

## Overview of the Year Ended March 2005

In the year ended March 2005, despite slower export growth and a slower recovery in business earnings in Japan, capital investment increased gradually and domestic markets generally followed a steady recovery trend. Overseas, there was further growth in the Asian economies, especially China, and the U.S. economy also expanded. Despite negative factors, including the rapid appreciation of the yen against the dollar and the end of the digital boom, the economic environment was basically in a recovery mode.

Positive factors in the Oki Group's business areas included aggressive investment in broadband IP networks by major telecommunications carriers and the expansion of the business-use color printer market. On the other hand, demand for banking equipment to support Japan's new banknotes wound down, while government investment in IT was reduced or postponed because of natural disasters and other factors. Another challenge was the softening of the semiconductor market in the second half of the year.

The Oki Group achieved growth in both revenues and income in this market environment. Consolidated net sales increased by 5.2% year-on-year to ¥688.5 billion. Consolidated operating income was ¥5.6 billion higher at ¥27.2 billion, while consolidated income before income taxes increased by ¥8.7 billion to ¥21.2 billion, and consolidated net income by ¥9.9 billion to ¥11.2 billion.

## Segment Information

### Information Systems

Rapid growth in the business-use color printer market was reflected in increased sales in this segment. However, demand generated by the introduction of new banknotes ended in the first half of the year ended March 2004, which led to a sharp decline in ATM sales. Corporate and government sector IT investments were meanwhile postponed or reduced because of natural disasters and other factors. Overall, consolidated net sales declined by 6.8% year-on-year to ¥335.8 billion.

Operating income from this segment amounted to ¥14.3 billion, a decline of ¥9.7 billion from the previous year's figure of ¥24.0 billion. The lower figure reflects increased R&D expenses, especially in the area of new printer products and next-generation systems for financial institutions. Another factor was price declines driven by escalating competition in the market for systems for government agencies and financial institutions.

Future investment priorities for financial institutions are expected to include IT systems, integrated networks, and improved ATM security measures. The

Oki Group aims to achieve sustainable growth by strengthening its ability to create new products in these areas.

### Telecommunications Segment

There was dramatic growth in demand for local IP networks, and systems to accommodate existing public networks into IP networks. A key factor driving this growth was an aggressive increase in investment in broadband IP networks by telecommunications carriers. Another feature of corporate capital investment during the year was increased demand for info-telecom converged equipment. These factors were reflected in a 29.3% year-on-year increase on consolidated net sales in this segment, which amounted to ¥135.3 billion.

This substantial sales growth brought a ¥4.5 billion year-on-year increase in operating income, from ¥3.4 billion in the previous year to ¥7.9 billion in the year ended March 2005.

Telecommunications carriers have announced that they intend to invest actively in FTTH networks and optical IP telephony on a long-term basis. The Oki Group will continue to expand its activities by responding to business opportunities generated by the expansion of broadband IP networks and the resulting emergence of a variety of new applications and services.

### Electronic Devices

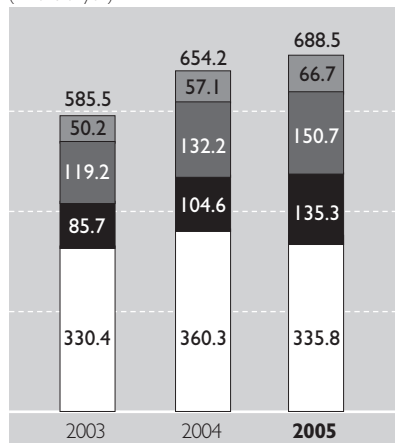
The semiconductor market was buoyant in the first half of the year ended March 2005, but the pace of growth slowed in the second half. Demand for sound generator LSIs for mobile phones and PHS base band LSIs decelerated as a result of inventory adjustments in the Chinese market for mobile phone handsets. Demand for LCD panel driver LSIs increased, in part because of the start-up of new plants by panel manufacturers. However, prices fell in the second half of the year. There was an increase in sales of system memory for the electronic dictionary and amusement markets. Consolidated net sales in this segment increased by 14.1% year-on-year to ¥150.7 billion.

Operating income increased by ¥9.7 billion, from ¥2.3 billion in the previous year to ¥12.0 billion in the year ended March 2005. Contributing factors included sales growth, cost savings achieved through business restructuring, and recovery of the optical components business.

