

OKI

*Oki, Network Solutions
for a Global Society*

Year ended March 31, 2005

FINANCIAL REPORT 2005

Colors of Convergence

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Six-Year Summary

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

	Millions of yen						Thousands of U.S. dollars (Note)
	2005	2004	2003	2002	2001	2000	2005
For the year:							
Net sales	¥ 688,542	¥ 654,214	¥ 585,473	¥ 604,572	¥ 740,250	¥ 669,776	\$ 6,434,975
Cost of sales	504,340	484,455	445,709	490,257	563,368	513,402	4,713,458
Gross profit	184,202	169,759	139,763	114,314	176,882	156,374	1,721,517
Operating income (loss)	27,220	21,606	1,368	(27,247)	28,314	13,804	254,393
Other (expenses) income, net	(8,920)	(19,410)	(4,602)	(29,643)	(10,008)	(7,288)	(83,369)
Income (loss) before income taxes, minority interests and equity in earnings (losses) of affiliates	18,299	2,195	(3,233)	(56,890)	18,306	6,515	171,023
Net income (loss)	11,174	1,328	(6,560)	(34,077)	8,944	1,146	104,439
At the year end:							
Total current assets	¥ 375,043	¥ 379,795	¥ 382,942	¥ 369,383	¥ 433,240	¥ 481,450	\$ 3,505,075
Total investments and long-term receivables	61,492	58,615	42,796	49,254	75,961	28,210	574,697
Property, plant and equipment, net	126,470	119,662	136,355	163,844	176,731	170,408	1,181,969
Other assets	45,008	51,487	60,797	69,099	46,548	58,202	420,641
Total assets	608,015	609,560	622,891	651,581	732,483	748,432	5,682,384
Total current liabilities	313,828	311,676	307,548	305,877	351,578	326,465	2,932,980
Total long-term liabilities	163,369	181,645	208,410	231,322	226,678	273,258	1,526,815
Total shareholders' equity	124,827	110,499	101,323	109,066	148,844	142,563	1,052,374
Common stock	67,877	67,862	67,862	67,862	67,862	67,862	646,308

	Yen						U.S. dollars (Note)
	2005	2004	2003	2002	2001	2000	2005
Per share amounts:							
Net income (loss) per share	¥ 18.27	¥ 2.17	¥ (10.72)	¥ (55.66)	¥ 14.60	¥ 1.87	\$ 0.17
Cash dividends per share	3.00	—	—	—	5.00	—	0.02
Number of shareholders	99,735	100,778	115,215	107,165	97,726	100,723	
Number of employees	20,410	20,960	22,520	23,597	25,626	25,444	
Ratios (%):							
Return on equity	9.5%	1.3%	(6.2)%	(26.4)%	6.1%	0.8%	
Return on assets	1.8	0.2	(1.0)	(4.9)	1.2	0.1	
Shareholders' equity	20.5	18.1	16.3	16.7	20.3	19.0	

Note: The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥107=US\$1.00, the approximate exchange rate prevailing on March 31, 2005.

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

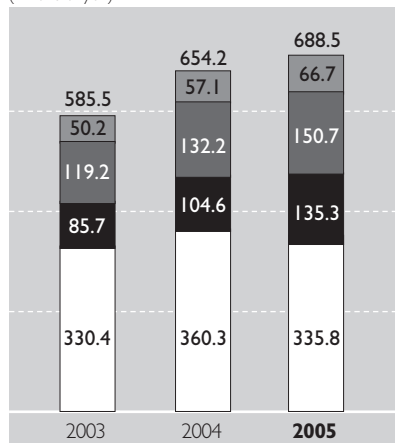
The semiconductor market was buoyant in the first half of the year ended March 2005, but the pace of growth slowed in the second half. Demand for sound generator LSIs for mobile phones and PHS base band LSIs decelerated as a result of inventory adjustments in the Chinese market for mobile phone handsets. 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

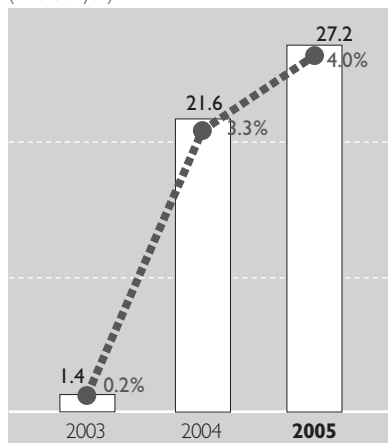
(Billions of yen)



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

Operating Income and Operating Income to Sales

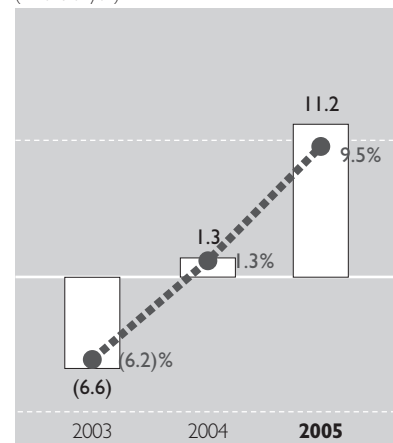
(Billions of yen)



□ 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.

