

Oki Electric Industry Company, Limited
 Series 31st Unsecured Convertible-Bond-Type-Bonds With Stock Acquisition Rights
 (With Inter-Convertible-Bond-Type-Bonds-With-Stock-Acquisition-Rights Pari Passu Clause)

(*Mutanpo tenkan-shasai-gata shinkabu-yoyakuken-tsuki-shasai*
 (*tenkan-shasai-gata-shinkabu-yoyakuken-tsuki-shasai kan gentei doujun'i tokuyaku tsuki*))

Terms and Conditions of Bonds

The following sets forth the terms and conditions of Oki Electric Industry Company, Limited Series 31st Unsecured Convertible-Bond-Type-Bonds With Stock Acquisition Rights (With Inter-Convertible-Bond-Type-Bonds-With-Stock-Acquisition-Rights Pari Passu Clause) issued by Oki Electric Industry Company, Limited (the "Company") on 7 June 2006 pursuant to the resolutions of the board of directors meetings held on 23 May 2006 (hereinafter the "Convertible Bonds", with the bonds (*shasai*) constituting the Convertible Bonds being hereinafter the "Bonds" and the stock acquisition rights (*shinkabu yoyakuken*) being hereinafter the "Stock Acquisition Rights")

1. **Total issue amount** 18,000,000,000 yen
2. **Denomination** One denomination of 500,000,000 Yen
3. **Issue of bonds and form of bond certificate** Certificates of the Convertible Bonds shall be issued in bearer form. None of the bondholders of the Convertible Bonds (hereinafter the "Bondholders") may request conversion of the certificates of the Convertible Bonds to certificates of the same in registered form.
Under the operating parts of Article 254, Paragraphs 2 and 3 of the Company Law (*Kaisha Hou*) (the "Company Law"), Bonds and Stock Acquisition Rights may not be transferred separately.
4. **Interest rate** The Bonds bear no interest.
5. **Issue Price** 100 yen per 100 yen par value (provided that the Stock Acquisition Right will be issued without requiring any consideration).
6. **Redemption Price** 100 yen per 100 yen par value (provided that in case of redemption before maturity the redemption price will be as set out in paragraph 10(2) to 10(4)).
7. **Existence of any security/guarantee**
The Convertible Bonds are not subject to any security or guarantee, and there is no asset specially reserved for the Convertible Bonds.
8. **Existence of the bond manager (*shasai kanrisha*)**
The Convertible Bonds meet the conditions set out in the proviso of Article 702 of the Company Law and a bond manager is not required to be established.
9. **Payment Date** 7 June 2006
10. **Redemption method and period**
 - (1) The Bonds will be redeemed in whole on 5 June 2009 at 100 yen per 100 yen par value.
 - (2) In the event that a general meeting of shareholders of the Company passes a resolution to allow the Company to become a wholly-owned subsidiary of another corporation by way of share

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exchange (*kabushiki-koukan*) or share transfer (*kabushiki-iten*), or a resolution to dissolve the Company as a result of consolidation, amalgamation or merger (*gappei*), or a resolution for the Company's corporate split (*kyushu bunkatsu*) or corporate split (*shinsetsu bunkatsu*), the Company may, on or before the effective date of such share exchange, share transfer, consolidation, amalgamation or merger, or corporate split and upon giving not more than 60 days' but not less than 30 days' notice of such redemption to the Bondholders redeem all of the then outstanding Bonds (partial redemption prohibited) at 100 yen per 100 yen par value:

- (3) After the issue of the Convertible Bonds, the Company may, at its discretion, redeem before maturity all of the then outstanding Bonds (partial redemption prohibited) at 100 yen per 100 yen par value by giving to the Bondholders 1 week's notice prior to the date of the redemption.
- (4) After the issue of the Convertible Bonds, on and after the date when the closing price (including the indicative price) of the ordinary shares of the Company for ordinary market transactions (*futsuu torihiki*) on the Tokyo Stock Exchange falls below 219.1 yen (provided that if any of the *Chosei*-adjustment events set out in paragraph 11(11) or 11(13) occurs, the said price is subject to adjustment by applying *mutatis mutandis* paragraph 11(10) to 11(13)), a Bondholder has the right to request the Company to redeem before maturity all or part of the Bonds held by such Bondholder at 100 yen per 100 yen par value by specifying the Bonds for which the Bondholder requests early redemption and putting the date of request on the form designated by the Company (hereinafter the "Premature Redemption Request") and otherwise filling out the form and affixing the Bondholder's signature and seal thereto, and submitting the same, by no later than 2 weeks prior to the requested redemption date and together with the corresponding Convertible Bond certificates, to the paying agent for redemption proceeds (*shoukankin shiharai basho*) (hereinafter the "Paying Agent For Redemption Proceeds") set out in paragraph 17.
- (5) If the requested redemption date set out in this paragraph 10 falls on a bank holiday, such date shall be moved to the preceding bank business day.
- (6) The Company may, at any time on or after the date following the issue date of the Convertible Bonds, purchase and cancel any Convertible Bonds.

11 . Matters Relating to The Stock Acquisition Right

- (1) Number of Stock Acquisition Rights attached to the Bonds
One Stock Acquisition Right is attached to each Bond, and a total of 36 Stock Acquisition Rights shall be issued.
- (2) Issue price of the Stock Acquisition Rights
The Stock Acquisition Rights are issued for nil-consideration.
- (3) Date of allotment of the Stock Acquisition Rights (the "Allotment Date")
7 June 2006; provided, however, that any allotment is subject to payment of the issue price of the relevant Bonds no later than the Payment Date set out in paragraph 9.
- (4) Type and number of underlying shares to which the Stock Acquisition Rights relate
The type of underlying shares to which the Stock Acquisition Rights relate shall be ordinary shares of the Company. The number of ordinary shares of the Company to be either newly issued by the Company or disposed of from treasury (hereinafter "Delivered") upon exercise of the Stock Acquisition Rights (hereinafter the "Exercise") shall be the greatest integer not exceeding the quotient obtained by dividing the total issue price of the Bonds associated with the exercised Stock Acquisition Rights by the Conversion Price set out in paragraph 11(8) 2) below (provided that, in the event that *shusei*-adjustment or *chosei*-adjustment is made in accordance with paragraph 11(9) to 11(13), the Conversion Price after the *shusei*-adjustment or *chosei*-adjustment shall be used). In no event shall the Company make cash adjustments in respect of fractions of less than 1 share

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arising from the calculation.

- (5) **Period for exercise of the Stock Acquisition Rights**
Each Bondholder may, at any time from 8 June 2006 to 4 June 2009 (or, in the event of premature redemption of the Bonds by the Company pursuant to paragraph 10(2) or 10(3), to the bank business day preceding the date of such redemption) (hereinafter the "Exercise Period"), exercise its Stock Acquisition Rights; provided, however, that the event of occurrence of any acceleration event on the part of the Company with respect to the Bonds, the Bondholders may not Exercise the Stock Acquisition Rights on or after the date of occurrence of the acceleration event. In the event of premature redemption of all or part of the Bonds by the Company at the request of Bondholders pursuant to paragraph 10(4), the Bondholders may not Exercise the Stock Acquisition Rights after delivery of the documents for the request for the premature redemption to the Paying Agent For Redemption Proceeds. In this case, the stock acquisition rights attached to the convertible bonds associated with the Convertible Bonds delivered to the Paying Agent For Redemption Proceeds are deemed to have ceased to exist when the documents are delivered.
- (6) **Other conditions for Exercise of the Stock Acquisition Rights**
Bondholders may not Exercise part (not all) of each Stock Acquisition Right.
- (7) **Trigger events for acquisition of the Stock Acquisition Rights by the Company**
The Company does not specify the trigger events for acquisition by the Company.
- (8) **Assets subject to contribution upon Exercise of the Stock Acquisition Rights and their value**
 - 1) The contribution to be made upon Exercise of a Stock Acquisition Right shall be the Bond associated with the Stock Acquisition Right, and the value of the Bond shall be the same as its Redemption Price.
 - 2) The amount per share to be contributed upon Exercise of a Stock Acquisition Right (hereinafter the "Conversion Price") shall initially be JPY376. The Conversion Price is subject to *shusei*-adjustment and *chosei*-adjustment in accordance with paragraph 11(9) to 11(13), respectively.
- (9) ***Shusei*-adjustment of the Conversion Price**
After the issue of the Convertible Bonds, the Conversion Price shall be adjusted from the trading day following the 3rd Friday of each month (hereinafter the "Reset Date"). The Conversion Price shall be adjusted to equal 93% of the average of the daily closing price of the ordinary shares of the Company for ordinary market transactions on the Tokyo Stock Exchange for the 5 consecutive trading days ending on and including the relevant Reset Date (provided that any day without a closing price is excluded, and if the relevant Reset Date is not a trading day, for the 5 consecutive trading days ending immediately before the relevant Reset Date, hereinafter "Share Price Calculation Period") (to be rounded down to one decimal place yen; hereinafter the "*Shusei*-adjusted Conversion Price"). If any of the *Chosei*-adjustment events set out in paragraph 11(11) or 11(13) occurs during a Share Price Calculation Period, the *Shusei*-adjusted Conversion Price will be adjusted to the amount considered appropriate by the Company in accordance with these terms and conditions of the bonds; provided, however, that if the above calculation results in a *Shusei*-adjusted Conversion Price below 250.4 yen (hereinafter the "Floor Conversion Price"; provided that the said price is subject to adjustment under paragraph 11(10) to 11(13)), the Floor Conversion Price shall be taken as the *Shusei*-adjusted Conversion Price.
- (10) ***Chosei*-adjustment of the Conversion Price**

