

Financial Section

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Financial Section

Six-Year Summary

Ok Electric Industry Co., Ltd. and consolidated subsidiaries
Years ended March 31

	Millions of yen						Thousands of U.S. dollars
	2004	2003	2002	2001	2000	1999	2004
For the year:							
Net sales	¥ 654,214	¥ 585,473	¥ 604,572	¥ 740,250	¥ 669,776	¥ 673,170	\$ 6,230,617
Cost of sales	484,455	445,709	490,257	563,368	513,402	551,619	4,613,858
Gross profit	169,759	139,763	114,314	176,882	156,374	121,551	1,616,759
Operating income (loss)	21,606	1,368	(27,247)	28,314	13,804	(38,297)	205,773
Other (expenses) income, net	(19,410)	(4,602)	(29,643)	(10,008)	(7,288)	(30,238)	(184,864)
Income (loss) before income taxes, minority interests and equity in earnings (losses) of affiliates	2,195	(3,233)	(56,890)	18,306	6,515	(68,535)	20,909
Net income (loss)	1,328	(6,560)	(34,077)	8,944	1,146	(47,421)	12,651
At year-end:							
Total current assets	¥ 379,795	¥ 382,942	¥ 369,383	¥ 433,240	¥ 481,450	¥ 528,346	\$ 3,164,953
Total investments and long-term receivables	58,615	42,796	49,254	75,961	28,210	29,895	488,461
Property, plant and equipment, net	119,662	136,355	163,844	176,731	170,408	179,548	997,186
Other assets	51,487	60,797	69,099	46,548	58,202	53,839	429,062
Total assets	609,560	622,891	651,581	732,483	748,432	799,894	5,079,672
Total current liabilities	311,676	307,548	305,877	351,578	326,465	344,514	2,597,305
Total long-term liabilities	181,645	208,410	231,322	226,678	273,258	308,175	1,513,711
Total shareholders' equity	110,499	101,323	109,066	148,844	142,563	141,279	920,827
Common stock	67,862	67,862	67,862	67,862	67,862	67,849	566,519

	Yen						U.S. dollars
Per share amounts:							
Net income (loss) per share	¥ 2.17	¥ (10.72)	¥ (55.66)	¥ 14.61	¥ 1.87	¥ (77.46)	\$ 0.02
Cash dividends per share	—	—	—	5.00	—	—	—
Number of shareholders	100,778	115,215	107,165	97,726	100,723	104,414	
Number of employees	20,960	22,520	23,597	25,626	25,444	23,425	
Ratios (%):							
Return on equity	1.3%	(6.2)%	(26.4)%	6.1%	0.8%	(28.0)%	
Return on assets	0.2	(1.0)	(4.9)	1.2	0.1	(5.8)	
Shareholders' equity	18.1	16.3	16.7	20.3	19.0	17.7	

Note: U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥105=US\$1.00, the approximate exchange rate prevailing on March 31, 2004.

Financial Section
Financial Review

Ok Electric Industry Co., Ltd. and consolidated subsidiaries

Overview of the Year Ended March 2004

The year ended March 2004 brought increased IT investment in Asia, especially China. Within Japan, factors such as a recovery in capital investment driven by growth in exports helped to sustain a gradual recovery trend in the market. In particular, in the second half of the year, the recovery of the stock market, an increase in business sector capital investment, and strong demand for digital home appliances lead to a rise in expectations of an economic recovery. While there were some negative factors such as a rapidly rising yen and falling dollar, and the failure of a number of financial institutions, the economy remained basically on a recovery track.

Ok Electric faced some challenges in its business area, including investment cutbacks in the government sector and among financial institutions. However, there were also encouraging signs. For example, there was increased demand for ATM modifications or replacements ahead of the introduction of new banknotes in the fall of 2004. Other positive factors included the expansion of the market for office color printers and the recovery of the semiconductor market.

Operating Results

In this market environment, consolidated net sales increased by 11.7% to ¥654.2 billion. Consolidated operating income amounted to ¥21.6 billion, an increase of ¥20.2 billion from the previous year's result of ¥1.4 billion.

There was an extraordinary income item of ¥8.3 billion resulting from the return of substitutional portions of pension funds to the government, but this was offset by earthquake-related disaster losses amounting to ¥3.3 billion, and business restructuring losses of ¥7.7 billion resulting from business structural reforms. This left consolidated net income of ¥1.3 billion, an improvement of ¥7.9 billion from the previous year's net loss of ¥6.6 billion.

Segment Information

Information Systems

Public investment in Japan has been restrained and escalating competition in a deflationary environment has continued to keep selling prices low. However, there was increased demand for ATMs capable of handling Japan's new banknotes, and demand for color printers was strong in the European and North American markets. As a result, consolidated net sales to third parties increased by 9.1% to ¥360.3 billion. Operating income improved from ¥19.8 billion in the previous year to ¥24.0 billion. Contributing factors included substantial sales growth and reduced procurement costs.

Telecommunications Systems

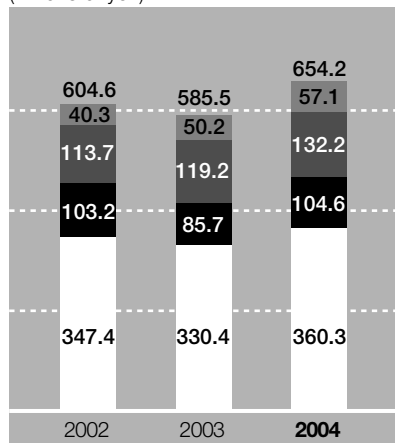
In addition to an upward trend in investment in telecommunications equipment for IP telephony and broadband services by telecommunications carriers, there were also signs of a partial recovery in business sector investment in telecommunications. Consequently, consolidated net sales to third parties increased by 22.0% to ¥104.6 billion. Operating income improved to ¥3.4 billion, compared with the previous year's operating loss of ¥8.2 billion, in part because of major fixed cost reduction resulting from business restructuring.

Electronic Devices

The semiconductor market as a whole followed a recovery trend. In the personal and mobile markets, which are areas of strength for Ok Electric, there were robust trends in sales of various products, including sound generator LSIs for mobile telephones, PHS base band LSIs, driver LSIs for large LCD displays, and LSIs for vehicle-mounted equipment. Such performance was partially offset, however, by temporary shutdowns of production lines at Miyagi Ok Electric Co., Ltd. due to two separate earthquakes and by a dramatic rise in the value of the yen against the dollar. As a result, consolidated net

Net Sales

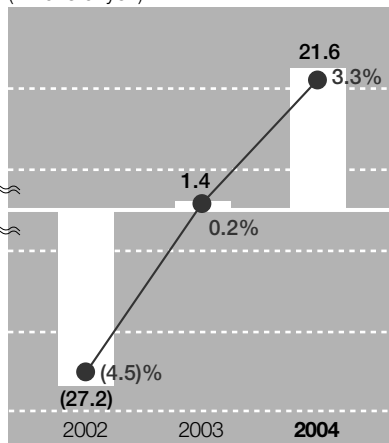
(Billions of yen)



- Information Systems
- Telecommunications Systems
- Electronic Devices
- Other Operations

Operating Income (Loss) and Operating Income to Sales

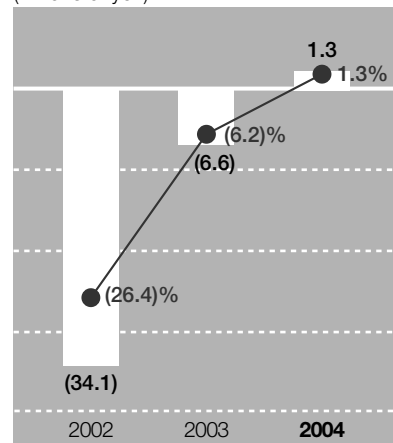
(Billions of yen)



- Operating Income (Loss)
- Operating Income to Sales

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

(Billions of yen)



- Net Income (Loss)
- ROE

Financial Section
Financial Review

sales to third parties only increased by 10.8% to ¥132.2 billion. Despite the improvement in performance of the LSI business, a stagnating market for optical components impacted on operating income, which reached only ¥2.3 billion, compared with a ¥1.0 billion operating loss in the previous year.

