

(Translation)

This document is an English translation of the notice for the general meeting of shareholders originally written in Japanese. This translation was made for reference purpose only and all warranties, and in particular the accuracy of this translation, are hereby disclaimed.

(Securities Identification Code: 6703)

June 3, 2019

## **NOTICE OF 95TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders,

Oki Electric Industry Co., Ltd. (the “Company”) would hereby like to inform you that the 95TH ordinary general meeting of shareholders will be held as follows. We would be grateful if you could attend the meeting.

Those who will not be able to attend the meeting are kindly requested to review “Instructions for the Exercise of Voting Rights” on page 2 and exercise their voting rights no later than 5:15 p.m., June 20 (Thursday), 2019 (JST).

Yours faithfully,

Shinya Kamagami,  
*President, Representative Director*  
Oki Electric Industry Co., Ltd.  
1-7-12 Toranomon, Minato-ku, Tokyo

(Translation)

1. **Date and Time:** Friday, June 21, 2019, from 10:00 a.m. (Reception will open at 9 a.m.)
2. **Location:** Nikkei Hall, 3F Nikkei Building, 1-3-7 Otemachi, Chiyoda-ku, Tokyo
3. **Meeting Agenda**

***Items to be reported:***

1. Business Report, Consolidated Financial Statements and audit results of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board for the 95th fiscal year (from April 1, 2018 to March 31, 2019)
2. Non-consolidated Financial Statements for the 95th fiscal year (from April 1, 2018 to March 31, 2019)

***Items to be resolved:***

- Agenda Item 1:** Appropriation of Surplus  
**Agenda Item 2:** Election of Nine (9) Directors  
**Agenda Item 3:** Election of One (1) Audit & Supervisory Board Member

### **Instructions for the Exercise of Voting Rights**

Exercise of voting rights via attending the general meeting of shareholders:

Please bring the enclosed ballot and submit at the reception desk of the meeting.

Exercise of voting rights via postal mail:

Please indicate your approval or disapproval in the space provided on the ballot and return the ballot to the Company no later than 5:15 p.m., June 20 (Thursday), 2019 (JST).

Exercise of voting rights via the Internet, etc.:

Please read “Instructions for the Exercise of Voting Rights via the Internet, etc.” on page 3, and indicate your approval or disapproval no later than 5:15 p.m., June 20 (Thursday), 2019 (JST).

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- \* If you exercise your voting rights both in writing and via the Internet, we will regard the vote cast via the Internet to be effective.
  - \* If you exercise your voting rights more than once, we will regard the last vote you cast via the Internet to be the effective one.
  - \* The Company has provided the Notice of 95th Ordinary General Meeting of Shareholders on its Internet website (<https://www.oki.com/jp/>). Any amendment to the Company’s Reference Documents for the General Meeting of Shareholders, the Business Report, and the Consolidated and Non-consolidated Financial Statements will be announced on the website.

(Translation)

## Instructions for the Exercise of Voting Rights via the Internet

| <b>How to scan QR code<br/>“Smart Exercise”</b>   | <b>How to enter<br/>voting rights exercise code and password</b>   |
|---|--|
| <p>You can simply login to the voting site without entering your voting rights exercise code and password.</p> <ol style="list-style-type: none"><li>1. Please scan the QR code provided at the bottom right of the voting rights exercise form.<br/>* “QR code” is a registered trademark of Denso Wave Incorporated.</li><li>2. Please input approval or disapproval to each proposal in accordance with the instructions on the screen.</li></ol> <div data-bbox="229 745 799 1122" style="border: 1px solid black; padding: 5px;"><p>Exercising voting rights by “Smart Exercise” is available <b>only once</b>.</p><p>If you need to change your votes after excising your voting rights, please log in the voting site for a personal computer by using your “voting rights exercise code” and “password” provided on the voting rights exercise form and exercise your voting rights again.</p><p>* If you rescan the QR code, you can access the Exercise of Voting Rights Website for a personal computer.</p></div> | <p>Voting site:<br/><a href="https://soukai.mizuho-tb.co.jp/">https://soukai.mizuho-tb.co.jp/</a></p> <ol style="list-style-type: none"><li>1. Please access the voting site.</li><li>2. Please enter the “voting rights exercise code” printed on the voting rights exercise form.</li><li>3. Please enter the “password” printed on the voting rights exercise form.</li><li>4. Please input approval or disapproval to each proposal in accordance with the instructions on the screen.</li></ol> |
| <p>If you have any inquiries about the operation of a personal computer, a smartphone or a cellular phone regarding the exercise of voting rights via the Internet, please contact on the right-hand side:</p>  | <p>Internet Help Dial, Stock Transfer Agency Department,<br/>Mizuho Trust &amp; Banking Co., Ltd.<br/>Tel: 0120-768-524 (toll free, only in Japan)<br/>(Operating hours: 9:00 a.m. to 9:00 p.m.<br/>excluding Saturdays, Sundays and national holidays)</p>  |

Institutional investors can utilize the electronic voting platform operated by ICJ, Inc.

(Translation)

## Reference Documents for the General Meeting of Shareholders

### Agenda Items and Reference Matters

#### Agenda Item 1: Appropriation of Surplus

The Company has determined to pay the following year-end dividend for the fiscal year under review with the emphasis on continuing stable distribution of profits to shareholders, after giving consideration to its business results and business developments, etc. for the period under review.

The Company's policy of Return of profits to shareholders is described on pages 14 to 15.

**1. Type of dividend asset**

Cash

**2. Allocation of dividend assets and total amount of dividends**

|                             |                |
|-----------------------------|----------------|
| Common stock of the Company | ¥50 per share  |
| Total dividends             | ¥4,325,404,300 |

**3. Effective date of dividend of surplus**

June 24, 2019

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**Agenda Item 2: Election of Nine (9) Directors**

The tenure of office of all seven Directors will expire at the conclusion of this general meeting of shareholders. The Company proposes the election of nine Directors, increasing the number of Directors by two, in order to further strengthen its management structure. Nine candidates for Directors are shown as follows. The candidates for Directors have been approved by the Board of Directors after deliberation by the Personnel Affairs and Compensation Advisory Committee, consisting of five members including four outside officers.

| Candidate number | Name                        |   | Current position/<br>responsibility<br>in the Company   | Number of attendance<br>at meetings of<br>the Board of Directors | Number<br>of years<br>in office |
|------------------|-----------------------------|---|---|--|---------------------------------|
| 1                | Hideichi Kawasaki           | Re-election<br>Inside                     | Chairman of the<br>Board  | 100%<br>(13 out of 13 times)                                     | 14                              |
| 2                | Shinya Kamagami             | Re-election<br>Inside                     | President,<br>Representative<br>Director<br>Supervision   | 100%<br>(13 out of 13 times)                                     | 5                               |
| 3                | Masayuki Hoshi              | Re-election<br>Inside                     | Senior Executive<br>Vice President,<br>Representative<br>Director<br>Chief Compliance<br>Officer, Chief<br>Financial Officer,<br>Chief Information<br>Officer, and Head of<br>Corporate Planning<br>Group | 100%<br>(13 out of 13 times)                                     | 3                               |
| 4                | Masashi Tsuboi              | Newly-nominated<br>Inside                 | Senior Vice President<br>Head of ICT Business<br>Group  | – %<br>(–)   | –                               |
| 5                | Masashi Fuse                | Newly-nominated<br>Inside                 | Senior Executive<br>Officer<br>Head of Corporate<br>Management Group  | – %<br>(–)   | –                               |
| 6                | Shigeru Asaba               | Re-election<br>Outside<br>Independent     | Outside Director  | 100%<br>(13 out of 13 times)                                     | 2                               |
| 7                | Tamotsu Saito               | Re-election<br>Outside<br>Independent     | Outside Director  | 100%<br>(10 out of 10 times)                                     | 1                               |
| 8                | Izumi Kawashima<br>(female) | Re-election<br>Outside<br>Independent     | Outside Director  | 100%<br>(10 out of 10 times)                                     | 1                               |
| 9                | Makoto Kigawa               | Newly-nominated<br>Outside<br>Independent |   | – %<br>(–)   | –                               |

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| Candidate number   | Name<br>(Date of birth)  | Brief personal profile, position and responsibility in the Company and significant concurrent positions  |
|--------------------|--|--|
| [Re-election]<br>1 | <p style="text-align: center;"><b>Hideichi<br/>Kawasaki</b><br/>(January 10, 1947)</p> <p>Number of years in office as Director:<br/>14 years<br/>(as of the conclusion of this general meeting of shareholders)</p> <p>Number of attendance at meetings of the Board of Directors<br/>(the year under review):<br/>13 out of 13 times<br/>(100%)</p> <p>Number of Oki shares held:<br/>Common stock<br/>17,000 shares</p> | <p>Apr. 1970    Joined Oki Electric Industry Co., Ltd.</p> <p>Apr. 2001    Executive Officer</p> <p>Apr. 2004    Senior Vice President</p> <p>Jun. 2005    Managing Director</p> <p>Apr. 2009    Senior Executive Vice President, Representative Director</p> <p>Jun. 2009    President, Representative Director</p> <p>Apr. 2016    Chairman of the Board, Representative Director</p> <p>Jun. 2018    Chairman of the Board (incumbent)</p> <hr/> <p><b>Reason for the selection of candidate for Director</b><br/>Based on his past experience as President and Representative Director, Mr. Hideichi Kawasaki has the knowledge and experience to decide important matters and supervise the business execution of Directors and Executive Officers in an appropriate, fair, and efficient manner. Since fiscal 2016, Mr. Kawasaki has been assisting and advising the management team as Representative Director and Chairman of the Board. He has been nominated as a candidate for Director because it is expected that, as a member of the board and the Chairman, he will continue to enhance information sharing among directors and strengthen the Board of Director's decision-making functions.</p>   |
| [Re-election]<br>2 | <p style="text-align: center;"><b>Shinya<br/>Kamagami</b><br/>(February 9, 1959)</p> <p>Number of years in office as Director:<br/>5 years<br/>(as of the conclusion of this general meeting of shareholders)</p> <p>Number of attendance at meetings of the Board of Directors<br/>(the year under review):<br/>13 out of 13 times<br/>(100%)</p> <p>Number of Oki shares held:<br/>Common stock<br/>9,300 shares</p>     | <p>Apr. 1981    Joined Oki Electric Industry Co., Ltd.</p> <p>Apr. 2001    Manager, Hardware Development Department No. 2, Terminal Systems Division, Systems Solution Company</p> <p>Apr. 2005    Head of Systems Hardware Development Division, Systems Hardware Company, Systems Networks Business Group</p> <p>Apr. 2011    Executive Officer</p> <p>Apr. 2012    Senior Vice President</p> <p>Jun. 2014    Senior Vice President and Member of the Board</p> <p>Apr. 2016    President, Representative Director (incumbent)</p> <hr/> <p><b>Reason for the selection of candidate for Director</b><br/>Based on his past experience serving in business divisions and headquarters divisions, Mr. Shinya Kamagami has the knowledge and experience to decide important matters and supervise the business execution of Directors and Executive Officers in an appropriate, fair, and efficient manner. Mr. Kamagami has been engaging in management of OKI Group as President and Representative Director since fiscal 2016. He has been nominated as a candidate for Director because it is expected that, as a member of the board, he will continue to enhance information sharing among directors and strengthen the Board of Director's decision making functions.</p> |

(Translation)

| Candidate number   | Name<br>(Date of birth)  | Brief personal profile, position and responsibility in the Company and significant concurrent positions  |
|--------------------|--|--|
| [Re-election]<br>3 | <p><b>Masayuki Hoshi</b><br/>(March 9, 1960)</p> <p>Number of years in office as Director:<br/>3 years<br/>(as of the conclusion of this general meeting of shareholders)</p> <p>Number of attendance at meetings of the Board of Directors<br/>(the year under review):<br/>13 out of 13 times<br/>(100%)</p> <p>Number of Oki shares held:<br/>Common stock<br/>3,600 shares</p> | <p>Apr. 1982    Joined The Fuji Bank, Limited</p> <p>Apr. 2007    General Manager of Global Trade Finance Division, Mizuho Corporate Bank, Ltd.</p> <p>Apr. 2009    Executive Officer, General Manager of Corporate Banking Division No.17, Mizuho Corporate Bank, Ltd.</p> <p>Apr. 2011    Managing Executive Officer, Head of Global Transaction Banking Unit</p> <p>Jun. 2014    Managing Executive Officer</p> <p>May 2015    Senior Vice President, Oki Electric Industry Co., Ltd.</p> <p>Apr. 2016    Chief Risk Management Officer<br/>Head of Corporate Planning Group</p> <p>Jun. 2016    Senior Vice President and Member of the Board</p> <p>Apr. 2017    Executive Vice President and Member of the Board<br/>Chief Financial Officer (incumbent)</p> <p>Jun. 2018    Chief Compliance Officer (incumbent)</p> <p>Apr. 2019    Senior Executive Vice President, Representative Director (incumbent), Head of Corporate Planning Group (incumbent), Chief Information Officer (incumbent)</p> <hr/> <p><b>Reason for the selection of candidate for Director</b><br/>Mr. Masayuki Hoshi has abundant experience gained as Managing Executive Officer at Mizuho Financial Group, which the candidate comes from, and has a deep understanding of governance and the Company's aim to become a global business. He is playing a core role in management by concurrently serving as Senior Executive Vice President, Representative Director from since fiscal 2019. He has been nominated as a candidate for Director because it is expected that, as a member of the board, he will enhance information sharing among directors and strengthen the Board of Director's decision-making functions.</p> |
|                    | [Newly-nominated]<br>4   | <p><b>Masashi Tsuboi</b><br/>(May 16, 1960)</p> <p>Number of years in office as Director:<br/>-</p> <p>Number of attendance at meetings of the Board of Directors<br/>(the year under review):<br/>-</p> <p>Number of Oki shares held:<br/>Common stock<br/>4,800 shares</p>   |

(Translation)

| Candidate number   | Name<br>(Date of birth)   | Brief personal profile, position and responsibility in the Company and significant concurrent positions   |
|--|---|---|
| <p>[Newly-nominated]<br/>5</p>                             | <p><b>Masashi Fuse</b><br/>(February 23, 1961)</p> <p>Number of years in office as Director:<br/>–</p> <p>Number of attendance at meetings of the Board of Directors (the year under review):<br/>–</p> <p>Number of Oki shares held:<br/>Common stock<br/>2,200 shares</p>                           | <p>Apr. 1984    Joined Oki Electric Industry Co., Ltd.</p> <p>Jun. 1994    Oki America Inc.</p> <p>Apr. 2015    Head, Accounting &amp; Control Division</p> <p>Jun. 2015    Outside Director, SAXA Holdings, Inc. (incumbent)</p> <p>Apr. 2016    Executive Officer</p> <p>Apr. 2018    Senior Executive Officer (incumbent), Head of Corporate Management Group (incumbent)</p> <hr/> <p><b>Reason for the selection of candidate for Director</b><br/>Based on his past experience serving in headquarters divisions, accounting &amp; control division, and overseas offices, Mr. Masashi Fuse has the knowledge and experience to decide important matters and supervise the business execution of Directors and Executive Officers in an appropriate, fair, and efficient manner. Mr. Fuse has overall responsibilities in accounting and financial matters as Senior Executive Officer and Head of Corporate Management Group since fiscal 2018. He has been nominated as a candidate for Director because it is expected that he will enhance information sharing among directors and strengthen the Board of Director’s decision making functions.</p>  |
| <p>[Outside]<br/>[Independent]<br/>[Re-election]<br/>6</p> | <p><b>Shigeru Asaba</b><br/>(May 21, 1961)</p> <p>Number of years in office as Director:<br/>2 years</p> <p>Number of attendance at meetings of the Board of Directors (the year under review):<br/>13 out of 13 times<br/>(100%)</p> <p>Number of Oki shares held:<br/>Common stock<br/>0 shares</p> | <p>Apr. 1992    Associate Professor, Faculty of Economics, Gakushuin University</p> <p>Mar. 1994    Ph.D., Economics, University of Tokyo</p> <p>Apr. 1997    Professor, Faculty of Economics, Gakushuin University</p> <p>Apr. 2013    Professor, Graduate School of Commerce, Waseda University</p> <p>Apr. 2016    Professor, Waseda Business School (Graduate School of Business and Finance)</p> <p>Jun. 2016    Outside Director, Nippon Beet Sugar Manufacturing Co., Ltd. (incumbent)</p> <p>Sep. 2016    Dean, Waseda Business School (Graduate School of Business and Finance) (incumbent)</p> <p>Jun. 2017    Outside Director, Oki Electric Co., Ltd. (incumbent)</p> <p>(Significant concurrent positions)<br/>Outside Director, Nippon Beet Sugar Manufacturing Co., Ltd.<br/>*The volume of transactions between the above company and the Company accounts for less than 1% of each company’s net sales.</p> <hr/> <p><b>Reason for the selection of candidate for Outside Director</b><br/>As a doctor of economics, Mr. Shigeru Asaba has academic expertise in business in general though his specialist knowledge in the fields of industrial organizations, corporate strategy, competitive strategy, ownership structures and strategies, and family-run businesses as well as high ethical standards. He also has experience as Outside Director at Nippon Beet Sugar Manufacturing Co., Ltd. He has been nominated as a candidate for Outside Director because it is expected that, as a member of the board, he will enhance information sharing among directors and strengthen the Board of Director’s decision-making functions. Although he has never had experience of being involved in corporate management other than as an outside officer, the Company determined that he will be able to carry out the duties of Outside Director appropriately for the aforementioned reason.</p> |



