

Financial Results for the FY2018, and the Mid-term Management Plan (FY2019-23)

May 22, 2019

**Mitsuyasu Watanabe
President and COO**

OSAKI ELECTRIC

Agenda

- 1. Summary of Financial Results for FY2018**
- 2. Forecasts for FY2019**
- 3. Mid-term Management Plan (FY2019-23)**
- 4. Shareholder Return Policy**
- 5. ESG Measures**

*** FY is the year ended/ing March of the subsequent year**

1 . Summary of Financial Results for FY2018

FY2018 Consolidated Financial Results

- Net Sales increased year on year while profits decreased from a higher cost to sales ratio in overseas
- Net Sales and profits were short of the Initial Forecasts due to overseas production delay

(¥Mn)

	FY2017	FY2018	YoY		Initial Forecasts (May 9, 2018)	Changes from initial Forecasts	
			Amount	%		Amount	%
Net Sales	78,780	82,089	3,308	+4.2%	86,000	(3,910)	(4.5)%
Gross Profit	21,979	20,264	(1,715)	(7.8)%			
GP Margin	27.9%	24.7%		(3.2)%pt			
SG&A	16,435	15,965	(469)	(2.9)%			
SG&A Margin	20.9%	19.4%		(1.5)%pt			
Operating Income	5,544	4,299	(1,245)	(22.5)%	6,000	(1,700)	(28.3)%
OP Margin	7.0%	5.2%		(1.8)%pt	7.0%		(1.8)%pt
Ordinary Income	5,634	4,293	(1,341)	(23.8)%	6,000	(1,706)	(28.4)%
Profit attributable to owners of parent	2,666	1,806	(859)	(32.2)%	3,300	(1,493)	(45.3)%
ROE	5.8%	3.8%		(2.0)%pt	7.1%		(3.3)%pt

FY2018 Results by Region

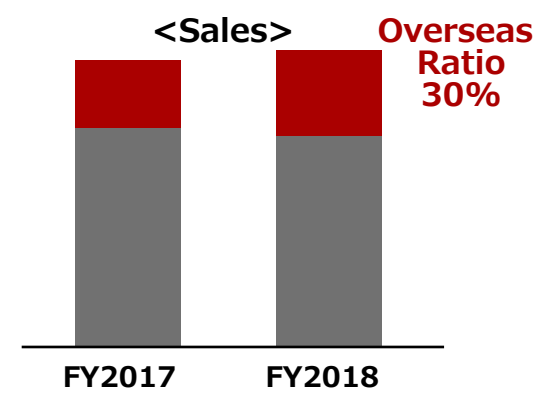
- Japan: solid sales for smart meters but not as strong as previous year
- Overseas: sales increased in Australia and Middle East.

A higher cost to sales ratio from manufacturing related costs and product mix change led to larger profit loss.

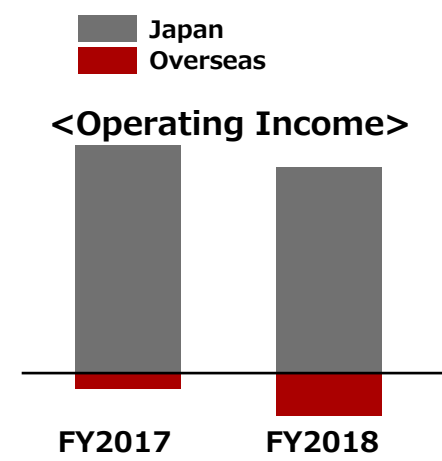
(¥Mn)

(Excluding intercompany sales)

	Net Sales			
	FY2017	FY2018	YoY	
			Amount	%
Japan	60,158	58,136	(2,022)	(3.4)%
Overseas	18,621	23,952	5,331	+28.6%
Consolidated	78,780	82,089	3,308	+4.2%



	Operating Income			
	FY2017	FY2018	YoY	
			Amount	%
Japan	6,010	5,454	(556)	(9.3)%
Overseas	(461)	(1,148)	(686)	—
Adjustments	(4)	(7)	(2)	—
Consolidated	5,544	4,299	(1,245)	(22.5)%

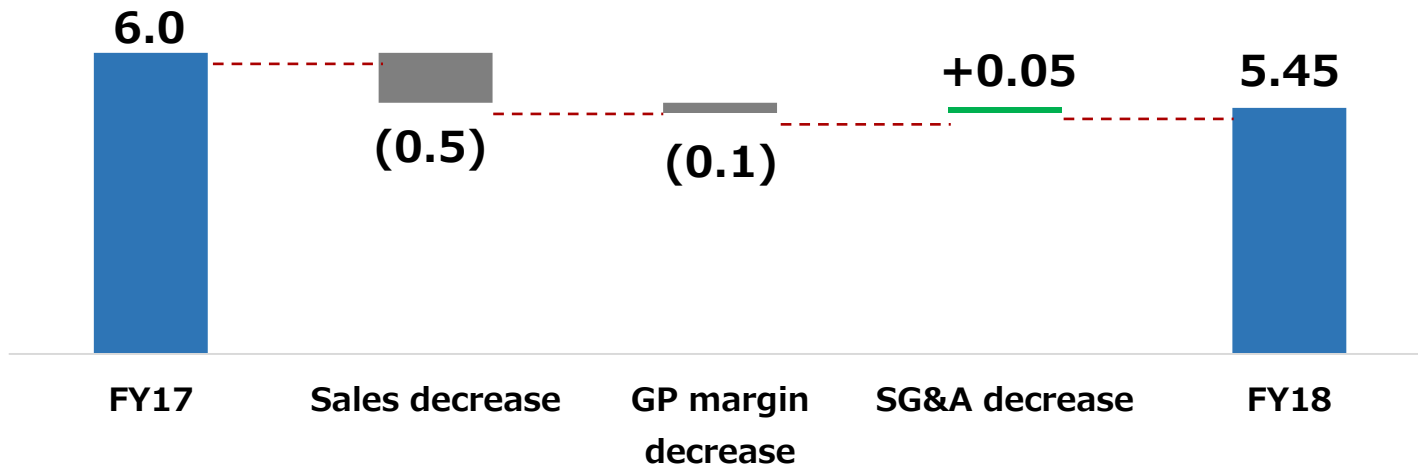


*Referential figures based on managerial accounting

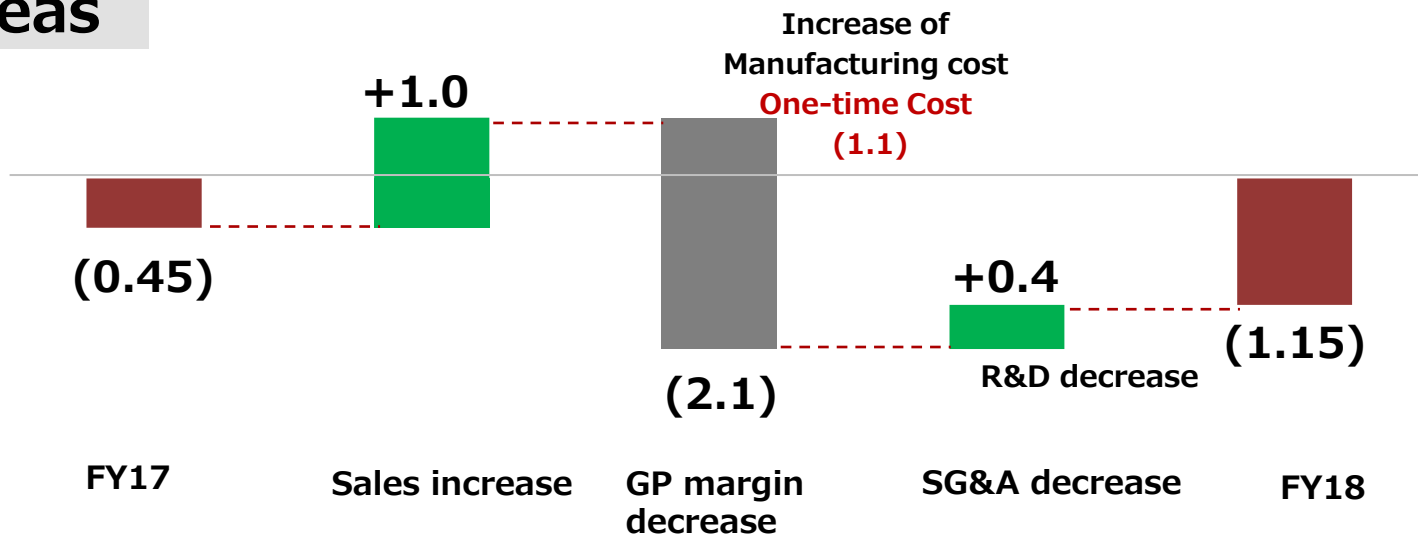
Operating Profit/ Loss Change (YoY)

