OKI *Open up your dreams*



# OKI REPORT 2019

(For the year ended March 31, 2019)

# THE PATH TO VALUE CREATION

Since its founding, OKI has been delivering a succession of advanced products and services underpinned by the Company's "enterprising spirit" to meet the needs of society. We will continue our efforts to realize a comfortable and affluent tomorrow for everyone by creating values that contribute to the development of information society.

# *Open up your dreams*

1881
(14th year, Meiji Era)
Kibataro Oki established Meikosha, Ltd.



Japan's postal, telegraph, and telephone services all started in the early Meiji era, and one by one evolved to become our present information communication system. In the early days of telecommunications, Kibataro recognized the future of telegraph and telephone and worked hard to develop them. Five years after the phone was brought in from the United States, he succeeded in developing Japan's first domestic telephone. The "enterprising spirit" of Kibataro who paved the way with his own technology and creativity has been passed inside the company and makes what OKI is today.

**1881**
Japan's first telephone developed

**1902**
First Japan-made magnetic parallel multiple telephone switchboard delivered to Nagasaki Telephone Office



**1930**
First in-house AEI-type automatic exchange delivered to Nakano Telephone Office in Tokyo

**1953**
Page teletypewriters released



**1961**
Computer equipped with first Japan-made core memory released



**1963**
Mass production of Type-600 telephone began



**1969**
OKITAC™-4300 minicomputer released



**1971**
D10 electronic telephone switchboard delivered to Nippon Telegraph and Telephone Public Corporation



**1976**
OKIFAX 7100 digital thermal facsimile machine released



## 2018
WX-1033A/B optical fiber sensor system released



## 2008
COREFIDO series of printers and Multifunction Printers (MFPs) released for the Japanese market with the industry's first free five-year warranty



## 1996
Computer-Telephony Integration System CTstage® released




## 1981
World's first LED printer developed



## 1996
Japan's first VoIP system released



## 2011
Japan's first 920MHz band wireless multi-hop communication system for smart communities developed

## 2010
SUKIT™ information kiosk terminals delivered to Haneda Airport International Passenger Terminal



## 2004
Industry's first Microsoft. NET-compliant IP telephony server released



## 1982
World's first cash-recycling ATMs released



## 2005
Real-time earthquake disaster prevention system developed

# OKI GROUP VALUES

The "OKI Group Action Principles" we enacted in September 2016 give formal expression to values shared by all OKI Group executives and employees. Amid large changes in the business environment, we seek to embed these principles as extensively as we can into our practices with the commitments expressed in the "OKI Group Charter of Corporate Conduct" and the "OKI Group Code of Conduct" as the cornerstones of our corporate activities. We seek to realize our corporate philosophy by striving to embody our vision.

## Corporate Philosophy

The people of OKI, true to the company's "enterprising spirit," are committed to creating superior network solutions and providing excellent information and communications services globally to meet the diversified needs of communities worldwide in the information age.

## Vision

The OKI Group helps create a safe and convenient infrastructure for customers and society as a whole through the key Japanese concepts of "Mono-zukuri" and "Koto-zukuri."

*Mono-zukuri: to have the spirit and mind-set to innovate, create and improve products

*Koto-zukuri: to work together, proactively seeking opportunities that deliver value to customers

## Action Principles

Act with integrity

Challenge and drive change

Perform with speed and agility

Be passionate, and determined to succeed

Proactively encourage excellence as "Team OKI"

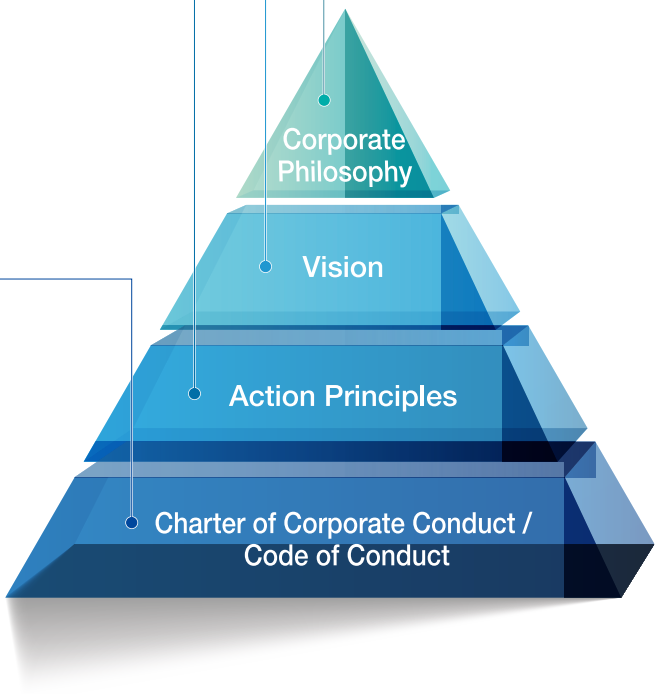
## OKI Group Charter of Corporate Conduct/ OKI Group Code of Conduct

### OKI Group Charter of Corporate Conduct

CSR activities OKI Group must accomplish based on its corporate philosophy

### OKI Group Code of Conduct

Codes of conduct executives and employees must conform to in accordance to OKI Group Charter of Corporate Conduct



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**Editorial Policy**

OKI Report 2019 has been published for the purpose of sharing useful information with investors and other stakeholders and contains important information for the understanding of the OKI Group. Detailed information for each region can be found on our website.

# THE OKI GROUP'S VALUE CREATION PROCESS

The OKI Group has three strengths: a strong "customer base" built up over more than 130 years, an "installed base" of terminals in edge regions, and high "technological capabilities" to support them. Based on these strengths, we will move the business cycle by effectively injecting management resources and accelerate changes through innovations and co-creation efforts, thereby aiming to maximize both business value and social value.

## OKI Focuses on Social Issues

### Finance and Retail

- Payment diversification through advances in cashless payments
- Labor-saving

### Transport

- Road accident reduction and congestion relief
- Securing transport means for the elderly

### Disaster Prevention

- Disaster prevention and reduction

### Manufacturing

- Maintaining and strengthening the onsite capabilities
- Productivity improvement through use of digital data

### Marine and Acoustics

- Ensuring marine safety
- Conservation of marine environment

## Source of Value

### Drivers of Value Creation

- Action principles
- Business activities (SI, Mono-zukuri, Services)
- Mid-term business plan

### Management Resources

- Human resources
- Finance (Cash)
- R&D
- Infrastructure
- Connection with society

### Installed Base

## Corporate Governance

## Corporate Philosophy

## Vision

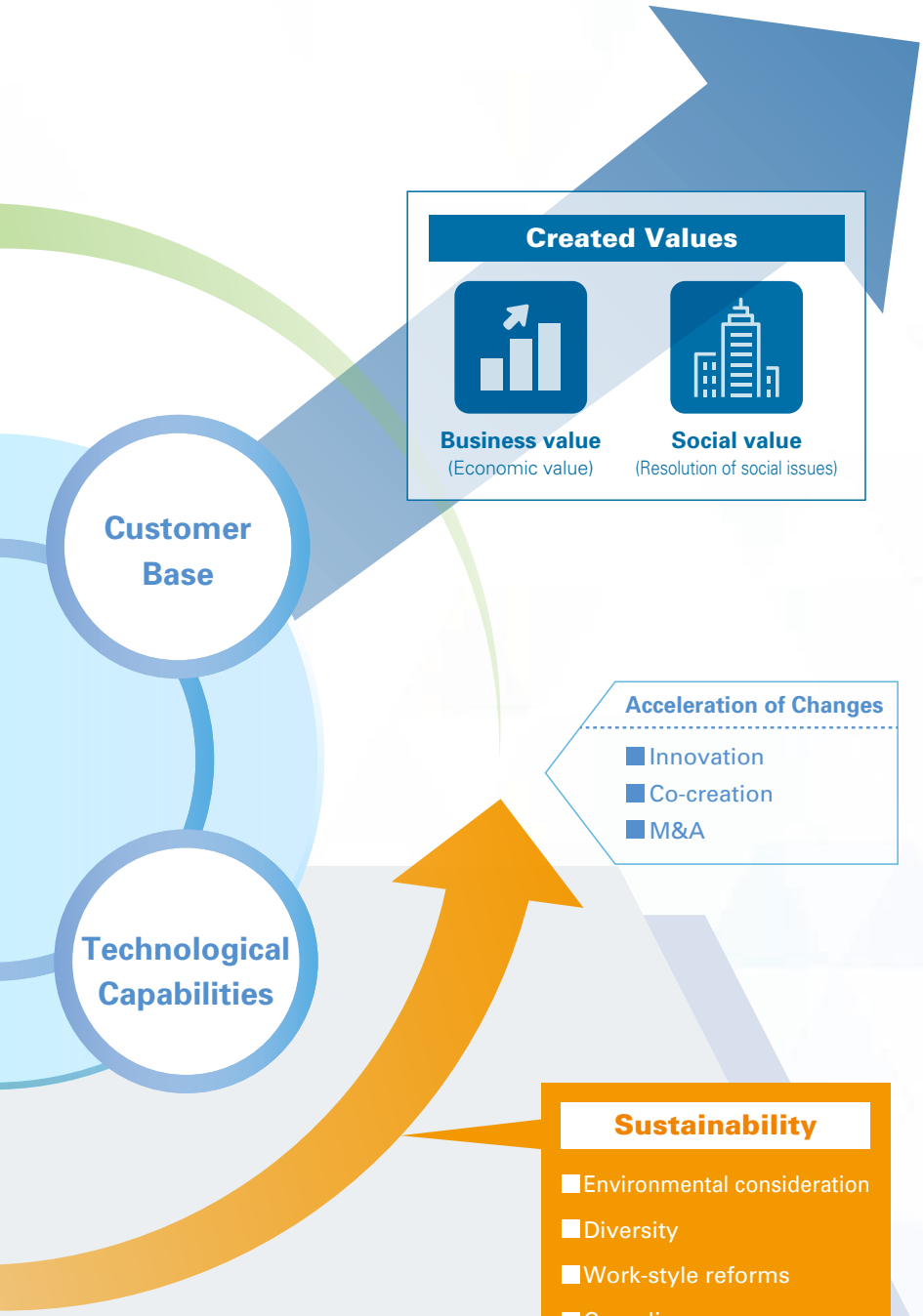
The OKI Group helps create a safe and convenient infrastructure for customers and society as a whole through the key Japanese concepts of "Mono-zukuri" and "Koto-zukuri."*

### Sustainability and Growth




The Sustainable Development Goals (SDGs) are a collection of 17 global goals and 169 targets set by the United Nations in 2015 for achievement by 2030. OKI continues to promote activities for creating new innovation through co-creation with partners.

*Please see the notes (*) on page 3 for "Mono-zukuri" and "Koto-zukuri."



# FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
Years ended March 31

| Ended March 31 | Millions of yen 2015 | 2016 | 2017 | 2018 | 2019 | Thousands of U.S. dollars*1 2019 |
|---|---|---|---|---|---|---|
| **For the year** | | | | | | |
| Net sales | ¥ 540,153 | ¥ 490,314 | ¥ 451,627 | ¥ 438,026 | **¥ 441,452** | **$ 3,977,045** |
| Operating income | 32,415 | 18,594 | 2,545 | 7,721 | **17,522** | **157,855** |
| Profit attributable to owners of parent | 33,091 | 6,609 | 4,691 | 5,891 | **8,405** | **75,720** |
| Net cash (used in) provided by operating activities | 40,999 | (3,573) | 41,967 | 15,578 | **6,364** | **57,333** |
| Net cash (used in) provided by investing activities | (18,583) | (13,762) | 7,588 | (10,485) | **(12,099)** | **(109,000)** |
| Free cash flow | 22,415 | (17,335) | 49,555 | 5,092 | **(5,735)** | **(51,666)** |
| **At the year end** | | | | | | |
| Total assets | ¥ 439,358 | ¥ 411,776 | ¥ 360,724 | ¥ 371,778 | **¥ 365,503** | **$ 3,292,819** |
| Shareholders' equity | 119,626 | 106,733 | 96,878 | 100,169 | **99,941** | **900,369** |
| Interest-bearing debt | 107,570 | 122,084 | 87,012 | 81,915 | **78,553** | **707,684** |
| **Ratios** | | | | | | |
| Return on assets (ROA) (%) | 7.8 | 1.6 | 1.2 | 1.6 | **2.3** | |
| Return on equity (ROE) (%) | 31.8 | 5.8 | 4.6 | 6.0 | **8.4** | |
| Shareholders' equity (%) | 27.2 | 25.9 | 26.9 | 26.9 | **27.3** | |

| | Yen | | | | | U.S. dollars*1 |
|---|---|---|---|---|---|---|
| **Per share amounts*2** | | | | | | |
| Net income | ¥ 40.03 | ¥ 76.10 | ¥ 54.03 | ¥ 67.86 | **¥ 97.16** | **$ 0.87** |
| Net assets (shareholders' equity, excluding warrants and non-controlling interests in consolidated subsidiaries) | 137.74 | 1,229.09 | 1,115.68 | 1,154.03 | **1,155.28** | **10.40** |
| Cash dividends | 5.00 | 50.00 | 50.00 | 50.00 | **50.00** | **0.45** |
| **Non-financial data** | | | | | | |
| Number of employees | 20,653 | 20,190 | 19,464 | 18,978 | **17,930** | |
| Employment rate of challenged people (%) | 2.12 | 2.13 | 2.15 | 2.27 | **2.24** | |
| Ratio of female managers (%)*3 | 2.42 | 2.60 | 3.17 | 2.58 | **6.49** | |
| Greenhouse gases from our business activities (ten thousand tons of $CO_2$)*4 | 10.8 | 10.4 | 9.8 | 9.3 | **8.5** | |

*1 The U.S. dollar amounts in this report are translated from yen, for convenience only, at ¥111 = US$1.00, the approximate exchange rate prevailing on March 31, 2019.

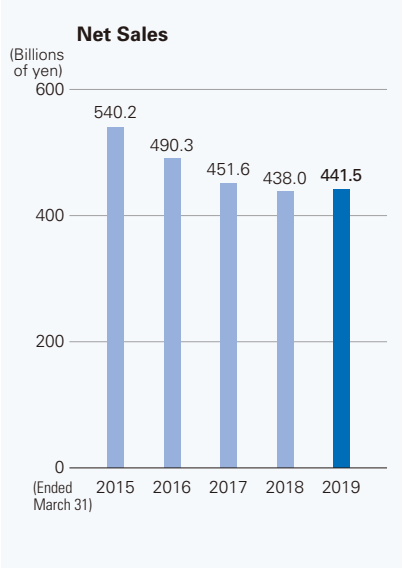
*2 With an effective date of October 1, 2016, a one-for-ten stock consolidation was implemented. Attendant with this, per share amounts have been calculated on the assumption that this stock consolidation was carried out at the beginning of the fiscal year ended March 31, 2016.

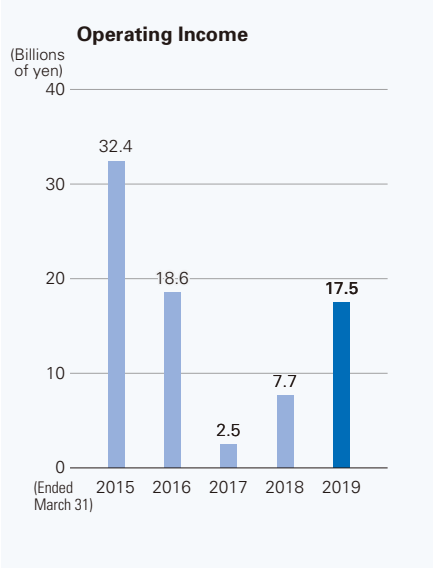
*3 Scope: OKI for 2015-2017, OKI and domestic consolidated subsidiaries for 2018, the OKI Group for 2019

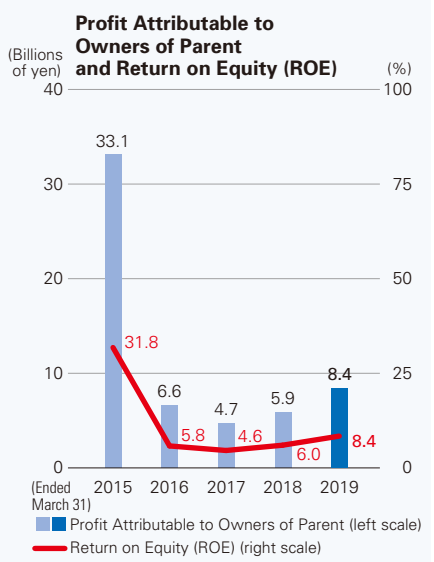
*4 Figures for previous years have been adjusted to reflect a more elaborative scope and other factors.
For environment-related data, please visit our website.
https://www.oki.com/en/eco/

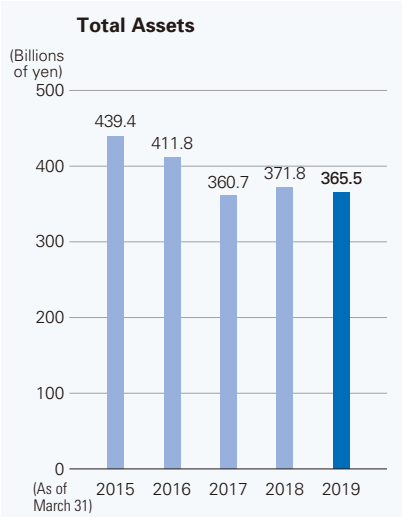
**Forward-looking Statements**

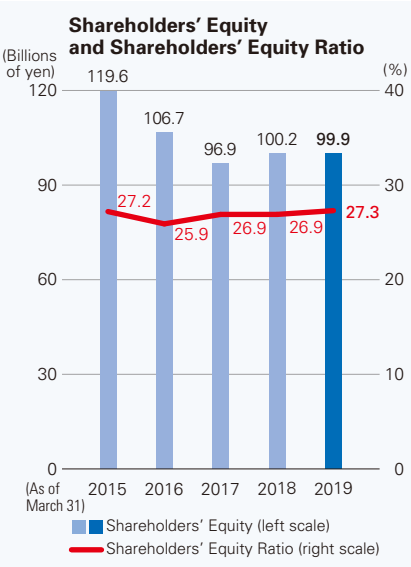
This report contains forward-looking statements concerning the OKI Group's future plans, financial targets, technologies, products, services and performance. These forward-looking statements represent assumptions and beliefs based on data and calculation methods currently available to OKI as of the date of publication, and therefore they are not a guarantee of future accuracy. Also, these forward-looking statements, which include our analysis and forecasts, are not a guarantee of future performance or outcomes. These statements involve business risks and uncertainties. Due to various factors, actual results may differ from those discussed in this document.

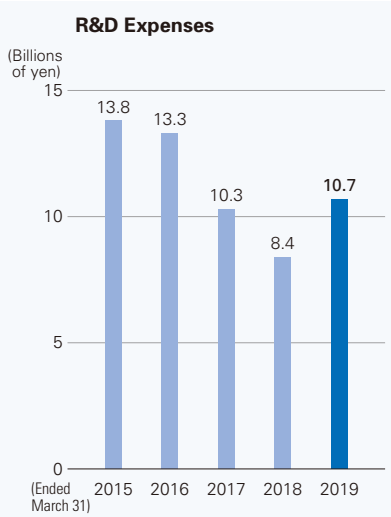


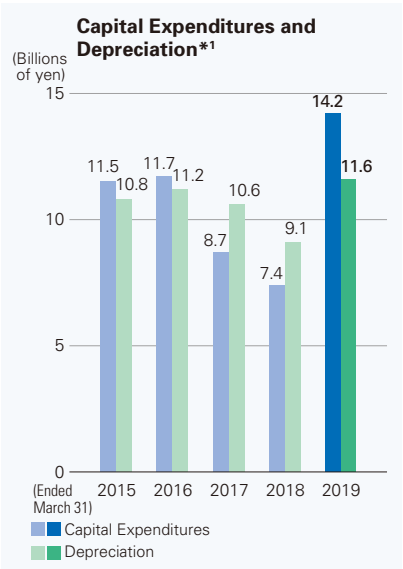



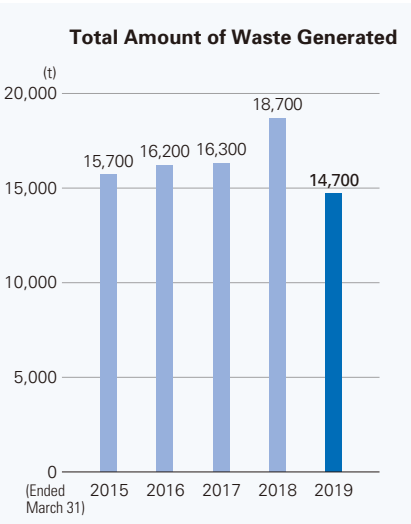



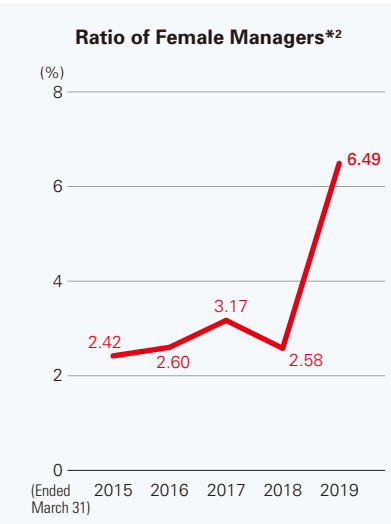




*1 Scope: Property, plant and equipment only up through 2018, and property, plant and equipment and intangible assets for 2019
*2 See *3 on page 7.

# MESSAGE FROM THE PRESIDENT

## Based on the network technology and edge devices, OKI Group will support social infrastructure and contribute to solve social issues.



Shinya Kamagami
*President, Representative Director*
*Oki Electric Industry Co., Ltd.*

Continuous Efforts will Build a Brighter Future

# Capturing the Waves of Change, We will Realize in Maximizing the Business and Social Values.

OKI was founded by Kibataro Oki, an engineer in the Ministry of Engineering (Government office in the first year of the Meiji Era), who resigned his post to stake his life on the rise of the telecommunications industry. At the time, telephones were brought in from the United States, and to borrow a quote from Kibataro on the future of the information and communication industry, it was an era that- "It is difficult to presume the trend, civilization progresses so fast. No one can foresee or imagine the phenomenal progress to be made when it comes to the practical applications of electricity."

Later, OKI became the sole company to manufacture domestic telecommunication equipment. Then some U.S. company asked to form a partnership with OKI to enter the expanding Japanese telecommunications market. However, Kibataro was proud of its domestic technology and was resolute that his company remains a domestic public institution to serve society. Therefore, no alliance was formed as it would have been disdainful to have the telecommunications network or the nation's central nervous system supported by foreign capital.

This spirit at the time of foundation has been inherited as our corporate philosophy, "The people of OKI, true to the company's "enterprising spirit," are committed to creating superior network solutions and providing excellent information and communications services globally to meet the diversified needs of communities worldwide in the information age."

In OKI's 138-year history, the company has remained true to its origin by advancing society with its information and communication technology and as a good corporate citizen that supports and walks with the path of society, we listen sincerely to our customers and continue to grow with their support.

Regarding our attitude to stand close to our customers honestly with the public interest in mind, we often heard complimentary words such as "OKI-like" from our customers and I'm very honored to have received such comment as accumulated feedback over the years.

One of the things I have worked on since I became president in 2016, is innovation management reform. In June of this year, the International Standard for Innovation Management System, ISO 56002, was adopted, but OKI had already begun its efforts in anticipation of this event. The Ministry of Economy, Trade and Industry also published the guidebook, "Guidelines of Value Creation Management for Japanese Corporations" following the adoption of ISO 56002. In fact, OKI's efforts in this area were introduced as an example of the challenges facing corporations.

"Yume Pro," a project to accelerate innovation creation activities started in April 2018, with an innovation room, based on the concept of a tree house opened in one corner of our head office showroom. It is used as a place for the co-creation activities with customers and employees to discuss ideas freely expanding their ideas.

In terms of business strategy, we have conducted M&A and TOB at an average rate of about one every two years to expand and strengthen our business.

Sometimes these new initiatives and proactive policy measures are met with surprise, with some saying that it is "Unlike OKI."

Traditionally through its founding spirit, OKI has been a company that kept abreast of the times by accurately predicting the trends and boldly taking on challenges without fear of failure. I personally think that is the original OKI-like quality. However, over the years, I feel that through our sincerity and honesty, the word conservative, has become more synonymous with OKI.

Now, a new wave of digital transformation is on the way that will dramatically change the structure of society. We believe that it is similar to the early days of the information and communications industry and I will seize this opportunity to steer this company in these times of change towards growth.

The OKI Group will continue to address the challenges of the future by being "Unlike OKI" while also maintaining its "OKI-like" reputation and qualities with deep appreciation of your evaluation. With this in mind, I ask our stakeholders to expect a great future with OKI.

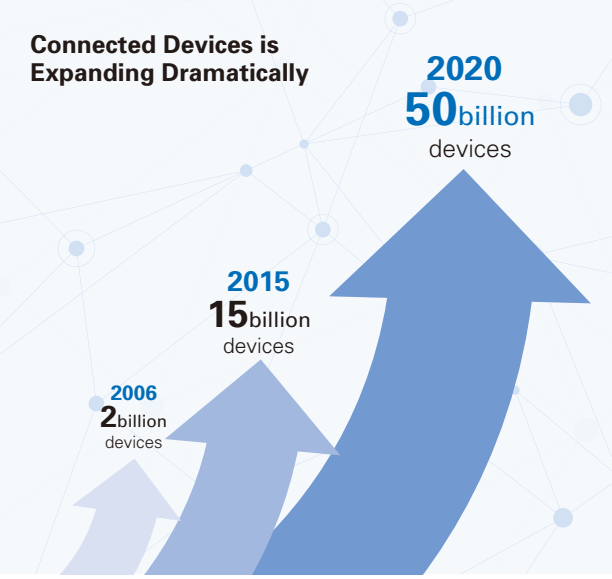
## Recognition of Business Environment

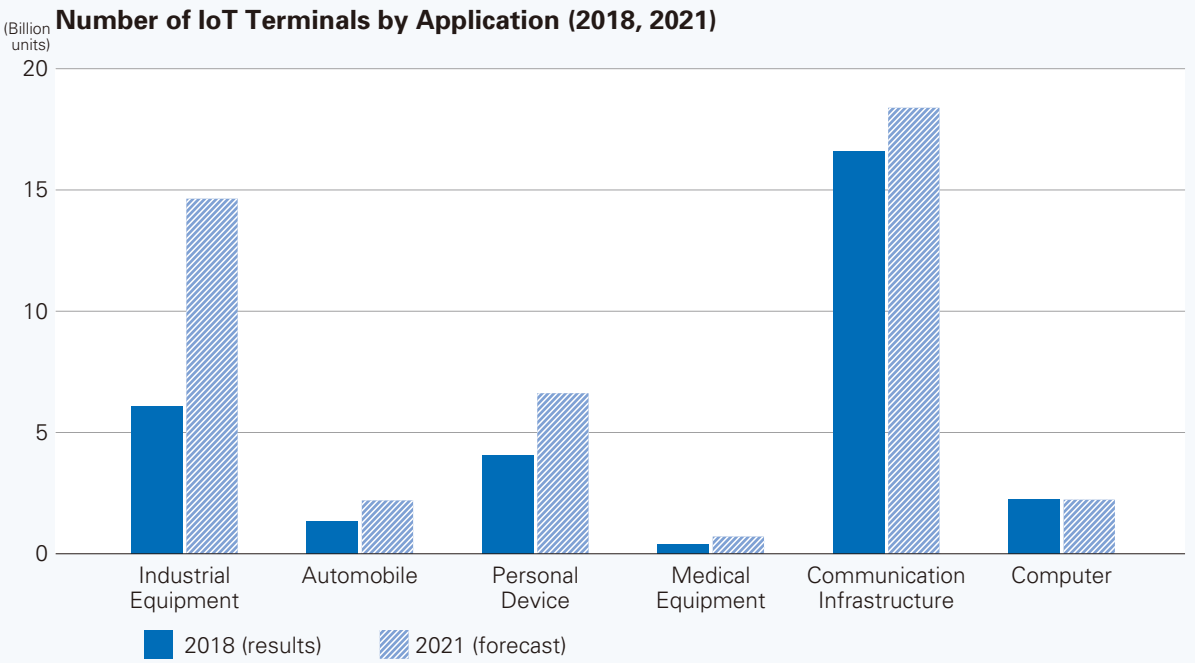
Fiscal year 2018 was a year to work on returning the OKI Group back to a sustainable growth trajectory. In that respect, the increase in sales and profits can be viewed as a good sign. On the other hand, there are still several issues to overcome in order to ensure that we are truly back on a growth path. The question now, is how to respond to changes in the business environment brought on by digitization and entry of new paperless and cashless businesses, and change in the market by entering different industries.

Furthermore, I think that as the full-scale 5G era approaches, digitalization will accelerate further. The number of connected devices will expand dramatically along with an explosive increase in the amount of data. If that happens, it will be necessary to reinforce the communication infrastructure. In order to maintain an efficient and pleasant communication environment, we will require more sophisticated edge computing with high-speed and real-time processing at terminals.

Until recently, smartphones and tablet devices have been popular as IoT devices for consumers. However, in the future, it is expected that terminals for industrial use will expand rapidly, especially for smart cities and factories, as well as for automobiles and medical use.

In addition, the labor shortage is becoming more serious, and the areas that can be replaced with AI and ICT are still limited, and as a result the need for automated equipment is expected to widen.




Source: Based on The 2019 White Paper on Information and Communications (Ministry of Internal Affairs and Communications)

## Initiatives Aimed at Future Growth

OKI is a technology company with its foundation based on manufacturing. Until now, we have solved the customer's problems by combining our unique terminals and network technology. We are an IoT company that has been manufacturing edge devices for over 100 years and connected them to networks and we therefore believe that the arrival of the IoT society will only bring many more new business opportunities.

OKI has network technologies, including sensing, data processing, data analysis, business applications, and technology to manufacture highly reliable terminals. This is a major strength as there are not many companies that have all these technologies.

Given this backdrop, we have a history of building systems by selecting the most suitable terminals for the edge area and connecting them to networks. By doing this, we have gained our customer's trust and knowledge whereby it has become a great asset with more and more customers becoming our partners in co-creation.

OKI will introduce terminals with a more sophisticated and reliable interface. For this development, we will allocate resources intensively in the future.

In addition, there is an important goal which is to solve social issues. We will focus on areas where there are chronic labor shortages, such as in medical care and retail and develop automated equipment that utilize hardware technology and resources to reduce their burden.

In order to implement measures to support social infrastructure and solve social issues, it is necessary to optimize resources. With a view to future business restructuring, necessary resources will be reallocated across segments from product-out and hardware-alone business sites.



There are already tens of thousands of OKI terminals installed and operating in various markets. We have also started a recurring revenue business based on these terminals, and which we continue to expand each year. I expect that the expansion of this business will firmly support OKI's long term business performance.

As just described, we will build a structure to promote businesses, and reflect in our future management plan.

## A Company is Its People

Regardless of the type of business or its structure, people play the most important role to support the survival and growth of a company. How to secure and nurture top caliber personnel is an extremely important theme in management. The OKI Group secures diverse human talent through the active recruitment of women and mid-career hire which has resulted in the revitalization of the organization. Furthermore, from fiscal year 2019, we are reviewing the compensation system for all OKI employees. Our intent is to appropriately reward those employees who have performed well. We will work to reform work styles to eliminate bad equality principle and prevent employees from getting exhausted. As these efforts begin to circulate, we believe that corporate value will continue to improve.