(Translation)

| Candidate number                                 | Name<br>(Date of birth)   | Brief personal profile, position and responsibility in the Company and significant concurrent positions  |
|--|---|--|
| [Outside]<br>[Independent]<br>[Re-election]<br>7 | <p><b>Tamotsu Saito</b><br/>(July 13, 1952)</p> <p>Number of years in office as Director:<br/>1 year</p> <p>Number of attendance at meetings of the Board of Directors (the year under review):<br/>10 out of 10 times (100%)</p> <p>Number of Oki shares held:<br/>Common stock<br/>500 shares</p>   | <p>Apr. 1975    Joined Ishikawajima-Harima Heavy Industries Co., Ltd.</p> <p>Jun. 2006    Executive Officer, Vice President of Aero-Engine &amp; Space Operations</p> <p>Apr. 2008    Director, Executive Officer, President of Aero-Engine &amp; Space Operations, IHI Corporation</p> <p>Apr. 2011    Executive Vice President</p> <p>Apr. 2012    President</p> <p>Apr. 2016    Chairman of the Board (incumbent)</p> <p>Jun. 2017    Outside Director, JAPAN POST INSURANCE Co., Ltd. (incumbent)</p> <p>Jun. 2018    Outside Director, Oki Electric Co., Ltd. (incumbent)</p> <p>(Significant concurrent positions)<br/>Chairman of the Board, IHI Corporation<br/>Outside Director, JAPAN POST INSURANCE Co., Ltd.</p> <p>*The volume of transactions between the above companies and the Company accounts for less than 1% of each company's net sales.</p> <p><b>Reason for the selection of candidate for Outside Director</b><br/>Mr. Tamotsu Saito currently serves as Chairman of the Board of IHI Corporation and has extensive experience as a business leader, not just in the industry but for the whole of Japan, and the Company judges that he is able to provide appropriate supervision over the business management at the Company. He has been nominated as a candidate for Outside Director as the Company feels that it is able to rely on his appropriate opinions and advice from both a business management perspective and a compliance perspective, and judges that he is a suitable candidate for Outside Director.</p> |
| [Outside]<br>[Independent]<br>[Re-election]<br>8 | <p><b>Izumi Kawashima</b><br/>(June 25, 1955)</p> <p>Number of years in office as Director:<br/>1 year</p> <p>Number of attendance at meetings of the Board of Directors (the year under review):<br/>10 out of 10 times (100%)</p> <p>Number of Oki shares held:<br/>Common stock<br/>100 shares</p> | <p>Mar. 1985    Left Graduate School of Law, Waseda University after completing a doctoral course</p> <p>Apr. 1989    Associate Professor, Faculty of Economics, Gifu Keizai University</p> <p>Apr. 1996    Professor, School of Law, Senshu University</p> <p>Sep. 2004    Professor, Faculty of Social Sciences, Waseda University (incumbent)</p> <p>Jun. 2016    Outside Director, Oki Electric Cable Co., Ltd.</p> <p>Jun. 2018    Outside Director, Oki Electric Co., Ltd. (incumbent)</p> <p><b>Reason for the selection of candidate for Outside Director</b><br/>Ms. Izumi Kawashima is currently a professor of the Faculty of Social Sciences at Waseda University. She specializes in commercial law (particularly the Companies Act) and the Financial Instruments and Exchange Act, and she is one of Japan's top-level specialists in that field. She has been nominated as a candidate for Outside Director as the Company feels that it is able to rely on her appropriate opinions and advice and judges that she is a suitable candidate for Outside Director, owing particularly to her academic specialist knowledge relating to corporate governance and the Companies Act. Although she has never had experience of being involved in corporate management other than as an outside officer, the Company determined that she will be able to carry out the duties of Outside Director appropriately for the aforementioned reason.</p>  |

(Translation)

| Candidate number                                     | Name<br>(Date of birth)  | Brief personal profile, position and responsibility in the Company and significant concurrent positions  |
|--|--|--|
| [Outside]<br>[Independent]<br>[Newly-nominated]<br>9 | <b>Makoto Kigawa</b><br>(December 31, 1949)<br><br>Number of years in office as Director:<br>–<br><br>Number of attendance at meetings of the Board of Directors (the year under review):<br>–<br><br>Number of Oki shares held:<br>Common stock<br>0 shares | Apr. 1973    Joined the Fuji Bank, Ltd.<br><br>Apr. 2004    Managing Director, Mizuho Corporate Bank, Ltd.<br><br>Mar. 2005    Resigned Mizuho Corporate Bank, Ltd.<br><br>Apr. 2005    Joined Yamato Transport Co., Ltd.<br><br>Jun. 2005    Managing Director, Yamato Transport Co., Ltd.<br><br>Apr. 2011    Representative Director, Executive Officer and President, Yamato Holdings Co., Ltd.<br><br>Apr. 2016    Outside Director, Komatsu Ltd. (incumbent)<br><br>Apr. 2018    Chairperson of the Board of Directors, Yamato Holdings, Co., Ltd.<br><br>Jun. 2018    Outside Director, Seven Bank, Ltd. (incumbent)<br><br>Apr. 2019    Director, Yamato Holdings Co., Ltd. (incumbent)<br><br>(Significant concurrent positions)<br>Director, Yamato Holdings Co., Ltd.<br>Outside Director, Komatsu Ltd.<br>Outside Director, Seven Bank, Ltd.<br><br>*The volume of transactions between the above companies and the Company accounts for less than 1% of each company's net sales. |
|  |  | <b>Reason for the selection of candidate for Outside Director</b><br>Based on his extensive experience as Representative Director of Yamato Holdings Co., Ltd., after serving in the financial institution as an executive, the Company judges that Mr. Makoto Kigawa is able to provide appropriate supervision over the business management at the Company. He has been nominated as a candidate for Outside Director as the Company feels that it is able to rely on his appropriate opinions and advice from both a business management perspective and a compliance perspective, and judges that he is a suitable candidate for Outside Director.   |

Notes:

1. There is no special conflict of interest between each candidate and the Company.
2. Mr. Shigeru Asaba, Mr. Tamotsu Saito, Ms. Izumi Kawashima, and Mr. Makoto Kigawa are candidates for outside directors.
3. Mr. Masashi Fuse is scheduled to retire as Outside Director of SAXA Holdings, Inc. effective June 27, 2019.
4. Mr. Makoto Kigawa is scheduled to retire as Director of Yamato Holdings Co., Ltd. on June 25, 2019.
5. When Mr. Tamotsu Saito was director of IHI Corporation, it was revealed that the maintenance of commercial aircraft engines was performed inappropriately. In March 2019, pursuant to the Aircraft Manufacturing Industry Act, the Ministry of Economy, Trade and Industry ordered that IHI Corporation conduct the necessary repairs in an approved manner. In April 2019, IHI Corporation received a business improvement order from the Ministry of Land, Infrastructure, Transport and Tourism in accordance with the Civil Aeronautics Law.
6. Mr. Makoto Kigawa has served as Director of Yamato Holdings Co., Ltd. since June 2005. Meanwhile, e-commerce businesses, etc. have expanded rapidly. However, the Yamato Group was not able to refine its corporate structure in a satisfactory manner. Accordingly, in February 2017, it started to investigate the actual labor hours of employees and found out various problems remained unrecognized, such as no enough breaks for many employees. Because this situation was considered to be serious, the Yamato Group decided to put the highest priority on implementing work-style reforms, for example, “improve and strictly conduct labor management” and “promote a work-life balance”. As a result, the Yamato Group has been implementing various structural reforms in its delivery and other businesses.  
 Yamato Home Convenience Co., Ltd., a consolidated subsidiary of Yamato Holdings Co., Ltd., made payment

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requests in an inappropriate manner in violation of contract provisions when it provided relocation services to employees of its corporate customers. In January 2019, it became subject to an administrative disposition and received a business improvement order from the Ministry of Land, Infrastructure, Transport and Tourism. Yamato Holdings Co., Ltd. has striven to build the necessary structure to prevent Yamato Home Convenience Co., Ltd. from facing similar situations and to strengthen governance in order to enhance the soundness of group management.

7. The Company has entered into a liability limitation agreement with candidates for outside directors, Mr. Shigeru Asaba, Mr. Tamotsu Saito, and Ms. Izumi Kawashima. The outline of the agreement is provided in “Outline of Liability Limitation Agreements” (on page 31) in the Business Report. If their reappointment is approved, the Company will continue this agreement with them. If the appointment of Mr. Makoto Kigawa, candidate for outside director, is approved, the Company will enter into the same agreement with him.
8. Mr. Shigeru Asaba, Mr. Tamotsu Saito, and Ms. Izumi Kawashima are independent officers based on the terms of the Tokyo Stock Exchange. If their reappointment is approved, they will continue to be independent officers. If the appointment of Mr. Makoto Kigawa, candidate for outside director, is approved, he will be independent officer.

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**Agenda Item 3: Election of One (1) Audit & Supervisory Board Member**

The tenure of office of Audit & Supervisory Board Member Hisao Suzuki will expire at the end of this general meeting of shareholders. The candidate for Audit & Supervisory Board Member is shown as follows.

This agenda has been approved by the Audit & Supervisory Board.

| Name<br>(Date of birth)   | Brief personal profile, position and significant concurrent positions  |
|---|--|
| <p>[Newly-nominated]</p> <p><b>Toshiya Hatakeyama</b><br/>(July 6, 1957)</p> <p>Number of years in office as Audit &amp; Supervisory Board Member:<br/>-</p> <p>(as of the conclusion of this general meeting of shareholders)</p> <p>Number of attendance at meetings of the Board of Directors (the year under review):<br/>-</p> <p>Number of attendance at meetings of the Audit &amp; Supervisory Board (the year under review):<br/>-</p> <p>Number of Oki shares held:<br/>Common stock<br/>7,600 shares</p> | <p>Apr. 1980    Joined Oki Electric Industry Co., Ltd.</p> <p>Oct. 2007    Head, Accounting &amp; Control Division</p> <p>Apr. 2008    Executive Officer</p> <p>Apr. 2015    Senior Vice President</p> <p>Jun. 2015    Director</p> <p>Jul. 2015    Chief Financial Officer</p> <p>Apr. 2016    Chief Compliance Officer, Head of Corporate Management Group</p> <p>Apr. 2017    President, Representative Director, Oki Wintech Co., Ltd.</p> <p>Apr. 2019    Advisor of the Company (incumbent)</p>  |
|   | <p><b>Reason for the selection of candidate for Audit &amp; Supervisory Board Member</b></p> <p>Mr. Toshiya Hatakeyama headed the Company's accounting, finance, and compliance divisions, where he focused on strengthening the financial base and compliance functions. The Company judges that he is able to provide appropriate supervision over the business management based on his past experience as President and Representative Director of Oki Wintech Co., Ltd. The Company also feels that he is able to provide appropriate opinions and advice from a compliance perspective. He has been nominated as a candidate for Audit &amp; Supervisory Board Member because it is expected that, as a member of the Audit &amp; Supervisory Board, he will enhance information sharing among Audit &amp; Supervisory Board members and strengthen the Board of Director's business execution functions.</p> |

Notes:

1. There is no special conflict of interest between the candidate and the Company.
2. Mr. Toshiya Hatakeyama has served in positions such as Officer in charge of the Accounting & Control Division and Chief Financial Officer, and has extensive knowledge in finance and accounting.
3. If the appointment of Mr. Toshiya Hatakeyama is approved, the Company will enter into a liability limitation agreement with him. The outline of this agreement is provided in "Outline of Liability Limitation Agreements" (on page31) in the Business Report.

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**(Reference) The Company's stance towards independence of Outside Directors and Outside Audit & Supervisory Board Members**

The Company elects Outside Directors and Outside Audit & Supervisory Board Members based on the following policies

- 1) Persons who are not business executers\*<sup>1</sup> of the OKI Group
- 2) Parties for whom the OKI Group is not a major business partner (parties whose sales to OKI Group exceeds 2% of the total sales of the parties' group) or business executers thereof
- 3) Parties who are not major businesses partners of the OKI Group (parties to whom OKI Group' sales exceeds 2% of the total sales of the OKI Group) or business executers thereof
- 4) Parties who are not major shareholders of the Company (parties who holds 10% or more of the total voting rights directly or indirectly) or business executers thereof
- 5) Persons who are not business executers of parties of whom the OKI Group is a major shareholder
- 6) Persons who are not consultants, accounting specialist such as certified public accountants, or legal experts such as attorney-at-law receiving significant amount of money (more than ¥10 million annually) or other property (property worth more than ¥10 million annually), except for compensation paid to Directors and Audit & Supervisory Board Members, from the OKI Group (or if the entity receiving such property is an organization including corporation and association, persons belonging to the organization)
- 7) Persons who do not belong to the accounting firm conducting statutory audits of the Company
- 8) Persons who have not fallen under any of items 1) through 7) in the past 10 years
- 9) Persons who are not relatives within two degrees of kinship of the following persons
  - a. Persons who fall under any of the above 2) through 7) (however, for the "business executers" in 2) through 5), this applies only to principal business executers\*<sup>2</sup>, for the "persons belonging to the organization" in 6), this applies only to principal business executers thereof or persons with professional certificates or license such as certified public accountants and attorney-at-law if the relevant organization is an audit firm or law firm, and for "persons who belong to the accounting firm" in 7), this applies only to principal business executers thereof or persons with professional certificates or license such as certified public accountants.)
  - b. Principal business executers of the OKI Group
  - c. Persons who have fallen under the above b in the past 10 years

\*1 "Business executers" refer to persons who perform business execution such as Directors (excluding Outside Directors), Executive Officers, employees, etc.

\*2 "Principal business executers" refer to persons who perform important business execution such as Directors (excluding Outside Directors), Executive Officers, General Managers, etc.

In addition to these policies, the Company elects Outside Directors and Outside Audit & Supervisory Board Members, on the ground of each candidate's experience and knowledge in respective professional fields being beneficial to the Company at present.

(Translation)

(Attachment)

## **Business Report**

(From April 1, 2018 to March 31, 2019)

### **1. Status of the OKI Group**

#### **(1) Operating progress and results**

##### **Economic situation**

Looking at the global situation in fiscal 2018, the economy continued to show a gradual recovery as a whole, but economic uncertainty rose due to the effects of China's economic slowdown caused by US-China trade friction and problems associated with Brexit in the UK. Japan's economy continued its modest recovery supported by factors such as improved employment conditions and increased capital investment, but began to show signs of a slowdown in some business areas due to the effects of the global economy.

