Ricoh Company, Ltd.

Condensed Consolidated Financial Statements for the Three Months Ended June 30, 2018

This is an English translation of the Quarterly Securities Report (Shihanki Hokokusho) for the three months ended June 30, 2018 pursuant to the Japanese Financial Instrument and Exchange Law.

Condensed Consolidated Statement of Financial Position

Ricoh Company, Ltd. and Consolidated Subsidiaries

	Millions of Yen	
ASSETS	As of March 31, 2018	As of June 30, 2018
Current assets:		
Cash and cash equivalents	160,568	222,592
Time deposits	68	71
Trade and other receivables	589,741	572,808
Other financial assets	291,144	292,507
Inventories	180,484	195,350
Other Investment	55,921	-
Other current assets	50,052	55,080
Subtotal	1,327,978	1,338,408
Assets classified as held for sale (Note 4)	-	22,044
Total current assets	1,327,978	1,360,452
Non-current assets:		
Property, plant and equipment	250,005	240,087
Goodwill and intangible assets	217,130	214,336
Other financial assets	689,629	689,605
Investments accounted for using the equity method	3,703	3,756
Other investments	26,985	29,123
Other non-current assets	36,806	43,820
Deferred tax assets	88,794	90,135
Total non-current assets	1,313,052	1,310,862
Total assets	2,641,030	2,671,314

LIABILITIES AND EQUITY	Millions of Yen As of March 31, 2018	 As of June 30, 2018
Current liabilities:		
Bonds and borrowings (Note 7)	223,194	272,604
Trade and other payables	300,724	288,745
Other financial liabilities	453	485
Income tax payables	17,871	17,032
Provisions	12,235	13,979
Other current liabilities	234,045	239,876
Subtotal	788,522	832,721
Liabilities directly associated with assets classified as held for sale (Note 4)	-	14,132
Total current liabilities	788,522	846,853
Non-current liabilities:		
Bonds and borrowings (Note 7)	658,707	628,866
Other financial liabilities	3,788	2,790
Accrued pension and retirement benefits	104,998	102,430
Provisions	12,709	7,003
Other non-current liabilities	80,174	79,614
Deferred tax liabilities	3,377	7,253
Total non-current liabilities	863,753	827,956
Total liabilities	1,652,275	1,674,809
Equity:		
Common stock	135,364	135,364
Additional paid-in capital	186,463	186,463
Treasury stock	(37,329)	(37,331)
Other components of equity	114,954	83,878
Retained earnings	510,113	547,670
Equity attributable to owners of the parent	909,565	916,044
Non-controlling interests	79,190	80,461
Total equity	988,755	996,505
Total liabilities and equity	2,641,030	2,671,314

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

Condensed Consolidated Statement of Profit or Loss

Ricoh Company, Ltd. and Consolidated Subsidiaries

	Millions of Yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Sales (Note 5,6)	492,540	490,940
Cost of sales	(292,544)	(296,500)
Gross profit	199,996	194,440
Selling, general and administrative expenses (Note 10)	(188,202)	(175,795)
Other income	7,136	1,067
Operating profit	18,930	19,712
Finance income	802	1,266
Finance costs	(2,942)	(3,222)
Share of profit (loss) of investments accounted for using the equity method	24	170
Profit before income tax expenses	16,814	17,926
Income tax expenses	(4,596)	(6,989)
Profit for the period	12,218	10,937
Profit attributable to:		
Owners of the parent	10,796	9,282
Non-controlling interests	1,422	1,655

	Yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Earnings per share attributable to owners of the parent: (Note 12)		
Basic	14.89	12.81
Diluted	-	-

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

* Gain on sales of intangible assets and others was included in “other income.”

