

## A Message from the President

**Under the corporate vision, “Oki, Network Solutions for a Global Society,” we aim to achieve sustainable growth in the global market by creating world-class technologies and powerful products.**

### **■ Consolidated Results for the Year Ended March 31, 2005**

Japan's overall economic environment moved toward a gradual recovery in the year ended March 2005. Contributing factors included growth in corporate capital investment. There were a number of positive trends for the Oki Group, including the aggressive rollout of broadband IP networks by major telecommunications carriers, and the expansion of the business-use color printer market. There were also some areas of concern, including the waning of demand in the financial sector for equipment configured for Japan's new banknotes, the postponement of government sector IT investment because of natural disasters, and the weakening of semiconductor market in the second half of the year.

Consolidated net sales increased by 5% over the previous year's level to 688.5 billion yen. Consolidated operating income was 26% higher at 27.2 billion yen, while consolidated net income showed a substantial gain from 1.3 billion yen in the previous period to 11.2 billion yen. Based on these results, we were able to reinstate the dividend at 3 yen per share.

### **■ Growth Strategy Based on Concentration of Resources into Core Business Areas**

Our latest business results reflect successive structural reforms implemented since the year ended March 2000 under the Phoenix 21 Plan and the Phoenix 21 Sky-High Plan.

During the first phase of reforms, beginning in the year ended March 2000, we focused on the improvement of earnings and speed. We dramatically improved our earnings structure by withdrawing from and selling business operations that yielded low earnings, and by concentrating our management resources into core areas and growth markets in which we could take full advantage of our own original technologies.

In the second phase, which began in the year ended March 2005, we aimed to move into a new growth phase as a company capable of generating stable earnings. Our three priority policies for this phase were the convergence of information and telecommunications, the development of unique LSIs, and the expansion of our color printer market share.

We believe that the spread of broadband IP networks and advances in IT\*<sup>1</sup> will create expanding demand for new applications, which go beyond information and telecommunications frameworks. This perception is reflected in



**Katsumasa Shinozuka**  
President and Chief Executive Officer

our emphasis on creation of products and solutions based on the convergence of information and telecommunications. We have established the AP@PLAT® solution concept, and have led the industry in developing info-telecom integrated solutions that include IP telephony servers, servers capable of linking Web systems and VoIP\*2 services, and servers that allow business applications to be loaded onto IP telephony servers.

Our approach to the development of unique LSIs has been based on the continuing concentration of management resources into the personal and mobile markets. We have focused our development efforts on product categories such as system LSIs, logic LSIs and system memories, in which we can use our own original technologies in areas like ultra-low power consumption, high-voltage and high-density packaging. The success of this approach is reflected in our excellent reputation in markets ranging from digital appliances and mobile phones to automobiles, radio-controlled watches, and game machines. Our “fab-free” strategy allows us to select between in-house and partner fabrications to suit each product category, and we are now putting the finishing touches to an income structure that will not be affected by the silicon cycle.

We have worked to expand our share of the color printer market through aggressive worldwide marketing of our unique color LED\*3 printers, which combine compact designs with high-speed, high-resolution printing. Our market share has increased, especially in the European and North American markets. In addition to the growth of our LED printer sales, our SIDM\*4 printers continue to produce sustained earnings, thanks to steady demand growth in China and Eastern Europe. We have built our printer business into a global core segment.

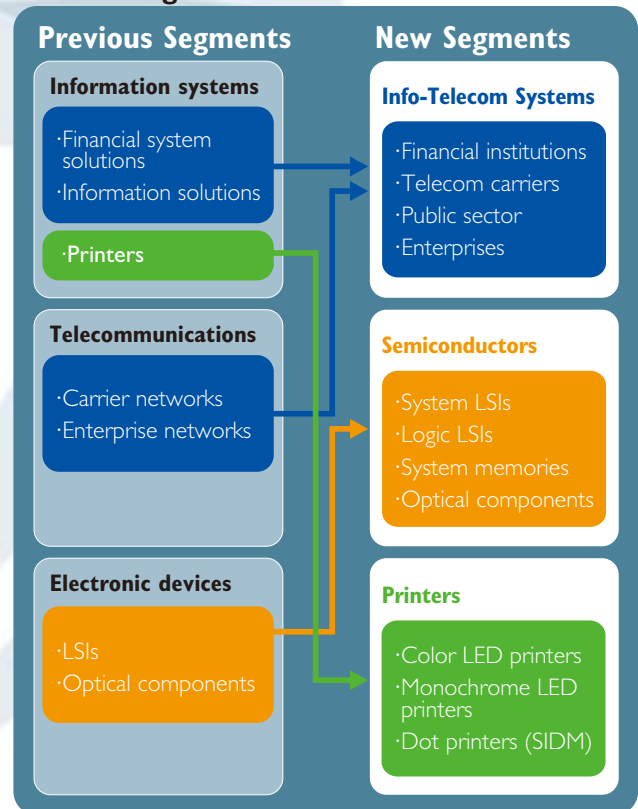
\*1 Information Technology  
 \*2 Voice over Internet Protocol  
 \*3 Light-Emitting Diode  
 \*4 Serial Impact Dot Matrix

### Establishing New Business Segment Targets For Further Growth

We plan to achieve further growth by strengthening and expanding our efforts in these three priority areas. Until now our business activities have been based on the three business segments of information systems, telecommunications systems and electronic devices. Since this fiscal year ending March 2006, we have been operating under a new structure in which the core segments are info-telecom systems, semiconductors and printers. We have also introduced a business group system with the establishment of the Systems Network Business Group, the Semiconductor Business Group and the Printer Business Group, according to the three new segments. The functions and roles of companies under the business groups have also been clarified. Through organizational reforms, we aim to achieve further acceleration in the development of our business activities, and to create a structure in which the business groups can operate autonomously.