By placing people as the center of management's focus, we continue to further develop society. These basic concepts of the OKI Group are consistent with the "Sustainable Development Goals (SDGs)" adopted by the United Nations, and will continue to be our corporate goals for the future. In May 2019, we endorsed the recommendations made by "Task Force on Climate-related Financial Disclosure (TCFD)." As a Signatory of the United Nations Global Compact initiative, I would like to work on global social issues outlined in the SDGs and contribute to its success by providing various products and services.

October 2019

# MESSAGE FROM THE CFO



## Balancing offense (growth investment) and defense (financial discipline), for the sustainable growth

Senior Executive Vice President,
Representative Director and
Chief Financial Officer
Masayuki Hoshi

The OKI Group aims to be a corporate group supporting a safe and convenient infrastructure for customers and society as a whole through the key Japanese concepts of "Mono-zukuri" and "Koto-zukuri."*

Through our business activities, we will pursue to create economic value and contribute to society, so that we can be recognized as an indispensable company. In order to achieve that goal, it is necessary to provide products and services that meet new needs and address them in a timely manner to respond to changes in society. Aggressive investment in innovative technologies and developing new fields is essential for growth.

Meanwhile, there is no end of instances where the misjudgment of risk has damaged corporate value and, in turn, caused a crisis in the sustainability of a corporate entity. It's vital to learn from these mistakes so that they don't occur to us, I believe that it's the responsibility of the CFO to balance offensive (growth investment) and defensive (financial discipline) forms in order not to deviate from the path of sustainable growth.

Going forward, we will strive to meet the expectations of shareholders and investors. We look forward to your continued support and understanding for the future of the OKI Group.

*Please see the notes (*) on page 3 for "Mono-zukuri" and "Koto-zukuri."

OKI's basic concept of capital policy is as follows:

**Capital Policy**

### Basic Concept

As a company deeply rooted in society, we strive to contribute to society by improving corporate value sustainably, and make returns to stakeholders.

### Basic Policy

1. Make investments for growth
2. Secure the strong financial base
3. Sustain steady shareholder returns

### Financial Soundness

- Maintain an adequate level of shareholder's equity within a risk allowance, while making growth investments
- Pursue the right balance between capital efficiency and securing stable growth investment funds, namely, optimal capital structure
- Disclose shareholders' equity and DE ratios as indicators of financial soundness

### Shareholder Returns

- Aim to raise shareholder value continuously by increasing EPS through reinvesting the profits generated by business activities into growth areas
- Return profits to shareholders in accordance with our business results
- Strive to maintain stable dividends
- Emphasize on rewarding long-term shareholders

### Asset Efficiency

- Maximize shareholder value by striving to improve asset efficiency
- Improve total asset turnover: Strive to optimize capital allocation and working capital

# Analysis of Financial Position and Business Achievement

## FY2018 Business Results

In fiscal year 2018, the Group reported net sales of ¥441.5 billion, an increase of ¥3.5 billion year on year. The steady performance of the ICT business and the effects of the newly consolidated OKI Electric Cable in the EMS business offset sales decline in the Mechatronics Systems and the Printers businesses. Operating income improved by ¥9.8 billion to ¥17.5 billion, upon the sales increase and earnings improvement from sales mix in the ICT business and the effects from structural reforms in the Mechatronics Systems business. Moreover, the impact from weak yen and the fixed cost reduction along with structural reforms in the Printers business also boosted up the results.

Ordinary income was ¥15.5 billion, an increase of ¥7.0 billion year on year, due to the increase in operating income though a foreign exchange loss of ¥1.3 billion was recorded as a non-operating expense. Despite posting extraordinary losses of ¥3.5 billion for business structure improvement expenses and ¥2.9 billion for impairment loss in the Mechatronics Systems business, profit attributable to owners of parent was ¥8.4 billion, an increase of ¥2.5 billion year on year. The result was also assisted by a ¥1.4 billion gain on sales of property, plant and equipment, and ¥1.0 billion gain on sales of investments in securities as extraordinary income.

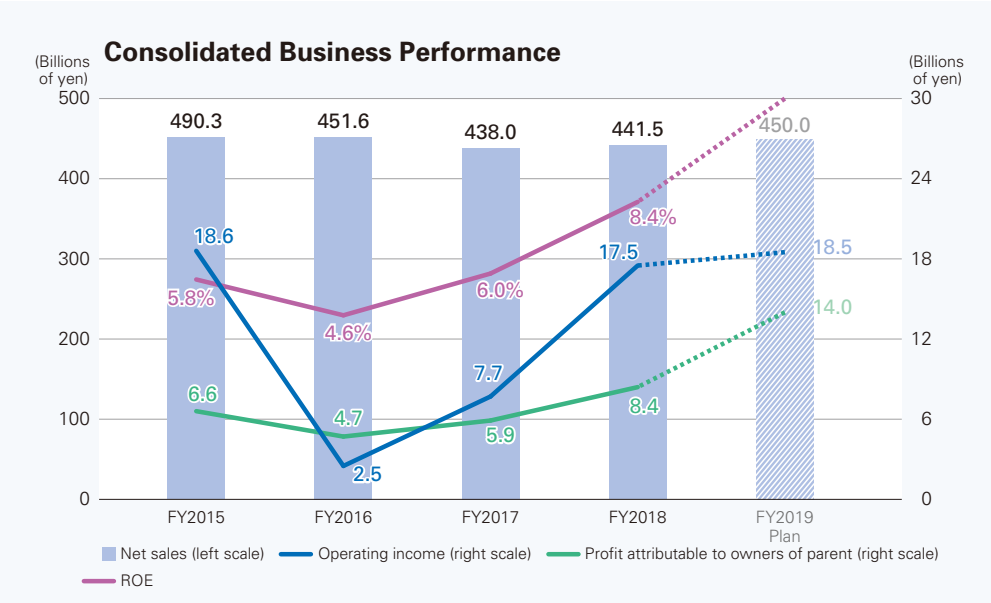
In terms of financial position, total assets decreased by ¥1.0 billion from the end of the previous fiscal year, to ¥365.5 billion.

Despite recording profit attributable to owners of parent of ¥8.4 billion, shareholders' equity decreased by ¥0.3 billion to ¥99.9 billion from the end of the previous fiscal year, upon a ¥4.9 billion decrease in accumulated other comprehensive income and ordinary dividend payments of ¥2.6 billion. As a result, shareholders' equity ratio stood at 27.3% and the DE ratio was 0.8 times, maintaining the same financial level as at the end of the previous fiscal year.

In fiscal year 2018, the Group was able to achieve solid accomplishment. As a whole, sales and profits both increased year on year. Looking at each business segment, we were able to win project orders and complete structural reforms upon the steady implementation of business measures.

## Outlook for FY2019

For fiscal year 2019, we forecast net sales of ¥450.0 billion (up ¥8.5 billion year on year), operating income of ¥18.5 billion (up ¥1.0 billion), ordinary income of ¥17.0 billion (up ¥1.5 billion) and profit attributable to owners of parent of ¥14.0 billion (up ¥5.6 billion). Profitability has already been well established, with profit attributable to owners of parent to improve greatly with the end of structural reforms. We strive to achieve steady results that lead to sustainable growth.



# Structural Analysis

## Sales Composition and Overview

The overseas sales ratio in fiscal year 2018 was approximately 23%. By region, Europe was about 9%, the Americas was about 6%, and others were about 7%.

By business segment, the ICT business accounted for approximately 42% of the total. With regards to our ICT customers, they are mainly highly creditworthy in Japan, such as public institutions including the government agencies and local government or other highly public large private companies including telecommunications carriers, megabanks, railway companies and airlines. As we don't depend on specific customers or specific industry sectors, we ensure a certain level of stable sales every year.

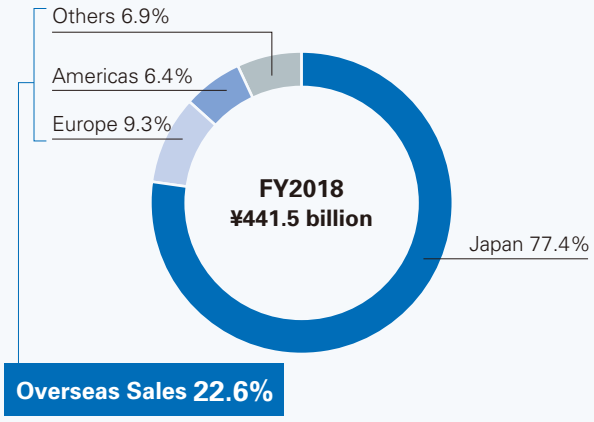
The Mechatronics Systems business segment accounts for approximately 19% of total sales. We have top-class market share in the number of ATMs installed in Japan, especially in the retail market as represented by convenience stores, we have over 70% market share* in the number of ATMs installed. ATMs are the main product in this business, but about half of segment sales come from cash handling equipment, such as open recycling withdrawal/deposit machines and retail auto cashier, KIOSK terminals, and other services.

The Printers business comprises approximately 23% of total sales with about three-quarters of sales coming from overseas. In fact, most of the OKI Group's overseas sales come from this business.

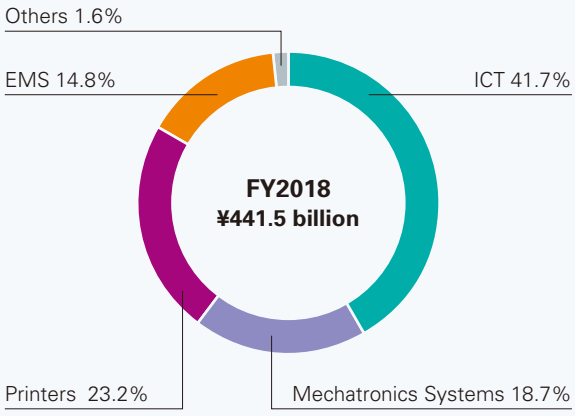
The EMS business constitutes about 15% of the overall sales. The number of customers exceeds 1,000; they come mainly from the domestic manufacturing industry. We rise stable sales with repeat orders from existing customers.

*Research by OKI

**Sales Composition by Region**




**Sales Composition by Business**



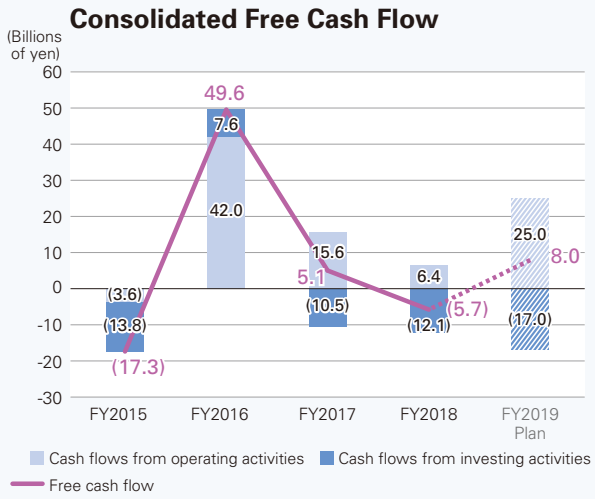

## Effect of Exchange Rate Fluctuation on Earnings

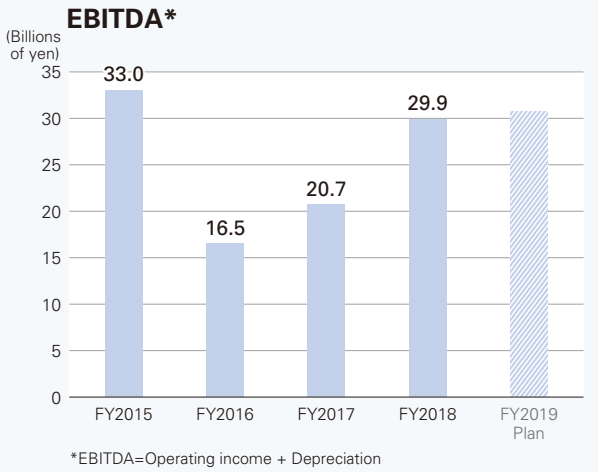
Overseas sales account for about 23% of the OKI Group's total sales with the bulk coming from the Printers business. Approximately 40% of Printers business sales are in Euro. For this reason, if the yen appreciates against the Euro, it will result in a decrease in sales and cause a negative impact on operating income.

On the other hand, OKI's main factories are located in Shenzhen in China for the Mechatronics Systems business, and for the Printers business, in Shenzhen in China and Ayutthaya in Thailand. At each factory, major materials procurements are conducted in U.S. dollars. U.S. dollar denominated trading volume exceeds overall sales. For this reason, regarding the amount after offset, the appreciation of the yen against the U.S. dollar causes a reduction in material costs while providing a positive impact on operating income.

## Cash Flow

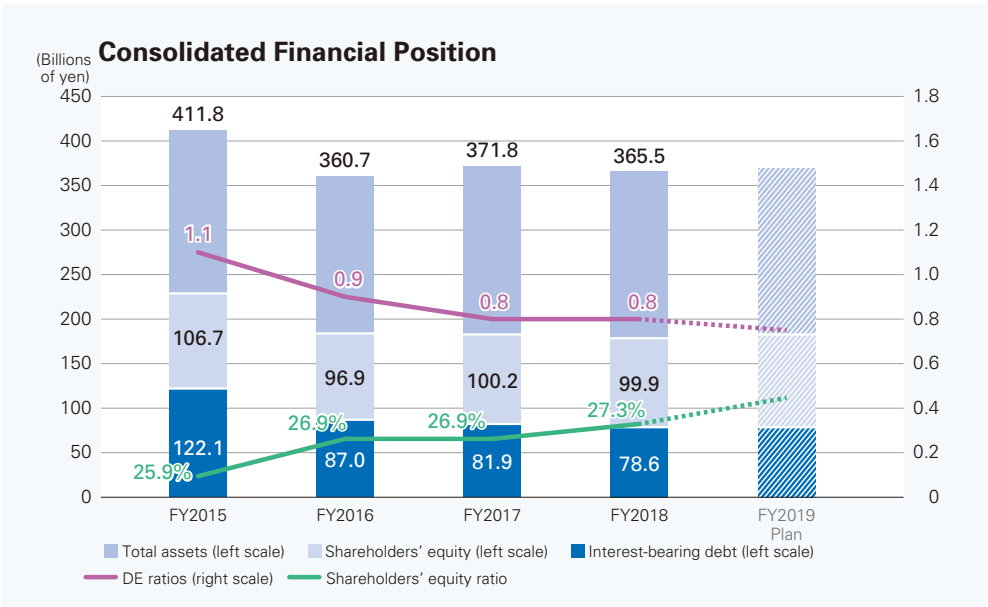
The ICT business does not require large-scale capital investment as system integration is its main business activity. Although, the Mechatronics Systems and Printers businesses require capital investment for hardware production, they do not require the installation of expensive equipment since they are basically involved in assembly. Like the other businesses, the EMS business does not require a large-scale capital investment since it provides a high-mix low volume production service. For the reasons outlined above, cash flows from investing activities do not significantly exceed depreciation expenses in normal production activities. As EBITDA shows, fundamentally, it can be said that this business structure generates stable cash flows.




## Balance Sheet

For non-business assets, we have established a periodic verification process to continuously review the significance of ownership. We are striving to downsize non-business assets by prioritizing and selling as appropriate. With regards to business assets, each business has a monthly reporting and verification system in place to monitor changes in working capital, such as notes and accounts receivable and inventories. Surplus funds are used to repay interest-bearing debt to improve overall asset efficiency. As a result of these efforts, our financial position remains stable and sound.



# INNOVATION MANAGEMENT REFORMS

Since fiscal year 2017, OKI has been developing and introducing its new innovation management system (IMS) within the Group under the leadership of President Kamagami. Our intention here is to establish and entrench the IMS ahead of the adoption of the ISO 56002 international standard in June 2019.

## OKI Innovation Management System (Yume Pro)

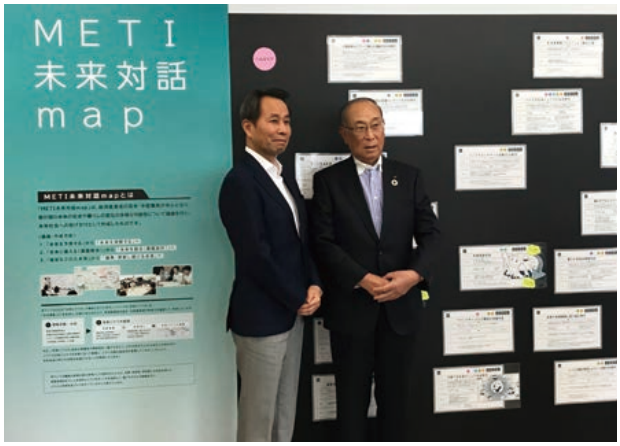
The OKI Innovation Management System is named "Yume Pro" after its brand slogan, "Open up your dreams." To develop Yume* Pro, we established a project team in fiscal year 2017, and then conducted interviews with all executives and people who are or were once in charge of new businesses to identify the OKI Group's current status and issues to address. This process falls under Clause 4 of ISO 56002 "Context of Organization."

*"Yume" is a Japanese word meaning dream.

| Structure of ISO 56002 (Innovation Management System) | |
|---|---|
| Clauses 0 to 3 | Introduction, Scope, Normative references, Terms and definitions |
| Clause 4 | Context of Organization |
| Clause 5 | Leadership |
| Clause 6 | Planning |
| Clause 7 | Support |
| Clause 8 | Operation |
| Clause 9 | Performance evaluation |
| Clause 10 | Improvement |

These OKI-driven efforts are regarded as advanced even in Japan. Indeed, the Ministry of Economy, Trade and Industry (METI) introduced Yume Pro as an example of efforts by Japanese companies in its "Guidelines of Value Creation Management for Japanese Corporations," which is a set of guidelines published by METI in October 2019 for companies planning to adopt the ISO 56002 standard. Prior to this, in April 2019 Hideichi Kawasaki, Chairman of OKI, participated in METI's Innovation 100 Committee. At that forum, he, together with Shoei Yamana, President and CEO of Konica Minolta, Inc., expressed their expert opinions on such guidelines that were then under consideration.

Below is an overview of our Yume Pro initiatives in accordance with the ISO 56002 protocol.




Yamana, President and CEO of Konica Minolta (left) and Kawasaki, Chairman of OKI at the Innovation 100 Committee

## Leadership and Vision of Top Management (Clause 5, ISO 56002)

Resolving social issues has been a pillar of the OKI Group's operations since its establishment in 1881. Similarly, our vision under Yume Pro is to help realize the Sustainable Development Goals (SDGs) set by the United Nations.

As pointed out in ISO 56002 as well, reforming our internal culture is key to promoting innovation activities. With Yume Pro, our policy is to build an internal culture in which innovation is a daily activity, in addition to establishing a brand image as an innovation partner, over a five-year period from fiscal year 2018. This heralds a return to the "enterprising spirit" of our founder.

## Planning, Support, and Innovation Creation Activities (Clauses 6-8, ISO 56002)

### Organization and Planning (Clause 6, ISO 56002)

In fiscal year 2017, OKI formulated the aforementioned vision, as well as plans to realize strategies and policies based on that vision. To spearhead this initiative, in April 2018 we appointed a Chief Innovation Officer and set up the Innovation Promotion Division within the Corporate Infrastructure Group. In fiscal year 2019, we plan to build on the activities of fiscal year 2018, with a focus on three pillars: (1) New business creation, (2) Internal cultural reforms, and (3) Promotional activities as general overview of innovation within the Group.

### Support (Internal Cultural Reforms) (Clause 7, ISO 56002)

A distinguishing feature of Yume Pro is that it promotes innovation creation activities and internal cultural reforms as both sides of the same coin. As pointed out in ISO 56002, non-linear innovation activities are fundamentally different from normal business management, so conventional values and business management practices and accepted idea tend to impede innovation. For this reason, we need to broaden recognition of innovation creation activities throughout the Group and establish a support system for those activities. Based on this concept, we established the "OKI Innovation Cram School" in fiscal year 2018 to spearhead innovation training and other initiatives.

In fiscal year 2018, 1,059 people participated in the innovation training, which first targeted executives then was expanded to cover division and section managers. We are also working to enhance our internal innovation education system. In addition to basic innovation training, for example, we have started innovation practice training and SDGs-related training.

In order to emphasize the need for Yume Pro, meanwhile, President Kamagami engages in direct innovation dialogue with employees. In fiscal year 2018, he hosted an event for 20 times, with 232 employees participating in the dialogue. We are continuing this practice in fiscal year 2019. We are also proactively disseminating information via websites and the like to raise awareness both inside and outside the company.

### Innovation Creation Activities (Yume Pro Process) (Clause 8, ISO 56002)

The Yume Pro process is our standard process for creating innovation. A distinguished feature of Yume Pro is that it is not an activity based on technology and products, but a social problem-solving and innovation creation activity that is mentioned in the SDGs. To achieve our goal of social issue resolution, we actively collaborate with co-creation partners who have key resources that the OKI Group cannot provide alone.

In April 2019, we held the "Yume Pro Challenge," an in-house ideas contest for creating innovation. The Grand Prize, Associate Grand Prize and Special Prizes were award to nine teams, who conducted hypothesis verification and business model development activities based on the Yume Pro process.



Yume Pro Challenge 2018 presentation ceremony (April 2019)

## Performance Evaluation, Improvement (Clauses 9-10, ISO 56002)

We are making continuous improvements to the aforementioned activities. They include conducting evaluations based on pre-set KPIs and exchanging opinions with top management at regular reporting forums. We will work to further refine Yume Pro while continuing the PDCA cycle.

Based on a review of fiscal year 2018 initiatives, in fiscal year 2019 top management will host a "Yume Pro Forum" to further raise awareness and understanding about Yume Pro within the Group. In addition to launching the "Yume Hub System" to foster innovation evangelists in each division, we will also introduce idea visualization tools.

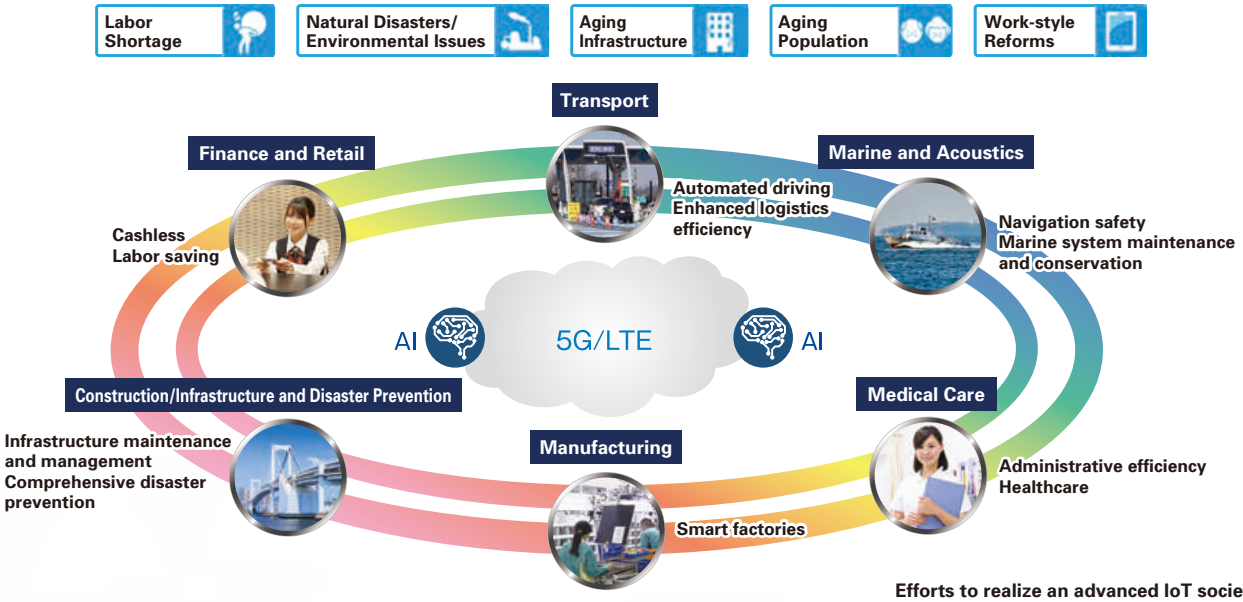
# GROWTH STRATEGY
## (BUSINESS CREATION)

OKI's value proposition is safety and convenience in a social infrastructure. With this in mind, the entire company is committed to creating growth businesses by deploying OKI's strengths in such areas as digital technology (IoT/AI) to resolve the social issues listed in the SDGs.

## Initiatives for Creating Growth Businesses

OKI is already engaged in co-creation activities with more than 60 customers and partners in six focal areas of digital transformation: "Transport," "Finance and Retail," "Construction/Infrastructure and Disaster Prevention," "Manufacturing," "Medical Care," and "Marine and Acoustics."

Going forward, we will step up deployment of AI to reinforce our edge technology and draw on our abundant track record in our quest to help resolve social issues and realize an advanced IoT society.




**Efforts to realize an advanced IoT society**

### 1 Finance and Retail

Targets 9.3 and 8.2 of the SDGs call for diversification of payment options through cashless solutions, as well as labor savings. To address these social issues, OKI aims to provide safe and convenient payment options and services to a wide range of users.

Specifically, we will deploy AI and robotic process automation (RPA) to automate business processes, while utilizing cash handling technology, cultivated in our Mechatronics Systems business, and AI to create multifunctional self-service terminals. We will also use individual data to develop new cash and service point systems and deploy edge behavior data and channels to achieve more advanced marketing solutions.

### 2 Transport

Targets 3.6 and 11.2 of the SDGs entail reducing traffic accidents and eliminating traffic congestion, as well as securing efficient transport for the elderly. To address these social issues, we aim to realize "infrastructure-cooperative ITS services" using our strengths in probe data processing and V2X networks.

Specifically, we will help create new services in the logistics and payment fields, centered on our ITS service, LocoMobi™2.0. We will also create new infrastructure-cooperative ITS services by the combination of 5G and automated driving, as well as the automated driving support from infrastructure side.

### 3 Disaster Prevention

Targets 11.5, 11.b, and 13.1 of the SDGs call for prevention and mitigation of natural disasters, which are occurring frequently in recent years. To address these social issues, OKI aims to create sustainable cities that are resilient to disasters.

For example, we will use our strengths in track record of introducing disaster prevention systems to develop com-

plete self-help and mutual-assistance services. We will also leverage our DPS Core™ disaster prevention information system to support public assistance management.

### 4 Manufacturing

Target 8.2 of the SDGs entails maintaining and strengthening onsite capabilities and using digital technologies to enhance productivity. To address these social issues, OKI will leverage its track record and know-how, gained in-house, to provide site visualization solutions and realize "smart factories."

For example, we will capitalize and pass on our onsite skills and creativity. We will also continue maintaining and strengthening our onsite capabilities, support IT and OT collaboration, use digital data to improve productivity, and develop services that deliver added value.

### 5 Marine and Acoustics

Targets 14.1, 14.2, and 14.b of the SDGs pertain to ensuring marine safety and conserving marine environments. To address these social issues, OKI aims to provide a "marine data infrastructure utilization service" utilizing its underwater acoustic sensing technologies and optical fiber sensing technologies, cultivated over many years of track record.

For example, we will use optical fiber sensing technologies to improve ship navigation safety while deploying underwater acoustic sensing technologies to provide solutions of coastal security, coastal crime prevention, and others. We will also link data attained through these solutions with weather and oceanographic information to provide the aforementioned marine data infrastructure utilization service.



President Kamagami gives a lecture on key priorities at the FY2018 OKI Premium Fair

## New Medium- to Long-term Priorities

The Innovation Promotion Division, which is part of the Corporate Infrastructure Group, spearheads innovation throughout the OKI Group. It collaborates with our marketing & sales section and business section to enhance our capabilities in medium- and long-term areas—namely, "Healthcare," "Logistics," "Marine Conservation and Resources," and "Urban Development."

### 1 Healthcare

Target 3.4 of the SDGs calls for the use of medical treatment to reduce youth mortality from non-communicable diseases by a third, as well as promotion of mental health and well-being. To address these social issues, OKI collects and visualizes behavioral data, and utilizes such data to develop "behavioral modification services" aimed at preventing lifestyle diseases.

### 2 Logistics

Targets 11.2 and 9.1 of the SDGs entail achieving full automation of supply chains as outlined in Logistics4.0. To address this challenge, we will start by eliminating input mistakes in delivery information—an urgent problem arising between two logistics companies—in order streamline office work. We will then expand the service to cover entire supply chains.

### 3 Marine Conservation and Resources

Targets 14.1 and 14.2 of the SDGs are related to marine conservation. To address the issue of fishery depletion, which correlates highly with deterioration of marine environments, OKI is working with partners to improve the efficiency of fisheries.

### 4 Urban Development

In response to social issues in smart cities, mentioned in Targets 11.2 and 11.5 of the SDGs, OKI will utilize our strengths in analyzing collected data and sensing from edge devices as well as our initiatives of disaster prevention so far for the benefit of society.

To provide the infrastructure to support the aforementioned activities, OKI has been working on Group-wide "Innovation Management Reforms" to implement innovation management system since fiscal year 2017 (see page 17 for more details).

# TECHNOLOGY STRATEGY

Recognizing major structural changes in society stemming from digital transformation and technological innovation, OKI conducts R&D aimed at realizing its growth strategy. While inheriting the technical strengths cultivated in our electronics and mechatronics businesses, we seek to resolve social issues identified in the United Nations' SDGs. Here, we envisage the ideal future images of priority areas, then engage in backcasting in order to select technological fields that we should reinforce. We are also leveraging the OKI Innovation Management System (Yume Pro) to develop concepts from the perspective of customer value while conducting research in a flexible and speedy manner.

## From "Connecting" to "Circulating"

Under Mid-term Business Plan 2019 (fiscal year 2017–2019), we have pursued R&D with focuses on "smart sensing" and "humane mechatronics" in order to increase the value of "connecting" in the physical and digital edge domains. We use these technologies to connect various devices to networks and conduct high-level sensing of people's lifestyles and social conditions, and deploy edge technologies to help realize top-quality services. In future society, the function of "connecting" will become a matter of course, and people will always live in an online environment in which the physical world is enveloped by digital technologies. In this context, OKI is monitoring social changes brought about by the conversion of information into knowledge and the concept of "circulating" to deliver growth. For example, information gets "circulated" between companies and consumers and becomes knowledge, enabling services to become more convenient. Meanwhile, multiple companies engage in a "circular" process to grow their businesses by connecting both ends of a linear value chain with information and knowledge. These changes can be seen in our circular economy including resources and environmental viewpoints.

Based on this new view of society, we have identified technologies—centered on high-real-time AI, cultivated through our involvement in edge computing—that we should reinforce in order to "circulate" information and knowledge to achieve growth. Specifically, we are focusing on four domains: sensing, networks, robotics, and user experience. By linking these technologies and incorporating the "circulation" of knowledge—gained through co-creation with customers and partners—into the research process, we will realize our growth strategies and help build safer and more convenient social infrastructures.

### Sensing

Our smart sensing technologies, cultivated through our experience in sound, light, radio-waves, and vision, have been developed from detection and measurement to cognitive technologies due to AI evolutions. To achieve further progress in this digital-edge domain, we are working to enhance our sensor hardware, apply AI to maximize flexibility, and integrate sensor fusion and mobility to expand functionality.

