

# Financial Review

## Operating Results

### Overview

In the first half of fiscal 2003, ended March 31, 2003, the Japanese economy exhibited signs of recovery, including an increase in exports, an upturn in capital spending and progress in reducing inventory levels. A continuation of deflationary pressures and weak consumption meant the overall picture was bleak, however, and the economy was unable to climb out of the doldrums. In the second half, heightened tension over the Iraq crisis led to uncertainty in the global economy, while the continuing fall of stock prices around the world reduced hopes of an imminent recovery.

The fields in which Oki operates faced a harsh business environment, affected by such factors as a slump in demand for telecommunications equipment, owing to a worldwide downturn in that sector; sluggish growth in IT-related capital investment; and inhibited plant and equipment investment among financial institutions struggling with the problem of nonperforming assets. The semiconductor market showed signs of a recovery during the first half of the period, but turned lackluster in the second half.

### Net Sales

In a difficult operating climate, although the electronic devices segment recorded increased sales, the information systems and telecommunications systems segments posted decreases. Consequently, net sales for the period declined 3.2%, to ¥585,473 million.

### Cost of Sales, Selling, General and Administrative Expenses and Income

Cost of sales fell 9.1%, to ¥445,709 million. As a result of efforts to rein in fixed costs and reduce procurement and other variable costs, the gross profit margin improved 5.0 percentage points, to 23.9%. Consequently, gross profit increased 22.3%, to ¥139,763 million.

Owing to general cost-cutting efforts, selling, general and administrative (SG&A) expenses declined 2.2%, to ¥138,395 million. The

ratio of SG&A expenses to net sales edged up 0.2 percentage point, to 23.6%.

The Company recorded operating income of ¥1,386 million, compared with an operating loss of ¥27,247 million in the previous period. This substantial turnaround was achieved—despite a drop in net sales—as a result of structural reforms that aimed to build a high earnings structure. In other income, a gain on sale and disposition of property, plant and equipment of ¥18,610 million was the most significant item. This was primarily related to efforts to strengthen the information and telecommunications convergence business, which included a reassessment of office requirements in metropolitan Tokyo and a subsequent disposal of land and buildings. The Company also recorded write-downs of investments in subsidiaries and other investments in securities of ¥7,218 million, mainly owing to a fall in the stock market late in the period.

As a result, the Company posted a net loss of ¥6,560 million, compared with ¥34,077 million in the previous period, and net loss per share of ¥10.72, compared with ¥55.66 a year earlier.

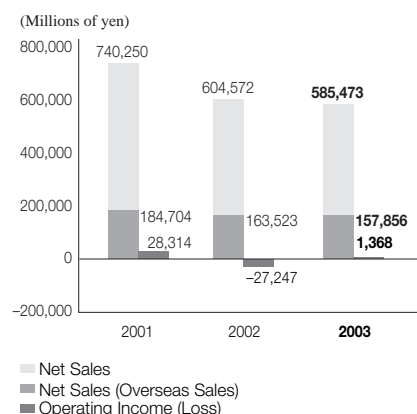
### Operating Results by Segment

In fiscal 2003, segment classifications were changed, so figures for fiscal 2002 have been recalculated according to the new classifications. (Please refer to Note 17 in Notes to Consolidated Financial Statements.)

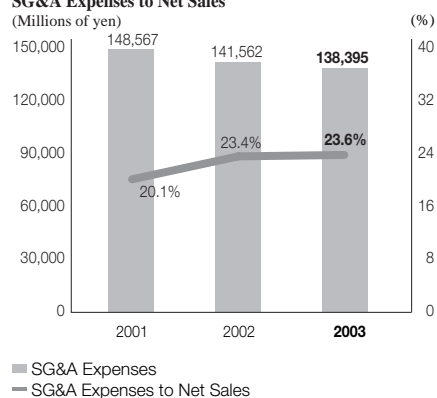
### Information Systems

In this segment, Oki faced a variety of negative market factors. These included a slump in the IT market, restrained public works expenditures, subdued capital investment by financial institutions and fiercer competition in a range of markets, including the market for government agency contracts. As a result, sales to third parties slipped 4.9%, to ¥330,383 million. Operating income rose, however, from ¥3,118 million in the previous period, to ¥19,840 million. This improvement was mainly attributable to structural reforms, such as

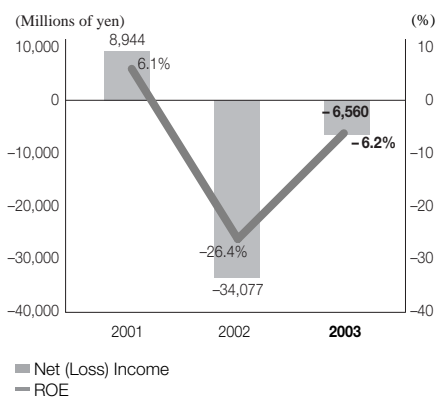
Net Sales and Operating Income (Loss)



Selling, General & Administrative (SG&A) Expenses and SG&A Expenses to Net Sales



Net (Loss) Income and Return on Equity (ROE)



a reduction in fixed costs, phasing out of unprofitable businesses and lowering of procurement costs.