Japan

(¥Bn)



Overseas



Increase in inventory and debt corresponding to overseas business expansion

(¥Mn)

Years ended March 31	2018	2019	YoY	Factors
Assets	85,785	98,314	12,528	Mainly from overseas: <ul style="list-style-type: none"> • Inventory +7,059 • Notes and account receivable +2,106 Cash and cash equivalents +3,140
Current assets	45,285	57,923	12,637	
Fixed assets	40,499	40,391	(108)	
Liabilities	27,861	39,432	11,571	Mainly from overseas: <ul style="list-style-type: none"> • Total debt +7,594 • Notes and account payable +3,246
Current liabilities	20,272	33,260	12,987	
Fixed liabilities	7,588	6,172	(1,415)	
Equity	57,924	58,881	957	
Capital	46,794	47,695	901	
Non-controlling	10,654	10,710	56	
Others	475	474	(0)	
Capital Adequacy Ratio	54.5%	48.5%	(6.0)%pt	

2. Forecasts for FY2019

■ Sales increase from overseas, while profits remain flat

(¥Mn)

	1H			2H			FY			
	FY2018 Actual	FY2019 Forecasts	YoY	FY2018 Actual	FY2019 Forecasts	YoY	FY2018 Actual	FY2019 Forecasts	YoY	
									Amount	%
Net Sales	35,669	42,000	+17.7%	46,420	50,000	+7.7%	82,089	92,000	9,910	+12.1%
Gross Profit	9,441	9,500	+0.6%	10,823	11,500	+6.3%	20,264	21,000	735	+3.6%
GP Margin	26.5%	22.6%	(3.9)%pt	23.3%	23.0%	(0.3)%pt	24.7%	22.8%		(1.9)%pt
Operating Income	1,536	1,500	(2.3)%	2,762	2,800	+1.3%	4,299	4,300	0	+0.0%
OP Margin	4.3%	3.6%	(0.7)%pt	6.0%	5.6%	(0.4)%pt	5.2%	4.7%		(0.5)%pt
Ordinary Profit	1,667	1,300	(22.0)%	2,625	2,600	(1.0)%	4,293	3,900	(393)	(9.2)%
Profit attributable to owners of parent	645	350	(45.7)%	1,161	1,250	+7.6%	1,806	1,600	(206)	(11.4)%
ROE							3.8%	3.3%		(0.5)%pt

FY2019 Forecasts by Region

- Japan: Demand peak out for smart meters and severe competition for decrease in sales and profit
- Overseas: Fully launching UK project, high demand in Australia / Middle East for increase in sales and profit (turning black)

(¥Mn)

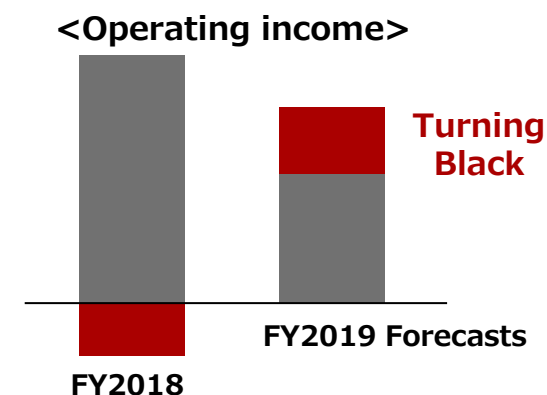
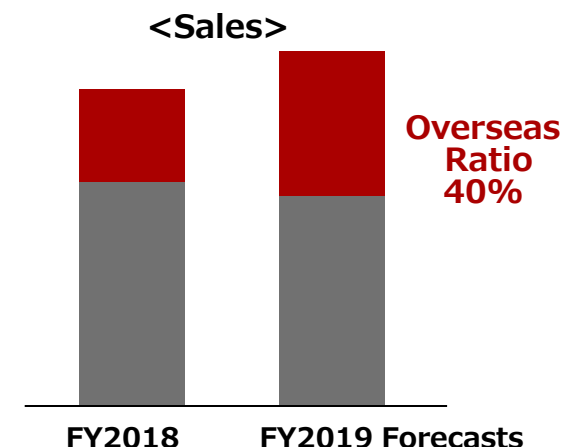
(Excluding intercompany sales)

	Sales			
	FY2018 Actual	FY2019 Forecasts	YoY	
			Amount	%
Japan	58,136	55,000	(3,136)	(5.4)%
Overseas	23,952	37,000	13,047	+54.5%
Consolidated	82,089	92,000	9,910	+12.1%

	Operating Income			
	FY2018 Actual	FY2019 Forecasts	YoY	
			Amount	%
Japan	5,454	2,900	(2,554)	(46.8)%
Overseas	(1,148)	1,400	2,548	—
Adjustments	(7)			—
Consolidated	4,299	4,300	0	+0.0%

Average Forex ¥110.43 per 1USD Estimated Forex ¥110.43 per 1USD

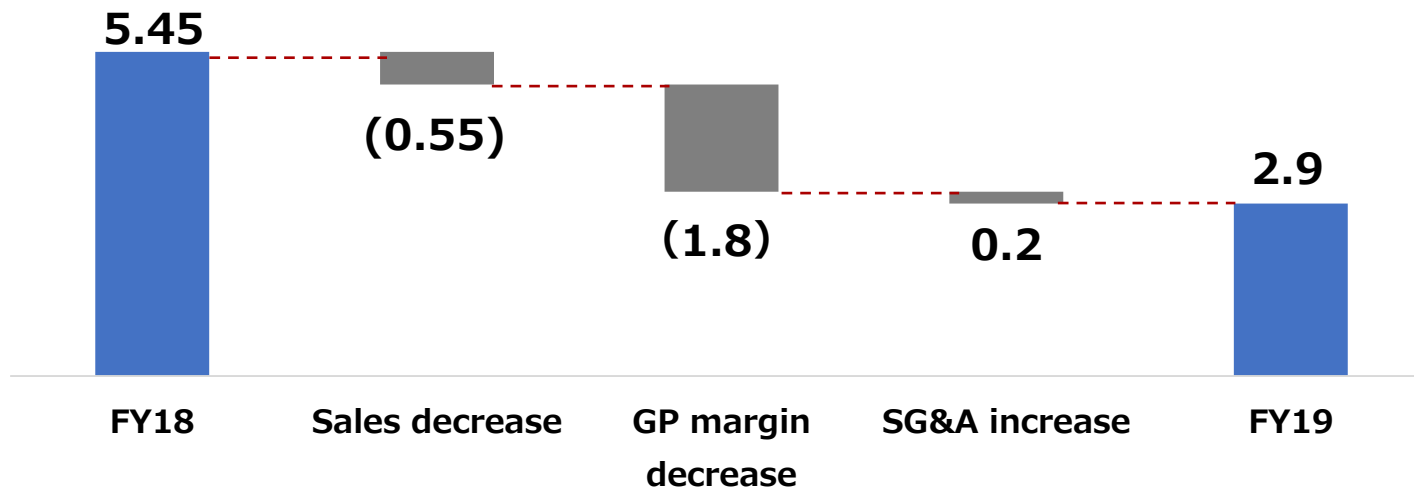
*Referential figures based on managerial accounting



