http://www.ricoh.co.jp/year2000/index.html>

2. Information Systems

1) Software

Ricoh has completed Y2K compliance work on core business systems, notably order, shipping, production, inventory, and accounts management setups. Data link testing mostly ended by June 1999, and should be done by September 1999.

2) Hardware (Computers)

The Company completed most of its readiness program for mainframes and main servers by the end of June 1999. Outstanding tasks should end in September 1999. Y2K implementation for personal computers is almost finished, with all units being ready by September 1999.

LONG-TERM INDEBTEDNESS
(Excluding Capital Lease Obligations)

	Average interest rate	Millions of yen							
		Total	Expected maturity date					2005 and thereafter	
			2000	2001	2002	2003	2004		
Convertible Bonds	0.86 %	¥ 80,040	¥ —	¥ 4,920	¥ 34,906	¥ 40,214	¥ —	¥ —	
Bonds	4.51	115,072	65,072	—	10,000	—	—	40,000	
Medium-Term Notes	3.92	19,827	9,157	4,603	5,253	—	—	814	
Loans	2.92	219,984	19,277	53,626	67,828	11,041	25,859	42,353	
Total		¥ 434,923	¥ 93,506	¥ 63,149	¥ 117,987	¥ 51,255	¥ 25,859	¥ 83,167	

INTEREST RATE SWAPS

Notional amounts (Millions)	Type of swap	Average receive rate	Average pay rate	Millions of yen						
				Total	Expected maturity date					2005 and thereafter
					2000	2001	2002	2003	2004	
¥ 244,993	Receive floating/Pay fixed	0.42 %	1.55 %	¥ 244,993	¥ 32,500	¥ 13,600	¥ 9,880	¥ 93,075	¥ 87,315	¥ 8,623
51,500	Receive fixed/Pay floating	3.74	0.40	51,500	10,000	5,000	6,000	1,000	2,000	27,500
11,000	Receive floating/Pay floating	1.84	0.42	11,000	11,000	—	—	—	—	—
US\$ 30	Receive floating/Pay fixed	5.54	5.60	¥ 2,412	¥ —	¥ 1,206	¥ 1,206	¥ —	¥ —	¥ —

LONG-TERM INDEBTEDNESS
(Excluding Capital Lease Obligations)

	Average interest rate	Thousands of U.S. dollars						
		Total	Expected maturity date					2005 and thereafter
			2000	2001	2002	2003	2004	
Convertible Bonds	0.86 %	\$ 661,487	\$ —	\$ 40,661	\$ 288,479	\$ 332,347	\$ —	\$ —
Bonds	4.51	951,009	537,785	—	82,645	—	—	330,579
Medium-Term Notes	3.92	163,859	75,678	38,041	43,413	—	—	6,727
Loans	2.92	1,818,050	159,314	443,190	560,562	91,248	213,711	350,025
Total		\$ 3,594,405	\$ 772,777	\$ 521,892	\$ 975,099	\$ 423,595	\$ 213,711	\$ 687,331

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					2000	2001	2002	2003	2004	
¥ 244,993	Receive floating/Pay fixed	0.42 %	1.55 %	\$ 2,024,736	\$ 268,595	\$ 112,397	\$ 81,653	\$ 769,215	\$ 721,612	\$ 71,264
51,500	Receive fixed/Pay floating	3.74	0.40	425,620	82,645	41,322	49,587	8,264	16,529	227,273
11,000	Receive floating/Pay floating	1.84	0.42	90,909	90,909	—	—	—	—	—
US\$ 30	Receive floating/Pay fixed	5.54	5.60	\$ 19,934	\$ —	\$ 9,967	\$ 9,967	\$ —	\$ —	\$ —

3) Infrastructure

The domestic and international segments of Ricoh's core in-house network, called R-Wan, are almost Y2K-compliant. Completion is scheduled for September 1999. Most local area networks have been fixed. Here, too, the completion target is September 1999.

3. Facilities

Most development and production facilities were Y2K-compliant by June 1999. The remainder should be ready by September 1999. The full switchover to a Y2K environment is scheduled for November 1999.

Most air conditioners, dining facilities, elevators, building entrances and exits, and telephone systems are Y2K-compliant; all will be ready by September 1999.

4. Vendors

Ricoh has surveyed and collected responses from all main vendors. The Company has identified no vendors with potential delivery difficulties.

Order management systems that Ricoh has supplied its sales companies and dealers are almost all Y2K-compliant. After installing new versions of Ricoh-provided software, all will be ready.

It is difficult to accurately estimate Y2K-related costs because the readiness effort has been both internal and external. The parent company and main Group members have allocated around ¥1.5 billion externally to their Y2K programs. To date, ¥1.05 billion has been spent. The remainder is slated for fiscal 2000.

Y2K costs will not materially affect the performances of Group members or the parent company.

Ricoh is a global business and deals with many external parties. As a result, it is hard to precisely measure the impact of Y2K. While the Company has taken all necessary steps to resolve all projected Y2K issues and minimize the impact of Y2K, Ricoh cannot guarantee invulnerability to related litigation.

After reviewing the status of Y2K responses, Ricoh intends to plan and launch contingency programs before September 1999 to cover both products in the field and in-house systems, such as its communications infrastructure, information systems, development and production facilities, and operational facilities.

The Euro

On January 1, 1999, 11 of the 15 member countries of the European Union (EU) established fixed conversion rates between their existing currencies and their new common currency—the euro. The euro trades on currency exchanges and the existing currencies remain legal tender in the participating countries for a transition period until January 1, 2002.

The introduction of the euro reduces Ricoh's exposure to the change in foreign exchange rates caused by intra-EU transactions, while it has increased the pace of price harmonization throughout Europe. Ricoh is analyzing its pricing strategy to minimize any potential risk from price harmonization.

Ricoh estimates that the euro conversion will not have a material impact on its financial condition or results of operations.