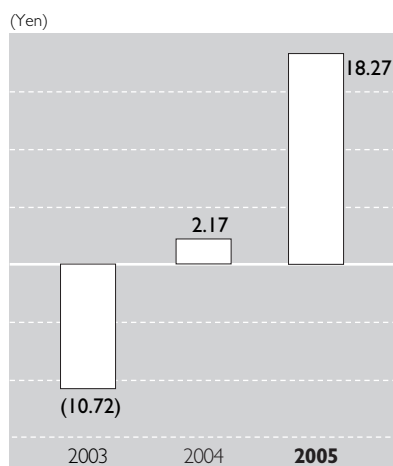
- Economic recessions and the resulting contraction of demand in major markets because of economic fluctuations in Japan or overseas
- Obsolescence of currently-held technologies because of dramatic technological advances
- Reduced cost competitiveness resulting from escalating price competition
- Delay 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

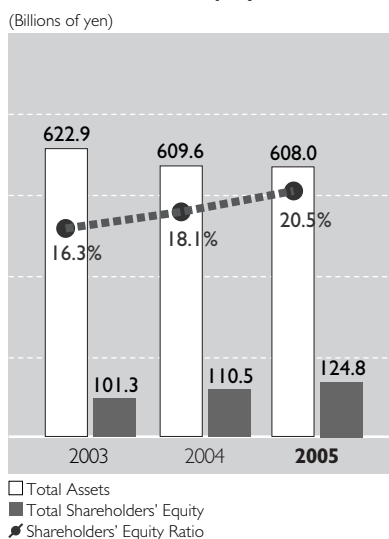
The year ending March 2006 is expected to bring a partial recovery in production activity, resulting in part from the completion of inventory adjustments and a demand recovery. On the other hand, the economic situation will be affected by sluggish IT investment, decelerating exports, high crude oil prices,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

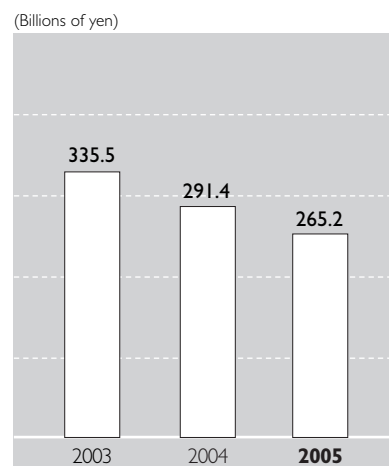
Net Income (Loss) per Share



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.

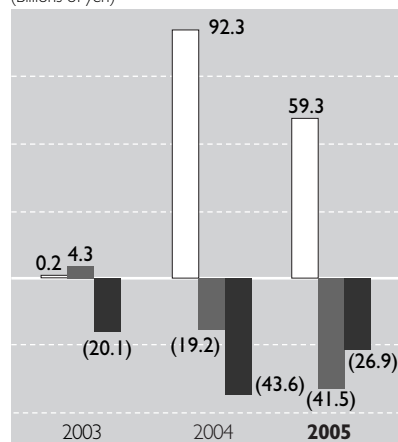
Although the external director on the Board is an executive of a company with which Oki maintains a business relationship, there is no personnel or financial relationship with that company. The external auditor has no previous employment relationship with the Oki Group.

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

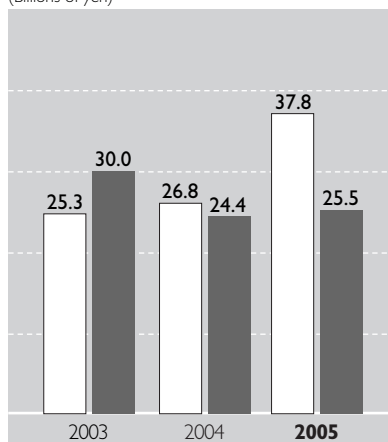
(Billions of yen)



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

Acquisitions of Property, Plant and Equipment, and Depreciation

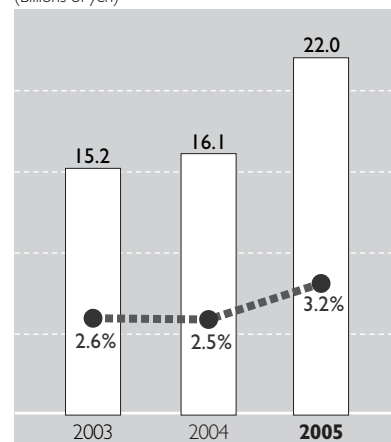
(Billions of yen)



□ 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

Consolidated Balance Sheets

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 49,411	¥ 58,075	\$ 461,787
Time deposits	30	20	280
Marketable securities (Note 3)	—	730	—
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	12,831	14,158	119,922
Other	149,240	154,489	1,394,772
Less: Allowance for doubtful receivables	(1,798)	(1,986)	(16,808)
Inventories (Note 4)	149,298	138,977	1,395,312
Other current assets (Note 8)	16,029	15,331	149,808
Total current assets	375,043	379,795	3,505,075
Investments and long-term receivables:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	14,494	10,753	135,458
Other investments in securities (Note 3)	48,180	45,755	450,284
Other long-term receivables	4,271	7,266	39,919
Less: Allowance for doubtful receivables	(5,453)	(5,159)	(50,965)
Total investments and long-term receivables	61,492	58,615	574,697
Property, plant and equipment (Notes 6 and 10):			
Land	18,247	18,289	170,536
Buildings	122,528	120,059	1,145,127
Machinery and equipment	473,125	481,296	4,421,732
Construction in progress	985	275	9,213
	614,887	619,921	5,746,610
Less: Accumulated depreciation	(488,416)	(500,259)	(4,564,640)
Property, plant and equipment, net	126,470	119,662	1,181,969
Other assets (Note 8)	45,008	51,487	420,641
Total assets	¥ 608,015	¥ 609,560	\$ 5,682,384

