

## A Message from the President

**With a business structure that allows it to adapt quickly and flexibly to changes in the market environment, Oki is realizing its vision “Oki, Network Solutions for a Global Society,” through the creation of unique and powerful technologies, products and services**



### ►► Consolidated Performance in the Year Ended March 31, 2004

I have implemented a series of structural reforms under the Phoenix 21 Plan, a midterm business plan launched in the year ended March 2000, and the Phoenix 21 Sky-High Plan, which covers the period from the year ended March 2003 to 2006. Through these reforms we have been able to significantly improve our profit structure and have achieved positive results by enhancing our operating foundations.

Our consolidated results for the year ended March 31, 2004 have moved into positive figures in terms of both operating income and net income. Consolidated net sales amounted to 654.2 billion yen, an increase of 11.7% over the previous year's result. Consolidated operating income was substantially above the previous year's level at 21.6 billion yen, and consolidated net income returned to positive figures at 1.3 billion yen. These financial results can be attributed to building a flexible business structure capable of adapting to environmental change, and by focusing on business areas in which we have unique abilities.

### ►► Building a Flexible and Adaptable Business Structure

Our business activities center on the areas of information systems, telecommunications systems, and electronic devices. These sectors experience extremely radical environment changes because of factors including continuous innovation and deregulation in Japan and overseas.

To maximize our income in this environment, we needed to build a business structure capable of adapting quickly and flexibly to rapid market change while supporting the sustainable growth of business areas in which we excel.

From that point of view, Oki is pursuing its own distinctive management style called Network-style Company Management. This style of management aims to concentrate the resources of Oki and some of its major subsidiaries on growth fields and organically link the businesses within each field to speed up the management process. This flexible management style involves the “plugging-in” and “unplugging” of businesses to match changes in the operating environment. At present, we have nine internal companies, which run independent operations ranging from product development and sales through to finance. We also have seven internal venture companies which specialize in

the development of products and solutions in growth fields. This management style has injected dynamism and flexibility into our corporate culture and is now showing tangible results.

### ►► Focusing Management Resources on Areas of Advantage in World Markets

To survive against competition in a harsh business environment, we must not only adapt to changes in a flexible manner, but also create new business activities in which we can maintain an advantage in world markets. We have sold or withdrawn from business activities with low profit levels. At the same time, we have identified core business areas within the information systems, telecommunications systems and



electronic device segments in which we can take advantage of our unique technologies. Those areas include voice over IP (VoIP), computer telephony integration (CTI), security, video distribution, mechatronics, settlements and system LSIs.

Solutions for financial institutions are a key area of activity in the information systems segment. In this area, Oki focuses on solutions for settlement as well as mechatronics, including automated teller machines (ATMs). For example, we are working to replace or modify ATMs to accommodate the new Japanese banknotes scheduled to be introduced in the fall of 2004. Our priorities include ATM development for the rapidly growing Chinese market, and expansion into the market for ATMs for use in convenience stores in Japan. We also supply advanced solutions relating to back office operation concentration systems, which have become an increasingly important aspect of efficiency improvement efforts in financial institutions. In addition, we have been enjoying favorable sales of reservation and ticketing systems for the travel industry.

We have invested stable income from serial impact dot-matrix (SIDM) printers and non-impact monochrome printers into our color printer business. This is reflected in a steady rise in our market share, especially in Europe and North America.

In the telecommunications systems segment, we were the first in the industry to recognize the amazing possibilities of VoIP. Since then we have been the leading provider of VoIP solutions. At the core of this segment is a range of highly competitive products, including VoIP gateways and IP private branch exchanges (IP-PBX) systems for corporate users, IP switching equipment for carriers, and CTI systems for call centers. These achievements allow us to lead the industry in the introduction of new products designed to connect core business applications with internal IP communication networks.

Our involvement in the electronic devices segment changed with our decision in 1998 to withdraw from the advanced DRAM business. This decision was prompted by the extreme volatility of market prices, and by the need for massive and sustained investment. Since then Oki has focused on the system LSIs, logic LSIs and system memories for the personal and mobile markets. This strategy has allowed us to take full advantage of our technological strengths, including extremely low power consumption, high speeds and high voltage processes.