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

	1990	1991
For the Year:		
Net sales	¥ 835,464	¥ 1,003,263
Cost of sales	550,088	645,875
Selling, general and administrative expenses	257,038	322,402
Income before income taxes, minority interests and equity in earnings of affiliates	31,207	38,365
Provision for income taxes	20,036	27,025
Net income	15,871	13,557
Capital expenditures	53,826	70,777
Depreciation and amortization	44,300	48,868
Per Share Data (in yen and dollars):		
Net income:		
Basic	¥ 26.18	¥ 20.90
Diluted	23.94	20.48
Cash dividends, applicable to the year	9.52	10.00
At Year-End:		
Total assets	¥ 831,627	¥ 1,198,717
Long-term indebtedness	86,147	246,853
Shareholders' investment	347,041	362,988
Working capital	183,008	114,809
Return on sales	1.9%	1.4%
Return on shareholders' investment	4.8	3.8
Common Stock Price Range (in yen and dollars):		
High	¥ 1,360	¥ 1,340
Low	1,010	671

Millions of yen								Thousands of U.S. dollars
1992	1993	1994	1995	1996	1997	1998	1999	1999
¥ 1,017,417	¥ 1,021,915	¥ 968,318	¥ 1,020,296	¥ 1,113,030	¥ 1,316,072	¥ 1,403,348	¥1,425,999	\$11,785,116
677,674	657,750	605,958	628,071	683,406	772,238	838,440	857,423	7,086,141
328,522	327,397	326,352	339,891	374,246	460,471	475,201	495,029	4,091,149
10,869	17,784	26,167	41,674	51,020	66,905	68,428	53,054	438,463
13,010	14,716	18,233	24,931	28,251	39,864	40,210	24,555	202,934
2,041	5,015	9,520	18,593	21,869	28,922	30,131	30,655	253,347
75,057	46,747	44,928	45,437	48,828	78,666	94,117	70,469	582,388
56,811	55,846	49,155	44,960	46,430	51,000	61,971	67,456	557,488
¥ 3.13	¥ 7.70	¥ 14.61	¥ 28.54	¥ 33.55	¥ 44.16	¥ 44.97	¥ 44.33	\$ 0.37
3.13	7.70	14.47	26.43	31.21	38.95	41.35	40.94	0.34
10.00	10.00	10.00	10.00	10.00	12.00	11.00	11.00	0.09
¥ 1,235,779	¥ 1,228,959	¥ 1,238,275	¥ 1,320,617	¥ 1,508,519	¥ 1,644,896	¥ 1,660,496	¥1,628,017	\$13,454,686
309,315	303,599	337,592	386,535	411,023	386,918	295,536	344,580	2,847,769
357,795	351,602	349,945	377,840	401,471	422,923	475,005	487,459	4,028,587
86,874	77,318	116,108	142,021	139,163	77,527	31,681	176,161	1,455,876
0.2 %	0.5 %	1.0 %	1.8 %	2.0 %	2.2 %	2.1 %	2.1 %	—
0.6	1.4	2.7	5.1	5.6	7.0	6.7	6.4	—
¥ 820	¥ 728	¥ 849	¥ 1,020	¥ 1,230	¥ 1,530	¥ 1,900	¥ 1,634	\$ 13.50
455	402	561	726	650	1,050	1,270	969	8.01

CONSOLIDATED BALANCE SHEETS

Ricoh Company, Ltd. and Consolidated Subsidiaries
March 31, 1998 and 1999

ASSETS

Current Assets:

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Cash and cash equivalents	¥ 141,334	¥ 130,655	\$ 1,079,793
Time deposits	17,750	16,477	136,174
Marketable securities	86,487	98,246	811,950
Trade receivables—			
Notes	80,128	77,784	642,843
Accounts	279,057	283,237	2,340,802
Less—Allowance for doubtful receivables	(11,781)	(13,887)	(114,769)
Inventories—			
Finished goods	136,339	112,505	929,793
Work in process and raw materials	47,846	49,793	411,512
Deferred income taxes	34,918	30,347	250,802
Cash deposits for assignment of debt securities	—	52,210	431,488
Total current assets	812,078	837,367	6,920,388

Plant and Equipment, at Cost:

Land	41,628	44,445	367,314
Buildings	178,396	188,408	1,557,091
Machinery and equipment	541,502	574,468	4,747,669
Construction in progress	8,884	3,613	29,860
	770,410	810,934	6,701,934
Less—Accumulated depreciation	(502,857)	(546,017)	(4,512,537)
	267,553	264,917	2,189,397

Investments and Other Assets:

Finance receivables	379,482	350,384	2,895,736
Investment securities	52,966	45,002	371,917
Investments in and advances to affiliates	52,694	46,152	381,422
Lease deposits and other	95,723	84,195	695,826
	580,865	525,733	4,344,901
	¥ 1,660,496	¥ 1,628,017	\$ 13,454,686

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
	1998	1999	1999
Current Liabilities:			
Short-term borrowings	¥ 278,114	¥ 214,290	\$ 1,770,992
Current maturities of long-term indebtedness	101,296	94,426	780,380
Trade payables—			
Notes	56,908	43,564	360,033
Accounts	222,312	205,595	1,699,132
Accrued income taxes	23,743	14,869	122,884
Accrued expenses and other	98,024	88,462	731,091
Total current liabilities	780,397	661,206	5,464,512
Long-Term Liabilities:			
Long-term indebtedness	295,536	344,580	2,847,769
Estimated retirement allowances	59,045	82,283	680,025
Deferred income taxes	26,292	14,831	122,570
	380,873	441,694	3,650,364
Minority Interests	24,221	37,658	311,223
Commitments and Contingent Liabilities (Note 16)			
Shareholders' Investment:			
Common stock, par value ¥50 per share:			
Authorized—1,000,000,000 shares			
Issued and outstanding—691,546,422 shares in 1998 and 691,598,631 shares in 1999	102,820	102,849	849,992
Additional paid-in capital	154,026	154,055	1,273,182
Legal reserve	13,407	14,271	117,942
Retained earnings	216,410	238,592	1,971,835
Accumulated other comprehensive income (loss)	(11,658)	(22,308)	(184,364)
Total shareholders' investment	475,005	487,459	4,028,587
	¥ 1,660,496	¥ 1,628,017	\$ 13,454,686

CONSOLIDATED STATEMENTS OF INCOME

Ricoh Company, Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 1997, 1998 and 1999

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Net Sales	¥ 1,316,072	¥ 1,403,348	¥ 1,425,999	\$ 11,785,116
Cost of Sales	772,238	838,440	857,423	7,086,141
Gross profit	543,834	564,908	568,576	4,698,975
Selling, General and Administrative Expenses	460,471	475,201	495,029	4,091,149
Operating income	83,363	89,707	73,547	607,826
Other (Income) Expenses:				
Interest and dividend income	(7,150)	(5,931)	(5,933)	(49,033)
Interest expense	14,077	12,270	11,661	96,372
Foreign currency exchange (gain) loss, net	(1,302)	3,695	3,503	28,950
Other, net	10,833	11,245	11,262	93,074
Total	16,458	21,279	20,493	169,363
Income before Income Taxes, Minority Interests and Equity in Earnings of Affiliates	66,905	68,428	53,054	438,463
Provision for Income Taxes:				
Current	46,672	42,108	28,052	231,835
Deferred	(6,808)	(1,898)	(3,497)	(28,901)
Total	39,864	40,210	24,555	202,934
Income before Minority Interests and Equity in Earnings of Affiliates	27,041	28,218	28,499	235,529
Minority Interests	2,186	2,154	1,939	16,025
Equity in Earnings of Affiliates	4,067	4,067	4,095	33,843
Net Income	¥ 28,922	¥ 30,131	¥ 30,655	\$ 253,347
		Yen		U.S. dollars
Per Share of Common Stock:				
Net income:				
Basic	¥ 44.16	¥ 44.97	¥ 44.33	\$ 0.37
Diluted	38.95	41.35	40.94	0.34
Cash dividends, applicable to the year	¥ 12.00	¥ 11.00	¥ 11.00	\$ 0.09
Per American Depositary Share, Each Representing 5 Shares of Common Stock:				
Net income:				
Basic	¥ 220.80	¥ 224.85	¥ 221.65	\$ 1.83
Diluted	194.75	206.75	204.70	1.69
Cash dividends, applicable to the year	¥ 60.00	¥ 55.00	¥ 55.00	\$ 0.45