Financial Position

Assets, Liabilities and Shareholders' Equity

Total assets at the end of period under review were ¥13.3 billion below the previous year's level. Total shareholders' equity increased by ¥9.2 billion due to factors that included the net income results and an increase in gains from revaluation of securities. As a result, the shareholders' equity ratio improved by 1.8 points to 18.1%.

The main changes in current assets were a ¥27.5 billion increase in cash and cash equivalents, and declines of ¥14.6 billion in notes and accounts receivable and ¥18.5 billion in inventories. Changes in fixed assets included declines of ¥16.7 billion in plant, property and equipment and ¥5.7 billion in long-term deferred tax assets, and a ¥13.2 billion increase in investment securities.

Liabilities declined by ¥22.6 billion. This resulted primarily from a ¥44.0 billion reduction in interest-bearing debt through the redemption of bonds and other factors.

Cash Flows

From ¥0.2 billion in the previous year, net cash provided by operating activities increased by ¥92.1 billion to ¥92.3 billion. Reasons for the increase include the improvement of before-tax income and the reduction of working capital.

Net cash used in investing activities amounted to ¥19.2 billion, a ¥23.5 billion increase from the figure for the previous year, when investing activities provided net cash of ¥4.3 billion. The figure

reflects reduced sales of plant, property and equipment.

Free cash flows, which consist of cash flows from operating and investment activities, improved by ¥68.6 billion, from ¥4.5 billion in the previous year to ¥73.1 billion.

Net cash used in financing activities amounted to ¥43.6 billion. This total includes ¥39.9 billion used for bond redemptions.

These changes brought cash and cash equivalents at the end of the year to ¥58.1 billion. This represents a ¥28.8 billion increase over the previous year's year-end balance of ¥29.3 billion.

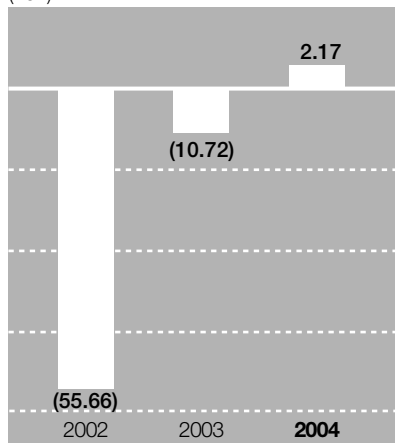
Acquisitions of Property, Plant and Equipment, Depreciation, and Research and Development Expenses

Acquisitions of property, plant and equipment amounted to ¥26.8 billion, an increase of ¥1.5 billion over the previous year's total. These funds were applied to the development of new products, including information and telecommunication converged products, printers and LSIs. Depreciation was reduced by ¥5.5 billion to ¥24.4 billion. This reflects a shift to leasing.

Research and development (R&D) expenses increased by 5.9% to ¥16.1 billion, and the ratio of R&D expenses to net sales fell from 2.6% to 2.5%. This change reflects improvements in the efficiency of R&D activities, and an increased emphasis on product development through alliances.

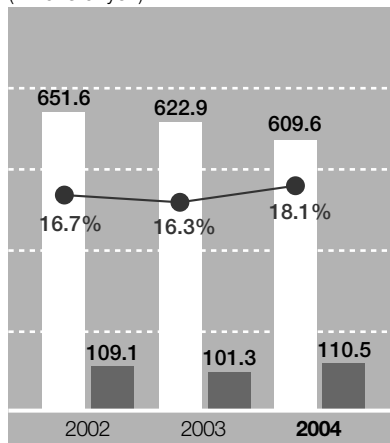
Net Income (Loss) per Share

(Yen)



Total Assets, Total Shareholders' Equity and Shareholders' Equity Ratio

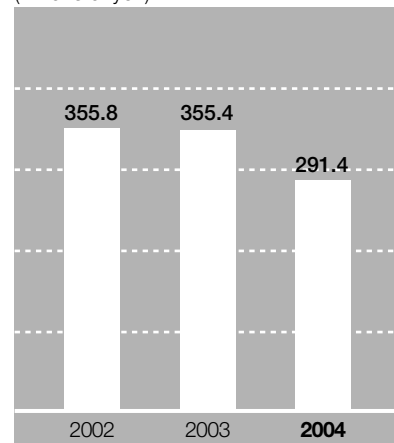
(Billions of yen)



□ Total Assets
 ■ Total Shareholders' Equity
 ● Shareholders' Equity Ratio

Interest-Bearing Debt

(Billions of yen)



Outlook for the Year Ending March 2005

While there is concern about the impact of the rising yen on exports, signs that the domestic economy has bottomed out are reflected in increasing expectations of an economic recovery in Japan. Oki anticipates challenges in some of its business areas. Demand for the modification or replacement of ATMs capable of handling Japan's new banknotes will wind down in the first half of the year, while markets for information systems and telecommunications systems will be affected by escalating price competition. However, sales growth is anticipated, especially in the areas of printers and semiconductors, because of the rapid shift to color in the office printer market, the expansion of the IP telephony market, and the continuing buoyancy of the semiconductor market. Income is also expected to increase due to the combined effects of sales growth and the benefits of the third phase of business structural reforms implemented in the year ended March 2003. Taking all of the above into account, Oki forecasts performance for the year ending March 2005 as follows.

Performance Forecasts for the Year Ending March 2005

(Billions of yen)

	Net Sales	Operating Income	Net Income
Consolidated	680.0	29.0	10.0
Non-consolidated	430.0	10.0	3.0

Corporate Governance

Fundamental Policy

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. These moves are designed to achieve further improvement in management transparency and corporate governance.

Oki is also working to maximize management efficiency through measures that include the introduction of an executive officer system to separate management and executive functions. Oki has also strengthened its compliance systems in a move to prevent inappropriate acts. Specifically, the Company has adopted the "Oki Code of Conduct" as part of efforts to raise awareness of compliance among all employees and ensure strict adherence to laws and company rules.

Disclosure is also a priority for Oki. Management information is promptly disclosed to shareholders and investors through management briefings and meetings to present the annual accounts, and also through web sites and other media.

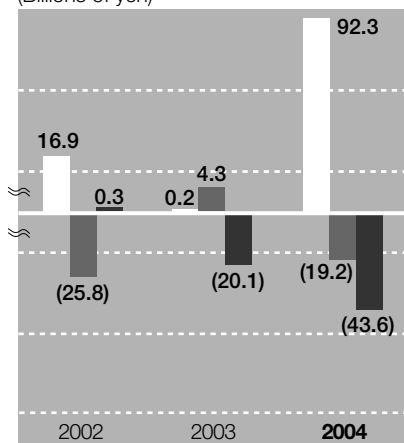
Policy Implementation

The Board of Directors meets monthly to set basic policies, make important decisions, and supervise the executive actions of management. The Management Committee, which normally meets on a weekly basis, makes decisions on important aspects of the operations of the Oki Group and receives reports on important information concerning divisional operations.