### Networks

OKI has been conducting R&D and social implementations in such areas as optical fiber communication, wireless sensor network technologies, and V2X communication. Today, many devices have become part of the "connected" world, heralding the beginning of collaboration between these distributed devices and the linking of new distributed information mechanisms, such as blockchains. Our aim is to strengthen technologies in the network domain to ensure that information is circulated between devices more safely, efficiently, and conveniently.

### Robotics

Safe robots, such as service robots and collaborative robots, can move in close proximity to people and have come to be used in a wide range of applications. While to advances in modularization stemming from market expansion, it is becoming easier to combine existing functions to develop new ones as necessary. Bringing its expertise in sensing and network technologies to this domain, OKI will foster the spread of highly practical robotics technologies that have a high-level combination of AI autonomy and human flexibility.

### User Experience

OKI has sought to improve human-machine interaction technologies in the edge domain. By developing these technologies and creating a natural circulation of information between humans and machines, we will continue creating devices that give people a sense of security and the optimum support.

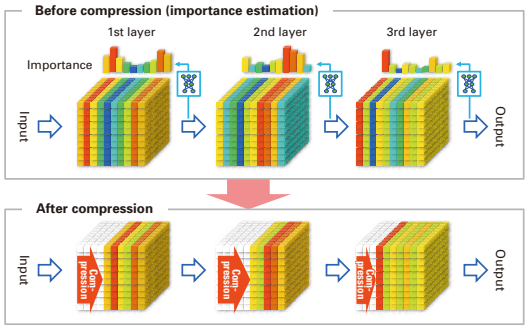
## R&D Case Study

# Using AI to Enhance Edge Domains

OKI is promoting R&D on AI-based edge computing technology by integrating advanced AI functions into highly reliable edge devices. The functions required for edge computing are diverse, however, we believe it is important to develop advanced AI technologies with high inference accuracy and to incorporate such technologies into edge devices with limited computing power then to achieve automatic service mediation through collaboration between edge devices.

In the sensing domain, we are working on object detection and tracking technology across a very wide spectrum. With conventional detection technology, it is difficult to accurately detect tiny objects or objects partially hidden in images. Deploying advanced deep learning modeling technology to overcome these challenges, we are currently conducting R&D on a new AI model that uses high-resolution cameras (4K/8K, for example) to detect and track numerous objects up to several kilometers away. These advanced AI models are very computationally intensive. Nevertheless, we are also engaged in R&D on new model compression technologies, achieved by learning ways to minimize accuracy degradation. We announced the results of our work at an international conference*1 held in the United Kingdom in September 2019. In the network domain, we are working on technologies to enhance cooperation and collaboration between AI-embedded edge devices. By synchronizing factory production and logistics AI schedules, for example, we are developing a technology for cooperating with traffic control AI to prevent trucks from getting involved in traffic jams. This technology works together intelligently between multiple AI devices to achieve wide-area optimization. In addition to machine learning, we aim to realize it by combining multiple technologies, such as multi-agent technology, game theory, and AI cooperation.

Thanks to these works, OKI has been commissioned to participate in R&D projects*2 by the National Research and Development Agency New Energy and Industrial Technology Development Organization (NEDO). Our aim is to accelerate development and facilitate application of technologies to focal business areas.



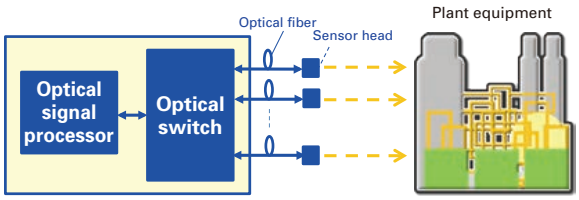

AI model compression technology

# Expanding Optical Signal Processing Technology for Wider Application Fields

OKI is applying its advanced optical signal processing technologies, developed over many years in the optical communications field, to wide range of optical sensing technologies. We have already commercialized an optical fiber temperature/distortion sensor that works more than 100 times faster than existing sensors. An original optical signal processing circuit was newly developed to detect weak reflected light in the optical fiber. We are also developing an optical fiber sensor for detecting vibrations along the optical fiber. We are conducting experimental verification tests to identify abnormal situations based on the obtained vibration data along the optical fiber.

This optical signal processing technology can also be applied to laser Doppler vibrometers, which can measure the vibration and speed of an object intact by using a laser light. In addition to lowering the cost of equipment by using optical components readily available in optical communication applications, OKI's original sensor system has highly innovative features that will permit significant cost reductions. For example, connecting and separating the optical signal processing unit and sensor heads with optical fibers enable acquiring multiple vibration data of various equipment in a factory by using a single sensor unit.

In addition, we are applying our original optical device technology to develop terahertz sensors, which have attracted attention in recent years for detecting explosives and dangerous drugs. A major issue with terahertz sensors is the efficiency of light sources and receivers. The combination of OKI's periodically poled lithium niobate (PPLN) device, which has the world's highest-level wavelength conversion efficiency, and an inexpensive optical communication laser diode may realize highly efficient terahertz light source.




Simultaneous multipoint vibration measurement using laser Doppler vibrometer

*1 The British Machine Vision Conference (BMVC2019), https://bmvc2019.org/

*2 National Research and Development Agency New Energy and Industrial Technology Development Organization (NEDO) projects:

- "Project for Innovative AI Chips and Next-Generation Computing Technology Development" (Theme: "R&D on ultrawide-sensing AI edge technologies using soft tensor processors" )
- "Cross-ministerial Strategic Innovation Promotion Program (SIP) Phase 2/Cyberspace Platform Technology Utilizing Big Data and AI" "Improvement of efficiency and flexibility of value chain through inter-AI cooperation")

# AT A GLANCE

BUSINESS SEGMENTS

## ICT

Business providing solutions, products, and services that contribute to solving customer problems and supporting social infrastructure based on our strength of data processing, sensing and network technologies



## Mechatronics Systems

Business supporting customers' labor saving and business efficiency requirements by offering our ATM maintenance and operational services in addition to ATMs, cash handling equipment, ticket issuing terminals and other hardware products utilizing our core mechatronics technology



## Printers

Business harnessing our LED technologies to offer high-speed, high-definition, compact and easy to maintain printers and services that match customer needs for markets ranging from offices to industrial printing



## EMS

Business offering consigned design & manufacturing services for equipment and instruments in communication, measuring, industrial, medical and aerospace fields based on our extensive record in social infrastructure equipment cultivated through "Mono-zukuri" in the field of ICT for more than 100 years



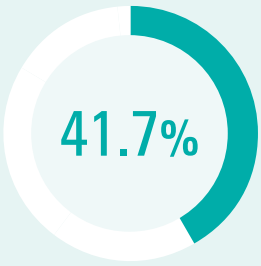
Related website https://www.oki.com/en/products/

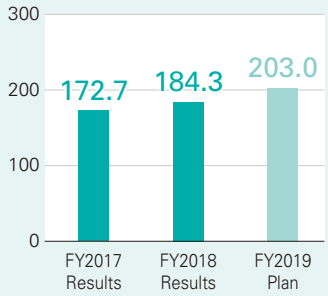
SALES COMPOSITION

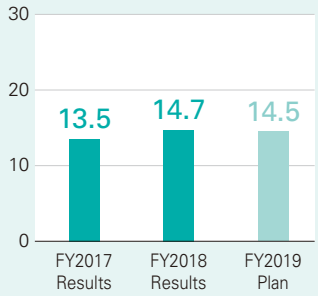
NET SALES
(Billions of yen)

OPERATING INCOME
(Billions of yen)

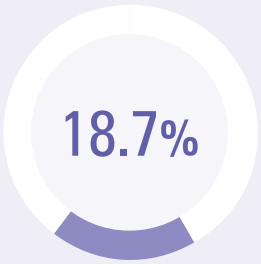
MAJOR CONSOLIDATED SUBSIDIARIES

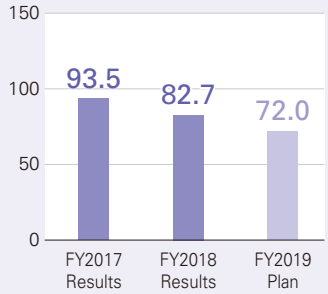


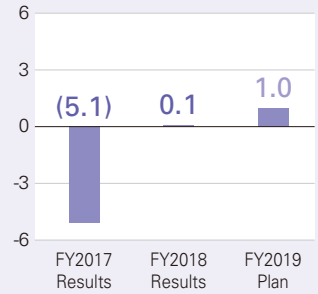



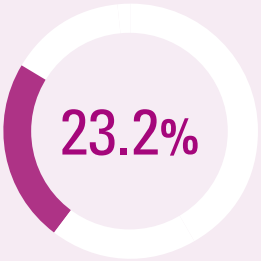

- OKI Crosstech
- OKI Software
- Shizuoka OKI

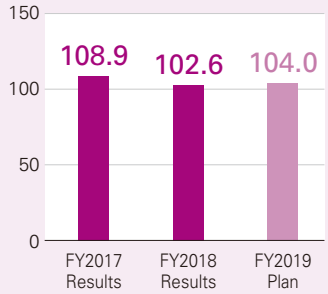


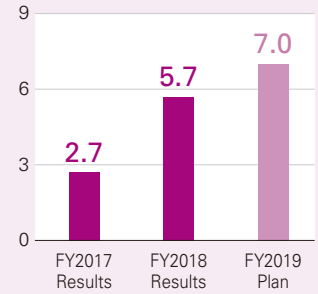




- Japan Business Operations
- OKI Electric Industry (Shenzhen)

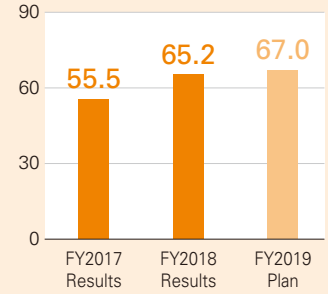


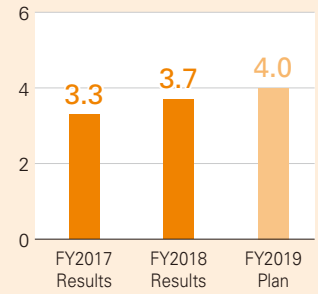




- OKI Data
- OKI Data Americas
- OKI Europe
- OKI Data Manufacturing (Thailand)




- Nagano OKI
- OKI Printed Circuits
- OKI Communication Systems
- OKI Circuit Technology
- OKI IDS
- OKI Electric Cable
- OKI Engineering
- OKI Techno Power Systems

*The business segments above do not include "Others" which consists mainly of independent businesses of OKI subsidiaries.

# OVERVIEW OF OPERATIONS

# ICT

We aim to achieve sustainable growth by generating new businesses through co-creation with partner firms and developing products that strengthen our IoT business platforms.



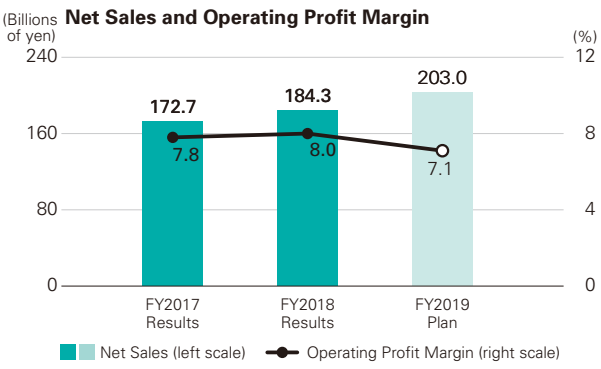
Senior Vice President,
Head of ICT
Business Group
and Member of the Board
Masashi Tsuboi

## FY2018 Business Results

Net sales increased ¥11.6 billion or 6.7% year on year to ¥184.3 billion. Revenues were up due to increased sales from transport-related and other social infrastructure system projects, and from telecom carriers, as well as brisk sales from some public sector projects.

Operating income increased ¥1.2 billion year on year to ¥14.7 billion due to increased sales and a better product mix.

With the aim to create new businesses, we have hastened our efforts in co-creation businesses with partner firms since fiscal year 2017 in areas such as measuring aging infrastructure using fiber-optic sensors, services utilizing ETC 2.0 probe data, and a remote control overhead video monitoring system for construction machinery, for which numerous experimental trials were conducted. The number of partner firms exceeded 60 at the end of fiscal year 2018.




## Outlook for FY2019 and Future Strategy

In the ICT business in fiscal year 2019, we are planning net sales of ¥203.0 billion and operating income of ¥14.5 billion. While we anticipate a further increase in projects from public agencies, we also expect to increase sales from social infrastructure systems mainly associated with transport-related projects and from telecom carriers. On the other hand, we are aiming to keep operating profit almost unchanged from the previous fiscal year to continue ramping up our R&D investments as the previous fiscal year, for the purpose of bolstering our business in next generation transportation and IoT platform-driven co-creation businesses.

The environment surrounding the ICT business is constantly changing. Financial institutions are working on developing new services in collaboration with companies in other industries while promoting efficiency in bank branches and office work. In retail stores where there is a shortage of labor and payment services have been diversified, new solutions that match these changes and needs are required. In addition, the introduction of the 5G network from 2020 will see the realization of previously

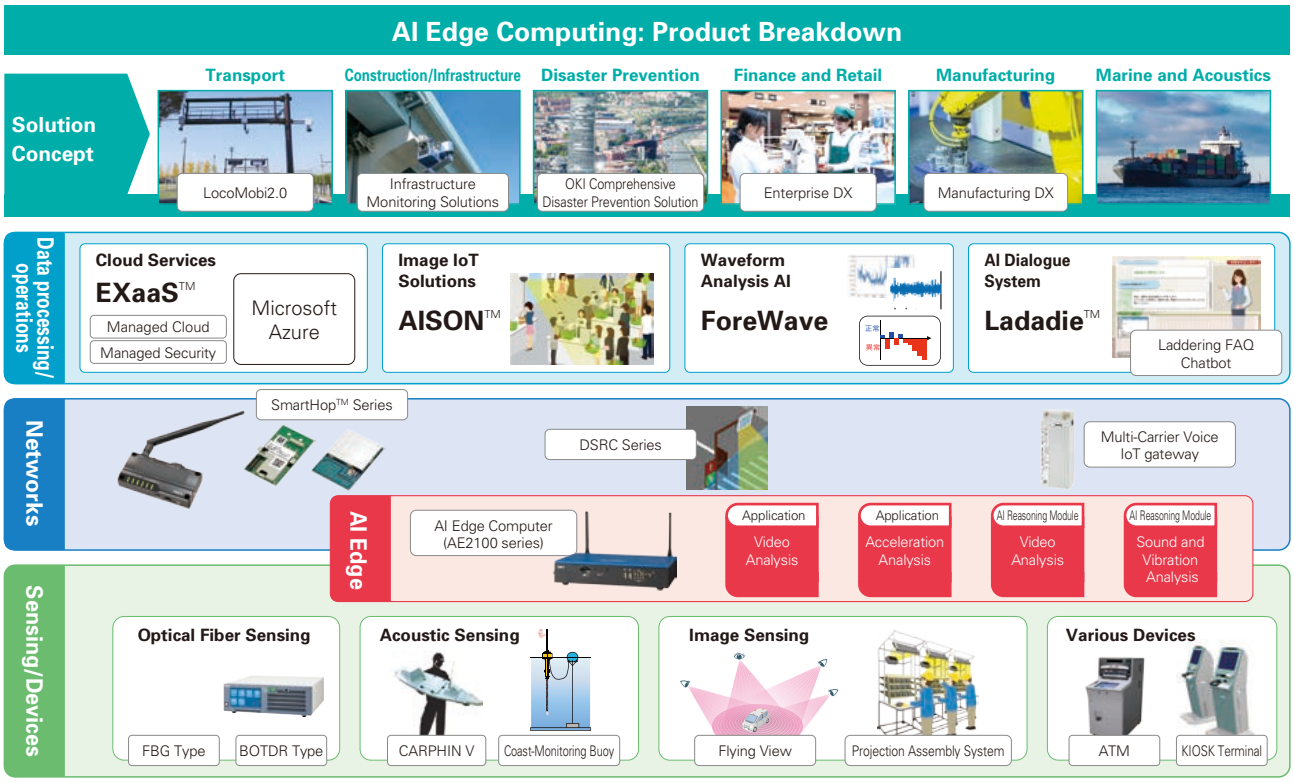
## TOPICS1

### Expanded the Range of Bridge Monitoring Applications by Speeding Up Optical Fiber Measurements

In collaboration with Maeda Corporation, we developed monitoring technology which can be applied to reinforced concrete bridges during its entire life cycle by speeding up measurements with OKI's unique fiber-optic sensing technology. When detecting cracks and measuring deflections upon monitoring bridges, it is necessary to select and employ the appropriate monitoring technology for the indicator applied, which differs according to its deterioration process. This technology, on the contrary, covers a variety of monitoring requirements of infrastructure deterioration, with a single measuring instrument only, throughout the useful life of typical infrastructure, which is about 50 years. As a result, it greatly reduces the overall cost.



Load fatigue test using RC beam specimen




unprecedented real-time controls in areas like automated driving vehicles and remote control of medical robots. Changes in technologies or customers' businesses may cause the shrinkage of our existing businesses, but may be our opportunities for business. We will strive to create new businesses as we respond to these changes.

We will continue to promote co-creation efforts with our partner firms to create new businesses. In areas such as transport, construction, infrastructure, disaster prevention, finance, retail, manufacturing, marine and acoustic technologies, we will strive to create projects where we can accelerate the growth of and take them from PoC*1 up to the business phase by combining our partners' know-how with OKI's strengths in data processing, sensing, and network technologies.

In addition, the advent of the IoT era has seen explosive growth in the use of data, requiring efficient high-speed processing at the edge of networks, instead of processing all data in cloud. For more than 130 years, always striving to solve its customers' operational issues, OKI has provided customized edge terminals and networking for each customer. We keep going this way even now with accelerated digital transformation. Thus in the future, we will build an ecosystem*2, which is a collaboration model with various partners and goes beyond the conventional framework, thereby working on the development and deployment of AI edge computing products that enable the advanced use of data.

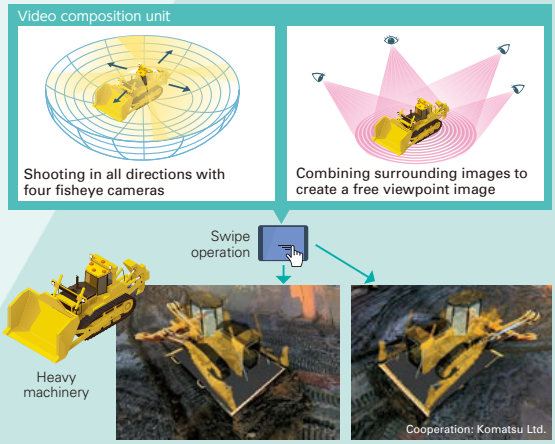
In the ICT business, we will continue to support OKI Group's sustainable growth by accelerating the co-creation with partners and the creation of products which strengthen the IoT business platform, and contributing to provide business solutions that support social infrastructure to solve the social issues.

*1 PoC (Proof of Concept): A simple test to demonstrate the feasibility of a new concept or theory
*2 Relationship of co-existence and co-prosperity among partners such as companies and customers through a division of labor and collaboration

## TOPICS2

### Conducted Remote Control Experimental Trials of Construction Machinery Using Vehicle Overhead Imaging

The Flying View, which enables overhead video monitoring, was adopted for a system of remote control for construction machinery at Komatsu Ltd. and a 5G experimental trial was carried out. The trial applying the Flying View was able to process high-capacity, high-resolution video, in real-time using a compact power-saving system. In addition, it enabled real-time, seamless, bird's-eye view monitoring of the entire area of a construction machinery site with almost no blind spots.




Overview of the Flying View overhead video monitoring system

# Mechatronics Systems

In addition to expanding our recurring revenue business, we will challenge issues related to the cashless market and labor shortages with automation technology to steadily generate profits by capturing domestic and new overseas demand.

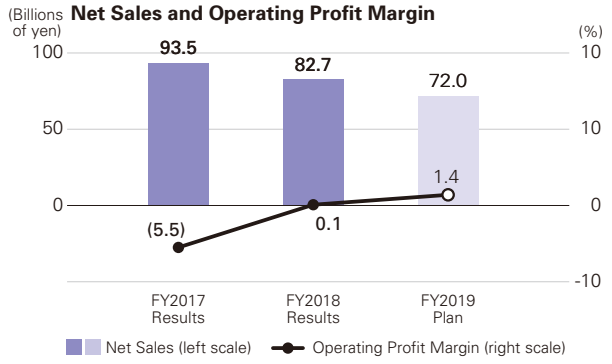


Senior Vice President,
Head of Mechatronics
Systems Business Group
Kenichi Tamura

## FY2018 Business Results

Net sales decreased ¥10.8 billion or 11.6% year on year to ¥82.7 billion. The decline in sales mainly owed to the impact of a review of our business due to structural reforms and the disappearance of positive earnings from the standardization of fiscal periods at its Brazilian subsidiaries in the previous year. In the overseas ATM market, unit sales decreased in China, but sales mainly in Asia excluding China and other regions were brisk. In Japan, ATM sales were relatively unchanged from the previous fiscal year's level, whereas sales of ATM services and cash handling equipment increased.

Operating income was ¥0.1 billion, an improvement of ¥5.2 billion year on year, mainly due to the effects of fixed cost reductions achieved through structural reforms, despite the impact of a decline in sales.




## Outlook for FY2019 and Future Strategy

In the Mechatronics Systems business in fiscal year 2019, we are planning net sales of ¥72.0 billion and operating income of ¥1.0 billion. In the domestic market, large-scale cash handling equipment projects from the previous fiscal year will disappear. However, the market environment for cashless payments should see sales increase on the back of replacement demand for ATMs at financial institutions and convenience stores. In addition, we are looking to expand our recurring revenue business centered on ATM full outsourcing service. In the overseas markets, ATM sales in India, Indonesia, and Russia are also expected to grow.

Profitability of the Brazil business has improved as a result of structural reforms, but it was difficult to see further growth in the future. Thus we decided to spin off the business into a new subsidiary, transfer the shares and concentrate our efforts on providing ATM modules for our partners. Going forward, we take into account the market environment for each country to expand business appropriately to generate profits.

In the Mechatronics Systems business, based on the profit established through structural reforms, we will steadily generate additional profits by increasing the number of ATMs sold in the Japanese and overseas markets. We will also make investments for the future to promote the development of products that address the trend towards cashless payments as well as customers' needs for maximizing operational efficiency at financial institutions and labor-saving equipment.

## TOPICS

### Won Order from State Bank of India for 3,500 ATMs and Related Services

OKI won a contract from India's largest bank, State Bank of India, to supply 3,500 of its cash-recycling ATM, ATM-Recycler G8 and associated services. Being a largely cash-based society, there are currently 220,000 ATMs and CDs (cash dispensers) in operation in India, but this figure is expected to exceed 270,000 units by 2022 as economic growth drives demand for depositing sales takings and remitting funds with the use of ATMs. Demand for efficient cash-recycling ATMs is also growing at financial institutions due to the need to better streamline cash deposits and withdrawals.

Related website https://www.oki.com/en/press/2019/06/z19017e.html



ATM-Recycler G8 at State Bank of India

# Printers

We aim to further improve profitability by accelerating the shift to the industrial printing market by launching new products.

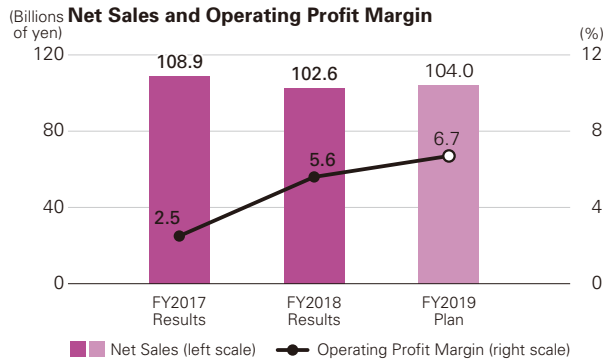


Senior Vice President
President, Oki Data Corporation
Toru Hatano

## FY2018 Business Results

Net sales declined ¥6.3 billion or 5.8% year on year to ¥102.6 billion due to the disappearance of the previous fiscal year's large-scale project and diminished sales in the office printing market as we continued to shift our focus towards the industrial printing market.

Operating income rose ¥3.0 billion year on year to ¥5.7 billion due to improved fixed cost structures through structural reforms conducted in the previous fiscal year and the effect of the weaker yen.




## Outlook for FY2019 and Future Strategy

In the Printers business in fiscal year 2019, we are planning net sales of ¥104.0 billion and operating income of ¥7.0 billion. Although the office printing market continues to shrink with the ongoing shift to paperless, it still continues to generate stable revenues. Since fiscal year 2017, we have been shifting our business to the industrial printing market. In industry-vertical markets that use a lot of consumables, we are striving to expand profits with the sales of consumables by aiming to secure even more new projects in medical and retail fields. To target the industrial market, we launched new label printers to add to our existing line of special color printers that have a strong presence in the design industry and wide-format printers. These new products leverage our strengths in LED technology to make the labels highly waterproof and weather-resistant. By launching new products, we will increase the sales ratio of industry printers and aim to increase profits from these hardware sales. Furthermore, we will expand our presence in the industrial printer market by strengthening our sales structure in Japan and overseas. In this way, we will accelerate our shift to industrial printing market to achieve higher sales and profits in fiscal year 2019.

## TOPICS

### Released Strategic Printer Products for the Industrial Printing Market

We released two models of the world's first narrow-format color LED label printers. In the food, beverage, and logistics industries, the number of items handled has increased with the diversification of needs and the rise in the number of products. There has been an increase in demand for label printing that can identify and highlight a product's special features. In response to these demands, we offer on-demand printing in small quantities for a wide variety of color labels, and with the prospect of white ink printing we are now able to show rich expressions on transparent film and colored labels.



Color LED label printer Pro1050 / Pro1040

## OVERVIEW OF OPERATIONS

# EMS

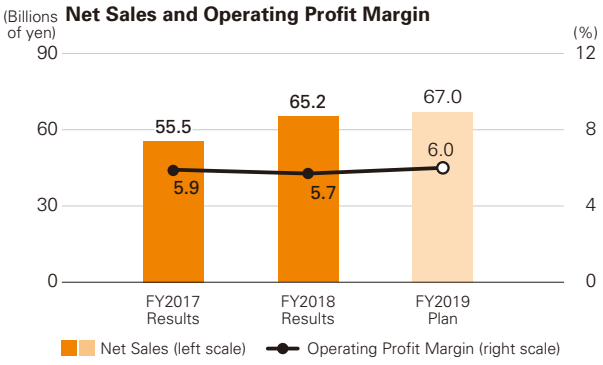
Strengthening our one-stop services, from sales to design, manufacturing, and evaluation, we will aim to target further growth by cultivating new customers and new business projects.



Executive Vice President,
Head of Electronics
Manufacturing Services
Business Group
**Masasuke Kishi**

### FY2018 Business Results

Net sales increased ¥9.7 billion or 17.4% year on year to ¥65.2 billion due to the new consolidation effect of OKI Electric Cable (OEC). Despite market deterioration in the semiconductor and FA fields, sales for industrial equipment, medical equipment, as well as aviation and aerospace projects increased. Operating income increased ¥0.4 billion year on year to ¥3.7 billion due to an increase in sales volume.




### Outlook for FY2019 and Future Strategy

In the EMS business in fiscal year 2019, we are planning net sales of ¥67.0 billion and operating income of ¥4.0 billion. With our one-stop services from sales to design, manufacturing, and evaluation, strengthened through making OEC a consolidated subsidiary, we will aim to acquire new customers and increase orders for new projects from existing customers.

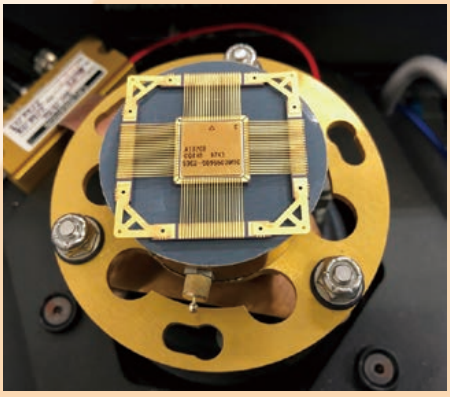
OKI's EMS business is not affected by business sentiment at certain industries due to the diversified nature of its business portfolio. The market deterioration in semiconductor and FA fields seem to continue for a while, due to the US-China trade friction and other issues. Therefore, in addition to focusing on the medical, aviation and aerospace fields where our business is brisk and expected to continue growing in the future, we will also need to secure profits in communications and industrial equipment fields.

In addition, domestic outsourcing needs remain firm against the background of a declining labor force. OKI will continue to provide safe and secure comprehensive "Mono-zukuri" services to its customers to respond to their needs, with the development of new production technologies and the expansion of production and inspection facilities. Moreover, we will consider leveraging M&A and alliance opportunities to implement initiatives aimed at future growth.

## TOPICS

### Started a Reliability Evaluation Service for Aerospace Electronic Components to New Entrants

OKI Engineering has started offering "a reliability evaluation service for aerospace electronic components." The service is to prevent defects in the manufacture of electronic components for civilian rockets and small satellites. In addition to expanding the evaluation of hollow packages which is critical for aerospace electronic components, we established a system that enables one-stop evaluation in a short period of time. New entrants to the aerospace business can now conduct efficient tests to secure reliability with this service.



Foreign matter analysis of hollow package devices

# OKI GROUP ESG SUPPORTS CORPORATE VALUE

The OKI Group's initiatives of corporate social responsibility focus on contributing to the improvement of the quality of life for people around the world through sound corporate activities based on our corporate philosophy. Based on recognition of global social problems, we work to advance environmental, social and governance (ESG) initiatives that support our corporate value.

The OKI Group, as described in its corporate philosophy, underpinned by "enterprising spirit," aims at contributing to people around the world through its core business, namely the provision of products and services that can serve the development of the information age. What underlies the Group's CSR initiatives is our commitment to the pursuit and fulfillment of this idea.

Based on this recognition, we enacted the "OKI Group Charter of Corporate Conduct" to ensure the Group as a whole fulfills its social responsibilities precisely in ways that comport with the Group's corporate philosophy. In addition, in accordance with the Charter, OKI set up the "OKI Group Code of Conduct" to be conformed to by all OKI executives and employees. This Code of Conduct has been adopted across all Group companies and incorporated into OKI's educational programs. The Charter and the Code are regarded as the basis for OKI Group Values that all Group executives and employees hold in esteem in their pursuit of increasing corporate value (see page 3 to read OKI Group Values).

The OKI Group is advancing ESG initiatives while reconfirming what social responsibilities the Group ought to fulfill in light of various global norms such as the "United Nations Global Compact" and the "Sustainable Development Goals (SDGs)," as well as the expectations that all our stakeholders direct toward us.

## OKI Group Charter of Corporate Conduct

For the betterment of corporate value, the OKI Group (Oki Electric Industry Co., Ltd. and members of its group of companies) seeks to provide satisfaction to its customers at all times and to become a trusted partner for our stakeholders, including shareholders and investors, employees, customers and suppliers, and the local societies of the areas in which it operates. In addition to complying with all related laws and regulations, the OKI Group will implement sound corporate activities consistent with social norms, and contribute to the improvement of the quality of life for people around the world.