#### Telecommunications Systems

Increased sales in the rapidly expanding IP telephony services and enterprise VoIP markets were insufficient to make up for adverse factors affecting traditional business areas, such as constrained plant and equipment investment by telecommunications carriers and depressed capital spending in the private sector. Consequently, sales to third parties declined 17.0%, to ¥85,717 million. Despite this fall in sales, the implementation of restructuring measures, including fixed cost reduction, led to a lower operating loss of ¥8,191 million, compared with ¥9,564 million in the previous period.

#### Electronic Devices

Although the semiconductor market bottomed out late in the previous period, the recovery lacked momentum, with even demand slowing down for components targeted at the optical communications market. In the “personal & mobile” market, one of Oki’s forte areas, the Company introduced a range of new products, including sound generator LSIs for mobile phones, driver LSIs for large liquid crystal displays (LCDs), and P2ROM™ chips boasting low cost and short turnaround time. As a result, sales to third parties advanced 4.9%, to ¥119,224 million. A combination of higher sales and reduced costs saw the operating loss shrink from ¥11,858 million in the previous period, to ¥960 million.

### Financial Position

#### Assets, Liabilities and Shareholders’ Equity

Total assets stood at ¥622,891 million at the end of the fiscal period, a drop of 4.4% compared with a year earlier. Total shareholders’ equity per share slipped from ¥178.16 to ¥165.63.

Total current assets rose 3.7%, to ¥382,942 million. This was mainly attributable to brisk sales toward the end of the period,

resulting in an increase in notes and accounts receivable. Property, plant and equipment, net, fell 16.8%, to ¥136,355 million, largely owing to constrained capital spending and the sale of land and buildings.

Interest-bearing debt declined 5.7%, to ¥335,460 million, and the debt-to-equity ratio was unchanged at 3.3 times. The sum of total current liabilities and total long-term liabilities dropped 4.0%, to ¥515,959 million. Total shareholders’ equity decreased 7.1%, to ¥101,323 million, and the shareholders’ equity ratio slipped 0.4 percentage point, to 16.3%.

#### Capital Investment and Depreciation

Capital investment declined 8.7%, to ¥25,327 million, mainly owing to a very selective investment policy prioritized by the effectiveness of each investment. Depreciation expenses of property, plant and equipment, which is included in cost of sales and SG&A expenses, fell 20.3%, to ¥29,958 million.

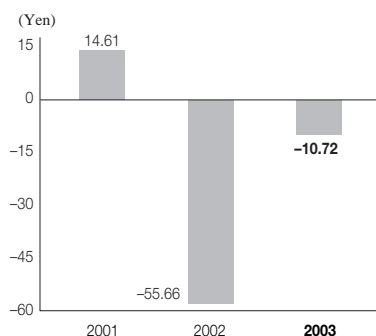
#### Research and Development Expenses

R&D expenses dropped 32.6%, to ¥15,217 million, and the ratio of R&D expenses to net sales fell 1.1 percentage points, to 2.6%. The reduction in R&D expenses was mainly attributable to the Company focusing on R&D topics related to its key businesses, improving efficiency in R&D activities and strengthening product development capabilities by utilizing strategic alliances.

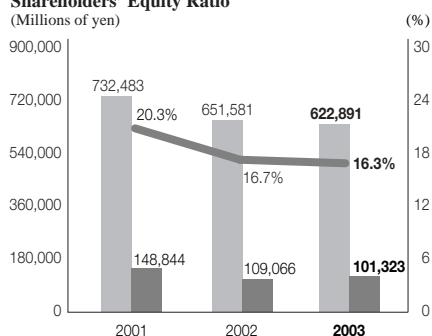
#### Cash Flows

Net cash provided by operating activities fell 98.7%, from ¥16,927 million in the previous period, to ¥225 million. This fall occurred despite a large decrease in net loss and was mainly due to a concentration of sales near the end of the period, which led to an increase in notes and accounts receivable and a corresponding deterioration in working capital.