##### **Operating results for the fiscal year under review**

In this business environment, the OKI Group reported net sales of ¥441.5 billion, a ¥3.5 billion or 0.8% increase year-on-year, despite decreases in sales in the mechatronics systems business and the printer business, because these decreases were offset by remained stable sales in the ICT business and the effects of the newly consolidated Oki Electric Cable Co., Ltd. on the EMS business. Operating income was ¥17.5 billion, an increase of ¥9.8 billion year-on-year, due to factors such as increased sales and earnings generated through differences in project mix in the ICT business, effects of structural reforms in the mechatronics systems business, and reductions in fixed costs through reforms to business structures and the effects of the yen's depreciation on the printer business.

Ordinary income was ¥15.5 billion, an increase of ¥7.0 billion year-on-year, due to increased operating income, despite the posting of a ¥1.3 billion foreign exchange loss as non-operating expenses. Profit attributable to owners of parent was ¥8.4 billion, an increase of ¥2.5 billion year-on-year, due to factors such as the posting of a gain on sale of property, plant and equipment (¥1.4 billion) and a gain on sale of investments in securities (¥1.0 billion) as extraordinary profit, despite the posting of business structure improvement expenses (¥3.5 billion) as an extraordinary loss and the loss on impairment of fixed assets (¥2.9 billion) in the mechatronics systems business.

Looking at non-consolidated business performance, net sales were ¥216.0 billion, up ¥12.0 billion (5.9%) from the previous fiscal year. Operating loss was ¥2.5 billion, an improvement of ¥3.4 billion year-on-year. Ordinary income increased by ¥7.1 billion year-on-year to ¥9.4 billion. Profit was ¥8.5 billion, a ¥10.5 billion up year-on-year.

##### **Return of profit to shareholders**

OKI's top management priorities are to strengthen its financial position and ensure retained earnings in order to continually improve the OKI Group's corporate value, as well as to increase shareholder returns so that shareholders are encouraged to hold its shares over the medium- to long-term. OKI will reinforce its management foundations by applying retained earnings to

(Translation)

investments in research & development and facilities that are critical to future growth. In addition, OKI will attach the highest importance to maintaining stable profit distributions to shareholders and decide dividends after taking business performance into consideration. Based on this policy, OKI proposes to pay ¥50 per common stock as a dividend from the surplus (year-end dividend) in the current fiscal year.

The following provides a summary of each segment.

**- Net Sales by Segments**

(Unit: Billions of yen)

| Segment              | FY2017 (reference: previous fiscal year) | FY2018 (Fiscal year under review) | Changes (amount) | Changes (%) |
|----------------------|--|-----------------------------------|------------------|-------------|
| ICT                  | 172.7                                    | 184.3                             | 11.6             | 6.7         |
| Mechatronics Systems | 93.5                                     | 82.7                              | (10.8)           | (11.6)      |
| Printers             | 108.9                                    | 102.6                             | (6.3)            | (5.8)       |
| EMS                  | 55.5                                     | 65.2                              | 9.7              | 17.4        |
| Others               | 7.4                                      | 6.7                               | (0.7)            | (9.0)       |
| Total                | 438.0                                    | 441.5                             | 3.5              | 0.8         |

Notes:

1. Figures less than ¥100 million for each item are rounded to the nearest ¥100 million. The amounts of “changes (amount)” are calculated on the basis of figures in units of ¥100 million. Accordingly, in some cases the sum of individual figures presented for each item may not equal the respective “total” stated.
2. Regarding EMS and Others, the figures for fiscal 2017 are modified to reflect the latest classification.

**ICT**

|                            |   |
|----------------------------|---|
| Business overview          | Business providing solutions, products and services supporting social infrastructure based on distinctive technologies  |
| Main products and services | <ul style="list-style-type: none"><li>• Traffic infrastructure-related systems (flight control systems, ITS-related systems)</li><li>• Disaster-related systems (firefighting-related systems, disaster prevention administrative radio systems for municipalities)</li><li>• Self-defense-related systems</li><li>• Communications equipment for telecom carriers</li><li>• Bank branch systems and centered-administration systems for financial institutions</li><li>• Ticket reservations and issuing systems</li><li>• IP-PBX / business telephones and contact centers</li><li>• 920MHz band wireless multi-hop communication systems</li><li>• Maintenance and construction services</li></ul> |

Net sales were ¥184.3 billion, up ¥11.6 billion (6.7%) from the previous fiscal year. The increase resulted from factors such as increases in social infrastructure-related projects, sales to telecommunications carriers, and projects for some public agencies.

Operating income was ¥14.7 billion, an increase of ¥1.2 billion, with the effect of a sales increase and differences in project mix.

(Translation)

### **Mechatronics Systems**

|                            |  |
|----------------------------|--|
| Business overview          | Business offering products and services based on our core mechatronics technology such as ATMs and cash handling equipment   |
| Main products and services | <ul style="list-style-type: none"><li>• ATMs</li><li>• Cash handling equipment</li><li>• Bank branch terminals</li><li>• Ticket reservations and issuing terminals</li><li>• Check-in terminals</li><li>• ATM monitoring and operations services</li></ul> |

Net sales were ¥82.7 billion, down ¥10.8 billion (11.6%) from the previous fiscal year. The decline was mainly due to the disappearance of the effects of standardizing the fiscal periods of Brazilian subsidiaries and the impacts of reviewing business operations in the process of making structural reforms.

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 effects of decreases in sales.

### **Printers**

|                            |   |
|----------------------------|---|
| Business overview          | Business harnessing our LED technologies to offer printers that match customer needs for markets ranging from offices to industrial printing  |
| Main products and services | <ul style="list-style-type: none"><li>• Color LED and monochrome LED printers</li><li>• Color LED and monochrome LED multi-function printers (MFPs)</li><li>• Dot-impact printers</li><li>• Wide format inkjet printers</li><li>• Wide format multi-function printers</li></ul> |

Net sales were ¥102.6 billion, down ¥6.3 billion (5.8%) from the previous fiscal year. The decline was mainly due to the completion of large-scale projects in the previous fiscal year.

Operating income was ¥5.7 billion, up ¥3.0 billion year-on-year, due to the effect of fixed cost structure improvement and the weak yen.

### **Electronics manufacturing services (EMS) and others**

|                            |  |
|----------------------------|--|
| Business overview          | Business offering consigned design & manufacturing services based on our extensive record in social infrastructure equipment   |
| Main products and services | <ul style="list-style-type: none"><li>• Consigned design &amp; manufacturing services for communications equipment, industrial instruments, measuring instruments, and medical equipment</li><li>• Consigned design &amp; manufacturing services for broadcasting, electricity, and traffic-related</li><li>• Cables, flexible printed circuits (FPC), and customized power supplies</li><li>• Reliability testing and environmental conservation-related services</li></ul> |

Net sales of the EMS business rose ¥9.7 billion, or 17.4%, year-on-year, to ¥65.2 billion, mainly due to the effect of new consolidation of Oki Electric Cable Co., Ltd. Operating income increased by ¥0.4 billion to ¥3.7 billion owing to higher sales volume.

Net sales of the others business segment were ¥6.7 billion, down ¥0.7 billion or 9.0% year-on-year, and operating income declined by ¥0.1 billion to ¥0.9 billion.



(Translation)

## (2) Capital expenditure

Capital expenditures for the fiscal year equaled ¥9.9 billion.

Investment amounts by segment were as follows.

(Unit: Billions of yen)

| Segment              | Amount of capital expenditure | Major investments  |
|----------------------|-------------------------------|--|
| ICT                  | 2.3                           | Investments focusing on strengthening facilities to design/manufacture, and produce new products in business areas (e.g. social infrastructure, IoT, finance, and network systems) |
| Mechatronics Systems | 1.4                           | Investments on evaluation equipment, molds, etc. for developing new products related to automation equipment systems   |
| Printers             | 2.9                           | Strategic investments on molds used to manufacture new products, aiming for a transition toward the industrial printing market   |
| EMS                  | 2.8                           | Investments on entrusting manufacturing service of measuring instruments, industrial equipment, etc.   |
| Others               | 0.5                           |  |
| Total                | 9.9                           |  |

## (3) Financing

Funds required for the current term were obtained from our own funds and borrowed funds.

## (4) Future challenges

Guided by our corporate philosophy of “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”, the OKI Group (the Company and its consolidated subsidiaries) aims to be a company of sustained growth that “contributes to society through Mono-zukuri (the spirit and mind-set to innovate, create and improve products) and Koto-zukuri (working together, proactively seeking opportunities that deliver value to customers)”. Also, the Company strives to meet the expectations and maintain the trust of all its stakeholders

The OKI Group also hopes to contribute to the achievement of the important guideline of the “Sustainable Development Goals (SDGs)” that were adopted at the September 2015 “United Nations Sustainable Development Summit” through our business activities. We shall set our targets on priority issues and incorporate sustainable goals into the Company’s operations.

The market and economic environments surrounding the OKI Group are currently changing dramatically. In particular, OKI Group businesses could be significantly affected by the digital transformations, the shift toward a cashless society, the shift towards a paperless society, structural reforms in the banking industry, and the arrival of the 5G age.

We anticipate the shift towards cashless payments will gain momentum through diversification of payment services and revision of cash-handling costs. Structural reforms in the banking industry are also giving rise to various unprecedented changes, including branch closures and staff cutbacks with the aim of streamlining operations, as well as possible ATM integrations between megabanks. These changes are occurring in tandem with the burgeoning digital transformation, which could crimp OKI’s existing products and services.

On the other hand, these developments will also yield new business opportunities for the development of devices that can accept any payment service and new financial services in regions where no stores with terminals used for payment services exist.

(Translation)

Furthermore, the arrival of 5G and the continual IoT-driven connectivity of every device to a network will present a chance for OKI to harness its strengths of device installations in edge regions, where we have been involved in the telecommunications infrastructure business tailoring to the needs of our customers for many years.

The trend towards a paperless society could also pose a threat to our printer business by declining demand for printing (as a result of an increase of people using smartphones and mobile devices). However, by shifting our focus from the office printing market to the industrial printing market, we will work on unearthing new markets and developing new products in which the features of OKI's LED printers can shine even more.

The OKI Group has supported the social infrastructure in a broad sense over many years through the strength of combining its manufacturing technology (Mono-zukuri) and highly reliable and durable technology in network sensing analytics. We will contribute to the society widely as ever through the provision of services and the development of automation systems that solve social issues caused by the aging society with a declining birthrate and a manpower shortage, adapting to the structural changes in society.

**(5) Trends in assets and profit/loss**

Trends in assets and profit/loss for the fiscal year under review and the past three years are as follows.

|   | <b>92nd year<br/>(FY2015)</b> | <b>93rd year<br/>(FY2016)</b> | <b>94th year<br/>(FY2017)</b> | <b>95th year<br/>(Fiscal year under<br/>review, FY2018)</b> |
|---|-------------------------------|-------------------------------|-------------------------------|---|
| Sales                                   | 490.3 billion yen             | 451.6 billion yen             | 438.0 billion yen             | 441.5 billion yen   |
| Profit attributable to owners of parent | 6,609 million yen             | 4,691 million yen             | 5,891 million yen             | 8,405 million yen   |
| Basic earnings per share                | 76.10 yen                     | 54.03 yen                     | 67.86 yen                     | 97.16 yen   |
| Total assets                            | 411.8 billion yen             | 360.7 billion yen             | 366.5 billion yen             | 365.5 billion yen   |
| Net assets                              | 107.4 billion yen             | 97.2 billion yen              | 102.1 billion yen             | 100.2 billion yen   |
| Net assets per share                    | 1,229.09 yen                  | 1,115.68 yen                  | 1,154.03 yen                  | 1,155.28 yen  |

Notes:

1. Basic earnings per share is computed based on the average number of shares during the year (weighted average). Net assets per share are computed based on the number of shares outstanding at the year-end. These figures exclude treasury stocks.
2. The Company consolidated ten shares of common stock into one share of common stock as of October 1, 2016. Basic earnings per share and net assets per share are calculated assuming that the shares were consolidated at the beginning of the 92nd fiscal year ended March 31, 2016.
3. The Company has adopted Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. (ASBJ Statement No. 28, February 16, 2018) since the beginning of the fiscal year under review, and made changes to classifications (i.e. classified deferred tax assets into investments and other assets and deferred tax liabilities into long-term liabilities). Amounts for fiscal 2017 are those reflecting the reclassification.

(Translation)

**(6) Status of major subsidiaries**

**(i) Status of major subsidiaries**

| <b>Name</b>                                 | <b>Capital</b>         | <b>Company's voting right ratio (%)</b> | <b>Major business</b>  |
|---|------------------------|---|--|
| Oki Data Corporation                        | 19,000 million yen     | 100                                     | Manufacturing and sales of printers  |
| Oki Customer Adtech Co., Ltd.               | 1,800 million yen      | 100                                     | Maintenance, construction and sales of information processing equipment and telecommunications equipment |
| OKI Software Co., Ltd.                      | 400 million yen        | 100                                     | Development and operation of telecommunications system software  |
| Oki Wintech Co., Ltd.                       | 2,001 million yen      | 100                                     | Design and construction of electronic works and electronic telecommunications works                      |
| Oki Data Manufacturing (Thailand) Co., Ltd. | 420 million baht       | 100*                                    | Manufacturing of printers  |
| Oki Europe Ltd.                             | 141 million euro       | 100*                                    | Sales of printers  |
| Oki Electric Industry (Shenzhen) Co., Ltd.  | 8 million U.S. dollars | 100*                                    | Manufacturing of information processing equipment and printers   |

Notes:

1. Figures marked with an asterisk (\*) indicate the ratio of voting rights held by subsidiaries of the Company.
2. Oki Customer Adtech Co., Ltd. and Oki Wintech Co., Ltd. merged on April 1, 2019. OKI Crosstech Co., Ltd. is the name of the newly merged company.

**(ii) Major partners**

- Major technical partners:
  - International Business Machines Corporation (US)
  - Canon Inc.
- Major business partners:
  - Hewlett-Packard Company (US)
  - Cisco Systems G.K.

(Translation)

**(7) Major offices**

Our major offices are as follows.

| Name  | Classification      | Location   |
|---|---------------------|--|
| Oki Electric Industry Co., Ltd.             | Head office         | Minato-ku, Tokyo   |
|   | Branch offices      | Hokkaido region (Sapporo, Hokkaido), Tohoku region (Sendai, Miyagi), Chubu region (Nagoya, Aichi), Kansai region (Osaka, Osaka), Chugoku region (Hiroshima, Hiroshima), Shikoku region (Takamatsu, Kagawa), and Kyushu region (Fukuoka, Fukuoka) |
|   | Business offices    | Minato-ku (Tokyo), Warabi (Saitama), Honjo (Saitama), Takasaki (Gunma), Tomioka (Gunma) and Numazu (Shizuoka)  |
|   | Research institutes | Warabi (Saitama), Osaka (Osaka) and Takasaki (Gunma)   |
| Oki Data Corporation                        | Head office         | Minato-ku, Tokyo   |
| Oki Customer Adtech Co., Ltd.               | Head office         | Koto-ku, Tokyo   |
| OKI Software Co., Ltd.                      | Head office         | Warabi, Saitama  |
| Oki Wintech Co., Ltd.                       | Head office         | Shinagawa-ku, Tokyo  |
| Oki Data Manufacturing (Thailand) Co., Ltd. | Head office         | Thailand   |
| Oki Europe Ltd.                             | Head office         | UK   |
| Oki Electric Industry (Shenzhen) Co., Ltd.  | Head office         | China  |

**(8) Employees**

(i) Employees of the OKI Group

| Segment               | Number of employees |
|-----------------------|---------------------|
| ICT                   | 7,079               |
| Mechatronics Systems  | 3,180               |
| Printers              | 4,222               |
| EMS                   | 1,971               |
| Others                | 1,023               |
| Company-wide (shared) | 455                 |
| Total                 | 17,930              |

(ii) Employees of Oki Electric Industry

| Number of employees  | Average age | Average years of service |
|--|-------------|--------------------------|
| 4,077 (increased by 53 from the end of the previous fiscal year) | 43.9        | 20.2                     |

(Translation)

**(9) Major creditors**

**Major creditors of the OKI Group are as follows:**

(Unit: Billions of yen)

| <b>Creditor</b>                     | <b>Loan balance</b> |
|-------------------------------------|---------------------|
| Mizuho Bank, Ltd.                   | 21.2                |
| Sumitomo Mitsui Banking Corporation | 12.5                |
| Mizuho Trust & Banking Co., Ltd.    | 3.7                 |
| The Norinchukin Bank                | 3.0                 |
| The Hachijuni Bank, Ltd.            | 2.8                 |

**(10) Corporate governance**

**(i) Basic policy**

Guided by the corporate philosophy of “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,” the OKI Group recognizes sustainable growth and increases corporate value over medium- to 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 of “enhancement of management fairness and transparency,” “timely decision-making processes,” and “full compliance and fortification of risk management.”