**• Customer Satisfaction**
The OKI Group is dedicated to developing and providing products and services that ensure continued customer satisfaction, in full consideration of safety and ease of use.

**• Fair Corporate Activities**
The OKI Group conducts appropriate transactions and works to ensure fair, transparent, and free competition.

**• Good Communication**
The OKI Group engages with society through a variety of interactions, and discloses company information in manners that are appropriate and fair.

**• Intellectual Property and Information Management**
The OKI Group recognizes the importance of intellectual property, and properly manages and protects company and customer information, including personal information.

**• Respect for Human Rights**
The OKI Group respects the human rights of all persons involved in its corporate activities and eliminates illicit discrimination of any kind. It does not allow child labor nor forced labor.

**• A Better Working Environment**
The OKI Group ensures and maintains a safe and comfortable working environment for all employees.

**• Respect for Employees**
Respecting the individuality of each employee, the OKI Group creates a corporate culture in which its personnel are encouraged to engage challenges facing the group with courage and determination.

**• Environmental Conservation**
In order to realize and pass on a better global environment, the OKI Group promotes environmental management and makes efforts to conserve the environment through its products and its business activities.

**• Social Contribution**
As a good corporate citizen, the OKI Group implements social contribution activities dedicated to the betterment of society.

**• Regional Awareness**
The OKI Group endeavors to build a positive relationship and grow together with local societies, respecting the cultures and customs of the countries and regions in which it operates.

## Participation in the United Nations Global Compact

The United Nations Global Compact (UNGC) is a voluntary initiative for participating in the creation of a global framework whereby companies and organizations act as good members of society to realize sustainable growth by demonstrating responsible and creative leadership. Under the commitment of top management, which agrees to subscribe to the 10 principles concerning the protection of human rights, the eradication of unfair labor practices, environmental measures, and anti-corruption, signatory companies and organizations to the UNGC are continuing to make efforts toward these goals.

In May 2010, OKI signed the UNGC to declare its support for the Compact. It also became a member of the Global Compact Network Japan, a local network in Japan. The OKI Group supports the UNGC's 10 principles and will work to contribute to creating a sustainable society.

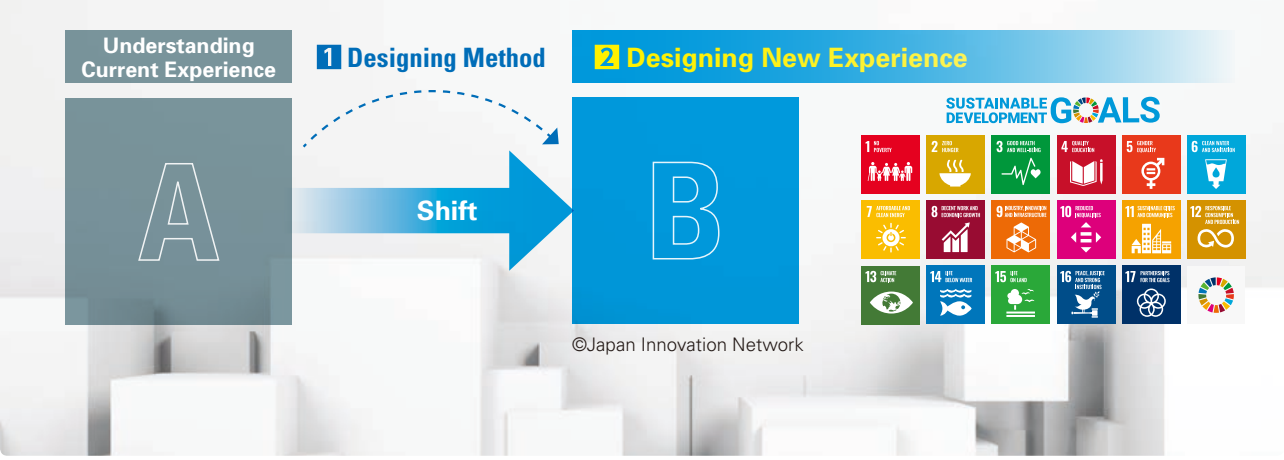
### The Ten Principles of the UN Global Compact

| | | |
|---|---|---|
| Human Rights | Principle 1: | Businesses should support and respect the protection of internationally proclaimed human rights; and |
| | Principle 2: | make sure that they are not complicit in human rights abuses. |
| Labor | Principle 3: | Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; |
| | Principle 4: | the elimination of all forms of forced and compulsory labor; |
| | Principle 5: | the effective abolition of child labor; and |
| | Principle 6: | the elimination of discrimination in respect of employment and occupation. |
| Environment | Principle 7: | Businesses should support a precautionary approach to environmental challenges; |
| | Principle 8: | undertake initiatives to promote greater environmental responsibility; and |
| | Principle 9: | encourage the development and diffusion of environmentally friendly technologies. |
| Anti-Corruption | Principle 10: | Businesses should work against corruption in all its forms, including extortion and bribery. |

## Our Future and the SDGs

Since its founding in 1881, the OKI Group has consistently provided products that are useful to customers and beneficial to society. Based on this record, we are working to develop new businesses and technologies, with a focus on helping achieve the SDGs.

Rather than linking the SDGs to our current products and services (Figure A), we have positioned them as design blueprints for our ideal future vision (Figure B). Toward the resolution of social issues through co-creating with customers and partners, we are working on creating new businesses as well as formulating and promoting technology development strategies.




SDGs are design blueprints for our ideal future vision.

# HUMAN RESOURCE MANAGEMENT

In order for the OKI Group to continuously develop in response to changes in the social environment, it is essential for each and every diverse employee to maximize one's own capabilities to create innovation. The OKI Group positions human resources as one of the most important management resources and promotes the creation of a rewarding workplace environment through various initiatives including developing its human resources.

## Basic Approach to Human Rights and Human Resources

The OKI Group recognizes that protecting the human rights of each individual who fulfills one's work duties is the foundation of all its corporate activities and as such it has established a Respect for Human Rights in its Charter of Corporate Conduct and Code of Conduct, and is making rigorous efforts to educate through new hire training, training programs based on job position, e-learning programs, etc. The Group is also working on a fair employment and selection process and creating a work environment where diverse employees can play an active role.

With its human resources vision of "pride, passion, and sincerity," the Group is working on important management issues where all employees take pride in the company, themselves and the people who work there, where employees act boldly and passionately towards goals, tackle all things with sincerity, and where employees can work in good physical and mental health.

## OKI Group Human Resources Strategy

The OKI Group has an evaluation system that not only properly evaluates and handles employee performance, but also aims to align employee and company direction to achieve business targets so that employee growth leads to the development of the company.

Rather than only assessing employee performance, the system evaluates whether the OKI Group Action Principles, which are the values shared by the OKI Group when striving for results, have been put into practice, thus encouraging employees to implement each of the Action Principles, including taking a more proactive approach to change. Furthermore, a highly credible system has been made a reality by eliminating seniority-based components and creating a remuneration system in line with the job's position and employee evaluation. By using this system, highly motivated human resources, who actively challenge and produce results, will be developed.

In addition, a work environment that encourages communication among employees and promotes diversity will be created, making it easier and more rewarding to work each day.

## Initiatives for Human Resource Development

### • A Focus on Developing Autonomous Employee

The OKI Group is focusing on fostering autonomous employees who act, not self-righteously, but based on their own values, and who also can create results by involving people in the organization according to their roles. In order to promote employee autonomy, the whole Group is working on developing human resources through on-the-job training (OJT) based on practical experience and direction in the workplace, and off-the-job training (OffJT) through internal and external training, as well as self-development and support systems.

**Autonomous Employee**

1. Make correct decisions based on one's own value standards and be capable of self-management
2. Based on the mission (one's own role in the organization), discover the problem and look for the solution on one's own
3. Act with a logical mind
4. Respond quickly without missing the right timing

### • Training Curriculum by Purpose

To provide an appropriate and effective training curriculum to its employees, the OKI Group delivers a wide range of training programs: training by hierarchical levels from new recruits to executives; training for business skills including marketing, innovation, accounting, and foreign languages; and departmental training to hone professional expertise, such as sales, technical and production skills. Furthermore, with the knowledge that it is essential for employees to build an image of their own career path for their own development, the OKI Group supports employee growth such as with the Career Design Training program where employees take stock of their own career at the ages of 30, 40 and 50.

**• Developing Executive Talent**

In order to gradually develop management executives and business leaders who will be responsible for the OKI Group from a young age, we are carrying out development trainings for the next-generation of executives to help selected employees' growth through their own hard work by participating in internal training programs and going to external business schools. As well as fostering executive candidates who can execute policies and make decisions to innovate and achieve discontinuous growth in the midst of rapid change, we are implementing tough assignments that require on-site practice. Moreover, not only for young employees but also for executives and senior management, seminars with in-house and outside experts as lecturers are regularly held to provide the opportunity to acquire the literacy required for management. By thinking and talking about OKI's future, our management philosophy and Action Principles, executives themselves continue to learn and think, leading to the guidance and training for the younger generation.

**• Invigorating the Organization**

In order to build a vibrant workplace culture amid a drastically changing and increasingly complex world where OKI is able to pave the way for new initiatives such as innovation creation and work style reforms without fear of failure, it is necessary to create a psychologically safe and secure atmosphere. In other words, we are working on a "say, can say, and listen" approach, where employees can talk with each other, where constructive criticism beyond personal interests and positions is accepted. To that end, in addition to training of individuals, we are conducting two-way communication trainings aimed at fostering a culture of "say, can say, and listen" to build a relationship of trust in the organization, that is, to start a cycle of success from the quality of our relationships with each other. This is not training through lectures, but instead it is a type of training consisting of workshops within departments and a five-month program that brings the workplace together, which aims to foster a positive climate and culture through open communication.



A workshop in action

## Initiatives for Work-Style Reforms

In order for the OKI Group to survive in the market, innovation with new ideas not confined to conventional methods is required. Talented human resources will be attracted to a company that creates such high added value. Unfortunately, the current state of OKI is one where we cannot say the Company has been able to respond adequately, and there is a strong concern that if we do not change now, we will not be able to win market competition, or attract human resources. The OKI Group is working on work-style reforms with a growing sense of crisis like this.

**• Basic Policy on Work-Style Reforms**

The OKI Group's vision for work-style reforms, is to build an organization that responds flexibly to changes and creates high added value. As a result of employees acting with autonomy to produce efficient and stable results (revenue), and by maximizing the unique strengths of the Company to contribute to society, both the Company and its employees can hold hopes for the future, grow together, and realize their dreams.

The basic policy for achieving work-style reform is to change behavior, awareness, and frameworks, and improve productivity. Firstly, changing behavior produces the impetus to get out of everyday habits and create an opportunity to look at one's work from a new perspective. From there, clear objectives and goals can be set, and concrete measures can be implemented to achieve them, leading to improved productivity to realize the vision.

### • Sharing Initiatives at Every Workplace

In addition to pushing forwards with systems and facilities, such as creating a telework system and integrating internal tools to make it work and creating satellite offices to make more efficient use of business space within the Group, we are promoting initiatives arranged by each department within the Group. We improved efficiencies taking into account the business characteristics of each workplace, by solving all sorts of issues such as shortening meeting times, sharing design expertise, and visualizing various management tasks. Furthermore, all workplace initiatives are in turn released on the intranet and rolled out across the whole Group.




A work-style reform project site on the intranet

## Initiatives to Promote Diversity

Diversity and inclusion within the OKI Group is a means to strengthen human resources as a management strategy. The goal is for sustainable growth of the organization through creating innovation and improving motivation by accepting and respecting the diverse differences of every person, utilizing this diversity as something positive. As a first step, we have been working on the promotion of women's participation and advancement in the workplace as a matter of the highest priority.

### • Promoting Women's Participation and Advancement in the Workplace

An action plan to promote women's active participation in the workplace has been established with its aim to support women so they can pursue their own growth and develop their careers in ways that allow them to demonstrate their full potential. The OKI Group has thus set the following targets for 2020: (1) increase the ratio of women among all new graduate hires to 20% or more; and (2) double the ratio of female managers to 4%. The OKI Group has been taking measures to achieve these, the first step being to increase the number of women recruited. Next, more opportunities are given for women to demonstrate their abilities to play a more active role in the workplace. From here, talent for leader candidates becomes available, and as a result, more women can be appointed as managers. In fiscal year 2018, the ratio of new female graduates hired at OKI was 23%, meeting the target as in the previous year.

Every year since fiscal year 2014, the OKI Group has been holding seminars on promoting women's participation and advancement in the workplace, bringing together top management, executives, managers and female employees of the OKI Group in their hundreds. In these seminars, top management talks directly about their expectations for female employees, showing their commitment towards promoting success for women in the workplace. These seminars, which include lectures and panel discussions by experts, and discussions among participants, including male employees, are an opportunity for female employees to gain more understanding about proactive career development. They have become established as a place for encouraging managers to recognize and practice the importance of managing such diverse talent.



A seminar on promoting women's participation and advancement in the workplace (February, 2019)

**Female Executives and Employees (as of March 31, 2019)**

| | OKI | Domestic subsidiaries |
|---|---|---|
| Number of female executives | 3 | 2 |
| Percentage of women in managerial positions | 3.3% | 2.1% |
| Percentage of women among new graduates hired | 22.8% | 16.4% |

### • Aiming to Balance Work and Childcare for both Men and Women

OKI has established a Work-Life Balance Promotion Committee comprised of the labor union and management members. As well as confirming employee work hours and paid leave, the Committee promotes a healthy work-life balance by improving a host of systems including the flextime system, the HOP work (a discretionary labor) system, systems to provide special work conditions for people caring for children and nursing the elderly, as well as a Special Leave for Particular Purposes system which can be used to participate in volunteer activities, to treat illness and injuries, to nurse family members, or to attend children's school events.

As a part of these efforts, meetings are held between employees returning from childcare leave, their bosses, and the Human Resources and General Affairs Division, with the aim of sharing problems faced by employees when balancing work and raising children to find possible ways forward. The OKI Group also provides training sessions for balancing childcare and work as a place where mothers and fathers in the company can learn skills and share ideas to help them balance the demands of family and work.

### • The Key Person for Promoting Diversity is the Manager

Having a diverse group of human resources alone will not improve performance. The OKI Group has been training managers to deal with diversity based on the idea that they can produce results only if they have an inclusive workplace culture and management that accepts and utilizes each person's diverse differences. Training for developing female leaders incorporates a curriculum which includes learning skills together with supervisors and supporting the work women actually do in the workplace.

In order to improve awareness, in 2018, diversity management training was conducted through an e-learning course for managers in the domestic Group to deepen their understanding of promoting women's participation and advancement in the workplace and LGBT issues, with 94% of managers taking the course.

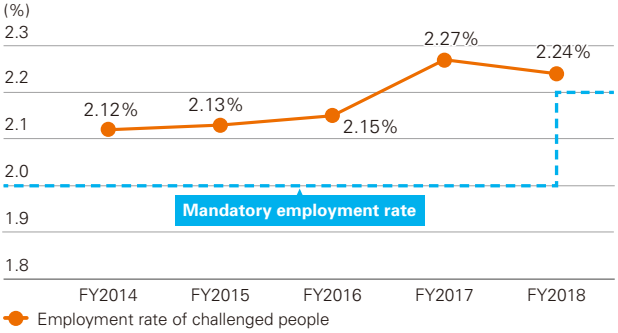
## The Special Subsidiary OKI WorkWel Initiative

The OKI Group is actively working to increase employment opportunities for people with disabilities as a good corporate citizen and as part of promoting diversity. Established in 2004 as a special subsidiary for the employment of people with disabilities, OKI WorkWel continues to support working from home for people with severe physical disabilities. As of April 2019, 72 out of the 85 OKI WorkWel employees have disabilities and 54 of them are working at home, utilizing their IT skills for such as building websites.

With "the workplace has come home" as its key phrase, the OKI WorkWel initiative has improved the working environment at home through efforts such as the construction of a virtual office infrastructure, personnel allocation to functions as a team, and a variety of ways for voice communication, all to enable work and study sessions to be carried out as a team in the same way for those working at home as for those working in the office. By connecting the company's network with the employee's home via a virtual private network on the internet, a work environment the same as that of the office with file server, e-mail, and intranet, is made available. Communication necessary for work is made possible by using a video and web conference tool provided by WorkWel Communicator, a virtual office system developed utilizing OKI's know-how.

OKI WorkWel also actively conducts visiting lectures (career training), remote workplace training, and remote field trips for special needs schools for the physically disabled, recruiting human resources from these schools.

### Employment Rates of Challenged People




*Employment rate of challenged people is the aggregate of eight special subsidiary-applied Group companies in Japan.

## Labor Safety and Health, and Health Promotion Initiatives

OKI established "Safety and Health Committees" in each region, with company members from management and the labor union. These strengthen the safety and health system, create labor injuries and accidents prevention plan, patrol workplaces, provide safety and health training, etc. The Central Safety and Health Committee shares information on situations and initiatives in each region. OKI's incidence rate of occupational accidents* in 2018 was 0.24.

Efforts are being made to promote mental and physical health as a Group. For mental health in particular, support is being given to employees through the use of self-care support tools and access to doctors via a consultation counter.

*Incidence rate of occupational accidents: Number of causalities due to occupational accidents per million man-hours worked.

### External Certification for Human Resources

#### White 500

OKI worked on measures to promote employee health through a health insurance society and by way of the labor union and management. For the third year running since 2017, the Ministry of Economy, Trade and Industry (METI) and the Nippon Kenko Kaigi has certified OKI as one of the White 500, a group of large companies showing outstanding health and productivity management.

#### Platinum Kurumin

As a result of its support activities for balancing childcare and work, OKI received Platinum Kurumin certification as an excellent supporting company for child-raising. Based on the Act on Advancement of Measures to Support Raising Next Generation Children, the certification is awarded to Kurumin certified companies (OKI has granted Kurumin certification since 2017) that have executed such measures at a higher standard than before. OKI Software, based in Warabi City, Saitama Prefecture, has also received Kurumin certification since 2014.

#### Eruboshi Certification

OKI was recognized for its efforts to promote women's participation and advancement in the workplace, and has received the highest level (Grade 3) of certification from the Ministry of Health, Labour and Welfare since 2017.

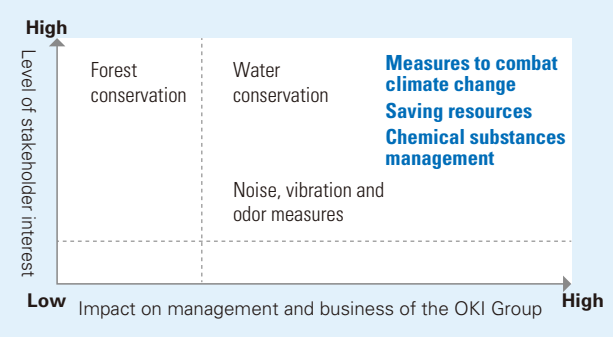
# CONSIDERATION FOR THE ENVIRONMENT

## Basic Approach to the Environment —— Maximizing Value Creation by Integrating the Environment with Business

The OKI Group promotes environmental management with the aim to maximize value creation through the fusion of the environment and business. OKI has a history of integrating the environmental values with business values, such as contributing to society by "adaptation to climate change" with measures such as disaster prevention and "mitigation of climate change" through the use of ITS services to improve efficiency of customers' logistics.

Also, in our business activities producing such products and services, environmental impact reduction by saving energy and resources, which can lead to reducing costs, is permeating into our daily operations.

The OKI Group organizes these activities in terms of priorities (materiality), taking into consideration stakeholders' interest, impact on management and the business, as shown in the diagram on the right.

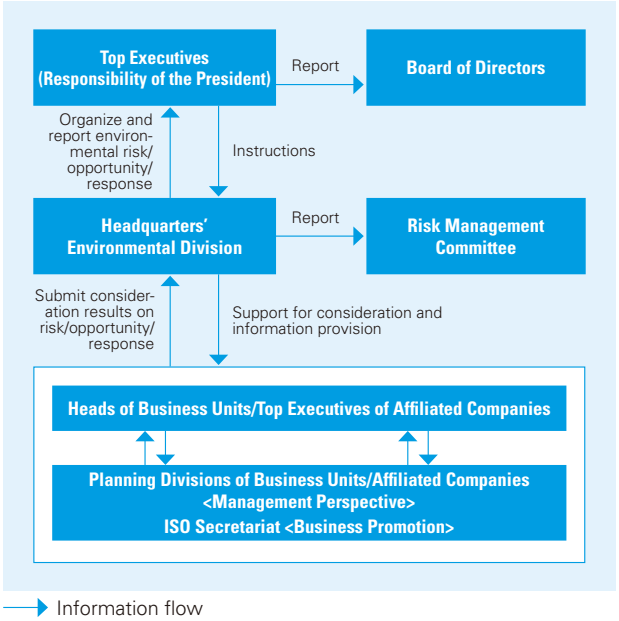



## Strengthening the Dissemination of Information related to Climate Change

In May 2019, OKI announced its support for the "Task Force on Climate-related Financial Disclosures (TCFD*)" recommendations aiming for a virtuous cycle between the economy and the environment. In the future, OKI will disclose and disseminate information in accordance with TCFD recommendations, and will strengthen its efforts to contribute to the realization of a sustainable society brought about by a virtuous cycle of the environment and the economy.

## Risks, Opportunities and Responses

Under the President, OKI started to implement the TCFD recommendations and set categories for making assumptions of certain environmental events occurring associated with climate change (scenario analysis). The Headquarters' environmental division coordinated among related business units, R&D and procurement divisions to identify the risks, opportunities, and responses. We are working to consider highly effective measures to anticipate the future financial impact for the entire Group. Their findings and results are reported to the Management Conference, and then to the Board of Directors.




*TCFD (Task Force on Climate-related Financial Disclosures): Proposal recommending the necessity to disclose information to investors about the company's responses to climate change

### Assumptions Until 2030

| | Category | Assumed Event | Main Risks | Main Opportunities |
|---|---|---|---|---|
| 1 | Climate change 2°C scenario [Migration risk] | • Further increased and expanded demand for energy saving | [Profit] Increased cost to achieve energy saving standards for hardware products<br>[Profit] Increased cost due to enhanced energy saving at business sites | [Sales] Increased demand for solutions using IoT and AI. (Transportation, construction/ infrastructure, finance/retail, BEMS)/ increased demand for energy-saving products/ needs for more efficiency in office work |
| | | • Increased pressure to switch over to renewable energy | [Sales/Profit] Response to customer requests for renewable energy use | [Sales] Increased demand for renewable energy-driven products |
| 2 | Climate change 4°C scenario [Physical risk] | • Increased and intensified abnormal weather events (Increase in storm and flood damage, extreme heat wave/cold snaps, increased lightning strikes) | [Sales/Profit/Assets] Loss of business sites' assets/ plant shutdowns/broken supply chains due to plants and suppliers affected by disasters and increased air conditioning costs due to rising temperatures | [Sales] Increased demand for advanced disaster prevention and mitigation (disaster prevention and marine fields) |
| 3 | Prevention of contamination with chemical substances | • Expanded and more complicated scope of chemical substances subject to laws and regulations | [Sales] Violation of standards for chemical substance content in products<br>[Sales] Violation of emission standards from production sites | [Sales] Increased demand for more efficient chemical management (manufacturing field) |
| 4 | Resource circulation | • Tougher laws and regulations for marine plastics and micro plastics | [Profit] Soaring cost of waste disposal, disposal companies refusing to collect waste | [Sales] Increased demand for resource-saving products and recycling services |

| Response to Major Risks | Response to Major Opportunities |
|---|---|
| →1 Life cycle $CO_2$ emission reduction by manufacturing products consuming less power, through automation and energy saving measures, as well as with enhanced access to renewable energy. | →1 2 3 Creation of innovative businesses and technologies that help to achieve the SDGs |
| →2 3 Production technology innovation and BCP enhancement | →1 Development of energy saving products and products that contribute to energy conservation. |
| →3 Thorough management of chemical substances used in products and onsite | →3 Sophistication of chemical substance management systems in products and onsite |
| →4 Waste reduction | →4 Improving the life-cycle of products and expanding recycling services |

## Formulation of OKI Environmental Challenge 2030/2050

In order to contribute to the resolution of climate change and social issues, which are increasing in severity, we formulated a medium-to long-term environmental vision on April 1, 2019 while also assessing the management risks and opportunities related to the environment. Taking advantage of the OKI Group's comprehensive capabilities, we will embrace these challenges to achieve our goals.

### OKI Environmental Challenge 2030/2050 (Overview)

**1 Prevention of Global Warming**

Life cycle $CO_2$ emissions* : Aiming for 40% reduction by fiscal year 2030, 80% reduction by fiscal year 2050 (compared to fiscal year 2013)




**2 Contributing to the Achievement of the SDGs**

Contribute to achieve the environmental impact reduction targets set in the 2030 SDGs through 1. and 2. listed below

1. Generating innovative products and services and provide solutions conducive to resolving a wide range of environmental issues
2. Realizing innovative technologies for manufacturing and creating things in the supply chain, including workplaces




*Lifecycle $CO_2$ emissions: Group-wide $CO_2$ emissions within all processes, from procurement to business locations, distribution, use of products by customers, and disposal of used products

For more information https://www.oki.com/en/eco/management/vision.html

## Environmental Measures According to Site Characteristics

With regards to our global warming prevention activities at each site, we classify our workplaces as coating, plating and other processing plants; assembly plants for products such as component mounting; and large and small offices, and promote measures, according to the respective characteristics of these.

**[Processing Plants]**

Processing plants are characterized by continuous operation of production facilities and air conditioning equipment without stopping. For these, we are primarily working on a reduction in fixed energy consumption and improvement in operating rate.

**[Assembly Plants]**

Assembly plants have the characteristic of a low fixed load and energy consumption that fluctuate according to production volume. Based on the fact that high-mix low-volume production is increasing, efficiency is being promoted through measures such as cell production, one-piece flow production, and change in layout.

**[Large Office]**

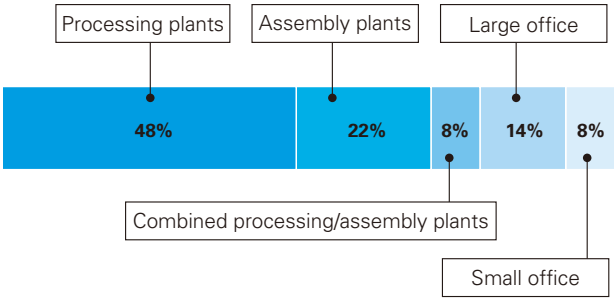
In our large offices, we are promoting improvements through the introduction of energy efficient air conditioning equipment and lighting fixtures.

**[Small Office]**

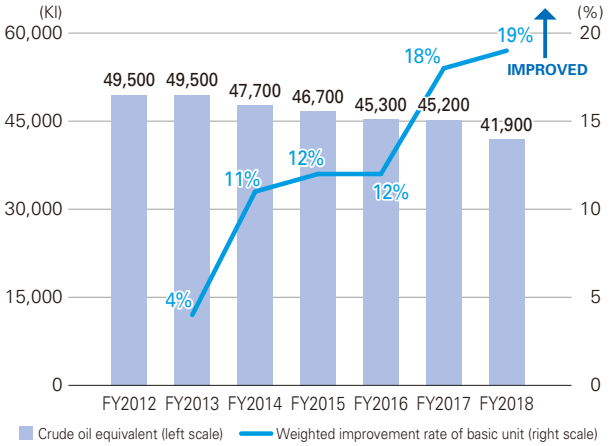
In smaller offices, we are making improvements centered on energy conservation activities and other operational aspects.

The OKI Group aims for optimization across the entire Group by implementing such measures and setting targets according to site characteristics, conducting trials for common issues, and horizontally developing effective cases to other sites.

### Percentage of Energy Usage in The OKI Group by Site Characteristic




### The OKI Group's Energy Consumption and Improvement Rate of Basic Unit




**Environmental measures according to site characteristics have been successful, resulting in a tendency toward improvement**

## Examples of Initiatives at Business Sites

Summarized in the table below are examples of initiatives undertaken at each site based on their characteristics and environmental themes.

| Environmental Themes | Examples of Group Achievements |
|---|---|
| Mitigation of climate change | Manufacturing equipment measures<br>• Processing plants: Heat dissipation measures for printed circuit board manufacturing equipment<br>• Assembly plants: Introduction of point soldering equipment |
| | Measures for the entire building<br>• Plants/Office: Renewal of air conditioner/Introduction of LED lighting<br>• Plants: Introducing sprinklers in the roof and heating using heat waste |
| | Streamline direct delivery; delivery routes from plants (milk runs, etc.)/Introduction of hybrid vehicles |
| Adaptation to climate change | Assess possible storm, flood and lightning damage risk in light of each plant location |
| Prevention of contamination by chemical substances | Compliance with various laws and regulations (atmosphere, water system, soil) |
| | Improvement of manufacturing process<br>• Processing plants: Improvement of plating method, substitution of chemicals such as adhesives<br>• Assembly plants: Innovative soldering method |
| Rotation of resources | Reduction of raw materials, reduction of waste, and improvement of recycling<br>• Reduction of resource loss by introducing robots and IoT<br>• Optimization of material purchasing using IT systems<br>• Promotion of returnable containers<br>• Improving the yield of plastic materials used in printed circuit board manufacturing<br>• Thorough separation of plastic waste<br>Reduction of water resources in printed circuit board manufacturing<br>• Reducing well water usage and ensuring water quality (Change from regular water intake to occasional intake) |
| Biodiversity | Contributing to biodiversity conservation through energy conservation / chemical substance management / resource recycling<br>Forest maintenance: Cutting undergrowth and thinning the forest /cutting & cleaning (Japan: Commendation from local government)<br>Afforestation: Mangrove planting (China) / Planting trees in National protected areas (Thailand) |

## Contributing to the Environment with Products and Services

The OKI Group offers a wide range of products and services addressing environmental themes such mitigation and adaptation of climate change, recycling, and pollution prevention.

### Mitigation and Adaptation to Climate Change

**Mitigation of climate change (1): Energy saving products**

- Mechatronic products, communication equipment, printers

**Mitigation of climate change (2): Products that contribute to energy conservation**

- ITS service = Logistics efficiency improvements LocoMobi2.0
- Self-service terminal middleware CounterSmart
- BEMS = Building air conditioning monitoring controls

**Adaptation to climate change: Products for extreme weather**

- Disaster prevention information system DPS Core
- Solar powered water level sensor for crisis management
- Portable boat type multi-beam depth sounder instrument CARPHIN V

### Other Environmental Conservation Measures

**Products and services useful for saving resources**

- Easy to disassemble hardware design
- Collection service for used products

**Products and services to eliminate and prevent chemical contamination**

- Management system for chemical substances contained in products
- Services to measure air, water quality, plastics, etc.