A recovery trend is expected to emerge in the semiconductor market in mid-2005. The Oki Group aims to secure sustainable income by supplying unique products that capitalize on its strengths in the personal and mobile markets, and by continuing its efforts to reduce costs.

### Net Sales

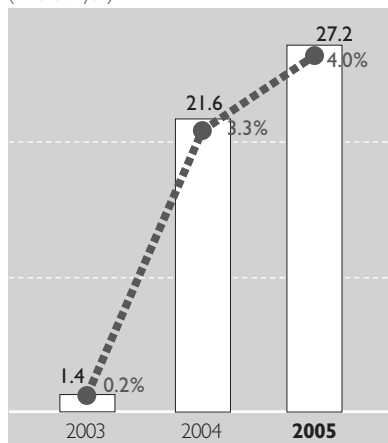
(Billions of yen)



□ Information Systems  
 ■ Telecommunications Systems  
 ■ Electronic Devices  
 ■ Other Operations

### Operating Income and Operating Income to Sales

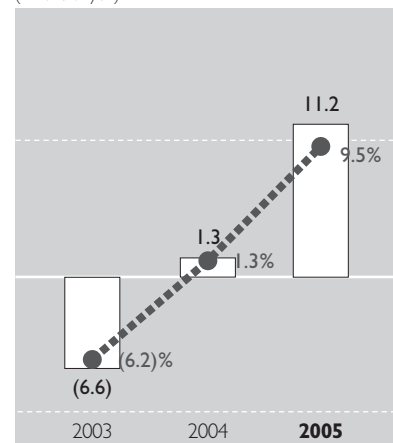
(Billions of yen)



□ Operating Income  
 / Operating Income to Sales

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

(Billions of yen)



□ Net Income (Loss)  
 / ROE

## Financial Position

### Assets and Liabilities and Shareholders' Equity

Total assets declined by ¥1.5 billion in the year ended March 2005, while shareholders' equity increased by ¥14.3 billion. As a result, the shareholders' equity ratio improved by 2.4 points to 20.5%.

The main changes in current assets were an ¥8.8 billion reduction in cash and deposits, a ¥9.4 billion reduction in notes and accounts receivable, and a ¥10.3 billion increase in inventories. Changes in fixed assets included a ¥6.8 billion increase in property, plant and equipment, and a ¥3.4 billion increase in investments in securities.

Liabilities were reduced by ¥16.1 billion. The main changes were a ¥26.3 billion reduction in interest-bearing debt because of debt repayments and other factors, and a ¥7.3 billion increase in notes and accounts payable.

### Cash Flows

Despite the dramatic improvement in income before tax, net cash provided by operating activities was ¥33.0 billion lower year-on-year at ¥59.3 billion, compared with ¥92.3 billion in the previous year. Reasons for this include the increase in inventories.

Net cash used in investing activities amounted to ¥41.5 billion, an increase of ¥22.3 billion from the previous year's total of ¥19.2 billion. This reflects increased expenditure for the acquisition of fixed assets.

Free cash flows, which consist of cash flows from operating and investment activities, amounted to ¥17.8 billion, a year-on-year decline of ¥55.3 billion from the previous year's figure of ¥73.1 billion.

Net cash used in financing activities amounted to ¥26.9 billion. This figure consists of repayments on long-term debts.

As a result of these cash flow movements, cash and cash equivalents as of March 31, 2005 amounted to ¥49.4 billion. This represents a year-on-year decline of ¥8.7 billion compared with the previous year's total of ¥58.1 billion.

### Investment in Property, Plant and Equipment, Depreciation, Research and Development Expenditure

Investment in property, plant and equipment increased by ¥11.0 billion year-on-year to ¥37.8 billion. Reasons for the increase included the installation of new facilities to support the development of new color printers and semiconductors. Depreciation was ¥1.1 billion higher at ¥25.5 billion.

Research and development expenses amounted to ¥22.0 billion, an increase

of ¥5.9 billion over the previous year's level. Expenses focused mainly on the enhancement of the color printer line-up, the improvement of info-telecom converged products, and the development of system LSI software.

## Business Risks and Other Risks

The main risk factors affecting the business activities, financial situation and other aspects of the Oki Group are as follows. Management recognizes the possibility of these risks and seeks to avoid them. It also works to minimize the effects when contingencies arise.