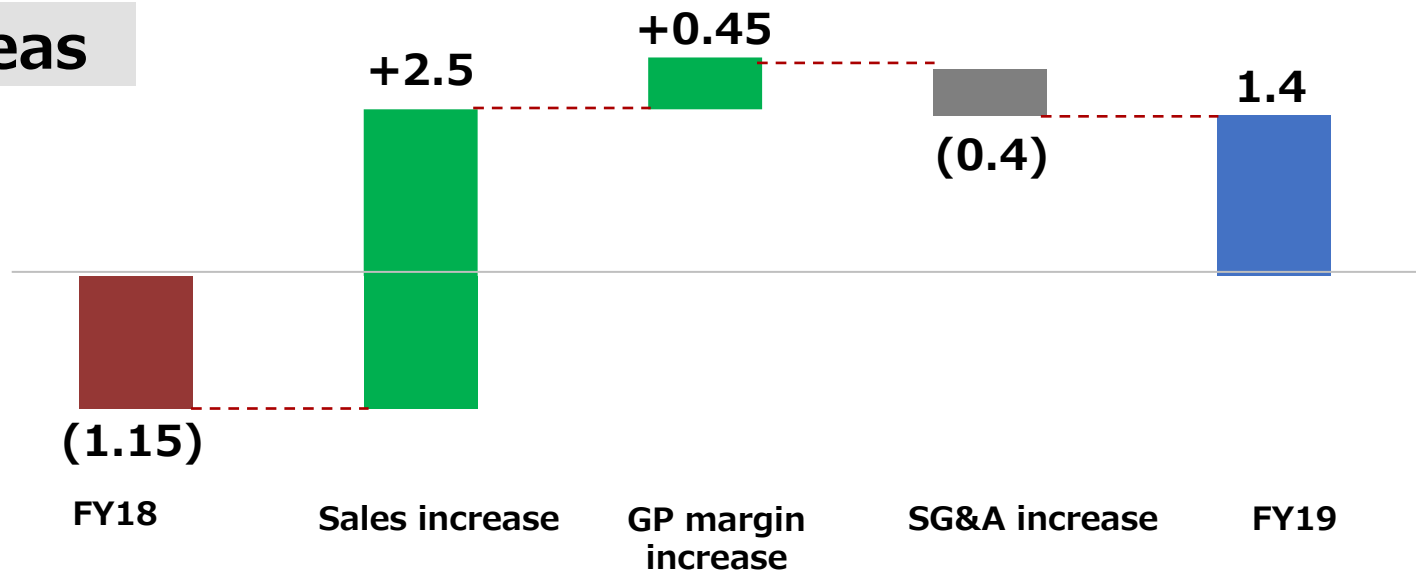
Operating Profit/ Loss Change (YoY)

Japan

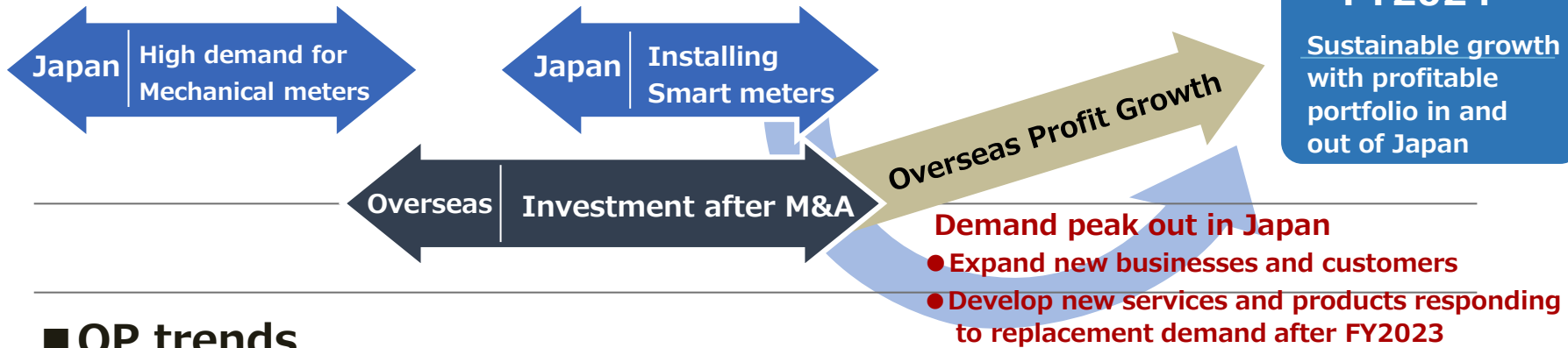
(¥Bn)