Condensed Consolidated Statement of Comprehensive Income

Ricoh Company, Ltd. and Consolidated Subsidiaries

	Millions of Yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Profit for the period	12,218	10,937
Other comprehensive income (loss):		
Components that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plan	-	-
Net changes in fair value of financial assets measured through other comprehensive income	(3,242)	(445)
Total components that will not be reclassified subsequently to profit or loss	(3,242)	(445)
Components that will be reclassified subsequently to profit or loss:		
Net changes in fair value of cash flow hedges	53	460
Exchange differences on translation of foreign operations	17,793	(3,084)
Total components that will be reclassified subsequently to profit or loss	17,846	(2,624)
Total other comprehensive income (loss)	14,604	(3,069)
Comprehensive income	26,822	7,868
Comprehensive income attributable to:		
Owners of the parent	25,391	6,083
Non-controlling interests	1,431	1,785

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

Condensed Consolidated Statement of Changes in Equity

Ricoh Company, Ltd. and Consolidated Subsidiaries

(Millions of Yen)

	Common Stock	Additional paid-in capital	Treasury stock	Other components of equity: Remeasurement of defined benefit plan	Other components of equity: Net change in fair value of financial assets measured through other comprehensive income	Other components of equity: Net change in fair value of cash flow hedges
Balance as of April 1, 2017	135,364	186,423	(37,318)	-	34,330	73
Profit for the period						
Other comprehensive income (loss)					(3,234)	10
Comprehensive income (loss)	-	-	-	-	(3,234)	10
Net change in treasury stock			(1)			
Dividends declared and approved to owners (Note 8)						
Transfer from other components of equity to retained earnings						
Total transactions with owners	-	-	(1)	-	-	-
Balance as of June 30, 2017	135,364	186,423	(37,319)	-	31,096	83

(Millions of Yen)

	Other components of equity: Exchange differences on translation of foreign operations	Other components of equity: Total other components of equity	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of April 1, 2017	65,791	100,194	657,443	1,042,106	74,771	1,116,877
Profit for the period			10,796	10,796	1,422	12,218
Other comprehensive income (loss)	17,819	14,595		14,595	9	14,604
Comprehensive income (loss)	17,819	14,595	10,796	25,391	1,431	26,822
Net change in treasury stock				(1)		(1)
Dividends declared and approved to owners (Note 8)			(9,061)	(9,061)	(440)	(9,501)
Transfer from other components of equity to retained earnings				-		-
Total transactions with owners	-	-	(9,061)	(9,062)	(440)	(9,502)
Balance as of June 30, 2017	83,610	114,789	659,178	1,058,435	75,762	1,134,197

(Millions of Yen)

	Common Stock	Additional paid-in capital	Treasury stock	Other components of equity		
				Remeasurement of defined benefit plan	Net change in fair value of financial assets measured through other comprehensive income	Net change in fair value of cash flow hedges
Balance as of April 1, 2018	135,364	186,463	(37,329)	-	51,581	(13,261)
Cumulative effects of changes in accounting policy (Note 3)					(41,149)	13,293
Opening Balance reflecting changes in accounting policy	135,364	186,463	(37,329)	-	10,432	32
Profit for the period						
Other comprehensive income (loss)					(563)	253
Comprehensive income (loss)	-	-	-	-	(563)	253
Net change in treasury stock			(2)			
Dividends declared and approved to owners (Note 8)						
Transfer from other components of equity to retained earnings					(21)	
Total transactions with owners	-	-	(2)	-	(21)	-
Balance as of June 30, 2018	135,364	186,463	(37,331)	-	9,848	285

(Millions of Yen)

	Other components of equity		Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
	Exchange differences on translation of foreign operations	Total other components of equity				
Balance as of April 1, 2018	76,634	114,954	510,113	909,565	79,190	988,755
Cumulative effects of changes in accounting policy (Note 3)		(27,856)	33,691	5,835		5,835
Opening Balance reflecting changes in accounting policy	76,634	87,098	543,804	915,400	79,190	994,590
Profit for the period			9,282	9,282	1,655	10,937
Other comprehensive income (loss)	(2,889)	(3,199)		(3,199)	130	(3,069)
Comprehensive income (loss)	(2,889)	(3,199)	9,282	6,083	1,785	7,868
Net change in treasury stock				(2)		(2)
Dividends declared and approved to owners (Note 8)			(5,437)	(5,437)	(514)	(5,951)
Transfer from other components of equity to retained earnings		(21)	21	-		-
Total transactions with owners	-	(21)	(5,416)	(5,439)	(514)	(5,953)
Balance as of June 30, 2018	73,745	83,878	547,670	916,044	80,461	996,505