To ensure compliance with laws and regulations in all areas of activity, Management Committee meetings are attended by the CEO, senior executive officers and auditors. Although the outside director on the Board is an executive of a company with which Oki maintains a business relationship, there is no personnel or funding relationship with that company. The outside auditors are not former employees of companies in the Oki Group. The Management Advisory Committee and the Compensation Committee normally meet on a quarterly basis.

Cash Flows

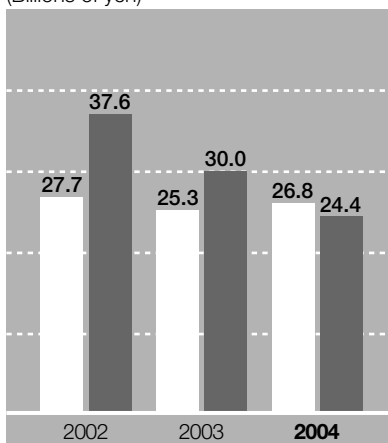
(Billions of yen)



□ Cash Flows from Operating Activities
 ■ Cash Flows from Investing Activities
 ■ Cash Flows from Financing Activities

Acquisitions of Property, Plant and Equipment, and Depreciation

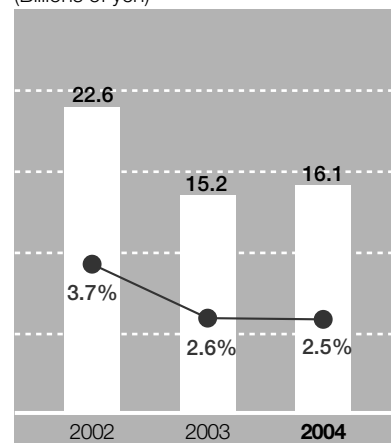
(Billions of yen)



□ Acquisitions of Property, Plant and Equipment
 ■ Depreciation

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

(Billions of yen)



□ R&D Expenses
 ● R&D Expenses to Net Sales

Financial Section

Consolidated Balance Sheets

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 58,075	¥ 29,294	\$ 553,101
Time deposits	20	—	190
Marketable securities (Note 3)	730	—	6,956
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	14,158	21,259	134,841
Other	154,489	162,305	1,471,325
Less: Allowance for doubtful receivables	(1,986)	(2,289)	(18,919)
Inventories (Note 4)	138,977	157,427	1,323,595
Other current assets (Note 8)	15,331	14,943	146,010
Total current assets	379,795	382,942	3,617,100
Investments and long-term receivables:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	10,753	9,969	102,409
Other investments in securities (Note 3)	45,755	33,196	435,769
Other long-term receivables	7,266	5,398	69,204
Less: Allowance for doubtful receivables	(5,159)	(5,767)	(49,142)
Total investments and long-term receivables	58,615	42,796	558,241
Property, plant and equipment (Notes 6 and 10):			
Land	18,289	19,747	174,186
Buildings	120,059	129,808	1,143,428
Machinery and equipment	481,296	528,388	4,583,778
Construction in progress	275	135	2,622
	619,921	678,080	5,904,016
Less: Accumulated depreciation	(500,259)	(541,724)	(4,764,374)
Property, plant and equipment, net	119,662	136,355	1,139,641
Other assets (Note 8)	51,487	60,797	490,356
Total assets	¥ 609,560	¥ 622,891	\$ 5,805,340

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
Current liabilities:			
Short-term borrowings (Note 6)	¥ 86,658	¥107,307	\$ 825,317
Current portion of long-term debt (Note 6)	58,103	58,591	553,364
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	6,742	7,864	64,183
Other	98,015	77,344	933,511
Accrued income taxes	1,820	2,156	17,339
Other accrued expenses	42,375	35,304	403,578
Other current liabilities (Note 8)	17,960	18,980	171,054
Total current liabilities	311,676	307,548	2,968,349
Long-term liabilities:			
Long-term debt (Note 6)	146,655	169,561	1,396,720
Retirement benefits (Note 7)	33,402	31,409	318,121
Other long-term liabilities	1,586	7,439	15,114
Total long-term liabilities	181,645	208,410	1,729,956
Minority interests in consolidated subsidiaries	5,739	5,608	54,660
Shareholders' equity (Note 9):			
Common stock:			
Authorized—2,400,000,000 shares			
Issued—612,221,797 shares	67,862	67,862	646,308
Additional paid-in capital	71,150	71,150	677,627
Accumulated deficit	(29,685)	(31,004)	(282,719)
Net unrealized holding gain on other securities (Note 1(e))	10,932	1,513	104,123
Translation adjustments	(9,619)	(8,098)	(91,615)
Less: Treasury common stock, at cost—574,324 shares in 2004 and 474,775 shares in 2003	(141)	(100)	(1,350)
Total shareholders' equity	110,499	101,323	1,052,374
Contingent liabilities (Note 16)			
Total liabilities and shareholders' equity	¥ 609,560	¥622,891	\$ 5,805,340

The accompanying notes are an integral part of these statements.

Financial Section

Consolidated Statements of Operations

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Net sales	¥ 654,214	¥585,473	¥604,572	\$ 6,230,617
Cost of sales	484,455	445,709	490,257	4,613,858
Gross profit	169,759	139,763	114,314	1,616,759
Selling, general and administrative expenses	148,153	138,395	141,562	1,410,985
Operating income (loss)	21,606	1,368	(27,247)	205,773
Other income (expenses):				
Interest expense	(7,464)	(7,513)	(8,102)	(71,090)
Interest and dividend income	1,074	973	1,259	10,233
Foreign exchange (loss) gain, net	(2,039)	(1,886)	2,205	(19,423)
Write-downs of investments in subsidiaries and other investments in securities	(1,538)	(7,218)	(18,148)	(14,656)
(Loss) gain on sale and disposition of property, plant and equipment	(4,630)	18,610	(1,999)	(44,099)
Gain on return of substitutional portion of the Welfare Pension Fund Plan (Note 7)	8,282	—	—	78,878
Loss on earthquakes (Note 13)	(3,344)	—	—	(31,848)
Restructuring charges (Note 12)	(7,709)	(6,120)	(7,625)	(73,419)
Other, net	(2,041)	(1,447)	2,767	(19,438)
	(19,410)	(4,602)	(29,643)	(184,864)
Income (loss) before income taxes, minority interests and equity in earnings (losses) of affiliates	2,195	(3,233)	(56,890)	20,909
Income taxes (Note 8):				
Current	2,555	2,425	1,965	24,338
Deferred	(1,720)	298	(25,179)	(16,382)
	835	2,724	(23,214)	7,956
Income (loss) before minority interests and equity in earnings (losses) of affiliates	1,360	(5,958)	(33,676)	12,952
Minority interests in earnings of consolidated subsidiaries	(140)	(367)	(218)	(1,340)
Equity in earnings (losses) of affiliates	109	(234)	(182)	1,038
Net income (loss) (Note 17)	¥ 1,328	¥ (6,560)	¥ (34,077)	\$ 12,651

The accompanying notes are an integral part of these statements.