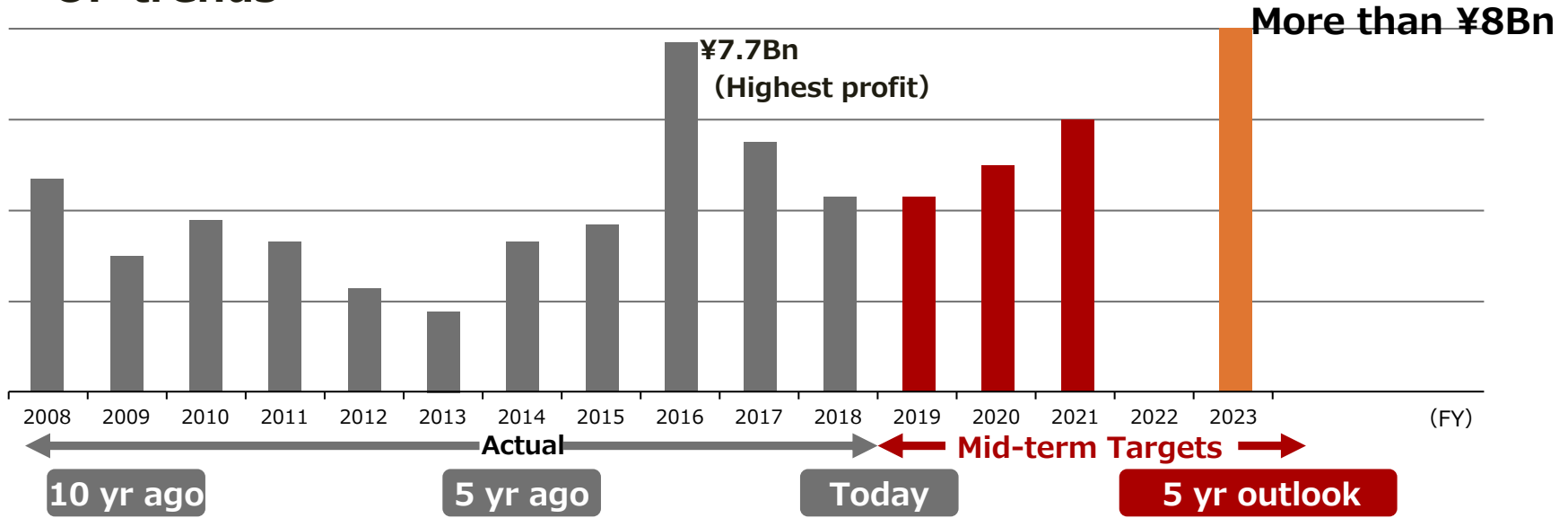
Overseas



3. Mid-term Management Plan (FY2019-23)

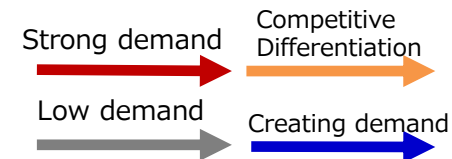


OP trends



Carry out measures based on group strategies beyond 5-year span

■ Demand outlook in and out of Japan

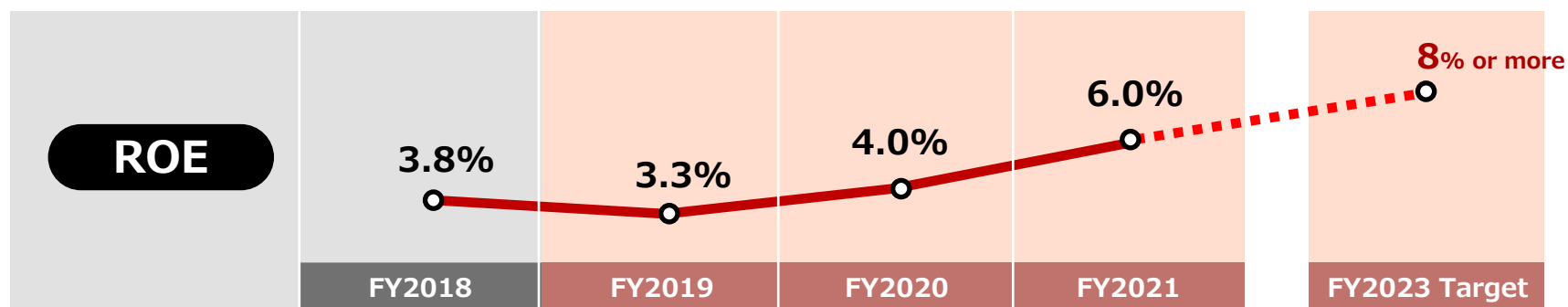


	Mid-term Management Plan (FY2019-23)	FY2024 and beyond
Japan	Smart meter demand decreases, and price competition intensifies 	Replacement demand for smart meters and high value products and services for new power platform
	Automation demand increase for energy management 	Strong service lineup
	“Watch Series” platform expands to challenge social issues. (Metering and IoT/AI) 	New business creation using incubation lab
Over-seas	UK Smart meter project 	Expand to Continental Europe
	Smart meter demand in Australasia 	
	Smart meter demand in Middle East 	

- 1. Expanding profits in global business**
- 2. Expanding value-added smart meter businesses**
- 3. Developing new products and services**
- 4. Building resilient operational structure**

Mid-term Targets

	FY2018 Actual	FY2019 Forecasts	FY2020 Outlook	FY2021 Outlook	(¥Bn) FY2023 Mid-term Target
Net Sales	82.1	92	100	105	—
Operating income	4.3	4.3	5.0	6.0	8.0 or more
OP margin	5.2%	4.7%	5.0%	5.7%	—
Ordinary income	4.29	3.9	4.7	5.7	—
Net income	1.81	1.6	2.0	3.0	—
NP margin	2.2%	1.7%	2.0%	2.9%	—
ROE	3.8%	3.3%	4.0%	6.0%	8% or more
CAPEX	2.21	4.0	2.0	1.7	—
Depreciation	2.63	3.4	3.0	2.8	—
R&D Expenditures	3.06	3.2	3.5	3.5	—

