

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

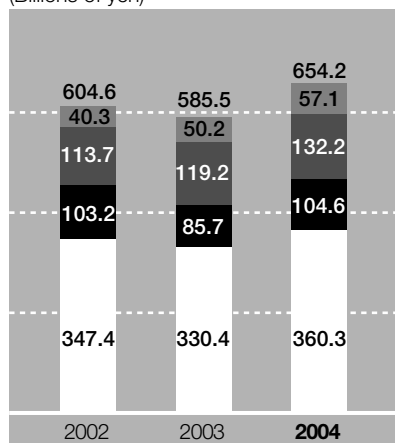
In addition to an upward trend in investment in telecommunications equipment for IP telephony and broadband services by telecommunications carriers, there were also signs of a partial recovery in business sector investment in telecommunications. Consequently, consolidated net sales to third parties increased 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

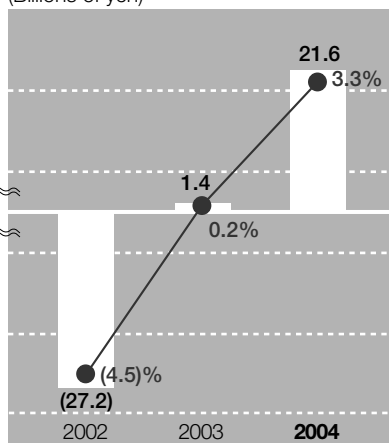
(Billions of yen)



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

Operating Income (Loss) and Operating Income to Sales

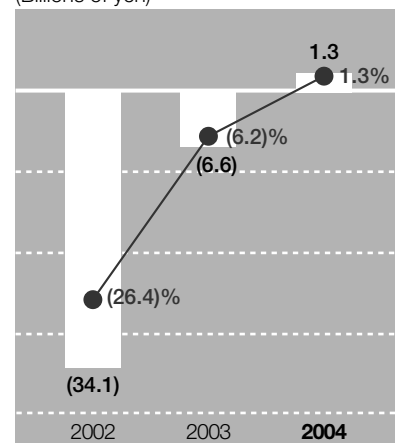
(Billions of yen)



- Operating Income (Loss)
- Operating Income to Sales

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

(Billions of yen)



- Net Income (Loss)
- ROE

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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.

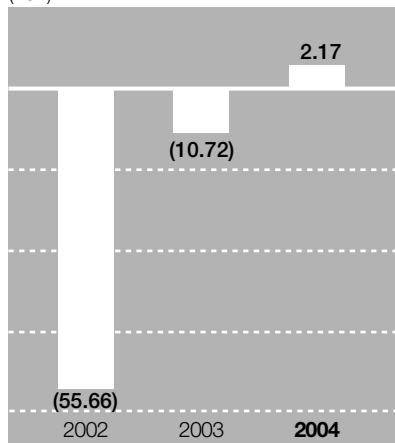
Acquisitions of Property, Plant and Equipment, Depreciation, and Research and Development Expenses

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.

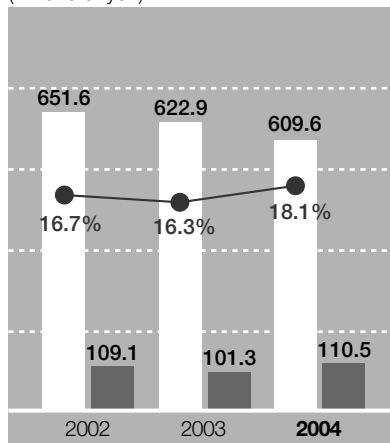
Net Income (Loss) per Share

(Yen)



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

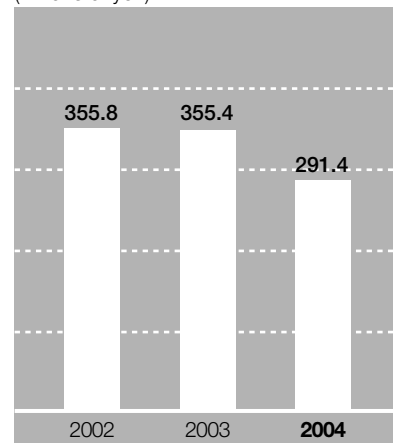
(Billions of yen)



□ 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.

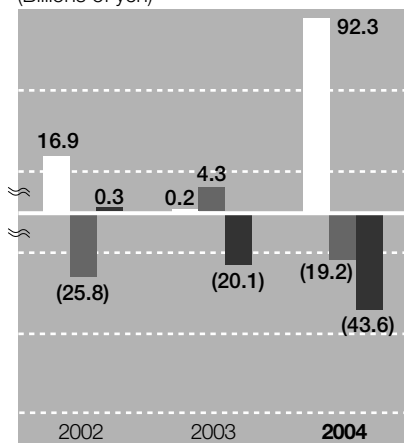
Policy Implementation

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

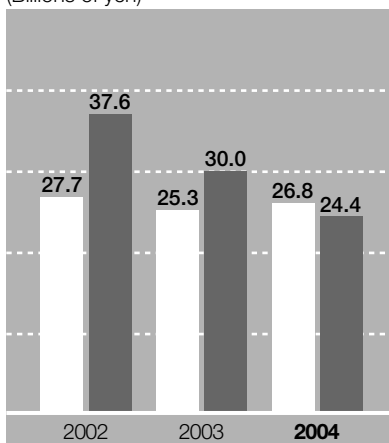
(Billions of yen)



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

Acquisitions of Property, Plant and Equipment, and Depreciation

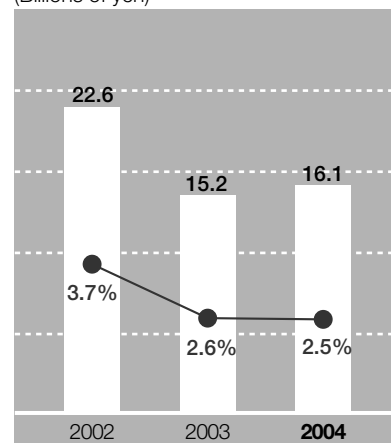
(Billions of yen)



□ 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