Financial Section

Consolidated Statements of Shareholders' Equity

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Common stock:				
Balance at beginning of the year	¥ 67,862	¥ 67,862	¥ 67,862	\$ 646,308
Balance at end of the year	¥ 67,862	¥ 67,862	¥ 67,862	\$ 646,308
Additional paid-in capital:				
Balance at beginning of the year	¥ 71,150	¥ 71,150	¥ 71,150	\$ 677,627
Balance at end of the year	¥ 71,150	¥ 71,150	¥ 71,150	\$ 677,627
(Accumulated deficit) retained earnings:				
Balance at beginning of the year	¥ (31,004)	¥ (25,180)	¥ 12,231	\$ (295,285)
Net income (loss)	1,328	(6,560)	(34,077)	12,651
Decrease at beginning of the year of initially consolidated subsidiaries	(8)	(4)	(274)	(85)
Increase due to an affiliate initially accounted for by the equity method	—	741	—	—
Cash dividends paid	—	—	(3,061)	—
Balance at end of the year	¥ (29,685)	¥ (31,004)	¥ (25,180)	\$ (282,719)

The accompanying notes are an integral part of these statements.

Financial Section
Consolidated Statements of Cash Flows

 Oki Electric Industry Co., Ltd. and consolidated subsidiaries
 Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Cash flows from operating activities:				
Net income (loss)	¥ 1,328	¥ (6,560)	¥(34,077)	\$ 12,651
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	33,577	39,927	48,053	319,784
Provision for retirement benefits, net of payments	1,990	6,685	204	18,959
Write-downs of investments in subsidiaries and other investments in securities	1,676	7,221	18,173	15,962
Write-downs of inventories	—	—	8,372	—
Gain on sale and disposition of marketable securities, investments in subsidiaries and other investments in securities	(1,597)	(1,489)	(12,078)	(15,218)
Loss (gain) on sale and disposition of property, plant and equipment	4,630	(17,273)	1,995	44,099
Deferred income taxes	(1,720)	298	(25,179)	(16,382)
Other	4,685	7,657	(2,630)	44,627
Changes in operating assets and liabilities:				
Notes and accounts receivable	10,098	(24,606)	44,811	96,179
Inventories	17,087	(10,431)	8,696	162,737
Notes and accounts payable	12,912	1,146	(28,609)	122,975
Accrued income taxes	(303)	1,333	(1,440)	(2,886)
Other accrued expenses	7,183	(4,157)	(7,589)	68,409
Other assets and liabilities	720	474	(1,775)	6,862
Net cash provided by operating activities	92,269	225	16,927	878,761
Cash flows from investing activities:				
(Increase) decrease in time deposits and marketable securities	(19)	50	2,710	(190)
(Increase) decrease in investments and other long-term receivables	(6,273)	(7,676)	3,712	(59,749)
Purchases of property, plant and equipment	(24,026)	(23,553)	(32,583)	(228,824)
Proceeds from sale of property, plant and equipment	11,117	35,497	312	105,882
Net cash (used in) provided by investing activities	(19,202)	4,317	(25,848)	(182,881)
Cash flows from financing activities:				
(Decrease) increase in short-term borrowings	(12,355)	966	(10,436)	(117,673)
Issuance of long-term debt	31,544	31,719	53,864	300,421
Repayment of long-term debt	(58,552)	(52,632)	(44,998)	(557,640)
Other	(4,200)	(130)	1,890	(40,007)
Net cash (used in) provided by financing activities	(43,564)	(20,077)	320	(414,899)
Effect of exchange rate changes on cash	(759)	(717)	590	(7,230)
Increase (decrease) in cash and cash equivalents	28,743	(16,250)	(8,010)	273,749
Cash and cash equivalents at beginning of the year	29,294	45,445	52,885	278,993
Cash of initially consolidated subsidiaries at beginning of the year	37	99	569	358
Cash and cash equivalents at end of the year	¥ 58,075	¥ 29,294	¥ 45,445	\$ 553,101
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	¥ 7,509	¥ 7,669	¥ 8,254	\$ 71,515
Income taxes	2,858	1,092	3,406	27,225

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Oki Electric Industry Co., Ltd. and consolidated subsidiaries

1. Significant accounting policies

(a) Basis of preparation

Oki Electric Industry Co., Ltd. (the "Company") and its domestic consolidated subsidiaries (collectively and including its foreign subsidiaries, the "Group") maintain their books of accounts in accordance with accounting standards in Japan, and its foreign subsidiaries maintain their books of accounts in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Certain amounts from prior years have been reclassified to conform to the current year's presentation. The accompanying consolidated statements of cash flows which have not been prepared under the same format as that specified in the Japanese standard for cash flows, are presented in a format similar to that required under accounting standards generally accepted in the United States, and the concept and format are almost the same as those required under the Japanese standard.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and all significant subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. After allocation to the respective assets based on the fair value of such assets at their dates of acquisition, the difference between the cost and the underlying equity in the net assets acquired from subsidiaries and affiliates (companies over which the Group has the ability to exercise significant influence) accounted for on an equity basis is amortized by the straight-line method over a certain period, within 20 years if such difference is material.

Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. Other investments in unconsolidated subsidiaries and affiliates are stated at cost or less. Where there has been permanent decline in the value of such investments, the Company has written them down to reflect the impairment.

(c) Translation of foreign currencies

(1) The Company translates the revenue and expense accounts of the foreign consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of shareholders' equity, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates.

The differences arising from translation where two exchange rates have been used are presented under translation adjustments as a component of shareholders' equity in the accompanying consolidated financial statements.

(2) Current and noncurrent monetary assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated into yen at the exchange rates in effect at the balance sheet date, except for those hedged by forward foreign exchange contracts which are translated at the contracted rates.

All revenues and expenses are translated at the average rate for the month prior to the transaction.

Gains and losses arising from exchange differences are credited or charged to income in the year in which they are made or incurred, except for those arising from forward foreign exchange contracts pertaining to long-term debt, which are deferred and amortized over the periods of the respective contracts.

(d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(e) Securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities, including unrealized gain and loss, net of the applicable income taxes, is recognized as a component of shareholders' equity and is reflected as "net unrealized holding gain on other securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the moving average method.

(f) Inventories

Inventories are principally stated at cost determined by the following methods:

- Finished goods—Moving average method
- Work in process—Specific identification method
- Raw materials and supplies—Last purchase price method

(g) Property, plant and equipment, and depreciation

Property, plant and equipment is recorded at cost, except that, as permitted by the Corporation Tax Law of Japan, the cost of certain land and machinery and equipment has been reduced to offset capital gain on the disposal of certain assets.

Depreciation of property, plant and equipment is principally computed by the declining balance method over the estimated useful lives of the respective assets. However, buildings (excluding leasehold improvements) acquired after April 1, 1998 by the Company and its domestic consolidated subsidiaries are depreciated by the straight-line method over their estimated useful lives. Significant renewals and betterments are capitalized at cost. Maintenance and repairs are charged to income.

(h) Intangible assets and amortization

Intangible assets, including capitalized computer software costs, are amortized by the straight-line method over their estimated useful lives.

(i) Leases

Noncancelable leases are primarily accounted for as operating leases (regardless of whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

(j) Retirement benefits

The Group has severance benefit plans covering substantially all its employees. An employee who terminates employment with the Company receives approximately 60% of such benefits in the form of a lump-sum payment or as pension annuity payments from the pension plans, with the remainder in a lump-sum payment from the unfunded severance benefit plan. Severance benefits are based on the compensation at the time of termination, years of service and certain other factors.

