



## Financial Report 2006

Year Ended March 31, 2006

The Oki Group: Contributing to the e-Society

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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)
	2006	2005	2004	2003	2002	2001	2006
<b>For the year:</b>							
Net sales	¥ 680,526	¥ 688,542	¥ 654,214	¥ 585,473	¥ 604,572	¥ 740,250	\$ 5,816,461
Cost of sales	514,483	504,340	484,455	445,709	490,257	563,368	4,397,290
Gross profit	166,043	184,202	169,759	139,763	114,314	176,882	1,419,170
Operating income (loss)	10,593	27,220	21,606	1,368	(27,247)	28,314	90,538
Other (expenses) income, net	(133)	(8,920)	(19,410)	(4,602)	(29,643)	(10,008)	(1,136)
Income (loss) before income taxes, minority interests and equity in earnings (losses) of affiliates	10,460	18,299	2,195	(3,233)	(56,890)	18,306	89,410
Net income (loss)	5,058	11,174	1,328	(6,560)	(34,077)	8,944	43,230
<b>At the year end:</b>							
Total current assets	¥ 379,339	¥ 375,043	¥ 379,795	¥ 382,942	¥ 369,383	¥ 433,240	\$ 3,242,213
Total investments and long-term receivables	71,052	61,492	58,615	42,796	49,254	75,961	607,282
Property, plant and equipment, net	125,223	126,470	119,662	136,355	163,844	176,731	1,070,282
Other assets	43,244	45,008	51,487	60,797	69,099	46,548	369,606
Total assets	618,859	608,015	609,560	622,891	651,581	732,483	5,289,393
Total current liabilities	295,865	313,828	311,676	307,548	305,877	351,578	2,528,760
Total long-term liabilities	182,770	163,369	181,645	208,410	231,322	226,678	1,562,136
Total shareholders' equity	133,887	124,827	110,499	101,323	109,066	148,844	1,144,333
Common stock	67,882	67,877	67,862	67,862	67,862	67,862	580,188

	Yen						U.S. dollars (Note)
	2006	2005	2004	2003	2002	2001	2006
<b>Per share amounts:</b>							
Net income (loss) per share	¥ 8.27	¥ 18.27	¥ 2.17	¥ (10.72)	¥ (55.66)	¥ 14.60	\$ 0.07
Cash dividends per share	3.00	3.00	—	—	—	5.00	0.02
Number of shareholders	111,379	99,735	100,778	115,215	107,165	97,726	
Number of employees	21,175	20,410	20,960	22,520	23,597	25,626	
<b>Ratios (%):</b>							
Return on equity	3.9%	9.5%	1.3%	(6.2)%	(26.4)%	6.1%	
Return on assets	0.8	1.8	0.2	(1.0)	(4.9)	1.2	
Shareholders' equity	21.6	20.5	18.1	16.3	16.7	20.3	

Note: The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at ¥117=US\$1.00, the approximate exchange rate prevailing on March 31, 2006.

# Financial Review

Financial Report for Oki Electric Industry Co., Ltd. and its Consolidated Subsidiaries

## SCOPE OF CONSOLIDATION

In the fiscal year ended March 31, 2006, six companies were included in and two companies excluded as subsidiary companies from the Oki Electric Industry Co., Ltd. ("Oki" or "the Company") Group's scope of consolidation, for a total of 84 companies. There were two affiliated companies accounted for under the equity-method, unchanged from the previous fiscal year.

## OVERVIEW OF THE FISCAL YEAR ENDED MARCH 31, 2006

### Net Sales and Operating Income

In the fiscal year under review, the Japanese economy was generally steady, supported by an increase in capital investment reflecting an improvement in corporate earnings and a recovery in consumer spending. Overseas, the global economy also enjoyed an upward swing. In the business areas in which the Oki Group operates, however, business conditions were mixed. Growth in the color printer market was a positive factor supporting the Group's performance. Delays in security-related investment by financial institutions and declining semiconductor and printer prices caused by continued deflationary conditions in the overall IT market, on the other hand, placed downward pressure on operating results. In addition, the Group was impacted by a lull in investment by telecom carriers in broadband IP networks in the second half of the fiscal year.

Against this backdrop, the Oki Group reported consolidated net sales of ¥680.5 billion, down 1.2% compared with the previous fiscal year. Consolidated operating income was ¥10.6 billion from ¥27.2 billion, falling ¥16.6 billion year on year.

## SEGMENT INFORMATION

### Info-Telecom Systems

Results in this segment were affected by the decline in bank branch terminal demand, and delays in security-enhanced ATM investment anticipated at the beginning of the fiscal year. Despite signs of a pickup in investment activity in back office concentration systems, back office systems and other efficiency solutions, demand was also less than expected.