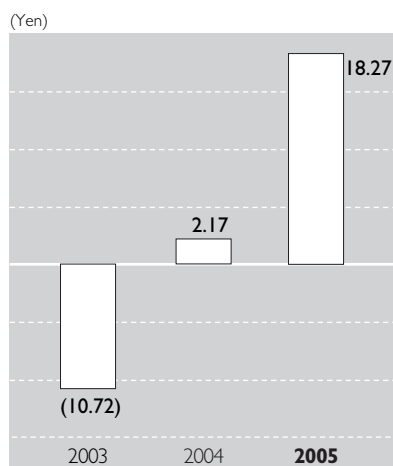
- Economic recessions and the resulting contraction of demand in major markets because of economic fluctuations in Japan or overseas
- Obsolescence of currently-held technologies because of dramatic technological advances
- Reduced cost competitiveness resulting from escalating price competition
- Delay of product shipment and delivery and loss in business opportunities due to unstable procurement of materials
- Unforeseeable events affecting overseas production and sales activities, such as exchange rate fluctuations, fluctuations in local currency values, and deteriorating economic conditions
- Increase in interest costs due to interest-rate fluctuations
- The effects of disasters, etc.
- Failure to secure patents or the right to use other companies' patents fully, and violations of intellectual property rights
- Restriction of business activities in the event that it is not possible to comply with official regulations, etc.
- Failure to secure and foster excellent human resources, as well as a high turnover of excellent human resources
- Liquidation of deferred tax assets caused by fluctuating business results
- Increase in retirement benefit obligations due to changes in conditions such as the discount rate
- Failure to achieve targets because of changes in the conditions on which those targets were based

## Outlook for the Year Ending March 2006

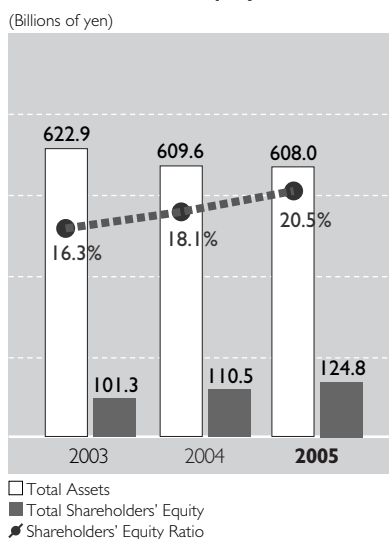
The year ending March 2006 is expected to bring a partial recovery in production activity, resulting in part from the completion of inventory adjustments and a demand recovery. On the other hand, the economic situation will be affected by sluggish IT investment, decelerating exports, high crude oil prices, and a delayed recovery in the semiconductor market. There are signs that the economic recovery is losing its momentum.

From the year ending March 2006, the Oki Group will operate under a new

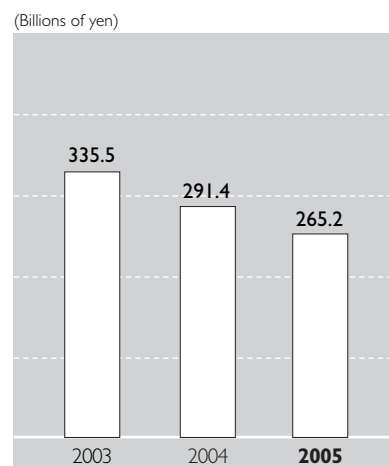
### Net Income (Loss) per Share



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



### Interest-Bearing Debt



structure based on three core segments: info-telecom systems, semiconductors, and printers. This replaces the old structure, which consisted of the three areas of information systems, telecommunications systems and electronic devices. The new structure will allow the Oki Group to achieve increased growth by concentrating more of its management resources into core activities and growth markets in which it can capitalize on its original technologies.

In the area of info-telecom systems, the focus of investment by telecom carriers is shifting from broadband IP networks to FTTH systems. There are signs of a recovery in IT investment by financial institutions, especially in security-related areas. However, competition in the information sector, including financial markets, is intensifying. The semiconductor market is expected to remain static in the first half of the year, but a return to growth is anticipated in the second half. In the printer segment, the business-use color printer market will continue to expand, but price competition is likely to escalate further.

