

May 9, 2018

Oki Electric Industry Co., Ltd.

Translation of Q&A for the Fiscal Year Ended March 31, 2019

Q: There are four things. The first question is that I believe that the personnel system was drastically changed several months ago. I would like you to explain the purpose of this change.

The second question is about the issue of a new bill. Could you tell us when and how the impact of the new bill will come?

Third, CAPEX and R&D expense have been increased substantially this time. Please tell us about the details of each by business segment.

Lastly, you have been applying the Japanese accounting standards so far, but are apparently considering applying International Financial Reporting Standards (IFRS) in the future as, it's mentioned in the financial results. Could you tell us what effect this will have on the P&L and balance sheet?

A: Let me answer your questions in a random order. First of all, about the impact of the new bill, I believe that it would be around the previous fiscal year that the work begins affecting the actual sales. We will work on preparations including gathering of new bill information. A big difference from the last change in 2004 would be about the progress of cashless system. The last time, the number of ATMs was on the rise. However, we expect that this time, the modification of ATMs will be implemented, rather than the creation of new demand. In addition, last time, most ATMs were bank ATMs. With regard to the equipment we sell and operate, we are operating a considerable number of ATM units, including ATM units at convenience stores, in conjunction with bank ATMs. The biggest difference is the large increase in the number of cash-handling machines in the retail industries, including cash-handling machines of cash registers at convenience stores, and cash processing machines. This is why the breakdown of models for remodeling is different from 20 years ago.

We expect sales and earnings to increase somewhat, but we will continue to gather information on the status of new banknotes and refine them in the future. I believe that we will move in a positive direction.

With regard to R&D expense, we will first focus on new development projects for ICT aimed at the expansion of IoT. We will invest substantially in the development of new products and labor-saving equipment for the Mechatronics Systems segment and industrial equipment for the Printers segment. At the same time, as for capital expenditures, we expect to increase investment for molds in line with new products.

The plan for the amount of capital investment is 20 billion yen. Its breakdown is as follows. New investment for the future to be implemented is about five billion yen. Six billion yen is for the edge areas, where we have been working on, and marine businesses and other initiatives. Nine billion yen is for the improving the existing production technologies. In term of form of assets, about 15 billion yen is for the investment in the property, plant and equipment, about six billion yen is for intangible investments, including software.

I understand that the first question you asked is the personnel system, which was organized by the regular transfer in April, and the appointment of executives. One of objectives, especially stated as the policies, for this transfer was to strengthen sales and earnings capabilities. Toward this, we allocate personnel to strategic fields from the head office or shift them from management side to the front office.

One of the main objectives of this plan is to strengthen sales and business activities. Second, we will strengthen our governance by completing our internal control system. In implementing these policies, we have been integrating the Internal Control Promotion Division and the Risk and Compliance Management Division, and also integrating the Human Resources and General Affairs Divisions. At the same time, without increasing the number of divisions, we have been establishing a scrap-and-build system to create an efficient management system. We have caused worries for a time about important deficiencies to disclose, but we will strengthen our management system by completing the final stage, in order to create a system that will prevent such matters from taking place. From the standpoint of solving problems, we are aiming to create a system that will lead to improvement in operational efficiency and work style reform, as well as how this will lead to our ability to generate earnings.

In addition, regarding the IFRS response, responses to the new standards, as well as lease accounting, we established project teams and are currently preparing for the standardization of business operations and the development of IT, etc. in line with the internal control system.

Q: Regard to the new bill, my impression from your comment is that there are a large number of ATM machines on an accumulated basis. They are highly-value added from the point of view of modification investments, and in particular, there are holograms and other functions involved in the new banknotes. Therefore, the sales will not be so large, but they will be worth large values. Is that right?

A: We also hope such a thing. I haven't actually looked at the new banknotes, so I still don't know yet what the business will be like in the future.

Q: Regarding to ICT, in this fiscal year, sales will increase significantly and profits will remain unchanged or decrease due to positive upfront investments. Recently, former main frame manufacturers have been constantly restructuring. On the other hand, OKI seem to be trending relatively smoothly. Could you tell me how you analyze the background of this trend?