### Platforms that Support Products and Services

- AI Edge Computer
- 920MHz band wireless multi-hop technology SmartHop

## "Towards the Future" R&D Themes Relevant to the Environment

The OKI Group's R&D expenses amount to ¥10.7 billion per year all of which is devoted to raising environmental awareness. Listed here in an easy to understand format are items related to the environment.

| Theme Name | Overview |
|---|---|
| "Deep learning" weight reduction Technology (R&D of advanced AI technology) | Improve power consumption efficiency with more efficient calculations using deep learning technology. Adopted for NEDO (New Energy and Industrial Technology Development Organization)'s energy-saving themed projects |
| All silicon photonic integrated module technology | Develop an electronic-photonic integrated chip with high functionality, low power consumption and ultra-small size |
| Next-generation access technology for 5G/IoT (R&D in next-generation optical access technology) | Solve the issue of increased power consumption associated with a rise in data capacity with the spread of 5th generation mobile (5G) |
| R&D of optical signal processing technology for optical fiber sensing | Extend the service life for infrastructure facilities with meticulous monitoring and proper maintenance utilizing this technology and thereby achieve energy and resource reductions |
| R&D of future communication environment (R&D of multimedia system technology) | Creation of a communication environment that allows easy communication with remote offices; produce energy savings by reducing energy usage associated with movement and improving operational efficiency |
| Technology for anomaly detection and failure prediction of manufacturing equipment for Industry 4.0 (research on data mining technology) | Anomaly detection technology for manufacturing equipment, using vibration and log data at plants. Achieve resource savings by controlling parts inventory and reducing energy consumption associated with transportation, etc. |
| R&D into the use of AI solutions in the printing field | A technology that uses AI to automate and streamline the evaluation of printing quality of industrial printers. Promote resource and energy savings by preventing printing errors caused by misjudging printing quality |

## Specific Measures and Activities (FY2018 Results)

The OKI Group has acquired ISO 14001 integrated certification. We have established systems based on product themes related to product development and businesses as well as business themes associated to the plants and offices. The results for fiscal year 2018 were as follows.

| Category | Activity Content | FY2018 Targets → Outcome |
|---|---|---|
| **Realization of a low-carbon society** | | |
| Products | Development of energy-saving products | 20% or more of developed products → 23% (energy saving of 22% or more over conventional products) |
| Business activities | Energy-savings at workplaces (plants and offices) | Improvement of 19% or more → 19% improvement (basic unit vs. fiscal year 2012*1) |
| **Prevention of pollution** | | |
| Products | Development of products complying with regulations on chemical substances in products | 35 or more products → 37 products |
| | Ensuring legal compliance by supporting the new standard survey form (chemical substance management system/management procedure manual) | Respond to addition of RoHS prohibited substances → Started from July 2018<br>Updated IT system to support chemSHERPA™ → Completed<br>Confirm status of compliance with laws and regulations → No legal violations |
| Business activities | Reduction of chemical substance emissions from plants (atmosphere/water system/soil) | Improvement of 39% or more → 35% improvement (chemical substance emission rate vs. fiscal year 2012*2) |
| | Compliance with chemical substance related regulations (atmosphere/water system/soil) | Compliance with legal audits, Zero legal violations → Achieved |
| **Resource circulation** | | |
| Products | Recycling of used products | 2,600t or more → 4,230t |
| | Development of easily recyclable products | 31 or more products → 31 products |
| Business activities | Reduction and appropriate disposal of waste/recycling rate | Recycling rate 87% or more → 82% |
| | Streamlining of resource input | Improvement of 40% or more → 37% improvement (resource input rate vs. fiscal year 2012*3) |
| **Common** | | |
| Biodiversity conservation | Realization of low-carbon societies /prevention of pollution /resource circulation | Promotion of the above initiatives*4 |

*1 Total of "improvement in energy usage rate × usage rate for entire Group" for each workplace
*2 "Emissions/input" of chemical substances *3 "Disposal amount/input" of primary resources
*4 Efforts for conserving biodiversity

Details of the OKI Group's environmental activities are provided on our website.



Website "Environmental Conservation"
**https://www.oki.com/en/eco/**

# QUALITY INITIATIVES

Under its quality philosophy of "providing products that always make customers happy," the OKI Group is moving ahead with initiatives that pay sufficient heed to safety concerns and user-friendliness in developing and providing products and services so they elicit customer satisfaction.

## Quality Improvement Initiative

Reflecting its quality philosophy, OKI has established Group Quality Philosophy and is engaged in quality improvement activities. In fiscal year 2019, we implement cross-organizational activities under the themes of "quality fraud prevention," "improvement activities by all," and "quality information dissemination." With respect to quality fraud prevention, in fiscal year 2018 we established and disseminated guidelines for authorizing shipping inspections, etc. We also conducted onsite audits at five sites in Japan, where the potential impact of fraud is deemed significant. Based on our ongoing understanding that fraud could occur in any workplace, we provide education through company newsletters and seminars, in addition to confirming with documents to all employees of related divisions as well as conducting direct onsite audits centered on production inspection workplaces. In these ways, we work to raise attentiveness to quality-related fraud.

**FY2019 the OKI Group Quality Policies**

1. Exhaustive quality fraud prevention
   - We shall comply with relevant laws and standards, make pledges to customers, and adhere to voluntary standards. We shall also build systems and promote self-inspections to ensure compliance.
2. Improvement activities at all workplaces
   - Recognizing that each and every person is a "leader of quality," we shall work to create quality through participation by all employees.
3. Step up information dissemination on quality activities
   - Without relying solely on our own experience, we shall learn from the experiences of others, as well as the lessons of past failures, to create rules and mechanisms for preventing quality fraud.

## Product Safety Initiatives

To help customers use its products with peace of mind, based on our "Product Safety Basic Policy," OKI has made various efforts to ensure product safety, including the incorporation of provisions about product safety into agreements with our suppliers. In preparation for the event of product accident, we have put in place rules to cope with any accident as the Group in a coordinated way.

We have identified "four safety technology laws": the Electrical Appliance and Material Safety Act, the Telecommunications Business Laws, the Radio Law, and the Regulations of the Voluntary Control Council for Interference by Information Technology Equipment (VCCI). To ensure thorough compliance with the four laws, we engage in projects spearheaded by the Product Safety and Technology Committee, a cross-Group entity headed by Chief Technology Officer of OKI. One project involves obtaining written confirmation of the risk status of all divisions and conducting onsite audits of those deemed vulnerable to risk, including verification of evidence. We also hold follow-up training for newly appointed managers, including education on laws and regulations.



The new manager training

## Universal Design Initiatives

The OKI Group defines universal design as the achievement of a higher level of usability (basic user friendliness) and accessibility (consideration of elderly and disabled, etc.) in products and services so that all customers can use them properly, effectively and satisfactorily. User opinions gathered in verification experiments etc. are reflected in our products and services. For Automated Teller Machines (ATMs), one of our core products, we are working to improve operability by integrating universal design techniques such as handsets for the visually impaired that enable them to operate ATMs using audio guidance, an ergonomic design that allows wheelchair users to move in closer to ATMs, and the use of universal design fonts.

To broaden this way of thinking, we have established a cross-organizational committee to provide information on the latest trends and cases, such as domestic and overseas laws and regulations and the like. In fiscal year 2019, we plan to conduct a training program in which participants will wear "elderly simulation sets" in order to experience the inconveniences felt by aged people. For new employee training, as well, as have established units for learning the concepts of universal design and user experience.

TOPICS

### Selected among "2019 Noteworthy IT Strategy Companies" by METI

In April 2019, OKI was selected as one of the "2019 Noteworthy IT Strategy Companies" under the "2019 Competitive IT Strategy Company Stock Selection" program conducted jointly by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE). Here, METI selects TSE-listed companies that are implementing noteworthy initiatives aimed at broadening the base of "competitive IT-focused management" on their own terms. OKI believes that its initiatives of providing products and services utilizing IoT to contribute to solving social issues and the innovation producing projects "Yume Pro" (see page 17) were acclaimed in the aspect of contributable in achieving SDGs and led to this selection.




Presentation ceremony for "2019 Noteworthy IT Strategy Companies" under the "2019 Competitive IT Strategy Company Stock Selection" program

# SUPPLY CHAIN INITIATIVES

To promote fair corporate activities in response to the voice of stakeholders, cooperation from suppliers is essential. OKI strives to build trusting relationships with its suppliers and business partners and promotes CSR procurement initiatives.

## Promoting CSR Procurement

"OKI Group Procurement Policies" reflect three basic points: "We will select suppliers in a fair and honest manner," "We will promote procuring activities that incorporate the concepts of CSR," and "In addition to pursuing appropriate levels of quality and cost, we will work to ensure a stable procurement of materials." Based on the OKI Group Supply Chain CSR Deployment Guidebook*, we implement CSR procurement surveys both in Japan and overseas.

Based on the results of surveys carried out thus far in Japan, we place our suppliers and business partners into groups and regularly check up on the progress of their initiatives. In fiscal year 2018, we conducted self-assessment surveys of six overseas suppliers that had not been surveyed so far. We provide survey findings to each supplier as a form of feedback and request them to make necessary corrections.

*Our guidebook conforms to the Supply-Chain CSR Deployment Guidebook published by Japan Electronics and Information Technology Industries Association (JEITA).

**OKI Group Procurement Policies**
**List of Requests for Suppliers**

1. Compliance with laws, regulations and societal norms
   - Compliance with laws and regulations related to production and sale of materials, environmental laws and regulations, laws and regulations related to product safety, laws and regulations related to labor, occupational health and safety, and other laws and regulations
   - Prohibition of child labor and forced labor
   - Prohibition of discrimination by race, gender, or other characteristic
   - Realizing a safe and sanitary working environment
   - Prohibition of deviation from fair business practices
2. Environmental considerations
3. Sound and stable business management
4. Appropriate levels of quality and cost, and stable supply
5. Appropriate management and protection of information
6. Cooperation for continuous supply
7. Basic policy for conflict minerals

# CORPORATE CITIZENSHIP

As good corporate citizens, we think, act, and pursue social contribution activities with broad public support to achieve a truly affluent society. We in the OKI Group take an organized stance to promote support of community contributions, disaster recovery efforts, and employee volunteer work.

## Using IT to Conduct Career Education at Special Support Schools

OKI WorkWel, a special purpose subsidiary, uses its telework system developed in-house for home-employment of people with severe disabilities. As initiatives utilizing such experiences for school education, the company conducts "distance workplace training" (started in 2004) and "visiting lecture for career education" (started in 2011) for special support schools. In January 2019, we received the Excellence Award in the 8th Awards for Partnerships for Career Education Promotion, sponsored by the Ministry of Education, Culture, Sports, Science and Technology and METI.

## Donating through "The OKI 100 Yen Fund of Love"

We in the OKI Group have made various assistance efforts through "The OKI 100 Yen Fund of Love," used to support the actions of volunteer groups. The participants in the fund include executives and employees of the member companies of the OKI Group (25 companies as of April 2019) who agree with the purport of the program. As a part of this, we provide ongoing support to the blood program of the Japanese Red Cross Society (JRCS). In March 2019, we donated our 29th vehicle for collecting blood donations, to the Saga JRCS blood center in Saga Prefecture.

## Implementing Volunteer Activities for Environmental Preservation at Home and Overseas

At OKI Group sites in Japan and overseas, we implement ongoing volunteer programs for employees to contribute to activities with an environmental conservation purpose.

### FY2018 Environmental Protection Volunteer Activities

| Location | Description |
|---|---|
| **Japan** (Takasaki City, Gunma Prefecture; Izu City, Shizuoka Prefecture; Komoro City, Nagano Prefecture) | Conducted forestry volunteer activities centered on tree thinning at satoyama forested areas on five occasions, with participation by 223 employees in total |
| **Thailand** (Saraburi Province) | Planted 6,000 saplings deemed to be nationally designated protected tree varieties in an area where trees had been felled by 210 employees and family members (September) |
| **China** (Shenzhen City, Guangdong Province) | Planted 3,000 mangroves in an ocean park, with participation by 50 employees (April) |

# CORPORATE GOVERNANCE

The OKI Group recognizes sustainable growth and increasing corporate value over mid- and long-term as its most important management priorities in earning the trust of its various stakeholders. To this end, we are working to enhance corporate governance based on our fundamental policies, including "enhancement of management fairness and transparency," "timely decision-making processes," and "full compliance and fortification of risk management."

## Corporate Governance Structure

OKI maintains a corporate auditor system, with the Board of Directors and the Audit & Supervisory Board. With an executive officer system in place, it strives to promote timely decision making processes by separating business execution and oversight. It endeavors to improve the fairness and transparency of management by nominating outside directors to the Board as well as setting up a voluntary committee on nomination, remuneration, etc. so as to ensure effective supervision from an independent and objective standpoint.

### Board of Directors

The Board of Directors is made up of nine directors and in principle meets once a month but can call extraordinary meetings when necessary, and is responsible for deciding fundamental management policies and other important matters and overseeing business execution.

To ensure the function of the Board of Directors, director candidates are chosen taking into consideration of their diversity including specialization, work experience and gender. To enhance management fairness and transparency, four of the Board's members are outside directors with a high level of independence and the non-executive chairman presides over the meetings.

To clarify management responsibility for each fiscal year, directors are appointed for single-year term.

### Audit & Supervisory Board

The Audit & Supervisory Board comprises four Audit & Supervisory Board members, two of which are outside Audit & Supervisory Board members with a high level of independence. Based on audit policies, methods, etc. decided at Audit & Supervisory Board meetings, Audit & Supervisory Board members attend Board of Directors' meetings and other important meetings, verify the content of reports received from directors, etc., and conduct investigations into matters concerning the Company's operations, financial status, etc. Collaborating closely with outside directors, the Internal Auditing Division, and the accounting auditors, Audit & Supervisory Board members audit the performance of duties by directors.

### Executive Officer System

OKI appoints executive officers to implement operations in accordance with management policies determined by the Board of Directors so as to separate the functions of business execution and oversight of management and promote timely decision-making processes. Moreover, to assist the President in making decisions, the Company has established the Management Conference.

### Internal Auditing

Group Internal Auditing Division is tasked with internal auditing and its staff comprises 19 personnel including seven internal auditors. The division conducts internal audits for the purpose of accurately perceiving the actual state of compliance risk management across businesses and functions in the OKI Group and identifying and preventing mistakes and errors as well as corruption in the operation of internal control systems, thereby supporting operational improvements. The results of audits are reported directly to both the President and the Audit & Supervisory Board.

### Utilization of Voluntary Committees

OKI has established the Personnel Affairs and Compensation Advisory Committee as a voluntary body to ensure transparency and objective judgment in the decision-making processes for appointments of board members and executive officers and remuneration for them. After deliberating from an objective perspective on the appointments and dismissals of board members and executive officers, as well as the structure and level of their compensation, etc., the committee reports its findings to the Board of Directors. This committee consists of five members, four outside directors and a non-executive chairman. Chairman of the committee is elected mutually by its members. Presently, that person is an outside director.

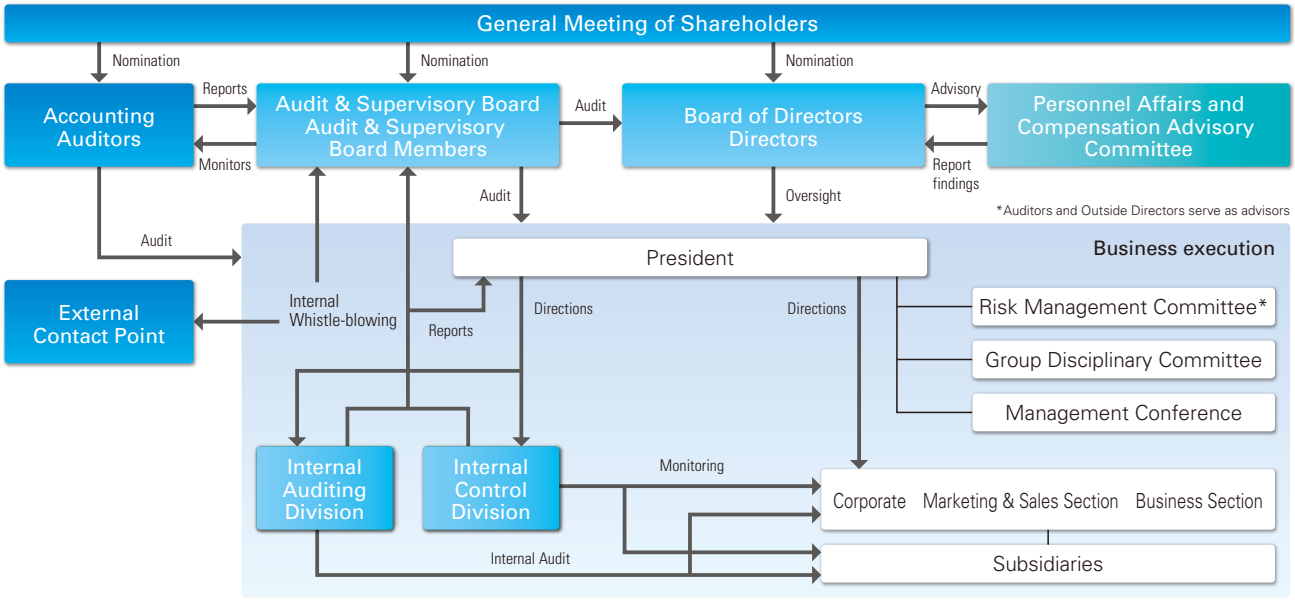
### Appointments and Dismissals of Directors and Executive Officers

When nominating and appointing candidates for directors, Audit & Supervisory Board members, and executive officers, OKI will take the followings into consideration as well as legal eligibility:

- A person who has a noble character with wisdom, high level of ethics, fairness, honesty, and a law-abiding spirit
- A person who realizes OKI Group's corporate philosophy and conducts one's duties to enhance corporate value continuously.
- One's length of tenure
- Audit & Supervisory Board members must have the necessary financial, accounting, and legal knowledge

The criteria for submitting a proposal to dismiss a director, Audit & Supervisory Board member, or executive officer takes into consideration the followings: the person's act violates or infringes on the Law and the Article of association; reason arises that the person is unable to properly perform one's duties. Should such an incidence occur it is immediately deliberated by Personnel Affairs and Compensation Advisory Committee, who then submit their proposal to the Board of Directors.

## Corporate Governance Structure




## Structure of Board of Directors, Personnel Affairs and Compensation Advisory Committee, and Audit & Supervisory Board

●:Chair △:Advisory role

| | Name | Board of Directors | Personnel Affairs and Compensation Advisory Committee | Audit & Supervisory Board | |
|---|---|---|---|---|---|
| Director | Hideichi Kawasaki | ● | ○ | | Chairman of the Board |
| | Shinya Kamagami | ○ | | | President, Representative Director |
| | Masayuki Hoshi | ○ | | | Senior Executive Vice President, Representative Director |
| | Masashi Tsuboi | ○ | | | Senior Vice President, Member of the Board |
| | Masashi Fuse | ○ | | | Senior Executive Officer, Member of the Board |
| | Shigeru Asaba | ○ | ● | | Independent Outside Director |
| | Tamotsu Saito | ○ | ○ | | |
| | Izumi Kawashima | ○ | ○ | | |
| | Makoto Kigawa | ○ | ○ | | |
| Audit & Supervisory Board Member | Sei Yano | △ | | ● | Standing Audit & Supervisory Board Member |
| | Toshiya Hatakeyama | △ | | ○ | |
| | Kuninori Hamaguchi | △ | | ○ | Independent Outside Audit & Supervisory Board Member |
| | Yoichi Nitta | △ | | ○ | |

## Areas in Which Directors (Non-Executive Directors) Are Expected to Contribute in Particular

| Name | | Corporate Management | Legal/ Risk Management | Human Resources Development | Finance/ M&A | International Experience | Logistics Management | Technology/ Research | Sales |
|---|---|---|---|---|---|---|---|---|---|
| Hideichi Kawasaki | Non-executive | ○ | | ○ | | | | | ○ |
| Shigeru Asaba | Outside | | | ○ | ○ | ○ | | | |
| Tamotsu Saito | Outside | ○ | ○ | | | ○ | | ○ | |
| Izumi Kawashima | Outside | | ○ | | ○ | | | | |
| Makoto Kigawa | Outside | ○ | | ○ | | | ○ | | |

## Compensation for the Board Members and Executive Directors

OKI's basic policy on compensation for directors and executive officers is to serve as incentives for the performance improvement with the aim of the continuous enhancement of the corporate value and the corporate competitiveness while being the compensation structure that can attract excellent human resources.

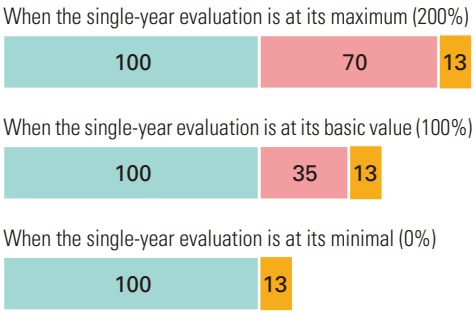
The compensation system consists of basic compensation, annual incentive compensation linked to the performance of each fiscal year, and stock options as stock-based compensation as medium- to long-term incentive compensation. This has been implemented as part of efforts to develop an environment for a shift to the management focused on "more aggressive goal setting" and "growth over medium- to long-term" in order to achieve "continuous growth" of the OKI Group. Compensation for outside directors consists only of basic compensation. In addition, the appropriateness of the structure and level of compensation is validated utilizing objective evaluation data from external organizations and others.

At the 82nd Ordinary General Meeting of Shareholders held on June 29, 2006, a resolution was passed on the remuneration for directors not to exceed ¥600 million a year (which does not include salary for employee post.) Separately, stock options as stock-based compensation for directors (excluding outside directors) was passed at the 92nd Ordinary General Meeting of Shareholders held on June 24, 2016, limiting the amount to within ¥100 million a year.

### Remuneration Type and Ratio Image

| Remuneration Type | Content |
|---|---|
| Basic compensation | When serving as executive officer concurrently, monetary compensation shall be paid, determined individually tailored to position, followed by duties. |
| Annual incentive compensation | Monetary compensation shall be paid, determined individually with a linkage with the past fiscal year's consolidated business performance of the OKI Group and that of the division each director/executive officer is responsible for. The amount of payments is 35% of the basic compensation in case that the rate of payments is 100%. The rate of payments is determined within the scope of 0% to 200%, according to a linkage with business performance and the President's qualitative assessment. |
| Medium- to long-term incentive compensation (Stock option) | Stock option as stock-based compensation shall be granted, around 13% of basic compensation amount, in the view of value sharing with shareholders and the enhancement of corporate value as well as shareholders' value over the medium- to long-term. |

**Ratio of Each Reward When the Basic Reward is 100**




## Board Effectiveness Evaluation

OKI evaluates and analyzes the effectiveness of the Board of Directors by recognizing, sharing and improving the direction that the Board of Directors must aim for and issues related to that undertaking for the purpose of enhancing the Board's effectiveness.

In fiscal year 2018, with the Secretariat of the Board of Directors served as the secretariat evaluating the Board's effectiveness, the Board members deliberated and confirmed evaluation methodology/items. A questionnaire survey was conducted among all directors and Audit & Supervisory Board members, as well as individual interviews by Secretariat. The results were analyzed and evaluated at the Board of Directors.

The evaluation questionnaire looked at the Board's responsibilities, composition and management concerning the followings: "How the Board of Directors should function," "How outside directors should be utilized," "How the management teams should be selected and remunerated."

### Results of Effectiveness Evaluation of the Board of Directors

At the Board of Directors meeting held in April 2019, we confirmed that there were no problems with the current system of governance and that it was operating and functioning properly.

In addition, based on the results of the evaluation questionnaire and individual interviews, future issues and management policies were also identified as follows.

### Future Issues and Management Policy

- For the next mid-term plan, management strategy will be the most important topic requiring sufficient time for discussion.
- Strengthen dialogue to help investors understand OKI's growth policy
- Work on qualitative assessment of segment-specific management indicators and business portfolio including cost of capital
- Strive for a 50:50 ratio of internal to external directors for the duty of oversight and enforcement
- Formulate and oversee the development of a medium-term training curriculum for the successor of president and candidates for directors
- Unify the duties of dispatched directors among subsidiaries in order to increase the effectiveness of internal controls at the subsidiaries

OKI will strive to improve the effectiveness of the Board of Directors continuously with the goal to increase corporate value.

## Training Successors

In order to groom future successors for the position of president and other executive posts, the President is preparing a training program from the viewpoint of planning, executing and accomplishing OKI's business strategies and business plans to realize our corporate philosophy and vision for its sustainable growth and enhancing its medium- to long-term corporate value. The proposed plan is being deliberated by Personnel Affairs and Compensation Advisory Committee, with the necessary advice and recommendations being made to the President, as well as the progress being overseen.

In terms of training, we conduct a curriculum amongst some young management candidates, who are able to gain valuable experience by systematically being assigned and appointed to important positions such as a head of a division or as president of a subsidiary. In addition, we actively utilize occasions of business report, review report of business strategy at Board of Directors meetings as opportunities for outside directors to evaluate successor candidates' personality, insight and abilities.

## Cross Shareholdings

OKI's policy is to reduce the number of cross shareholdings in stages, verifying medium- to long-term corporate value enhancement of the Company and share-issuing company and other circumstances comprehensively.

The number of cross shareholdings is verified annually by the Board of Directors, who determines whether or not it is appropriate to hold for each individual issue, by taking into account quantitative and qualitative factors comprehensively. Further verification will be made in the future regarding the benefits and risks associated with its cross shareholdings if they are commensurate with the cost of capital.

In exercising our voting rights for our cross shareholdings, we categorize bills as follows, make judgements and exercise our voting rights based on exercising criteria.

- In the case of appointing executives, we consider total number, ratio of independent directors, etc.
- In the case of executive compensation, we look at business performance, status of assets, etc.
- In the case of the disposal of surplus, we consider business performance, retained earnings, etc.
- Others. Special consideration will be given to anti-takeover measures, M&A and third-party share allocation.

## Message from the New Outside Director

I was a bank employee at The Fuji Bank, Ltd. and Mizuho Corporate Bank, Ltd., where I spent a long period of time in the central part of Control Management Department dealing with HR/Strategic Management Planning, Financial Risk Management, and for the last 10 years I was in management working in the midst and dealing with the aftermath of the global financial crisis. What I learned from this difficult and painful period was the qualities required by top managers during times of change. Basically, there are three things: the courage to decide and execute bold strategies; the need to keep a "cool head" to comprehend the risks included in making such decisions, and not to run away when a crisis occurs. Since joining Yamato Transport Co., Ltd. 14 years ago, and taking into account my experience as a bank employee, I have worked on bold business structural reforms, as the environment for logistics has changed drastically.

By a strange coincidence, I have joined OKI's board as a director. OKI has a long history of overcoming many challenges and possesses advanced technologies that have supported Japan's social infrastructure, including ICT and Mechatronics Systems. However, the speed of change in the business environment is accelerating, and I believe it is the crucial moment whether or not we can respond swiftly will determine OKI's future. I will do my utmost to make use of my accumulated experience and contribute to overall management so that we can move towards this next growth phase.



Director
Makoto Kigawa

# RISK MANAGEMENT/COMPLIANCE

The OKI Group is working to reinforce risk management under the Risk Management Committee. In accordance with our "Compliance Commitment" and, in order to perform corporate activities fairly, we are focusing on the enhancement of training, and we have established consultation and reporting contacts.

## Risk Management Initiatives

OKI has established the Risk Management Committee (with the President as Committee Chairman, and outside directors and Audit & Supervisory Board members as advisors) in order to manage risks related to the Group's business activities certainly. While it deliberates and decides on basic policies for risk management, the Committee identifies risks to be managed based on the basic policies, and deliberates and decides on policies to prevent the manifestation of such risks, as well as policies concerning scenarios in the event of a crisis.

Risks to be managed are determined by assessing the risks accompanied with the whole Group's business activities, from the perspective of responding to stakeholder requests, as well as the compliance risks (risks associated with violations of laws, regulations, and internal rules). Of these risks, common risks (risks requiring common management across the Group) are registered by the control division and manifestation preventive measures are deployed within the Group. By doing so a management cycle in which the Compliance Committee (see next section) regularly checks the implementation status has been put into place.

## Initiatives to Promote Compliance

The OKI Group has established the Compliance Committee (with the Chief Compliance Officer as Committee Chairman) in accordance with the top management's Compliance Commitment thereby striving to ensure rigorous compliance. On a quarterly basis the Committee monitors the management progress of the common risks identified by the Risk Management Committee. The Committee also deliberates and decides on compliance training plans and oversees their implementation. Moreover, we implement fixed-point observations on conduct and awareness relating to compliance of executives and employees, and to make the most of such measures, we implement compliance awareness surveys on an ongoing basis.

In order to discover and rectify improper activities at an early stage, we have established consultation and reporting channels to enable anonymous reports, as well as reports to outside directors and Audit & Supervisory Board members at every Group company, and stipulated whistle-blowing regulations such as those about the protection of whistle-blowers. In fiscal year 2018, 66 reports and consultations were received at the OKI Group in Japan. Furthermore, the system which includes an external contact point and Group-wide contact point newly established in the previous fiscal year was made known to all employees again this year with a 93% awareness of the whistle-blowing system resulting from the awareness survey (up 9% from the previous fiscal year).

## Ongoing Compliance Training

The OKI Group implements training sessions for compliance managers at seven sites in Japan for employees at senior manager level as regular training. Participants learn in these sessions, and roll out the gained knowledge in their business units. The deployment of such knowledge is checked through an e-learning program for all executive officers and employees of the Group. We have tools in place to promote learning and retention of program content such as sharing specific examples through the booklet called "Case Examples of Compliance" on the intranet.

Since fiscal year 2018, some overseas Group companies have started a unified e-learning compliance training program, the scope of which will be further expanded in fiscal year 2019.

### Main Compliance Training Programs (for the OKI Group in Japan) in FY2018

| Training Overview | Participation Rate |
|---|---|
| Training sessions for compliance managers (implemented in July-August 2018) Main themes: The importance of compliance, financial reporting laws, contract management, EU General Data Protection Regulation (GDPR) | 100% |
| The e-learning program about on-the-job compliance (implemented in December 2018 to January 2019) | 99.9% |
| Anti-monopoly Act training for marketing & sales sections (implemented in November 2018 to May 2019) | 100% |

## Thorough Compliance with Anti-monopoly Act

In February 2017, the Japan Fair Trade Commission issued a cease and desist order in accordance with the Anti-Monopoly Act and ordered OKI to pay fines with regard to trade related to digital wireless communication systems for firefighting and emergency use. We are working on prevention measures to ensure this never happens again.

A system based on our regulations for compliance with the Anti-monopoly Act has been implemented and operated for recording contact with competitors. With respect to training, the Anti-monopoly Act is repeatedly taken up to ensure that all rules are strictly adhered to. In fiscal year 2018, sales training was provided by an external instructor from the Japan Fair Trade Institute.

In addition to continually monitoring the implementation of Anti-Monopoly Act-related rules and improving the effectiveness of our framework, we will strive to generate a sense of compliance awareness by continuing to send out compliance messages from top management.

## Approaches to Anti-Corruption

Anti-corruption is Principle 10 raised in the United Nations Global Compact, and is a global social issue. We are promoting anti-corruption initiatives based on the "OKI Group Anti-Corruption and Anti-Bribery Policy" that we put into practice in fiscal year 2013.

The "OKI Group Anti-Corruption and Anti-Bribery Policy" complies with anti-corruption laws and regulations that apply in each country and region where the OKI Group operates, such as the Japanese Unfair Competition Prevention Act, the US Foreign Corrupt Practices Act, and the UK Bribery Act. The policy defines the basic requirements for complying with laws and regulations and conducting business appropriately. As company bylaws, we established specific rules for recording the exchange of the gifts and receiving/offering entertainment, and compliance with these rules at each Group company is monitored annually by OKI's control division.