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2004	2005
Current liabilities:			
Short-term borrowings (Note 6)	¥ 80,092	¥ 86,658	\$ 748,527
Current portion of long-term debt (Note 6)	65,202	58,103	609,373
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	7,536	6,742	70,433
Other	103,806	98,015	970,151
Accrued income taxes	2,327	1,820	21,749
Other accrued expenses	43,727	42,375	408,666
Other current liabilities (Note 8)	11,136	17,960	104,079
Total current liabilities	313,828	311,676	2,932,980
Long-term liabilities:			
Long-term debt (Note 6)	119,860	146,655	1,120,190
Retirement benefits (Note 7)	37,876	33,402	353,990
Other long-term liabilities	5,631	1,586	52,634
Total long-term liabilities	163,369	181,645	1,526,815
Minority interests in consolidated subsidiaries	5,989	5,739	55,973
Shareholders' equity:			
Common stock:			
Authorized—2,400,000,000 shares			
Issued—612,335,797 shares	67,877	67,862	634,372
Additional paid-in capital	37,797	71,150	353,243
Retained Earnings (accumulated deficit)	14,854	(29,685)	138,823
Net unrealized holding gain on other securities	12,441	10,932	116,272
Translation adjustments	(7,925)	(9,619)	(74,067)
Less: Treasury stock, at cost: 753,771 shares in 2005 and 574,324 shares in 2004	(217)	(141)	(2,030)
Total shareholders' equity	124,827	110,499	1,166,614
Contingent liabilities (Note 16)			
Total liabilities and shareholders' equity	¥ 608,015	¥ 609,560	\$ 5,682,384

The accompanying notes are an integral part of these statements.

Consolidated Statements of Operations

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	2003	2005
Net sales	¥ 688,542	¥ 654,214	¥585,473	\$ 6,434,975
Cost of sales	504,340	484,455	445,709	4,713,458
Gross profit	184,202	169,759	139,763	1,721,517
Selling, general and administrative expenses	156,982	148,153	138,395	1,467,124
Operating income	27,220	21,606	1,368	254,393
Other income (expenses):				
Interest expense	(6,724)	(7,464)	(7,513)	(62,843)
Interest and dividend income	1,323	1,074	973	12,370
Foreign exchange gain (loss), net	561	(2,039)	(1,886)	5,244
Write-downs of investments in subsidiaries and other investments in securities	(1,193)	(1,538)	(7,218)	(11,155)
(Loss) gain on sale and disposition of property, plant and equipment	(1,300)	(4,630)	18,610	(12,155)
Gain on return of substitutional portion of the Welfare Pension Fund Plan (Note 7)	—	8,282	—	—
Loss on earthquakes (Note 12)	—	(3,344)	—	—
Restructuring charges (Note 13)	(2,363)	(7,709)	(6,120)	(22,086)
Other, net	776	(2,041)	(1,447)	7,258
	(8,920)	(19,410)	(4,602)	(83,369)
Income (loss) before income taxes, minority interests and equity in earnings (losses) of affiliates	18,299	2,195	(3,233)	171,023
Income taxes (Note 8):				
Current	2,695	2,555	2,425	25,188
Deferred	4,377	(1,720)	298	40,910
	7,072	835	2,724	66,099
Income (loss) before minority interests and equity in earnings (losses) of affiliates	11,226	1,360	(5,958)	104,924
Minority interests in earnings of consolidated subsidiaries	(297)	(140)	(367)	(2,780)
Equity in earnings (losses) of affiliates	245	109	(234)	2,295
Net income (loss) (Note 17)	¥ 11,174	¥ 1,328	¥ (6,560)	\$ 104,439

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	2003	2005
Common stock:				
Balance at beginning of the year	¥ 67,862	¥ 67,862	¥ 67,862	\$ 634,227
Issuance of new shares of common stock	15	—	—	144
Balance at end of the year	¥ 67,877	¥ 67,862	¥ 67,862	\$ 634,372
Additional paid-in capital (Note 9):				
Balance at beginning of the year	¥ 71,150	¥ 71,150	¥ 71,150	\$ 664,961
Increase due to issuance of new shares of common stock	15	—	—	143
Decrease due to transfer to retained earnings	(33,369)	—	—	(311,861)
Balance at end of the year	¥ 37,797	¥ 71,150	¥ 71,150	\$ 353,243
Retained earnings (accumulated deficit) (Note 9):				
Balance at beginning of the year	¥ (29,685)	¥ (31,004)	¥ (25,180)	\$ (277,434)
Net income (loss)	11,174	1,328	(6,560)	104,439
Decrease at beginning of the year of initially consolidated subsidiaries	—	(8)	(4)	—
Increase due to an affiliate initially accounted for by the equity method	—	—	741	—
Decrease due to exclusion of subsidiaries from consolidation	(4)	—	—	(42)
Increase due to transfer from additional paid-in capital	33,369	—	—	311,861
Balance at end of the year	¥ 14,854	¥ (29,685)	¥ (31,004)	\$ 138,823
Net unrealized holding gain on other securities:				
Balance at beginning of the year	¥ 10,932	¥ 1,513	¥ 2,265	\$ 102,177
Net change during the year	1,508	9,419	(751)	14,094
Balance at end of the year	¥ 12,441	¥ 10,932	¥ 1,513	\$ 116,272
Translation adjustments:				
Balance at beginning of the year	¥ (9,619)	¥ (8,098)	¥ (7,016)	\$ (89,903)
Net change during the year	1,694	(1,521)	(1,081)	15,835
Balance at end of the year	¥ (7,925)	¥ (9,619)	¥ (8,098)	\$ (74,067)
Treasury stock, at cost:				
Balance at beginning of the year	¥ (141)	¥ (100)	¥ (14)	\$ (1,325)
Net change during the year	(75)	(41)	(86)	(704)
Balance at end of the year	¥ (217)	¥ (141)	¥ (100)	\$ (2,030)
Total shareholders' equity	¥ 124,827	¥ 110,499	¥ 101,323	\$1,166,614