In the telecom carrier market, investment in fixed-line systems declined due to the lull in expenditure for broadband IP networks and fixed-phone direct collection systems. Looking at corporate capital investment in general, interest was high in IP telephony-based info-telecom converged systems. The market is in its early stage, however, and yet to take hold on a full-fledged basis.

Accounting for these factors, consolidated segment sales declined 9.4% compared with the previous fiscal year to ¥338.0 billion. Reflecting the drop in sales, operating income fell ¥4.9 billion year on year from ¥15.8 billion to ¥10.9 billion.

### Semiconductors

While the semiconductor market continued its recovery, prices declined across the board. In its mainstay products of P2ROMs and drivers, the Oki Group worked to reduce costs and improve product value by expanding capacity and introducing new products. This was, however, more than offset by falling prices owing to the rush of new market entrants and resultant intense competition. In addition, delays in developing new system LSI products impacted the Group's performance.

As a result, consolidated sales in this segment totaled ¥150.7 billion, essentially unchanged from the previous fiscal year. Operating income declined from ¥12.0 billion to ¥3.0 billion, a decline of ¥9.0 billion, due to the aforementioned drop in product prices reflecting fierce competition.

### Printers

Rapid growth in the business-use color NIP market continued throughout the fiscal year under review. Against this backdrop, the Oki Group increased sales by introducing new multifunction printers that leverage the Group's strength in color LED printers, combining compact designs with high printing speeds and resolutions, and expanded sales and production sites. Especially in the color printer market, competition is becoming fiercer as competitors struggle to increase market share.

Based on the aforementioned, consolidated sales in this segment climbed 16.5% year on year to ¥160.5 billion. Operating income, on the other hand, declined ¥3.7 billion from ¥7.8 billion in the previous fiscal year to ¥4.1 billion. This was attributed to declining product prices in the core color printer market, a deteriorating model mix and proactive investment in sales and production.

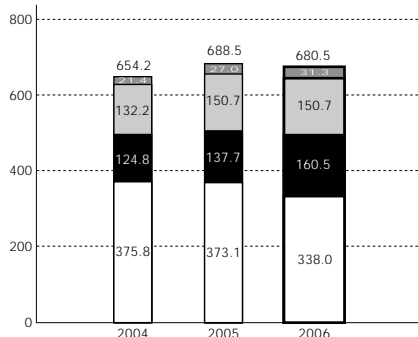
## GEOGRAPHIC SEGMENT INFORMATION

### Japan

The Japanese domestic economy is performing comparatively well owing to greater capital expenditure, improved corporate earnings and revived personal consumption. However, in the fields where Oki is active, delayed security-related investment by financial institutions along with and the low ebb of the investment cycle in broadband IP

### Net Sales

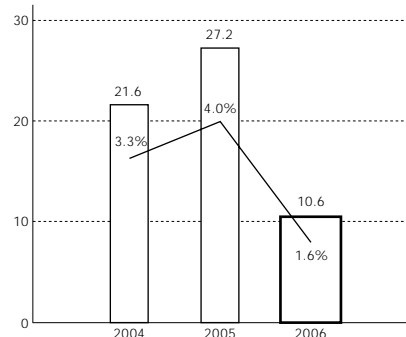
Billions of yen



Info-Telecom Systems
  Printers
  Semiconductors
  Other

### Operating Income / Operating Income Margin

Billions of yen



Operating Income
  Operating Income Margin (%)

networks in the second half of the year by telecom carriers both had a negative effect on consolidated net sales, which declined by 3.8% to ¥494.5 billion. The drop in semiconductor prices also exerted a negative influence on operating income, which fell ¥15.4 billion from ¥36.0 billion to ¥20.6 billion.

#### North America

Sales rose 12.4% to ¥65.7 billion on the back of firm printer sales in North America. Mirroring improved printer sales, operating income climbed from ¥0.9 billion in the previous fiscal year to ¥1.1 billion, an increase of ¥0.2 billion year on year.

#### Europe

Despite a drop in prices due to increased competition in the printer market, sales in Europe climbed 6.7% to ¥84.9 billion. This was attributed to continued increase in sales volumes. From operating income of ¥0.9 billion in the previous fiscal year, the Oki Group incurred an operating loss of ¥1.9 billion. The aforementioned drop in product prices and additional sales costs in line with increased sales caused this deterioration totaling ¥2.8 billion.

#### Asia

Sales in Asia declined 3.1% to ¥35.5 billion due to continued semiconductor inventory adjustments mainly in China. Impacted by the drop in semiconductor prices, operating income fell ¥0.9 billion to ¥1.5 billion from ¥2.4 billion in the previous fiscal year.