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT

Ricoh Company, Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 1997, 1998 and 1999

	Millions of yen				Thousands of U.S. dollars	
	1997	1998	1999	1999		
Common Stock:						
Beginning balance	¥ 79,741	¥ 82,035	¥ 102,820	¥	\$ 849,752	
Conversion of convertible bonds; 4,888,423 shares in 1997, 34,170,930 shares in 1998, and 52,209 shares in 1999	2,294	20,785	29		240	
Ending balance	¥ 82,035	¥ 102,820	¥ 102,849	¥	\$ 849,992	
Additional Paid-in Capital:						
Beginning balance	¥ 131,179	¥ 133,463	¥ 154,026	¥	\$ 1,272,942	
Conversion of convertible bonds	2,284	20,563	29		240	
Ending balance	¥ 133,463	¥ 154,026	¥ 154,055	¥	\$ 1,273,182	
Legal Reserve:						
Beginning balance	¥ 11,471	¥ 12,327	¥ 13,407	¥	\$ 110,802	
Transfer from retained earnings	856	1,080	864		7,140	
Ending balance	¥ 12,327	¥ 13,407	¥ 14,271	¥	\$ 117,942	
Retained Earnings:						
Beginning balance	¥ 174,116	¥ 194,992	¥ 216,410	¥	\$ 1,788,512	
Net income	28,922	30,131	30,655		253,347	
Cash dividends paid	(7,190)	(7,633)	(7,609)		(62,884)	
Transfer to legal reserve	(856)	(1,080)	(864)		(7,140)	
Ending balance	¥ 194,992	¥ 216,410	¥ 238,592	¥	\$ 1,971,835	
Accumulated Other Comprehensive Income (Loss):						
Beginning balance	¥ 4,964	¥ 106	¥ (11,658)	¥	\$ (96,347)	
Unrealized holding gains on available-for-sale securities, net of reclassification adjustment	(10,665)	(5,965)	(3,924)		(32,430)	
Foreign currency translation adjustments	8,280	(53)	(2,217)		(18,322)	
Minimum pension liability adjustments	(2,473)	(5,746)	(4,509)		(37,265)	
Ending balance	¥ 106	¥ (11,658)	¥ (22,308)	¥	\$ (184,364)	
Comprehensive Income (Loss):						
Net income for the year	¥ 28,922	¥ 30,131	¥ 30,655	¥	\$ 253,347	
Other comprehensive income (loss) for the year, net of tax	(4,858)	(11,764)	(10,650)		(88,017)	
Total comprehensive income for the year	¥ 24,064	¥ 18,367	¥ 20,005	¥	\$ 165,330	

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, 1997, 1998 and 1999

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Cash Flows from Operating Activities:				
Net income	¥ 28,922	¥ 30,131	¥ 30,655	\$ 253,347
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization	51,000	61,971	67,456	557,488
Equity in earnings of affiliates, net of dividends received	(3,297)	(2,300)	(2,936)	(24,265)
Estimated retirement allowances, net	6,244	278	7,198	59,488
Deferred income taxes	(6,808)	(1,898)	(3,497)	(28,901)
Loss on disposal and sales of plant and equipment	1,615	1,432	2,285	18,884
Impairment loss of goodwill	6,510	5,037	—	—
Changes in assets and liabilities, net of effects from acquisition—				
Decrease (increase) in trade receivables	11,754	(8,168)	5,818	48,083
Decrease (increase) in inventories	(10,210)	(15,387)	22,038	182,132
Decrease (increase) in finance receivables	(15,880)	(14,025)	16,921	139,843
(Decrease) increase in trade payables	2,441	10,479	(29,961)	(247,612)
(Decrease) increase in accrued income taxes and accrued expenses and other	14,518	(18,213)	(14,433)	(119,281)
Other, net	(1,175)	(1,944)	5,164	42,678
Net cash provided by operating activities	85,634	47,393	106,708	881,884
Cash Flows from Investing Activities:				
Proceeds from sales of plant and equipment	234	866	486	4,017
Expenditures for plant and equipment	(78,302)	(93,657)	(68,990)	(570,165)
Payments for purchases of available-for-sale securities	(41,300)	(23,059)	(60,883)	(503,165)
Proceeds from sales of available-for-sale securities	29,502	49,240	54,777	452,702
(Increase) decrease in investments in and advances to affiliates	(3,989)	3,676	(2,258)	(18,661)
Decrease (increase) in time deposits	(23,834)	52,841	3,794	31,355
(Increase) in cash deposits for assignment of debt securities	—	—	(25,376)	(209,719)
Other, net	6,246	8,521	9,215	76,157
Net cash used in investing activities	(111,443)	(1,572)	(89,235)	(737,479)
Cash Flows from Financing Activities:				
Proceeds from long-term indebtedness	88,658	30,110	129,816	1,072,859
Repayment of long-term indebtedness	(79,388)	(101,062)	(128,917)	(1,065,430)
(Decrease) increase in short-term borrowings, net	24,301	62,177	(58,727)	(485,347)
Proceeds from issuance of long-term debt securities	—	—	40,000	330,579
Cash dividends paid	(7,190)	(7,633)	(7,609)	(62,884)
Net cash provided by (used in) financing activities	26,381	(16,408)	(25,437)	(210,223)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	3,046	1,557	(2,715)	(22,438)
Net Increase (Decrease) in Cash and Cash Equivalents	3,618	30,970	(10,679)	(88,256)
Cash and Cash Equivalents at Beginning of Year	106,746	110,364	141,334	1,168,049
Cash and Cash Equivalents at End of Year	¥ 110,364	¥ 141,334	¥ 130,655	\$ 1,079,793
Supplemental Disclosures of Cash Flow Information:				
Cash Paid during the Year for—				
Interest	¥ 24,155	¥ 26,473	¥ 17,970	\$ 148,512
Income taxes	37,987	50,631	34,618	286,099

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Ricoh Company, Ltd. and Consolidated Subsidiaries

1. NATURE OF OPERATIONS

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

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

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

2. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

(a) Principles of Consolidation

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

(b) Translation of Foreign Currency Accounts

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

(c) Derivatives

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

(d) Securities

Ricoh conforms with SFAS No.115, "Accounting for Certain Investments in Debt and Equity Securities," which requires certain investments in debt and equity securities to be classified as either held-to-maturity, trading, or available-for-sale securities. As of March 31, 1998 and 1999, a substantial part of Ricoh's investments in debt and equity securities is classified to available-for-sale securities. Those classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related taxes, excluded from earnings and reported in accumulated other comprehensive income (loss).