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	2003	2005
Cash flows from operating activities:				
Net income (loss)	¥ 11,174	¥ 1,328	¥ (6,560)	\$ 104,439
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	34,245	33,577	39,927	320,049
Provision for retirement benefits, net of payments	4,490	1,990	6,685	41,970
Write-downs of investments in subsidiaries and other investments in securities	1,193	1,676	7,221	11,155
Gain on sale and disposition of marketable securities, investments in subsidiaries and other investments in securities	(3,037)	(1,597)	(1,489)	(28,390)
Loss (gain) on sale and disposition of property, plant and equipment	1,300	4,630	(17,273)	12,155
Deferred income taxes	4,377	(1,720)	298	40,910
Other	1,025	4,685	7,657	9,583
Changes in operating assets and liabilities:				
Notes and accounts receivable	13,620	10,098	(24,606)	127,289
Inventories	(9,014)	17,087	(10,431)	(84,252)
Notes and accounts payable	7,056	12,912	1,146	65,945
Accrued income taxes	923	(303)	1,333	8,633
Other accrued expenses	1,135	7,183	(4,157)	10,609
Other assets and liabilities	(9,167)	720	474	(85,678)
Net cash provided by operating activities	59,323	92,269	225	554,421
Cash flows from investing activities:				
Decrease (increase) in time deposits and marketable securities	89	(19)	50	841
Increase in investments and other long-term receivables	(7,280)	(6,273)	(7,676)	(68,042)
Purchases of property, plant and equipment	(33,926)	(24,026)	(23,553)	(317,070)
Proceeds from sale of property, plant and equipment	1,895	11,117	35,497	17,713
Payment for purchase of business	(2,292)	—	—	(21,424)
Net cash (used in) provided by investing activities	(41,514)	(19,202)	4,317	(387,982)
Cash flows from financing activities:				
(Decrease) increase in short-term borrowings	(6,843)	(12,355)	966	(63,959)
Issuance of long-term debt	19,182	31,544	31,719	179,273
Repayment of long-term debt	(59,071)	(58,552)	(52,632)	(552,071)
Issuance of bonds	19,942	—	—	186,376
Other	(100)	(4,200)	(130)	(935)
Net cash used in financing activities	(26,890)	(43,564)	(20,077)	(251,315)
Effect of exchange rate changes on cash and cash equivalents	417	(759)	(717)	3,901
Net (decrease) increase in cash and cash equivalents	(8,664)	28,743	(16,250)	(80,974)
Cash and cash equivalents at beginning of the year	58,075	29,294	45,445	542,762
Cash of initially consolidated subsidiaries at beginning of the year	—	37	99	—
Cash and cash equivalents at end of the year	¥ 49,411	¥ 58,075	¥ 29,294	\$ 461,787
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	¥ 7,123	¥ 7,509	¥ 7,669	\$ 66,576
Income taxes	1,771	2,858	1,092	16,555

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Ok Electric Industry Co., Ltd. and consolidated subsidiaries
March 31, 2005

I. Significant accounting policies

(a) Basis of presentation

Ok Electric Industry Co., Ltd. (the "Company") and its domestic consolidated subsidiaries (collectively and including its overseas subsidiaries, the "Group") maintain their books of accounts in accordance with accounting standards generally accepted in Japan, and its overseas 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 overseas 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 cost 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.

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.

The Company and certain domestic consolidated subsidiaries obtained official

approval for the return of the past substitutional portion of the benefit obligation and the related pension plan assets of the Welfare Pension Fund Plan and introduced a point system retirement benefit plan and a cash balance pension plan effective January 1, 2005. This change represents a shift from the Welfare Pension Fund Plan to a defined benefit pension plan.

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.

Certain consolidated subsidiaries also provide 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 fluctuation 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 transaction, including authorization levels and transaction volumes. Based on these policies, the Group hedges the risks arising from fluctuation 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 ¥107=US\$1.00, the approximate exchange rate prevailing on March 31, 2005.