### NET INCOME

While operating income deteriorated ¥16.6 billion to ¥10.6 billion in the fiscal year under review, the Oki Group reported a gain on sale of investments in securities of ¥5.0 billion. As a result, income before income taxes, minority interests and equity in earnings of affiliates was ¥10.5 billion, a year-on-year decline of ¥7.8 billion. Net income for the fiscal year ended March 31, 2006 totaled ¥ 5.1 billion, down ¥6.1 billion from ¥11.2 billion in the previous fiscal year.

In line with the drop in net income, net income per share declined from ¥18.27 to ¥8.27. ROE also deteriorated from 9.5% to 3.9%.

### FINANCIAL POSITION

#### Assets, Liabilities and Shareholders' Equity

Compared with the previous fiscal year-end, total assets and shareholders' equity increased ¥10.9 billion and ¥9.1 billion, respectively. As a result, the shareholders' equity ratio improved 1.1 percentage points to 21.6%.

In current assets, inventories increased ¥17.6 billion while cash and cash equivalents and time deposits declined ¥11.0 billion. Investments in securities classified as fixed assets rose ¥9.7 billion year on year. The increase in inventories was primarily attributed to a jump in the volume of color printers and yen conversion resulting from foreign currency movements.

Total liabilities climbed ¥1.4 billion. Interest-bearing liabilities rose ¥3.1 billion mainly due to the increase in debt.

#### CASH FLOWS

In the fiscal year under review, net cash provided by operating activities fell ¥44.3 billion from ¥59.3 billion in the previous fiscal year to ¥15.0 billion mainly due to the increase in working capital.

Net cash used in investing activities narrowed ¥12.9 billion to ¥28.6 billion from ¥41.5 billion in the previous fiscal year. This was attributed to a drop in purchases of property, plant and equipment and an increase in proceeds from the sale of shares.

Free cash flows, which are the total of cash flows from operating and investing activities were negative totaling ¥13.6 billion. This was a turnaround of ¥31.4 billion from positive free cash flows of ¥17.8 billion in the previous fiscal year.

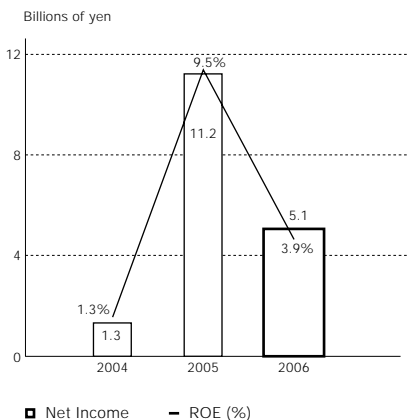
Net cash provided by financing activities amounted to ¥0.8 billion. This was due to the issuance of bonds and the repayment of long-term debt.

As a result of these cash flow movements, cash and cash equivalents as of March 31, 2006 were ¥38.4 billion. This represents a year-on-year decline of ¥11.0 billion compared with the previous fiscal year-end's total of ¥49.4 billion.

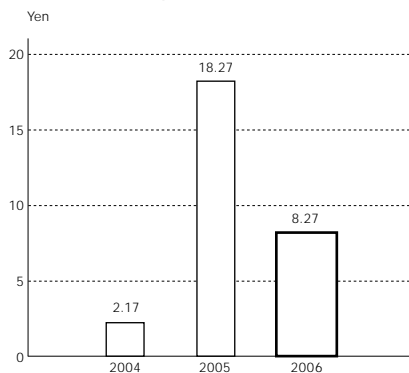
### CAPITAL EXPENDITURES, DEPRECIATION AND RESEARCH AND DEVELOPMENT EXPENSES

As a result of progress in restricting investment mainly on semiconductors, capital expenditures as a whole were reduced by ¥4.3 billion yen

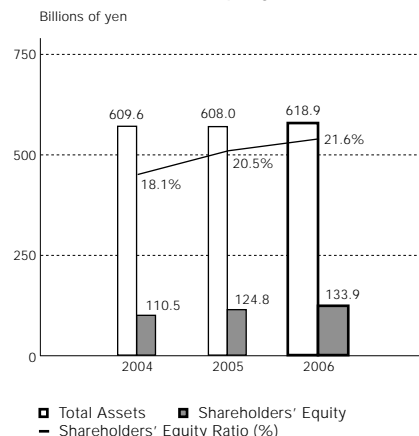
#### Net Income / Return on Equity [ROE]



#### Net Income per Share



#### Total Assets / Shareholders' Equity / Shareholders' Equity Ratio



to ¥33.5 billion yen. Depreciation of property, plant and equipment increased by ¥1.1 billion to ¥26.6 billion. Research and development expenses were reduced by ¥2.4 billion to ¥19.6 billion.