This analysis of the situation in the year ending March 2006 is reflected in the following performance forecasts.

#### Performance Forecasts for the Year Ending March 2006

Net Sales	Operating Income	Net Income	Net Income Per Share
¥ 720.0 billion	¥ 28.5 billion	¥ 11.5 billion	¥ 18.80

### Corporate Governance

The Oki Group regards the maintenance of management transparency and fairness and the continuing improvement of corporate value as key management priorities, and it is determined to live up to the trust placed in it by all stakeholders in these areas. To achieve these goals, it continues to implement a wide range of initiatives designed to strengthen and enhance its corporate governance.

#### Policy Implementation

In addition to its directors and auditors structure, Oki has established a Management Advisory Committee and Compensation Committee, and appointed an external director and two external auditors. It has also

introduced an executive officer system to improve management efficiency by providing a clear separation of management and operations.

Supervision of management is the responsibility of the Board of Directors, which meets monthly to make decisions on basic management policy and other important matters. The Management Committee, which normally meets each week, makes decisions on important aspects of the corporate operations of the Oki Group and receives reports on important information relating to segment operations. In addition to the CEO and other Senior Executive Officers, the auditors also attend these meetings to ensure that all governance procedures are correctly followed.

The Management Advisory Committee provides advice to top management. It consists of three representative directors as corporate members and three external members with expert knowledge, who were brought onto the committee to enhance management transparency and soundness. The Compensation Committee was established to ensure transparency in the criteria and mechanisms used to set remuneration levels for directors, executive officers and management officials. It consists of three representative directors. In principle, the Management Advisory Committee and the Compensation Committee meet four times a year.

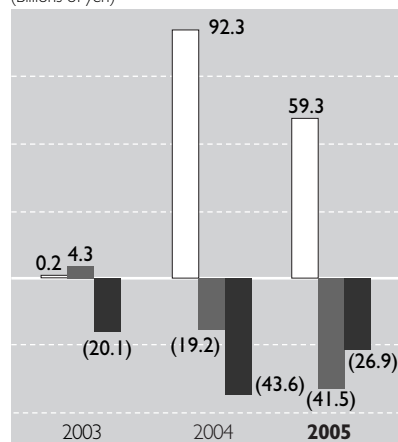
Although the external director on the Board is an executive of a company with which Oki maintains a business relationship, there is no personnel or financial relationship with that company. The external auditor has no previous employment relationship with the Oki Group.

The Oki Group is working to prevent inappropriate behavior and strengthen compliance throughout its group organization by raising awareness of compliance standards. It has adopted the "Oki Code of Conduct" as a set of standards concerning compliance with both legal requirements and corporate regulations. Oki has formed a Compliance Committee, under the leadership of the Chief Compliance Officer, to discuss and assess basic policies. It has also established the Compliance and Business Ethics Division to plan, formulate and implement related measures.

To ensure timely and accurate disclosure of management information, Oki holds meetings to brief shareholders and investors on its business results. It also publishes information on Oki Group websites.

### Cash Flows

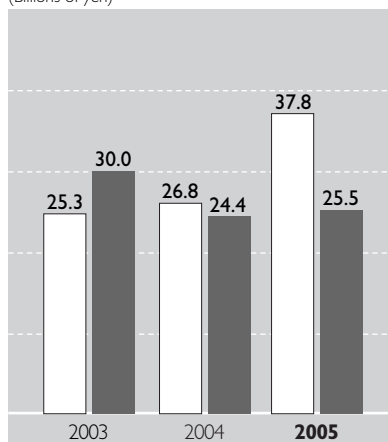
(Billions of yen)



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

### Acquisitions of Property, Plant and Equipment, and Depreciation

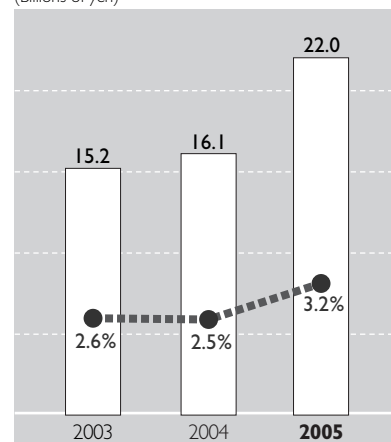
(Billions of yen)



□ 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