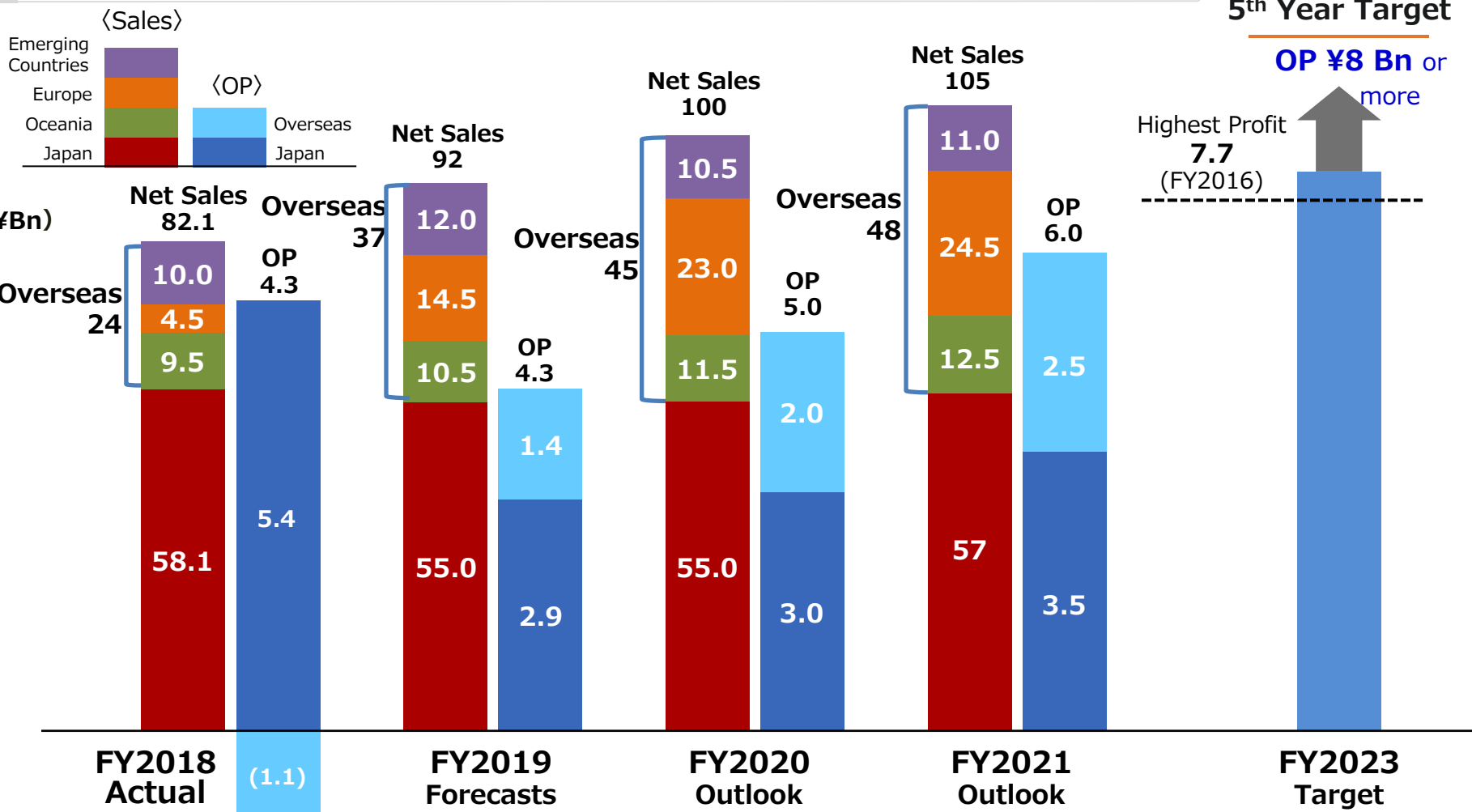


Mid-term Targets by Region

5th Year Target

OP ¥8 Bn or more

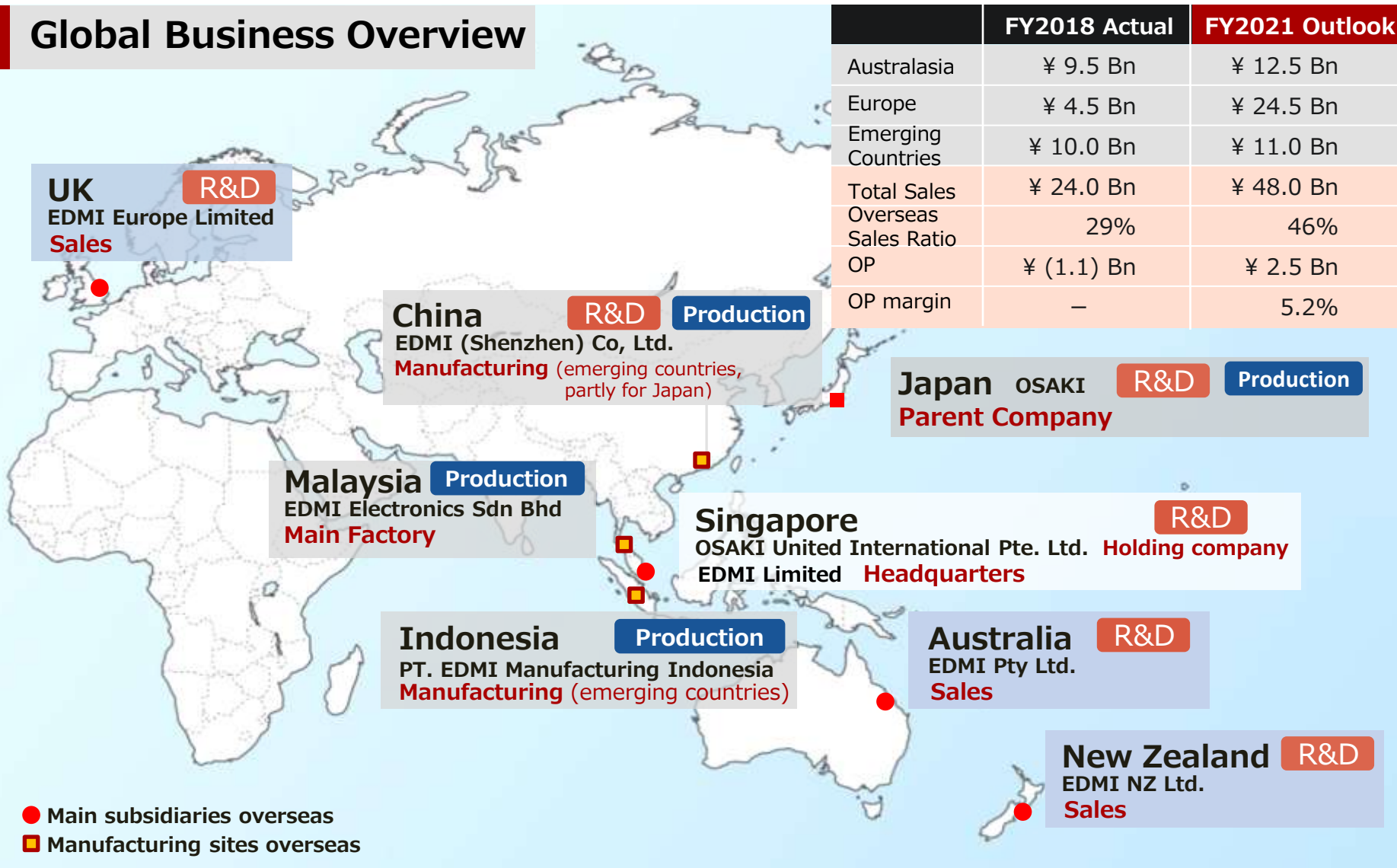
Highest Profit
7.7
(FY2016)



	FY2018 actual	FY2019 forecasts	FY2020 Outlook	FY2021 Outlook
Overseas sales ratio	29%	40%	45%	46%
Overseas OP ratio	-	33%	40%	42%

1. Expanding profits in global business

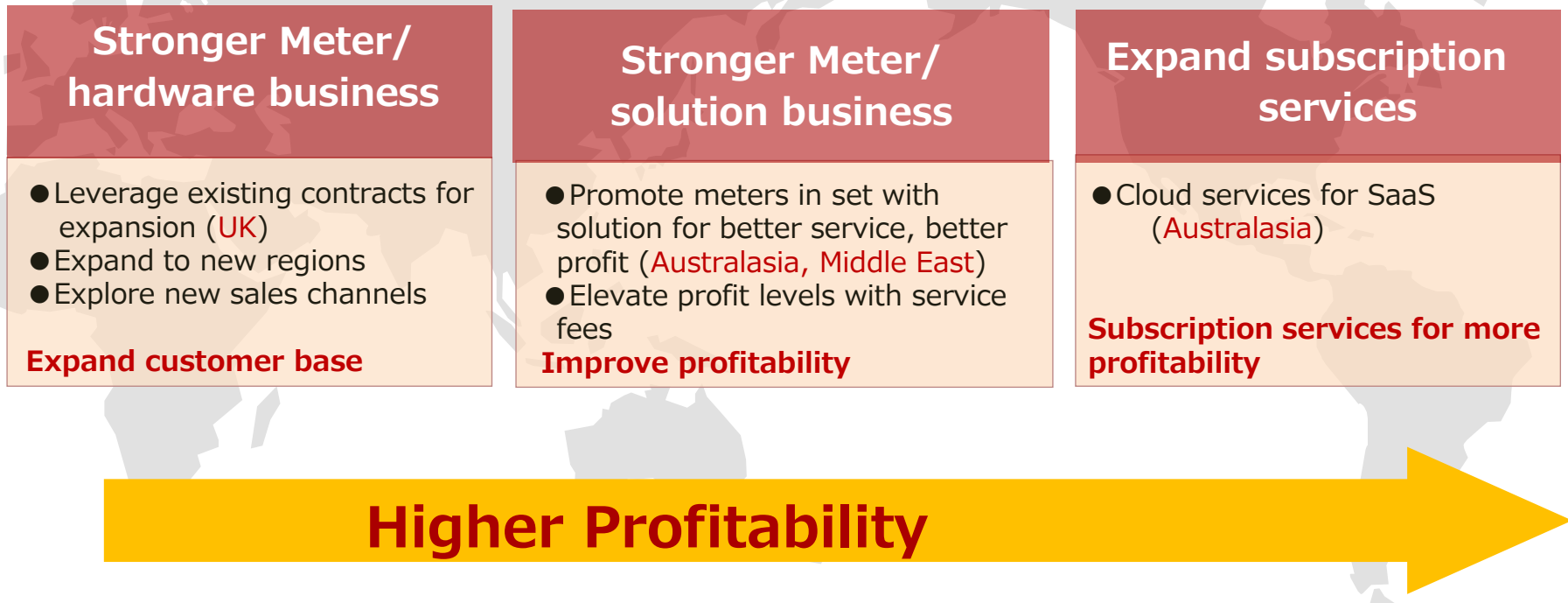
Global Business Overview



	FY2018 Actual	FY2021 Outlook
Australasia	¥ 9.5 Bn	¥ 12.5 Bn
Europe	¥ 4.5 Bn	¥ 24.5 Bn
Emerging Countries	¥ 10.0 Bn	¥ 11.0 Bn
Total Sales Overseas	¥ 24.0 Bn	¥ 48.0 Bn
Sales Ratio OP	29%	46%
OP margin	¥ (1.1) Bn	¥ 2.5 Bn
	—	5.2%

