

TO OUR STAKEHOLDERS

**From the past to the future,
we are contributing to the
realization of a sustainable society.**



A handwritten signature in black ink that reads "S. Kamagami". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Shinya Kamagami
President
Oki Electric Industry Co., Ltd.

Creating Safer and More Convenient Social Infrastructure through “Mono-zukuri” and “Koto-zukuri”^{*1}

OKI celebrates its 137th year in 2018. Over the course of our long history, we have managed our business in good faith in line with our corporate philosophy: “The people of OKI, true to the company’s ‘enterprising spirit’, are committed to creating superior network solutions and providing excellent information and communications services globally to meet the diversified needs of communities worldwide in the information age.”

While they generally go unnoticed, OKI’s technologies and products are employed in numerous fields and—in the broadest sense of the word—social infrastructure, across both public and private sectors. For example, we work with air and land traffic safety, disaster prevention systems, fire-fighting systems, and systems for public offices and financial institutions. I take pride in the fact that our activities have fulfilled our social responsibilities as a company that supports safe, secure, and comfortable lifestyles for everyone.

As we celebrate 150 years, and continue to aim further beyond, our current basic idea of “Continuous efforts will build a brighter future” conveys my feelings as a manager to continually link up our activities of the past with those in the future.

There are many excellent companies in Japan that can be counted among the best in the world, but there are not so many that have a history going back more than 130 years.

One of our shareholders once told me the following. “Companies with a long history have obviously seen countless significant changes in their operating environment over the years, but only those that withstood those changes and adapted are left standing today.”

My take on this is that behind the history of such companies is the fruits of persistent efforts to overcome numerous hardships, which explains the reasons for their existence and mission as companies serving a useful purpose in society.

The term “continuous^{*2}” as it appears in the aforementioned phrase “continuous efforts will build a brighter future” represents OKI’s background and identity as a tele-

communications firm that developed and manufactured Japan’s first telephone and “continues to connect” people and companies with audio, optical, and video technologies.

The digital transformation is currently sweeping society and the IoT market in which everything is “connected” continues to rapidly expand in anticipation of the 5G age. Moreover, social issues unique to Japan continue to materialize—such as labor shortages, the declining birthrate, and the aging population—and considerable expectations now rest on the use of ICT technologies to solve these problems.

Not only does OKI possess reliable technology backed by a solid track record in the area of “connectivity,” we also have acoustic and image-sensing technologies honed over many years, as well as expertise in analyzing and leveraging big data. Based on these technological strengths, I believe OKI has what it takes to achieve sustainable growth as a corporation needed more than ever by society. We will achieve that growth by helping solve various problems through co-creation with numerous customers who have supported our efforts for the last 137 years.

It is also my understanding that this kind of fundamental approach by the OKI Group, as well as our corporate stance and initiatives, is consistent with the Sustainable Development Goals (SDGs) of the United Nations, a collection of key goals ratified by all 193 UN member states in September 2015.

As a signatory to the United Nations Global Compact, the OKI Group will continue to implement initiatives to tackle global social issues highlighted in the SDGs and contribute to their achievement by offering various products and services. To this end, we will push ahead with developing groundbreaking solutions and implementing drastic reforms by investing in innovation. For our stakeholders, we hope to meet their expectations as we make every effort to further strengthen our relationships. Looking ahead, we intend to set targets for priority issues and incorporate sustainable goals into our corporate management to achieve a greater level of effectiveness.

^{*1} Please see the notes (*) on page 1 for “Mono-zukuri” and “Koto-zukuri.”

^{*2} When translated into Japanese, the word “continuous” often implies “connecting.”

Fiscal Year 2017 Business Results and Review

In fiscal year 2017, the first year of Mid-term Business Plan 2019, the ICT and EMS businesses remained solid for the most part. Sales and profits in the Printer business were boosted by the weak yen, but in the Mechatronics Systems business ATM sales overseas were weak. As a result, net sales declined ¥13.6 billion year on year to ¥438.0 billion. Despite the sales volume decline, operating income rose ¥5.2 billion year on year to ¥7.7 billion owing to the absence of the one-off loss recorded last fiscal year.

Ordinary income improved ¥10.9 billion year on year to ¥8.5 billion mainly thanks to the recording of ¥0.2 billion in foreign exchange gains versus a ¥4.8 billion foreign exchange loss last fiscal year. Profit attributable to owners of parent increased ¥1.2 billion year on year to ¥5.9 billion.

As for our financial position, total assets rose ¥11.1 billion from the prior fiscal year-end to ¥371.8 billion. Shareholders' equity increased ¥3.3 billion against the level of the prior fiscal year-end to ¥100.2 billion, reflecting the recording of ¥5.9 billion in profit attributable to owners of parent and a ¥1.9 billion increase in accumulated other comprehensive income on the one hand, and ¥4.3 billion for ordinary dividend payments on the other. The Company's financial health remains unchanged with the shareholders' equity ratio still at 26.9%,

the same as last fiscal year, while the DE ratio improved 0.1 times year on year to 0.8 times.