## Emergency and Disaster Response

The OKI Group has established Safety Countermeasure Committees at its domestic and overseas sites, as well as at subsidiaries, in order to ensure "protect people's lives," "prevent secondary accidents," "contribute to local communities and foster good relationships with them," and "continuity of business operations" in the event of disasters. For "continuity of business operations," each business and corporate (headquarter) division develops Business Continuity Management (BCM) and a Business Continuity Plan (BCP), based on BCM Development Guidelines. The contents of each BCP are reviewed annually to improve its effectiveness. In fiscal year 2018, earthquake drills took place across four departments from initial response to implementing the BCP.

# INFORMATION SECURITY

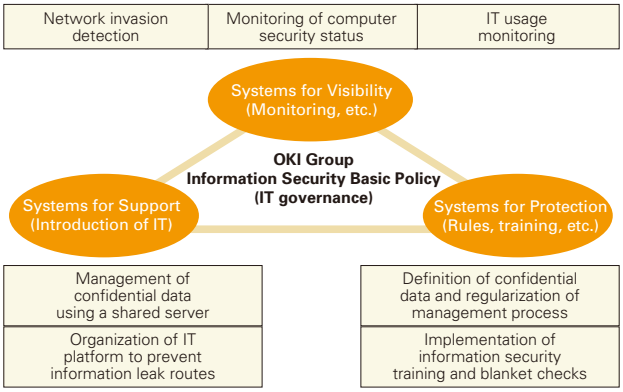
Based on the OKI Group Security Basic Policy, the OKI Group has established a system to ensure information security and works to properly manage and protect company and customer information.

## Three Systems of Information Security

The OKI Group is working on IT improvements to support business growth with the aim of reinforcing earning capacity. Among these improvements, measures to strengthen information security from the viewpoint of minimizing management risk are being developed. In the OKI Group, we use the three systems shown in the diagram to broadly promote information security measures for computers, networks and information systems. We have established an organization specializing in security incident response called OKI-CSIRT*, which collaborates with external organizations, in order to enhance our prevention against threats to computer security in the Group and improve our capacity to respond to them.

In fiscal year 2018, in line with the revisions to the Cybersecurity Management Guidelines, points relating to recovery from a cyber attack were included in the incident response manual and security inspections on contractors were carried out.

*CSIRT: Computer Security Incident Response Team




## Enhanced Actions at Overseas Sites

The OKI Group has promoted information security measures at overseas sites, including such actions as laying down information security guidelines in each country and region, appointing security managers at each site, and adopting control tools.

In fiscal year 2018, training on the attachment-style targeted e-mail attacks which had been carried out up until the previous fiscal year was changed to a phishing e-mail format which has been more prevalent in recent years. This training has been conducted not only at sites in Japan, but also in Europe, the United States, China, and Asia.

## Enhancing Protection of Personal Information

We in the OKI Group have enhanced protection of personal information, based on the Privacy Policy. We have committed to the protection of personal information under the leadership of our Chief Privacy Officer. Privacy managers have been appointed in all divisions and subsidiaries. In May 2018, the Group's response to the EU General Data Protection Regulation (GDPR) was compiled as a policy document, and measures have been taken based on this.

OKI and seven Group companies have acquired PrivacyMark certification in Japan as of June 2019.



# MANAGEMENT

(As of July 1, 2019)

## Directors



Chairman of the Board
**Hideichi Kawasaki**

| | |
|---|---|
| Apr. 1970 | Joined the Company |
| Apr. 2001 | Executive Officer |
| Apr. 2004 | Senior Vice President |
| Jun. 2005 | Managing Director |
| Apr. 2009 | Senior Executive Vice President, Representative Director |
| Jun. 2009 | President, Representative Director |
| Apr. 2016 | Chairman of the Board, Representative Director |
| Jun. 2018 | Chairman of the Board (current) |



President,
Representative Director
**Shinya Kamagami**

| | |
|---|---|
| Apr. 1981 | Joined the Company |
| Apr. 2011 | Executive Officer |
| Apr. 2012 | Senior Vice President |
| Jun. 2014 | Senior Vice President and Member of the Board |
| Apr. 2016 | President, Representative Director (current) |



Senior Executive Vice President,
Representative Director
**Masayuki Hoshi**

| | |
|---|---|
| Apr. 1982 | Joined The Fuji Bank, Ltd. |
| Apr. 2009 | Executive Officer, Mizuho Corporate Bank, Ltd. |
| Apr. 2011 | Managing Executive Officer, Mizuho Corporate Bank, Ltd. |
| Jun. 2014 | Managing Executive Officer, Mizuho Financial Group, Inc. |
| May 2015 | Senior Vice President of the Company |
| Apr. 2016 | Head of Corporate Planning Group |
| Jun. 2016 | Senior Vice President and Member of the Board |
| Apr. 2017 | Executive Vice President and Member of the Board, Chief Financial Officer (current) |
| Jun. 2018 | Internal Control Administrator, Chief Compliance Officer (current) |
| Apr. 2019 | Senior Executive Vice President, Representative Director (current), Head of Corporate Planning Group (current), Chief Information Officer (current) |



Senior Vice President and
Member of the Board
**Masashi Tsuboi**

| | |
|---|---|
| Apr. 1983 | Joined the Company |
| Apr. 2002 | President of Multimedia Messaging Company |
| Apr. 2011 | Head of Enterprise Network System Division, Telecom Systems Business Division |
| Apr. 2014 | Head of Information Systems Division, IT Solution & Services Business Division |
| Apr. 2015 | Executive Officer |
| Apr. 2016 | Deputy Head of ICT Business Group |
| Apr. 2017 | Senior Vice President and Head of ICT Business Group (current) |
| Jun. 2019 | Member of the Board (current) |



Senior Executive Officer and
Member of the Board
**Masashi Fuse**

| | |
|---|---|
| Apr. 1984 | Joined the Company |
| Jun. 1994 | Posted to Oki America Inc. |
| Apr. 2015 | Head of Accounting & Control Division |
| Jun. 2015 | Outside Director of SAXA Holdings, Inc. |
| Apr. 2016 | Executive Officer of the Company |
| Apr. 2018 | Senior Executive Officer and Head of Corporate Management Group (current) |
| Apr. 2019 | Head of Legal Affairs & Intellectual Property Division (current) |
| Jun. 2019 | Member of the Board (current) |



Director*1
**Shigeru Asaba**

| | |
|---|---|
| Apr. 1992 | Associate Professor, Faculty of Economics, Gakushuin University |
| Mar. 1994 | Received Ph.D., Economics from University of Tokyo |
| Apr. 1997 | Professor, Faculty of Economics, Gakushuin University |
| Apr. 2013 | Professor, Graduate School of Commerce, Waseda University |
| Apr. 2016 | Professor, Graduate School of Business and Finance, Waseda University |
| Jun. 2016 | Outside Director, Nippon Beet Sugar Manufacturing Co., Ltd. (current) |
| Sep. 2016 | Dean, Graduate School of Business and Finance, Waseda University (current) |
| Jun. 2017 | Outside Director of the Company (current) |



Director*1
**Tamotsu Saito**

| | |
|---|---|
| Apr. 1975 | Joined Ishikawajima-Harima Heavy Industries Co., Ltd. (currently IHI Corporation) |
| Jun. 2006 | Executive Officer, Vice President of Aero-Engine & Space Operations, Ishikawajima-Harima Heavy Industries Co., Ltd. |
| Apr. 2008 | Director, Executive Officer, President of Aero-Engine & Space Operations, IHI Corporation |
| Apr. 2011 | Executive Vice President, IHI Corporation |
| Apr. 2012 | President, Chief Executive Officer, IHI Corporation |
| Apr. 2016 | Chairman of the Board, IHI Corporation (current) |
| Jun. 2017 | Outside Director, JAPAN POST INSURANCE Co., Ltd. (current) |
| Jun. 2018 | Outside Director of the Company (current) |



Director*1
**Izumi Kawashima**

| | |
|---|---|
| Mar. 1985 | Completed Ph. D program without dissertation, Graduate School of Law, Waseda University |
| Apr. 1989 | Assistant Professor, Faculty of Economics, Gifu Keizai University |
| Apr. 1996 | Professor, Faculty of Law, Senshu University |
| Sep. 2004 | Professor, Faculty of Social Sciences, Waseda University (current) |
| Jun. 2016 | Outside Director, Oki Electric Cable Co., Ltd. |
| Jun. 2018 | Outside Director of the Company (current) |



Director*1
**Makoto Kigawa**

| | |
|---|---|
| Apr. 1973 | Joined the Fuji Bank, Ltd. |
| Apr. 2004 | Managing Director of Mizuho Corporate Bank, Ltd. |
| Jun. 2005 | Managing Director of Yamato Transport Co., Ltd. |
| Apr. 2011 | Representative Director, President and Executive Officer of Yamato Holdings Co., Ltd. |
| Apr. 2016 | Outside Director of Komatsu Ltd. (current) |
| Apr. 2018 | Chairperson of the Board of Directors of Yamato Holdings Co., Ltd. |
| Jun. 2018 | Outside Director of Seven Bank, Ltd. (current) |
| Apr. 2019 | Director of Yamato Holdings Co., Ltd. |
| Jun. 2019 | Outside Director of the Company (current) |

*1 Outside Directors

## Audit & Supervisory Board Members



Standing Audit & Supervisory Board Member
**Sei Yano**

| | |
|---|---|
| Apr. 1978 | Joined the Company |
| Apr. 2007 | Executive Officer |
| Apr. 2009 | Senior Vice President |
| Jun. 2010 | Senior Vice President and Member of the Board |
| Apr. 2012 | Executive Vice President and Member of the Board |
| Apr. 2014 | President, Representative Director, Oki Customer Adtech Co., Ltd. |
| Jun. 2017 | Audit & Supervisory Board Member of the Company (current) |



Standing Audit & Supervisory Board Member
**Toshiya Hatakeyama**

| | |
|---|---|
| Apr. 1980 | Joined the Company |
| Oct. 2007 | Head of Accounting & Control Division |
| Apr. 2008 | Executive Officer |
| Apr. 2015 | Senior Vice President |
| Jun. 2015 | Senior Vice President and Member of the Board |
| Jul. 2015 | Chief Financial Officer |
| Apr. 2016 | Chief Compliance Officer, Head of Corporate Management Group |
| Apr. 2017 | President, Representative Director of Oki Wintech Co., Ltd. |
| Jun. 2019 | Audit & Supervisory Board Member of the Company (current) |



Audit & Supervisory Board Member*2
**Kuninori Hamaguchi**

| | |
|---|---|
| Apr. 1970 | Joined OMRON Tateisi Electronics Co. (currently OMRON Corporation) |
| Jun. 2001 | Executive Officer, OMRON Corporation |
| Oct. 2007 | Senior Executive Director, ADM INC. (currently KAGA DEVICES CO., LTD.) |
| Jan. 2008 | Senior Executive Vice President, ADM INC. |
| Jun. 2012 | Outside Audit & Supervisory Board Member of the Company (current) |



Audit & Supervisory Board Member*2
**Yoichi Nitta**

| | |
|---|---|
| Apr. 1978 | Joined The Yasuda Mutual Life Insurance Company (currently Meiji Yasuda Life Insurance Company) |
| Apr. 2012 | Director, Meiji Yasuda General Insurance Co., Ltd. |
| Apr. 2013 | Senior Vice President, Meiji Yasuda General Insurance Co., Ltd. |
| Jun. 2016 | Outside Audit & Supervisory Board Member of the Company (current) |

*2 Outside Audit & Supervisory Board Members

## Executive Officers



Executive Vice President
**Masasuke Kishi**



Senior Vice President
**Kenichi Tamura**



Senior Vice President
**Toru Hatano**



Senior Vice President
**Toru Miyazawa**



Senior Executive Officer
**Masatoshi Saito**



Executive Officer
**Yuichiro Katagiri**



Executive Officer
**Hiroshi Tsuchiya**



Executive Officer
**Yuka Miyagawa**



Executive Officer
**Hiroshi Tomizawa**



Executive Officer
**Toshiyuki Yokota**



Executive Officer
**Hajime Maruo**



Executive Officer
**Masahito Nozue**



Executive Officer
**Shinichi Tanaka**



Executive Officer
**Keizou Ikeda**

# CONSOLIDATED BALANCE SHEETS [UNAUDITED]

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
As of March 31, 2019

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| **ASSETS** | **2019** | 2018 | **2019** |
| **Current assets:** | | | |
| Cash and deposits | **¥ 29,730** | ¥ 48,698 | **$ 267,837** |
| Notes and accounts receivable | **106,672** | 97,936 | **961,009** |
| Lease investment assets | **11,513** | 8,024 | **103,720** |
| Finished goods | **18,823** | 17,041 | **169,576** |
| Work in process | **25,007** | 21,867 | **225,288** |
| Raw materials and supplies | **20,777** | 21,296 | **187,180** |
| Other current assets | **10,940** | 10,012 | **98,558** |
| Allowance for doubtful receivables | **(257)** | (132) | **(2,315)** |
| **Total current assets** | **223,206** | 224,743 | **2,010,864** |
| **Non-current assets:** | | | |
| **Property, plant and equipment:** | | | |
| Buildings and structures | **19,656** | 21,957 | **177,081** |
| Machinery, equipment and vehicle | **8,166** | 7,505 | **73,567** |
| Tools, furniture and fixtures | **8,464** | 9,014 | **76,252** |
| Land | **12,829** | 13,240 | **115,576** |
| Construction in progress | **277** | 332 | **2,495** |
| **Total property, plant and equipment** (Note 4) | **49,393** | 52,048 | **444,981** |
| Intangible assets | **10,457** | 9,952 | **94,207** |
| **Investments and other assets:** | | | |
| Investments in securities (Note 4) | **43,621** | 48,760 | **392,981** |
| Asset for retirement benefits | **18,339** | 15,357 | **165,216** |
| Long-term trade receivables | **21,940** | 22,456 | **197,657** |
| Other investments and other assets (Note 4) | **17,921** | 13,116 | **161,450** |
| Allowance for doubtful receivables | **(19,376)** | (19,924) | **(174,558)** |
| **Total investments and other assets** | **82,446** | 79,766 | **742,756** |
| **Total non-current assets** | **142,296** | 141,768 | **1,281,945** |
| **Total assets** | **¥ 365,503** | ¥ 366,512 | **$ 3,292,819** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| **LIABILITIES** | **2019** | 2018 | **2019** |
| **Current liabilities:** | | | |
| Notes and accounts payable | **¥ 67,465** | ¥ 67,124 | **$ 607,792** |
| Short-term borrowings (Note 4) | **48,880** | 58,958 | **440,360** |
| Other accrued expenses | **21,764** | 21,952 | **196,072** |
| Other current liabilities | **38,084** | 38,625 | **343,099** |
| **Total current liabilities** | **176,194** | 186,661 | **1,587,333** |
| | | | |
| **Long-term liabilities:** | | | |
| Long-term debt | **29,673** | 22,956 | **267,324** |
| Lease obligations | **11,926** | 8,950 | **107,441** |
| Deferred tax liabilities | **9,945** | 11,782 | **89,594** |
| Provision for directors' retirement benefits | **463** | 502 | **4,171** |
| Liability for retirement benefits | **30,158** | 27,814 | **271,693** |
| Other long-term liabilities | **6,941** | 5,700 | **62,531** |
| **Total long-term liabilities** | **89,108** | 77,705 | **802,774** |
| **Total liabilities** | **265,302** | 264,367 | **2,390,108** |
| | | | |
| **NET ASSETS** | | | |
| **Shareholders' equity:** | | | |
| Capital stock | **44,000** | 44,000 | **396,396** |
| Additional paid-in capital | **19,057** | 19,795 | **171,684** |
| Retained earnings | **51,785** | 45,983 | **466,531** |
| Treasury stock, at cost | **(997)** | (563) | **(8,981)** |
| **Total shareholders' equity** | **113,845** | 109,215 | **1,025,630** |
| **Accumulated other comprehensive income:** | | | |
| Net unrealized holding gain (loss) on other securities | **2,816** | 6,578 | **25,369** |
| Gain (loss) on deferred hedges | **169** | 34 | **1,522** |
| Translation adjustments | **(10,884)** | (12,203) | **(98,054)** |
| Retirement benefits liability adjustments | **(6,006)** | (3,455) | **(54,108)** |
| **Total accumulated other comprehensive income** | **(13,904)** | (9,045) | **(125,261)** |
| **Subscription rights to shares** | **133** | 101 | **1,198** |
| **Non-controlling interests** | **126** | 1,873 | **1,135** |
| **Total net assets** | **100,200** | 102,144 | **902,702** |
| **Total liabilities and net assets** | **¥ 365,503** | ¥ 366,512 | **$ 3,292,819** |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF INCOME [UNAUDITED]

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
Year ended March 31, 2019

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Net sales | **¥ 441,452** | ¥ 438,026 | **$ 3,977,045** |
| Cost of sales | **322,624** | 327,450 | **2,906,522** |
| **Gross profit** | **118,827** | 110,576 | **1,070,513** |
| Selling, general and administrative expenses (Note 5) | **101,305** | 102,854 | **912,657** |
| **Operating income** | **17,522** | 7,721 | **157,855** |
| Non-operating income | | | |
| Interest income | **97** | 191 | **873** |
| Dividend income | **1,302** | 1,571 | **11,729** |
| Dividend income of insurance | **391** | 353 | **3,522** |
| Other | **627** | 1,449 | **5,648** |
| Total non-operating income | **2,419** | 3,564 | **21,792** |
| Non-operating expenses | | | |
| Interest expense | **1,633** | 1,559 | **14,711** |
| Foreign exchange loss | **1,280** | — | **11,531** |
| Penalty | **425** | 325 | **3,828** |
| Other | **1,125** | 884 | **10,135** |
| Total non-operating expenses | **4,464** | 2,770 | **40,216** |
| **Ordinary income** | **15,477** | 8,515 | **139,432** |
| Extraordinary income | | | |
| Gain on sale of property, plant and equipment | **1,426** | 770 | **12,846** |
| Gain on sale of investments in securities | **969** | 115 | **8,729** |
| Gain on sale of contribution in subsidiaries and affiliates | **—** | 119 | **—** |
| Gain on step acquisitions | **—** | 1,116 | **—** |
| Gain on negative goodwill | **—** | 210 | **—** |
| Gain on extinguishment of debts | **—** | 179 | **—** |
| Total extraordinary income | **2,396** | 2,512 | **21,585** |
| Extraordinary loss | | | |
| Loss on sale and disposition of property, plant and equipment | **475** | 373 | **4,279** |
| Impairment loss (Note 5) | **2,890** | — | **26,036** |
| Business structure improvement expenses (Note 5) | **3,489** | 2,526 | **31,432** |
| Total extraordinary loss | **6,855** | 2,900 | **61,756** |
| **Profit before income taxes** | **11,018** | 8,128 | **99,261** |
| Income taxes | | | |
| Current | **2,476** | 2,561 | **22,306** |
| Deferred | **108** | (217) | **972** |
| Total income taxes | **2,585** | 2,344 | **23,288** |
| **Profit** | **8,432** | 5,783 | **75,963** |
| Loss attributable to non-controlling interests | **27** | (108) | **243** |
| **Profit attributable to owners of parent** | **¥ 8,405** | ¥ 5,891 | **$ 75,720** |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME [UNAUDITED]

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
Year ended March 31, 2019

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| **Profit** | **¥ 8,432** | ¥ 5,783 | **$ 75,963** |
| Other comprehensive income | | | |
| Net unrealized holding gain (loss) on other securities | **(3,762)** | 1,332 | **(33,891)** |
| Gain (loss) on deferred hedges | **134** | 37 | **1,207** |
| Translation adjustments | **1,321** | (495) | **11,900** |
| Retirement benefits liability adjustments | **(2,551)** | 956 | **(22,981)** |
| Share of other comprehensive income of entities accounted for using equity method | **0** | (8) | **0** |
| Total other comprehensive income (Note 6) | **(4,856)** | 1,821 | **(43,747)** |
| **Comprehensive income** | **¥ 3,576** | ¥ 7,605 | **$ 32,216** |
| Comprehensive income attributable to: | | | |
| Owners of the parent | **¥ 3,546** | ¥ 7,725 | **$ 31,945** |
| Non-controlling interests | **¥ 30** | ¥ (119) | **$ 270** |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS [UNAUDITED]

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
Year ended March 31, 2019

| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Total shareholders' equity | Net unrealized holding gain (loss) on other securities | Gain (Loss) on deferred hedges | Translation adjustments | Retirement benefits liability adjustments | Total accumulated other comprehensive income | Subscription rights to shares | Non-controlling interests | Total net assets |
| | | | | | | | | | | | | | Millions of yen |
| Balance at March 31, 2017 | ¥ 44,000 | ¥ 19,799 | ¥ 44,434 | ¥ (477) | ¥107,757 | ¥ 5,337 | ¥ (2) | ¥ (11,702) | ¥ (4,511) | ¥ (10,878) | ¥ 94 | ¥ 242 | ¥ 97,215 |
| Dividends from surplus | | | (4,343) | | (4,343) | | | | | | | | (4,343) |
| Profit attributable to owners of parent | | | 5,891 | | 5,891 | | | | | | | | 5,891 |
| Purchases of treasury stock | | | | (99) | (99) | | | | | | | | (99) |
| Disposition of treasury stock | | (4) | | 12 | 8 | | | | | | | | 8 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | 0 | | | 0 | | | | | | | | 0 |
| Net changes in items other than shareholders' equity during the term | | | | | | 1,240 | 37 | (500) | 1,056 | 1,833 | 6 | 1,631 | 3,471 |
| Net changes during the term | — | (4) | 1,548 | (86) | 1,457 | 1,240 | 37 | (500) | 1,056 | 1,833 | 6 | 1,631 | 4,929 |
| Balance at March 31, 2018 | **44,000** | **19,795** | **45,983** | **(563)** | **109,215** | **6,578** | **34** | **(12,203)** | **(3,455)** | **(9,045)** | **101** | **1,873** | **102,144** |
| Dividends from surplus | | | **(2,603)** | | **(2,603)** | | | | | | | | **(2,603)** |
| Profit attributable to owners of parent | | | **8,405** | | **8,405** | | | | | | | | **8,405** |
| Purchases of treasury stock | | | | **(448)** | **(448)** | | | | | | | | **(448)** |
| Disposition of treasury stock | | **(9)** | | **30** | **21** | | | | | | | | **21** |
| Change in ownership interest of parent due to transactions with non-controlling interests | | **(728)** | | **(15)** | **(744)** | | | | | | | | **(744)** |
| Net changes in items other than shareholders' equity during the term | | | | | | **(3,761)** | **134** | **1,318** | **(2,551)** | **(4,858)** | **31** | **(1,746)** | **(6,574)** |
| Net changes during the term | — | **(737)** | **5,801** | **(433)** | **4,630** | **(3,761)** | **134** | **1,318** | **(2,551)** | **(4,858)** | **31** | **(1,746)** | **(1,943)** |
| Balance at March 31, 2019 | **¥ 44,000** | **¥ 19,057** | **¥ 51,785** | **¥ (997)** | **¥113,845** | **¥ 2,816** | **¥ 169** | **¥ (10,884)** | **¥ (6,006)** | **¥ (13,904)** | **¥ 133** | **¥ 126** | **¥100,200** |

| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Total shareholders' equity | Net unrealized holding gain (loss) on other securities | Gain (Loss) on deferred hedges | Translation adjustments | Retirement benefits liability adjustments | Total accumulated other comprehensive income | Subscription rights to shares | Non-controlling interests | Total net assets |
| | | | | | | | | | | | | | Thousands of U.S. dollars |
| Balance at March 31, 2018 | **$ 396,396** | **$ 178,333** | **$ 414,261** | **$ (5,072)** | **$ 983,918** | **$ 59,261** | **$ 306** | **$ (109,936)** | **$ (31,126)** | **$ (81,486)** | **$ 909** | **$ 16,873** | **$ 920,216** |
| Dividends from surplus | | | **(23,450)** | | **(23,450)** | | | | | | | | **(23,450)** |
| Profit attributable to owners of parent | | | **75,720** | | **75,720** | | | | | | | | **75,720** |
| Purchases of treasury stock | | | | **(4,036)** | **(4,036)** | | | | | | | | **(4,036)** |
| Disposition of treasury stock | | **(81)** | | **270** | **189** | | | | | | | | **189** |
| Change in ownership interest of parent due to transactions with non-controlling interests | | **(6,558)** | | **(135)** | **(6,702)** | | | | | | | | **(6,702)** |
| Net changes in items other than shareholders' equity during the term | | | | | | **(33,882)** | **1,207** | **11,873** | **(22,981)** | **(43,765)** | **279** | **(15,729)** | **(59,225)** |
| Net changes during the term | — | **(6,639)** | **52,261** | **(3,900)** | **41,711** | **(33,882)** | **1,207** | **11,873** | **(22,981)** | **(43,765)** | **279** | **(15,729)** | **(17,504)** |
| Balance at March 31, 2019 | **$ 396,396** | **$ 171,684** | **$ 466,531** | **$ (8,981)** | **$ 1,025,630** | **$ 25,369** | **$ 1,522** | **$ (98,054)** | **$ (54,108)** | **$ (125,261)** | **$1,198** | **$ 1,135** | **$ 902,702** |

# CONSOLIDATED STATEMENTS OF CASH FLOWS [UNAUDITED]

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
Year ended March 31, 2019

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| **Cash flows from operating activities:** | | | |
| Profit before income taxes | **¥ 11,018** | ¥ 8,128 | **$ 99,261** |
| Depreciation and amortization | **12,367** | 12,978 | **111,414** |
| Impairment loss | **2,890** | — | **26,036** |
| Gain on step acquisitions | **—** | (1,116) | **—** |
| Increase in provisions | **1,443** | 1,152 | **13,000** |
| Interest and dividend income | **(1,400)** | (1,762) | **(12,612)** |
| Interest expense | **1,633** | 1,559 | **14,711** |
| Gain on sales of investment securities | **(925)** | (115) | **(8,333)** |
| Gain on disposition of fixed assets | **(933)** | (397) | **(8,405)** |
| (Increase) decrease in notes and accounts receivable | **(6,823)** | 5,576 | **(61,468)** |
| (Increase) decrease in inventories | **(4,529)** | 3,296 | **(40,801)** |
| (Decrease) increase in notes and accounts payable | **(418)** | 7,593 | **(3,765)** |
| Other, net | **(4,388)** | (17,416) | **(39,531)** |
| Subtotal | **9,932** | 19,475 | **89,477** |
| Interest and dividend income received | **1,400** | 1,761 | **12,612** |
| Interest expense paid | **(1,551)** | (1,496) | **(13,972)** |
| Income taxes paid | **(2,937)** | (2,176) | **(26,459)** |
| Antimonopoly act related loss paid | **(479)** | (1,985) | **(4,315)** |
| **Net cash provided by operating activities** | **6,364** | 15,578 | **57,333** |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | **(9,486)** | (6,801) | **(85,459)** |
| Proceeds from sales of property, plant and equipment | **2,186** | 2,745 | **19,693** |
| Purchase of intangible assets | **(3,908)** | (2,638) | **(35,207)** |
| Purchase of investment securities | **(1,056)** | (15) | **(9,513)** |
| Proceeds from sales of investment securities | **1,726** | 244 | **15,549** |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | **—** | (3,199) | **—** |
| Purchase of long-term prepaid expenses | **(1,224)** | (738) | **(11,027)** |
| Other payments | **(816)** | (463) | **(7,351)** |
| Other proceeds | **479** | 382 | **4,315** |
| **Net cash used in investing activities** | **(12,099)** | (10,485) | **(109,000)** |
| **Cash flows from financing activities:** | | | |
| Decrease in short-term borrowings | **(6,896)** | (598) | **(62,126)** |
| Proceeds from long-term debt | **24,970** | 15,000 | **224,954** |
| Repayments of long-term debt | **(22,071)** | (18,894) | **(198,837)** |
| Dividends paid | **(2,601)** | (4,322) | **(23,432)** |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | **(2,502)** | (3) | **(22,540)** |
| Repayments of lease obligations | **(3,416)** | (2,724) | **(30,774)** |
| Other, net | **(452)** | 31 | **(4,072)** |
| **Net cash used in financing activities** | **(12,971)** | (11,512) | **(116,855)** |
| Effect of exchange rate changes on cash and cash equivalents | **48** | (79) | **432** |
| Net decrease in cash and cash equivalents | **(18,657)** | (6,498) | **(168,081)** |
| Cash and cash equivalents at beginning of the year | **45,481** | 51,980 | **409,738** |
| **Cash and cash equivalents at end of the year** (Note 8) | **¥ 26,823** | ¥ 45,481 | **$ 241,648** |

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
March 31, 2019

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**1) Basis of Preparing Consolidated Financial Statements**

The accompanying consolidated financial statements of Oki Electric Industry Co., Ltd. (the "Company") and consolidated subsidiaries (the "Group") have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥111 = U.S.$1.00, the approximate exchange rate prevailing at March 31, 2019. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

In addition, certain reclassifications of previously reported amounts have been made to conform to the current year presentation.

**2) Scope of consolidation**

All 79 subsidiaries are included in the scope of consolidation.

The following companies were excluded from the scope of consolidation for the fiscal year under review: OK Enterprise Co., Ltd., which merged with Oki Wintech Co., Ltd., a consolidated subsidiary; OKI Data Infotech Corporation, which merged with Oki Data Corporation, a consolidated subsidiary; Oki Advanced Communications Co., Ltd. which merged with OKI Software Co., Ltd., a consolidated subsidiary; OBC Works Co., Ltd. which merged with OKI Proassist Co., Ltd., a consolidated subsidiary; Oki Jainet Supply Co., Ltd., which merged with Oki Customer Adtech Co., Ltd., a consolidated subsidiary.

**3) Application of equity method**

The equity method is applied to three out of the four affiliated companies.

TOWN NETWORK SERVICE Corporation is not applied the equity method as this company has little influence and has no significance on profit or loss and retained earnings.

**4) Accounting standards**

(1) Valuation standards and methods for significant assets

(i) Securities

The Company and its domestic consolidated subsidiaries value securities in accordance with how they are held as indicated below. Overseas consolidated subsidiaries apply the lower of cost or fair value.

Other securities:

Marketable securities:

Stated at fair value based on the market price at the end of the fiscal year. (Any difference between book value and fair value is included in net assets; sales costs are calculated by the moving average method.)

Non-marketable securities:

Stated at cost based on the moving average method.

(ii) Inventories

The Company and its domestic consolidated subsidiaries evaluate inventories as follows, and overseas consolidated subsidiaries primarily apply the lower of cost or fair value.

Finished goods:

Stated at cost based on the moving average method. (Balance sheet values are measured by the method of devaluing the book price to reflect declines in profitability.)

Work in process:

Stated at cost based on the specific identification method. (Balance sheet values are measured by the method of devaluing the book price to reflect declines in profitability.)

Raw materials and supplies:

Stated at cost based on the moving average method. (Balance sheet values are measured by the method of devaluing the book price to reflect declines in profitability.)

(iii) Derivatives

Stated at fair value.

(2) Depreciation and amortization

(i) Property, plant and equipment (excluding lease assets)

The Company and its domestic consolidated subsidiaries apply the declining-balance method; overseas consolidated subsidiaries primarily apply the straight-line method.

(ii) Intangible assets (excluding lease assets)

The Company and its domestic consolidated subsidiaries apply the straight-line method.