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, 2005 and 2004 are summarized as follows:

Held-to-maturity securities with quoted market prices

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Amount recorded in balance sheet	Quoted market price	Difference	Amount recorded in balance sheet	Quoted market price	Difference	Amount recorded in balance sheet	Quoted market price	Difference
Held-to-maturity securities whose market value exceeds amounts recorded in balance sheet:									
Debt securities	¥ 500	¥ 504	¥ 4	¥ 500	¥ 503	¥ 3	\$ 4,672	\$ 4,715	\$ 42
Held-to-maturity securities whose market value does not exceed amounts recorded in balance sheet:									
Debt securities	—	—	—	630	629	—	—	—	—
Total	¥ 500	¥ 504	¥ 4	¥ 1,130	¥ 1,133	¥ 3	\$ 4,672	\$ 4,715	\$ 42

Other securities with quoted market prices

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Acquisition costs	Amount recorded in balance sheet	Difference	Acquisition costs	Amount recorded in balance sheet	Difference	Acquisition costs	Amount recorded in balance sheet	Difference
Other securities whose market value recorded in balance sheet exceeds their acquisition costs:									
Equity securities	¥ 9,958	¥ 31,410	¥ 21,451	¥ 12,349	¥ 31,246	¥ 18,896	\$ 93,068	\$ 293,551	\$ 200,483
Debt securities	—	—	—	—	—	—	—	—	—
Other	397	430	33	397	426	29	3,713	4,027	313
Sustotal	10,355	31,840	21,485	12,746	31,673	18,926	96,781	297,579	200,797
Other securities whose market value recorded in balance sheet does not exceed their acquisition costs:									
Equity securities	3,477	3,127	(350)	2,434	1,913	(521)	32,502	29,228	(3,274)
Debt securities	—	—	—	101	100	(1)	—	—	—
Other	100	96	(4)	100	98	(2)	943	898	(44)
Subtotal	3,578	3,223	(355)	2,637	2,111	(525)	33,446	30,127	(3,319)
Total	¥ 13,934	¥ 35,064	¥ 21,130	¥ 15,383	¥ 33,784	¥ 18,400	\$ 130,227	\$ 327,706	\$ 197,478

Other securities without quoted market prices at March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in balance sheet		2005
	2005	2004	
Other investments in securities:			
Medium-term government bond fund	¥ 100	¥ 100	\$ 935
Money management fund	2,701	2,600	25,243
Unlisted equity securities	11,729	10,661	109,623
Investment in a limited liability joint business partnership	577	—	5,395

4. Inventories

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in balance sheet		2005
	2005	2004	
Finished goods	¥ 48,404	¥ 40,295	\$ 452,380
Work in process	60,131	61,215	561,974
Raw materials and supplies	40,762	37,466	380,958
	¥ 149,298	¥ 138,977	\$ 1,395,312

5. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in balance sheet		2005
	2005	2004	
Investments stated:			
By equity method	¥ 4,564	¥ 4,407	\$ 42,656
At cost or less	4,176	3,648	39,029
Advances	5,753	2,697	53,772
	¥ 14,494	¥ 10,753	\$ 135,458

6. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans, principally from banks, at weighted-average interest rates of 1.4% and 1.3% at March 31, 2005 and 2004, respectively			
Secured	¥ —	¥ —	\$ —
Unsecured	80,092	86,658	748,527
	¥ 80,092	¥ 86,658	\$ 748,527

Long-term debt at March 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans from banks, insurance companies and government agencies, due through 2022:			
Secured	¥ 1,474	¥ 1,790	\$ 13,775
Unsecured	124,089	148,468	1,159,713
	125,563	150,258	1,173,489
Unsecured convertible bonds:			
Zero coupon convertible bonds with stock acquisition rights due 2008*	20,000	—	186,915
Unsecured bonds in yen:			
3.15% bonds due 2006	20,000	20,000	186,915
2.65% bonds due 2007	9,500	9,500	88,785
Floating rate** bonds due 2004	—	5,000	—
3.00% bonds due 2005	10,000	10,000	93,457
2.82% bonds due 2004	—	10,000	—
	185,063	204,758	1,729,563
Less: Current portion	(65,202)	(58,103)	(609,373)
	¥ 119,860	¥ 146,655	\$ 1,120,190

* Zero coupon convertible bonds with stock acquisition rights due 2008 (the "Bonds") were issued on November 26, 2004.

The Bonds will be exercisable for the period from December 10, 2004 to November 12, 2008 (unless the Bonds are previously redeemed or purchased and cancelled) and entitling the bearer to acquire fully-paid and non-assessable shares of common stock of the Company at the conversion price of ¥ 504 (\$ 4.7) per share.

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

At March 31, 2005, long-term debt of ¥2,354 million (\$22,005 thousand) in the aggregate was collateralized by property, plant and equipment which amounted to ¥1,474 million (\$13,775 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 the obligations with any cash deposited with the bank.

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 65,202	\$ 609,373
2007	57,350	535,985
2008	30,263	282,838
2009	28,462	266,007
2010 and thereafter	3,783	35,358
	¥ 185,063	\$ 1,729,563

The Group has access to substantial sources of funds at numerous banks worldwide. The total unused credit available to the Group at March 31, 2005 was ¥126,965 million (\$1,186,596 thousand).

7. Retirement benefits

The Group has noncontributory defined benefit pension plans, tax-qualified pension plans, and lump-sum retirement payment plans which cover substantially all employees who terminate their employment with the Group. 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.

Effective January 1, 2005, Oki and certain consolidated subsidiaries have changed their plans. See Note 1(j) "Retirement benefits".

The Company and 36 consolidated subsidiaries have joined the OKI Pension Fund, which was established on January 1, 2005.

The following is a summary of the plans.

