

May 8, 2018

Oki Electric Industry Co., Ltd.

### **Summary Translation of Q&A for the Fiscal Year ended March 31, 2018**

Q: Results for the Mechatronics Systems business were considerably worse than projected. Can you describe in detail the reasons why this business failed to meet projections?

A: Since last fiscal year, we expected the recycling ATM market to take off in Brazil. However, actual market growth there has been slower than expected. This is a major factor underlying the increase in losses in this business. Globally, another factor has been the trend toward cashless transactions, chiefly in the China market. The pace of market growth in India slowed for various reasons, including the need to write off nonperforming loans at some state-run banks. Overall, we recognize the need to review our anticipated global strategies.

Q: Your plans call for operating income to break even this fiscal year in the Mechatronics Systems business. Would it be correct to see lower fixed costs due to structural reforms as the main reason for the improvement from losses of 5.1 billion yen in the previous fiscal year?

A: Yes. Structural reforms can be regarded as the primary reason for this improvement.

Q: What do these structural reforms entail, specifically?

A: The major elements include structural reforms in Brazil, revisions in China, and a shifting of domestic resources. We will provide details in a business strategy meeting on May 31.

Q: In last fiscal year's financial results, you recorded 2.5 billion yen of extraordinary losses as business structural reform costs. Earlier, you mentioned 4.0 billion yen in structural reforms in the Mechatronics Systems business. What's the relationship between these two figures for structural reforms? Is there any risk of asset impairment losses?

A: The 2.5 billion yen in extraordinary losses recorded last fiscal year was due to structural reforms in the Printers business, including the cost of structural reforms to convert overseas sales companies to branch offices. These reforms didn't involve Brazil. Our plans anticipate that structural reforms in the Mechatronics Systems business this fiscal year will cost about

4.0 billion yen, chiefly in Brazil. We recorded asset impairment losses previously. We don't expect any additional asset impairment losses to arise.

Q: Am I correct in understanding that last fiscal year's decrease in operating income in the Mechatronics Systems business resulted from lower sales rather than special factors?

A: Yes. Also, the Brazil business continues to record losses. Its losses last fiscal year were about 4.0 billion yen. That's a major reason underlying the overall losses.

Q: I believe the results for the EMS business include the effects of the OKI Electric Cable consolidation. I would expect very positive sales of flexible printed circuits. Can you describe these effects in detail?

A: This period, we expect the effects of the OKI Electric Cable consolidation to be roughly 13.0 billion yen for sales and one billion yen for operating income. We've also restated the results for a power supply manufacturing subsidiary and a subsidiary involved in testing by transferring them from Others to this segment. These subsidiaries promise synergies with the EMS business. OKI Electric Cable has outstanding customers in the factory automation field. For that reason, as part of the synergies we're targeting, we'd like to increase sales through integrated marketing with the EMS business. Incidentally, the effects of the OKI Electric Cable consolidation in last fiscal year's results were roughly 3.0 billion yen for sales and 100-200 million yen for operating income, because they were included for just the fourth quarter.

Q: Conditions seem favorable for the EMS business. Are there any problems with procuring materials?

A: Conditions are favorable overall, but materials do seem to be in short supply. We're doing business in this segment while balancing efforts to secure materials and efforts to secure reliable sales results.

Q: Can you disclose, if possible, any specific examples of the IoT co-creation business?

A: We've started a business with Solasto Corporation involving improving the efficiency of medical office administrative services. We're also involved in a business with Marubeni Corporation that seeks to improve logistics efficiency. We've also launched a number of trial

projects, including one in the construction industry that uses fiber optics to detect strain in structures and one that uses fiber optics to detect temperatures for temperature control in automotive painting.

Q: What are your rough revenue projections by region for this fiscal year in the overseas ATM business?

A: We expect the revenue in China will turn a profit, despite the impact of litigation costs. In Brazil, we expect to approach the break-even level. Globally, we believe we need to anticipate losses of around one billion yen, strategically speaking. Price competition, unfortunately, is very severe.

Q: Am I correct in understanding that you plan to advance structural reforms in the Mechatronics Systems business early this fiscal year?

A: We have multiple business units in Brazil, so implementing these reforms early would naturally improve fixed costs quickly. But since some businesses there are profitable, we intend to move forward in a well-balanced way, taking future sales strategies into account. We intend to implement these reforms with a sense of urgency, without wasting time.

Q: The 12.0 billion yen figure for capital investment this fiscal year—particularly the figure of 4.0 billion yen in the EMS business—marks a considerable increase. What areas will this investment focus on?

A: In addition to equipment related to printed circuit boards, OKI Electric Cable's cable-related equipment is getting quite old. We intend to update this equipment to increase production for the future.

Q: Can you provide more information on the expected impact of currency exchange of 1.5 billion yen on this fiscal year's plans?

A: We expect that amount to result from euro and dollar foreign exchange contracts.

Q: This fiscal year's plans include an increase of 3.5 billion yen in fixed costs. I think this is one of the effects of adding OKI Electric Cable to the scope of consolidation and structural

reforms in the Mechatronics Systems business. Can you provide a breakdown of this figure?

A: The OKI Electric Cable consolidation is projected to increase fixed costs by 2.6 billion yen, head office costs by one billion yen, and R&D costs by two billion yen, for a total cost increase of 5.6 billion yen. You can consider the effects of the structural reforms included in this figure to correspond to the decrease from 5.6 to 3.5 billion yen.

Q: With respect to sales plans for the mechatronics systems business, you mentioned earlier that intensifying price competition was a major cause of the decrease. Can you discuss, if possible, whether decreased sales of bank branch systems or revisions of the Brazil business might also reduce revenue?

A: In addition to the lower sales due to intensifying price competition, we expect a decrease domestically because some cash handling equipment deals have expired.

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.