For software sold in the market, amortization is based on the estimated amounts of sales in the estimated number of years for sales (3 years). For software for internal use, the straight-line method, based on the estimated useful life (mainly 5 years), is used.

Overseas consolidated subsidiaries apply the straight-line method.

(iii) Lease assets

Lease assets relating to finance lease transactions that do not transfer ownership are depreciated over the lease contract's lifetime by the straight-line method, assuming the residual value is zero.

(3) Basis of provision

(i) Allowance for doubtful receivables

To prepare for any losses of accounts receivable and loans, the Company and its domestic consolidated subsidiaries calculate the amount of potential loss by using the historical loss ratio for non-classified loans/receivables and individual assessment for classified loans/receivables. Overseas consolidated subsidiaries calculate the amount of potential losses by individually assessing the possibility of collection for specific loans/receivables.

(ii) Provision for directors' retirement benefits

Certain consolidated subsidiaries record the necessary amount at the end of the year in accordance with company's internal rules to prepare for the payment of directors' retirement allowance.

(4) Method of accounting for retirement benefits

(i) Attributing expected retirement benefits to a period

The estimated amount of retirement benefits for employees is attributed to each period by the benefit formula method.

(ii) Accounting for actuarial gains and losses, and prior service costs

Prior service costs are amortized by the straight-line method over a set number of years (10 to 13 years) determined by the average remaining years of service of employees.

Actuarial gains and losses are amortized by the straight-line method over a set number of years (10 to 13 years) determined by the average remaining years of service of employees at the time of accrual in each fiscal year. Amortization of such gains and losses commences in the following fiscal year.

(5) Recognition of revenue and costs
Recognition of revenue relating to contract work and software development contracts
(i) Revenue from those with results in progress before the end of the fiscal year
Percentage-of-completion method (The progress ratio of construction is estimated by the cost proportion method.)
(ii) Other revenue
Inspection basis (completed-contract method for certain domestic consolidated subsidiaries)

(6) Hedge accounting methods
(i) Method of hedge accounting
Deferred hedging is applied. Allocation treatment is applied for forward exchange contracts and currency swap contracts eligible for allocation treatment. Special treatment is applied to interest rate swaps that meet requirements for special treatment.
(ii) Hedging instruments and hedged items
Forward exchange contracts and currency swap contracts are used to hedge fluctuations of exchange rates on credits and debts in foreign currencies. Interest rate swaps are employed to hedge fluctuations of market interest rates on variable-rate long-term debt.
(iii) Hedging policy
Derivative transactions are used to hedge fluctuations of market rates on credits and debts.
(iv) Assessment method of the effectiveness of hedges
To determine the effectiveness of hedges, the Company compares the accumulated total of market fluctuations or cash flow fluctuations for the targets of hedging and that of the market fluctuations or the cash flow fluctuations for the means of hedging, during the period from the start of hedging to the assessment. The Company then makes a decision based on the changes of the two.

(7) Amortization of goodwill and amortization period
Goodwill is amortized using the straight-line method over its useful life (mainly five years).

(8) Cash equivalents
All highly liquid investments, with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(9) Other important matters in preparation of consolidated financial statements
(i) Accounting processing of consumption tax
The tax-exclusion method is used for accounting of consumption tax and local consumption tax.
(ii) Application of consolidated tax payment
The consolidated tax payment is applied.

## 2. UNAPPLIED ACCOUNTING STANDARDS

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

**1) Summary**
The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly developed comprehensive accounting standards for revenue recognition, and announced "Revenues arising from contracts with customers" (IFRS 15 in the IASB and Topic 606 in the FASB) publicly in May, 2014. Considering the situation that "IFRS 15 is applied from the fiscal year beginning on after January 1, 2018" and "Topic 606 is applied from the fiscal year beginning on after December 15, 2017," Accounting Standards Board of Japan (ASBJ) developed a comprehensive accounting standard for revenue recognition and announced it publicly with guidance.

The basic policies for developing accounting standards for revenue recognition by the ASBJ are as follows. (1) In order to enable comparison between financial statements, we adopt the basic principles of IFRS 15 and establish accounting standards. (2) In the case where there are items that should be taken into consideration in practice that have been carried out in Japan, substitute treatment is added to the extent that comparability is not impaired.

**2) Expected date to apply**
It will be applied from the beginning of the fiscal year ending March 31, 2022.

**3) Impact of application of accounting standard**
The impact on the consolidated financial statements is currently being evaluated.

## 3. ADDITIONAL INFORMATION

Oki Banking Systems (Shenzhen) Co., Ltd., a consolidated subsidiary, has filed a request for arbitration against Shenzhen Yihua Computer Industrial Co., Ltd. on October 10, 2015, demanding payment of accounts receivable of RMB 1,115,463 thousand or ¥18,382 million ($165,603 thousand) and compensation of damages. Currently, the South China International Economic and Trade Arbitration Commission continues to review the matter.

In consideration of the status of litigation, since the period for collecting the receivables is expected to lengthen, an allowance for doubtful receivables of ¥11,208 million ($100,972 thousand) was recorded at the end of the fiscal year.

## 4. CONSOLIDATED BALANCE SHEET

**1) Accumulated depreciation for Property, plant and equipment**

Accumulated depreciation for Property, plant and equipment at March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Accumulated depreciation | **¥ 157,470** | ¥ 159,972 | **$ 1,418,648** |

**2) Assets pledged as collateral and liabilities collateralized by the above assets**

Assets pledged as collateral at March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Investments in securities | **¥ 14,609** | ¥ 17,759 | **$ 131,612** |

Liabilities collateralized by the above assets at March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Short-term borrowings | **¥ 4,500** | ¥ 7,000 | **$ 40,540** |

Other than the above, assets pledged as collateral for bank guarantees at March 31, 2019 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Investments and other assets | **¥ 2,606** | — | **$ 23,477** |

**3) Investments in unconsolidated subsidiaries and affiliates**

Investments in unconsolidated subsidiaries and affiliates at March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Investments in securities | **¥ 2,041** | ¥ 2,258 | **$ 18,387** |

**4) Liabilities for guarantee**

Guarantee for borrowings by employees at March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Guarantee for borrowings by employees | **¥ 141** | ¥ 172 | **$ 1,270** |

**5) Contingent liabilities**

OKI Brasil Indústria e Comércio de Produtos e Tecnologia em Automação S.A. (OKI Brasil), a consolidated subsidiary, received an additional tax assessment notice from the tax authorities of Sao Paulo State on August 20, 2018.

According to this notice, OKI Brasil was ordered to pay 90 million BRL as ICMS (tax on distribution of goods and services). However, OKI Brasil refuses to accept this order, and it has filed a lawsuit.The Company cannot reasonably estimate the probability of the occurrence of a loss or the amount of a loss at present.

**6) The unexecuted balance of overdraft**

The Group has concluded an overdraft agreement with transaction banks etc. for efficient procurement of working capital.
The unexecuted balance of overdraft at March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Total overdraft amount | **¥ 59,795** | ¥ 53,092 | **$ 538,693** |
| Amount of borrowing execution balance | **17,245** | 21,515 | **155,360** |
| Net | **¥ 42,550** | ¥ 31,577 | **$ 383,333** |

## 5. CONSOLIDATED STATEMENT OF INCOMES

**1) Research and development expenses**

Research and development expenses for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Selling, general and administrative expenses | **¥10,700** | ¥ 8,350 | **$ 96,396** |

**2) Impairment loss**

The Group recorded impairment losses of ¥3,127 million ($28,171 thousand) for the year ended March 31, 2019 of which ¥2,890 million ($26,036 thousand) were presented as impairment losses in the extraordinary loss category and ¥237 million ($2,135 thousand) were included in business structure improvement expenses in the same category.
Major impairment losses were as follows:

| Business | Purpose of use | Location | Type of assets | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| Mechatronics Systems | Business assets | Japan | Buildings and structures | **¥ 1,102** | **$ 9,927** |
| | | | Machinery, equipment and vehicle | **397** | **3,576** |
| | | | Tools, furniture and fixtures | **627** | **5,648** |
| | | | Intangible assets | **86** | **774** |
| | | | Other assets | **30** | **270** |
| | | China, and other countries | Machinery, equipment and vehicle | **43** | **387** |
| | | | Tools, furniture and fixtures | **112** | **1,009** |
| | | | Intangible assets | **448** | **4,036** |
| | | | Other assets | **3** | **27** |

Regarding business assets, the Group basically sets up asset groups based on business segments. However, if certain business assets (e.g. assets to be disposed of) are considered to independently create cash flows, they are grouped by asset.

Because the Group could not expect to receive the initially anticipated earnings from Mechatronics Systems business assets, it reduced their book values to recoverable amounts, which were calculated using net realizable value based on real estate appraisals, etc.

**3) Business structure improvement expenses**

For the years ended March 31, 2019 and 2018, the Group recorded losses for restructuring related costs.
The nature of the losses were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Special retirement expenses | **¥ 1,784** | ¥ 1,658 | **$ 16,072** |
| Reversal of foreign currency translation adjustment | **753** | — | **6,783** |
| Loss on disposal of inventories | **475** | — | **4,279** |
| Impairment loss | **237** | 20 | **2,135** |
| Other | **239** | 848 | **2,153** |
| Total | **¥ 3,489** | ¥ 2,526 | **$ 31,432** |

## 6. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Amounts reclassified to profit (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Net unrealized holding gain (loss) on other securities: | | | |
| Amount arising during the year | **¥(4,786)** | ¥ 2,050 | **$(43,117)** |
| Reclassification adjustments | **(673)** | (117) | **(6,063)** |
| Before tax effect | **(5,460)** | 1,933 | **(49,189)** |
| Tax effect | **1,698** | (601) | **15,297** |
| Net unrealized holding gain (loss) on other securities | **(3,762)** | 1,332 | **(33,891)** |
| Gain (loss) on deferred hedges: | | | |
| Amount arising during the year | **194** | 52 | **1,747** |
| Asset acquisition cost adjustments | **—** | — | **—** |
| Before tax effect | **194** | 52 | **1,747** |
| Tax effect | **(59)** | (15) | **(531)** |
| Gain (loss) on deferred hedges | **134** | 37 | **1,207** |
| Translation adjustments: | | | |
| Amount arising during the year | **567** | (429) | **5,108** |
| Reclassification adjustments | **753** | (65) | **6,783** |
| Translation adjustments | **1,321** | (495) | **11,900** |
| Retirement benefits liability adjustments: | | | |
| Amount arising during the year | **(3,106)** | 1,443 | **(27,981)** |
| Reclassification adjustments | **(383)** | (758) | **(3,450)** |
| Before tax effect | **(3,489)** | 685 | **(31,432)** |
| Tax effect | **938** | 271 | **8,450** |
| Retirement benefits liability adjustments | **(2,551)** | 956 | **(22,981)** |
| Share of other comprehensive income of entities accounted for using equity method: | | | |
| Amount arising during the year | **0** | 27 | **8** |
| Reclassification adjustments | **—** | (35) | **—** |
| Share of other comprehensive income of entities accounted for using equity method | **0** | (8) | **8** |
| Total other comprehensive income | **¥(4,856)** | ¥ 1,821 | **$(43,747)** |

## 7. SHAREHOLDERS' EQUITY

Matters concerning class and total number of shares outstanding during the years ended March 31, 2019 and 2018 were as follows:

| | Thousands of shares | | | |
|---|---|---|---|---|
| | **2019** | | | |
| | March 31, 2018 | Increase in the year | Decrease in the year | March 31, 2019 |
| Shares outstanding: | | | | |
| Common stock | **87,217** | **—** | **—** | **87,217** |
| Total | **87,217** | **—** | **—** | **87,217** |
| Treasury stock: | | | | |
| Common stock | **417** | **379** | **88** | **709** |
| Total | **417** | **379** | **88** | **709** |

*1 The increases of treasury stock were due to the acquisition of the Company's stock held by a consolidated subsidiary and purchase of shares less than one trading unit.

*2 The decreases of treasury stock were due to the decrease in the Company's stock held by a consolidated subsidiary attributable to the Company and the exercise of stock options.

| | Thousands of shares | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | March 31, 2017 | Increase in the year | Decrease in the year | March 31, 2018 |
| Shares outstanding: | | | | |
| Common stock | 87,217 | — | — | 87,217 |
| Total | 87,217 | — | — | 87,217 |
| Treasury stock: | | | | |
| Common stock | 384 | 43 | 9 | 417 |
| Total | 384 | 43 | 9 | 417 |

*1 The increases of treasury stock were due to an increase in the Company's stock held by a consolidated subsidiary attributable to the Company and purchase of shares less than one trading unit.

*2 The decrease of treasury stock was due to the exercise of stock options.

## 8. CONSOLIDATED STATEMENTS OF CASH FLOWS

**1) Reconciliations of cash and deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows are as follows:**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Cash and deposits | **¥ 29,730** | ¥ 48,698 | **$ 267,837** |
| Time deposits with a maturity of over three months | **—** | (256) | **—** |
| Deposits with restrictions on withdrawals | **(2,906)** | (2,959) | **(26,180)** |
| Cash and cash equivalents | **¥ 26,823** | ¥ 45,481 | **$ 241,648** |

**2) The content of important non-cash transactions**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| The amount of non-cash transactions on assets and liabilities under finance lease | **¥ 6,557** | ¥ 4,646 | **$ 59,072** |

## 9. LEASES

(Lessee)

Operating lease transactions

The minimum rental commitments under noncancellable operating leases at March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Due within one year | **¥ 2,244** | ¥ 2,260 | **$ 20,216** |
| Due after one year | **7,330** | 9,220 | **66,036** |
| Total | **¥ 9,575** | ¥ 11,481 | **$ 86,261** |

## 10. FINANCIAL INSTRUMENTS

**1) Matters concerning the status of financial instruments**

(1) Policy on financial instruments

The OKI Group mainly uses short-term deposits and highly safe marketable securities for fund management, and raises its funds primarily through borrowings from financial institutions and issuance of corporate bonds. The Group uses derivatives to hedge risk as described below, and does not engage in speculative transactions.

(2) Description of financial instruments, related risks, and risk management system

The Group strives to mitigate its customers' credit risks associated with notes and accounts receivable, which are operating receivables, by carrying out customer credit investigations in accordance with regulations for the management of accounts receivable of individual companies.

For borrowings, the Group raises short-term funds mainly for working capital and long-term funds for working capital and capital investment. For borrowings exposed to the interest rate risk, the Group applies derivative instruments (interest rate swap transactions) to hedge its risk.

Derivative transactions consist of forward foreign exchange contracts which aim to hedge exchange rate fluctuation risks related to foreign currency-denominated receivables and payables, currency swap transactions, and interest rate swap transactions, which aim to hedge interest rate fluctuation risks related to the payment of borrowings. The Company assesses the validity of hedges with interest rate swaps by comparing the accumulated fair value changes of hedged items and those of hedging instruments, but does not perform such assessment if they are subject to special treatment.

The Group executes and manages derivative transactions in accordance with OKI Group's policy.

(3) Supplemental explanation regarding the disclosure concerning fair value of financial instruments

The fair value of financial instruments is based on market prices, but if no market prices are available, their fair value reflects the value reasonably calculated. Because fluctuation factors are incorporated into the calculation of the said value, it may change if different prerequisites, etc. are used. Contract amounts, etc. related to derivative transactions described in "2. Disclosure concerning fair value of financial instruments" do not indicate market risks related to these transactions.

**2) Disclosure concerning fair value of financial instruments**

As of March 31, 2019 (consolidated balance sheet date), the amount recorded in the consolidated balance sheet, fair value, and the amount of differences are as shown in the table below.

Any item whose fair value is deemed extremely difficult to assess is excluded from the table. (See Note 2 below.)

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2019** | | | 2018 | | | **2019** | | |
| | Amount recorded in balance sheet | Fair value | Difference | Amount recorded in balance sheet | Fair value | Difference | Amount recorded in balance sheet | Fair value | Difference |
| (1) Cash and deposits | **¥ 29,730** | **¥ 29,730** | **¥ —** | ¥ 48,698 | ¥ 48,698 | ¥ — | **$ 267,837** | **$ 267,837** | **$ —** |
| (2) Notes and accounts receivable | **106,672** | **106,672** | **—** | 97,936 | 97,936 | — | **961,009** | **961,009** | **—** |
| (3) Investments in securities | **34,895** | **34,903** | **8** | 41,090 | 41,099 | 8 | **314,369** | **314,441** | **72** |
| (4) Long-term trade receivables | **21,940** | | | 22,456 | | | **197,657** | | |
| Allowance for doubtful receivables (*1) | **(14,490)** | | | (14,835) | | | **(130,540)** | | |
| | **7,450** | **7,450** | **—** | 7,621 | 7,621 | — | **67,117** | **67,117** | **—** |
| Total assets | **178,748** | **178,756** | **8** | 195,346 | 195,355 | 8 | **1,610,342** | **1,610,414** | **72** |
| (1) Notes and accounts payable | **67,465** | **67,465** | **—** | 67,124 | 67,124 | — | **607,792** | **607,792** | **—** |
| (2) Short-term borrowings (*2) | **30,570** | **30,570** | **—** | 36,964 | 36,964 | — | **275,405** | **275,405** | **—** |
| (3) Other accrued expenses | **21,764** | **21,764** | **—** | 21,952 | 21,952 | — | **196,072** | **196,072** | **—** |
| (4) Long-term debt (*2) | **47,983** | **48,377** | **394** | 44,950 | 45,232 | 281 | **432,279** | **435,828** | **3,549** |
| Total liabilities | **167,783** | **168,177** | **394** | 170,992 | 171,274 | 281 | **1,511,558** | **1,515,108** | **3,549** |
| Derivative transactions (*3) | **¥ 559** | **¥ 559** | **¥ —** | ¥ (102) | ¥ (102) | ¥ — | **$ 5,036** | **$ 5,036** | **$ —** |

*1 Allowance for doubtful receivables specifically provided for long-term trade receivables is deducted.

*2 As of March 31, 2019 and 2018, Long-term debt (¥18,310 million ($164,954 thousand) and ¥21,994 million) that are due within one year are classified as "short-term" borrowings in the consolidated balance sheet.

*3 The amount of the receivables and payables derived from derivative transactions is presented on a net basis and the amounts in parentheses are liabilities as the result of netting.

Notes:
1. Disclosure concerning methods of calculation of fair value of financial instruments, securities and derivative transactions.
Assets
(1) Cash and deposits and (2) Notes and accounts receivable
These items are settled over a short period of time and their fair value is virtually equal to their book value. Hence, their fair value is determined to be equal to their book value.
(3) Investments in securities
The fair value of investments in securities is based on their prices determined at the financial instruments exchanges, and the fair value of bonds is based on the quotations offered by the correspondent financial institution as of the balance sheet date.
(4) Long-term trade receivables
Fair value of long-term trade receivables is determined by deducting the present estimated doubtful receivables from the book value as estimated doubtful receivables are calculated based on the present value of loans / receivables.
Liabilities
(1) Notes and accounts payable, (2) Short-term borrowings, and (3) Other accrued expenses
These items are settled over a short period of time and their fair value is virtually equal to their book value. Hence, their fair value is determined to be equal to their book value.
(4) Long-term debt
The fair value is based primarily on the method of calculation whereby the sum of principal and interest is discounted by an assumed interest rate based on rates currently available to the Company for similar transactions. Some long-term debt with floating interest rates are prescribed to be subject to special accounting treatment applicable to interest rate swaps (see below). Hence, the fair value of a long-term debt is based on the method of calculation whereby the sum of principal and interest, treated in combination with the said interest rate swap, is discounted by an assumed interest rate based on rates currently available to the Company for similar transactions.
Derivative transactions
Described in Note12

2. Financial instruments whose fair value is considered extremely difficult to assess
Unlisted equity securities at of March 31, 2019 and 2018, are not included in (3) Investments in securities because they have no market price and it is deemed extremely difficult to assess their fair values.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Unlisted equity securities | **¥ 8,725** | ¥ 7,669 | **$ 78,603** |

3. Redemption schedule for monetary assets and securities with maturity dates as of March 31, 2019 and 2018:

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2019** | | | |
| | Within 1 year | Between 1 and 5 years | Between 5 and 10 years | Over 10 years |
| Cash and deposits | **¥ 29,730** | **¥ —** | **¥ —** | **¥ —** |
| Notes and accounts receivable | **105,317** | **1,355** | **—** | **—** |
| Total | **¥ 135,047** | **¥ 1,355** | **¥ —** | **¥ —** |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Within 1 year | Between 1 and 5 years | Between 5 and 10 years | Over 10 years |
| Cash and deposits | ¥ 48,698 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable | 97,813 | 122 | — | — |
| Total | ¥ 146,512 | ¥ 122 | ¥ — | ¥ — |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2019** | | | |
| | Within 1 year | Between 1 and 5 years | Between 5 and 10 years | Over 10 years |
| Cash and deposits | **$ 267,837** | **$ —** | **$ —** | **$ —** |
| Notes and accounts receivable | **948,801** | **12,207** | **—** | **—** |
| Total | **$ 1,216,639** | **$ 12,207** | **$ —** | **$ —** |

4. Repayment schedule for long-term debt and other interest-bearing debt as of March 31, 2019 and 2018:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | | | | | |
| | Within 1 year | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | Between 4 and 5 years | Over 5 years |
| Short-term borrowings | **¥ 30,570** | **¥ —** | **¥ —** | **¥ —** | **¥ —** | **¥ —** |
| Long-term debt | **18,310** | **8,691** | **7,994** | **7,994** | **4,994** | **—** |
| Total | **¥ 48,880** | **¥ 8,691** | **¥ 7,994** | **¥ 7,994** | **¥ 4,994** | **¥ —** |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | | | |
| | Within 1 year | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | Between 4 and 5 years | Over 5 years |
| Short-term borrowings | ¥ 36,964 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Long-term debt | 21,994 | 13,278 | 3,678 | 3,000 | 3,000 | — |
| Total | ¥ 58,958 | ¥ 13,278 | ¥ 3,678 | ¥ 3,000 | ¥ 3,000 | ¥ — |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | | | | | |
| | Within 1 year | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | Between 4 and 5 years | Over 5 years |
| Short-term borrowings | **$ 275,405** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** |
| Long-term debt | **164,954** | **78,297** | **72,018** | **72,018** | **44,990** | **—** |
| Total | **$ 440,360** | **$ 78,297** | **$ 72,018** | **$ 72,018** | **$ 44,990** | **$ —** |

## 11. SECURITIES

**1) Trading Securities**

Not applicable

**2) Bonds Held to Maturity**

Not applicable

**3) Other Securities**

Securities at March 31, 2019 and 2018 were summarized as follows. Securities for which it is extremely difficult to reasonably measure its fair value are not included in the table below:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2019** | | | 2018 | | | **2019** | | |
| | Amount recorded in balance sheet | Acquisition costs | Difference | Amount recorded in balance sheet | Acquisition costs | Difference | Amount recorded in balance sheet | Acquisition costs | Difference |
| Other securities whose fair value recorded in balance sheet exceeds their acquisition costs: | | | | | | | | | |
| Equity securities | **¥ 14,271** | **¥ 9,217** | **¥ 5,054** | ¥ 39,135 | ¥ 29,268 | ¥ 9,867 | **$ 128,567** | **$ 83,036** | **$ 45,531** |
| Subtotal | **14,271** | **9,217** | **5,054** | 39,135 | 29,268 | 9,867 | **128,567** | **83,036** | **45,531** |
| Other securities whose fair value recorded in balance sheet does not exceed their acquisition costs: | | | | | | | | | |
| Equity securities | **20,623** | **21,480** | **(856)** | 1,955 | 2,334 | (379) | **185,792** | **193,513** | **(7,711)** |
| Subtotal | **20,623** | **21,480** | **(856)** | 1,955 | 2,334 | (379) | **185,792** | **193,513** | **(7,711)** |
| Total | **¥ 34,895** | **¥ 30,698** | **¥ 4,197** | ¥ 41,090 | ¥ 31,602 | ¥ 9,487 | **$ 314,369** | **$ 276,558** | **$ 37,810** |

**4) Sales of other securities for the years ended March 31, 2019 and 2018 were as follows:**

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2019** | | | 2018 | | | **2019** | | |
| | Proceeds from sales | Gain on sales | Loss on sales | Proceeds from sales | Gain on sales | Loss on sales | Proceeds from sales | Gain on sales | Loss on sales |
| Equity securities | **¥ 1,466** | **¥ 717** | **¥ 44** | ¥ 245 | ¥ 115 | ¥ — | **$ 13,207** | **$ 6,459** | **$ 396** |
| Total | **¥ 1,466** | **¥ 717** | **¥ 44** | ¥ 245 | ¥ 115 | ¥ — | **$ 13,207** | **$ 6,459** | **$ 396** |

**5) Impairment losses on securities**
Not applicable

## 12. DERIVATIVES

Derivative transactions at March 31, 2019 and 2018 were as follows:

**1) Derivative transactions which do not qualify for hedge accounting**
(i) Currency related

| | Millions of yen | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | | | | **2019** | | | |
| | Contract amount | Contract amount over 1 year | Fair value | Unrealized gain / loss | Contract amount | Contract amount over 1 year | Fair value | Unrealized gain / loss |
| Forward foreign exchange contract: | | | | | | | | |
| Sell: | | | | | | | | |
| Euro | **¥ 8,239** | **¥ —** | **¥ 268** | **¥ 268** | **$ 74,225** | **$ —** | **$ 2,414** | **$ 2,414** |
| Buy: | | | | | | | | |
| U.S. dollars | **1,840** | **—** | **46** | **46** | **16,576** | **—** | **414** | **414** |
| Total | **¥ 10,079** | **¥ —** | **¥ 315** | **¥ 315** | **$ 90,801** | **$ —** | **$ 2,837** | **$ 2,837** |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Contract amount | Contract amount over 1 year | Fair value | Unrealized gain / loss |
| Forward foreign exchange contract: | | | | |
| Sell: | | | | |
| Euro | ¥ 9,154 | ¥ — | ¥ (41) | ¥ (41) |
| Buy: | | | | |
| U.S. dollars | 2,640 | — | (90) | (90) |
| Euro | 3,292 | — | (20) | (20) |
| Total | ¥ 15,087 | ¥ — | ¥ (152) | ¥ (152) |

Note: Fair value is based on the quotes presented by the financial institutions.

(ii) Interest rate related
Not applicable

**2) Derivative transactions which qualify for hedge accounting**

(i) Currency related

| | | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|
| | | 2019 | | | 2019 | | |
| | Hedged item | Contract amount | Contract amount over 1 year | Fair value | Contract amount | Contract amount over 1 year | Fair value |
| Forward foreign exchange contract (Principle-based accounting): | | | | | | | |
| Sell: | | | | | | | |
| Euro | Accounts receivable | **¥ 14,924** | **¥ 1,899** | **¥ 206** | **$ 134,450** | **$ —** | **$ 1,855** |
| A. dollars | Accounts receivable | **310** | **—** | **(0)** | **2,792** | **—** | **(6)** |
| Buy: | | | | | | | |
| U.S. dollars | Accounts payable | **12,488** | **1,081** | **38** | **112,504** | **—** | **342** |
| Total | | **¥ 27,723** | **¥ 2,981** | **¥ 244** | **$ 249,756** | **$ —** | **$ 2,198** |

| | | Millions of yen | | |
|---|---|---|---|---|
| | | 2018 | | |
| | Hedged item | Contract amount | Contract amount over 1 year | Fair value |
| Forward foreign exchange contract (Principle-based accounting): | | | | |
| Sell: | | | | |
| Euro | Accounts receivable | ¥ 11,259 | ¥ — | ¥ 256 |
| Buy: | | | | |
| U.S. dollars | Accounts payable | 9,027 | — | (206) |
| Currency swaps (Special treatment): | | | | |
| Pay Yen/receive U.S.dollars | Long-term debt | ¥ 254 | ¥ — | ¥ 6 |
| Total | | ¥ 20,540 | ¥ — | ¥ 56 |

Note: Fair value is based on the quotes presented by the financial institutions.

(ii) Interest rate related

| | | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|
| | | 2019 | | | 2019 | | |
| | Hedged item | Contract amount | Contract amount over 1 year | Fair value | Contract amount | Contract amount over 1 year | Fair value |
| Interest rate swaps (Special treatment): | | | | | | | |
| Pay fixed/receive floating | Long-term debt | **¥ 39,811** | **¥ 24,749** | * | **$ 358,657** | **$ 222,963** | * |

| | | Millions of yen | | |
|---|---|---|---|---|
| | | 2018 | | |
| | Hedged item | Contract amount | Contract amount over 1 year | Fair value |
| Interest rate swaps (Special treatment): | | | | |
| Pay fixed/receive floating | Long-term debt | ¥ 35,522 | ¥ 13,651 | * |

*Derivative transactions subject to special treatment applied to interest rate swaps are treated in combination with long-term debt as hedged items. Hence, their fair value is included in that of long-term debt.

Note: Fair value is based on the quotes presented by the financial institutions.

## 13. RETIREMENT BENEFITS

**1) The Company and domestic consolidated subsidiaries have funded and unfunded defined benefit plans and defined contribution plans.**

The noncontributory defined benefit plan that is a funded plan adopts a cash balance plan. In this plan, amount of benefit in which the "Point" based on the pay level is multiplied by rate based on the Japanese Government Bonds is provided to employee as pension or lump-sum payment.

The lump-sum retirement benefit is provided employee in accordance with the "Point" based on the business results, and the length of service. The lump-sum retirement payment plans are unfunded plans excluding the Company and certain consolidated subsidiary. The Company's and certain consolidated subsidiary's plan are a funded plan due to contribution to the pension and retirement benefit trust.

Several overseas consolidated subsidiaries have defined benefit and defined contribution pension plans.

The Company and certain consolidated subsidiary set up the retirement benefit trust for defined benefit plans and lump-sum retirement payment plans.

Certain consolidated subsidiaries appraise projected benefit obligation and retirement benefit expenses of lump-sum retirement payment plans by the simplified method.

The Company's and certain consolidated subsidiaries are members of the OKI corporate pension fund that is a multiemployer pension plans. The following amounts include multiemployer pension plans.