**(ii) Structure**

The Company has chosen to be a company with the Audit & Supervisory Board, as a structure to ensure stable realization of its fundamental policies for corporate governance. Specifically, it establishes the Board of Directors and Audit & Supervisory Board members and an Audit & Supervisory Board in charge of supervision and auditing and adopts an executive officer system, aiming to promote timely decision-making processes by separating business execution and oversight. In addition, it endeavors to improve the fairness and transparency of management by nominating outside directors as well as setting up the “Personnel Affairs and Compensation Advisory Committee” as a voluntary committee concerning on appointment and compensation, and the post of Chairman of the Board, so as to ensure effective supervision from an independent and objective standpoint. The Committee consists of five members including four outside officers, and the Chairman of the Committee is appointed from among Outside Directors. A non-executive director is appointed as Chairman of the Board.

In addition to objective audits by Audit & Supervisory Board members and the Audit & Supervisory Board on the premise of its strong authority for investigation, OKI seeks to carry out prompt risk management and ensure rigorous compliance by initiatives such as the establishment of the Risk Management Committee, which includes outside directors.

(Translation)

Furthermore, there is no system to receive consulting and advice, etc., from former representative directors and presidents, etc.

(iii) **Board of Directors**

The Company's Board of Directors consists of seven Directors, including four highly independent Outside Directors, with the consideration of diverse expertise and careers for the purpose of fulfilling such duties as deliberations and decisions on significant matters concerning the Company's business execution and oversight thereof. To clarify management responsibility for each fiscal year, the tenure for Directors has been set as one year.

The Company provides Directors and Audit & Supervisory Board members with such opportunities as seminars and trainings, which are necessary in fulfilling their roles and responsibilities, and conducts presentation for outside officers upon appointment aimed at deepening their understanding about the OKI Group's business, in addition to visits to business offices and other sites.

(iv) **Election of company officers**

The Company has established the Personnel Affairs and Compensation Advisory Committee to secure transparency in the decision-making processes for appointments of officers. The Personnel Affairs and Compensation Advisory Committee deliberates on appointments of Director and executive officer from an objective viewpoint, and reports the results to the Board of Directors. In addition, the Committee delivers its opinion on appointments of candidates for Audit & Supervisory Board members to Audit & Supervisory Board members.

Upon the nomination of candidates for Directors and Audit & Supervisory Board members and appointment of executive officers, the Company takes into consideration that the candidate satisfies the following requirements, as well as legal eligibility.

- Those with excellent personality, insights, high ethical standards, fairness and integrity as well as a high-level awareness of compliance
- Those who can execute their duties towards the realization of the OKI Group's corporate philosophy and continuous improvement of the corporate value
- Those who have had a long term of office
- Audit and Supervisory Board Members who have the necessary knowledge of finance, accounting and legal affairs

With respect to the appointment of candidates for outside officers, OKI formulates its independence criteria (See page 13), and elects person who satisfies these criteria as an outside officer. All outside officers have been reported as independent officers to the Tokyo Stock Exchange.

**(11) Other significant events of the OKI Group**

Oki Banking Systems (Shenzhen) Co., Ltd., a subsidiary of the Company, filed a request for arbitration against Shenzhen Yihua Computer Industrial Co., Ltd. in October 2015, demanding payment of RMB1,115,463 thousand (¥18.4 billion if converted to Japanese yen based on the exchange rate as of the end of the fiscal year under review)

(Translation)

which includes the proceeds from sale of ATM. The arbitration proceeding is currently under review by the South China International Economic and Trade Arbitration Commission. Although the Company has recorded a provision of allowance for doubtful receivables regarding this case, there is no change in the Company's policy of collecting the total amount of receivables.

(Translation)

## 2. Shareholders' Equity

- (1) Number of shares authorized to be issued by the Company: 240,000,000 shares
- (2) Number of outstanding shares: 87,217,602 shares  
(including 709,516 shares of treasury stock)
- (3) Number of shareholders: 69,734
- (4) Major shareholders (Top 10)

| Name of shareholder   | Number of shares held (shares) | Percentage of shares held (%) |
|---|--------------------------------|-------------------------------|
| The Master Trust Bank of Japan, Ltd. (trust account)                      | 7,215,300                      | 8.34                          |
| Japan Trustee Services Bank, Ltd. (trust account)                         | 5,884,000                      | 6.80                          |
| Japan Trustee Services Bank, Ltd. (trust account 9)                       | 3,670,900                      | 4.24                          |
| Oki Denki Group Employees' Shareholdings Committee                        | 1,883,961                      | 2.18                          |
| Japan Trustee Services Bank, Ltd. (trust account 5)                       | 1,696,000                      | 1.96                          |
| Mizuho Bank, LTD.   | 1,419,648                      | 1.64                          |
| Hulic Co., Ltd.   | 1,407,659                      | 1.63                          |
| Meiji Yasuda Life Insurance Company                                       | 1,400,097                      | 1.62                          |
| Trust & Custody Services Bank, Ltd. (securities investment trust account) | 1,380,700                      | 1.60                          |
| JP Morgan Chase Bank 385151   | 1,310,960                      | 1.52                          |

Note: The percentages of shares held are calculated after deducting treasury stock.



(Translation)

### 3. Equity Warrants

**(1) Equity warrants granted to the Company's officers as consideration for their performance of duties**

- (i) Number of equity warrants  
336
- (ii) Type and number of shares subject to equity warrants  
33,600 shares of the Company's common stock (100 shares per equity warrant)
- (iii) Status of equity warrants held by the Company's officers

| Issued Number<br>(Exercise Price)                            | Exercise period                    | Directors<br>(excluding outside Directors) |                      |
|--|------------------------------------|--|----------------------|
|  |                                    | Number of<br>equity<br>warrants            | Number of<br>holders |
| FY2016 equity warrant (1 yen)<br>(Issued on August 16, 2016) | August 17, 2016 to August 16, 2041 | 98   | 2                    |
| FY2017 equity warrant (1 yen)<br>(Issued on August 15, 2017) | August 16, 2017 to August 15, 2042 | 119  | 2                    |
| FY2018 equity warrant (1 yen)<br>(Issued on August 14, 2018) | August 15, 2018 to August 14, 2043 | 119  | 2                    |

**(2) Equity warrants issued to employees in consideration of performance during the fiscal year under review**

| Issued Number  | Exercise period                    | Directors<br>(excluding outside Directors) |                      |
|--|------------------------------------|--|----------------------|
|  |                                    | Number of<br>equity<br>warrants            | Number of<br>holders |
| FY2018 equity warrant (1 yen)<br>(Issued on August 14, 2018) | August 15, 2018 to August 14, 2043 | 485  | 16                   |

(Translation)

#### 4. Company Officers

##### (1) Names, etc. of Directors and Audit & Supervisory Board Members

| Note<br>1 | Position   | Name               | Status or main duties  |
|-----------|--|--------------------|--|
|           | Director and Chairman of the Board               | Hideichi Kawasaki  | Chairman of the Board  |
| X         | President, Representative Director               | Shinya Kamagami    | Supervision  |
| X         | Executive Vice President and Member of the Board | Masayuki Hoshi     | Chief Financial Officer<br>Chief Compliance Officer<br>Chief Internal Control Officer<br>Supervision of Corporate Administration |
|           | Director   | Minoru Morio       | Outside Director of Concordia Financial Group, Ltd.,   |
|           | Director   | Shigeru Asaba      | Outside Director, Nippon Beet Sugar Manufacturing Co., Ltd.  |
|           | Director   | Tamotsu Saito      | Chairman of the Board, IHI Corporation<br>Outside Director, JAPAN POST INSURANCE Co., Ltd.                                       |
|           | Director   | Izumi Kawashima    |  |
|           | Standing Audit & Supervisory Board Member        | Hisao Suzuki       |  |
|           | Standing Audit & Supervisory Board Member        | Sei Yano           |  |
|           | Audit & Supervisory Board Member                 | Kuninori Hamaguchi |  |
|           | Audit & Supervisory Board Member                 | Yoichi Nitta       |  |

Notes:

1. X indicates executive officer.
2. Directors Minoru Morio, Shigeru Asaba, Tamotsu Saito, and Izumi Kawashima are Outside Directors.
3. Audit & Supervisory Board Members Kuninori Hamaguchi and Yoichi Nitta are Outside Audit & Supervisory Board Members.
4. Directors Minoru Morio and Shigeru Asaba, Tamotsu Saito, and Izumi Kawashima, Audit & Supervisory Board Members Kuninori Hamaguchi and Yoichi Nitta has been reported as independent officers to Tokyo Stock Exchange.
5. Audit & Supervisory Board Member Hisao Suzuki has served in positions such as Officer in charge of the Accounting & Control Division and Chief Financial Officer, and has extensive knowledge in finance and accounting.
6. Executive officers as of March 31, 2019 are as follows (excluding those who concurrently serve as Directors).

(Translation)

| Position                 | Name              | Principal duty  |
|--------------------------|-------------------|---|
| Executive Vice President | Masasuke Kishi    | Head of Electronics Manufacturing Services Business Group   |
| Senior Vice President    | Kenichi Tamura    | Head of Mechatronics Systems Business Division  |
| Senior Vice President    | Toru Hatano       | In charge of Printers Business Division (President, Oki Data Corporation)   |
| Senior Vice President    | Masaaki Hashimoto | Head of Marketing & Sales Group and General Manager, IoT Business Development Division  |
| Senior Vice President    | Masashi Tsuboi    | Head of ICT Business Group  |
| Senior Executive Officer | Masashi Fuse      | Head of Corporate Management Group  |
| Senior Executive Officer | Masatoshi Saito   | Chief Information Officer, Head of Corporate Planning Group   |
| Executive Officer        | Kiyoshi Yokota    | Chief Technology Officer, Deputy Head of Corporate Infrastructure Group and Head of Corporate Research and Development Center                 |
| Executive Officer        | Yuichiro Katagiri | Deputy Head of ICT Business Group   |
| Executive Officer        | Toru Miyazawa     | Head of Marketing & Sales Division-3, Marketing & Sales Group   |
| Executive Officer        | Hiroshi Tsuchiya  | Head of Internal Control Division   |
| Executive Officer        | Yuka Miyagawa     | Head of Marketing & Sales Division-2, Marketing & Sales Group   |
| Executive Officer        | Akiko Horiguchi   | Head of Human Resources Division, Corporate Planning Group  |
| Executive Officer        | Hiroshi Tomizawa  | Deputy Head of Mechatronics Systems Business Group  |
| Executive Officer        | Toshiyuki Yokota  | Chief Quality Officer, Chief Innovation Officer, Head of Corporate Infrastructure Group, and Head of Government & External Relations Division |
| Executive Officer        | Hajime Maruo      | Head of Corporate Planning Division, Corporate Planning Group   |

## (2) Compensation paid to Directors and Audit & Supervisory Board Members

### (i) Policy on determining remuneration, etc.

In order to secure transparency and objectiveness in the decision-making processes concerning compensation for officers, the Personnel Affairs and Compensation Advisory Committee deliberates on the structure and level of compensation for Director and executive officer from an objective viewpoint, and reports the results to the Board of Directors. The Committee consists of five members including four outside officers, and the Chairman of the Committee is appointed from among Outside Directors.

OKI's basic policy on compensation for Director and executive officer is to serve as incentives for the performance improvement with the aim of the continuous enhancement of the corporate value and enforcement of 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 compensation-type

(Translation)

stock option as medium- to long-term incentive compensation. These changes have 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.

| Type  | Content of compensation   |
|---|---|
| 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 year’s consolidated business performance of the OKI Group and that of the division each Director 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 for stock-linked 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.   |

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.

(ii) Compensation paid to Directors and Audit & Supervisory Board Members

| Title   | Amount of payment | Amount of payment by type of compensation |                  |                                | Number of applicable officers |
|---|-------------------|---|------------------|--------------------------------|-------------------------------|
|   |                   | Basic compensation                        | Annual incentive | Medium- to long-term incentive |                               |
| Directors (excluding Outside Directors)   | ¥198 million      | ¥156 million                              | ¥31 million      | ¥10 million                    | 4                             |
| Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) | ¥46 million       | ¥46 million                               | —                | —                              | 2                             |
| Outside officers  |                   |   |                  |                                |                               |
| Outside Directors   | ¥38 million       | ¥38 million                               | —                | —                              | 5                             |
| Outside Audit & Supervisory Board Members   | ¥14 million       | ¥14 million                               | —                | —                              | 2                             |

(Translation)

Notes:

1. The amounts of compensation approved by the 82nd Ordinary General Meeting of Shareholders held on June 29, 2006 are within ¥600 million per year for Directors and within ¥100 million per year for Audit & Supervisory Board Members. The amount of compensation for Directors excludes employee wages for Directors who are also employees. The amounts of compensation related to equity warrants allotted as compensation-type stock option, approved by the 92nd Ordinary General Meeting of Shareholders held on June 24, 2016, are within ¥100 million per year for Directors (excluding Outside Directors), separately from the above compensations.
2. The numbers of Directors and Audit & Supervisory Board Members as of the end of the fiscal year under review are different from the number shown above, because the above numbers include those who resigned at the conclusion of the 94th Ordinary General Meeting of Shareholders held on June 22, 2018.

### **(3) Outside Directors and Audit & Supervisory Board Members**

- (i) Status of material concurrent positions at other organizations, etc. and the Company's relationship with the aforesaid organizations

Director Minoru Morio concurrently serves as Outside Director of Concordia Financial Group, Ltd. The volume of transactions between the company and the Company accounts for less than 1% of the OKI Group's net sales and accounts for less than 1% of the said company's net sales.

Director Shigeru Asaba serves as an Outside Director of Nippon Beet Sugar Manufacturing Co., Ltd. There are no business relationships between Nippon Beet Sugar Manufacturing Co., Ltd. and the Company.

Director Tamotsu Saito concurrently serves as Chairman of the Board of IHI Corporation and Outside Director of JAPAN POST INSURANCE Co., Ltd. The volume of transactions between the companies and the Company accounts for less than 1% of the OKI Group's net sales and accounts for less than 1% of the each said company's net sales.

(Translation)

(ii) Major activities in the fiscal year under review

(a) Attendance at meetings of the Board of Directors and the Audit & Supervisory Board

|  | Board of Directors meeting<br>(number of meetings in parenthesis) |                 | Audit & Supervisory Board meeting<br>(number of meetings in parenthesis) |                 |
|--|---|-----------------|--|-----------------|
|  | Attendance<br>frequency   | Attendance rate | Attendance<br>frequency  | Attendance rate |
| Minoru Morio,<br>Director  | 13 (13)   | 100%            | –  | –               |
| Shigeru Asaba,<br>Director                                       | 13 (13)   | 100%            | –  | –               |
| Tamotsu Saito,<br>Director                                       | 10 (10)   | 100%            | –  | –               |
| Izumi Kawashima,<br>Director                                     | 10 (10)   | 100%            | –  | –               |
| Kuninori<br>Hamaguchi,<br>Audit &<br>Supervisory Board<br>Member | 13 (13)   | 100%            | 16 (17)  | 94%             |
| Yoichi Nitta,<br>Audit &<br>Supervisory Board<br>Member          | 13 (13)   | 100%            | 17 (17)  | 100%            |

Note: The number of meetings for Director Tamotsu Saito and Izumi Kawashima represents the number of meetings held since they took office in June 2018.