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

(e) Inventories

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

(f) Plant and Equipment

Depreciation of plant and equipment is computed principally by using the declining-balance method over the estimated useful lives. Most of the foreign subsidiaries have adopted the straight-line method for computing depreciation, which currently accounts for approximately 29% of the consolidated depreciation expense.

Effective rates of depreciation for the three years ended March 31, 1999 are summarized below:

	1997	1998	1999
Buildings	7.7%	7.9%	8.0%
Machinery and equipment	36.2	36.8	38.3

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, 1998 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Aggregate cost	¥ 6,365	¥ 6,958	\$ 57,504
Accumulated depreciation	2,617	3,083	25,479

The related future minimum lease payments and the present value of the net minimum lease payments as of March 31, 1999 were ¥5,784 million (\$47,802 thousand) and ¥4,083 million (\$33,744 thousand), respectively.

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

(g) Goodwill

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

(h) Pension and Retirement Allowances Plans

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

In the year ended March 31, 1999, Ricoh adopted SFAS No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits,"

which revised SFAS No. 87 for disclosures about pension and retirement allowance plans. For comparative purposes, the related 1998 disclosures have been restated to conform with the 1999 presentation. The disclosures required by SFAS No. 132 are presented in Note 10.

(i) Income Taxes

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

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

(j) Advertising

The costs of advertising are expensed as incurred.

(k) Impairment Loss on Long-Lived Assets

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

(l) Earnings Per Share

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

(m) Accounting for Stock Splits

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

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

(n) Consolidated Statements of Cash Flows

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

	Millions of yen			Thousands of U.S. dollars	
	1997	1998	1999	1999	1999
Conversion of convertible bonds	¥ 4,578	¥ 41,348	¥ 58	\$ 480	
Capital lease obligations incurred	364	1,760	1,446	11,950	
Assets and liabilities of Ricoh Elemex Corporation					
Fair value of assets acquired	—	—	55,633	459,777	
Liabilities assumed	—	—	32,826	271,289	

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

(o) Use of Estimates

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

(p) Comprehensive Income

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

(q) New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments. It requires an entity to recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value. Adjustments in the fair value will impact shareholders' investment through either net income or other comprehensive income, depending on whether the derivative instruments qualify as hedges and, if so, the nature of the hedging activity. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999, however, the Proposed Statement of Financial Accounting Standards, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133," was issued on May 20, 1999, to defer the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. Ricoh has not determined the effect on the consolidated financial statements.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Effective April 1, 1999, it requires Ricoh to capitalize the costs of computer software for internal use if certain criteria are met. Previously, Ricoh expensed all such costs.

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, 1999 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 1999 have also been presented in U.S. dollars by arithmetically translating all yen amounts by using the exchange rate of ¥121 to US\$1 in effect at March 31, 1999.

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, 1999:

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Net sales	¥698,837	¥752,631	¥720,503	\$5,954,570
Net income	19,816	22,505	18,977	156,835

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 ¥168,077 million (\$1,389,066 thousand) as of March 31, 1999 (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. FINANCE RECEIVABLES

Finance receivables as of March 31, 1998 and 1999 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, 1998 and 1999 is as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Minimum lease payments receivable	¥ 407,461	¥ 369,186	\$ 3,051,124
Unearned income	(41,253)	(39,454)	(326,066)
Allowance for doubtful receivables	(10,508)	(12,588)	(104,033)
Net lease receivables	¥ 355,700	¥ 317,144	\$ 2,621,025

As of March 31, 1999, 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
2000	¥125,482	\$1,037,041
2001	101,786	841,207
2002	72,541	599,512
2003	45,857	378,983
2004	19,752	163,240
2005 and thereafter	3,768	31,141
Total	¥369,186	\$3,051,124

Installment loans as of March 31, 1998 and 1999 are primarily comprised of housing loans and term loans aggregating ¥23,782 million and ¥33,240 million (\$274,711 thousand), respectively.

5. SECURITIES

Marketable securities and investment securities as of March 31, 1998 and 1999 consist of the following:

	Millions of yen		Thousands of
	1998	1999	U.S. dollars
			1999
Marketable securities:			
Available-for-sale securities	¥86,487	¥98,246	\$811,950
Investment securities:			
Available-for-sale securities	¥44,337	¥39,799	\$328,917
Equity securities	8,629	5,203	43,000
	¥52,966	¥45,002	\$371,917

The investment equity securities as of March 31, 1998 and 1999 primarily relate to less than 20%-owned companies and are stated at cost.

The current and noncurrent security types of available-for-sale securities, and the respective cost, gross unrealized holding gains, gross unrealized holding losses and fair value as of March 31, 1998 and 1999 are as follows:

	Millions of yen							
	1998				1999			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:								
Equity securities	¥ 2,723	¥ 72	¥ 111	¥ 2,684	¥ 2,740	¥ 55	¥ 385	¥ 2,410
Japanese and foreign governmental bond securities	997	83	—	1,080	1,021	74	2	1,093
Corporate debt securities	54,016	1,408	15	55,409	26,825	236	—	27,061
Bank debt securities	1,190	3	3	1,190	2,837	—	38	2,799
Other	26,162	42	80	26,124	64,988	—	105	64,883
	¥ 85,088	¥ 1,608	¥ 209	¥ 86,487	¥ 98,411	¥ 365	¥ 530	¥ 98,246
Noncurrent:								
Equity securities	¥ 13,269	¥ 24,696	¥ 355	¥ 37,610	¥ 14,327	¥ 18,107	¥ 223	¥ 32,211
Corporate debt securities	6,890	—	180	6,710	7,927	—	355	7,572
Other	16	1	—	17	16	—	—	16
	¥ 20,175	¥ 24,697	¥ 535	¥ 44,337	¥ 22,270	¥ 18,107	¥ 578	¥ 39,799

	Thousand of U.S. dollars			
	1999			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current:				
Equity securities	\$ 22,645	\$ 454	\$ 3,182	\$ 19,917
Japanese and foreign governmental bond securities	8,438	611	16	9,033
Corporate debt securities	221,694	1,951	—	223,645
Bank debt securities	23,446	—	314	23,132
Other	537,091	—	868	536,223
	\$ 813,314	\$ 3,016	\$ 4,380	\$ 811,950
Noncurrent:				
Equity securities	\$ 118,405	\$ 149,645	\$ 1,843	\$ 266,207
Corporate debt securities	65,512	—	2,934	62,578
Other	132	—	—	132
	\$ 184,049	\$ 149,645	\$ 4,777	\$ 328,917

Other includes money management funds of ¥2,111 million (\$17,446 thousand) and ¥25,633 million (\$211,843 thousand) as of March 31, 1998 and 1999, respectively, and investment trusts consisting of investments in marketable debt and equity securities.