Under this new structure, we will further concentrate our

## Business Segments and Main Business Domains



management resources into our priority business segments. Our goal is to achieve sustainable sales growth and improved profitability in global markets through a total commitment to creation of world-class technologies and powerful products.

### Info-Telecom Systems

We believe that the ubiquitous broadband era will be characterized by the expanding use of new applications based on the convergence of information and telecommunications. This perception is reflected in our strategy for the info-telecom systems segment. We aim to integrate our activities in the old information and telecommunications segments so that we can supply new solutions based on wide-ranging info-telecom converged technologies at all levels from infrastructure to applications. Those solutions will be based on technologies and products in areas in which we have major strengths, including VoIP, CTI\*5, security and networking.

For example, many companies are working to raise customer satisfaction levels by improving their customer contact quality. We will help these companies by providing new solutions that enable a more sophisticated approach to customer contacts through the integration of mission critical systems and IP telephony. Another business priority at present is the improvement of security. We offer a number of security solutions including the establishment of

robust networks, and systems that make use of biometric technologies. Another focus is the supply of systems that facilitate the rapid set-up of temporary ad-hoc networks after earthquakes and other disasters.

In the Info-Telecom Systems area, we have established in-house solutions companies for four markets: financial institutions, telecom carriers, the public sector and the enterprise sector. Our aim is to strengthen our market access further by establishing systems that allow us to provide a one-stop response to customer needs. We have also established products companies in each of product and technology segments to support the planning and development of highly competitive products based on our key technologies.

\*5 Computer Telephony Integration

### Semiconductors

We are building a sustainable income structure for our semiconductor business, which we see as an area with further growth potential. We will continue to operate under our unique "fab-free" structure based on the flexible use of in-house and partner fabrications. Our aim is to maintain a business structure that is not vulnerable to demand fluctuations.

We will also continue to concentrate our management resources into the personal and mobile markets as an area that offers opportunities to take advantage of our unique technologies. These include systems technologies such as telecommunications and sound generators, as well as technologies relating to ultra-low power consumption, and high-voltage and high-density packaging. Specifically, this strategy is aimed at balanced business development through the supply of unique products targeted toward the telecommunications, information appliance and in-vehicle markets, in the three product segments of system LSIs, logic LSIs and system memories.

Because of growth in demand for LCD\*6 televisions and other products, we see particular merits in an increased emphasis on the area of driver LSIs, which are a type of logic LSI. In March 2005, we acquired the large TFT LCD driver LSI business of Texas Instruments Japan Ltd. By combining the technologies and product development capabilities of Oki and Texas Instruments Japan, and using the synergies resulting from a strengthened product line-up, we aim to become the world leader in this field.

With turnaround times as short as one day, our original P2ROM™\*7, a system memory product, has gained an excellent reputation in the market. We will work to develop new applications that take advantage of its security benefits, which cannot be rewritten.

\*6 Liquid Crystal Display

\*7 Production Programmed Read Only Memory

### Printers

In the intensely competitive printer market, we are pursuing a "value positioning" strategy based on the ability of our color LED printers, which combine compact designs with high-speed, high-

resolution printing performance, to overcome price-based competition. As a full-line printer vendor with a wide product range to meet every business need, we aim to achieve further growth in our global market share by strengthening our development, production and marketing structure, and by focusing our efforts on offering solutions that include product customization to meet market needs and technical services. Demand for SIDM printers also remains strong. We will continue to strengthen our business base in this area through investment in growth markets, especially China and Eastern Europe.

### Aiming to be a Global Company, "OKI"

To reflect the rapid and drastic changes of today's world, our growth strategies are embodied in a new two-year management plan covering the period to the year ending March 2007. Our medium-term numerical targets for that year are consolidated net sales of 760 billion yen, operating income of at least 40 billion yen, net income of at least 20 billion yen, ROE of 13% or higher, and a D/E ratio (net) of 1.1 or lower.

By working steadily toward the achievement of these goals, we will strengthen our fundamentals as an excellent growing company. We also aim to achieve a dramatic increase in our worldwide recognition as a global enterprise. Our long-term target is to increase our overseas sales ratio from around 30% at present to 50% by the year ending March 2011. We will work under our new three-segment structure to propagate Oki's international brand image as a strong enterprise with a global presence.

We are aware that our evolution as a global enterprise will also bring increased social responsibilities. We place considerable importance on measures to enhance management fairness and transparency, clarify decision-making processes, and ensure total compliance with laws and regulations. Our efforts to strengthen corporate governance have included the introduction of an executive officer system and external director system, and the establishment of various committees.

In the year ended March 2005 we appointed a CCO\*8. We also established new organizational units, including the CSR\*9 Promotion Division and the Compliance Committee. These organizations discuss and examine management policies from the viewpoint of our responsibilities in relation to a wide range of stakeholders.

We will continue to work steadily and in good faith, always mindful of the future needs of society, as we evolve from "Oki" into "OKI," a global company offering network solutions.

\*8 Chief Compliance Officer

\*9 Corporate Social Responsibilities



**Katsumasa Shinozuka**  
President and Chief Executive Officer