A: We have focused on edge computing and terminals to promote our business. Main frame manufacturers are working on their businesses in the upper areas, but we want to focus on the terminals of the area where the IoT is expanding. We have the strengths within the networking area. Going forward, as AI, including 5G, is becoming popular, and terminals are required to process rapidly to a certain extent and operate in real time, I think that the importance of terminals will increase. We have been working on a variety of projects. I don't know about other companies, but we are even running out of resources. We intend to expand our businesses, including priority businesses, while reallocating resources across the OKI Group.

Q: Regarding the Mechatronics Systems segment, please tell us the results and plans for the number of ATMs. And also, you told us that you are a little behind in the Brazil business. Could you tell us more details on that?

A: With regard to the number of ATMs, for domestic banks, it is 2,300 units in FY2018 and 3,000 units in FY2019. For convenience stores, it is 6,700 units in FY2018 and 8,000 units in FY2019. In China, it is 1,900 units in FY2018 and is 1,000 units in FY2019. In overseas excluding China, it is 5,400 units in FY2018, and 6,800 units in FY2019. In total, 16,300 units were sold in FY2018, an increase of about 300 units compared to FY2017. In FY2019,

we expect 19,000 units in total. This figure has been growing, offsetting negative growth in China, due mainly to the growth in domestic convenience stores and overseas excluding China.

I mentioned that the structural reform in Brazil has been delayed. In FY2017, of the five-billion-yen deficit in the Mechatronics System segment, four billion yen was from Brazil. We have restructured and streamlined our business structure, and have made various adjustments. Actually, I wanted to do it a little bit earlier, but all the preparation and completion of measurements were done finally in the beginning of July, 2018.

Consequently, fixed costs began to bear fruit from July. This is the explanation about the delay in the structural reform.

Q: The number of very small cells for 5G has been increasing, and you have strength in the field of PONs (Passive Optical Networks). I think that you may have come up with new earnings plans about the base stations for 5G. I would like you to tell us, to the extent possible, about what you think about that. I think the number of small base stations will increase considerably. So, please tell us about optical fiber, as the base stations and the edges around them. One more to ask, I would also like to ask you how many ATMs are currently in operation including for the convenience stores.

A: First of all, regarding the 5G-related question, we ourselves are not manufacturing terminals and base stations of 5G. We have possessed technologies and knowledge as we have been working as system integrator of creating network terminals. We have made various contributions to 5G in terms of construction of so-called backhubs. In regard to 5G developments, in Japan, LTE has been widely adopted. So, we expect that the 5G development will be made at a slower speed, and the equipment will not be renewed dramatically. What we anticipate more is the use of 5G. As I mentioned edge computing earlier, the use of 5G will increase the edge computing of terminals in the near future. We are hoping for higher speed capability and more processing on a terminal.

Please excuse for disclosing the total number of ATM units in operation. For information, every year, we consistently ship around 10,000 units, 3,000 units for domestic banks and 8,000 units for convenience stores. So, there are tens of thousands of units in the stock base.

Q: Regarding the ICT business, I think in the FY2019 plan, the extent of the increase in

profits is somewhat smaller than the considerable increase in sales. With upfront investments, the increase in fixed costs seems to be included in the analysis of changes in operating profit. I would like to hear more specifically. If possible, please tell us the details about the project which contributes to sales increase. For example, is the project for the IoT market or what, this will continue to grow in the future or not, or what the profit margin level will likely be.

A: While aiming for a significant increase in sales overall, we are currently aiming for an operating profit margin of over eight percent, and we have set this as a benchmark. Since there are many long-lasting projects, we will make upfront investments to generate steady sales in the future for this fiscal year, while at the same time generating sales in whatever way possible.

In the 5G era, we are looking at the field of automobiles, industrial machinery, meter-related equipment where equipment work not only as stand-alone, but also connect to and monitors each other, as well as having sensing functions. In the case of OKI, rather than autonomous driving for consumers, we are planning to invest in areas such as roads, infrastructure with IoT, and remote control in collaboration with various industrial machinery manufacturers and network companies, as well as a wide range of marine-related businesses,

Q: The profitability of ICT projects themselves are the same as in the past. Since some upfront investments are included, the increase in profits is expected to be at this level. Is this correct?