If, after the issuance of the Convertible Bonds, the Company makes or may make any change in the number of ordinary shares of the Company due to any of the events listed in paragraph 11(11) below, the Conversion Price will be adjusted in accordance with the formula set out below

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(hereinafter the "Chosei-adjustment Formula").

$$\text{NCP} = \text{OCP} \times \frac{N + \frac{n \times \text{issue/disposal price per share}}{\text{CMP}}}{N + n}$$

Where:

NCP = the Conversion Price after such adjustment
OCP = the Conversion Price before such adjustment
N = the number of shares outstanding
n = the number of shares to be newly Delivered
CMP = the current market price

(11) The events where the Conversion Price of the Convertible Bond shall be adjusted in accordance with the Chosei-adjustment Formula and the timing from when the Conversion Price after such adjustment shall apply are as set out below:

- 1) In the event that the Company Delivers ordinary shares of the Company at the issue/disposal price below the current market price as set out in paragraph 11(12) 2) below (excluding cases where such shares are Delivered in exchange of acquisition of shares with purchase request rights (*shutoku seikyuken tsuki kabushiki*) issued by the Company, or such Delivery is caused by request or exercise of such securities or right as a stock acquisition right (including those attached to bonds with stock acquisition rights) under which the holder may request delivery of ordinary shares of the Company)

The Conversion Price after the adjustment shall apply from the date following the payment date (in the event that a payment period is set upon an offering, the last day of such period; hereinafter the same), or, in the event that a record date is set for the purpose of granting the shareholders of the ordinary shares of the Company (hereinafter the "Ordinary Shareholders") the right to allotment, from the date following such record date.

- 2) In the event that the Company issues ordinary shares during a stock split (*kabushiki bunkatsu*) or distribution of gratis shares

The Conversion Price after the adjustment shall apply on and after the date following the record date for the stock split of the ordinary shares of the Company, from the date following the record date in the event that a record date is set for the purpose of granting the Ordinary Shareholders the right to allotment with respect to distribution of gratis shares of the ordinary shares of the Company, or, from the date following the effective date in the event that no record date is determined for the purpose of granting the Ordinary Shareholders the right to allotment with respect to distribution of gratis shares of the ordinary shares of the Company or in the event of distribution of gratis shares of the ordinary shares of the Company to the shareholders (other than the Ordinary Shareholders) ;

- 3) In the event that the Company issues shares with purchase request rights under which the Company will, in exchange of acquisition thereof, Deliver the ordinary shares of the Company (including the case of free allotment), or issues such securities or rights as stock acquisition rights (including those attached to bonds with stock acquisition rights) under which the holder may request Delivery of ordinary shares of the Company (including the case of free allotment), in each case at a price below the current market price set out in paragraph 11(12) 2)

The Conversion Price after the adjustment shall be calculated by applying the *Chosei*-adjustment Formula as if all of the shares with purchase request rights, such securities or rights as stock acquisition rights (including those attached to bonds with stock acquisition rights) (hereinafter collectively "Shares With Purchase Request Rights, Etc.") to be issued are requested for Delivery of or Exercised into the ordinary shares of the Company on the initial

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terms, and shall apply on and after the date following the payment date (or allotment date in case of the stock acquisition rights and bonds with stock acquisition rights) or on and after the date following the effective date of distribution of gratis shares; provided, however, that in the event that a record date is set for the purpose of granting the Ordinary Shareholders the right to allotment, such price shall apply on and after the date following such record date.