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(b) Major activities

|  | Principal comments   |
|--|--|
| Minoru Morio,<br>Director                                  | Making statements from a viewpoint nurtured through abundant experience in corporate management, he provided advice and made proposals for the appropriateness and properness of decision making by the Board of Directors. He also contributed to strengthening compliance by providing a good example to managerial personnel through his leadership and enhancing the management fairness and transparency as a chairman of the Personnel Affairs and Compensation Advisory Committee.  |
| Shigeru Asaba,<br>Director                                 | Making statements from the dual perspectives of industry and academia in his position as a professor of a university business school, he provided advice and made proposals for the appropriateness and properness of decision making by the Board of Directors. He also contributed to strengthening compliance by providing a good example to managerial personnel through his leadership and enhancing the management fairness and transparency as a member of the Personnel Affairs and Compensation Advisory Committee.                             |
| Tamotsu Saito,<br>Director                                 | Making statements from a viewpoint nurtured through abundant experience as one of business leaders in Japan, he provided advice and made proposals for the appropriateness and properness of decision making by the Board of Directors. He also contributed to strengthening compliance by providing a good example to managerial personnel through his leadership and enhancing the management fairness and transparency as a member of the Personnel Affairs and Compensation Advisory Committee.  |
| Izumi Kawashima,<br>Director                               | Making statements on the background of academic expertise in the Commercial Code and the Financial Instruments and Exchange Act as a professor of a university, she provided advice and made proposals for the appropriateness and properness of decision making by the Board of Directors. She also contributed to strengthening compliance by providing a good example to managerial personnel through her leadership and enhancing the management fairness and transparency as a member of the Personnel Affairs and Compensation Advisory Committee. |
| Kuninori Hamaguchi,<br>Audit & Supervisory Board<br>Member | He audited the business execution of Directors and leveraged his extensive experience and knowledge as an executive and a Director at manufacturing companies to make statements aimed at achieving sustainable growth and producing medium- to long-term corporate value for the Company.   |
| Yoichi Nitta,<br>Audit & Supervisory Board<br>Member       | He audited the business execution of Directors and leveraged his extensive experience and knowledge as an executive and a Director at financial institutions to make statements aimed at achieving sustainable growth and establishing high-quality corporate governance systems for the Company.  |

**(4) Outline of Liability Limitation Agreements**

The Company concluded agreements to limit liabilities with outside officers (Minoru Morio, Shigeru Asaba, Tamotsu Saito, Izumi Kawashima, Kuninori Hamaguchi and Yoichi Nitta) and Standing Audit & Supervisory Board Members (Hisao Suzuki and Sei Yano) under the provisions of Article 427 of the Companies Act. The outline of the agreements is as follows:

- In cases where outside officers and Standing Audit & Supervisory Board Members are liable for any damages arising from their negligence to the Company, they shall compensate for such damages only to the extent of the minimum liabilities as stipulated in Article 427, Paragraph 1 of the Companies Act.
- The above limitation of liability shall be applied only when the relevant outside officers and Standing Audit & Supervisory Board Members have executed their duties that caused the liabilities in good faith and without gross negligence.

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## 5. Status of Accounting Auditor

(1) **Name:** PricewaterhouseCoopers Aarata LLC

(2) **Compensation, etc.**

|   | <b>Amount of payment</b> |
|---|--------------------------|
| 1. Compensation, to be paid to the accounting auditor for the fiscal year under review                                      | 161 million yen          |
| 2. Total sum of cash and profits on other assets that the Company and its subsidiaries should pay to the accounting auditor | 288 million yen          |

Notes:

1. The Company does not distinguish between auditor compensation regarding (i) auditing in accordance with the Companies Act, and (ii) auditing in accordance with the Financial Instruments and Exchange Act. The total of these amounts is recorded above.
2. Among major subsidiaries, Oki Data Manufacturing (Thailand) Co., Ltd., Oki Europe Ltd., and Oki Electric Industry (Shenzhen) Co., Ltd. have undergone statutory audits by accounting auditors other than the accounting auditor of the Company.
3. After having performed the necessary verification as to the appropriateness of matters such as the content of the accounting auditor's audit plan, the status of performance of duties by the accounting auditor, and the basis for the calculation of the estimated compensation for the accounting auditor, the Audit & Supervisory Board has decided to consent to the amount of compensation, etc. to be paid to the accounting auditor.

(3) **Content of non-auditing services**

The Company has also entrusted the accounting auditor with “advisory services relating to the new revenue recognition standard” and other services, which are services other than the audits specified in Article 2, Paragraph 1 of the Certified Public Accountants Act, and pays the auditor compensation for the services.

(4) **Policy regarding decision to dismiss or not reappoint the accounting auditor**

The Audit & Supervisory Board, in principle, will determine the detail of the proposal to be submitted to the general meeting of shareholders regarding dismissal or non-reappointment of the accounting auditor if it is deemed unlikely that the accounting auditor will be able to perform audits properly. In addition, if the accounting auditor falls under provisions of the items in Article 427, Paragraph 1 of the Companies Act, the Audit & Supervisory Board will dismiss the accounting auditor upon the consent of all the Audit & Supervisory Board Members.



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## **6. Policies and procedures of the Company**

### **(1) Procedures to ensure that Directors and employees comply with applicable laws, regulations and the Articles of Incorporation in conducting their business and other systems to ensure appropriate operations**

(i) Procedures to ensure that Directors and employees comply with applicable laws, regulations and the Articles of Incorporation in conducting their business

(a) As the foundation for ensuring compliance, the Company has established the “OKI Group Charter of Corporate Conduct” and “OKI Group Code of Conduct.” In addition, officers take the initiative in compliance activities in conformance with the “Compliance Commitment.”

(b) The Company has established a Compliance Committee chaired by the Chief Compliance Officer to decide on and examine basic policies regarding compliance programs.

(c) In accordance with the basic policies formulated by the Compliance Committee, the division responsible for compliance plans, draws up, and promotes specific measures such as education and training for Directors and employees. In education and training, we aim to raise employee awareness about compliance by utilizing means such as e-learning.

(d) The Company establishes whistle-blowing regulations which enable reporting to Outside Directors and Audit & Supervisory Board Members and provides a contact point for reporting and consultation, aiming to detect any misconduct at its earliest stages and make improvements.

(e) The Company stands firmly against antisocial groups that threaten the order and safety of civil society in cooperation with the police and related organizations, and refuses to have any relationship with them as a whole.

(ii) Procedures to retain and manage information relating to Directors’ conduct of business

The Company retains and stores information relating to the conduct of business by Directors as appropriate in accordance with applicable laws, regulations and internal rules.

(iii) Rules concerning risk management and other procedures

(a) The Company has established a Risk Management Committee and promotes measures for appropriately grasping risks that may occur in relation to business activities of the Company and Group companies, and preventing such risks from emerging.

(b) Pursuant to risk management rules, each section of the Company manages risks that may occur in relation to its main duties. At the same time, the Company has established a supervisory section to deal with risks needing company-wide management. This section assesses risks, draws up policies for risk countermeasures and develops appropriate structures based on such policies.

(c) If any risk occurs, the Company will set up an emergency countermeasure

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headquarters to handle the risk.

- (iv) Procedures to secure efficient business performance by Directors
  - (a) The Company holds regular meetings of the Board of Directors once a month in principle to decide important matters including basic management policies and supervise the business execution of Directors.
  - (b) The Company appoints executive officers to execute business based on basic management policies determined by the Board of Directors so as to separate the functions of business execution and oversight, and promote timely decision-making processes. In addition, the Company holds meetings of the Management Committee consisting of executive officers, etc. to assist the President in making decisions.
  - (c) The Company assigns Directors responsibilities and authority pursuant to rules on division of duties and authorities.
- (v) Procedures to secure appropriate Group (Company and subsidiaries) operations
  - (a) To ensure that the Company and subsidiaries run their operations properly, the Company has established the “OKI Group Charter of Corporate Conduct” which sets out the values for the entire Group. In addition, the Company has established the “OKI Group Code of Conduct” as the code of conduct which all officers and employees should comply with, and is striving to make the code known to all of them.
  - (b) The division responsible for compliance implements various measures for promoting compliance common to the Group through each subsidiary’s compliance officer. The Division also determines, through regular monitoring, the implementation status of such measures by each Group company and reports to the Compliance Committee on the results.
  - (c) Each subsidiary establishes whistle-blowing regulations that enable reporting to their Outside Directors and Audit & Supervisory Board Members, provides a contact point for reporting and consultation, and aims to detect any misconduct at its earliest stages and make improvements after reporting to the Company.
  - (d) The Company, in accordance with Subsidiaries and Affiliates Management Rules, determines the status of each subsidiary’s management activities through receiving reports regularly from each subsidiary and provides necessary advice and guidance including organization designing, rules and regulations, and business plannings.
  - (e) To secure the reliability of financial reporting, the Company and each subsidiary establish an internal control system for financial reporting in accordance with related laws and regulations, and strive to maintain and improve that system.
- (vi) Procedures for employees who assist Audit & Supervisory Board Members
  - (a) The Company assigns employees as staff to assist Audit & Supervisory Board Members.
  - (b) The Company assigns employees, who are not subject to Directors’ instructions and orders, as staff to assist Audit & Supervisory Board Members, and any

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reassignment and evaluation of such employees requires the prior consent of the Audit & Supervisory Board.

- (vii) Procedures for Directors and employees to report to Audit & Supervisory Board Members; procedures for Audit & Supervisory Board Members to receive other reports
  - (a) If Directors discover anything that may cause significant damage to the Company, they are required to report the matter immediately to the Audit & Supervisory Board Members pursuant to applicable laws and regulations.
  - (b) Standing Audit & Supervisory Board Members attend meetings of the Management Committee and meetings of the Board of Directors in order to understand important decision-making processes and the status of business operations, as well as to inspect important documentation.
  - (c) Audit & Supervisory Board Members attend the Risk Management Committee as advisors and receive necessary reports.
  - (d) Audit & Supervisory Board Members receive whistle-blowing reports based on whistle-blowing regulations, and receive reports biannually on the status of operation of the regulations from relevant divisions.
  - (e) Audit & Supervisory Board Members receive reports on the status of establishing internal control systems and their operations from Directors and employees on a regular basis, and may request Directors and employees to report on matters deemed necessary.
  - (f) The Company ensures that a person who made a whistle-blowing report to Audit & Supervisory Board Members will not be treated unfavorably on account of making such report.
- (viii) Other procedures to secure effective audits by Audit & Supervisory Board Members
  - (a) In conducting inspections on the Company's operations and assets and performing other audit duties, Audit & Supervisory Board Members shall conduct audits efficiently and effectively in close cooperation with the internal audit section.
  - (b) Audit & Supervisory Board Members implement efficient audits by closely cooperating with the accounting auditor. To this end, Audit & Supervisory Board Members hold meetings with the accounting auditor on a regular basis, attend on-site audits by the accounting auditor, and request reports from the accounting auditor on the progress of audits when necessary.
  - (c) The Company pays all the expenses necessary for the execution of the duties of Audit & Supervisory Board Members.

## (2) Overview of Status of Operations

- (i) Procedures relating to compliance
  - (a) The Board of Directors has stipulated a basic policy for internal control systems, and the Company has provided "Behavioral Guidelines," the "OKI Group Charter of Corporate Conduct," and the "OKI Group Code of Conduct," as a

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foundation to ensure compliance. The Directors of the Company and each Group Company take the initiative in compliance activities in conformance with the “Compliance Commitment.”

- (b) The Company has established the Compliance Committee chaired by the Chief Compliance Officer, to deliberate and decide on basic policies regarding compliance programs. In accordance with the basic policies formulated by the Compliance Committee, the division responsible for compliance, plans, draws up, and promotes specific measures such as education and training for Directors and employees. In education and training, we aim to improve each employee’s awareness about compliance through means such as group training and e-learning.
  - (c) To ensure compliance with the Antimonopoly Act, the Company invited outside lecturers and offered training on this Act for officers and employees in Market & Sales Section during the fiscal year under review.
  - (d) The Company clearly has defined that in case of non-compliance, the Company takes disciplinary action in accordance with the workplace regulations, etc., and has the Group Disciplinary Action Committee, which is chaired by the President and Executive Officer, to consider said action.
  - (e) The Company has a Group whistle-blower hotline, which provides access to external lawyers, to ensure quick discovery and effective correction of improper conduct, and disseminates information about the whistle-blower system to employees as well.
- (ii) Procedures relating to risk management
- (a) The Company has established a Risk Management Committee chaired by the President and Executive Director and advised by the Outside Directors and Audit & Supervisory Board Members, to stipulate fundamental matters relating to measures to prevent risks from emerging, and preparation in case risks arise.
  - (b) In relation to business activities, the Company has established a Business Risk Management Division and a Group Common Risk Management Division, which deals with risks that are common to the Group, and each of these management divisions assesses risks and draws up policies for risk countermeasures.
  - (c) If any risk materializes, the department in which it arises takes the necessary steps for the risk, and promptly reports the details of the event to the Risk Management Committee according to the OKI Group Emergency Response System. This Committee manages crisis information in a unified manner, determines a response system and manager promptly, giving consideration to the severity and urgency of the said crisis, implements necessary measures, and gives support to the said department.
- (iii) Procedures relating to subsidiary management
- (a) In the Subsidiaries and Affiliates Management Rules, an administrative division is designated for each subsidiary, and the head of said administrative division manages it with the authority and responsibilities stipulated by the authority regulations. Appointment and dismissal of chief officers of subsidiaries is determined by the President of the Company, and appointment and dismissal of other officers is determined by the head of the administrative division.

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- (b) Heads of administrative divisions clearly state the missions of subsidiaries which they supervise, and when developing business plans, they provide support, instruction, and periodic monitoring, and evaluate the performance of officers. Heads of administrative divisions also monitor the operational status of the general meeting of shareholders and the Board of Directors and compliance of Directors of subsidiaries.
  - (c) At the accounting division of each subsidiary, the Company has appointed staff with the necessary knowledge and experience. The Company works to conduct the maintenance and improvement of an internal control system for financial reporting conducted in accordance with related laws and regulations.
  - (d) To prevent losses from violations, misconduct, scandals, or accidents related to any laws, rules or ethics, or loss from failing to appropriately perform risk management, the Company holds regular training seminars for directors and audit & supervisory board members of subsidiaries. Seminar topics include responsibilities and obligations as a subsidiaries' officer, compliance, and internal controls.
- (iv) Procedures relating to audits by Audit & Supervisory Board Members
- (a) The Standing Audit & Supervisory Board Member assesses important decision making processes and the status of business operations by attending meetings of the Board of Directors and the Management Committee in addition to reading resolution approval documents.
  - (b) The Audit & Supervisory Board Members have received whistle-blowing reports based on whistle-blowing regulations, and received reports biannually on the status of operation.
  - (c) In addition to receiving reports on the development and operational status of the internal control system at the meetings of the Board of Directors, the Audit & Supervisory Board Members exchange opinions with the President, executive officers, general managers of divisions and representatives of the subsidiaries, confirming the development and operation of the internal control system in the process.
  - (d) The Audit & Supervisory Board Members hold discussions and exchanges of opinion with the Internal Auditing Division by taking part in site visits and meetings to report on the results of audits held by the Internal Auditing Division, and utilize the results of audits in audits by Audit & Supervisory Board Members.
  - (e) The Audit & Supervisory Board Members have maintained close cooperation with the Accounting Auditor including meeting and exchanging opinions with the Accounting Auditor and attending site visits by the Accounting Auditor, to implement effective audits.

Note: indication of amounts

Figures in this business report are indicated as follows.