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

Condensed Consolidated Statement of Cash Flows

Ricoh Company, Ltd. and Consolidated Subsidiaries

	Millions of Yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
I. CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the period	12,218	10,937
Adjustments to reconcile profit for the period to net cash provided by operating activities -		
Depreciation and amortization	26,633	25,690
Share of profit of investments accounted for using the equity method	(24)	(170)
Finance income and costs	2,140	1,956
Income tax expenses	4,596	6,989
Decrease in trade and other receivables	15,708	7,599
Increase in inventories	(8,620)	(16,989)
Decrease (increase) in lease receivables	(6,463)	827
Decrease in trade and other payables	(19,333)	(6,615)
Decrease in accrued pension and retirement benefits	(1,364)	(1,058)
Other, net	8,691	2,033
Interest and dividends received	791	1,039
Interest paid	(1,647)	(1,183)
Income taxes paid	(28,313)	(9,489)
Net cash provided by operating activities	5,013	21,566
II. CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of property, plant and equipment	12,158	1,464
Expenditures for property, plant and equipment	(13,579)	(14,404)
Proceeds from sales of intangible assets	1,876	265
Expenditures for intangible assets	(7,172)	(6,386)
Payments for purchases of available-for-sale securities	(231)	(7)
Proceeds from sales of available-for-sale securities	32	56,130
Net proceeds of time deposits	7,966	278
Decrease due to loss of control of subsidiaries	-	(3,056)
Other, net	711	(7,173)
Net cash provided by investing activities	1,761	27,111
III. CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds of short-term debt	28,659	9,822
Proceeds from long-term debt	23,972	11,076
Repayments of long-term debt	(17,674)	(1,132)
Repayments of bonds (Note 7)	(20,000)	-
Dividends paid (Note 8)	(9,061)	(5,437)
Payments for purchase of treasury stock	(1)	(2)
Other, net	(440)	(514)
Net cash provided by financing activities	5,455	13,813
IV. EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	1,524	1,187
V. NET INCREASE IN CASH AND CASH EQUIVALENTS	13,753	63,677
VI. CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	126,429	160,568
VII. CASH AND CASH EQUIVALENTS AT END OF PERIOD	140,182	224,245

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

* Cash and cash equivalents recorded as assets classified as held for sale were included in "CASH AND CASH EQUIVALENTS AT END OF PERIOD."

Notes to Condensed Consolidated Financial Statements

Ricoh Company, Ltd. and Consolidated Subsidiaries

1. REPORTING ENTITY

Ricoh Co., Ltd. (the "Company") is a company domiciled in Japan. The condensed consolidated financial statements of the Company as of and for the period ended June 30, 2018 comprise of the Company and its subsidiaries (the "Ricoh" as a consolidated group) and Ricoh's interest in associates. Ricoh's operating segments are composed of Office Printing, including MFPs & copiers, related parts & supplies, services & solutions, Office Services, including personal computers, servers, network related services, Commercial Printing, including cut sheet printers, Industrial Printing, including inkjet heads, Thermal Media, including thermal media and Other, including digital cameras (see Note 5 "Operating Segments").

2. BASIS OF PREPARATION

(1) Statements of Compliance

The condensed consolidated financial statements meets the requirements set out under Article 1-2, Paragraph 1, Item 2 of the Rules on Terminology, Formats and Compilation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007; hereinafter referred to as the "Rules on Quarterly Consolidated Financial Statements") under which the Company is qualified as a "specified company" and duly prepares such summary in accordance with IAS 34 "Interim Financial Reporting", under the provisions of Article 93 of the Rules on Quarterly Consolidated Financial Statements. As the condensed consolidated financial statements do not contain all the information required in annual consolidated financial statements, it should be read in combination with the consolidated financial statements for the fiscal year ended March 31, 2018, prepared in accordance with International Financial Reporting Standards ("IFRSs ").

