



In fiscal 2000, ended March 31, 2000, consolidated net sales declined 0.5%, to ¥669,776 million. The slip in sales performance reflects a slowdown in telecommunications and information systems as financial institutions and telecommunications companies steered away from capital investments, counteracting enhanced demand for logic devices and 4 Mbit and 16 Mbit dynamic random access memories (DRAMs). We continued to curtail cost of sales and fixed costs, which boosted net income to ¥1,146 million, recovering from our ¥47,421 million net loss last year.

For fiscal 2001, ending March 31, 2001, we anticipate consolidated net sales of ¥750,000 million, as our “Phoenix 21” strategy begins to gather momentum.

#### Implementing a New Business Model

As illustrated above, we made a substantial comeback from last year’s deficit. We still need, however, to reinforce our earnings base by concentrating resources in our key segments to succeed amid intense global competition. Phoenix 21, a program initiated last year, is designed to help us achieve these objectives. Through the program, we are focusing on “profit and agility” as a means to heighten the Group’s corporate value and make our name synonymous with network solutions. We have repositioned ourselves under the slogan of “Oki, Network Solutions for a Global Society.” We are realigning operations following a more proactive business model, which will allow us to deliver products that meet customer needs. To achieve this, we will change our product mix and management structure.

To restructure our product offerings, we are concentrating resources in key segments, withdrawing from less

rewarding ones, strengthening inter-corporate alliances and reorganizing operations from the development to delivery stages, based on the new business model. We are also restructuring and strengthening management throughout the Oki Group to strongly promote the concepts of “profit and agility.” From April 2000, we began establishing independent profit centers based on the “in-house company” system and also introduced the executive committee system. The consolidation of our affiliates has been another step in this direction.

Since its founding, Oki Electric has incorporated the spirit of innovation in its corporate culture. In keeping abreast of rapid change as we prepare to embrace the 21st century, our goal is to link this spirit of innovation with the Group’s renewed emphasis on “profit and agility” so that all our employees can apply these basic values to their daily jobs. I believe that our success in achieving this will have a lasting impact on Group performance.

#### Service Bridges: A Vision for Tomorrow

To position the Oki Group as a premier network solutions provider, we are proposing three “service bridges” to connect growing demand for network systems with the required infrastructure. “Customer contact” is the first of the bridges and refers to listening ever more closely to customers. With the emergence of a network-oriented society, we are boosting the quality of our services by focusing on user needs rather than only offering services which we, the vendor, deem sufficient. We believe that it will be necessary to build supply chain management systems that revolve around customers, for use by both our public and private sector clients. Our sales approach for our network printer, featuring a strengthened vertical application development component, will fall into the realm of this new strategy.

“Multimedia messaging” is the second bridge. We aim to provide messaging services that transcend “time, space and media.” We plan to offer a seamless communications environment with unified messaging and the Multimedia over Internet Protocol (MoIP), which integrates and transmits voice, facsimile functions and image data for the most convenient and effective communication environment.

The network-oriented society is giving rise to a multitude of businesses and services. As a third bridge, we plan to offer multifaceted application services to support Internet businesses. In particular, we intend to concentrate on high-level Internet security, provide business logic, build and support the operations of Internet businesses, and also offer outsourcing services.

#### Realizing our Corporate Vision

To accomplish our corporate vision, the Oki Group will implement a variety of measures, applying its three

“service bridges” and actively participating in the fields of network infrastructure and semiconductors. In the system solutions segment, a high customer contact area, we are expanding our revenue base by shifting focus from hardware to software and services. We are developing unique systems for key customer markets in the finance, travel and public administration industries. Reflecting the on-going trend of consolidation in the financial industry, we anticipate that financial institutions will make new investments to integrate their systems upon merger. We will be able to further enhance our strength in the finance industry by focusing on products such as automated teller machines (ATMs), branch management systems and cash handling systems. With the continued introduction of ATMs to convenience stores, we intend to aggressively market our solutions to financial institutions and ATMs management companies.

Internet security systems are another indispensable product. We are striving to secure alliances with other companies to build more secure systems for our customers. We are also concentrating on intelligent transport systems (ITS). We have received orders for electronic toll collection (ETC) systems for highways and are working to commercialize a parking management system that utilizes an ETC road vehicle communication system. As already mentioned, we will focus on the development and marketing of network printers and vertical applications, two areas in which we have a competitive advantage.

In multimedia messaging, we currently have 100 companies assisting us in product development and sales for our mainstay, CTstage®, and we plan to expand sales in this area beginning with the financial industry. During the period under review, we developed and launched IPstage™. This product supports corporate telecommunications infrastructures by providing seamless and effective communications via an Internet protocol (IP) network, integrating voice, fax and data functions and various image media. We aim to be the first in the industry to launch a product in this segment and are working ever faster to establish uniform and open architecture in response to the growing IP market.

As part of our network application service, in October 1999, we established IPnet Corp., as a one-stop, total solution provider for IP network systems. A lineup of the company’s services includes network planning, design, setup, maintenance and operation.

PTOP<sup>2</sup>, our corporate Internet provider, is enjoying the sharp increase in demand for related networking services. PTOPTOP has won large-scale outsourcing orders for the integration of voice and data intranet systems. It is also providing advanced messaging solutions for company intranets utilizing groupware, through alliances with other providers and upgrading to next-generation Internet Protocol-Virtual Private Network (IP-VPN).

In the network infrastructure segment, we are shifting our business focus to IP networks. To meet the needs of

common carrier and corporate intranets, we are carrying out full-scale development of state-of-the-art products and systems, all based on our networking, transmission and computer telephony technologies. We are seeking alliances to enhance our competitive position and speed up product development. We have also set our sights on the market for next-generation mobile telecommunications systems and established a joint venture, Mobile Techno Corp., to handle design and development.

We are looking to high-performance silicon-on-insulator (SOI) material-based large-scale integrated circuits (LSI) and those developed using our silicon platform architecture (SPA). New investment will focus on logic and system LSI devices to improve profit margins. We recently introduced μPLAT™, an integrated development tool for high-performance System-on-Chip LSIs. μPLAT™ virtually halves the time required to develop high-speed, low-power devices for mobile telecommunications and personal computer (PC) peripherals, speeding up the commercialization process. We are devoting our DRAM LSI development to the 4 Mbit and 16 Mbit DRAMs market to avoid low-margin, commodity products.

Overseas, we are bolstering our Asian and North American production and sales networks. Our telecommunications joint venture in the People’s Republic of China is now in full production, outputting key telephones and private-branch exchanges (PBXs) with plans to expand further. In Taiwan, we licensed our semiconductor manufacturing technology to a venture company to support production of memory chips and logic LSIs.

In North America, we merged our semiconductor sales and development operations into a single business unit, Oki Semiconductor Company which operates under the auspices of Oki America, Inc. In addition to sales, this unit now tackles everything from semiconductor research and development to marketing. Oki Network Technologies Division, another business unit in the United States, is building up its sales and marketing networks for strategically important products, including our voice over IP (VoIP) line-up.

As my message indicates, the Oki Group is gearing up to improve its results in the coming fiscal year and beyond. We ask our shareholders for their continued support as the Oki Group restructures itself into a customer-oriented, agile provider of network solutions for the global society.

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Katsumasa Shinozuka  
President and Chief Executive Officer