Retirement benefit obligation at March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥ (178,882)	¥ (176,776)	\$ (1,671,802)
Fair value of plan assets	73,847	66,636	690,164
Funded status	(105,035)	(110,140)	(981,637)
Transition differences arising from initial adoption of new accounting standard for retirement benefits	43,333	47,844	404,981
Unrecognized actuarial loss	39,361	29,715	367,863
Unrecognized prior service cost	(15,087)	—	(141,000)
Obligation recognized in the consolidated balance sheets	(37,427)	(32,580)	(349,793)
Allowance for retirement benefits	¥ (37,427)	¥ (32,580)	\$ (349,793)

(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) 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, 2005, 2004 and 2003:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Service cost during the year	¥ 5,585	¥ 7,881	¥ 8,877	\$ 52,199
Interest cost on projected benefit obligation	4,887	8,069	8,682	45,676
Expected return on plan assets	(2,657)	(4,422)	(5,615)	(24,831)
Amortization of obligation at transition	4,511	5,968	6,425	42,167
Amortization of actuarial difference	2,753	6,771	5,440	25,737
Amortization of prior service cost	(274)	(560)	(672)	(2,563)
Net periodic pension cost	¥ 14,807	¥ 23,707	¥ 23,138	\$ 138,386
Gain on return of substitutional portion of the Welfare Pension Fund Plan	¥ —	¥ 8,282	¥ —	\$ —

(1) Retirement payments of ¥1,947 million (\$18,197 thousand) and ¥3,369 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, 2005 and 2004, respectively.

(2) Employees' contributions to the Welfare Pension 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) to the above table for an explanation of the retirement benefit obligation at March 31, 2005 and 2004.

Assumptions used in the actuarial calculation:

	Year ended March 31	
	2005	2004
Actuarial cost method:	Projected unit credit method	
Discount rates:	2.10%	2.80%
Expected rate of return:	4.00%	4.00%
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)	
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, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Loss carryforwards	¥ 22,245	¥ 30,925	\$ 207,905
Nondeductible accrued bonuses	5,623	5,329	52,553
Nondeductible retirement benefits	14,882	11,757	139,085
Nondeductible write-downs of inventories	1,388	1,267	12,977
Other	7,172	5,723	67,035
Gross deferred tax assets	51,312	55,002	479,557
Less: Valuation allowance	(16,752)	(16,004)	(156,562)
Total deferred tax assets	34,560	38,997	322,994
Deferred tax liabilities:			
Tax purpose reserve (special reserve)	(18)	(21)	(176)
Net unrealized holding gain on other securities	(8,679)	(7,555)	(81,117)
Other	(64)	(44)	(604)
Gross deferred tax liabilities	(8,763)	(7,620)	(81,898)
Net deferred tax assets	¥ 25,797	¥ 31,377	\$ 241,096

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Other current assets	¥ 10,620	¥ 10,784	\$ 99,259
Other assets	15,212	20,592	142,173
Other current liabilities	(31)	—	(293)
Other liabilities	(4)	—	(43)
Net deferred tax assets	¥ 25,797	¥ 31,377	\$ 241,096

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 41% for the year ended March 31, 2005 and 42% for the years ended March 31, 2004 and 2003. Income taxes of the overseas consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

A reconciliation between the statutory tax rates and the effective tax rates as a percentage of income before income taxes for the years ended March 31, 2005, 2004 and 2003 is summarized as follows:

	2005	2004	2003
Statutory rates	41.0%	42.0%	42.0%
Additions to (deductions from) income taxes resulting from:			
Increase in valuation allowance for deferred tax assets	4.0	(38.2)	(55.4)
Permanent nondeductible differences such as entertainment expenses	2.9	19.5	(13.4)
Permanent differences unrecognized for tax purposes such as dividends received	(1.0)	—	4.3
Differences between the Company's statutory tax rates and the overseas consolidated subsidiaries' effective tax rates	(2.5)	—	—
Per capita portion of inhabitants' taxes	—	6.7	—
Net operating loss carryforwards at beginning of year of consolidated subsidiaries	—	—	(8.7)
Intercompany profit in excess of taxable income	—	—	(9.4)
Decrease in deferred tax assets resulting from change in enterprise tax rate	—	—	(37.7)
Other, net	(6.3)	6.3	(0.3)
Effective tax rates	38.1%	36.3%	(78.6)%

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.

Both the legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of shareholders or may be capitalized by resolution of the Board of Directors. In accordance with the Code, the Company has provided a legal reserve which is included in retained earnings. In June 2004, additional paid-in capital of ¥33,369 million (\$311,860 thousand) was appropriated to eliminate the accumulated deficit under this rule.

10. Depreciation

Depreciation of property, plant and equipment for the years ended March 31, 2005, 2004 and 2003 was as follows:

	Millions of yen			Thousands of U.S. dollars
2005	2004	2003	2005	
¥ 25,549	¥ 24,441	¥ 29,958	\$ 238,778	

I 1. Research and development expenses

Research and development expenses for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
	¥ 21,987	¥ 16,117	¥ 15,217	\$ 205,493

I 2. Loss on earthquakes

Due to the earthquakes which took place at two epicenters, 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.

I 3. Restructuring charges

Restructuring charges were incurred when the Company and certain consolidated subsidiaries in Japan, North America and Europe restructured their operations.

The following is a summary of the restructuring charges for the year ended March 31, 2005:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Special retirement payments	¥ 2,363	¥ 3,369	¥ 5,657	\$ 22,086
Loss on devaluation of inventories	—	4,339	463	—

I 4. Derivatives 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 fluctuation relating to their receivables and payables. The Company and its subsidiaries also utilize interest-rate swaps to manage the risks of interest-rate fluctuation and to equalize financial costs for each financial year with regard to short-term and long-term debt at 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 any 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 established internal rules for entering into and monitoring derivative transactions, which prescribe the managers' duties and the management of these positions as well as 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 with the respective financial institutions by the Accounting Section.

