

To Our Stakeholders



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

Reinventing Ourselves toward Realizing an e-Society

Meikosha, Ltd., the predecessor of Oki Electric Industry Co., Ltd., started out in 1881 as Japan's first telecommunications equipment manufacturer. Just five years after Alexander Graham Bell invented the telephone, Meikosha showed its "enterprising spirit," successfully undertaking the domestic manufacture of telephones. Having continuously striven to tackle the unknown since its founding, the OKI Group remains committed to its 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."

Based on this corporate philosophy, the OKI Group has also formulated a corporate vision: "OKI, Network Solutions for a Global Society." In accordance with the corporate philosophy and vision, OKI aims to contribute to the realization of an e-Society in which anybody in the global community can receive the benefits of "Ubiquitous Services," which the Company defines as services that users can easily and directly access anytime, anywhere using any medium they choose in a secure and reliable manner. To this end, as a key player in today's society as it develops into an e-Society, OKI is providing products and services that offer certainties in world of uncertainties, thereby contributing to the comfortable lifestyles of people around the world by satisfying myriad needs.

To date, OKI has promoted corporate management based on these principles; however, the business environment surrounding the Company has shown even more rapid and significant changes than expected over the past several years, including ever-accelerating globalization, domestic market saturation and an increased focus among customers on investment efficiencies. The negative impact of these developments has affected our business promotion capabilities

and product competitiveness, which have proven insufficient in certain domains of our business. In response, OKI is working to swiftly and effectively adjust to external changes while meticulously optimizing its business structure. Specifically, in March 2007 OKI formulated three basic policies for business restructuring and temporary short-term initiatives to revamp profitability and, in the following October, identified essential initiatives based on these basic policies to formulate a medium-term business plan. We are now steadily implementing the plan.

Performance in the Fiscal Year Ended March 31, 2008

In the fiscal year under review, the subprime loan crisis in the United States, high crude oil prices and other conditions led to deceleration in economic growth worldwide. The Japanese economy was particularly hard hit. The outlook for the domestic economy has become increasingly cloudy due to subprime loan-related losses incurred by financial institutions, a potential deterioration in exporting companies' performance attributable to yen appreciation in conjunction with the weakening dollar, surging material prices and stagnant stock markets. In contrast, emerging countries continued to enjoy rapid economic expansion and European economies experienced favorable conditions overall.

Under these circumstances, the OKI Group implemented various initiatives that enabled it to achieve its planned targets for the fiscal year under review and successfully complete the first step toward realizing a V-shaped recovery. In terms of short-term initiatives, OKI accomplished almost all its planned targets, which included streamlining business units, optimizing management resource allocation, controlling personnel costs and investments and reducing inventories and cash outflows. Similarly, OKI has made steady progress in the implementation of medium- and long-term initiatives related

to business restructuring. Based on a closer examination of each segment, the Company's Financial Business Group and Information System Business Group have managed to promote their operations that are for the most part in line with their plans.

The Printer Business Group has substantially improved profitability by strategically enhancing its product portfolio with mid- and high-end color non-impact printers (NIPs), which made a significant contribution to the profitability of printer sales and resulted in an increase in sales of consumables. The Telecom Business Group's performance, however, regrettably recorded profits that were worse-than-expected. Causing the downturn was the adverse impact of persistently sluggish investment in fixed-line network systems by telecom carriers as well as delays and downgrades to the scale of plans, namely, the small scale of service launches due to limited areas of availability and downward revision in the estimate of the number of subscribers to optical network services from 30 million to 20 million in the field of next-generation networks (NGNs). In addition, OKI has decided to withdraw from low-profit NGN system operations, incurring withdrawal costs and increased R&D expenses for the development of new competitive products. Although the Semiconductor Business Group achieved a year-on-year earnings increase as planned, industry competition continued to intensify on a global scale. In particular, such competition caused some delay in a return to profitability in the large thin-film transistor (TFT) driver business—one of the Semiconductor Business Group's core operations.

As a result, OKI posted consolidated net sales totaling 719.7 billion yen, up 0.1% compared with the previous fiscal year, operating income amounting to 6.2 billion yen, a year-on-year improvement of 11.6 billion yen and recurring loss of 3.9 billion yen, a contraction of 8.9 billion yen. The Company recorded 0.6 billion yen in net income, representing a turnaround of 37.0 billion yen attributable to the absence of the effect of the reversal of deferred tax assets, which was posted in the previous fiscal year.

Goals for the Fiscal Year 2008 (Ending March 31, 2009)

The U.S. economy is now obviously slowing down and European economies are beginning to show signs of stagnation, prompting heightening concerns about inflation. Economies worldwide are being negatively impacted by the U.S. subprime loan debacle, which is triggering a global financial crisis, as well as high crude oil prices. Although a high rate of growth is expected to continue for emerging countries, the economic outlook for post-Beijing Olympic China looks anemic due to the impact of economic trends in the United States and Europe. Stagnant growth is expected in the Japanese economy, due to the deceleration in the U.S. economy and deterioration in exporting companies' performance caused by the depreciation of the dollar, the appreciating yen, surging raw material prices and other factors.

In such an environment, the OKI Group will further activities

based on its medium-term business plan to revamp its business structure and thereby improve profitability.

As part of these activities, OKI has spun off its Semiconductor business and the areas related to NGN operations in its Telecom Division which are subject to extreme industry and market fluctuations, in order to establish a new business structure that facilitates agile management and flexible response to external changes. Also, OKI has signed a definitive agreement with Rohm Co., Ltd. whereby OKI will transfer 95% of its shares in its semiconductor subsidiary to Rohm as of October 1, 2008. The two companies' semiconductor businesses have few products in common and thus can expect the synergistic effects of integrating their semiconductor businesses and supplementing each other, thereby reinforcing their competitiveness in the semiconductor industry.

For the current fiscal year, the OKI Group has set the consolidated net sales and operating income targets of 629.0 billion yen and 7.0 billion yen, respectively. OKI's efforts to revamp its business structure are expected to result in increased profits in the info-telecom systems segment, while profits are expected to decrease in the semiconductor segment due to sluggishness in the first half performance and the exclusion of the semiconductor business from the Group's consolidation in the second half. Thus net sales and operating income are forecast to be almost unchanged from the fiscal year under review. OKI anticipates a 17.5 billion yen net loss for the current fiscal year, primarily attributable to an extraordinary loss of 13.5 billion yen in the form of a valuation loss caused by changes to inventory valuation standards. Moreover, the transfer of shares of the semiconductor subsidiary may have a greater than anticipated impact on the Group's performance. We will disclose relevant information in a timely manner immediately after such impact becomes clear and present.

Although we have started to see the tangible results of our initiatives to revamp our business structure, we are most likely to record an overall deficit for the current fiscal year. Based on this unfavorable expectation, we regrettably ask for your understanding with regard to our plan to suspend period-end dividend payments.

The OKI Group is committed to successfully revamping its business structure with the aim of enhancing profitability by placing the Info-Telecom Business Group and the Printer Business Group at the core of its operations. We would like to ask all our stakeholders for their continued support and understanding.

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