The contractual maturities of debt securities classified as available-for-sale as of March 31, 1999, 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	¥ 17,849	¥ 17,843	\$147,512	\$ 147,462
Due after one year through five years	57,719	57,535	477,016	475,496
Due after five years	28,046	28,046	231,785	231,785
	¥103,614	¥103,424	\$856,313	\$854,743

Proceeds from the sale of available-for-sale securities were ¥29,502 million, ¥49,240 million and ¥54,777 million (\$452,702 thousand) for the years ended March 31, 1997, 1998 and 1999, respectively.

The gross realized gains on sale of available-for-sale securities were ¥2,969 million and ¥1,589 million (\$13,132 thousand) for the years

ended March 31, 1998 and 1999, respectively, while there was no significant realized gain for the year ended March 31, 1997.

There were no significant realized losses on sale of available-for-sale securities for the three years ended March 31, 1999.

6. INVESTMENTS IN AND ADVANCES TO AFFILIATES

The investments in and advances to affiliates primarily relate to 20% to 50% owned companies. Ricoh's proportionate share of assets, revenues and income before income taxes of each of these companies is less than 20% of the corresponding consolidated amounts. Included in these companies is KITAKYUSHU COCA-COLA BOTTLING COMPANY, LIMITED, a 34.1%-owned major affiliate. The common stock of this company is publicly traded. The carrying value of the investment in this company was equal to its underlying book value and amounted to ¥30,230 million (\$249,835 thousand) as of March 31, 1999. The quoted market value of this company was ¥82,115 million (\$678,636 thousand) as of March 31, 1999.

Subsequent to March 31, 1999, in May 1999 KITAKYUSHU COCA-COLA BOTTLING COMPANY, LIMITED, made a special allotment offering of new securities to a third party. Also, it announced a merger with SANYO COCA-COLA BOTTLING CO., LTD., as of July 1, 1999. As a result of these events, the Company's ownership interest in this company would decrease to approximately 23% while the underlying equity value would not be adversely affected.

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

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

Summarized unaudited financial information for all affiliates as of March 31, 1998 and 1999 and for the three years ended March 31, 1999 is as follows:

Financial Position

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Assets—			
Current assets	¥ 152,821	¥108,158	\$ 893,868
Other assets	87,799	71,751	592,983
	¥ 240,620	¥179,909	\$1,486,851
Liabilities and shareholders' investment—			
Current liabilities	¥ 59,300	¥ 34,045	\$ 281,364
Short-term borrowings and long-term indebtedness	23,239	7,530	62,231
Other liabilities	14,495	6,727	55,595
Shareholders' investment	143,586	131,607	1,087,661
	¥ 240,620	¥179,909	\$1,486,851

Operations

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Sales	¥ 281,170	¥ 288,816	¥240,422	\$ 1,986,959
Costs and expenses	268,989	275,058	228,547	1,888,818
Net income	¥ 12,181	¥ 13,758	¥ 11,875	\$ 98,141

The significant transactions of Ricoh with these affiliates for the three years ended March 31, 1999, and the related account balances at March 31, 1998 and 1999 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Transactions—				
Sales	¥24,112	¥38,335	¥32,057	\$264,934
Purchases	47,698	60,083	34,992	289,190
Dividend income	770	1,767	1,168	9,653

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Account balances—			
Receivables	¥17,571	¥10,861	\$89,760
Payables	19,574	2,171	17,942

As of March 31, 1999, consolidated retained earnings included undistributed earnings of 20% to 50% owned companies accounted for by the equity method in the amount of ¥30,284 million (\$250,281 thousand).

7. INCOME TAXES

Income before income taxes, minority interests and equity in earnings of affiliates and provision for income taxes for the three years ended March 31, 1999 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Income before income taxes, minority interests and equity in earnings of affiliates—				
Domestic	¥ 68,108	¥58,144	¥35,873	\$296,471
Foreign	(1,203)	10,284	17,181	141,992
	¥ 66,905	¥68,428	¥53,054	\$438,463
Provision for income taxes—				
Current:				
Domestic	¥ 41,831	¥34,533	¥20,389	\$168,504
Foreign	4,841	7,575	7,663	63,331
	46,672	42,108	28,052	231,835
Deferred:				
Domestic	(9,443)	(2,153)	(4,297)	(35,512)
Foreign	2,635	255	800	6,611
	(6,808)	(1,898)	(3,497)	(28,901)
Consolidated provision for income taxes	¥ 39,864	¥40,210	¥24,555	\$202,934

Total income taxes are allocated as follows:

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Provision for income taxes	¥ 39,864	¥40,210	¥24,555	\$202,934
Shareholders' investment:				
Net unrealized holding gains on available-for-sale securities	(10,935)	(7,794)	(3,442)	(28,446)
Pension liability adjustment	(2,583)	(3,971)	(4,052)	(33,488)
Translation adjustments	727	(242)	(3,467)	(28,653)
	¥ 27,073	¥28,203	¥13,594	\$112,347

Reconciliations of the normal tax rates in Japan with the effective tax rates for the three years ended March 31, 1999, are as follows:

	1997	1998	1999
Normal tax rate	51%	51%	47%
Permanently nondeductible expenses, net of nontaxable income	3	5	(2)
Tax benefits not recognized on operating losses of certain consolidated subsidiaries	5	0	0
Decrease in the beginning-of-the-year balance of the valuation allowance for deferred tax assets	(3)	(3)	(10)
Nondeductible goodwill impairment loss	5	3	—
Effect of change in enacted tax rate	—	2	8
Other, net	(1)	1	3
Effective tax rate	60%	59%	46%

Permanently nondeductible expenses include directors' bonuses and entertainment expenses. Permanently nontaxable income includes dividends received and exported technology fees. Effective April 1, 1999, the normal statutory tax rate was reduced to approximately 42% and such rate has been used in calculating the future expected tax effects of temporary differences.

