

Operating Results

Despite low personal consumption and harsh economic conditions, the corporate sector in particular began to show positive signs in the first half of fiscal 2000, and overall mild economic improvement continued in fiscal 2001, ended March 31, 2001. Since the end of the period, however, the Asian and U.S. economic slowdown has effectively halted economic improvement, bringing the economy to a standstill.

Oki's business environment is going through dramatic changes, with corporate reorganization in the financial and telecommunications industries and changes in business models triggered by global competition and the IT revolution. In this environment, Oki smoothly and successfully implemented its Phoenix 21 plan, established in fiscal 1998, and the Group worked together to achieve its vision of becoming a network solutions company with stable profits.

Net sales grew ¥70,474 million, or 10.5%, to ¥740,250 million. Operating income more than doubled, to ¥28,314 million, from ¥13,804 million in the previous period, owing to continuous efforts to cut costs.

In fiscal 2001, the Oki Group reclassified its business into the following four segments: telecommunications systems, information systems, electronic devices and other. The following segment information includes business transactions between the segments.

Although IT-related investment continued to be slow, demand for ATMs contributed to sales of ¥367,492 million in the information systems segment. Operating income was ¥1,485 million. In the telecommunications systems segment, construction of next-generation telecommunications networks for carriers and capital investment in multimedia telecommunications networks on the part of general companies was quite active, leading to sales totaling ¥169,877 million, with operating income amounting to ¥7,200 million. In the electronic devices segment, sales of logic and foundry systems in particular were favorable, and memory prices were stable, bringing sales to ¥199,306 million. Operating income was ¥29,886 million. Other sales amounted to ¥79,561 million, with operating income totaling ¥1,246 million.

Domestic sales rose ¥49,106 million, or 7.8%, to ¥678,935 million, primarily owing to higher sales of electronic devices, such as logic and system LSI circuits. Operating income jumped ¥11,801 million, or 80.5%, to ¥26,453.

In North America, sales increased ¥11,052 million, or 14.9%, to ¥85,053 million, owing to the weaker yen and growth in sales of electronic devices. The slump in the market for dot impact printers, however, was worse than expected, and operating losses improved only slightly, from a loss of ¥1,230 million in fiscal 2000 to a loss of ¥111 million.

In other regions, sales grew ¥26,445 million, or 23.7%, to ¥137,887 million. Operating income jumped ¥782 million, or 48.7%, to ¥2,388 million.

On a year-end average basis, net sales per employee reached ¥28.9 million, an increase from ¥27.4 million in fiscal 2000 and ¥28.4 million in fiscal 1999. Total asset turnover was 1.0 times, as opposed to 0.87 times in fiscal 2000 and 0.82 times in fiscal 1999. Cost of sales increased 9.7%, to ¥563,368 million. The cost of sales ratio improved to 76.1%, from 76.7% in fiscal 2000 and 81.9% in fiscal 1999. Gross profit jumped 13.1%, to ¥176,882 million.

Selling, general and administrative (SG&A) expenses rose 4.2%, to ¥148,567 million, and amounted to 20.1% of net sales, an improvement from 21.3% in fiscal 2000 and 23.8% in fiscal 1999.

R&D expenses (included within cost of sales and SG&A expenses) totaled ¥29,842 million, a 1.13% increase from the previous period.

Other expenses exceeded other income by ¥10,008 million, up from ¥7,288 million in the previous term. Interest expense was ¥10,426 million, down from ¥12,291 million in fiscal 2000, mainly owing to a reduction of interest-bearing debt. In fiscal 2001, as a result of the weaker yen, the Group recorded a foreign exchange gain of ¥1,881 million, compared with an exchange loss of ¥5,030 million in fiscal 2000. In fiscal 2001, new accounting standards for retirement benefits were introduced in Japan. Other non-operating expenses included amortization costs of transitional obligations for employees' retirement benefits of a consolidated subsidiary, which decided to amortize obligations over one fiscal year. Such amortization expenses for other consolidated subsidiaries and the Company are included in operating expenses. Please refer to note 7 on page 24 of the notes to the consolidated financial statements for details.

Income before income taxes, minority interests and equity in earnings of affiliates totaled ¥18,306 million, an increase from ¥6,515 million in the previous period. After incurring income

taxes amounting to ¥10,228 million, Oki recorded net income of ¥8,944 million, a significant improvement from ¥1,146 million in fiscal 2000.

Net income per share rose from ¥1.87 last period, to ¥14.61. Dividends will be resumed at ¥5.00 per share.

Financial Position

Total assets fell 2.1%, to ¥732,483, primary owing to the reduction of bank loans and bonds. Owing to a series of accounting changes, total current assets fell 10%, to ¥433,230 million, and comprised 59.2% of total assets, compared with 64.3% in fiscal 2000 and 66.1% in fiscal 1999. In fiscal 2001, the Group implemented new accounting standards for financial instruments, which resulted in the reclassification of certain marketable securities, totaling ¥46,333 million as of April 1, 2001, from current assets to other investments in securities. In addition, certain marketable securities stated at cost or less in prior fiscal years were revalued at market price. See note 1(m) on page 22 for details.

Similarly, accounting standards for foreign currency treatment changed as of April 1, 2000, and translation adjustments were reclassified as part of shareholders' equity rather than assets and liabilities. Note 1(m) on page 22 provides more information.

Property, plant and equipment, before depreciation, increased 2.9%, to ¥711,260 million, mainly because of capital expenditures in the electronic devices segment.

Total liabilities fell 3.6%, to ¥578,256 million, owing to reductions in short-term borrowings, bonds and long-term debt. Total current liabilities rose 7.7%, to ¥351,578 million. Total current liabilities accounted for 60.8% of total liabilities, compared with 54.4% in fiscal 2000 and 52.8% in fiscal 1999.

Total long-term liabilities decreased 17.0%, to ¥226,678 million. The current ratio was 1.23, compared with 1.47 in fiscal 2000 and 1.53 in fiscal 1999. Total shareholders' equity rose 4.4%, to ¥148,844 million. The equity ratio improved to 20.3%, from 19.0% in fiscal 2000 and 17.7% in fiscal 1999. The debt-to-equity ratio was 3.9:1, as against 4.2:1 in fiscal 2000 and 4.6:1 in fiscal 1999.

Cash Flows

Cash and cash equivalents at end of the year, calculated on a consolidated basis, amounted to ¥52,885 million, ¥13,890 million, or 20.8%, lower than the previous fiscal year. Free cash flows, or the combined net cash provided by operating activities and used in investing activities, totaled ¥48,467 million, a change of ¥36,011 million, owing to disposal of working securities. Interest-bearing debt fell ¥63,518 million, a result of the free cash flows and disposal of funds.

The Company recorded net cash provided by operating activities of ¥62,405 million, a difference of ¥6,486 million compared with the previous period. The primary reason for this increase was that, despite higher working capital caused by a rise in sales, profitability improvements raised net income for this period. Net cash used in investing activities was ¥13,938 million, owing to redemption of working bonds and circulation of investment funds, compensating for an increase in capital investment expenditures for semiconductors and other equipment. Net cash used in financing activities increased to ¥63,557 million, owing to the continuous reduction of interest-bearing debt.