The condensed consolidated financial statements are presented in Japanese yen, which is also the Company's functional currency. All amounts presented in Japanese yen have been rounded to the nearest million.

(2) Use of Estimates and Judgments

The preparation of condensed consolidated financial statements in accordance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods in which the revision affects.

Estimates and judgments that have significant impact on the amounts in the condensed consolidated financial statements for the three months ended June 30, 2018 remain the same as those that had significant impact on the amounts in the consolidated financial statements for the previous fiscal year.

3. SIGNIFICANT ACCOUNTING POLICIES

Ricoh did not change the significant accounting policies from the previous fiscal year, with the exception of the following new IFRSs.

IFRSs	Title	Summaries of new IFRSs/amendments
IFRS 9	Financial instruments	Classification of financial instruments, revisions concerning the measurement and recognition and adoption of provisions with regard to impairment loss based on the expected credit loss model.
IFRS 15	Revenue from contracts with customers	Presentation of a unified framework applied to accounting treatment related to revenue recognition

1. Adoption of IFRS 9 'Financial Instruments'
Ricoh implemented IFRS 9 'Financial Instruments' as of April 1, 2018. Ricoh applied this standard in compliance with the transitional provisions, thereby recognizing the cumulative effects of adoption of this standard as an adjustment to the opening balance of retained earnings as at the beginning of the current fiscal year.
Ricoh made an irrevocable election at initial recognition to present subsequent changes in fair value with regard to equity instruments previously classified as available for sale under the prior standard in other comprehensive income in principle, while part of equity instruments previously classified as available for sale under the prior standard were classified as equity instruments measured at fair value through profit and loss. As a result, ¥27,856 million was reclassified from other components of equity to retained earnings as at the beginning of the current fiscal year. Accordingly, the changes caused a decrease by ¥27,856 in profit for the period as compared to the case where the prior standard would be applied.
In respect of equity instruments measured at fair value through other comprehensive income, changes in fair value are recognized as other comprehensive income. When the fair value significantly declines or the equity instruments are derecognized, accumulated other comprehensive income are reclassified to retained earnings.
Impairment losses are recognized with respect to the financial assets based on the expected credit loss model. As a result, retained earnings increased by ¥661 million as at the beginning of the current fiscal year. There was no material impact on profit and loss of the first quarter of the current fiscal year from the changes.

2. Adoption of IFRS 15 'Revenue from contracts with customers'
Ricoh implemented IFRS 15 'Revenue from contracts with customers' as of April 1, 2018. Ricoh applied this standard in compliance with the transitional provisions, thereby recognizing the cumulative effects of adoption of this standard as an adjustment to the opening balance of retained earnings as at the beginning of the current fiscal year.
Ricoh recognizes the incremental costs of obtaining a contract with a customer as an asset and amortizes subsequently in accordance with recognition of revenue.
As a result, retained earnings increased by ¥5,174 million as at the beginning of the current fiscal year in comparison with the case where the prior standard would be applied. There was no material impact on profit and loss of the first quarter of the current fiscal year from the changes.
Upon the adoption of the standard, disaggregated revenues shall be disclosed to depict the relationships between sales and the operating segments. We, therefore, changed the disclosure method as described in "6. SALES." Accordingly, we abolished previously disclosed classification of sales and cost of sales in "Products," "Post sales and rentals" and "Other revenue."

4. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

Ricoh concluded an agreement to sell approximately 66.6% of the Company’s shares in Ricoh Logistics System Co., Ltd., to SBS Holdings Co., Ltd on May 18, 2018 and completed the transfer on August 1, 2018.
In accordance with the agreement, assets related to Ricoh Logistics System and directly associated liabilities included in the Other segment were recognized as "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale" until the share transfer was complete. The major components of those assets and liabilities were the following:

	Millions of Yen
	As of June 30, 2018
	Carrying amount
Assets classified as held for sale:	
Cash and cash equivalents	1,653
Trade and other receivables	6,350
Other current assets	687
Property, plant and equipment	5,746
Goodwill and intangible assets	1,289
Other investments (non-current)	918
Deferred tax assets	1,805
Other non-current assets	3,470
Other	126
Total	22,044
Liabilities directly associated with assets classified as held for sale:	
Trade and other payables	5,422
Other current liabilities	2,835
Accrued pension and retirement benefits	1,489
Other financial liabilities (non-current)	1,374
Other non-current liabilities	2,841
Other	171
Total	14,132

5. OPERATING SEGMENTS

Ricoh's operating segments are composed of Office Printing, Office Services, Commercial Printing, Industrial Printing, Thermal Media and Other.

The following table presents the content of each operating segment.

Segments	Products & Services
Office Printing	MFPs (multifunctional printers), copiers, laser printers, digital duplicators, wide format printers, facsimile machine, scanners, related parts and supplies, services, support and software
Office Services	Personal computers, servers, network equipment, related services, support, software service solutions related to documents
Commercial Printing	Cut sheet printers, continuous feed printers, related parts and supplies, services, support and software
Industrial Printing	Inkjet heads, imaging systems and industrial printers
Thermal Media	Thermal media
Other	Optical equipment, electronic components, semiconductor devices, digital cameras, industrial cameras, 3D printing, environment, healthcare solutions and financial services

Segment profit (loss) is based on operating profit and is used by Ricoh's chief operating decision maker in deciding how to allocate resources and in assessing performance. Segment profit (loss) excludes certain corporate expenses, such as costs related to human resources, legal relations, investor relations, public relations, corporate planning and environmental activities.

The following tables present certain information regarding Ricoh's operating segments and geographic areas for the three months ended June 30, 2017 and 2018. Intersegment transactions are made at arm's-length prices. No single customer accounted for 10% or more of the total sales for the three months ended June 30, 2017 and 2018.

(1) Operating Segment Information

	Millions of Yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Segment sales:		
Office Printing	284,632	273,725
Office Service	98,445	108,007
Commercial Printing	45,698	42,424
Industrial Printing	4,325	5,837
Thermal Media	14,513	16,259
Other	61,585	60,309
Intersegment sales	(16,658)	(15,621)
Total segment sales	492,540	490,940
Segment profit (loss):		
Office Printing	31,399	30,166
Office Service	(428)	2,211
Commercial Printing	7,165	4,936
Industrial Printing	(123)	(145)
Thermal Media	1,751	658
Other	(20)	461
Total segment profit	39,744	38,287
Reconciling items:		
Corporate expenses and elimination	(20,814)	(18,575)
Finance income	802	1,266
Finance costs	(2,942)	(3,222)
Share of profit of investments accounted for using equity method	24	170
Profit before income tax expenses	16,814	17,926

(2) Geographic Information

Sales based on the location of customers are as follows:

	Millions of Yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Sales:		
Japan	186,714	193,627
The Americas	146,162	136,247
Europe, Middle East and Africa	110,917	114,639
Other	48,747	46,427
Consolidated	492,540	490,940
The United States (included in The Americas)	122,692	111,763

6. SALES

As described in "5. OPERATING SEGMENTS," operating segments of Ricoh comprise "the Office Printing segment," "the Office Service segment," "the Commercial Printing segment," "the Industrial Printing segment," "the Thermal Media segment," "the Other segment." In addition, Sales are classified by region based on the location of customers.

The following table presents sales of each segment by geographic region.

	Millions of Yen				
Three months ended June 30, 2017	Japan	The Americas	Europe, Middle East and Africa	Other	Total
Office Printing	89,706	90,650	74,900	29,376	284,632
Office Service	51,584	24,746	17,182	4,933	98,445
Commercial Printing	6,267	24,397	12,228	2,806	45,698
Industrial Printing	771	1,044	818	1,692	4,325
Thermal Media	3,147	4,515	3,919	2,932	14,513
Other	35,239	810	1,870	7,008	44,927
Total segment sales	186,714	146,162	110,917	48,747	492,540

	Millions of Yen				
Three months ended June 30, 2018	Japan	The Americas	Europe, Middle East and Africa	Other	Total
Office Printing	87,980	80,576	76,319	28,850	273,725
Office Service	57,623	27,410	18,847	4,127	108,007
Commercial Printing	6,466	21,337	12,007	2,614	42,424
Industrial Printing	756	1,423	1,393	2,265	5,837
Thermal Media	3,360	4,672	4,545	3,682	16,259
Other	37,442	829	1,528	4,889	44,688
Total segment sales	193,627	136,247	114,639	46,427	490,940

Note:

1. Intersegment transactions were excluded in the table above.
2. Revenues recognized in accordance with IFRS15 'Revenue from contracts with customers' as well as revenues from leases recognized in accordance with IAS17 'Leases' were included in Sales.

7. BONDS

During the three months ended June 30, 2017, there was a repayment of straight bonds of ¥20,000 million (0.88% per annum, due June 2017). No issuance of bonds was noted in the same period.

No issuance or repayment of bonds was noted for the first quarter ended June 30, 2018.

8. DIVIDENDS

(1) Dividends paid during the three months ended June 30, 2017 and 2018 are as follows:

Resolution	Class of shares	Amount of dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date	Source of dividends
Ordinary general meeting of shareholders held on June 16, 2017	Ordinary shares	9,061	12.5	March 31, 2017	June 19, 2017	Retained earnings
Ordinary general meeting of shareholders held on June 22, 2018	Ordinary shares	5,437	7.5	March 31, 2018	June 25, 2018	Retained earnings

(2) Dividends whose record date is in the current quarter but whose effective date is in the following quarter

No such dividend was noted for the first quarter ended June 30, 2017 and 2018.

9. FINANCIAL INSTRUMENTS

(1) Fair value of financial instruments by type

Carrying amounts and fair values of the major financial instruments were as follows:

	Millions of Yen			
	As of March 31, 2018		As of June 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets:				
Trade receivables	110,375	115,018	114,066	118,864
Lease receivables	842,908	860,968	836,890	854,267
Installment loans	136,260	137,055	143,802	144,641
Derivative assets	1,605	1,605	1,420	1,420
Securities	100,883	100,883	28,004	28,004
Bonds	1,147	1,147	1,119	1,119
Total	1,193,178	1,216,676	1,125,301	1,148,315
Liabilities:				
Derivative liabilities	19,830	19,830	859	859
Loans and borrowings	658,707	657,165	628,866	627,812
Lease liabilities	3,535	3,616	2,416	2,471
Total	682,072	680,611	632,141	631,142

Note:

(i) Cash and cash equivalents, time deposits and trade and other payables

These financial instruments are not included in the table above, as the carrying amounts approximate fair values due to the relatively short-term nature.

(ii) Trade and other receivables

The trade and other receivables settled in a short period are not included in the table above because the carrying amounts approximate the fair values due to the short maturities of these instruments.

The fair value of the receivables expected not to be recovered or settled in a short period per each receivable classified per certain business type is calculated based on the present value of such receivables discounted by the interest rate which takes into account the period to maturity and the credit risk.

Trade and other receivables are classified as Level 3 under the fair value measurement and disclosure framework, since they are valued using inputs not based on observable market data.

(iii) Lease receivables and installment loans

The fair value of lease receivables and installment loans per each receivable classified per certain period is calculated based on the present value of such receivables discounted by the interest rate which takes into account the period to maturity and the credit risk. Lease receivables and installment loans are classified as Level 3 under the fair value measurement and disclosure framework, since they are valued using inputs not based on observable market data.

(iv) Derivatives

Derivative instruments consist of interest rate swap agreements and foreign currency contracts. The fair values of these instruments are measured mainly by obtaining quotes from brokers or proper valuation methods based on available information.