The tax effect of temporary differences giving rise to the consolidated deferred income tax assets and liabilities at March 31, 1998 and 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Assets:			
Intercompany profits and inventory write-downs	¥ 20,300	¥ 17,969	\$ 148,504
Accrued expenses	6,747	5,626	46,496
Deferred charges	4,526	4,008	33,124
Estimated retirement allowances	20,669	23,888	197,421
Net operating losses carryforward	14,107	10,130	83,719
Other	8,363	11,790	97,438
	74,712	73,411	606,702
Less—Valuation allowance	(13,757)	(8,271)	(68,355)
	¥ 60,955	¥ 65,140	\$ 538,347
Liabilities:			
Sales-type leases	¥ (12,997)	¥ (10,511)	\$ (86,868)
Undistributed earnings of foreign subsidiaries and affiliates	(5,949)	(6,023)	(49,777)
Net unrealized holding gains on available-for-sale securities	(12,139)	(7,511)	(62,074)
Other	(7,225)	(2,129)	(17,595)
	¥ (38,310)	¥ (26,174)	\$ (216,314)
Net deferred tax assets	¥ 22,645	¥ 38,966	\$ 322,033

Net deferred tax assets as of March 31, 1998 and 1999 are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Deferred income taxes (Current Assets)	¥ 34,918	¥ 30,347	\$ 250,802
Lease deposits and other	17,129	24,954	206,231
Accrued expenses and other	(3,110)	(1,504)	(12,430)
Deferred income taxes (Long-Term Liabilities)	(26,292)	(14,831)	(122,570)
	¥ 22,645	¥ 38,966	\$ 322,033

The net changes in the total valuation allowance for the three years ended March 31, 1999 were decreases of ¥8,655 million, ¥2,297 million and ¥5,486 million (\$45,339 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, 1999, certain subsidiaries had net operating losses carried forward for income tax purposes of approximately ¥31,927 million (\$263,860 thousand) which were available to reduce future income taxes, if any.

Approximately ¥14,283 million (\$118,041 thousand) of the operating losses expire within a five-year period while the remainder principally have an indefinite carryforward period.

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

Short-term borrowings as of March 31, 1998 and 1999 consist of the following:

	Weighted average interest rate		Millions of yen		Thousands of U.S. dollars
	1998	1999	1998	1999	1999
Borrowings, principally from banks	2.5%	2.5%	¥ 209,871	¥ 178,072	\$ 1,471,670
Commercial paper	1.9	0.7	68,243	36,218	299,322
			¥ 278,114	¥ 214,290	\$ 1,770,992

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 1.5% as of March 31, 1998 and 1999.

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 0.2% as of March 31, 1999.

The Company and certain of its subsidiaries had unused lines of credit amounting to ¥360,161 million (\$2,976,537 thousand) of which ¥218,125 million (\$1,802,686 thousand) related to commercial paper and medium-term note programs at prevailing interest rates.

9. LONG-TERM INDEBTEDNESS

Long-term indebtedness as of March 31, 1998 and 1999 consists of the following:

	Conversion price	Millions of yen		Thousands of U.S. dollars
	(Per share)	1998	1999	1999
Convertible bonds—				
1.8%, payable in yen, due March 2002	¥ 824.70	¥ 1,490	¥ 1,485	\$ 12,273
1.5%, payable in yen, due March 2002	993.00	33,434	33,421	276,206
0.35%, payable in yen, due March 2003	1,210.00	30,254	30,214	249,702
0.4%, payable in yen, due September 2002 issued by a consolidated subsidiary	2,296.00	10,000	10,000	82,645
0.375%, payable in yen, due March 2001 issued by a consolidated subsidiary	1,374.00	—	4,920	40,661
Total convertible bonds		75,178	80,040	661,487
Bonds—				
7.0%, straight bonds, payable in yen, due January 2000		50,164	50,072	413,818
3.75%, straight bonds, payable in yen, due October 1999		15,000	15,000	123,967
2.075%, straight bonds, payable in yen, due April 2005		—	40,000	330,579
2.9%, straight bonds, payable in yen, due August 2001		10,000	10,000	82,645
Medium-term notes, 0.13%–6.15%, due through 2008		29,355	19,827	163,859
Total bonds		104,519	134,899	1,114,868
Unsecured loans—				
Banks and insurance companies, 0.4%–16.0%, due through 2012		195,470	209,878	1,734,529
Secured loans—				
Banks, insurance companies, and one financial institution, 0%–3.25%, due through 2020		17,881	10,106	83,521
Capital lease obligations (see Note 2(f))		3,784	4,083	33,744
Total		396,832	439,006	3,628,149
Less—Current maturities included in current liabilities		(101,296)	(94,426)	(780,380)
		¥ 295,536	¥ 344,580	\$ 2,847,769

Secured loans are collateralized by land, buildings and lease receivables with a book value of ¥21,634 million (\$178,793 thousand) as of March 31, 1999.

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, 1999 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.

On April 26, 1999, the conversion price of the 0.375% convertible bonds payable in yen, due March 2001 and issued by a consolidated subsidiary, was changed from ¥1,374.00 to ¥1,100.00.

If all convertible bonds of the Company were converted as of March 31, 1999, 60,428 thousand shares of common stock would be issuable.

On June 10, 1999, Ricoh Leasing Company, Ltd., a major subsidiary, issued 0.9% and 1.17% unsecured straight bonds of ¥5,000 million (\$41,322 thousand) and ¥10,000 million (\$82,645 thousand) payable in yen, due June 10, 2003 and 2004, respectively.

Certain loan agreements provide, among other things, that the lender may request the Company to submit proposals for appropriations of earnings (including payment of dividends) to the lender for its review and approval prior to presentation to the shareholders. The Company has never been

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

In March and September 1995 and March 1999, the Company entered into agreements with the banks under which it assigned to the banks outstanding obligations to make payment of principal and the 7% interest on the straight bond aggregating to ¥50,000 million and made cash deposits (earning interest of 1.5%) with the banks to fulfill such obligations. These transactions do not conform with the requirements of SFAS No. 76, "Extinguishment of Debt," and SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," therefore, the applicable obligations and cash deposits (time deposits) are reflected in the accompanying balance sheets. The cash deposits are presented as lease deposits and other as of March 31, 1998, and as cash deposits for assignment of debt securities as of March 31, 1999.

The aggregate annual maturities of long-term indebtedness subsequent to March 31, 2000 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 64,041	\$ 529,264
2002	118,821	981,992
2003	51,654	426,893
2004	26,206	216,579
2005 and thereafter	83,858	693,041
Total	¥ 344,580	\$2,847,769

10. 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.

The changes in the benefit obligation and plan assets of the defined benefit plans for the two years ended March 31, 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1999	1999
Change in benefit obligation:			
Benefit obligation at beginning of year	¥ 249,894	¥284,825	\$2,353,925
Service cost	10,003	11,234	92,843
Interest cost	10,893	11,615	95,992
Plan participants' contribution	1,500	1,522	12,578
Actuarial losses	17,931	13,775	113,843
Benefits paid	(8,280)	(6,772)	(55,967)
Foreign exchange impact	2,884	(3,654)	(30,198)
Benefit obligation at end of year	¥ 284,825	¥312,545	\$2,583,016
Change in plan assets:			
Fair value of plan assets at beginning of year	¥ 180,534	¥202,005	\$1,669,463
Actual return on plan assets	11,170	7,754	64,083
Employer contribution	14,178	12,831	106,041
Plan participants' contribution	1,500	1,522	12,578
Benefits paid	(8,280)	(6,772)	(55,967)
Foreign exchange impact	2,903	(3,661)	(30,256)
Fair value of plan assets at end of year	¥ 202,005	¥213,679	\$1,765,942
Funded status	¥ (82,820)	¥ (98,866)	\$ (817,074)
Unrecognized actuarial loss	85,875	96,597	798,322
Unrecognized net asset at transition, net of amortization	(4,730)	(4,256)	(35,174)
Net amount recognized	¥ (1,675)	¥ (6,525)	\$ (53,926)
Amounts recognized in the balance sheets consist of:			
Prepaid benefit cost	¥ 6,217	¥ 2,558	\$ 21,140
Accrued benefit liability	(35,193)	(44,945)	(371,446)
Accumulated other comprehensive income (loss), gross of tax	27,301	35,862	296,380
Net amount recognized	¥ (1,675)	¥ (6,525)	\$ (53,926)