Notwithstanding the foregoing, in the event that the consideration for the ordinary shares of the Company to be Delivered upon the request or Exercise is not fixed at the time of issue of the Shares With Purchase Request Rights, Etc., the Conversion Price after the adjustment shall be calculated by applying the *Chosei*-adjustment Formula as if all of the Shares With Purchase Request Rights, Etc. issued upon determination of the consideration are required for Delivery of or exercised into the ordinary shares of the Company on the terms as at the determination of the consideration, and shall apply on and after the date following the date on which such consideration is fixed.

- 4) In each transaction set out in paragraph 11(11) 1) to 3), if a record date is set for granting the shareholders the right to allotment and each such transaction becomes effective subject to the approval at the general meeting of shareholders, board of directors or by other corporate bodies of the Company to be given on and after such record date, the Conversion Price after the adjustment shall apply on and after the date following the date on which such approval is given notwithstanding paragraph 11(11) 1) to 3).

In this case the number of ordinary shares of the Company to be Delivered to those who Exercised any Stock Acquisition Right from the date following the relevant record date to the date on which the approval is given shall be calculated using the following formula; provided that paragraph 11(19) shall apply mutatis mutandis to the delivery of the share certificates.

$$\text{Number of shares} = \frac{(\text{OCP} - \text{NCP}) \times \text{number of shares Delivered at OCP within the said period}}{\text{NCP}}$$

Where:

NCP = the Conversion Price after such adjustment

OCP = the Conversion Price before such adjustment

In no event shall the Company make cash adjustments in respect of fractions of less than 1 share arising from the calculation.

- (12) 1) In using the *Chosei*-adjustment Formula, the result shall be rounded down to one decimal place yen.
- 2) The current market price used in the *Chosei*-adjustment Formula shall be the average of the daily closing prices of the ordinary shares of the Company for ordinary market transactions on the Tokyo Stock Exchange for the 30 consecutive trading days (excluding any day without a closing price) starting on the 45th trading day prior to the starting date of application of the Conversion Price after the adjustment (or the record date where paragraph 11(11) 4) above applies). In the calculation of the average price, the result shall be rounded down to one decimal place yen.
- 3) The number of shares outstanding to be used in the *Chosei*-adjustment Formula shall be the number of issued ordinary shares of the Company as of the record date (or the effective date, if such record date is not determined) (if any) or, if there is no record date (or the effective date, if such record date is not determined), as of the date one month before the starting date of application of the Conversion Price after the adjustment, less the number of ordinary shares of the Company held by the Company as of the relevant date. In the case of a stock split where paragraph 11(11) 2) applies, the number of shares to be newly Delivered to be used in

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the *Chosei*-adjustment Formula shall not include the number of ordinary shares of the Company to be allotted to the ordinary shares of the Company held by the Company as of the record date for such stock split.