(v) Securities and bonds

Securities and bonds include marketable securities, bonds and unlisted securities. Marketable securities and bonds are held at fair value using quoted prices in an active market. The fair value of unlisted securities is measured using the comparable companies' analysis or other reasonable valuation methods.

(vi) Loans, borrowings and lease liabilities

Loans and borrowings expected to be settled in less than 12 months are not included in the table above as the carrying amounts approximate fair values due to the short maturities of these instruments.

The fair value of loans, borrowings and lease liabilities are calculated from estimated present values using year-end borrowing rates applied to borrowings with similar maturities derived from future cash flows on a per-loan basis as well as calculated based on market prices. Loans, borrowings and lease liabilities using inputs described above are classified as Level 2 under the fair value measurement and disclosure framework, since they are valued using observable market data.

(vii) Measurement of financial instruments

Measurement methods for the financial instruments in accordance with IFRS9 'Financial Instruments' were as follows.

At amortized cost: Trade receivables, Lease receivables, Installment loans, Loans (as a liability) and borrowings and Lease liabilities.

At fair value through profit or loss: Derivative assets and Derivative liabilities.
At fair value through other comprehensive income: Securities and Bonds (as an asset).

(viii) The carrying amount and fair value decreased in securities and derivative liabilities during the current period primarily due to completion of the transactions relating to the tender offer of Ricoh owned shares in Coca-Cola Bottlers Japan Holdings Inc.

(2) Fair value measurement applied in condensed consolidated statement of financial position

The analysis of financial instruments subsequently measured at fair value is shown below. The fair value hierarchy of financial instruments is categorized as follows from Level 1 to Level 3:

Reclassification among the levels in the fair value hierarchy is recognized upon the date when the event or change in circumstances causing the reclassification first come into being.

Level 1: Fair values measured using quoted prices in active markets with respect to identical assets or liabilities

Level 2: Fair values measured using inputs other than quoted prices that are observable, either directly or indirectly

Level 3: Fair values measured using inputs not based on observable market data

Financial instruments measured at fair value	Millions of Yen			
	As of March 31, 2018			
	Level 1	Level 2	Level 3	Total
Derivative assets	-	1,605	-	1,605
Securities	97,259	-	3,624	100,883
Bonds	1,147	-	-	1,147
Total assets	98,406	1,605	3,624	103,635
Derivative liabilities	-	19,830	-	19,830
Total liabilities	-	19,830	-	19,830

	Millions of Yen			
	As of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:				
Derivative assets	-	1,420	-	1,420
Financial assets at fair value through other comprehensive income:				
Securities	24,330	-	3,674	28,004
Bonds	1,119	-	-	1,119
Total assets	25,449	1,420	3,674	30,543
Financial liabilities at fair value through profit or loss:				
Derivative liabilities	-	859	-	859
Total liabilities	-	859	-	859

Note:

(i) Derivative instruments consist of interest rate swap agreements and foreign currency contracts. These derivative instruments are classified as Level 2 in the fair value hierarchy, since they are valued using observable market data such as LIBOR-based yield curves.

(ii) Securities and Bonds include marketable equity securities, bonds and unlisted securities. Marketable equity securities and bonds are observable and valued using a market approach based on the quoted market prices of identical instruments in active markets, and therefore marketable equity securities and bonds are classified as Level 1. As for unlisted securities, Ricoh determines the fair value based on an approach using observable inputs such as the comparable company's share prices and unobservable inputs, and therefore unlisted securities are classified as Level 3.

There were no significant changes in the nature of Level 3 securities during the period.

