

## Critical Accounting policies

The consolidated financial statements of Ricoh are prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. On an ongoing basis, Ricoh evaluates its estimates which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of these evaluations form the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different scenarios.

Ricoh considers an accounting policy to be critical if it is important to its financial condition and results, and requires significant judgments and estimates on the part of management in its application. Ricoh believes that the following represent the critical accounting policies of the Company.

### Revenue Recognition

Ricoh believes that revenue recognition is critical for its financial statements because consolidated net income is directly affected by the timing of revenue recognition.

Ricoh generates revenue principally through the sale of equipment, supplies and related services under separate contractual arrangements for each. Generally, Ricoh recognizes revenue when (1) it has a firm contract, (2) the product has been shipped to and accepted by the customer or the service has been provided, (3) the sales price is fixed or determinable and (4) amounts are reasonably assured of collection.

Most equipment sales require that Ricoh install the product. As such, revenue is recognized at the time of delivery and installation at the customer location. Equipment revenues are based on established prices by product type and model and are net of discounts. A sales return is accepted only when the equipment is defective and does not meet Ricoh's product performance specifications. Other than installation, there are no customer acceptance clauses in Ricoh's sales contracts.

Service revenues result primarily from maintenance contracts that are normally entered into at the time the equipment is sold.

Standard service fee prices are established depending on equipment classification and include a cost value for the estimated services to be performed based on historical experience plus a profit margin thereon. As a matter of policy, Ricoh does not discount such prices. On a monthly basis, maintenance service revenues are earned and recognized by Ricoh and billed to the customer in accordance with the contract and include a fixed

monthly fee plus a variable amount based on usage. The length of the contract ranges up to five years; however, most contracts can be cancelled at any time by the customer upon a short notice period.

### Allowance for Doubtful Receivables

Ricoh performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by Ricoh's review of the customers' credit information. Ricoh continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that Ricoh has identified. While such credit losses have historically been within Ricoh's expectations and the provisions established, Ricoh cannot guarantee that it will continue to experience the same credit loss rates that it has in the past. Changes in the underlying financial condition of our customers could result in a material impact on Ricoh's consolidated results of operation and financial position.

### Pension Accounting

The amounts recognized in the consolidated financial statements relating to employees' severance payments and pension plans are determined on an actuarial basis utilizing certain assumptions in the calculation of such amounts. The assumptions used in determining net periodic costs and liabilities for employees' severance payments and pension plans include expected long-term rate of return on plan assets, discount rate, rate of increase in compensation levels, average remaining years of service and other factors. Among these assumptions, the expected long-term rate of return on plan assets and the discount rate are two critical assumptions. Assumptions are evaluated at least annually, and events may occur or circumstances may change that may have a significant effect on the critical assumptions. In accordance with U.S. GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods, thereby reducing the year-to-year volatility in pension expenses. As of March 31, 2011, Ricoh recognized and reflected in its consolidated balance sheets the funded status of its pension plans (equal to the difference between the fair value of plan assets and the projected benefit obligations) in the total amount of ¥140.9 billion.

For fiscal years 2009, 2010 and 2011, Ricoh used expected long-term rates of return on pension plan assets of 3.5%, 3.2% and 2.9%, respectively. In determining the expected long-term rate of return on pension plan assets, Ricoh considers the current and projected asset allocations, as well as expected long-term investment returns and risks for each category of the plan assets

based on Ricoh's analysis of historical results. The projected allocation of the plan assets is developed in consideration of the expected long term investment returns for each category of the plan assets. To moderate the level of volatility in pension plan asset returns and to reduce risks, approximately 35%, 35%, 20% and 10% of the plan assets are projected to be allocated to equity securities, debt securities, life insurance company general accounts and other financial instruments, respectively. As of March 31, 2011, the actual allocation of assets was generally consistent with the projected allocation stated above. The actual returns for fiscal years 2009, 2010 and 2011 were approximately 15.7% (loss), 15.5% (gain) and 2.2% (gain), respectively. The actual returns on pension plan assets may vary in future periods, depending on market conditions. The market-related value of plan assets is measured using fair values on the plan measurement date.