I 5. Leases

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥2,415 million (\$22,575 thousand), ¥3,242 million and ¥2,970 million for the years ended March 31, 2005, 2004 and 2003, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Machinery and equipment	¥ 11,930	¥ 12,140	\$ 111,504
Other	317	133	2,971
Less: Accumulated amortization	5,006	5,727	46,786
	¥ 7,242	¥ 6,546	\$ 67,690

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 lease.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 2,361	\$ 22,067
2007 and thereafter	4,881	45,622
	¥ 7,242	\$ 67,690

Minimum rental payments subsequent to March 31, 2005 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
2006	¥ 2,751	\$ 25,713
2007 and thereafter	2,936	27,446
	¥ 5,688	\$ 53,159

I 6. Contingent liabilities

At March 31, 2005, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
As endorers of trade notes discounted and endorsed	¥ 149	\$ 1,396
As guarantors of indebtedness of:		
Unconsolidated subsidiaries and affiliates	1,656	15,477
Other	2,681	25,062
	¥ 4,487	\$ 41,935

17. Amounts per share

In accordance with the accounting standard for earnings per share, 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
	2005	2004	2003	2005
Net income (loss):				
Basic	¥18.27	¥ 2.17	¥ (10.72)	\$ 0.17
Diluted	17.87	2.17	—	0.16

	Yen		U.S. dollars
	2005	2004	2005
Net assets	¥ 204.11	¥ 180.66	\$ 1.90

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

18. Stock option plan

At March 31, 2005, the following stock option plans of the Company had been 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	June 29, 2004
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	9 directors, 13 executive officers, 10 management officials and 4 directors of subsidiaries
Shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	341,000 shares	334,000 shares	189,000 shares	815,000 shares	452,000 shares
Option price per warrant	¥ 866	¥ 613	¥ 271	¥ 384	¥ 458
Exercise 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	July 1, 2006- June 28, 2014

On June 29, 2005, shareholders of the Company approved a stock option plan under which warrants to purchase shares of the Company's common stock were to be granted to the Company's directors, executive officers, and to certain management officials and as well as to 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, shares up to a maximum of 442,000 were granted to the Company's directors, executive officers and certain management officials, and directors of certain subsidiaries.

The stock option price is determined by multiplying the higher of the average final price of the Company's shares of 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 share 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 issued at less than the market price.

The stock options will become exercisable during the period from July 1, 2007 to June 28, 2015.

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, 2005, 2004 and 2003 is summarized as follows:

Year ended March 31	Millions of yen						
	2005						
	Information systems	Telecommunications systems	Electronic devices	Other	Total	Corporate and eliminations	Consolidated
Sales to third parties	¥ 335,805	¥ 135,253	¥ 150,721	¥ 66,761	¥ 688,542	¥ —	¥ 688,542
Intersegment sales and transfers	9,020	7,108	5,595	34,585	56,310	(56,310)	—
Total sales	344,825	142,362	156,316	101,347	744,852	(56,310)	688,542
Operating expenses	330,573	134,464	144,301	97,384	706,724	(45,402)	661,322
Operating income	¥ 14,252	¥ 7,897	¥ 12,014	¥ 3,963	¥ 38,128	¥ (10,908)	¥ 27,220
Total assets	¥ 222,276	¥ 91,038	¥ 150,662	¥ 66,496	¥ 530,473	¥ 77,541	¥ 608,015
Depreciation	¥ 11,561	¥ 2,519	¥ 16,758	¥ 1,478	¥ 32,317	¥ 1,927	¥ 34,245
Capital expenditures	¥ 11,680	¥ 4,164	¥ 23,027	¥ 1,791	¥ 40,663	¥ 3,886	¥ 44,550

Year ended March 31	Millions of yen						
	2004						
	Information systems	Telecommunications systems	Electronic devices	Other	Total	Corporate and eliminations	Consolidated
Sales to third parties	¥ 360,308	¥ 104,591	¥ 132,151	¥ 57,163	¥ 654,214	¥ —	¥ 654,214
Intersegment sales and transfers	11,722	8,848	5,954	32,438	58,963	(58,963)	—
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	¥ —	¥ 30,320	¥ 2,997	¥ 33,318

Year ended March 31	Millions of yen						
	2003						
	Information systems	Telecommunications systems	Electronic devices	Other	Total	Corporate and eliminations	Consolidated
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

Thousands of U.S. dollars

Year ended March 31	2005						
	Information systems	Telecommunications systems	Electronic devices	Other	Total	Corporate and eliminations	Consolidated
Sales to third parties	\$ 3,138,372	\$ 1,264,049	\$ 1,408,613	\$ 623,941	\$ 6,434,975	\$ —	\$ 6,434,975
Intersegment sales and transfers	84,299	66,438	52,293	323,230	526,261	(526,261)	—
Total sales	3,222,671	1,330,488	1,460,906	947,171	6,961,237	(526,261)	6,434,975
Operating expenses	3,089,469	1,256,680	1,348,616	910,133	6,604,900	(424,317)	6,180,582
Operating income	\$ 133,201	\$ 73,807	\$ 112,289	\$ 37,038	\$ 356,337	\$ (101,943)	\$ 254,393
Total assets	\$ 2,077,350	\$ 850,826	\$ 1,408,058	\$ 621,461	\$ 4,957,696	\$ 724,687	\$ 5,682,384
Depreciation	\$ 108,051	\$ 23,546	\$ 156,622	\$ 13,814	\$ 302,034	\$ 18,015	\$ 320,049
Capital expenditures	\$ 109,162	\$ 38,923	\$ 215,208	\$ 16,739	\$ 380,034	\$ 36,324	\$ 416,358