An allowance for retirement benefits has been provided for employees' retirement benefits, based on an estimate of the projected retirement benefit obligation and the pension fund assets.

Actuarial gains and losses and prior service cost are amortized by the straight-line method over a period of 13-14 years and 14 years respectively, which is within the estimated average remaining years of service of the Group's participants in the plan. The amortization of such gains and losses is recognized effective the year subsequent to the year in which they arise.

The Group also provides an allowance for retirement benefits for directors at the amount which would be required to be paid if all directors retired at the balance sheet date, based on the Group's internal regulations.

See Note 7 for a description of the method of accounting for the separation of the substitutional portion from the benefit obligation under

the Welfare Pension Fund Plan.

(k) Income taxes

Deferred income taxes are recognized by the asset and liability approach, under which deferred tax assets and liabilities are determined based on the difference between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(l) Hedge accounting

Forward foreign exchange contracts are accounted for by deferral hedge accounting, which requires that unrealized gains or losses be deferred as assets or liabilities. Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method, which is utilized to hedge against risks arising from fluctuations in foreign exchange rates. Interest-rate swaps which meet the required criteria are accounted for by a special method (as stipulated in the accounting standard) as if the interest rates applied to the interest-rate swaps had originally applied to the underlying borrowings. Swap contracts are utilized to hedge market risks which may arise in the future with respect to short-term loans, long-term loans and bonds at variable interest rates.

The Group has developed hedging policies to control various aspects of derivative transactions, including authorization levels and transaction volumes. Based on these policies, the Group hedges the risks arising from fluctuations in foreign currency exchange rates and interest rates. During the period from the opening of a hedge position to the assessment of its effectiveness, the Group reviews the effectiveness of all its hedging policies in order to monitor and control cumulative cash flows and to respond to any changes in the market.

2. U.S. dollar amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥105=US\$1.00, the approximate exchange rate

prevailing on March 31, 2004. This translation should not be construed as a representation that yen have been, could have been, or could in the future be converted into U.S. dollars at that or any other rate.

3. Securities

Securities with quoted market prices at March 31, 2004 and 2003 are summarized as follows:

Held-to-maturity securities with quoted market prices

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	Amount recorded in the balance sheet	Quoted market price	Difference	Amount recorded in the balance sheet	Quoted market price	Difference	Amount recorded in the balance sheet	Quoted market price	Difference
Held-to-maturity securities whose market value exceeds the amounts recorded in the balance sheet:									
Debt securities	¥ 500	¥ 503	¥ 3	¥ —	¥ —	¥ —	\$ 4,761	\$ 4,793	\$ 31
Held-to-maturity securities whose market value does not exceed the amounts recorded in the balance sheet:									
Debt securities	630	629	—	1,130	1,101	(28)	6,000	5,998	(1)
Total	¥ 1,130	¥ 1,133	¥ 3	¥ 1,130	¥ 1,101	¥ (28)	\$ 10,761	\$ 10,791	\$ 29

Other securities with quoted market prices

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	Acquisition costs	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market value recorded in the balance sheet exceeds their acquisition costs:									
Equity securities	¥ 12,349	¥ 31,246	¥ 18,896	¥ 3,491	¥ 7,995	¥ 4,504	\$ 117,613	\$ 297,584	\$ 179,970
Debt securities	—	—	—	101	102	—	—	—	—
Other	397	426	29	356	364	7	3,782	4,063	280
Debt securities	12,746	31,673	18,926	3,949	8,462	4,512	121,396	301,647	180,251
Other securities whose market value recorded in the balance sheet does not exceed their acquisition costs:									
Equity securities	2,434	1,913	(521)	12,439	10,475	(1,964)	23,185	18,219	(4,965)
Debt securities	101	100	(1)	—	—	—	970	956	(14)
Other	100	98	(2)	100	91	(8)	959	935	(24)
Subtotal	2,637	2,111	(525)	12,540	10,567	(1,972)	25,115	20,111	(5,004)
Total	¥ 15,383	¥ 33,784	¥ 18,400	¥ 16,489	¥ 19,029	¥ 2,539	\$ 146,511	\$ 321,758	\$ 175,247

Other securities without quoted market prices at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		2004
	2004	2003	
Other investments in securities:			
Medium-term government bond fund	¥ 100	¥ 100	\$ 953
Money management fund	2,600	1,300	24,770
Unlisted equity securities	10,661	11,902	101,542

4. Inventories

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	2004	2003	
Finished goods	¥ 40,295	¥ 42,615	\$ 383,763
Work in process	61,215	72,297	583,007
Raw materials and supplies	37,466	42,515	356,822
	¥ 138,977	¥ 157,427	\$ 1,323,595

5. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	2004	2003	
Investments stated:			
By the equity method	¥ 4,407	¥ 4,510	\$ 41,972
At cost or less	3,648	3,282	34,745
Advances	2,697	2,175	25,691
	¥ 10,753	¥ 9,969	\$ 102,409

6. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans, principally from banks, at weighted-average interest rates of 1.3% and 1.2% at March 31, 2004 and 2003, respectively			
Secured	¥ —	¥ —	\$ —
Unsecured	86,658	103,207	825,317
Commercial paper at weighted-average interest rate of 0.7% at March 31, 2004	0	4,100	0
	¥ 86,658	¥ 107,307	\$ 825,317

Long-term debt at March 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans from banks, insurance companies and government agencies, due through 2022 at rates of up to 6.0%:			
Secured	¥ 1,790	¥ 1,800	\$ 17,047
Unsecured	148,468	131,976	1,413,990
	150,258	133,776	1,431,037
Unsecured convertible bonds:			
2.2% bonds in yen due 2004	—	32,188	—
Unsecured bonds in yen:			
3.05% bonds due 2003	—	7,689	—
3.15% bonds due 2006	20,000	20,000	190,476
2.65% bonds due 2007	9,500	9,500	90,476
Floating rate* bonds due 2004	5,000	5,000	47,619
3.00% bonds due 2005	10,000	10,000	95,238
2.82% bonds due 2004	10,000	10,000	95,238
	204,758	228,153	1,950,085
Less: Current portion	(58,103)	(58,591)	(553,364)
	¥ 146,655	¥ 169,561	\$ 1,396,720

*Represents a rate linked to a yen interest-rate swap for 10 years (1.858% as of the date of the issuance of these bonds).

At March 31, 2004, long-term debt of ¥1,790 million (\$17,047 thousand) in the aggregate was collateralized by property, plant and equipment which amounted to ¥2,561 million (\$24,391 thousand).

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that collateral and guarantees (or additional collateral or guarantees, as appropriate) with respect to present and future indebtedness will be given at the request of a lending bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset any cash deposited against such obligations.

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 58,103	\$ 553,364
2006	62,003	590,510
2007	53,401	508,585
2008	23,736	226,058
2009 and thereafter	7,514	71,566
	¥ 204,758	\$ 1,950,085

The Group has access to substantial sources of funds at numerous banks worldwide. The total unused credit available to the Group at March 31, 2004 was ¥120,229 million (\$1,145,039 thousand).