1. Expanding profits in global business

Tactics



1. Expanding profits in global business

Focused Markets

	UK	Oceania	Middle East
Schedule	Fully launching from 2H of FY2019	<p>“Power of Choice” or the mandatory installation of smart meters began in Dec. 2017 in the Eastern region of Australia → Demand increased from 2018</p> <p>Replacement demand in NZ from 2020</p>	Began shipments from 2H of FY2018
Contracts	<p>Comms. Hubs contract for 10 Mn units</p> <p>Smart meters contract (5 /6 Major Customers) Approx. 3 Mn units Target: more than 10 Mn</p>	<p>Contracts with 4 major customers in Australia (exclusive supplier for 3)</p> <p>The largest NZ customer renewed contract</p>	Contract total of 1.5 Mn units
Market size	30 Mn households	<p>East Australia: 10 Mn households (3 Mn already installed)</p> <p>NZ : 1.35 Mn households</p>	—

Operations

Manufacturing

Measures

OSAKI in charge of

- Manufacturing capacity ramp up
- Group procurement leveraging global-wide synergy



Collaborative
Production

Development

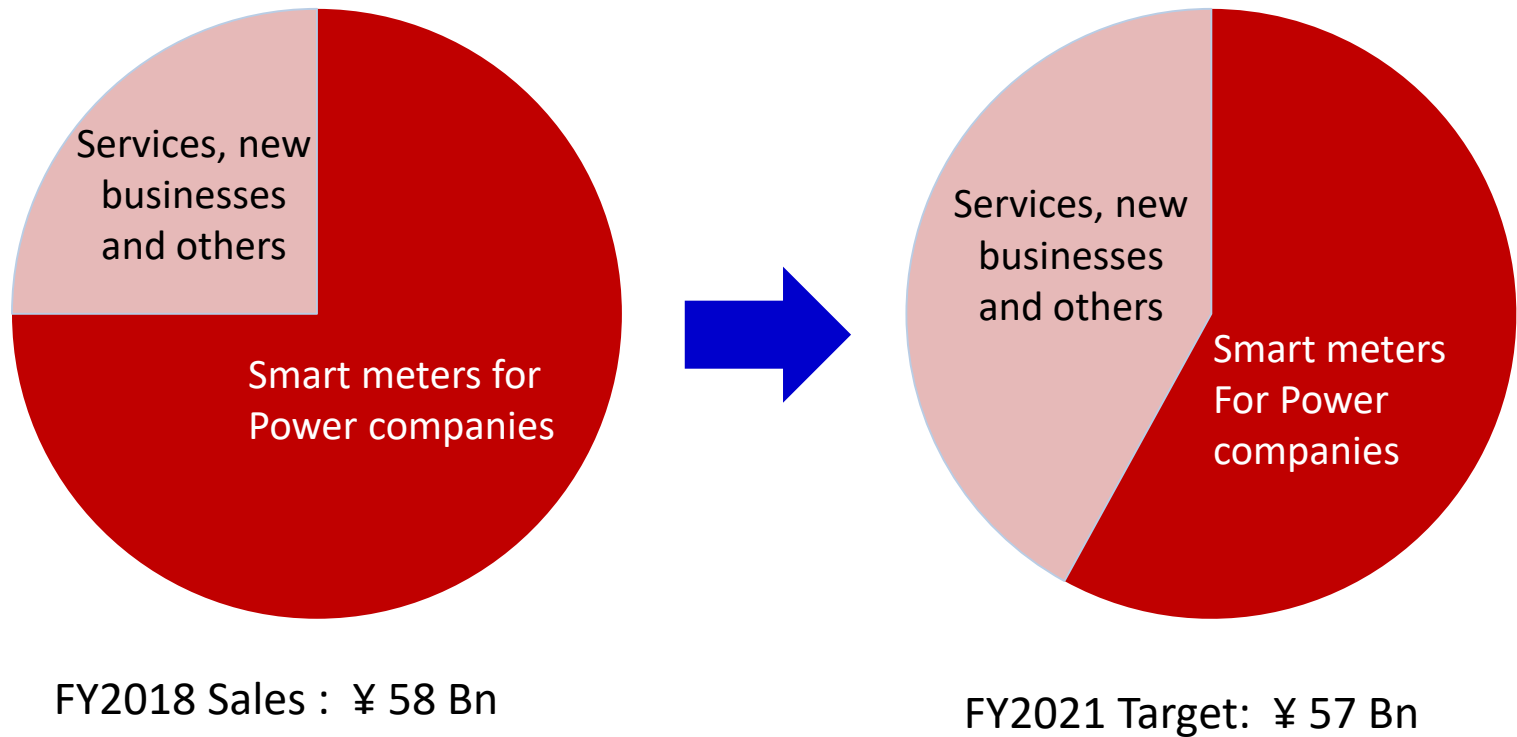
Measures

OSAKI and EDM I

- Development designed for manufacturing efficiency
- Standardized models
- Cost reduction

2. Expanding value-added smart meter businesses

Japan: Sales breakdown by products and services



Short-to-mid term measures

Providing automated energy control, AMR and other solution services for wider customers

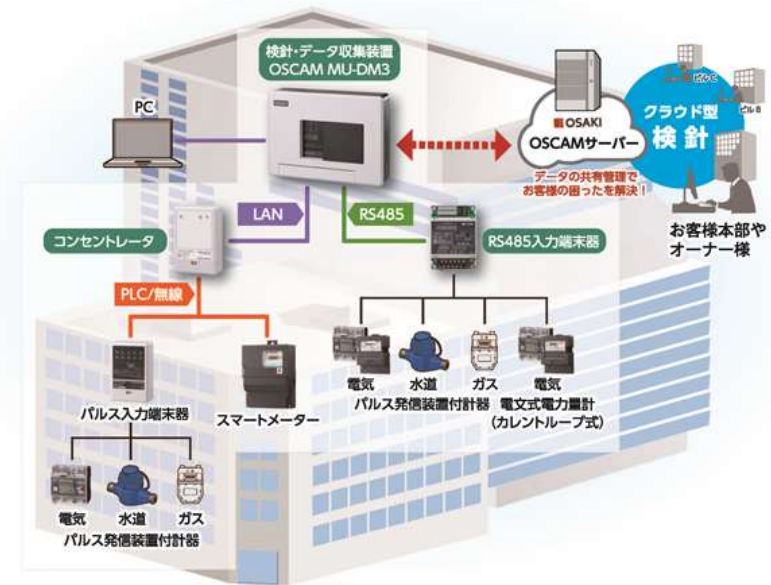
Solutions

1 Automated Energy Control “Energy Management Systems”

- Automated air condition control to control/save power usage
- Reduce power usage by 5~10% per annum

2 AMR (automated meter reading) “Smart Metering System”

- AMR for utility by cloud service



AMR: “Smart Metering System”

Mid-to-Long term measures

Explore business opportunities with “New power platform using next-generation technologies.”

