

To Our Shareholders



Performance in the Fiscal Year Ended March 31, 2007

The domestic and world economies both progressed steadily toward recovery in the fiscal year ended March 31, 2007.

Within the OKI Group, sales in the financial system business increased owing to healthier capital investment within the financial market, while sales of color LED* non-impact printers also improved in line with market growth. On the whole, however, OKI's businesses faced a challenging operating environment. Major factors impacting OKI's businesses were sluggish investment in fixed-line network systems by telecommunication carriers, weakened sales of driver LSIs due to prolonged inventory adjustment of LCD* panels, and OKI's insufficient cost reduction against declining sale prices due to intensified competition in all fields.

As a result, while net sales in this period grew 5.6% year on year to 718.8 billion yen, OKI recorded an operating loss of 5.4 billion yen, representing a 16.0 billion yen decline from 10.6 billion yen in operating income in the previous fiscal year. Net loss totaled 36.4 billion yen, accounting for a 41.5 billion fall from 5.1 billion yen in net income in the previous fiscal year, including the effect of the reversal of deferred tax assets.

OKI places a high priority on the stable return of profits to shareholders. Regrettably, owing to a slowed performance in the fiscal year under review, we ask for your understanding in our decision to suspend dividend payments for the fiscal year ended March 2007.

* LED: Light Emitting Diode
* LCD: Liquid Crystal Display

Revamp of Business Structure and V-Shape Recovery in the Fiscal Year Ending March 31, 2008

OKI incurred these results as we are currently facing a significant turning point in our businesses deployment. OKI's capabilities in business promotion and product competitiveness fall short of what is needed to succeed when looking at the pace of change in the business environment, typified by accelerated globalization, saturated domestic markets and customers' ongoing pursuit of investment efficiency.

In response to this situation, we implemented a full reexamination of our group activities at the end of the previous fiscal year. As a result, we are dedicated to generating rock-solid competitiveness by pursuing the following principal strategies.

1. Accelerate Business Selection and Concentration

This strategy involves reexamining all Group businesses along with efforts to drive low profitability businesses toward higher profits. Businesses deemed unable to make this shift will be reviewed for possible consolidation, spun off or sold. Already approximately 10% of all our business units have been earmarked for consolidation or partial consolidation. In the fiscal year ending March 2008, we plan to implement further reductions in the order of 10%.

Meanwhile, we will make efforts to concentrate management resources on businesses with high-growth potential. We have already newly established five companies, including both in-house and in-house venture companies, aiming for the expansion of businesses with mobility. In addition, OKI has resolved to implement a human resource shift affecting 1,700 employees.

2. Initiate Transformation toward a More Efficient Management Style

With the aim of conducting business in a timely manner, we have built an organizational structure to clarify the distinction of policy planning, implementation and execution management duties. Looking to improve the speed and flexibility of business execution, we have reduced the number of indirect planning departments, shifted a number of employees to direct departments and have begun flattening the organizational structure. These changes will help to simplify the dissemination of information and decision-making processes.

Also, as we aimed to accelerate market-oriented business development, we reorganized our Info-Telecom System segment according to the business characteristics and fields of our three business groups: finance, telecom and information systems.

3. Develop Strong Businesses Based on Strong Products

By integrating, uniting and harmonizing our essential resources—people, goods, businesses, technologies and products—together in an appropriate manner, we will work toward rebuilding our competitiveness with a differentiated uniqueness that only OKI is capable of. We will also enthusiastically push for the creation of global alliances and partnerships.

The provision of Ubiquitous Services is at the core of the Info-Telecom Systems Group's operations, while next-generation networks (NGNs) are considered its main area of Ubiquitous Services. Its strengths in info-telecom converged technology and mechatronic technology contribute to the generation of differentiated technologies and products and consequently further business development. Furthermore, by accelerating its selection and concentration activities, strengthening its competitiveness of hardware products, expanding its software and service businesses through the creation of a global software development structure and augmenting overseas businesses with a newly established dedicated division, OKI is diligently working to boost sales and profitability.

In the Semiconductor Business Group, OKI is working to reinvent itself and depart from the current business framework founded solely on the semiconductor business. We will innovatively combine semiconductor technologies with other OKI Group technologies to create and expand the business of high-value-added electronic functional modules (e-functional modules). In addition, OKI is looking to boost profitability in the large LCD driver business and further focus on system LSIs with differentiated technologies, including its ultra low-power consumption technologies.

Our Printer Business Group is fortifying sales channels in the SMB* market in anticipation of gaining key status in the global market, in the future. At present, OKI is endeavoring to raise earning power by creating a well-balanced product lineup of the printers the SMB market most demands: multifunctional mid- to high-end color LED non-impact printers. At the same time, OKI will seek to make inroads into emerging markets, extending its reach beyond Europe, the Americas and Japan, while also pursuing sustained earnings in its dot impact printer category.

In addition to these three strategies, OKI will implement urgent measures, including the constriction of fixed costs in the fiscal year ending March 2008. OKI aims to attain two numerical targets: 750.0 billion yen in net sales and at least 8.0 billion yen in operating income.

* SMB: Small & Medium Business

World Recognition as Global Enterprise

The diffusion of Internet and broadband networks are significantly changing the times in which we live. People are now able to easily and securely access a vast range of Ubiquitous Services, which OKI advocates, in the styles they most desire—either as information, products, or services—whenever and wherever with whatever they want. Transcending time and space constraints, breaking boundaries among countries, regions, and cultures, providing individuals with the freedom to safely and securely partake in a variety of activities is the product of a rapidly advancing network society, a society that OKI has long championed—the e-Society.

We aspire to be a globally recognized key player in this e-Society and to achieve sustained growth. To this end, we are working to actualize an e-Society able to fulfill the hopes and aspirations of people around the world as stipulated by our brand statement, "Open up your dreams." Furthermore, OKI is targeting global business expansion quantified by a 50% overseas sales ratio, up from 36%, by 2010.

As a trusted partner to all our stakeholders around the world, OKI will continue to build on the comprehensive wisdom of its Group employees. In conclusion, I would like to thank our shareholders for their steadfast support and understanding.

July 2007



Katsumasa Shinozuka
President and Chief Executive Officer
Oki Electric Industry Co., Ltd.