	1998	1999
Discount rate	3.75% - 7.75%	3.5% - 7.25%
Rate of increase in compensation levels	3.7% - 5.5%	3.7% - 5.5%
Expected long-term rate of return on plan assets	3.75% - 8.5%	3.5% - 9.0%

The discount rate, rate of increase in compensation and expected long-term rate of return on plan assets of domestic pension plans are 3.75%, 3.7% and 3.75%, respectively, for the year ended March 31, 1998, and 3.5%, 3.7% and 3.5%, respectively, for the year ended March 31, 1999. The other data shown above are those of foreign pension plans.

The net periodic benefit costs of the defined benefit plans for the three years ended March 31, 1999 consisted of the following components:

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Service costs	¥ 8,409	¥ 10,003	¥ 11,234	\$ 92,843
Interest costs	10,198	10,893	11,615	95,992
Expected return on plan assets	(7,371)	(7,876)	(8,651)	(71,496)
Net amortization	1,968	2,411	3,210	26,529
Net periodic benefit cost	¥ 13,204	¥ 15,431	¥ 17,408	\$ 143,868

The amounts paid by plan participants for the year ended March 31, 1997 and 1998 were reclassified as plan participants' contribution in the year ended March 31, 1999, and excluded from net periodic benefit costs for the years then ended in order to conform with SFAS 132.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligation in excess of plan assets were ¥253,808 million, ¥202,971 million and ¥170,987 million, respectively, as of March 31, 1998 and ¥281,012 million (\$2,322,413 thousand), ¥226,871 million (\$1,874,967 thousand) and ¥182,280 million (\$1,506,446 thousand), respectively, as of March 31, 1999.

In accordance with the provisions of SFAS No. 87, the Company was required to record an additional minimum pension liability at March 31, 1998 and 1999. 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 in an accumulated other comprehensive income (loss), at net of tax benefits. The net changes in pension liability adjustment for the years ended March 31, 1998 and 1999 were both increases of ¥5,746 million and ¥4,509 million (\$37,265 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 1997, 1998 and 1999 were ¥4,498 million, ¥2,942 million and ¥6,084 million (\$50,281 thousand), respectively.

11. SHAREHOLDERS' INVESTMENT

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

Semiannual cash dividends are approved by the shareholders after the end of each fiscal period or are declared by the Board of Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of each such fiscal or interim six-month period. At the general meeting held on June 29, 1999, the shareholders approved

the declaration of a cash dividend on the common stock totaling ¥3,804 million (\$31,438 thousand), which will be paid to shareholders of record as of March 31, 1999, and the related appropriation of retained earnings totaling ¥395 million (\$3,264 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, 1999.

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

12. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Millions of yen		
	Before-tax amount	Tax expense	Net-of-tax amount
1997:			
Foreign currency translation adjustments	¥ 9,007	¥ (727)	¥ 8,280
Unrealized holding gains arising during the year	(21,600)	10,935	(10,665)
Minimum pension liability adjustment	(5,056)	2,583	(2,473)
Other comprehensive income (loss)	¥ (17,649)	¥ 12,791	¥ (4,858)
1998:			
Foreign currency translation adjustments	¥ (295)	¥ 242	¥ (53)
Unrealized gain on securities:			
Unrealized holding gains arising during the year	(10,790)	6,275	(4,515)
Less—Reclassification adjustment for gains realized in net income	(2,969)	1,519	(1,450)
Net unrealized gains	(13,759)	7,794	(5,965)
Minimum pension liability adjustment	(9,717)	3,971	(5,746)
Other comprehensive income (loss)	¥ (23,771)	¥ 12,007	¥ (11,764)
1999:			
Foreign currency translation adjustments	¥ (5,684)	¥ 3,467	¥ (2,217)
Unrealized gain on securities:			
Unrealized holding gains arising during the year	(5,777)	2,688	(3,089)
Less—Reclassification adjustment for gains realized in net income	(1,589)	754	(835)
Net unrealized gains	(7,366)	3,442	(3,924)
Minimum pension liability adjustment	(8,561)	4,052	(4,509)
Other comprehensive income (loss)	¥ (21,611)	¥ 10,961	¥ (10,650)

	Thousands of U.S. dollars		
1999:			
Foreign currency translation adjustments	\$ (46,976)	\$ 28,654	\$ (18,322)
Unrealized gain on securities:			
Unrealized holding gains arising during the year	(47,744)	22,215	(25,529)
Less—Reclassification adjustment for gains realized in net income	(13,132)	6,231	(6,901)
Net unrealized gains	(60,876)	28,446	(32,430)
Minimum pension liability adjustment	(70,752)	33,487	(37,265)
Other comprehensive income (loss)	\$ (178,604)	\$ 90,587	\$ (88,017)

Change in accumulated other comprehensive income (loss) is as follows:

	Millions of yen				Accumulated other comprehensive income (loss)
	Foreign currency translation adjustments	Unrealized gains on securities	Minimum pension liability adjustment		
1997:					
Beginning balance	¥ (18,417)	¥ 29,498	¥ (6,117)	¥	4,964
Change during the year	8,280	(10,665)	(2,473)	¥	(4,858)
Ending balance	¥ (10,137)	¥ 18,833	¥ (8,590)	¥	106
1998:					
Beginning balance	¥ (10,137)	¥ 18,833	¥ (8,590)	¥	106
Change during the year	(53)	(5,965)	(5,746)	¥	(11,764)
Ending balance	¥ (10,190)	¥ 12,868	¥ (14,336)	¥	(11,658)
1999:					
Beginning balance	¥ (10,190)	¥ 12,868	¥ (14,336)	¥	(11,658)
Change during the year	(2,217)	(3,924)	(4,509)	¥	(10,650)
Ending balance	¥ (12,407)	¥ 8,944	¥ (18,845)	¥	(22,308)
1999:					
	Thousands of U.S. dollars				
Beginning balance	\$ (84,215)	\$ 106,347	\$ (118,479)	\$	(96,347)
Change during the year	(18,322)	(32,430)	(37,265)	\$	(88,017)
Ending balance	\$ (102,537)	\$ 73,917	\$ (155,744)	\$	(184,364)