**2) Defined benefit plan**

(1) The changes in the retirement benefit obligation during the years ended March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Retirement benefit obligation at April 1, 2018 and 2017 | **¥ 111,428** | ¥ 109,357 | **$ 1,003,855** |
| Service cost | **3,068** | 3,010 | **27,639** |
| Interest cost | **1,241** | 1,247 | **11,180** |
| Actuarial gain / loss | **355** | 963 | **3,198** |
| Retirement benefit paid | **(6,554)** | (6,899) | **(59,045)** |
| Newly consolidated | **—** | 4,193 | **—** |
| Other | **(291)** | (443) | **(2,621)** |
| Retirement benefit obligation at March 31, 2019 and 2018 | **¥ 109,248** | ¥ 111,428 | **$ 984,216** |

(2) The changes in plan assets during the years ended March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Plan assets at April 1, 2018 and 2017 | **¥ 98,971** | ¥ 92,668 | **$ 891,630** |
| Expected return on plan assets | **1,641** | 2,294 | **14,783** |
| Actuarial gain / loss | **(2,751)** | 2,413 | **(24,783)** |
| Contributions by the Company and subsidiaries | **4,631** | 4,113 | **41,720** |
| Retirement benefits paid | **(5,063)** | (5,042) | **(45,612)** |
| Newly consolidated | **—** | 2,523 | **—** |
| Plan assets at March 31, 2019 and 2018 | **¥ 97,429** | ¥ 98,971 | **$ 877,738** |

(3) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit plans:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Funded retirement benefit obligation | **¥ 92,296** | ¥ 95,232 | **$ 831,495** |
| Plan assets at fair value | **(97,429)** | (98,971) | **(877,738)** |
| | **(5,133)** | (3,739) | **(46,243)** |
| Unfunded retirement benefit obligation | **16,952** | 16,196 | **152,720** |
| Net liability for retirement benefits in the balance sheet | **¥ 11,819** | ¥ 12,456 | **$ 106,477** |
| | | | |
| Liability for retirement benefits | **30,158** | 27,814 | **271,693** |
| Asset for retirement benefits | **(18,339)** | (15,357) | **(165,216)** |
| Net asset for retirement benefits in the balance sheet | **¥ 11,819** | ¥ 12,456 | **$ 106,477** |

(4) The components of retirement benefit expense for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Service cost | **¥ 3,068** | ¥ 3,010 | **$ 27,639** |
| Interest cost | **1,241** | 1,247 | **11,180** |
| Expected return on plan assets | **(1,641)** | (2,294) | **(14,783)** |
| Amortization of actuarial gain / loss | **(265)** | 376 | **(2,387)** |
| Amortization of prior service cost | **(118)** | (1,135) | **(1,063)** |
| Other | **195** | 292 | **1,756** |
| Retirement benefit expense | **¥ 2,480** | ¥ 1,496 | **$ 22,342** |

(5) The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Prior service cost | **¥ (118)** | ¥ (1,135) | **$ (1,063)** |
| Actuarial gain / loss | **(3,371)** | 1,820 | **(30,369)** |
| Total | **¥ (3,489)** | ¥ 685 | **$ (31,432)** |

(6) The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2019 and 2018 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Unrecognized prior service cost | **¥ (457)** | ¥ (576) | **$ (4,117)** |
| Unrecognized actuarial gain / loss | **3,337** | (34) | **30,063** |
| Total | **¥ 2,879** | ¥ (610) | **$ 25,936** |

(7) Plan assets

(i) The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 were as follows:

| | **2019** | 2018 |
|---|---|---|
| Bonds | **38%** | 37% |
| Stocks | **30** | 32 |
| Alternative | **17** | 18 |
| Other | **15** | 13 |
| Total* | **100%** | 100% |

*The retirement benefit trust consists of 15% of the total plan assets for the year ended March 31, 2019 and 16% of the total plan assets for the year ended March 31, 2018, respectively.

(ii) The expected rate of return on plan assets has been estimated based on the average rate of return on plan assets of the latest 3 years.

(8) The assumptions used in accounting for the above plans were as follows:

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **0.9%** | 0.9% |
| Expected rate of return on plan assets | **1.7%** | 2.5% |

**3) Defined contribution plan**

The Company and domestic consolidated subsidiaries made required contributions to the defined contribution plans of ¥2,184 million ($19,675 thousand) and ¥2,234 million for the years ended March 31, 2019 and 2018, respectively.

## 14. STOCK OPTION PLAN

The stock options outstanding as of March 31, 2019 are as follows:

**1) The amount and the accounting subject in relation to the stock options existing for the year ended March 31, 2019.**
Selling, general and administrative expenses for the years ended March 31, 2019 and 2018 is ¥53 million ($477 thousand) and ¥61 million, respectively.

**2) The amount of income due to cancelled stock options.**
Non-operating income for the year ended March 31, 2018 is ¥46 million.

**3) The size of stock option and its circumstances.**

| Date of approval by shareholders | July 29, 2016 | July 28, 2017 | July 27, 2018 |
|---|---|---|---|
| Grantees | 4 directors and 13 executive officers | 3 directors and 15 executive officers | 2 directors and 16 executive officers |
| Type of shares for which new subscription rights offered (Note below) | 55,700 shares of Common stock | 61,700 shares of Common stock | 60,400 shares of Common stock |
| After the resolution | | | |
| End of the preceding term | 46,200 shares | 61,700 shares | — |
| Vested | — | — | 60,400 shares |
| Exercised | 10,700 shares | 11,900 shares | — |
| Cancelled | — | — | — |
| Outstanding | 35,500 shares | 49,800 shares | 60,400 shares |
| Date of issuance | August 16, 2016 | August 15, 2017 | August 14, 2018 |
| Condition of exercising | Grantees are eligible for a pro-rated portion of their grant if they leave the Company during the vesting period. | Grantees are eligible for a pro-rated portion of their grant if they leave the Company during the vesting period. | Grantees are eligible for a pro-rated portion of their grant if they leave the Company during the vesting period. |
| Vesting period | April 1, 2016 – March 31, 2017 | April 1, 2017 – March 31, 2018 | April 1, 2018 – March 31, 2019 |
| Exercise price | ¥1 ($0.00) | ¥1 ($0.00) | ¥1 ($0.00) |
| Exercisable period | August 17, 2016 – August 16, 2041 | August 16, 2017 – August 15, 2042 | August 15, 2018 – August 14, 2043 |
| Official price at the date of offered | ¥860 ($7.74) | ¥1,000 ($9.00) | ¥878 ($7.90) |

Note: The amount is converted into the number of shares.

**4) The evaluation of fair value of stock option**
(1) The fair value of stock option value is determined using a Black-Scholes model.
(2) General information and the method of estimation.

| Date of approval by shareholders | July 27, 2018 |
|---|---|
| Stock market volatility (Note 1) | 42.14% |
| Estimated residual period (Note 2) | 12.5 years |
| Estimated dividends (Note 3) | ¥50 ($0.45) per share |
| Risk-free rate (Note 4) | 0.22% |

Notes: 1. The figure is calculated from the actual stock prices for the period of 12.5 years (from February, 2006 to August, 2018).
2. Because accumulation of data is insufficient and reasonable estimation is difficult, this is estimated on the assumption that it will be exercised at the midpoint of the subscription rights exercise period.
3. This figure is a simple average of actual dividend for the most recent two periods. This is after the consolidation of shares executed on October 1, 2016.
4. The yield of government bond is accordance with estimated residual period.

**5) The method of estimating the number of stock options vested**
Fundamentally, only the actual number of cancelled stock options is shown as it is difficult to estimate the possible number of cancelled stock options.

## 15. INCOME TAXES

(1) Deferred tax assets and liabilities at March 31, 2019 and 2018 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Deferred tax assets: | | | |
| Loss carryforwards (Note) | **¥ 14,320** | ¥ 15,785 | **$ 129,009** |
| Liability for retirement benefits | **13,134** | 13,344 | **118,324** |
| Excess of allowance for doubtful receivables and bad debts expenses | **4,804** | 5,071 | **43,279** |
| Accrued bonuses | **4,023** | 3,772 | **36,243** |
| Write-downs of inventories | **2,395** | 2,334 | **21,576** |
| Write-downs of investments in securities | **1,641** | 1,854 | **14,783** |
| Elimination of unrealized intercompany profits | **1,359** | 1,373 | **12,243** |
| Impairment loss | **941** | 586 | **8,477** |
| Other | **6,475** | 6,691 | **58,333** |
| Gross deferred tax assets | **49,098** | 50,815 | **442,324** |
| Valuation allowance for tax loss carryforwards (Note) | **(13,290)** | — | **(119,729)** |
| Valuation allowance for deductible temporary differences | **(25,152)** | — | **(226,594)** |
| Less: Valuation allowance | **(38,433)** | (40,902) | **(346,243)** |
| Total deferred tax assets | **10,655** | 9,912 | **95,990** |
| Deferred tax liabilities: | | | |
| Asset for retirement benefits | **(6,365)** | (6,378) | **(57,342)** |
| Write-ups of investments in securities | **(5,723)** | (5,793) | **(51,558)** |
| Taxable unrealized gain on contribution of securities to a pension trust | **(1,957)** | (1,981) | **(17,630)** |
| Fair-value accounting for associated with the acquisition of a subsidiary | **(1,836)** | (1,843) | **(16,540)** |
| Other | **(2,496)** | (4,066) | **(22,486)** |
| Total deferred tax liabilities | **(18,379)** | (20,063) | **(165,576)** |
| Net deferred tax liabilities | **¥ (7,724)** | ¥ (10,150) | **$ (69,585)** |

Note: The amount of the tax loss carryforwards and corresponding deferred tax assets by expiry dates as of March 31, 2019 were as follows:

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2019** | | | | | | |
| | Within 1 year | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | Between 4 and 5 years | Over 5 years | Total |
| Loss carryforwards | **¥ 2,565** | **¥ 665** | **¥ 165** | **¥ 103** | **¥ 320** | **¥ 10,499** | **¥ 14,320** |
| Less: Valuation allowance | **(1,944)** | **(646)** | **(143)** | **(96)** | **(318)** | **(10,141)** | **(13,290)** |
| Deferred tax assets | **¥ 620** | **¥ 19** | **¥ 22** | **¥ 6** | **¥ 2** | **¥ 358** | **¥ 1,029** |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2019** | | | | | | |
| | Within 1 year | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | Between 4 and 5 years | Over 5 years | Total |
| Loss carryforwards | **$ 23,108** | **$ 5,990** | **$ 1,486** | **$ 927** | **$ 2,882** | **$ 94,585** | **$ 129,009** |
| Less: Valuation allowance | **(17,513)** | **(5,819)** | **(1,288)** | **(864)** | **(2,864)** | **(91,360)** | **(119,729)** |
| Deferred tax assets | **$ 5,585** | **$ 171** | **$ 198** | **$ 54** | **$ 18** | **$ 3,225** | **$ 9,270** |

(2) Income taxes applicable to the Company and domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory tax rates of approximately 31% for the years ended March 31, 2019 and 2018, respectively. Income taxes of the overseas consolidated subsidiaries are based generally on the tax rates applicable in their respective countries of incorporation. A reconciliation between the statutory tax rates and the effective tax rates as a percentage of profit (loss) before income taxes for the years ended March 31, 2019 and 2018 are summarized as follows:

| | **2019** | 2018 |
|---|---|---|
| Statutory tax rates | **30.6%** | 31.0% |
| Additions to (deductions from) income taxes resulting from: | | |
| Permanent differences not recognized for tax purposes such as dividends received | **(1.5)** | (4.4) |
| Permanent nondeductible differences such as entertainment expenses | **7.8** | 7.9 |
| Increase (decrease) in valuation allowance for deferred tax assets | **(10.1)** | (34.2) |
| Per capita portion of inhabitants' taxes | **2.8** | 3.6 |
| Expiration of loss carried forwards | **—** | 18.8 |
| Other, net | **(6.1)** | 6.1 |
| Effective tax rates | **23.5%** | 28.8% |

## 16. BUSINESS COMBINATION

Business combinations for the year ended March 31, 2019 consisted of the following:

(Transaction under Common Control)
The Company resolved to additionally acquire shares of OKI BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS E TECNOLOGIA EM AUTOMAÇÃO S.A., a consolidated subsidiary, at a Board of Directors Meeting on October 31, 2018, and acquired these shares on December 21, 2018.

**1) Outline of transactions**

(1) Name and content of business of the company involved in the merger
Name: OKI BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS E TECNOLOGIA EM AUTOMAÇÃO S.A.
Content of business: Design, manufacture, sales and maintenance and services of automation equipment

(2) Date of business combination
December 21, 2018

(3) Legal forms of business combination
Purchases of stock

(4) Name of the company after combination
No change in name

(5) Other items regarding outline of transaction
The Company acquired 10.31% of the shares of OKI BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS E TECNOLOGIA EM AUTOMAÇÃO S.A. which became a wholly-owned subsidiary of the Company.

**2) Outline of accounting procedures applied**

The transaction was accounted for as transactions with non-controlling shareholders in the category of transactions under common control, etc. in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013).

**3) Matters listed in the case of acquisition of additional shares of a subsidiary**

Acquisition cost of acquired company and breakdown

| | | | |
|---|---|---|---|
| Consideration for the acquisition | Cash and deposits | ¥ 762 million | ($ 6,864 thousand) |
| Acquisition cost | | ¥ 762 million | ($ 6,864 thousand) |

**4) Matters concerning change in the Company's ownership interest of subsidiaries due to transactions with non-controlling shareholders**

(1) Major factor of change in additional paid-in capital
Acquisition of additional shares of a subsidiary

(2) Amount of additional paid-in capital decreased by transactions with non-controlling shareholders
¥762 million ($ 6,864 thousand)

## 17. SEGMENT INFORMATION

**1) Segment Information**

(1) Overview of reporting segments

In our reportable segments, the separated financial information of the Company's constituent units is available, and the Board of Directors periodically reviews the information in order to determine the allocation of management resources and evaluate performance of the reportable segments.

The Company conducts the "ICT business," the "Mechatronics System business" and the "EMS business." And it has an Oki Data Group (Oki Data Corporation and its group companies) as an independent management unit and conducts the "Printers business."

As the Company develops comprehensive domestic and overseas strategies for product instruments handled by each of the above businesses and develops business activities, it treats the above four business as reporting segments.

"ICT business" conducts business to provide solutions that realize optimization and efficiency of solutions and business processes utilizing IoT.

"Mechatronics Systems business" conducts business to provide products and services such as ATM and cash handling machines based on mechatronics technology.

"Printers business" conducts business to provide printers that make full use of the characteristics of LED technology.

"EMS business" conducts outsourcing business based on abundant achievements of social infrastructure equipment.

Major products and services belonging to each reporting segment are as follows.

| Reporting segments | Major products and services |
|---|---|
| ICT | Transport infrastructure system, disaster prevention related system, defense related system, communication equipment for telecommunication carriers, financial branch office system, administrative centralized system, reservation ticketing system, IP-PBX, business phone, contact center, 920 MHz multihop wireless system etc. |
| Mechatronics Systems | ATM, cash handling machine, branch office terminal, reservation ticket issuing terminal, check-in terminal, foreign currency exchange machine, ATM monitoring and operation service etc. |
| Printers | Color / monochrome LED printer, color / monochrome LED multifunction printer, large format inkjet printer, dot impact printer, etc. |
| EMS | Consigned design & manufacturing services, printed wiring board, etc. |

From the fiscal year ended March 31, 2019, the EMS business has been restructured to strengthen one-stop services, from sales to design, manufacturing, and evaluation. Along with this, some businesses which were previously included in the "Others" category have been changed to the EMS business.

Accordingly, the segment information for the fiscal year ended March 31, 2018 has been restated.

(2) Calculation method of net sales, profit or loss, assets, liabilities and other items on each reporting segment

The account policies of the reporting segments is the same as those described in "Note1. Summary of Significant Accounting Policies" and intersegment sales and transfers are calculated at the prevailing market prices.

(3) Information on net sales, profit or loss, assets, liabilities and other items by each reporting segment
Reporting segment information as of March 31, 2019 and 2018 and for the years then ended were as follows:

Millions of yen

| | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Segments | | | | | | | | |
| For the year ended March 31 | ICT | Mechatronics Systems | Printers | EMS | Subtotal | Others | Total | Adjustments | Consolidated |
| Sales to third parties | **¥ 184,286** | **¥ 82,731** | **¥ 102,554** | **¥ 65,167** | **¥ 434,740** | **¥ 6,712** | **¥ 441,452** | **¥ —** | **¥ 441,452** |
| Inter-segment sales and transfers | **4,306** | **1,888** | **5,228** | **816** | **12,240** | **16,167** | **28,408** | **(28,408)** | **—** |
| Net sales | **188,592** | **84,620** | **107,782** | **65,984** | **446,980** | **22,879** | **469,860** | **(28,408)** | **441,452** |
| Operating income (loss) | **14,668** | **82** | **5,740** | **3,705** | **24,197** | **877** | **25,074** | **(7,552)** | **17,522** |
| Total assets | **125,322** | **63,231** | **64,791** | **56,298** | **309,643** | **12,485** | **322,129** | **43,374** | **365,503** |
| Depreciation and amortization | **2,856** | **2,501** | **2,691** | **2,083** | **10,133** | **451** | **10,584** | **993** | **11,577** |
| Investments in equity-method affiliates | **2,041** | **—** | **—** | **—** | **2,041** | **—** | **2,041** | **—** | **2,041** |
| Increase in property, plant, equipment and intangible assets | **¥ 3,576** | **¥ 2,529** | **¥ 3,818** | **¥ 3,056** | **¥ 12,981** | **¥ 359** | **¥ 13,340** | **¥ 890** | **¥ 14,230** |

Millions of yen

| | 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Segments | | | | | | | | |
| For the year ended March 31 | ICT | Mechatronics Systems | Printers | EMS | Subtotal | Others | Total | Adjustments | Consolidated |
| Sales to third parties | ¥ 172,716 | ¥ 93,542 | ¥ 108,905 | ¥ 55,488 | ¥ 430,652 | ¥ 7,374 | ¥ 438,026 | ¥ — | ¥ 438,026 |
| Inter-segment sales and transfers | 4,002 | 2,125 | 5,815 | 718 | 12,662 | 16,006 | 28,668 | (28,668) | — |
| Net sales | 176,718 | 95,667 | 114,721 | 56,206 | 443,314 | 23,380 | 466,695 | (28,668) | 438,026 |
| Operating income (loss) | 13,513 | (5,093) | 2,729 | 3,305 | 14,454 | 988 | 15,443 | (7,721) | 7,721 |
| Total assets | 107,468 | 66,304 | 64,557 | 56,144 | 294,475 | 15,267 | 309,742 | 56,769 | 366,512 |
| Depreciation and amortization | 2,936 | 2,989 | 3,208 | 1,479 | 10,613 | 478 | 11,092 | 1,059 | 12,151 |
| Investments in equity-method affiliates | 1,963 | — | — | — | 1,963 | — | 1,963 | — | 1,963 |
| Increase in property, plant, equipment and intangible assets | ¥ 3,134 | ¥ 1,758 | ¥ 2,052 | ¥ 1,769 | ¥ 8,715 | ¥ 273 | ¥ 8,989 | ¥ 1,298 | ¥ 10,287 |

Thousands of U.S. dollars

| | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Segments | | | | | | | | |
| For the year ended March 31 | ICT | Mechatronics Systems | Printers | EMS | Subtotal | Others | Total | Adjustments | Consolidated |
| Sales to third parties | **$ 1,660,234** | **$ 745,324** | **$ 923,909** | **$ 587,090** | **$ 3,916,576** | **$ 60,468** | **$ 3,977,045** | **$ —** | **$ 3,977,045** |
| Inter-segment sales and transfers | **38,792** | **17,009** | **47,099** | **7,351** | **110,270** | **145,648** | **255,927** | **(255,927)** | **—** |
| Net sales | **1,699,027** | **762,342** | **971,009** | **594,450** | **4,026,846** | **206,117** | **4,232,972** | **(255,927)** | **3,977,045** |
| Operating income (loss) | **132,144** | **738** | **51,711** | **33,378** | **217,990** | **7,900** | **225,891** | **(68,036)** | **157,855** |
| Total assets | **1,129,027** | **569,648** | **583,702** | **507,189** | **2,789,576** | **112,477** | **2,902,063** | **390,756** | **3,292,819** |
| Depreciation and amortization | **25,729** | **22,531** | **24,243** | **18,765** | **91,288** | **4,063** | **95,351** | **8,945** | **104,297** |
| Investments in equity-method affiliates | **18,387** | **—** | **—** | **—** | **18,387** | **—** | **18,387** | **—** | **18,387** |
| Increase in property, plant, equipment and intangible assets | **$ 32,216** | **$ 22,783** | **$ 34,396** | **$ 27,531** | **$ 116,945** | **$ 3,234** | **$ 120,180** | **$ 8,018** | **$ 128,198** |

Notes: 1. The category "Others" is a business that is not included in the reporting segments, and is engaged in the provision of utilities and manufacturing and selling other equipment products.

2. The adjustments for segment information above were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Operating income (loss) | **2019** | 2018 | **2019** |
| Elimination of intersegment transactions | **¥ 69** | ¥ 125 | **$ 621** |
| Corporate expense* | **(7,530)** | (7,783) | **(67,837)** |
| Fixed asset adjustment | **(91)** | (63) | **(819)** |
| Total | **¥ (7,552)** | ¥ (7,721) | **$ (68,036)** |

*Corporate expenses consist principally of expenses in the Company's General and Administrative Department and research and development expenses that are not attributable to the reportable segments.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Total assets | **2019** | 2018 | **2019** |
| Elimination of intersegment transactions | **¥ (112,338)** | ¥ (107,003) | **$ (1,012,054)** |
| Corporate assets* | **156,282** | 165,485 | **1,407,945** |
| Fixed asset adjustment | **(569)** | (1,712) | **(5,126)** |
| Total | **¥ 43,374** | ¥ 56,769 | **$ 390,756** |

*Corporate assets consist principally of the Company's surplus funds, funds for long-term investments and assets belonging to the General and Administrative Department.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Depreciation and amortization | **2019** | 2018 | **2019** |
| Depreciation expense for corporate assets | **¥ 1,247** | ¥ 1,290 | **$ 11,234** |
| Fixed asset adjustment | **(253)** | (230) | **(2,279)** |
| Total | **¥ 993** | ¥ 1,059 | **$ 8,945** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Increase in property, plant, equipment and intangible assets | **2019** | 2018 | **2019** |
| Corporate assets | **¥ 1,231** | ¥ 1,595 | **$ 11,090** |
| Fixed asset adjustment | **(340)** | (297) | **(3,063)** |
| Total | **¥ 890** | ¥ 1,298 | **$ 8,018** |

3. Segment profits (losses) were reconciled to operating income (loss) in the consolidated statements of income.

**2) Related information**
Related information as of March 31, 2019 and 2018 and for the years then ended were as follows:

(1) Products and service information
Since the same information is disclosed in the segment information, the description is omitted.

(2) Geographic information
(i) Sales

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Japan | **¥ 341,857** | ¥ 320,631 | **$ 3,079,792** |
| North America | **14,733** | 17,422 | **132,729** |
| Latin America | **13,587** | 23,306 | **122,405** |
| Europe | **40,944** | 43,622 | **368,864** |
| China | **13,327** | 16,797 | **120,063** |
| Other | **17,002** | 16,245 | **153,171** |
| Total | **¥ 441,452** | ¥ 438,026 | **$ 3,977,045** |

Note: Sales are classified as country or region based on the customer's location.

(ii) Tangible fixed assets
Since the amount of tangible fixed assets located in Japan exceeds 90% of the amount of tangible fixed assets on the consolidated balance sheet, the disclosure is omitted.

**3) Information on impairment loss by each reporting segment**
Year ended March 31, 2018
Not applicable

Year ended March 31, 2019

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Mechatronics Systems | **¥ 3,019** | **$ 27,198** |
| Printers | **107** | **963** |
| Total | **¥ 3,127** | **$ 28,171** |

Note: Impairment loss includes impairment loss shown as business structure improvement expenses.

**4) Information on amortization of goodwill and unamortized balance by each reporting segment**
Year ended March 31, 2018
The disclosure is omitted due to immateriality.

Year ended March 31, 2019
The disclosure is omitted due to immateriality.

**5) Information on gain on negative goodwill by each reporting segment**
Year ended March 31, 2018
¥210 million of gain on negative goodwill was recorded due to additional acquisition of Oki Electric Cable Co., Ltd., an affiliated company previously accounted for by the equity method, as a consolidated subsidiary.

Year ended March 31, 2019
Not applicable

## 18. AMOUNTS PER SHARE

| | Yen | | U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Net assets per share | **¥ 1,155.28** | ¥ 1,154.03 | **$ 10.40** |
| Basic earnings per share | **¥ 97.16** | ¥ 67.86 | **$ 0.87** |
| Diluted earnings per share | **¥ 97.03** | ¥ 67.80 | **$ 0.87** |

*1 Basic and diluted earnings per share were calculated on the basis of the following data.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Basic earnings per share | | | |
| Profit attributable to owners of parent | **¥ 8,405** | ¥ 5,891 | **$ 75,720** |
| Amounts not attributable to common stock | **—** | — | **—** |
| Profit attributable to owners of parent related to common stock | **¥ 8,405** | ¥ 5,891 | **$ 75,720** |
| Weighted-average number of shares of common stock during the period (thousand shares) | **86,508** | 86,826 | |
| Diluted earnings per share | | | |
| Profit attributable adjustment to owners of parent | **—** | — | **—** |
| Increase in number of common stocks (thousand shares) | **120** | 80 | |
| Outline of the residual securities excluded from the calculation of the fully diluted net income per share because they have no dilutive effects | **—** | — | |

*2 Net assets per share were calculated on the basis of the following data.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2019** | 2018 | **2019** |
| Total net assets | **¥ 100,200** | ¥ 102,144 | **$ 902,702** |
| Amounts deducted from total net assets | **¥ 259** | ¥ 1,974 | **$ 2,333** |
| (Subscription rights to shares) | **¥ (133)** | ¥ (101) | **$ (1,198)** |
| (Non-controlling interests) | **¥ (126)** | ¥ (1,873) | **$ (1,135)** |
| Net assets at the year end to common stock | **¥ 99,941** | ¥ 100,169 | **$ 900,369** |
| Common stock at the year end used to calculated of the net assets per share (thousand shares) | **86,508** | 86,799 | |

## 19.CONSOLIDATED SUPPLEMENTARY SCHEDULES

**1) Schedule of company bonds**

Not applicable

**2) Schedule of borrowings, etc**

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2019 | | | | 2019 | |
| | Balance at March 31, 2018 | Balance at March 31, 2019 | Average interest rate | Term of payment | Balance at March 31, 2018 | Balance at March 31, 2019 |
| Short-term borrowings | ¥ 36,964 | ¥ 30,570 | 2.2% | — | $ 333,009 | $ 275,405 |
| Long-term debt (Within 1 year) | 21,994 | 18,310 | 1.5 | — | 198,144 | 164,954 |
| Lease obligations (Within 1 year) | 2,749 | 2,918 | — | — | 24,765 | 26,288 |
| Long-term debt (Over 1 year) | 22,956 | 29,673 | 1.3 | Jun. 30, 2020 ~ Dec. 29, 2023 | 206,810 | 267,324 |
| Lease obligations (Over 1 year) | 8,950 | 11,926 | — | Apr. 10, 2020 ~ Dec. 10, 2028 | 80,630 | 107,441 |
| Total | ¥ 93,614 | ¥ 93,399 | — | — | $ 843,369 | $ 841,432 |

Notes: 1. For the "average interest rate," the weighted average interest rate on the balance at the end of the fiscal year such as borrowings is stated. Since we adopt a method that does not recognize interest equivalent amount for part of lease obligations, the description of average interest rate is omitted.

2. The planned amount of repayment within five years after the consolidated closing date of "Long-term dept and Lease obligations (over 1 year)" is as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | | | 2019 | | | |
| | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | Between 4 and 5 years | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | Between 4 and 5 years |
| Long-term debt | ¥ 8,691 | ¥ 7,994 | ¥ 7,994 | ¥ 4,994 | $ 78,297 | $ 72,018 | $ 72,018 | $ 44,990 |
| Lease obligations | 2,741 | 2,489 | 2,346 | 2,075 | 24,693 | 22,423 | 21,135 | 18,693 |

**3) Schedule of Asset Retirement Obligations**

The amount of asset retirement obligations at the beginning of this consolidated fiscal year and at the end of the consolidated fiscal year ended March 31

Since it is less than 1 / 100th of the total amount of liabilities and net assets at the end of the fiscal year, note is omitted.

# INVESTOR INFORMATION

## Number of Shares (As of March 31, 2019)

Authorized: 240,000 thousand

Issued: 87,217 thousand

(including 709 thousand treasury stock)

## Number of Shareholders (As of March 31, 2019)

69,734

## Stock Exchange Listing

First Section of the Tokyo Stock Exchange

## Administrative Agent for the Company's Shareholder Register

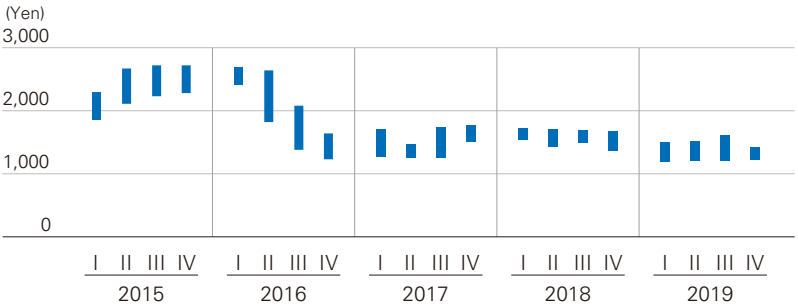
Mizuho Trust & Banking Co., Ltd.

## Major Shareholders (As of March 31, 2019)

| Name of Shareholders | Number of Shares Held (thousands of shares) | Percentage of Shares Held (%) |
|---|---|---|
| The Master Trust Bank of Japan, Ltd. (trust account) | 7,215 | 8.3 |
| Japan Trustee Services Bank, Ltd. (trust account) | 5,884 | 6.8 |
| Japan Trustee Services Bank, Ltd. (trust account 9) | 3,670 | 4.2 |
| Oki Denki Group Employees' Shareholdings Committee | 1,883 | 2.2 |
| Japan Trustee Services Bank, Ltd. (trust account 5) | 1,696 | 2.0 |
| Mizuho Bank, Ltd. | 1,419 | 1.6 |
| Hulic Co., Ltd. | 1,407 | 1.6 |
| Meiji Yasuda Life Insurance Company | 1,400 | 1.6 |
| Trust & Custody Services Bank, Ltd.(security investment trust account) | 1,380 | 1.6 |
| JP MORGAN CHASE BANK 385151 | 1,310 | 1.5 |

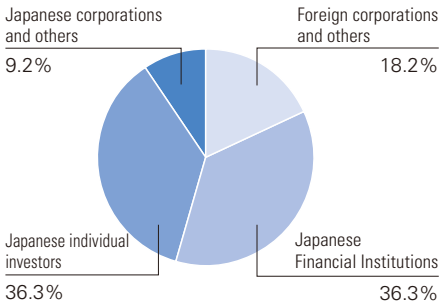
*The shareholding ratio is calculated after excluding 709 thousand shares of treasury stock.

## Common Stock Price Range on the Tokyo Stock Exchange (Fiscal Years ended March 31)




*With an effective date of October 1, 2016, a one-for-ten stock consolidation was implemented. Attendant with this, the stock price before October 1, 2016 has been calculated on the assumption that this stock consolidation was carried out.

## Breakdown of Shares Held by Shareholder Type (As of March 31, 2019)




- Oki Electric Industry Co., Ltd. aims to be a globally recognized growth company; throughout this report, the Company is referred to as OKI.
- All company and product names included in this report are trademarks or registered trademarks of each of the companies they represent.

# COMPANY PROFILE

## Profile (As of March 31, 2019)

| | |
|---|---|
| Company Name: | Oki Electric Industry Co., Ltd. |
| Founded: | 1881 |
| Company Established: | November 1, 1949 |
| Common Stock: | 44,000 million yen |
| Employees: | 17,930 (Consolidated)<br>4,077 (Non-consolidated) |
| President,<br>Representative Director: | Shinya Kamagami |
| Head Office: | 1-7-12 Toranomon, Minato-Ku,<br>Tokyo 105-8460, Japan<br>Tel +81-3-3501-3111<br>URL https://www.oki.com |

## Contact for Further Information

**Oki Electric Industry Co., Ltd.**

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CSR website: https://www.oki.com/en/csr/

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