- (13) In addition to the events where *chosei*-adjustment of the Conversion Price is required as set out under paragraph 11(11) above, the Company shall make necessary adjustments to the Conversion Price if:
- 1) adjustment of the Conversion Price is necessary due to share consolidation (*kabushiki no heigou*), or the Company's consolidation by which the Company becomes the surviving company, Company's corporate split by which the Company becomes succeeding company, or exchange of shares by which the Company becomes the parent company owning 100% ownership of the subsidiary;
 - 2) otherwise if adjustment of the Conversion Price is necessary due to occurrence of an event involving a change or potential change in the number of ordinary shares of the Company; or
 - 3) if more than two events requiring adjustment of the Conversion Price occur in succession and if the current market price to be used in the calculation of the Conversion Price for one of the events needs to be determined by taking into consideration the effects of the other event(s).
- (14) If the Company intends to make *shusei* or *chosei* adjustment to the Conversion Price according to paragraph 11(9) to 11(13) above, the Company shall give the Bondholders prior written notice of such intention stating reasons for the adjustment, the Conversion Price before the *shusei* or *chosei* adjustment, the Conversion Price after the *shusei* or *Chosei* adjustment and the starting date of application thereof, and any other necessary information; provided, however, that in case of paragraph 11(11) 4) above or otherwise where the aforesaid notice cannot be given by the day immediately preceding the starting date of application, the Company shall promptly give such notice on or after the starting date of application.
- (15) The amount to be incorporated into the stated capital and the capital reserve out of the Issue Price of shares issued upon Exercise of the Stock Acquisition Rights
- The amount to be incorporated into the stated capital out of the Issue Price of ordinary shares issued upon Exercise of the Stock Acquisition Rights shall be the amount of the maximum amount of increase of the stated capital, etc. calculated pursuant to Article 40 of Regulations concerning Corporate Accounting, multiplied by 0.5 (rounded up to the nearest whole yen) which shall be accounted for as the stated capital, and the remaining amount shall be accounted for as the capital reserve.
- (16) Acceptance of Exercise of the Stock Acquisition Rights shall be submitted to the handling agent for Exercise request (hereinafter "Handling Agent") (*koushi seikyu uketsuke basho*) set out in paragraph 18.
- (17) 1) A Bondholder who intends to Exercise its Stock Acquisition Rights shall specify the Convertible Bonds associated with such Stock Acquisition Rights and the terms and conditions and the number of such Stock Acquisition Rights and put the date of Exercise on the form for exercise request of stock acquisition rights designated by the Company (hereinafter "Exercise Request") and otherwise fill out the form and affix the Bondholder's signature and seal thereto, and submit the same, together with the corresponding Convertible Bond certificates, to the Handling Agent within the Exercise Period.
- 2) A Bondholder who intends to Exercise its Stock Acquisition Rights associated with Convertible Bonds deposited with the Japan Securities Depository Center, Inc. shall specify the Convertible Bonds associated with such Stock Acquisition Rights and the terms and

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conditions and the number of such Stock Acquisition Rights and put the date of Exercise on the form of Exercise Request and otherwise fill out the form and affix the Bondholder's signature and seal thereto, and may submit the same, through the Japan Securities Depository Center, to the Handling Agent within the Exercise Period.

- 3) A Bondholder who has submitted the documents for Exercise to the Handling Agent may not subsequently revoke the Exercise.
- (18)
- 1) Exercise of any Stock Acquisition Right shall become effective on the date of Exercise of the same. The "date of Exercise" as specified in the relevant Exercise Request with respect to the Stock Acquisition Right means the later of the date on which all documents required for the Exercise are received at the Handling Agent, or the date specified in the Exercise Request as the date on which the Stock Acquisition Right shall be Exercised.
 - 2) For distribution of surplus (*Joyo kin*) (including distribution of cash as set out in Article 454, Paragraph 5 of the Company Law), the Company shall treat any and all ordinary shares of the Company Delivered as a result of Exercise of Stock Acquisition Rights on or before the record date for determining shareholders entitled to such distribution as if they were outstanding ordinary shares of the Company as of the recorded date (excluding those held by the Company).
- (19) The Company shall deliver corresponding share certificates promptly upon Exercise becoming effective; provided, however, that the Company shall not issue share certificates representing shares of less than the number of shares constituting one voting unit (*tangen miman kabushiki*).
- (20) If it becomes necessary to change the wording of any provisions hereof or to take any other measures due to the Company's abolition of its provisions for voting unit shares (*tangen*) or otherwise, the Company shall take necessary measures.