#### OUTLOOK FOR THE YEAR ENDING MARCH 31, 2007

The Japanese economy is exhibiting clearer signs of recovery supported by improvements in the corporate sector. Despite this favorable outlook, however, the Oki Group remains cautious with growing concerns over the sharp increase in crude oil prices and continued price deterioration in the IT industry.

Under these conditions, the Oki Group is forecasting increased revenues in the financial market of the Info-Telecom Systems segment owing to robust demand for security-enhanced ATMs, ATMs for overseas markets particularly China and Korea, and IP Network-related investment expansion by financial institutions. While telecom carriers are expected to expand optical IP telephony-related investment, efforts to limit overall investment in broadband infrastructure in preparation of NGN growth is anticipated to dampen revenues.

In the public sector, sales of municipal wireless systems to local governments are expected to rise. Enterprise sales are also forecast to expand on the back of strong demand for IP-based info-telecom systems. Accounting for these factors, sales in the Info-Telecom Systems segment are forecast to total ¥360.0 billion, and increase of ¥22.0 billion year on year. Despite the drop in overall prices and a decline in relatively high-profit margin telecommunication carrier products, operating income is expected to climb ¥1.6 billion to ¥12.5 billion.

Conditions in the Semiconductors business segment are clouded by the possibility of continued downward price revisions. Sales are expected to increase, however, spurred by the introduction of new communication system LSI products and greater interest in driver LSIs reflecting strong demand for LCD TVs. Accordingly, sales in this segment are expected to edge up ¥3.3 billion to ¥154.0 billion. Operating income is also forecast at ¥5.5 billion, a year-on-year increase of ¥2.5 billion. This is attributed to a sales upswing in drivers and cost reduction measures as well as the introduction of new products.

The Oki Group is expecting growth in the color NIP business owing to market expansion of business-use color NIPs and our growing shift away from low-priced models. Sales of monochrome NIP and dot print-

ers are expected to remain unchanged, reflecting the general trend toward market contraction. As a result, sales in the Printers segment are forecast to increase ¥11.5 billion year on year to ¥172.0 billion. Despite increased costs related to the upgrade of sales channels and release of new products, operating income is expected to climb ¥0.9 billion to ¥5.0 billion.

In the Other segment, the Oki Group is anticipating sales of ¥34.0 billion and operating income of ¥2.0 billion.

Accounting for the aforementioned factors, consolidated net sales for the fiscal year ending March 31, 2007 are expected to reach ¥720.0 billion. Operating income is forecast at ¥15.0 billion with net income of ¥2.5 billion.

Forecasts for the fiscal year ending March 31, 2007 are based on exchange rates of ¥115 equivalent to U.S.\$1.00 and ¥140 equivalent to one euro in the first half of the fiscal year, and ¥110 equivalent to U.S.\$1.00 and ¥135 equivalent to one euro in the second half.

#### Performance Forecasts for the Fiscal Year Ending March 31, 2007

(Billions of yen unless otherwise stated)

Net Sales	Operating Income	Net Income	Net Income per Share (Yen)
¥ 720.0	¥ 15.0	¥ 2.5	¥ 4.09

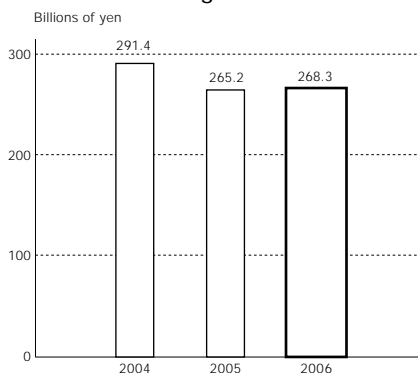
#### BUSINESS AND OTHER RISKS

The following risks may affect the Oki Group's performance and financial position. The Company recognizes that the occurrence of such risks may significantly influence the decisions of investors with respect to the Oki Group. Forward-looking statements in this document are based upon the Company's judgment as of June 29, 2006.

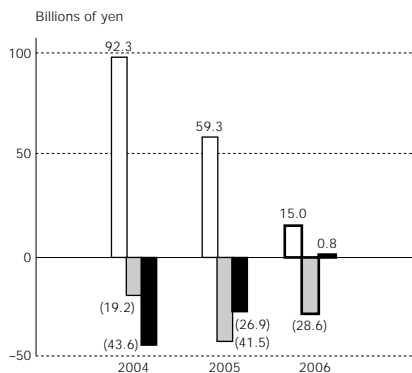
#### Political and Economic Trends

Demand for the Group's products is subject to political and economic trends in the individual countries and regions in which they are sold. Accordingly, economic recession and the resulting contraction in demand in the Group's principal operating markets of Japan, North America, Europe and Asia may impact its business performance and financial position.

#### