

## Regarding the Circumstances and Response to the Financial Irregularities at a Sales Subsidiary in India and the Subsequent Conditions

### The impact on financial results for the year ended March 31, 2019

In the consolidated financial results for the year ended March 31, 2019, the Company posted a loss of ¥14.9 billion in relation to our overseas consolidated subsidiary Ricoh India Limited (“Ricoh India”).

On January 29, 2018, Ricoh India filed an application to initiate the corporate insolvency resolution process with the National Company Law Tribunal, Mumbai (NCLT), pursuant to Section 10 of the Insolvency and Bankruptcy Code of India, 2016<sup>(\*)</sup>. The NCLT admitted the insolvency petition on May 14, 2018 and directed initiation of the corporate insolvency resolution process of Ricoh India.

Pursuant thereto, a moratorium<sup>(\*\*)</sup> was imposed by the NCLT, and a Resolution Professional was appointed to manage Ricoh India's affairs. The Resolution Professional invited applicants to submit resolution plans. Since May 2018, after the appointment of the Resolution Professional, Ricoh India has no longer been a part of our consolidated company, even though Ricoh Group owns 73.6% shares of Ricoh India.

Then on February 15, 2019, the Committee of Creditors (COC) of Ricoh India approved one of the plans, amongst the several resolution plans submitted. The Resolution Professional filed this Resolution Plan with the NCLT for its approval. The submitted resolution plan is presently pending consideration of the NCLT.

At this stage, Ricoh Company, Ltd. estimates that if the submitted resolution plan is approved by the NCLT the credits of Ricoh India are likely to become uncollectible, thus it has allocated additional losses of ¥14.9 billion.

Moving forward, if the necessity arises, we will disclose information in a timely manner, including changes based on legal proceedings.

#### Notes:

\*1 About the Insolvency and Bankruptcy Code of India, 2016:

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 the company and there is a prescribed time period during which a resolution plan is to be prepared and submitted to the committee of creditors and to the NCLT for their respective approvals. In the event a resolution plan is not submitted to the NCLT within the time period, or where the NCLT does not approve the plan, 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 the corporate insolvency resolution process for a period of 180 days, and which may be extended to 270 days. During the moratorium period, actions such as the recovery of assets owned by debtors, judicial or other procedures against debtors, granting of security interest, and the disposal of debtors' assets or rights are prohibited.

### Background

Following the filing of its first quarter financial results for the year ended March 31, 2015 to the Bombay Stock Exchange, Ricoh India, in line with good governance, changed its auditors. In order to meet its required reporting obligations with the Bombay Stock Exchange, the auditors undertook a limited review of the results for the second quarter ended September 30, 2015 as part of their new auditor processes. During this review the auditors raised concerns with Ricoh India's management and Ricoh India's audit committee regarding financial irregularities. While the Ricoh India's audit committee appointed external experts to conduct an in-house investigation, new senior management were appointed on April 13, 2016 to make the necessary changes to the operating structure of the business. The delayed results for the second quarter ended September 30, 2015 were filed on May 18, 2016 to the Bombay Stock Exchange.

Following this, Ricoh India continued to investigate the financial irregularities. On July 19, 2016, Ricoh India disclosed the expected loss for the year and revised their results. Ricoh filed a petition with the NCLT in India regarding a capital increase with the aim of restructuring Ricoh India's business (the capital increase was executed on October 15 of the same year).

In addition, by dispatching a new executive officer from Ricoh as Chairperson of Ricoh India, we endeavored to normalize accounting and finance functions, execute appropriate reporting of accounts and implement

recurrence prevention measures under the new management. Under these circumstances, Ricoh India's relationship with its major vendor deteriorated, and further disputes with this vendor began to surface.

Given these circumstances, in April 2017, under Ricoh's newly-appointed President and CEO, Yoshinori Yamashita, and based on the “RICOH Resurgent” policy, which aims to implement global structural reform across each and every business unit, without exception, we reevaluated our support to Ricoh India. As a result, we decided not to provide any additional financial support going forward, to minimize the consolidated losses of the Ricoh Group, and disclosed this fact on October 27, 2017. At the same time, the Company took this incident related to Ricoh India gravely, and made disciplinary actions to partially reduce the monthly basic compensation of the Representative Director and President as well as three Directors and one Corporate Vice President, and reduce the compensation of the former Representative Director and President.

As stated above, on January 29, 2018, Ricoh India made a resolution and filed an application to initiate corporate insolvency proceeding with the NCLT pursuant to Section 10 of the Insolvency and Bankruptcy Code of India.

Ricoh India had been trying to effectuate management reforms, cost reductions and other measures for the purpose of rehabilitating its business; however, Ricoh India's relationship with its major vendor had deteriorated, and it resulted in default of contracts by the vendor and failure to collect receivables from business partners. Subsequently, Ricoh India announced that, since Ricoh India had now reached a position where it was unable to meet its liabilities, it decided to file the application to initiate corporate insolvency proceeding in the best interests of its customers, employees, minority shareholders, creditors and all other stakeholders.

As the largest supplier, creditor and shareholder of Ricoh India, the Company has been working together with the Resolution Professional to ensure that we may continue to provide products and services to our customers in India and maintain the quality of those services, while closely monitoring the decisions of the NCLT.

On February 15, 2019, the COC of Ricoh India approved one of the plans, amongst the several resolution plans submitted. The Resolution Professional filed this Resolution Plan with the NCLT for its approval. The submitted resolution plan is presently pending consideration of the NCLT.

Under these circumstances, the Company allocated expenses which relate to Ricoh India of ¥6.9 billion, ¥11.7 billion and ¥14.9 billion in consolidated operating results for the years ended March 31, 2017, 2018 and 2019, respectively. As a result of allocating an additional loss in the consolidated operating results for the year ended March 31, 2019, the Ricoh Group has allocated all the credits of Ricoh India.

### Factors behind the issues in Ricoh India

Unlike other emerging countries, India has a market expanding around IT services, and our sales grew without an adequate understanding of the regional characteristics and business models. This led us to believe that the business was successful, and we did not recognize the rapid expansion of business to be unnatural growth, resulting in the delay of the discovery.

Also, regional headquarters which had authority delegated to them by the headquarters (4 HQs: Japan, the Americas, Europe, Asia) were in charge of managing overseas sales subsidiaries in each region.

Among them, Ricoh India is our only overseas subsidiary that is listed on the local stock market, and in accordance with listing rules in India, a management governance system had been put in place. As such, unlike other overseas subsidiaries, it is our understanding that checks by regional headquarters became lenient.

In addition, as Ricoh India did not have its mission critical system unified, it was difficult to find this fraud. Furthermore, our whistleblowing system did not have a mechanism for making direct reports from overseas subsidiaries to the headquarters in Japan.

## Efforts to prevent recurrence

As we disclosed in October 2017, we acknowledge the gravity of the situation of having to change the financial support policy for Ricoh India, and, with the aim of strengthening group governance, we have been undertaking the following measures to prevent recurrence through strengthening cooperation between Japan headquarters and regional headquarters/overseas subsidiaries.

In addition, in January 2018, in light of the fact that Ricoh India filed a petition for initiating corporate insolvency resolution process with the NCLT, we are working on the following measures to prevent recurrence, from the viewpoint of business management and organizational enhancement.

### 1) Strengthen business management

- (A) Establishing a mechanism to review risk evaluation items with awareness of regional and business characteristics when planning and approving mid-term management plans and business plans.
- (B) Managing subsidiaries in a way that corresponds to the emerging country business risks and risks of new and growing businesses that they are exposed to.
- (C) Strengthening business management of overseas subsidiaries and globally standardizing purchasing processes.
- (D) Building frameworks to expose shortcoming and implement best practices in new business domains.