With respect to the discount rate used in the annual actuarial valuation of the pension benefit obligations, the other critical assumption, Ricoh's weighted average discount rates for fiscal years 2009, 2010 and 2011 were 3.6%, 3.7% and 3.4%, respectively. In determining the appropriate discount rate, Ricoh considers available information about the current yield on high-quality fixed-income investments that are currently available and are expected to be available during the period corresponding to the expected duration of the pension benefit obligations.

### **Purchase Accounting**

Ricoh accounts for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of the acquisition at their respective estimated fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired, as well as the estimated life of each asset, can materially impact the net income of the periods subsequent to the acquisition through depreciation and amortization, and in certain instances through impairment charges, if the asset becomes impaired in the future. In determining the estimated fair value for intangible assets, Ricoh typically utilizes the income approach, which discounts the projected future net cash flow using an appropriate discount rate that reflects the risks associated with such projected future cash flow.

Determining the useful life of an intangible asset also requires judgment, as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. Intangible assets determined to have an indefinite useful life are reassessed periodically based on the expected use of the asset by us, legal or contractual provisions that may affect the useful life or renewal or extension of the asset's contractual life without substantial cost, and the effects of demand,

competition and other economic factors.

### **Impairment of Long-Lived Assets and Goodwill**

As of March 31, 2011, the aggregate of Ricoh's long-lived assets and goodwill was ¥616.4 billion, which accounted for 27.2% of Ricoh's total consolidated assets. Ricoh believes that impairment of long-lived assets and goodwill are critical to Ricoh's financial statements because the recoverability of the amounts, or lack thereof, could significantly affect its results of operations.

Ricoh reviews the carrying value of its goodwill for impairment annually at December 31, and when a triggering event occurs between annual impairment tests. This review is based upon Ricoh's projections of anticipated future discounted cashflows used to determine the estimated fair values of the reporting units for which goodwill is assigned. Ricoh reviews long-lived assets with a definite life for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The recoverability of assets to be held and used is assessed by comparing the carrying amount of an asset or asset group to the expected future undiscounted net cashflows of the asset or asset group. If an asset or asset group is considered to be impaired, the impairment charge to be recognized is measured as the amount by which the carrying amount of the asset or asset group exceeds fair value. Long-lived assets meeting the criteria to be considered as held for sale are reported at the lower of their carrying amount or fair value less costs to sell. While Ricoh believes that its estimates of future cashflows are reasonable, different assumptions regarding such cashflows could materially affect Ricoh's evaluations.

Ricoh completed its annual impairment assessment of indefinite-lived intangible assets and goodwill for fiscal years 2009, 2010 and 2011 and determined that no impairment charge was necessary. Management also considered the Great East Japan Earthquake and its effect, and concluded that no long-lived asset or goodwill impairment had occurred as of March 31, 2011. The fair values of each of Ricoh's reporting units significantly exceeded their respective carrying amounts.

### **Impairment of Securities**

Individual securities classified as available-for-sale securities are reduced to their fair market value by a charge to income for declines in value that are not temporary. Factors considered in assessing whether an impairment other than a temporary impairment exists include: (1) the financial condition and near term prospects of the issuer and (2) the intent and ability of Ricoh to retain such investment for a period of time sufficient to allow for any anticipated recovery in market value. Ricoh believes that impairment of securities is critical for its financial statements

because it holds significant amounts of securities, the recoverability of which or lack thereof, could significantly affect its results of operations.

### **Realizability of Deferred Tax Assets**

Ricoh records a valuation allowance to reduce its deferred tax assets to an amount that is more likely than not to be recoverable. Ricoh considers future market conditions, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which Ricoh operates, and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event Ricoh were to determine that Ricoh would not be able to recover any portion of Ricoh's net deferred tax assets in the future, the unrecoverable portion of the deferred tax assets would be charged to earnings during the period in which such determination is made. Likewise, if Ricoh were to later determine that it is more likely than not that the net deferred tax assets would be recoverable, the previously recorded valuation allowance would be reversed. In order to recover its deferred tax assets, Ricoh must be able to generate sufficient taxable income in the tax jurisdictions in which the deferred tax assets are located.