



April 27, 2018

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Announcement of allocation of impairment losses to the consolidated operating results and loss of the value of shares of affiliated companies to the non-consolidated operating results

TOKYO, April 27, 2018 – Ricoh today announced the allocation of impairment losses from fixed assets including the goodwill and others to the consolidated operating results, and the loss of the value of shares of affiliated companies to the non-consolidated operating results for the full year ended March 31, 2018, as previously announced in “Revision to the forecasted consolidated operating results for the full fiscal year and announcement of impairment losses” on March 23, 2018.

1. Impairment losses from fixed assets including the goodwill and others to the consolidated operating results

Our sales subsidiary in the United States, Ricoh USA, Inc. (referred to as RUS from here) and the IT services company in the United States, mindSHIFT Technologies, Inc. (referred to as mindSHIFT from here), and others allocated impairment losses from fixed assets including the goodwill and others. As the result, impairment losses of 175.9 billion yen is allocated to the consolidated operating results for the full year ended March 31, 2018.

2. Loss of the value of shares of affiliated companies in non-consolidated operating results

With these impairment losses allocated to the subsidiaries above, 108 billion yen as loss of the value of the shares of affiliates related to shares in Ricoh Americas Holdings, Inc, the parent company of RUS, is allocated as an extraordinary loss to the non-consolidated operating results for the full year ended March 31, 2018. There is no impact on our consolidated results since the loss of the value of shares of affiliated companies on non-consolidated basis is eliminated in the consolidated results.

3. Background

As a result of conducting an impairment test based on International Financial Reporting Standards (IFRS), and considering the possibility of future recovery based on the current business environment, we allocated impairment losses from fixed assets including the goodwill and others that we acquired at the time of acquisition.

For Ricoh group, the main purpose of the acquisition of IKON Office Solutions, Inc. (already merged with RUS and referred to as IKON from here) and other distributors in the United States was: (1.) to increase our competitiveness by expanding our business in the US market, (2.) to stabilize our future earnings potential by acquiring direct sales MIF (Machines in field) and developing an understanding of solutions requirements, and (3.) to secure a sales infrastructure and customer base to enable us to grow into new areas such as the services business with a focus on managed services, and production printing business. IKON's management were brought together with RUS and we strengthened our sales coverage and expanded our overall business in the United States. More recently, as paperless work environments have increased, primarily due to the increase in the use of cloud and mobile technologies, digitization has increased even faster than we expected in the North American market. As such, unit prices continue to decline due to intensified competition. Fiercer business conditions will continue to increase.

As a result of this, we redefined our business domains based on customer segments as part of "RICOH Resurgent", our 19th Mid-Term Management Plan, which covers the period from fiscal year 2017 to fiscal year 2019. This plan had three key elements which included structural reforms and business selectivity, prioritizing growth businesses and reinforcing our management systems, and revising our business segments. Additionally, based on the framework of the new business domains, we improved our ability to precisely monitor our business units and support decision-making and management. The new cash generating unit structure is the basis upon which impairment tests of fixed assets are conducted.

Regarding RUS's office printing business, we changed the strategy to being profit-focused under RICOH Resurgent, and as a result of reviewing future cash flows, which were based on future expansion, we allocated impairment losses for goodwill, intangible assets and tangible fixed assets relating to IKON and other acquisitions.

As for other impairment losses, having reviewed mindSHIFT and other business we anticipated that their future cash flow will change given the changes in the market environment, including the rapid popularization of cloud services, and so we decided that it would be difficult to recover the full book value of the assets held. We allocated impairment losses mainly for goodwill of the acquired one-stop-shop IT services business, which was very labor intensive.

4. Future measures

We will continue to position RUS as our representative sales company and an extremely important subsidiary of the Ricoh Group and we will promote structural reforms to further contribute to the enhancement of their corporate value to the group, not only in the short term but also in the medium and longer term.

For the office solution business including mindSHIFT, we will shift from the former scale expansion strategy to a more profit-focused strategy, and invest intensively in areas where we can expect greatest contribution to profit.

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