AI embedded smart metering solutions for new energy infrastructures

watch series

What is “watch series”?
Applying IoT and AI to measuring/control services to change lifestyle and business style

home watch

store watch

farm watch

town watch

factory watch

Services Available

■ Smart homes for rent

home watch

Remotely control home appliances by Apps on smartphones and the internet

■ Retail store services

store watch

Collect customer data using web cam and sensors
Combine the collected data with weather information or local news for better store marketing

Smart Locks OPELO

Open/close using 10 keys, IC cards, smart phones and other various ways

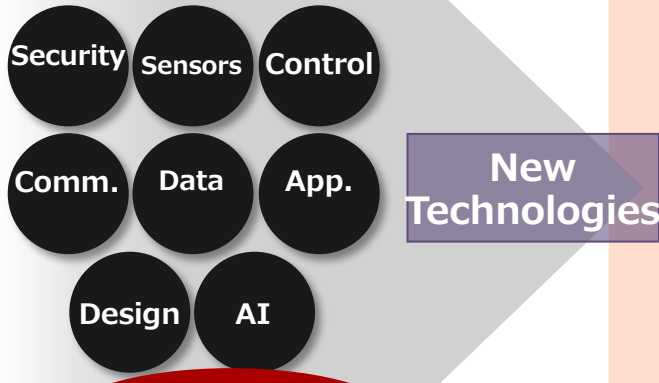
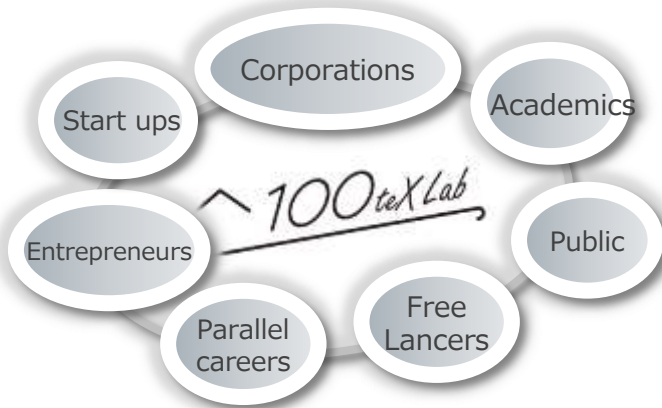


■ IoT services for agriculture

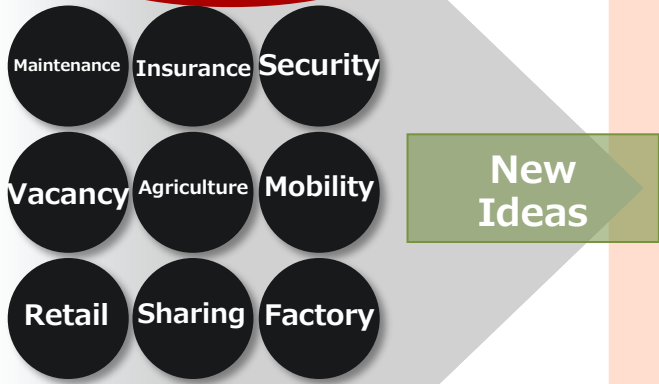
farm watch

Remotely monitor and control conditions in green houses using sensors

Collaborating with partners to create new technologies and business ideas



Collaboration



OSAKI with new generation business

New Smart Meters

Solution Services

- Energy Management
- Metering Solution

New Businesses

watch series

4. Building Resilient Operational Structure

Strengthen group-wide operations in manufacturing and development

Build strong teams by promoting greater diversity in personnel and training

Reinforce cost control

Promote corporate brand

4. Shareholder Return Policy

Dividend Policy

- In principle, providing either the higher of DOE (Dividend on Equity Ratio) of 2% or Pay out ratio of 30%

	(Yen)	FY2015	FY2016	FY2017	FY2018	FY2019 Forecast
Dividend per share	Interim/ year-end	6 / 6	8 / 12	10 / 10	10 / 10	10 / 10
	Annum	12	20	20	20	20
Total dividend paid	Annum	537 Mn	959 Mn	976 Mn	978 Mn	
Pay out ratio	Annum	35.9%	24.8%	36.6%	54.1%	61.1%
DOE	Annum	1.5%	2.5%	2.3%	2.2%	2.2%

Policy on Share Buy-back

- Placing higher capital efficiency as priority, consider the share buy-back option while taking factors such as cash on hands, working capital, financial performance and stock price trend, and investment opportunities into consideration

5. ESG Measures

Environment

Environment-conscious operations

CO2 reduction Measures

Products and services for CO2 reduction

Provide products and services for optimal energy management in and out of Japan

Environment-friendly Group

Waste reduction

Environment-friendly products
Reduce waste, increase recycling
Reduce chemical material waste

Social

Socially responsible operations

Technology

Safer and more secure society with metering solutions technologies

Create new values by applying AI and IoT technologies for various services for safer and more secure society

Diversity

Co-working in a diversified pool of people

Create new values in collaboration with people across all borders of nationalities, organizations, etc.

Governance supporting E & S

Governance

Elevate corporate value and minimize risks

Management

Board effectiveness

Evaluate board effectiveness every year
➔ continual efforts to elevate governance

Supervision

Advisory committees

Set the committees for appointment and compensation
Appoint an outside board as Chairman.
Majority are outside members
➔ Attain fairness, objectivity and transparency

Global Energy Solution Leader

Challenge for advanced technologies, create new values and be responsible for better society through our energy solutions.

The word "Appendix" in a bold, black, sans-serif font, preceded by a vertical red bar on the left side. A horizontal grey line extends from the end of the red bar across the page.

Measurement and Control Equipment Segment Sales



(Excluding intercompany sales)

(¥Mn)

	FY2017	FY2018	YoY		FY2019 Forecasts	YoY	
			Amount	%		Amount	%
Meters	43,439	45,805	2,365	+5.4%	53,800	7,995	+17.5%
Japan	31,947	31,149	(797)	(2.5)%	26,740	(4,409)	(14.2)%
Smart Meters	29,890	28,942	(947)	(3.2)%	24,540	(4,402)	(15.2)%
Others	2,057	2,207	149	+7.3%	2,200	(7)	(0.3)%
Overseas	11,492	14,655	3,163	+27.5%	27,060	12,405	+84.6%
Monitor Control	9,717	12,156	2,439	+25.1%	14,410	2,254	+18.5%
Switchgears	7,144	7,097	(46)	(0.6)%	7,280	182	+2.6%
VCTs	4,925	4,772	(153)	(3.1)%	4,370	(402)	(8.4)%
Others (adjustments)	11,690	10,371	(1,319)	(11.3)%	9,880	(491)	(4.7)%
Total	76,917	80,203	3,286	+4.3%	89,740	9,536	+11.9%

*Referential figures based on managerial accounting

Sales by Region (Excluding intercompany sales)

(¥Mn)

	FY2017	FY2018	YoY		FY2019 Forecasts	YoY	
			Amount	%		Amount	%
Japan	59,927	57,735	(2,192)	(3.7)%	55,000	(2,735)	(4.7)%
Overseas	18,852	24,353	5,501	+29.2%	37,000	12,646	+51.9%
Oceania	7,807	9,522	1,714	+22.0%	10,500	977	+10.3%
Europe	3,858	4,449	590	+15.3%	14,500	10,050	+225.9%
Asia	6,168	7,086	918	+14.9%	6,500	(586)	(8.3)%
Others	1,017	3,295	2,277	+223.8%	5,500	2,204	+66.9%
Consolidated	78,780	82,089	3,308	+4.2%	92,000	9,910	+12.1%
Overseas Sales Ratio	23.9%	29.7%		+5.8%pt	40.2%		+10.5%pt