1. Units of ¥1 million: Figures less than one unit are disregarded.

2. Units of ¥100 million: Figures less than one unit are rounded to the nearest unit.

(Translation)

## Consolidated Balance Sheet

(as of March 31, 2019)

(Unit: Millions of yen)

| Account title                      | Amount   | Account title  | Amount   |
|------------------------------------|----------|--|----------|
| (Assets)                           |          | (Liabilities)  |          |
| Current assets                     | 223,206  | Current liabilities                                  | 176,194  |
| Cash and deposits                  | 29,730   | Notes and accounts payable                           | 67,465   |
| Notes and accounts receivable      | 106,672  | Short-term borrowings                                | 48,880   |
| Lease investment assets            | 11,513   | Other accrued expenses                               | 21,764   |
| Finished goods                     | 18,823   | Other current liabilities                            | 38,084   |
| Work in process                    | 25,007   | Long-term liabilities                                | 89,108   |
| Raw materials and supplies         | 20,777   | Long-term debt                                       | 29,673   |
| Other current assets               | 10,940   | Lease obligations                                    | 11,926   |
| Allowance for doubtful receivables | (257)    | Deferred tax liabilities                             | 9,945    |
| Non-current assets                 | 142,296  | Provision for Directors' retirement benefits         | 463      |
| Property, plant and equipment      | 49,393   | Liability for retirement benefits                    | 30,158   |
| Buildings and structures           | 19,656   | Other long-term liabilities                          | 6,941    |
| Machinery, equipment and vehicle   | 8,166    | Total liabilities                                    | 265,302  |
| Tools, furniture and fixtures      | 8,464    | (Net Assets)   |          |
| Land                               | 12,829   | Shareholders' equity                                 | 113,845  |
| Construction in progress           | 277      | Capital stock  | 44,000   |
| Intangible assets                  | 10,457   | Additional paid-in capital                           | 19,057   |
| Investments and other assets       | 82,446   | Retained earnings                                    | 51,785   |
| Investments in securities          | 43,621   | Treasury stock, at cost                              | (997)    |
| Asset for retirement benefits      | 18,339   | Accumulated other comprehensive income               | (13,904) |
| Long-term trade receivables        | 21,940   | Net unrealized holding gain/loss on other securities | 2,816    |
| Other investments and other assets | 17,921   | Loss on deferred hedges                              | 169      |
| Allowance for doubtful receivables | (19,376) | Translation adjustments                              | (10,884) |
|                                    |          | Retirement benefits liability adjustments            | (6,006)  |
|                                    |          | Subscription rights to shares                        | 133      |
|                                    |          | Non-controlling interests                            | 126      |
|                                    |          | Total net assets                                     | 100,200  |
| Total assets                       | 365,503  | Total liabilities and net assets                     | 365,503  |

(Translation)

## Consolidated Statement of Operations

(From April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

| Account title   | Amount |         |
|---|--------|---------|
| Net sales   |        | 441,452 |
| Cost of sales   |        | 322,624 |
| Gross profit  |        | 118,827 |
| Selling, general and administrative expenses                  |        | 101,305 |
| Operating income  |        | 17,522  |
| Non-operating income  |        |         |
| Interest income   | 97     |         |
| Dividend income   | 1,302  |         |
| Dividend income of insurance                                  | 391    |         |
| Other   | 627    | 2,419   |
| Non-operating expenses  |        |         |
| Interest expense  | 1,633  |         |
| Foreign exchange loss   | 1,280  |         |
| Penalty   | 425    |         |
| Other   | 1,125  | 4,464   |
| Ordinary income   |        | 15,477  |
| Extraordinary profit  |        |         |
| Gain on sale of property, plant and equipment                 | 1,426  |         |
| Gain on sale of investments in securities                     | 969    | 2,396   |
| Extraordinary loss  |        |         |
| Loss on sale and disposition of property, plant and equipment | 475    |         |
| Loss on impairment of fixed assets                            | 2,890  |         |
| Business structure improvement expenses                       | 3,489  | 6,855   |
| Profit before income taxes                                    |        | 11,018  |
| Income taxes  | 2,476  |         |
| Income taxes deferred   | 108    | 2,585   |
| Profit  |        | 8,432   |
| Loss attributable to non-controlling interests                |        | 27      |
| Profit attributable to owners of parent                       |        | 8,405   |

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## Consolidated Statement of Changes in Net Assets

(Year ended March 31, 2019)

(Unit: Millions of yen)

|   | Shareholders' equity |                            |                   |                         |                            |
|---|----------------------|----------------------------|-------------------|-------------------------|----------------------------|
|   | Capital stock        | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| Balance at April 1, 2018  | 44,000               | 19,795                     | 45,983            | (563)                   | 109,215                    |
| Changes during the term under review  |                      |                            |                   |                         |                            |
| Dividends from surplus  |                      |                            | (2,603)           |                         | (2,603)                    |
| Profit attributable to owners of parent   |                      |                            | 8,405             |                         | 8,405                      |
| Purchases of treasury stock   |                      |                            |                   | (448)                   | (448)                      |
| Disposition of treasury stock   |                      | (9)                        |                   | 30                      | 21                         |
| Change in ownership interest of parent due to transactions with non-controlling interests |                      | (728)                      |                   | (15)                    | (744)                      |
| Net changes in items other than shareholders' equity during the term under review         |                      |                            |                   |                         |                            |
| Net changes during the term under review  | -                    | (737)                      | 5,801             | (433)                   | 4,630                      |
| Balance at March 31, 2019   | 44,000               | 19,057                     | 51,785            | (997)                   | 113,845                    |

|   | Accumulated other comprehensive income               |                                |                         |   |  | Subscription rights to shares | Non-controlling interests | Total net assets |
|---|--|--------------------------------|-------------------------|---|--|-------------------------------|---------------------------|------------------|
|   | Net unrealized holding gain/loss on other securities | Loss / Gain on deferred hedges | Translation adjustments | Retirement benefits liability adjustments | Total accumulated other comprehensive income |                               |                           |                  |
| Balance at April 1, 2018  | 6,578  | 34                             | (12,203)                | (3,455)                                   | (9,045)                                      | 101                           | 1,873                     | 102,144          |
| Changes during the term under review  |  |                                |                         |   |  |                               |                           |                  |
| Dividends from surplus  |  |                                |                         |   |  |                               |                           | (2,603)          |
| Profit attributable to owners of parent   |  |                                |                         |   |  |                               |                           | 8,405            |
| Purchases of treasury stock   |  |                                |                         |   |  |                               |                           | (448)            |
| Disposition of treasury stock   |  |                                |                         |   |  |                               |                           | 21               |
| Change in ownership interest of parent due to transactions with non-controlling interests |  |                                |                         |   |  |                               |                           | (744)            |
| Net changes in items other than shareholders' equity during the term under review         | (3,761)  | 134                            | 1,318                   | (2,551)                                   | (4,858)                                      | 31                            | (1,746)                   | (6,574)          |
| Net changes during the term under review  | (3,761)  | 134                            | 1,318                   | (2,551)                                   | (4,858)                                      | 31                            | (1,746)                   | (1,943)          |
| Balance at March 31, 2019   | 2,816  | 169                            | (10,884)                | (6,006)                                   | (13,904)                                     | 133                           | 126                       | 100,200          |



(Translation)

## Notes to Consolidated Financial Statements

### Principles for Preparing Consolidated Financial Statements and Notes to Changes in Scope of Consolidation and Scope of Equity Method Application

#### 1. Scope of consolidation

- (1) Number of consolidated subsidiaries: 79 companies

Names of major consolidated subsidiaries:

Oki Data Corporation; Oki Customer Adtech Co., Ltd.; Oki Wintech Co., Ltd.; OKI Software Co., Ltd.; Oki Proserve Co., Ltd.; Nagano Oki Electric Co., Ltd.; Oki Electric Cable Co., Ltd.; Oki Data Americas, Inc.; Oki Data Manufacturing (Thailand) Co., Ltd.; Oki Europe Ltd.; Oki Electric Industry (Shenzhen) Co., Ltd.

- (2) Changes in scope of consolidation:

The following companies have been excluded from the scope of consolidation: 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.

#### 2. Application of equity method

- (1) Name of affiliated company to which the equity method is not applied:

Marubeni OKI Network Solutions Inc. and other two companies

- (2) Name of affiliated company to which the equity method is not applied:

TOWN NETWORK SERVICE Corporation

Reason for not applying the equity method:

The company has little influence and have no significance on profit or loss and retained earnings.

#### 3. Accounting standards

- (1) Valuation standards and methods for significant assets

- (i) Negotiable 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 negotiable 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

(Translation)

assets; sales costs are calculated by mainly the moving average method.)

Non-marketable securities:

Mainly 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:

Principally 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:

Principally 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:

Principally 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 primarily 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 durable years (mainly 5 years), is used.

Overseas consolidated subsidiaries primarily 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 for provision of reserves

(i) Allowance for doubtful receivables

(Translation)

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

Some consolidated subsidiaries register the necessary amount at the end of the year in accordance with internal rules to prepare for the payment of Directors' retirement allowance.

(4) Basis for provision of income and expense

Basis for provision of income relating to contract work and software development contracts

a. Income from those with certain 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.)

b. Other income

Inspection basis (completed-contract method for some domestic consolidated subsidiaries)

(5) Important 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) Means of hedging and coverage

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.

(6) Amortization of goodwill and amortization period

(Translation)

Goodwill is evenly amortized over its useful life (mainly five years).

(7) Other important matters in preparation of consolidated financial statements

(i) Method of accounting for retirement benefits

a. Attributing expected retirement benefits to a period

When calculating retirement benefit obligations, the Company applies the benefit formula basis to attribute expected retirement benefits to the period until the end of the fiscal year under review.

b. 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) within 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) within the average remaining years of service of employees at the time of their accrual in each fiscal year. Amortization of such gains and losses is deemed to be effective from the year after the one in which they arise.

(ii) Accounting processing of consumption tax

The tax-exclusion method is used for accounting of consumption tax and local consumption tax.

(iii) Application of consolidated tax payment

The consolidated tax payment is applied.

### Notes on Changes in Presentation

(Change made to reflect adoption of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

The Company has adopted Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. (ASBJ Statement No. 28, February 16, 2018) since the beginning of the fiscal year under review, and made changes to classifications (i.e. classified deferred tax assets into investments and other assets and deferred tax liabilities into long-term liabilities).

### Additional Information

Oki Banking Systems (Shenzhen) Co., Ltd., an OKI Group 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 RMB1,115,463 thousand (¥18,382 million if converted to Japanese yen based on the exchange rate as of the end of the fiscal year under review) 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 was recorded at the end of the fiscal year under review.

(Translation)

**Notes to Consolidated Balance Sheet**

|  |                  |
|--|------------------|
| 1. Assets pledged as collateral for borrowings               |                  |
| Investments in securities                                    | ¥14,609 million  |
| Liabilities collateralized by the above assets:              |                  |
| Short-term borrowings  | ¥4,500 million   |
| 2. Assets pledged as collateral for bank guarantees          |                  |
| Investments and other assets                                 | ¥2,606 million   |
| 3. Accumulated depreciation on property, plant and equipment | ¥157,470 million |
| 4. Liabilities for guarantee                                 |                  |
| Guarantee for borrowings by employees                        | ¥141 million     |
| 5. Contingent liabilities                                    |                  |

OKI Brasil Indústria e Comércio de Produtos e Tecnologia em Automação S.A (hereinafter “OKI Brasil”), a consolidated subsidiary of the Company, 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.

(Translation)

### Notes to Consolidated Statement of Changes in Net Assets

1. Matters concerning class and total number of shares outstanding as of the end of FY2018  
Common Stock 87,217 thousand shares

2. Matters concerning appropriation of surplus

(1) Dividends paid

| Resolution  | Class of shares | Source of dividends | Total dividends (millions of yen) | Dividends per share (yen) | Record date    | Effective date |
|---|-----------------|---------------------|-----------------------------------|---------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders on June 22, 2018 | Common Stock    | Retained earnings   | 2,605                             | 30.00                     | March 31, 2018 | June 25, 2018  |

- (2) Dividends for which the record date falls in the fiscal year under review and the effective date falls in the following fiscal year.

| Proposal  | Class of shares | Source of dividends | Total dividends (millions of yen) | Dividends per share (yen) | Record date    | Effective date |
|---|-----------------|---------------------|-----------------------------------|---------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders on June 21, 2019 | Common Stock    | Retained earnings   | 4,325                             | 50.00                     | March 31, 2019 | June 24, 2019  |

3. Number of shares to be issued upon exercise of equity warrants

| Category    | Breakdown of equity warrants                       | Type of shares to be issued upon exercise of equity warrants | Number of shares to be issued upon exercise of equity warrants (shares) |
|-------------|--|--|---|
| The Company | FY2016 Equity Warrants (issued on August 16, 2016) | Common stock   | 35,500  |
|             | FY2017 Equity Warrants (issued on August 15, 2017) | Common stock   | 49,800  |
|             | FY2018 Equity Warrants (issued on August 14, 2018) | Common stock   | 60,400  |

(Translation)

## **Notes on 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.

(Translation)

## 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.)

(Unit: Millions of yen)

|   | Amount recorded in consolidated balance sheet | Fair value | Difference |
|---|---|------------|------------|
| ( 1 ) Cash and deposits                 | 29,730  | 29,730     | –          |
| ( 2 ) Notes and accounts receivable     | 106,672                                       | 106,672    | –          |
| ( 3 ) Investments in securities         | 34,895  | 34,903     | 8          |
| ( 4 ) Long-term trade receivables       | 21,940  |            |            |
| Allowance for doubtful receivables (*2) | (14,490)                                      |            |            |
|   | 7,450   | 7,450      | –          |
| ( 5 ) Notes and accounts payable        | (67,465)                                      | (67,465)   | –          |
| ( 6 ) Short-term borrowings (*3)        | (30,570)                                      | (30,570)   | –          |
| ( 7 ) Other accrued expenses            | (21,764)                                      | (21,764)   | –          |
| ( 8 ) Long-term debt (*3)               | (47,983)                                      | (48,377)   | 394        |
| ( 9 ) Derivative transactions           | 559   | 559        | –          |

(\*1) Those recorded as liabilities are shown within brackets.

(\*2) Allowance for doubtful receivables specifically provided for long-term trade receivables is deducted.

(\*3) Long-term debt (¥18,310 million) that will be reimbursed within one year are classified as “short-term” borrowings in the consolidated balance sheet.

Notes:

### 1. Disclosure concerning methods of calculation of fair value of financial instruments, securities and derivative transactions

#### (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 based on the relevant 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.

#### (4) Long-term trade receivables

Fair value of long-term trade receivables is based on the amount after deducting the present estimated doubtful receivables from the book value as estimated doubtful receivables are calculated based on the present value of loans / receivables.

#### (5) Notes and accounts payable, (6) Short-term borrowings, and (7) 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 based on the relevant book value.

#### (8) Long-term debt

The fair value of these items is based primarily on the method of calculation whereby the sum of principal and interest is discounted by an assumed interest rate on the assumption that the said sum is freshly borrowed in a similar manner. Some long-term debt with floating interest rates are prescribed to be subject to special accounting treatment applicable to interest rate swaps (see (9) 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 a reasonably estimable interest rate on the assumption that the said amount is freshly borrowed in a similar manner.

#### (9) Derivative transactions

Derivative transactions subject to allocation treatment applicable to currency swaps, and to special accounting treatment applicable 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.



(Translation)

2. Financial instruments whose fair value is considered extremely difficult to assess  
Unlisted equity securities (¥8,725 million on the consolidated balance sheet) 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.

### Notes to Per-share Information

1. Net assets per share: ¥1,155.28
2. Earnings per share: ¥97.16

### Other Notes (Notes on Loss on impairment of fixed assets)

The Group posted impairment losses of ¥3,127 million for the fiscal year under review, of which ¥2,890 million were presented as impairment losses in the extraordinary loss category and ¥237 million were included in business structure improvement expenses in the same category.

Major impairment losses are described below.

| Business                | Purpose of use  | Location                         | Type of assets                      | Amount<br>(millions of yen) |
|-------------------------|-----------------|----------------------------------|-------------------------------------|-----------------------------|
| Mechatronics<br>Systems | Business assets | Japan                            | Buildings and structures            | 1,102                       |
|                         |                 |                                  | Machinery, equipment<br>and vehicle | 397                         |
|                         |                 |                                  | Tools, furniture and<br>fixtures    | 627                         |
|                         |                 |                                  | Intangible assets                   | 86                          |
|                         |                 |                                  | Other assets                        | 30                          |
|                         |                 | China, and<br>other<br>countries | Machinery, equipment<br>and vehicle | 43                          |
|                         |                 |                                  | Tools, furniture and<br>fixtures    | 112                         |
|                         |                 |                                  | Intangible assets                   | 448                         |
|                         |                 |                                  | Other assets                        | 3                           |

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.