A: Yes, basically that's correct.

Q: Regarding the Mechatronics Systems segment, you explained that the structural reforms in Brazil have already been completed. I believe that the results of the Mechatronics Systems segment for FY2018 have improved considerably from the forecasts on February 1. What changes have been made in the fourth quarter? In addition, please tell us about the difference in the current environment by region.

A: First, by region, for the domestic market, it was extremely stable. We were able to generate revenue at almost the same level as in the previous fiscal year, though we were looking at our forecasts in a conservative way. In other words, we expected some impact from the

cashless trend, which has been widely talked about these days, and other factors, but the results were rather firmer than anticipated. Looking at the backlog of orders in Japan, orders have been firm. In service-related businesses, this figure surpassed ten billion yen last year, and we have steadily caught up in earnings. This has also supported our domestic businesses.

In China, although sales have fallen due to a decline in the number of units sold, profitability has been expanding again. Last year, we reported that it would break even, but it has turned positive. In overseas other than China, though price competition is challenging, the loss has declined more than we had anticipated. In other words, the loss has decreased since sales have increased significantly. In Brazil, the first quarter posted a deficit on a par with the FY2017, but since then, it has been almost flat, including special factors.

So, for the question “what happened in the fourth quarter?”, the answer is not that there were big projects in Japan or some other field, which improved by 1.1 billion yen. Rather, the cost structure reforms that had been carried out had produced results, and we were able to capture steadier demand than we had anticipated. On the other hand, in the various developments in the world, we have incorporated these factors in a modest way.

Q: Regarding the outlook for FY2019, China is growing steadily from zero profit, and Japan continues to generate stable earnings. Is this image correct? With regard to Brazil, how do you answer the question of whether it is red or black?

A: Regarding China, even though I said it's black, the total volume has decreased considerably. The profit in China is not the type of the black that supports the backbone of the entire Mechatronics Systems segment, meaning that is not bolstering the results. In Japan, we expect steady growth, including in the services business. Brazil is now almost breaking even.

Q: With regard to the Printers segment, in FY2019 plan, the increase in profits is likely to be large compared to the increase in sales. Could you please tell us about this?

A: With regard to the Printers segment, we are working to expand our current product lineup, from the office printer to the industrial printer that I mentioned last year. We will raise profitability of products themselves and the consumables associated with them. In this way,

we will change the composition of our existing products. Accordingly, we are planning a relationship between sales and profits in this way.

Q: About the Mechatronics Systems segment, there was a comment that demands for ATMs in FY2018 was stronger than anticipated. Could you tell us about the background to this? In addition, in the Mechatronics Systems segment, you seem to have a policy to increase recurring revenue business in the future. In this area, will its profitability improve or remain unchanged? And how do you increase recurring revenue business?

A: Regarding ATMs, as various financial institutions have announced, the number of ATMs for banking-related areas will decrease. On the other hand, demand for ATMs related to convenience stores is expected to expand. This is about the market situation today. At the same time, in terms of our ATM initiatives, traditional ATMs used to focus on cash deposits and withdrawals. I believe that in order to meet the demands of the general public, including financial institutions, handling various types of multi-purpose transactions will be required. In this sense, ATMs are essentially Auto Teller Machines, and they have a variety of multifunctional capabilities. I believe that this will be used for transactions in a more cross-over retail manner. So, we want to seek evolution of ATMs a little more. Given these circumstances, the recurring revenue business is not simply responsible for ATM operations, but rather aiming for a stable fee business that incorporates a variety of services, not just banking operations, but also a variety of other areas. With regard to the recurring revenue business, we aim to achieve stable revenue and profit growth, by increasing fees from stable transactions and various other kinds of transactions. In this way, we aim to achieve revenue and profit growth from recurring revenue business.

Note: The forward-looking statements in this document are made based on information currently available to OKI and certain assumptions considered reasonable as of the date of this material. Therefore, actual results may differ from its projections upon the changes of business environments and other conditions.

In addition, for convenience only, some additions and revisions were made.