Average
Forex rate

¥81.26 per
1 SGD

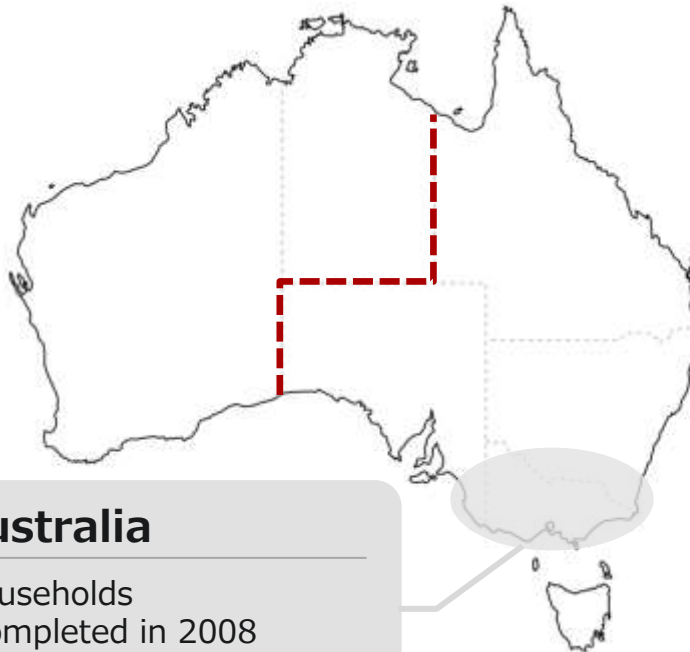
¥110.43 per
1 USD

Estimated Forex
¥110.43 per 1 USD

Consolidated Cash Flows

	(¥Mn)		
	FY2017	FY2018	YoY
Cash and cash equivalents at beginning of year	15,417	13,701	(1,716)
Income before income taxes and minority interests	5,568	4,277	(1,291)
Depreciation and amortization	2,820	2,634	(185)
(Increase) decrease in notes and accounts receivable	1,294	(2,067)	(3,361)
(Increase) decrease in inventories	1,968	(7,101)	(9,069)
Increase (decrease) in notes and accounts payable	(1,426)	3,270	4,697
Others	(2,114)	(937)	1,176
Operating activities	8,110	76	(8,033)
Fixed assets	(3,544)	(1,570)	1,974
Intangible assets	(627)	(322)	304
Others	(133)	(925)	(792)
Investing activities	(4,305)	(2,818)	1,487
Short-term debts	(2,404)	8,781	11,185
Long-term debts	(1,368)	(1,253)	114
Cash dividends paid	(1,671)	(1,720)	(49)
Others	(66)	(67)	(0)
Financing activities	(5,510)	5,739	11,250
Effect of exchange rate changes on cash and cash equivalents	(11)	(277)	(265)
Cash and cash equivalents at end of year	13,701	16,422	2,720

- As the country origin of EDMI, strong customer relationships
- Smart meter deployment became mandatory in December 2017 in the five of the Eastern states
- Solution business (smart meters with solution) generates good profits



Victoria, Australia

- 3.0 million households
- Installation completed in 2008
- Replacement demand begins in 2020

Australia

- Smart meters to be installed at 7 million households in 5~6 years in the five Eastern states (excluding Victoria)
- Signed contracts with 4 major customers, more than 50% share for the initial installation phase

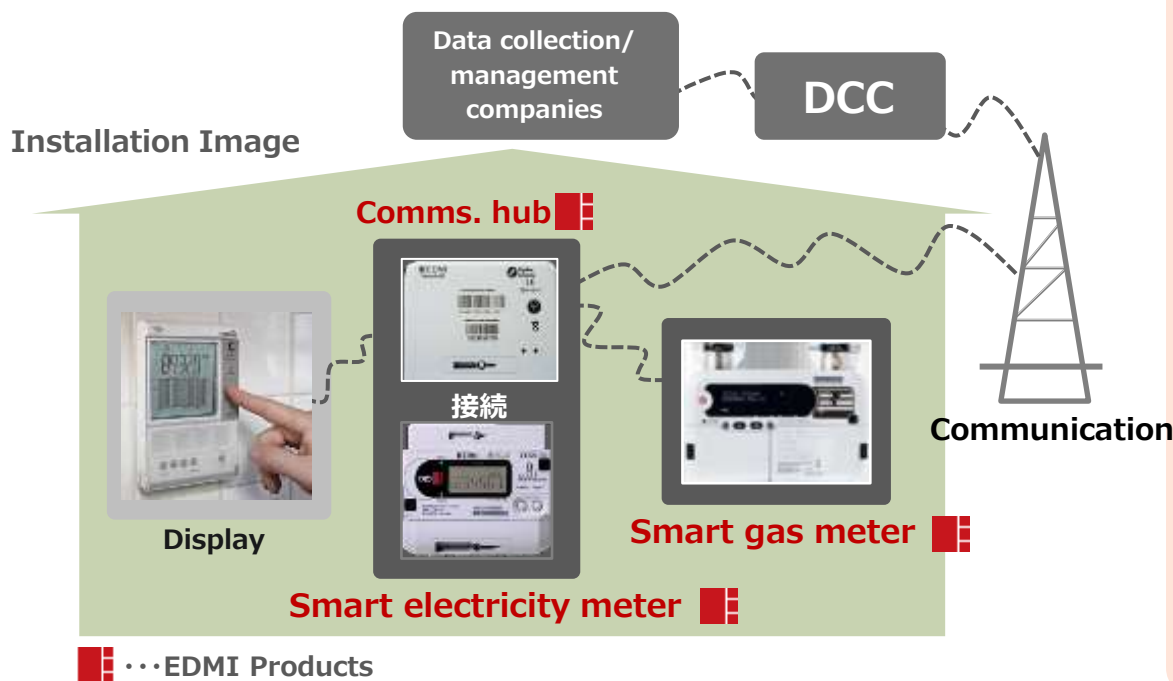
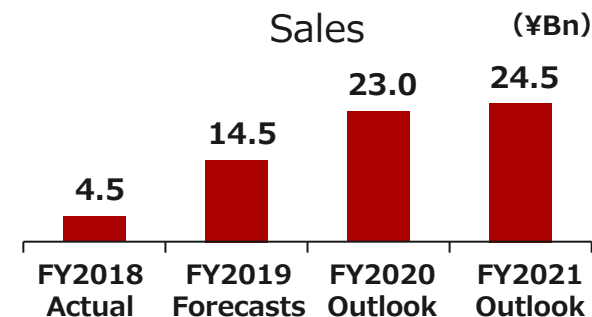


New Zealand

- 1.35 million households
- EDMI 75% market share
- Demand bottoms until 2019, replacement demand begins in 2020

Focused region: U.K.

- Nov., 2013 signed contracts for communications hubs in the Northern UK
- 2016~ Signed contracts for smart meters with major British energy retailers
- May, 2018 “DCC (Data and Communications Company) Go-Live” was announced
- 2019~ Mass delivery to begin



Comms. hub market size

30 million units
Signed contract for **10 Mn units** in the Northern UK (**1/3 share**)

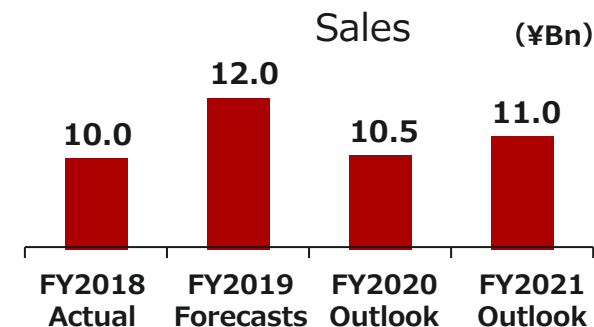
Smart meter market size

Electricity : 30 Mn units
Gas : 23 Mn units

Signed contracts for approx. **3 Mn units** with **5 out of 6 major energy retailers**

Targeting to supply more than **10 Mn units** of Electricity + Gas meter
>20% market share

- Expanding business to South East Asia, Middle East, Africa and others
- Selective business setting profitability as first priority



TOPICS : Smart meter project in Middle East

- Signed contract in 2018
- Estimated Sales : ¥10 Bn
- Smart meters and head-end system



Aim to expand same business model in Middle East

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TSE 1st Section

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