(Translation)

### Other Notes (Notes on Securities)

#### 1. Other negotiable securities

(Unit: Millions of yen)

|   | Amount recorded in consolidated balance sheet | Acquisition cost | Difference |
|---|---|------------------|------------|
| (Securities whose amounts recorded in consolidated balance sheet exceed their acquisition costs)            | 14,271  | 9,217            | 5,054      |
| Equity Securities   |   |                  |            |
| Subtotal  | 14,271  | 9,217            | 5,054      |
| (Securities whose amounts recorded in consolidated balance sheet are not more than their acquisition costs) | 20,623  | 21,480           | (856)      |
| Equity Securities   |   |                  |            |
| Subtotal  | 20,623  | 21,480           | (856)      |
| Total   | 34,895  | 30,698           | 4,197      |

#### 2. Other securities sold during the consolidated fiscal year under review

(From April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

| Type              | Sales amount | Total gain on sales | Total loss on sales |
|-------------------|--------------|---------------------|---------------------|
| Equity Securities | 1,466        | 717                 | 44                  |
| Total             | 1,466        | 717                 | 44                  |

#### 3. Impaired securities

Impairment has not been applied to securities for the fiscal year under review.

Impairment was applied to amounts for which impairment was considered necessary based on a comprehensive judgment on whether values would rise or not, and the amounts were impaired if their market values at the end of the year under review were remarkably lower than their acquisition costs.

(Translation)

**Other Notes (Notes on Business Combination)**

1. Transactions, etc. 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

(i) Name and content of business of the Company involved in the merger

Name of the company involved in the merger:

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

(ii) Date of business combination

December 21, 2018

(iii) Legal forms of business combination

Purchases of stock

(iv) Name of the company after combination

No change in name

(v) 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 |
| Acquisition cost                  |                   | ¥762 million |

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

(i) Major factor of change in additional paid-in capital

Acquisition of additional shares of a subsidiary

(ii) Amount of additional paid-in capital decreased by transactions with non-controlling shareholders

¥762 million

(Translation)

## Transcript of Accounting Auditors' Report on Consolidated Financial Statements

### Independent Auditors' Report

May 20, 2019

To: Board of Directors  
Oki Electric Industry Co., Ltd.

PricewaterhouseCoopers Aarata LLC  
Kensuke Koda,  
Engagement Partner, Certified Public Accountant  
Hiroyuki Sawayama,  
Engagement Partner, Certified Public Accountant  
Masataka Kubota,  
Engagement Partner, Certified Public Accountant

We have audited the consolidated financial statements – the consolidated balance sheets, the consolidated statement of operations, the consolidated statement of changes in net assets equity and notes to the consolidated financial statements – of Oki Electric Industry Co., Ltd. for the 95th term from April 1, 2018 to March 31, 2019 in accordance with Article 444 Paragraph 4 of the Companies Act.

#### Responsibility of management for preparing consolidated financial statements

Oki Electric Industry's management is responsible for preparing and presenting fairly these consolidated financial statements in accordance with corporate accounting standards generally accepted in Japan. This includes designing and operating internal control that the management determines necessary to prepare and fairly present these consolidated financial statements that are without material misstatement due to fraud or errors.

#### Responsibility of auditors

Our responsibility is to express our independent opinion regarding these consolidated financial statements based on audits by PricewaterhouseCoopers Aarata LLC. We conducted our audit in accordance with auditing standards generally accepted in Japan. These auditing standards require that we prepare audit plans and implement audit based on them to obtain reasonable assurance as to whether the consolidated financial statements are without material misstatement.

The audit requires procedures to obtain audit evidence about amounts and disclosure of these consolidated financial statements. The audit procedures are selected and applied based on evaluation of risks about material misstatement of these consolidated financial statements due to fraud or errors. Although the purpose of the audit is not to express our opinion about the effectiveness of internal control, we consider the internal control associated with preparation and fair presentation of these consolidated financial statements, in order to plan appropriate audit procedures in line with actual situations at the time of risk evaluation. Also, our audit includes reviews of accounting policies, and methods that management adopts, and an evaluation of management estimates and the presentation of the consolidated financial statements as a whole.

We believe we have obtained enough and appropriate audit evidence as the basis for our opinion.

#### Audit opinion

We concluded that the consolidated financial statements fairly present in all aspects Oki Electric Industry's and its subsidiaries' assets and income or loss in accordance with corporate accounting standards generally accepted in Japan.

#### Conflict of interest

No conflict of interest as defined by the Accounting Law exists between Oki Electric Industry, our firm (PricewaterhouseCoopers Aarata LLC) and the respective engagement partners.

(Translation)

## Non-Consolidated Balance Sheet

(as of March 31, 2019)

(Unit: Millions of yen)

| Account title<br>(Assets)                                   | Amount |          | Account title<br>(Liabilities)                       | Amount |         |
|---|--------|----------|--|--------|---------|
| Current assets  |        |          | Current liabilities                                  |        |         |
| Cash and deposits   |        | 14,971   | Notes payable  |        | 6       |
| Notes receivable  |        | 2,442    | Electronically recorded obligations - operating      |        | 3,863   |
| Accounts receivable, trade                                  |        | 60,228   | Accounts payable, trade                              |        | 44,644  |
| Lease investment assets                                     |        | 11,488   | Short-term borrowings                                |        | 25,525  |
| Finished goods  |        | 4,433    | Current portion of long-term debt                    |        | 17,422  |
| Work in process   |        | 18,064   | Lease obligations                                    |        | 2,730   |
| Raw materials and supplies                                  |        | 6,327    | Accounts payable, others                             |        | 10,709  |
| Advance payments - trade                                    |        | 95       | Other accrued expenses                               |        | 7,309   |
| Prepaid expenses  |        | 1,641    | Income taxes payable                                 |        | 549     |
| Short-term loans  |        | 6,790    | Advances received                                    |        | 1,424   |
| Accounts receivable-other                                   |        | 6,986    | Deposits received                                    |        | 12,804  |
| Other current assets  |        | 389      | Unearned revenue                                     |        | 2       |
| Allowance for doubtful receivables                          |        | (24)     | Provision for product warranties                     |        | 323     |
| Total current assets  |        | 133,834  | Provision for directors' bonuses                     |        | 149     |
| Non-current assets  |        |          | Provision for loss on construction contracts         |        | 2,319   |
| Property, plant and equipment                               |        |          | Provision for contingent loss                        |        | 251     |
| Buildings   | 30,953 |          | Provision for loss on Anti-Monopoly Act              |        | 60      |
| Accumulated depreciation                                    | 23,716 | 7,237    | Other current liabilities                            |        | 5       |
| Structures  | 2,190  |          | Total current liabilities                            |        | 130,102 |
| Accumulated depreciation                                    | 1,710  | 479      | Long-term liabilities                                |        |         |
| Machinery and equipment                                     | 11,712 |          | Long-term debt                                       |        | 29,229  |
| Accumulated depreciation                                    | 10,106 | 1,605    | Lease obligations                                    |        | 11,701  |
| Vehicle   | 68     |          | Deferred tax liabilities                             |        | 6,155   |
| Accumulated depreciation                                    | 59     | 9        | Retirement benefits                                  |        | 6,335   |
| Tools, furniture and fixtures                               | 36,495 |          | Provision for product warranties                     |        | 213     |
| Accumulated depreciation                                    | 30,491 | 6,004    | Provision for loss on construction contracts         |        | 151     |
| Land  |        | 1,805    | Provision for contingent loss                        |        | 42      |
| Construction in progress                                    |        | 55       | Provision for loss on Anti-Monopoly Act              |        | 322     |
| Total property, plant and equipment                         |        | 17,197   | Asset retirement obligations                         |        | 1,072   |
| Intangible assets   |        |          | Other long-term liabilities                          |        | 896     |
| Goodwill  |        | 1        | Total long-term liabilities                          |        | 56,118  |
| Right of using facilities                                   |        | 110      | Total liabilities                                    |        | 186,221 |
| Software  |        | 7,124    | (Net Assets)   |        |         |
| Total intangible assets                                     |        | 7,237    | Shareholders' equity                                 |        |         |
| Investments and other assets                                |        |          | Capital stock  |        | 44,000  |
| Investments in securities                                   |        | 40,157   | Additional paid-in capital                           |        | 21,540  |
| Investments in and advances to subsidiaries and affiliates  |        | 55,244   | Capital reserve                                      |        | 15,000  |
| Contribution  |        | 88       | Other additional paid-in capital                     |        | 6,540   |
| Contribution in subsidiaries and affiliates                 |        | 98       | Retained earnings                                    |        | 12,433  |
| Long-term loans receivable from subsidiaries and affiliates |        | 21,785   | Other retained earnings                              |        | 12,433  |
| Claims provable in bankruptcy, rehabilitation and other     |        | 31       | Retained earnings carried forward                    |        | 12,433  |
| Long-term prepaid expenses                                  |        | 174      | Treasury stock, at cost                              |        | (989)   |
| Prepaid pension cost  |        | 4,415    | Total shareholders' equity                           |        | 76,983  |
| Lease and guarantee deposits                                |        | 3,247    | Valuation, translation adjustments and others        |        |         |
| Other investments and other assets                          |        | 231      | Net unrealized holding gain/loss on other securities |        | 2,605   |
| Allowance for doubtful receivables                          |        | (17,800) | Total valuation, translation adjustments and others  |        | 2,605   |
| Total investments and other assets                          |        | 107,674  | Subscription rights to shares                        |        | 133     |
| Total non-current assets                                    |        | 132,109  | Total net assets                                     |        | 79,722  |
| Total assets  |        | 265,944  | Total liabilities and net assets                     |        | 265,944 |

(Translation)

**Non-Consolidated Statement of Operations**  
(From April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

| Account title  | Amount |         |
|--|--------|---------|
| Net sales  |        | 215,960 |
| Cost of sales  |        | 173,907 |
| Gross profit   |        | 42,053  |
| Selling, general and administrative expenses                                   |        | 39,527  |
| Operating income   |        | 2,525   |
| Non-operating income   |        |         |
| Interest income  | 694    |         |
| Dividend income  | 9,044  |         |
| Other  | 1,464  | 11,204  |
| Non-operating expenses   |        |         |
| Interest expense   | 1,369  |         |
| Provision of allowance for doubtful receivables                                | 1,883  |         |
| Other  | 1,059  | 4,312   |
| Ordinary income  |        | 9,417   |
| Extraordinary profit   |        |         |
| Gain on sale of investments in securities                                      | 380    |         |
| Provision for loss on business of subsidiaries and affiliates                  | 1,114  | 1,494   |
| Extraordinary loss   |        |         |
| Loss on sale and disposition of property, plant and equipment                  | 289    |         |
| Loss on impairment of fixed assets   | 1,902  |         |
| Write-downs of investments in unconsolidated subsidiaries and other securities | 10     |         |
| Loss on valuation of shares of subsidiaries and affiliates                     | 765    | 2,968   |
| Profit before income taxes   |        | 7,942   |
| Income taxes   | (648)  |         |
| Income taxes deferred  | 132    | (515)   |
| Profit   |        | 8,457   |

(Translation)

## Non-Consolidated Statement of Changes in Net Assets

(Year ended March 31, 2019)

(Unit: Millions of yen)

|   | Shareholders' equity |                            |                                  |                                  |                         |                         |                         |                            |
|---|----------------------|----------------------------|----------------------------------|----------------------------------|-------------------------|-------------------------|-------------------------|----------------------------|
|   | Capital stock        | Additional paid-in capital |                                  |                                  | Retained earnings       |                         | Treasury stock, at cost | Total shareholders' equity |
|   |                      | Capital reserve            | Other additional paid-in capital | Total additional paid-in capital | Other retained earnings | Total retained earnings |                         |                            |
| Balance at April 1, 2018  | 44,000               | 15,000                     | 6,549                            | 21,549                           | 6,581                   | 6,581                   | (460)                   | 71,670                     |
| Changes during the term under review  |                      |                            |                                  |                                  |                         |                         |                         |                            |
| Dividends from surplus  |                      |                            |                                  |                                  | (2,605)                 | (2,605)                 |                         | (2,605)                    |
| Profit  |                      |                            |                                  |                                  | 8,457                   | 8,457                   |                         | 8,457                      |
| Purchases of treasury stock   |                      |                            |                                  |                                  |                         |                         | (560)                   | (560)                      |
| Disposition of treasury stock   |                      |                            | (9)                              | (9)                              |                         |                         | 30                      | 21                         |
| Net changes in items other than shareholders' equity during the term under review |                      |                            |                                  |                                  |                         |                         |                         |                            |
| Net changes during the term under review  | -                    | -                          | (9)                              | (9)                              | 5,851                   | 5,851                   | (529)                   | 5,312                      |
| Balance at March 31, 2019   | 44,000               | 15,000                     | 6,540                            | 21,540                           | 12,433                  | 12,433                  | (989)                   | 76,983                     |

|   | Valuation, translation adjustments and others        |                                |   | Subscription rights to shares | Total net assets |
|---|--|--------------------------------|---|-------------------------------|------------------|
|   | Net unrealized holding gain/loss on other securities | Loss / Gain on deferred hedges | Total valuation, translation adjustments and others |                               |                  |
| Balance at April 1, 2018  | 5,733  | -                              | 5,733   | 101                           | 77,505           |
| Changes during the term under review  |  |                                |   |                               |                  |
| Dividends from surplus  |  |                                |   |                               | (2,605)          |
| Profit  |  |                                |   |                               | 8,457            |
| Purchases of treasury stock   |  |                                |   |                               | (560)            |
| Disposition of treasury stock   |  |                                |   |                               | 21               |
| Net changes in items other than shareholders' equity during the term under review | (3,127)  | -                              | (3,127)   | 31                            | (3,095)          |
| Net changes during the term under review  | (3,127)  | -                              | (3,127)   | 31                            | 2,217            |
| Balance at March 31, 2019   | 2,605  | -                              | 2,605   | 133                           | 79,722           |

(Translation)

## **Note to Non-consolidated Financial Statements**

### **Significant Accounting Policies**

#### **1. Standards and valuation methods for negotiable securities**

Shares of subsidiaries and affiliated companies:

Stated at cost based on the moving average method

Other negotiable securities:

Marketable securities:

Stated at fair value based on the market price at the end of the fiscal year

(The difference between book value and fair value is included in net assets.

The sale cost is calculated by using the moving average method.)

Non-marketable securities: Stated at cost based on the moving average method

#### **2. Standards and valuation methods for derivatives**

Derivatives: Stated at fair value

#### **3. Standards and valuation methods for inventories**

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.)

#### **4. Depreciation and amortization**

Property, plant and equipment (excluding lease assets): Declining-balance method

The straight-line method is applied to buildings, excluding annexed structures, acquired on or after April 1, 1998.

Intangible assets (excluding lease assets)

Software for sale in the market:

Amortization method based on the estimated amounts of sales in the estimated number of years for sales (3 years)

Software for internal use:

Straight-line method based on the estimated durable years (mainly 5 years)

Others: Straight-line method



(Translation)

#### Lease assets

(Lease assets relating to finance lease transactions without transfer of ownership):

They are depreciated over the lease contract's lifetime by the straight-line method, assuming the residual value is zero.

### **5. Basis for provision of reserves**

#### Allowance for doubtful receivables

To prepare for any losses on accounts receivable and loans, the Company calculates the amount of potential loss by using the historical loss ratio in the case of non-classified loans/receivables and by individual assessment in the case of classified loans/receivables.

#### Provision for product warranties

To prepare for the expenses caused by free repairs that occur after product sales, the Company includes a provision for product warranties based on past performance or individual estimates.

#### Provision for directors' bonuses

To prepare for the payment of bonuses to officers (includes executive officers, the same applies below), the Company records the amount attributable to the current fiscal year out of the amount of bonuses expected to be paid to officers.

#### Provision for loss on construction contracts

To prepare for any losses on construction contracts, the estimated amount of losses for the following fiscal years are calculated for some of the orders backlog as of the end of the fiscal year under review, which are likely to incur losses and for which the amounts thereof can be reasonably estimated.

#### Provision for contingent loss

To prepare for losses that may occur in the future, the Company includes a provision for contingency losses rationally calculated based on individual risks, etc.

#### Provision for loss on Anti-Monopoly Act

To prepare for any losses relating to the Anti-Monopoly Act, the estimated amount for the current fiscal year end is recorded.