7. Retirement benefits

The Group has noncontributory defined benefit pension plans, contributory defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan, and lump-sum retirement payment plans which cover substantially all employees who terminate their employment with the Group. The Oki Electric Industry's Welfare Pension Fund established by the Company became a multi-employers' fund (the "Fund") which 36 consolidated subsidiaries have joined. Certain foreign consolidated subsidiaries have defined benefits and defined contribution pension plans. In addition, eligible employees, upon termination of their employment with the Group, may receive certain additional payments under the plans.

The following is a summary of the plans.

Retirement benefit obligation at March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥ (176,776)	¥ (316,323)	\$ (1,683,587)
Fair value of plan assets	66,636	122,506	634,632
Funded status	(110,140)	(193,816)	(1,048,954)
Transition differences arising from initial adoption of new accounting standard for retirement benefits	47,844	76,279	455,666
Unrecognized actuarial loss	29,715	95,052	283,001
Unrecognized prior service cost	—	(8,073)	—
Obligation recognized in the consolidated balance sheets	(32,580)	(30,557)	(310,286)
Allowance for retirement benefits	¥ (32,580)	¥ (30,557)	\$ (310,286)

(1) In accordance with an enforcement of the Corporate Defined Benefit Pension Insurance Law of Japan, the Company and certain domestic consolidated subsidiaries received approval from the Minister of Health, Labor and Welfare ("MHLW") on February 1, 2004 of its application for an exemption from the obligation for benefits related to future employee services under the substitutional portion of the Fund. The Company and its domestic consolidated subsidiaries accounted for the separation of the substitutional portion of the benefit obligation under the Fund as of the date of approval of their exemption, assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and the related pension plan assets had been completed as of the same date.

(2) Effective the year ended March 31, 2002, in accordance with a revision to the Pension Insurance Law in March 2000, the mandatory age of employees eligible to receive annuity pension benefits from a certain portion of the Fund (which has been entrusted by the government to the Company to administer) has been extended.

As a result, the related unrecognized prior service cost decreased as of March 31, 2003. However, the related benefit obligation was accounted for as "separation from the fund" as stated above.

(3) Certain consolidated subsidiaries have adopted a simplified method, as permitted, to calculate their projected benefit obligation.

Components of net periodic pension cost for the years ended March 31, 2004, 2003 and 2002:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Service cost during the year	¥ 7,881	¥ 8,877	¥ 9,021	\$ 75,059
Interest cost on projected benefit obligation	8,069	8,682	9,829	76,853
Expected return on plan assets	(4,422)	(5,615)	(5,700)	(42,118)
Amortization of obligation at transition	5,968	6,425	6,395	56,838
Amortization of actuarial difference	6,771	5,440	1,991	64,493
Amortization of prior service cost	(560)	(672)	(676)	(5,339)
Net periodic pension cost	¥ 23,707	¥ 23,138	¥ 20,860	\$ 225,787
Gain on return of substitutional portion of the Welfare Pension Fund Plan	¥ 8,282	¥ —	¥ —	\$ 78,878

- (1) Retirement payments of ¥3,369 million (\$32,090 thousand) and ¥5,657 million in the aggregate were paid in addition to the net periodic pension cost presented in the above table for the years ended March 31, 2004 and 2003, respectively.
- (2) Employees' contributions to the Fund have been excluded from the net periodic pension cost in the above table.
- (3) The allowance for retirement benefits was determined by the simplified method by certain consolidated subsidiaries and their net periodic pension cost has been included in service cost of benefits earned during the year.
- (4) As to Gain on return of substitutional portion of the Welfare Pension Fund Plan, refer to Note (1) of the above table explained about retirement benefit obligation at March 31, 2004 and 2003.

Assumptions used in the actuarial calculation:

	Year ended March 31	
	2004	2003
Actuarial cost method:	Projected unit credit method	
Discount rate:	2.8%	2.8%
Expected rate of return:	4.0%	4.0%
Amortization period for prior service cost:	14 years (amortized by the straight-line method over a period which falls within the average remaining years of service of the participants in the plans, commencing the year subsequent to the period in which the cost was incurred)	
Amortization period for actuarial difference:	13-14 years (amortized by the straight-line method over a period which falls within the average remaining years of service of the participants in the plans, effective the year subsequent to the period in which such difference was incurred)	
Amortization period for transition obligations arising from the initial adoption of a new accounting method:	15 years, except for certain consolidated subsidiaries which charge or credit to income when incurred	

8. Income taxes

Deferred tax assets (liabilities) at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Loss carryforwards	¥ 30,925	¥ 38,938	\$ 294,529
Nondeductible accrued bonuses	5,329	4,142	50,753
Nondeductible retirement benefits	11,757	10,851	111,972
Nondeductible write-downs of inventories	1,267	2,294	12,067
Other	5,723	3,891	54,506
Gross deferred tax assets	55,002	60,119	523,829
Less: Valuation allowance	(16,004)	(16,884)	(152,420)
Total deferred tax assets	38,997	43,234	371,408
Deferred tax liabilities:			
Tax purpose reserve (special reserve)	(21)	(5,968)	(204)
Net unrealized holding gain on other securities	(7,555)	(1,058)	(71,955)
Other	(44)	(22)	(419)
Gross deferred tax liabilities	(7,620)	(7,049)	(72,579)
Net deferred tax assets	¥ 31,377	¥ 36,184	\$ 298,829

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Other current assets	¥ 10,784	¥ 9,924	\$ 102,711
Other assets	20,592	26,260	196,117
Other current liabilities	—	—	—
Net deferred tax assets	¥ 31,377	¥ 36,184	\$ 298,829

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 42% for the years ended March 31, 2004, 2003 and 2002. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of income before income taxes for the years ended March 31, 2004, 2003 and 2002 is summarized as follows:

	2004	2003
Statutory rate	42.0%	42.0%
Additions to (deductions from) income taxes resulting from:		
Increase in valuation allowance for deferred tax assets	(38.2)	(55.4)
Intercompany profit in excess of taxable income	—	(9.4)
Permanent nondeductible differences such as entertainment expenses	19.5	(13.4)
Permanent differences unrecognized for tax purposes such as dividends received	—	4.3
Net operating loss carryforwards at beginning of year of consolidated subsidiaries for initial consolidated tax return	—	(8.7)
Decrease in deferred tax assets resulting from change in enterprise tax rate	—	(37.7)
Per capita portion of inhabitants' taxes	6.7	—
Other, net	6.3	(0.3)
Effective tax rate	36.3%	(78.6)%

A reconciliation between the statutory and effective tax rate for the year ended March 31, 2002 is not provided (as permitted) because the difference between the two tax rates was less than 5% of the statutory tax rate.

9. Shareholders' equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the

common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The retained earnings account in the accompanying consolidated financial statements at March 31, 2004 included a legal reserve of ¥8,141 million (\$77,535 thousand).

10. Depreciation

Depreciation expenses of property, plant and equipment for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
	¥ 24,441	¥ 29,958	¥ 37,593	\$ 232,780

11. Research and development expenses

Research and development expenses for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	¥ 16,117	¥ 15,217	\$ 153,497

12. Restructuring charges

Restructuring charges were incurred when certain consolidated subsidiaries in North America and Europe restructured their operations. The following is a summary of the restructuring charges for the year ended March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Loss on devaluation of inventories	¥ 4,339	\$ 41,324
Special retirement payments	3,369	32,086

13. Loss on earthquakes

Due to the earthquakes which took place at two epicenters of Sanriku South on May 26, 2003 and Miyagi Prefecture North on July 26, 2003, the production lines of Miyagi Oki Electric Industry Co., Ltd., a subsidiary

of the Company which manufactures semiconductors, were suspended and the subsidiary recognized the related loss for the year ended March 31, 2004.