Looking back on the progress made in fiscal year 2017, the slump in ATM sales in overseas markets in the Mechatronics Systems business had a significant impact on full-year Group earnings. Unfortunately, in Brazil, even though we delivered our cash recycling ATMs to state-owned banks, follow-up orders did not materialize. Earnings in this business did not improve because the pace of growth in the cash recycling ATM market was slower than we had expected. In India too, sales volume came in below plan owing to the impact of tougher competition. Even in China, in addition to sluggish market growth, the emergence of local vendors means we see little hope up ahead of achieving similar sales volume to that of a few years ago. In light of this situation, in fiscal year 2018 we intend to partially reorganize our strategy in Mid-term Business Plan 2019 for the Mechatronics Systems business and implement structural reforms.

Conversely, in our EMS business, a strategic focus area, we scaled up our operations by making Oki Electric Cable Co., Ltd. a wholly-owned subsidiary and successfully laid the foundations for securing orders in new potential growth fields, such as factory automation (FA).

Awareness of Business Environment

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

The shift towards cashless payments is already quite prominent in China and other countries around the world, and we expect this trend to gain momentum in Japan as payment services diversify and revision of cash-handling costs. Structural reforms in the banking industry are also giving rise to a plethora of 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 act to crimp OKI's existing products and services, such as ATMs and systems for financial institutions. On the other hand, I think 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 brick-and-mortar stores exist.

Furthermore, I think the arrival of the age of 5G networks and the continual IoT-driven connectivity of every device will present a chance for OKI to harness its strengths in edge regions. There, we have a track record of device installations as a result of many years in the telecommunications infrastructure business tailoring to the needs of our customers. The move towards paperless society and declining demand for printing (as a result of more people using smartphones and mobile devices) also poses a threat to our printer business, but by shifting our focus from office printing to the industrial printing market, we will continue to develop new products and unearth new markets in which the features of OKI's LED printers can really shine.

Even in the midst of these notable changes to our business environment, we at the OKI Group will continue to accurately understand and flexibly respond to the ever-changing needs of society and offer our customers new products and services that help solve social problems.



Outlook for Fiscal Year 2018

As already mentioned, our business results were generally in line with the plan in fiscal year 2017 except for ATM sales overseas, which markedly dented the OKI Group's overall earnings. In fiscal year 2018, we will make every effort to get the OKI Group back on a sustainable growth path by adopting the policies shown to the right.

In the ICT business, we will further strengthen the numerous IoT-related co-creation businesses we launched last fiscal year and steadily generate earnings in existing businesses. In the Mechatronics Systems business, we aim to quickly turn earnings around by aligning our overseas business strategy and implementing structural reforms. This involves branching out into a module partner business in addition to direct sales of finished products. In the Printer business, we have mostly completed the build-out of a system to facilitate our shift in focus towards the industry printing market in the last fiscal year, so in fiscal year 2018 we aim to boost sales in this area. In the EMS business, we expect the brisk performance from last fiscal year to continue and aim to further expand operations driven by potential synergies with OKI Electric Cable.

Accordingly, for fiscal year 2018 we are targeting net sales of ¥450.0 billion (up ¥12.0 billion year on year), operating income of ¥14.0 billion (up ¥6.3 billion), ordinary income of ¥13.0 billion (up ¥4.5 billion), and profit attributable to owners of parent of ¥5.0 billion (down ¥0.9 billion). This plan also factors in extraordinary losses of roughly ¥5.0 billion mainly in connection with structural reform costs in the Mechatronics Systems business.

Returning Profits to Shareholders

Our dividend payments in fiscal year 2017 were an interim dividend of ¥20 per share and a year-end dividend of ¥30 per share. For fiscal year 2018, based on our stable dividend policy in our Mid-term Business Plan 2019, we aim to pay a

FY2018 Policies	
Get back on a sustainable growth path	
ICT	Expand performance in the co-creation business leveraging IoT
Mechatronics Systems	Align strategy and promptly return to break-even
Printers	Increase new sales in the industry printing market
EMS	Accelerate growth through synergies with OKI Electric Cable
Continue to stabilize and strengthen the financial base, and sustain steady shareholder returns	

FY2018 Targets	
Net sales	¥450.0 billion
Operating income	¥14.0 billion
Profit attributable to owners of parent	¥5.0 billion

full-year dividend of ¥50 per share at fiscal year-end. OKI will endeavor to return profits to our shareholders in a continuous and stable manner as a top management priority.

In Conclusion

The business environment surrounding the OKI Group changed substantially in fiscal year 2017. Things are expected to keep changing at a hectic pace up ahead. That said, I think keeping close tabs on these changes, as well as achieving our goals by steadily pushing ahead with initiatives aimed at reinforcing our earning capacity and being a company that can secure stable profitability are what all

our stakeholders call for from the OKI Group. In fiscal year 2018 we will make every effort to get all our businesses back on a growth path and accelerate initiatives aimed at future growth. I look forward to the continued support and cooperation from all our stakeholders.

August 2018