#### Retirement benefits

To prepare for payment of retirement benefits to employees, the Company records the amount recognized to accrue at the end of the fiscal year based on the estimated values of retirement benefit obligations and pension assets.

Prior service cost is amortized by the straight-line method over a certain number of years (13 years) within the average remaining years of service of employees.

The actuarial difference is amortized proportionately using the straight-line method over a certain number of years (13 years) within the average remaining service period of the employees from the fiscal year after the one in which it arises.

(Translation)

## **6. Hedge accounting methods**

### (1) 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 the requirements for special treatment.

### (2) Means of hedging and hedged item

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 and long-term debt.

### (3) Hedging policy

Derivative instruments are used to hedge fluctuations of market rates on credits and debts.

### (4) Assessment method of hedging effectiveness

To determine the effectiveness, the Company compares the accumulated total of the market fluctuations or the cash flow fluctuations for the hedged item 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. Other important matters in preparation of non-consolidated financial statements**

### (1) Accounting for retirement benefits

The methods of accounting for unappropriated amounts of unrecognized prior service costs and unrecognized actuarial gains and losses for retirement benefits differ from those in the consolidated financial statements.

### (2) Accounting processing of consumption tax

The tax-exclusion approach is applied for accounting of consumption tax and local consumption tax.

### (3) Application of consolidated tax payments

Consolidated tax payments are applied.

(Change made to reflect adoption of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

The Company has adopted Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. (ASBJ Statement No. 28, February 16, 2018) since the beginning of the fiscal year under review, and made changes to classifications (i.e. classified deferred tax assets into investments and other assets and deferred tax liabilities into long-term liabilities).

(Translation)

### Notes to Non-consolidated Balance Sheets

|  |                         |
|--|-------------------------|
| 1. Assets provided as collateral   |                         |
| Investments in securities  | ¥14,609 million         |
| Liabilities collateralized by the above assets   |                         |
| Short-term borrowings  | ¥4,500 million          |
| 2. Guarantee liabilities:  |                         |
| The Company provides guarantees for bank borrowings made by employees, and subsidiaries and affiliates as shown below. |                         |
| Oki HONG KONG LTD.   | ¥4,067 million          |
| (\$14,000 thousand, HK\$21,600 thousand, RMB134,000 thousand)  |                         |
| OKI Brasil Indústria e Comércio de Produtos e Tecnologia em Automação S.A.   | ¥3,240 million          |
|  | (113,885 thousand real) |
| Oki Data Americas, Inc.  | ¥1,665 million          |
|  | (\$15,000 thousand)     |
| Oki Printed Circuits Co., Ltd.   | ¥1,012 million          |
| Oki Wintech Co., Ltd.  | ¥772 million            |
| Oki Data Manufacturing (Thailand) Co., Ltd.  | ¥610 million            |
|  | (\$5,500 thousand)      |
| Oki Data Corporation   | ¥443 million            |
| Five other entities:   | ¥947 million            |
|  | <hr/>                   |
| Total:   | ¥12,760 million         |
| 3. Monetary claims receivable from and payable to subsidiaries and affiliates  |                         |
| Short-term monetary claims receivable from subsidiaries and affiliates:  | ¥16,964 million         |
| Long-term monetary claims receivable from subsidiaries and affiliates:   | ¥1,161 million          |
| Short-term monetary claims payable to subsidiaries and affiliates:   | ¥28,304 million         |
| Long-term monetary claims payable to subsidiaries and affiliates:  | ¥67 million             |

### Notes to Non-consolidated Statement of Operations

|   |                 |
|---|-----------------|
| Transactions with subsidiaries and affiliates |                 |
| Sales:  | ¥17,230 million |
| Purchases:                                    | ¥52,415 million |
| Non-operating transactions:                   | ¥12,776 million |

### Notes to Non-consolidated Statement of Changes in Net Assets

|  |                     |
|--|---------------------|
| Type and number of treasury stock as of the end of the fiscal year |                     |
| Common stock:  | 709 thousand shares |

(Translation)

### Notes to Deferred Tax Accounting

Major factors giving rise to deferred tax assets and liabilities

|  |                   |
|--|-------------------|
| Deferred tax assets  |                   |
| Nondeductible write-downs of shares of subsidiaries and affiliates               | ¥16,741 million   |
| Allowance for doubtful receivables   | ¥5,458 million    |
| Loss carry forwards  | ¥3,879 million    |
| Nondeductible retirement benefits  | ¥3,576 million    |
| Adjustments of losses on transfers among consolidated subsidiaries               | ¥3,411 million    |
| Nondeductible accrued bonuses  | ¥1,194 million    |
| Provision for loss on construction contracts                                     | ¥757 million      |
| Nondeductible write-downs of inventories   | ¥710 million      |
| Loss on impairment of fixed assets   | ¥571 million      |
| Balance of trust property with retirement benefits                               | ¥516 million      |
| Bad debts expenses   | ¥354 million      |
| Asset retirement obligations   | ¥328 million      |
| Others   | ¥1,770 million    |
| <hr/>  |                   |
| Subtotal deferred tax assets   | ¥39,265 million   |
| Valuation allowance  | ¥(36,121) million |
| <hr/>  |                   |
| Total deferred tax assets  | ¥3,144 million    |
| <hr/>  |                   |
| Deferred tax liabilities   |                   |
| Gain on valuation of investment securities                                       | ¥(5,723) million  |
| Nondeductible unrealized gain on contribution of securities to the pension trust | ¥(1,957) million  |
| Net unrealized holding gain/loss on other securities                             | ¥(1,058) million  |
| Prepaid pension cost   | ¥(378) million    |
| Others   | ¥(183) million    |
| <hr/>  |                   |
| Total deferred tax liabilities   | ¥(9,299) million  |
| <hr/>  |                   |
| Net deferred tax assets  | ¥(6,155) million  |

(Translation)

## Notes to Related Party Transactions

### 1. Subsidiaries, etc.

| Attribute  | Name of company, etc.  | Location              | Capital             | Business   | Voting right ratio | Relationship with related party   | Description of transactions        | Transaction amount (mil. yen) | Account item  | Ending balance (mil. yen) |
|------------|--|-----------------------|---------------------|--|--------------------|---|------------------------------------|-------------------------------|---|---------------------------|
| Subsidiary | Oki Wintech Co., Ltd.  | Shinagawa-ku, Tokyo   | ¥2,001 million      | Equipment work, designing, construction and maintenance of telecommunication, firefighting and other facilities  | (Direct) 100%      | Supply products etc., purchase of services, concurrent assumption of office | Sales of products                  | 5,472                         | Accounts receivable, trade                                  | 3,303                     |
| Subsidiary | OKI Software Co., Ltd.   | Warabi, Saitama Pref. | ¥400 million        | Development, design, manufacture and maintenance of software and embedded software, system building services, SI/solution services, consulting, outsourcing and sales of information equipment | (Direct) 100%      | Production of software on a contract basis, etc.                            | Purchase of services               | 13,784                        | Accounts payable, trade                                     | 4,531                     |
| Subsidiary | Oki Data Corporation   | Minato-ku, Tokyo      | ¥19,000 million     | Development, manufacture and sales of printer equipment and related other solutions  | (Direct) 100%      | Purchase of products, etc., concurrent assumption of office                 | Borrowings of funds                | -                             | Deposits received   | 2,927                     |
| Subsidiary | OKI Brasil Indústria e Comércio de Produtos e Tecnologia em Automação S.A. | Brazil                | BRL415,999 thousand | Design, development, manufacture, sales and maintenance of automation equipment  | (Direct) 100%      | Supply products etc., lending of funds, guarantee for borrowings            | Lending of funds<br>Debt guarantee | 5,153<br>3,240                | Long-term loans receivable from subsidiaries and affiliates | 5,787                     |
| Subsidiary | Oki Hong Kong, Ltd.  | Hong Kong             | US\$10,292 thousand | Holdings company, material procurement   | (Direct) 100%      | Supply products etc., lending of funds, guarantee for borrowings            | Lending of funds<br>Debt guarantee | 16,110<br>4,067               | Long-term loans receivable from subsidiaries and affiliates | 15,541                    |

#### Notes:

- The transactions amount excludes consumption tax, while the ending balance includes consumption tax.
- Conditions of transactions and policy in determining conditions
  - The Company determines conditions regarding purchase of services and sales of products based on market prices and conducting negotiation.
  - The Company determines the interest rate for the lending of funds by taking the market rate of interest into consideration. However, for some subsidiaries, the Company determines the said interest rate by taking the financial position of the subsidiaries. Transaction amount shows the average balance during the fiscal year because the transactions are repetitive.
  - Guarantee of obligation is performed with bank loans of OKI HONG KONG LTD. and OKI BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS E TECNOLOGIA EM AUTOMAÇÃO S.A. and the Company receives an annual premium of 0.1%.
- An allowance for doubtful accounts of ¥17,733 million has been recorded for loans to two subsidiaries. Furthermore, an allowance for doubtful accounts of ¥1,882 million has been provisioned this fiscal year.

### Notes to Per-share Information

- Net assets per share: ¥920.02
- Earnings per share: ¥97.77

(Translation)

## Transcript of Accounting Auditors' Report

### Independent Auditors' Report

May 20, 2019

To: Board of Directors  
Oki Electric Industry Co., Ltd.

PricewaterhouseCoopers Aarata LLC  
Kensuke Koda,  
Engagement Partner, Certified Public Accountant  
Hiroyuki Sawayama,  
Engagement Partner, Certified Public Accountant  
Masataka Kubota,  
Engagement Partner, Certified Public Accountant

We have audited the non-consolidated financial statements—the non-consolidated balance sheets, the non-consolidated statement of operations, the non-consolidated statement of changes in net assets and notes to the non-consolidated financial statements—and its supporting schedules of Oki Electric Industry Co., Ltd. for the 95th term from April 1, 2018 to March 31, 2019 in accordance with Article 436 Paragraph 2 Item 1 of the Companies Act.

**Responsibility of management for preparing non-consolidated financial statements and its supporting schedules**  
Oki Electric Industry's management is responsible for preparing and presenting fairly these non-consolidated financial statements and its supporting schedules in accordance with corporate accounting standards generally accepted in Japan. This includes designing and operating internal control that the management determines necessary to prepare and fairly present these non-consolidated financial statements and its supporting schedules that are without material misstatement due to fraud or errors.

#### Responsibility of auditors

Our responsibility is to express our independent opinion regarding these non-consolidated financial statements and its supporting schedules based on audits by PricewaterhouseCoopers Aarata LLC. We conducted our audit in accordance with auditing standards generally accepted in Japan. These auditing standards require that we prepare audit plans and implement audit based on them to obtain reasonable assurance as to whether the non-consolidated financial statements and its supporting schedules are without material misstatement.

The audit requires procedures to obtain audit evidence about amounts and disclosure of these non-consolidated financial statements and its supporting schedules. The audit procedures are selected and applied based on evaluation of risks about material misstatement of these non-consolidated financial statements and its supporting schedules due to fraud or errors. Although the purpose of the audit is not to express our opinion about the effectiveness of internal control, we consider the internal control associated with preparation and fair presentation of these non-consolidated financial statements and its supporting schedules, in order to plan appropriate audit procedures in line with actual situations at the time of risk evaluation. Also, our audit includes reviews of accounting policies, and methods that the management adopts, and an evaluation of management estimates and the presentation of the non-consolidated financial statements and its supporting schedules as a whole.

We believe we have obtained enough and appropriate audit evidence as the basis for our opinion.

#### Audit opinion

We concluded that the non-consolidated financial statements and its supporting schedules fairly present in all aspects Oki Electric Industry's assets and income or loss in accordance with corporate accounting standards generally accepted in Japan.

#### Conflict of interest

No conflict of interest as defined by the Accounting Law exists between Oki Electric Industry, our firm (PricewaterhouseCoopers Aarata LLC) and the respective engagement partners.

(Translation)

## Transcript of Audit & Supervisory Board's Report

### Audit & Supervisory Board's Report

We, the Audit & Supervisory Board, have prepared upon consultation this Audit Report based on reports compiled by each Audit & Supervisory Board Member with respect to Directors' performance of their duties during the 95th fiscal year from April 1, 2018 to March 31, 2019, as follows:

#### 1. Auditing methods used by Audit & Supervisory Board Members and the Audit & Supervisory Board, and details of audit

- (1) The Audit & Supervisory Board specified an audit policy, compiled audit plans and received reports from each Audit & Supervisory Board Member on the status of implementation and results of audits and also received reports from Directors and accounting auditors on the status of the execution of their duties and asked them for explanations as needed.
- (2) Each Audit & Supervisory Board Member, according to the audit standards, policy and plans set up by the Audit & Supervisory Board, has maintained good communications with Directors, the internal audit division and other employees and strived to collect information and improve the audit environment and conducted an audit by following the methods described below:
  - (a) We attended the meetings of the Board of Directors and other meetings as deemed important, received from Directors and employees reports on the execution of their duties, asked for explanations as necessary, perused the documents whereby the important decisions were made, and examined business and financial conditions at the head office and principal operating offices. With respect to the subsidiaries of the Company, we have maintained good communications and exchanged information with Directors, Audit & Supervisory Board Members and others and received reports on business conditions from the subsidiaries as needed.
  - (b) In addition, we have periodically received reports from Directors and employees, among others, required explanation when necessary, and made opinions with regard to the status of operations and the systems established thereon (internal control systems) made by the Board of Directors concerning the establishment of systems defined in Article 100, Paragraph 1 and Paragraph 3 of the Regulations for Enforcement of the Companies Act as necessary for ensuring compliance with laws and the Company's Articles of Incorporation in the performance of duties by Directors, described in the Business Report, and for ensuring appropriateness of duties of corporate group consisting of joint stock company and its subsidiaries. With respect to the internal controls over financial reporting, we have received reports on the internal control evaluation and status of the audits from the Directors, etc. and the PricewaterhouseCoopers Aarata LLC, and asked them for explanations as necessary.
  - (c) We have monitored and verified whether the accounting auditors maintained their independence and properly implemented audits, received from the auditors reports on the performance of their duties and asked them for explanations as necessary. The accounting auditors reported to us that "systems for ensuring proper execution of duties" (listed in each item of Article 131 of the Corporate Calculation Regulations) have been established in accordance with the quality control standards concerning audits (Business Accounting Council, October 28, 2005), and asked them for explanations as necessary.

Based on the methods mentioned above, we have reviewed the business report for the said fiscal year and their supplementary schedules, financial statements for the said fiscal year (balance sheet, statement of operations, statement of changes in shareholders' equity, and notes to non-consolidated financial statements), their supplementary schedules and consolidated financial statements (consolidated balance sheet, consolidated statement of operations, consolidated statement of changes in shareholders' equity, and notes to consolidated financial statements).

#### 2. Results of Audit

- (1) Results of audit of the business report
  - (a) We consider that the business report and its supplementary schedules fairly present the situation of the Company in accordance with relevant laws and regulations and the Company's Articles of Incorporation.
  - (b) With respect to the Directors' performance of their duties, we have found neither undue transactions nor material facts that violate relevant laws and regulations or the Company's Articles of Incorporation.
  - (c) We consider that the details of the resolution made by the Board of Directors concerning internal control procedures are proper. With respect to the details described in the Business Report and the Directors' performance of their internal control duties, we have found no issues to be pointed out. With respect to the internal controls over financial reporting, we received reports from Directors and PricewaterhouseCoopers Aarata LLC stating that there were no significant deficiencies warranting disclosure as of the date on which this report was prepared.
- (2) Results of audit of financial statements and their supplementary schedules  
We consider that the auditing methods and results of the Company's Accounting Auditors, PricewaterhouseCoopers Aarata LLC, are proper.
- (3) Results of audit of consolidated financial statements  
We consider that the auditing methods and results of the Company's Accounting Auditors, PricewaterhouseCoopers Aarata LLC, are proper.

May 20, 2019

The Audit & Supervisory Board, Oki Electric Industry Co., Ltd.  
Hisao Suzuki, Standing Audit & Supervisory Board Member  
Sei Yano, Standing Audit & Supervisory Board Member  
Kuninori Hamaguchi, Outside Audit & Supervisory Board Member  
Yoichi Nitta, Outside Audit & Supervisory Board Member