12. Negative pledge clause

For as long as any of the Convertible Bonds remain outstanding, if the Company creates any security interest for the benefit of any domestic convertible-bond-type-bonds with stock acquisition rights issued in the future after the issue of the Convertible Bonds (including Series 32nd Unsecured Convertible-Bond-Type-Bonds With Stock Acquisition Rights (With Inter-Convertible-Bond-Type-Bonds-With-Stock-Acquisition-Rights Pari Passu Clause) to be issued simultaneously with the Bonds), the Company shall create security interest having the same priority as such security interest for the benefit of the Convertible Bonds in accordance with the Secured Bonds Trust Law (*Tanpo Tsuki Shasai Shintaku Hou*). For the avoidance of doubt, the term "convertible-bond-type-bonds with stock acquisition rights" means bonds with stock acquisition rights under Article 2, Item 22 of the Company Law for which the company has determined as part of the terms and conditions of the stock acquisition rights pursuant to Article 236, Paragraph 1, Item 3 of the Company Law, that the bonds associated with such bonds with stock acquisition rights shall be the contribution to be made upon exercise of the stock acquisition rights.

13. Position of the Bonds

The Bonds are direct, unconditional, unsecured and unsubordinated general obligations of the Company which are enforceable under these terms and conditions of the bonds, and rank pari passu and rateably without any preference among themselves irrespective of the effective date and other features.

14. Acceleration clause

All of the Company's obligations with respect to the Bonds shall become immediately due and payable upon occurrence of any of the following events (in which case none of the Bondholders may exercise

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Stock Acquisition Rights thereafter):

- (1) in the event that the Company breaches the provisions of paragraph 10;
- (2) in the event that the Company breaches the provisions of paragraph 11(9) to 11(14) or paragraph 12 and fails remedy or correct the breach within 30 days of receipt of notice from the Bondholders demanding remedy of such breach;
- (3) in the event that the Company's obligations with respect to any bonds other than the Bonds become immediately due and payable due to occurrence of an acceleration event, or that the Company is unable to pay off any bonds other than the Bonds as they fall due;
- (4) in the event that any debt of the Company other than bonds becomes immediately due and payable due to occurrence of an acceleration event, or that the Company is unable to pay off any debt other than bonds as it falls due, or that the Company is unable to perform its guarantee obligation provided for any bonds or other debt of a third party when such obligation becomes enforceable; provided, however, that this does not apply where the total amount of such debts (after conversion into yen) does not exceed 500,000,000 yen;
- (5) in the event that the Company files a petition for commencement of bankruptcy proceedings (*hasan tetsuzuki kaishi*), reorganisation (*minji saisei tetsuzuki kaishi*, *kaisha kousei tetsuzuki kaishi*), liquidation (*tokubetsu seisan kaishi*), or that the board of directors of the Company passes a resolution to submit an agenda for dissolution (*kaisan*) to a general meeting of shareholders (except in the event of consolidation, amalgamation or merger);
- (6) in the event that the Company receives a court order for commencement of bankruptcy or reorganisation proceedings, or an order for commencement of liquidation; or
- (7) in the event that a resolution to dissolve the Company is passed at a general meeting of shareholders of the Company (except in the event of consolidation, amalgamation or merger).

15. Loss of bond certificates etc.

- (1) The Company shall deliver a replacement Convertible Bonds certificate if the Bondholder who lost the certificate reports that the Bondholder has lost the Convertible Bonds, the number, reason for the loss and other information to the Company, makes a public announcement (*kouji saikoku*), obtains an order to void the certificate (*mukou sengen*) and requests the new certificate with a copy of finalised order (*kyoken kettei*).
- (2) If a Convertible Bond certificate is damaged or defaced, the Bondholder may request delivery of a replacement certificate by submitting the damaged or defaced Convertible Bond certificate; provided, however, that if it is difficult to confirm the authenticity of the submitted certificate, the Company will follow the procedures for a lost certificate.

16. Cost for delivery of replacement Convertible Bond certificates

The Company will charge the actual cost (including stamp tax) of delivery of any replacement Convertible Bonds certificates.

17. Paying agent for redemption proceeds

Oki Electric Industry Company, Limited, Accounting Department

18. Handling Agent

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Stock transfer agent (*kabunushi meibo kanrinin*)
Mizuho Trust & Banking Co., Ltd.
Stock Transfer Agency Department

19. **Public notice when giving notice to the Bondholders**

Any public notice to the Bondholders with respect to the Convertible Bonds shall be given by means of electronic notification; provided, however, that if electronic notification is not available due to any accident or other cause, the Company shall cause notice to be published in *Nihon Keizai Shinbun* published in Tokyo; provided, further, that the Company may give direct notice to the Bondholders in place of publication of notice unless otherwise provided by law.

end

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