As a result of these strategies, we have been able to record favorable sales with a range of unique products. These include wireless LSIs for use in radio-controlled watches and with various wireless standards. There are also VoIP LSIs, an area in which Oki excels, and personal handyphone system (PHS) base band LSIs, for which there is strong demand in China. We have also gained a large share of the market for sound generator LSIs for GSM mobile telephones. Other key products include driver LSIs for liquid crystal displays (LCDs), and system memories, for which Oki has established an ultra-fast delivery capability. In the year ended March 2004, our sales grew at a faster rate than the semiconductor market.

By investing our management resources in technologies, products and services that reflect Oki's strengths and characteristics, we have been able to raise our profile in world markets. Our aim is to create network solutions that enable individuals to communicate "the desired information in the right format, wherever, whenever, and with whomever, safely, reliably and at an appropriate price." Our policy will continue to call for the clear definition of our originality and strengths, and for the dynamic development of alliances with companies that possess advanced technologies or global market shares.

## A Message from the President

### ▶▶ Targeting Further Growth

Oki is building the next-generation businesses that will become the core income sources in each of its business segments. Oki has also established an efficient production structure. I believe that this has brought us to an important turning point in our structural reform program. We have completed the creation of our infrastructure for income expansion, and we are ready to enter a new and significant growth phase. Based on our strengths and the prospects for future market growth, we have identified three priority policies: the convergence of information and telecommunications, the development of unique LSIs, and the expansion of our share of the color printer market.

The convergence of information and telecommunications is a business that provides solutions combining these two technologies based on our know-how of broadband IP. Oki believes that the spread of broadband access will take the convergence of information and telecommunications beyond the infrastructure development phase and into an era when a wide spectrum of services can be used. Based on this belief, Oki has integrated its diverse and powerful hardware and software technologies and combined them with various business applications to establish, AP@PLAT<sup>®</sup>, a concept that converges information and telecommunications to create new value for customers. Our aim is to raise the level of customer satisfaction by providing integrated solutions to various problems without the need for customers to be aware of the technical complexities involved.

In regards to the development of unique LSIs, we will actively utilize our "fab-free" structure and concentrate our management resources into the personal and mobile markets where we will be able to take full advantage of our unique technologies in such areas as compact designs, low power consumption, high speeds, and high voltage processes. We will develop and supply numerous products with the potential to gain large shares of world markets. And we will further consolidate the positive income structure that

emerged from our structural reform process.

The expansion of our share of the color printer market will be achieved through product differentiation. We will continue developing a



range of compact, high-speed printers with superior resolution based on our extensive knowledge of light emitting diode (LED) technology. Over the past year, we have rapidly expanded our share of the Europe and North American markets, and our goal now is to also increase our sales in the Chinese market, which is expected to grow

in the future. At the same time, we will target further income growth through cost reductions made possible through the development of overseas production bases.

### ▶▶ Enhanced Corporate Governance and Harmonious Growth

The sustained implementation of these initiatives and the achievement of continuing income growth will require further enhancement of corporate governance. The improvement of management fairness and transparency, the clarification of decision-making processes and compliance with laws and regulations are all-important priorities with the potential to influence corporate value. That is why we have introduced an executive officer system and an external director system and established various advisory committees. We will continue to strengthen our management systems.

To ensure our continuing growth as a business corporation, we obviously need to be focused on the economic perspective, but we also need to raise our awareness of our corporate social responsibilities (CSR), including social and environmental considerations. It is important that we maintain dialog with all stakeholders, including our customers, shareholders, investors, suppliers, local communities and employees, and that we deal in good faith with such issues as human rights, employment and the environment. We will actively disclose information in these areas and work to build mechanisms to facilitate dialog with stakeholders.

We ask for the continued understanding and support of our shareholders, customers and friends.

A handwritten signature in black ink, reading "K. Shinozuka". The signature is fluid and cursive, with a long horizontal stroke at the end.

**Katsumasa Shinozuka**, President and Chief Executive Officer