- (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 ¥ 10,921 million (\$102,067 thousand), ¥11,019 million and ¥10,266 million for the years ended March 31, 2005, 2004 and 2003, 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 ¥162,189 million (\$1,515,785 thousand), ¥163,503 million and ¥150,535 million for the years ended March 31, 2005, 2004 and 2003, 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, 2005, 2004 and 2003 is outlined as follows:

Year ended March 31	2005						
	Japan	North America	Europe	Other	Total	Eliminations	Consolidated
Sales to third parties	¥ 513,981	¥ 58,445	¥ 79,517	¥ 36,597	¥ 688,542	¥ —	¥ 688,542
Interarea sales	128,151	431	2,228	80,236	211,048	(211,048)	—
Total sales	642,133	58,876	81,746	116,833	899,590	(211,048)	688,542
Operating expenses	617,037	57,951	80,870	114,410	870,271	(208,948)	661,322
Operating income	¥ 25,095	¥ 924	¥ 875	¥ 2,423	¥ 29,319	¥ (2,099)	¥ 27,220
Total assets	¥ 628,705	¥ 24,579	¥ 50,886	¥ 33,803	¥ 737,975	¥(129,960)	¥ 608,015

Year ended March 31	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	760,148	(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	Thousands of U.S. dollars						
	2005						
	Japan	North America	Europe	Other	Total	Eliminations	Consolidated
Sales to third parties	\$ 4,803,569	\$ 546,217	\$ 743,158	\$ 342,030	\$ 6,434,975	\$ —	\$ 6,434,975
Interarea sales	1,197,679	4,030	20,831	749,871	1,972,412	(1,972,412)	—
Total sales	6,001,248	550,248	763,989	1,091,901	8,407,388	(1,972,412)	6,434,975
Operating expenses	5,766,709	541,606	755,803	1,069,255	8,133,375	(1,952,792)	6,180,582
Operating income	\$ 234,538	\$ 8,641	\$ 8,185	\$ 22,646	\$ 274,012	\$ (19,619)	\$ 254,393
Total assets	\$ 5,875,752	\$ 229,718	\$ 475,577	\$ 315,923	\$ 6,896,971	\$(1,214,587)	\$ 5,682,384

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 ¥203,023 million (\$1,897,419 thousand), ¥189,840 million and ¥157,856 million, or 29.5%, 29.0% and 27.0% of consolidated net sales for the years ended March 31, 2005, 2004 and 2003, respectively.

20. Subsequent event

The following appropriation of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended March 31, 2005, were approved at a meeting of the shareholders held on June 29, 2005:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3 = \$0.02 per share)	¥ 1,834	\$ 17,148



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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, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flow for each of the three years in the period ended March 31, 2005, 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 respect, the consolidated financial position of Oki Electric Industry Company, Limited and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 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, 2005 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.

Ernst & Young Shin Nihon

June 29, 2005

A MEMBER OF ERNST & YOUNG GLOBAL

Investor Information

Founded in

1881

Company Established

November 1, 1949

Number of Shares of Common Stock

Authorized: 2,400,000,000

Issued: 612,335,797

Number of Shareholders

99,735

Stock Exchange Listings

Tokyo, Osaka

Transfer Agent

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2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

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Oki Electric Industry Co., Ltd.

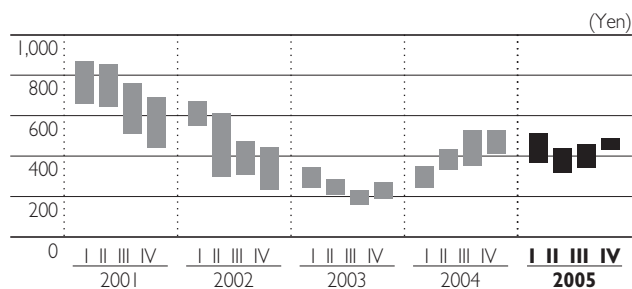
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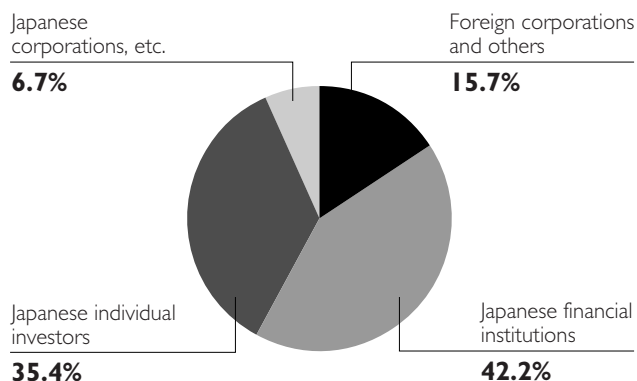
Common Stock Price Range on the Tokyo Stock Exchange

(Years ended March 31)



Breakdown of Shares Held by Shareholder Type

(As of March 31, 2005)



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