10. SUPPLEMENTARY INFORMATION TO THE CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

The following amounts were charged to selling, general and administrative expenses for the three months ended June 30, 2017 and 2018:

	Millions of Yen	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Research and development expenses	21,516	21,450
Shipping and handling costs	6,782	6,835
Advertising costs	1,555	1,406

11. LOSS OF CONTROL OF SUBSIDIARY

On January 29, 2018, our consolidated subsidiary Ricoh India Limited ("Ricoh India"), with headquarters in New Delhi and listed on the Bombay Stock Exchange, filed a petition with the National Company Law Tribunal (NCLT) pursuant to Section 10 of the Insolvency and Bankruptcy Code, 2016 of India (*1), to initiate corporate insolvency resolution process. The petition had been admitted in May 2018. Along with this, a moratorium (*2) was issued by the NCLT, and an interim resolution professional was appointed.

Ricoh had a majority of the voting rights of Ricoh India, whereas Ricoh India was excluded from the scope of consolidation based on our judgement that Ricoh lost control of Ricoh India in the situation above-mentioned where Ricoh India was under the control of the resolution professional. There was no material impact on profit and loss of the first quarter of the current fiscal year from the exclusion.

A creditors committee, composed of Ricoh India's financial creditors, decided whether or not the current interim resolution professional would continue or be replaced and thereby the creditor committee appointed the current interim resolution professional as the official resolution professional in June 2018.

*1…Reconstruction process based on the Insolvency and Bankruptcy Code of India:

After the NCLT admits an application filed under Section 10 of the Code, it appoints a resolution professional to be vested with the management of Ricoh India, and there is a prescribed time period during which a resolution plan is to be prepared and submitted to the creditors committee and to the NCLT for their respective approval. In the event a resolution plan is not submitted to the NCLT within the period or if other events set out in the Code occur, the NCLT will pass an order requiring the corporate debtor to be liquidated.

*2…About the moratorium:

The NCLT issues a moratorium simultaneously with the decision to commence insolvency proceedings. By issuing the moratorium, actions such as the recovery of assets owned by debtors, judicial or other procedures against debtors, the granting of security interest, and the disposal of debtors' assets or rights are prohibited. The moratorium continues until the NCLT approves a resolution plan or a liquidation order is given.

12. EARNINGS PER SHARE

Earnings per share attributable to owners of the parent-basic are as follows.

Diluted net income per share for the three months ended June 30, 2017 and 2018 is omitted because the Company did not have potentially dilutive common shares that were outstanding for the period.

	Three months ended June 30, 2017	Three months ended June 30, 2018
Profit attributable to owners of the parent (millions of yen)	10,796	9,282
Weighted average number of issued and outstanding shares (thousands of shares)	724,880	724,870
Earnings per share attributable to owners of the parent-basic (yen)	14.89	12.81

13. CAPITAL COMMITMENTS AND CONTINGENCIES

As of March 31, 2018 and June 30, 2018, Ricoh had outstanding contractual commitments for acquisition of property, plant and equipment and other assets aggregating ¥14,449 million and ¥11,781 million.

As of March 31, 2018 and June 30, 2018, there were no significant contingent liabilities.

As of June 30, 2018, the Company and certain 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 financial position or the results of operations of Ricoh.

14. SUBSEQUENT EVENTS

Ricoh concluded an agreement to sell approximately 66.6% of the Company’s shares in Ricoh Logistics System Co., Ltd. (“Ricoh Logistics”), to SBS Holdings Co., Ltd (“SBS Holdings”) on May 18, 2018 and completed the transfer on August 1, 2018.

In conjunction with this, Ricoh transferred all its remaining shares in Ricoh Logistics after the share transfer transaction to SBS Holdings representing approximately a 33.3% stake, to a new joint venture, RO Holdings Co., Ltd (“RO Holdings”). Following that transfer, Ricoh transferred ordinary shares equivalent to 33.4% of RO Holdings to Otsuka Corporation.

Along with the series of transactions, Ricoh Logistics becomes an affiliated company accounted for by the equity method. Gain on sales in the amount of approximately ¥12.0 billion is expected to be recorded in the fiscal year 2018.

15. AUTHORIZATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were authorized for issue by Yoshinori Yamashita, Representative Director and President, and Hidetaka Matsuishi Director and Corporate Executive Vice President, on August 9, 2018.