#### [Progress]

We set forth risk evaluation items for the year ended March 31, 2019, and established a mechanism to review them. Since the year ended March 31, 2018, businesses in emerging countries are under the direct control of headquarters through the Focused Region Marketing Division.

In the year ended March 31, 2018, we began the formulation and application of operational standards in the purchasing process and issued guidelines to share failure cases and implement best practices in the year ended March 31, 2019. Each sales subsidiary has completed the establishment of its own operational system. In addition to that, we established the Investment Committee in the year ended March 31, 2019 and conduct regular monitoring to manage subsidiaries according to the business risks of investment projects.

### 2) Business administration enhancement

- (A) Strengthening the management of overseas subsidiaries under the unified effort of regional headquarters, the supervisory department for subsidiaries and affiliates, and the accounting department of Japan headquarters.
- (B) Establishing a mechanism that enables the headquarters function to check the status of business in each country.

#### [Progress]

In the year ended March 31, 2018, we established control items in each country for financial statements such as balance sheets and cash flows, and constructed a mechanism to implement monthly reviews. Furthermore, we created and subsequently operate a mechanism to visualize and share detailed information on sales per business and sales subsidiary.

### 3) Strengthen the organizational structure

- (A) Establishing an organization to control sales subsidiaries in the headquarters, and redefining the scope of responsibilities and roles between the new organization, the regional headquarters and sales subsidiaries.
- (B) Integrating the headquarters accounting and finance functions to clarify the report line and management responsibility.

#### [Progress]

From April 2017, we established the Focused Region Marketing Division in headquarters to control the Sales and Marketing Group that manages HQs and sales subsidiaries and the regional efforts in emerging countries, and redefined the scope of responsibilities and roles. In addition to that, we integrated the reporting line to the Chief Marketing Officer (CMO) from the year ending March 31, 2020. Furthermore, we established the Finance and Legal Division in April 2018 to integrate accounting and finance functions, and have clarified the division of management responsibility.

### 4) Compliance enhancement

- (A) Educating those seconded to our overseas subsidiaries as senior officers with particular emphasis on compliance and internal control, and clarification of their roles and responsibilities.
- (B) Strengthening the evaluation and supervision of senior management through the establishment of a nomination and compensation committee in the Asia Pacific region.
- (C) Enhancing the development of a whistleblowing system in group companies and thoroughly notifying all employees accordingly, as well as establishing a shared internal reporting desk enabling all group employees to report directly to the headquarters.

#### [Progress]

From the year ended March 31, 2018, we provided prior training to those to be seconded as senior officers, and from the year ended March 31, 2019 we provided the same training for employees to be newly stationed.

Through the nomination and compensation committee established at the Asia Pacific HQ in March 2016, we strengthened the process of evaluation for senior management in the region. In October 2018 we established and began operating a shared internal reporting desk enabling direct reporting to the headquarters, offering support in multiple languages.

### 5) Audit enhancement

- (A) Conducting internal audits by the global audit team to improve the effectiveness of internal audits, such as checking transaction details.
- (B) Unifying the independent auditor of overseas subsidiaries into those affiliated with the auditing firm adopted by Japan headquarters and strengthening cooperation with the independent auditor of overseas subsidiaries.

### 6) IT governance enhancement

Implementing assessments of the core system in the Asia-Pacific region and reconstructing the system with effective IT governance.

#### [Progress]

We completed IT assessments of all nine sales subsidiaries under the Asia Pacific HQ, and started integrating the ERP system to maintain IT governance in the year ended March 31, 2019.

## Moving forward

The Company respects the decision of the NCLT and will proceed with necessary procedures. We believe that it is crucial that services to customers currently using our products and services not be impaired, and will make every effort to continue to provide services to our customers in India and maintain their quality.

India is one of the most important markets for us. The Company will identify business areas that would benefit from Ricoh's strengths and develop optimal market and channel strategies. Any information that needs to be reported regarding future situations will be promptly reported.