14. Derivative and hedging activities

The Company and its subsidiaries primarily utilize comprehensive forward foreign exchange and currency swap contracts to hedge their exposure to foreign exchange fluctuations arising from operating receivables and payables. The Company and its subsidiaries also utilize interest swap contracts to avoid risks of interest rate fluctuations and to equalize financial costs for each financial year regarding short-term and long-term debt with variable interest rates. As a matter of policy, the Company and its subsidiaries do not speculate in derivatives, which may experience huge market value fluctuation. The Company and its subsidiaries do not

anticipate credit risk resulting from nonperformance by any of the counterparties because all such counterparties are financial institutions with high credit ratings. The Company and its subsidiaries have internal rules for derivative transactions, which prescribe the managers' duties, the management of these positions and a reporting system. Derivatives are controlled daily by the financial section, which has an internal control system to supervise the procedures and transaction limits, and are confirmed to the financial institutions by the Accounting Section.

15. Leases

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥3,242 million (\$30,882 thousand), ¥2,970 million and ¥3,520 million for the years ended March 31, 2004, 2003 and 2002, respectively.

Leased assets under finance leases accounted for as operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Machinery and equipment	¥ 12,140	¥ 15,083	\$ 115,623
Other	133	908	1,273
Less: Accumulated amortization	5,727	8,701	54,549
	¥ 6,546	¥ 7,290	\$ 62,348

Amortization is computed by applying the straight-line method over the estimated useful lives of the related assets assuming that the Company guarantees a nil residual value at the end of the term of each of the leases.

The following is a schedule of the future minimum lease payments under finance leases accounted for as operating leases:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 2,245	\$ 21,383
2006 and thereafter	4,301	40,965
	¥ 6,546	\$ 62,348

The minimum rental payments subsequent to March 31, 2004, required under operating leases with noncancelable lease terms in excess of one year are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 4,008	\$ 38,176
2006 and thereafter	6,066	57,780
	¥ 10,075	\$ 95,956

16. Contingent liabilities

At March 31, 2004, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
As endorsers of trade notes discounted and endorsed	¥ 223	\$ 2,127
As guarantors of indebtedness of:		
Unconsolidated subsidiaries and affiliates	1,141	10,867
Other	3,135	29,859
	¥ 4,499	\$ 42,853

17. Amounts per share

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year assuming full conversion of the convertible bonds.

Net assets per share are based on the number of shares of common stock outstanding during each year.

	Yen			U.S. dollars
	2004	2003	2002	2004
Net income (loss):				
Basic	¥ 2.17	¥ (10.72)	¥ (55.66)	\$ 0.02
Diluted	2.17	—	—	0.02

	Yen		U.S. dollars
	2004	2003	2004
Net assets	¥ 180.66	¥ 165.63	\$ 1.72

Diluted net income (loss) per share for the years ended March 31, 2003 and 2002 has not been presented because a net loss was recorded for both years ended March 31, 2003 and 2002.

18. Stock option plan

At March 31, 2004, the Company had the following stock option plans approved by the shareholders in accordance with the Commercial Code:

Date of approval by shareholders	June 29, 2000	June 28, 2001	June 27, 2002	June 27, 2003
Grantees	11 directors and 14 executive officers	11 directors and 14 executive officers	9 directors and 14 executive officers	8 directors, 15 executive officers and 12 management officials
Nature of stocks with warrants granted	Common stock	Common stock	Common stock	Common stock
Number of stocks with warrants granted	341,000 shares	334,000 shares	303,000 shares	815,000 shares
Option price by warrant	¥ 866	¥ 613	¥ 271	¥ 384
Exercisable period	July 1, 2002-June 30, 2005	July 1, 2003-June 30, 2006	July 1, 2004-June 30, 2007	July 1, 2005-June 26, 2013

19. Segment information

The Group classifies its businesses into information systems, telecommunications systems, electronic devices and other.

The business segment information for the years ended March 31, 2004, 2003 and 2002 is summarized as follows:

Year ended March 31	Millions of yen						Consolidated
	2004						
	Information systems	Telecommunications systems	Electronic devices	Other	Total	Corporate and eliminations	
Sales to third parties	¥ 360,308	¥ 104,591	¥ 132,151	¥ 57,163	¥ 654,214	¥ 0	¥ 654,214
Intersegment sales and transfers	11,722	8,848	5,954	32,438	58,963	(58,963)	0
Total sales	372,031	113,440	138,106	89,601	713,178	(58,963)	654,214
Operating expenses	347,999	110,053	135,758	86,811	680,623	(48,014)	632,608
Operating income	¥ 24,031	¥ 3,386	¥ 2,348	¥ 2,789	¥ 32,555	¥ (10,949)	¥ 21,606
Total assets	¥ 218,867	¥ 93,406	¥ 145,142	¥ 59,313	¥ 516,730	¥ 92,830	¥ 609,560
Depreciation	¥ 12,530	¥ 2,938	¥ 15,222	¥ 9	¥ 30,700	¥ 2,876	¥ 33,577
Capital expenditures	¥ 11,614	¥ 2,514	¥ 16,191	¥ 0	¥ 30,320	¥ 2,997	¥ 33,318

Year ended March 31	Millions of yen						Consolidated
	2003						
	Information systems	Telecommunications systems	Electronic devices	Other	Total	Corporate and eliminations	
Sales to third parties	¥ 330,383	¥ 85,717	¥ 119,224	¥ 50,147	¥ 585,473	¥ —	¥ 585,473
Intersegment sales and transfers	11,468	9,200	5,579	33,204	59,453	(59,453)	—
Total sales	341,851	94,918	124,803	83,352	644,926	(59,453)	585,473
Operating expenses	322,011	103,109	125,763	82,333	633,218	(49,113)	584,104
Operating income (loss)	¥ 19,840	¥ (8,191)	¥ (960)	¥ 1,018	¥ 11,707	¥ (10,339)	¥ 1,368
Total assets	¥ 251,376	¥ 94,244	¥ 147,220	¥ 59,796	¥ 552,638	¥ 70,252	¥ 622,891
Depreciation	¥ 14,173	¥ 4,242	¥ 17,795	¥ 1,556	¥ 37,769	¥ 2,158	¥ 39,927
Capital expenditures	¥ 9,831	¥ 1,376	¥ 14,330	¥ 809	¥ 26,347	¥ 159	¥ 26,507

Year ended March 31	Millions of yen						
	2002						
	Information systems	Telecommunications systems	Electronic devices	Other	Total	Corporate and eliminations	Consolidated
Sales to third parties	¥ 347,429	¥ 103,219	¥ 113,642	¥ 40,281	¥ 604,572	¥ —	¥ 604,572
Intersegment sales and transfers	13,041	4,233	11,240	34,282	62,798	(62,798)	—
Total sales	360,470	107,453	124,882	74,563	667,370	(62,798)	604,572
Operating expenses	357,352	117,017	136,741	73,791	684,902	(53,082)	631,819
Operating income (loss)	¥ 3,118	¥ (9,564)	¥ (11,858)	¥ 772	¥ (17,531)	¥ (9,715)	¥ (27,247)
Total assets	¥ 223,005	¥ 92,652	¥ 156,355	¥ 53,327	¥ 525,341	¥ 126,240	¥ 651,581
Depreciation	¥ 14,860	¥ 5,231	¥ 23,371	¥ 1,963	¥ 45,426	¥ 2,625	¥ 48,052
Capital expenditures	¥ 11,916	¥ 3,607	¥ 20,486	¥ 820	¥ 36,830	¥ 2,500	¥ 39,330