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		
	1997	1998	1999
Average common shares outstanding	655,010	669,959	691,592
Effect of dilutive securities:			
Convertible bonds—			
1.9%, payable in yen, due March 1998	23,629	—	—
1.8%, payable in yen, due March 2002	2,603	1,921	1,802
1.5%, payable in yen, due March 2002	39,354	34,662	33,658
0.35%, payable in yen, due March 2003	31,405	27,810	24,974
Diluted common shares outstanding	752,001	734,352	752,026

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Net income applicable to common shareholders	¥ 28,922	¥ 30,131	¥ 30,655	\$ 253,347
Effect of dilutive securities:				
Convertible bonds—				
1.9%, payable in yen, due March 1998	286	—	—	—
1.8%, payable in yen, due March 2002	19	14	15	124
1.5%, payable in yen, due March 2002	292	258	272	2,248
0.35%, payable in yen, due March 2003	130	109	110	909
Other	(356)	(145)	(266)	(2,198)
Diluted net income	¥ 29,293	¥ 30,367	¥ 30,786	\$ 254,430

	Yen			U.S. dollars
	1997	1998	1999	1999
Earnings per share:				
Basic	¥ 44.16	¥ 44.97	¥ 44.33	\$ 0.37
Diluted	38.95	41.35	40.94	0.34

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, 1998 and 1999 were ¥134,023 million and ¥105,022 million (\$867,950 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, 1998

and 1999, they had ¥412,020 million and ¥351,893 million (\$2,908,207 thousand) of contractual amounts under interest rate swap agreements. Interest rate swap transactions generally involve the exchange of floating rate for fixed rate interest payment obligations without an exchange of underlying principal amounts. The differentials to be paid or received under the interest rate swap agreements are accrued.

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

15. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 1999, Ricoh had outstanding contractual commitments for acquisition or construction of plant, equipment and other assets aggregating ¥4,962 million (\$41,008 thousand).

Ricoh is contingently liable for discounted trade notes receivable on a full recourse basis with banks of ¥149 million (\$1,231 thousand) as of March 31, 1999. As of March 31, 1999, Ricoh is also contingently liable as guarantor for employees' housing loans of ¥1,640 million (\$13,554 thousand).

Ricoh made rental payments totaling ¥37,930 million in fiscal 1997, ¥37,160 million in fiscal 1998, and ¥46,307 million (\$382,702 thousand) in

fiscal 1999, under operating lease agreements for office space and machinery and equipment, which are primarily cancelable and renewable.

At March 31, 1999, the Company and certain of its subsidiaries were parties to litigation involving routine matters, such as patent rights. In the opinion of management, the ultimate liability, if any, resulting from such litigation will not materially affect the consolidated financial position or the results of operations of Ricoh.

16. DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

(b) Marketable securities and Investment securities

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

(c) Cash deposit for assignment of debt securities

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

(d) Long-term indebtedness

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

(e) Interest rate swap agreements

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

(f) Foreign currency contracts

The fair value of foreign currency contracts (used for hedging purposes) is estimated by obtaining quotes from brokers. The estimated fair value of the financial instruments as of March 31, 1998 and 1999 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	1998		1999		1999	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Marketable securities and Investment securities	¥ 139,453	¥ 139,453	¥ 143,248	¥ 143,248	\$ 1,183,867	\$ 1,183,867
Cash deposits for assignment of debt securities	26,736	27,767	52,210	52,763	431,488	436,058
Long-term indebtedness	(295,536)	(322,453)	(344,580)	(363,377)	(2,847,769)	(3,003,116)
Interest rate swap agreements, net	(233)	(466)	12	2,018	99	16,678
Foreign currency contracts—net credit	(8,324)	(7,406)	(1,462)	(2,276)	(12,083)	(18,810)

Limitations

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

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

17. SEGMENT INFORMATION

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 86% in fiscal 1997 and 1998, and 87% in

fiscal 1999 of consolidated sales, respectively.

Selected data by geographic area for the three years ended March 31, 1999 are as follows:

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Sales—				
Total domestic	¥ 1,031,305	¥ 1,092,979	¥1,071,083	\$ 8,851,926
Less—Transfers to foreign subsidiaries	(199,874)	(246,961)	(240,352)	(1,986,380)
To unaffiliated customers	831,431	846,018	830,731	6,865,546
Total foreign subsidiaries	512,893	599,581	631,503	5,219,033
Less—Transfers to domestic subsidiaries	(28,252)	(42,251)	(36,235)	(299,463)
To unaffiliated foreign customers	484,641	557,330	595,268	4,919,570
Consolidated	¥ 1,316,072	¥ 1,403,348	¥1,425,999	\$11,785,116
Operating income—				
Domestic	¥ 73,906	¥ 70,681	¥ 50,568	\$ 417,917
Foreign	15,535	24,328	27,634	228,380
Eliminations	(6,078)	(5,302)	(4,655)	(38,471)
Consolidated	¥ 83,363	¥ 89,707	¥ 73,547	\$ 607,826
Identifiable assets—				
Domestic	¥ 977,189	¥ 997,004	¥1,008,764	\$ 8,336,892
Foreign	301,320	331,725	298,836	2,469,719
Eliminations	(100,384)	(91,923)	(103,977)	(859,314)
Total	1,178,125	1,236,806	1,203,623	9,947,297
Investments in and advances to affiliates	56,183	52,694	46,153	381,430
Corporate assets	410,588	370,996	378,241	3,125,959
Consolidated	¥ 1,644,896	¥ 1,660,496	¥1,628,017	\$13,454,686
Export sales—				
The Americas	¥ 5,209	¥ 5,935	¥ 2,203	\$ 18,206
Europe	927	1,224	1,485	12,273
Other	4,291	7,520	6,077	50,223
Total	¥ 10,427	¥ 14,679	¥ 9,765	\$ 80,702

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 unaffiliated foreign distributors and are included in domestic sales to unaffiliated customers.

18. RESEARCH AND DEVELOPMENT EXPENSES AND ADVERTISING COSTS

The following amounts were charged to costs and expenses for the three years ended March 31, 1999:

	Millions of yen			Thousands of U.S. dollars
	1997	1998	1999	1999
Research and development costs	¥ 64,297	¥ 69,988	¥ 66,777	\$ 551,876
Advertising costs	18,551	22,033	15,555	128,554

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, 1998 and 1999, and the related consolidated statements of income, shareholders' investment and cash flows for each of the three years in the period ended March 31, 1999, expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

Generally accepted accounting principles in the United States of America require that a public enterprise reports certain information about its operating segments, with related disclosure about products and services, geographic areas and major customers. The Company has not presented such information as would be appropriate in its consolidated financial statements.

In our opinion, except for the omission of the 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, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles generally accepted in the United States of America (see Note 2).

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

Arthur Andersen

Tokyo, Japan
June 29, 1999