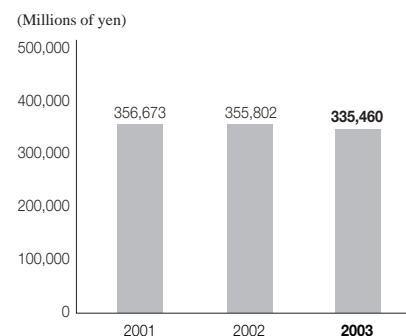
Net (Loss) Income per Share



Total Assets, Total Shareholders’ Equity and Shareholders’ Equity Ratio



Interest-Bearing Debt



■ Total Assets  
■ Total Shareholders’ Equity  
— Shareholders’ Equity Ratio

Net cash provided by investing activities amounted to ¥4,317 million, compared with net cash used in investing activities of ¥25,848 million in the previous period. Purchases of property, plant and equipment were relatively stable, although proceeds from sale of property, plant and equipment rose significantly through the Company's business structure reforms, which included the disposal of certain land and buildings.

Net cash used in financing activities totaled ¥20,077 million, compared with net cash provided by financing activities of ¥320 million in the previous period. This change was mainly attributable to repayment of long-term debt.

As a result, cash and cash equivalents at end of the year fell 35.5%, to ¥29,294 million.

### Outlook

The global economy outlook for fiscal 2004, ending March 31, 2004, depends on several unpredictable variables, including the effect of the war in Iraq and its aftermath, and the impact of severe acute respiratory syndrome (SARS) on the Asian economies. The domestic economy is showing signs of a recovery in private sector capital spending, but this appears to be offset by the lack of effective policy initiatives to fight deflation and by expected stagnation in consumer spending.

In Oki's key business domains, the Company anticipates expanded demand relating to the introduction of new bank notes, which will necessitate financial institutions switching to new ATMs or upgrading their current equipment. In addition, the Company expects the IP telephony services and VoIP markets to reach critical mass, and envisages increased sales of new electronic device products.

In fiscal 2004, Oki expects the structural reforms carried out since the start of fiscal 2003 to begin bearing fruit, and forecasts consolidated net sales of ¥630,000 million, operating income totaling ¥20,000 million and net income amounting to ¥3,500 million.

## Corporate Governance

### Fundamental Policy

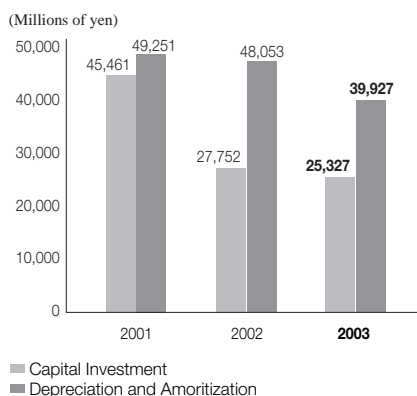
To improve the transparency of management and further enhance the Company's corporate governance systems, Oki has established a Management Advisory Committee and a Compensation Committee, to complement its existing structure of directors and auditors. In addition, one outside director and two outside auditors have also been appointed.

Oki has also introduced a system of executive officers, and by separating management's control and supervisory functions from executive functions the Company expects to improve overall management efficiency. Furthermore, Oki is working to raise awareness of the importance of compliance among all its employees, particularly through the establishment of the "Oki Code of Conduct" to encourage strict adherence to laws and company rules.

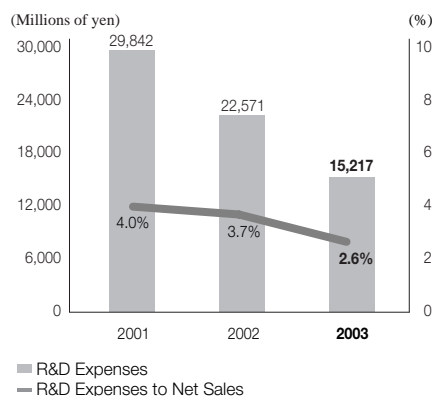
### Policy Implementation

At the monthly meetings of the Board of Directors, as well as making decisions on fundamental management policy and other important matters, the Board oversees executive management activities. Additionally, the Management Committee, which generally meets weekly, makes decisions on crucial executive issues within the Oki Group, and receives reports on important matters affecting each operating division. The Management Committee is attended by the CEO and senior executive officers and auditors, who thoroughly examine compliance issues. Although the outside director on the Board is an executive of a company with which Oki maintains a business relationship, the Company does not have any personnel or funding relationship with that company. The outside auditors are not former employees or executives of the Oki Group. The Management Advisory Committee and the Compensation Committee generally meet on a quarterly basis.

### Capital Investment and Depreciation and Amortization



### R&D Expenses and R&D Expenses to Net Sales



### Cash Flows