Year ended March 31	Thousands of U.S. dollars						
	2004						
	Information systems	Telecommunications systems	Electronic devices	Other	Total	Corporate and eliminations	Consolidated
Sales to third parties	\$ 3,431,514	\$ 996,106	\$ 1,258,586	\$ 544,410	\$ 6,230,617	\$ 0	\$ 6,230,617
Intersegment sales and transfers	111,638	84,275	56,710	308,937	561,561	(561,561)	0
Total sales	3,543,152	1,080,381	1,315,296	853,347	6,792,178	(561,561)	6,230,617
Operating expenses	3,314,285	1,048,131	1,292,933	826,777	6,482,128	(457,285)	6,024,843
Operating income	\$ 228,867	\$ 32,250	\$ 22,362	\$ 26,570	\$ 310,050	\$ (104,276)	\$ 205,773
Total assets	\$ 2,084,456	\$ 889,586	\$ 1,382,308	\$ 564,887	\$ 4,921,238	\$ 884,101	\$ 5,805,340
Depreciation	\$ 119,334	\$ 27,988	\$ 144,978	\$ 85	\$ 292,388	\$ 27,396	\$ 319,784
Capital expenditures	\$ 110,612	\$ 23,949	\$ 154,208	\$ 0	\$ 288,770	\$ 28,551	\$ 317,321

- (1) Business segments are divided into categories based on the nature of the products or services rendered and the similarity of sales methodology.
- (2) Eliminations or unallocated amounts of operating expenses consist principally of expenses in the Company's General and Administrative Department and research and development costs within the Group, which amounted to ¥11,019 million (\$97,423 thousand), ¥10,266 million and ¥10,351 million for the years ended March 31, 2004, 2003 and 2002, respectively.
- (3) Eliminations or unallocated amounts of total assets consist principally of the Company's surplus funds, funds for long-term investments and assets belonging to the General and Administrative Department, which amounted to ¥163,503 million (\$1,557,171 thousand), ¥150,535 million and ¥168,460 million for the years ended March 31, 2004, 2003 and 2002, respectively.
- (4) Included in depreciation and capital expenditures are amortization and additions to long-term prepaid expenses, respectively.

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2004, 2003 and 2002 is outlined as follows:

Year ended March 31	Millions of yen						
	2004						
	Japan	North America	Europe	Other	Total	Eliminations	Consolidated
Sales to third parties	¥ 494,786	¥ 53,025	¥ 72,564	¥ 33,837	¥ 654,214	¥ —	¥ 654,214
Interarea sales	113,315	470	3,953	73,065	190,805	(190,805)	—
Total sales	608,102	53,496	76,518	106,902	845,020	(190,805)	654,214
Operating expenses	590,124	52,243	74,233	107,214	823,815	(191,207)	632,608
Operating income (loss)	¥ 17,977	¥ 1,252	¥ 2,285	¥ (311)	¥ 21,204	¥ 401	¥ 21,606
Total assets	¥ 631,260	¥ 23,685	¥ 39,863	¥ 33,753	¥ 728,563	¥ (119,002)	¥ 609,560

Year ended March 31	Millions of yen						
	2003						
	Japan	North America	Europe	Other	Total	Eliminations	Consolidated
Sales to third parties	¥ 447,583	¥ 52,942	¥ 60,982	¥ 23,964	¥ 585,473	¥ —	¥ 585,473
Interarea sales	98,901	1,610	2,340	72,901	175,753	(175,753)	—
Total sales	546,484	54,552	63,323	96,866	761,226	(175,753)	585,473
Operating expenses	547,465	55,004	60,889	96,788	760,147	(176,043)	584,104
Operating income (loss)	¥ (980)	¥ (451)	¥ 2,434	¥ 77	¥ 1,078	¥ 289	¥ 1,368
Total assets	¥ 648,147	¥ 26,022	¥ 37,664	¥ 37,321	¥ 749,155	¥ (126,264)	¥ 622,891

Year ended March 31	Millions of yen						
	2002						
	Japan	North America	Europe	Other	Total	Eliminations	Consolidated
Sales to third parties	¥ 460,607	¥ 66,751	¥ 57,882	¥ 19,331	¥ 604,572	¥ —	¥ 604,572
Interarea sales	86,022	916	829	65,935	153,703	(153,703)	—
Total sales	546,629	67,667	58,711	85,266	758,275	(153,703)	604,572
Operating expenses	574,989	68,401	57,856	85,022	786,268	(154,448)	631,819
Operating income (loss)	¥ (28,359)	¥ (733)	¥ 855	¥ 244	¥ (27,992)	¥ 745	¥ (27,247)
Total assets	¥ 672,625	¥ 34,414	¥ 32,708	¥ 36,417	¥ 776,166	¥ (124,585)	¥ 651,581

Year ended March 31	Thousands of U.S. dollars						
	2004						
	Japan	North America	Europe	Other	Total	Eliminations	Consolidated
Sales to third parties	\$ 4,712,255	\$ 505,006	\$ 691,092	\$ 322,262	\$ 6,230,617	\$ —	\$ 6,230,617
Interarea sales	1,079,196	4,481	37,656	695,858	1,817,193	(1,817,193)	—
Total sales	5,791,452	509,488	728,749	1,018,120	8,047,810	(1,817,193)	6,230,617
Operating expenses	5,620,234	497,560	706,981	1,021,087	7,845,863	(1,821,020)	6,024,843
Operating income (loss)	\$ 171,218	\$ 11,927	\$ 21,768	\$ (2,966)	\$ 201,946	\$ 3,826	\$ 205,773
Total assets	\$ 6,012,007	\$ 225,578	\$ 379,649	\$ 321,463	\$ 6,938,699	\$ (991,688)	\$ 5,947,010

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales of the foreign consolidated subsidiaries (other than exports to Japan), totaled ¥189,840 million (\$1,690,742 thousand), ¥157,856 million and ¥163,523 million, or 29.0%, 27.0% and 27.0% of consolidated net sales for the years ended March 31, 2004, 2003 and 2002, respectively.

20. Subsequent events

On June 29, 2004, the shareholders approved a stock option plan to grant warrants for purchasing shares of the Company's common stock to the directors, executive officers, certain management officials and directors of certain subsidiaries in accordance with the Commercial Code of Japan and Item 12 of the Company's Articles of Incorporation. Under the plan, up to a maximum of 469,000 shares were granted to the directors, executive officers and certain management officials.

The stock option price is determined by multiplying the higher of the average final price of the Company's common stock traded on the Tokyo Stock Exchange in the month prior to the date of the granting of the options or the corresponding final price on the day prior to the granting of the options, by a factor of 1.05.

As outlined in the Company's stock option plan, this exercise price will be adjusted in accordance with a specified formula for stock splits, reverse stock splits or new issues of shares of common stock whose issue price is less than the market price.

The stock options will become exercisable during the period from July 1, 2006 to June 26, 2014.



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Report of Independent Auditors

The Board of Directors

Oki Electric Industry Company, Limited

We have audited the accompanying consolidated balance sheets of Oki Electric Industry Company, Limited and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2004, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oki Electric Industry Company, Limited and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Shin Nihon & Co.

June 29, 2004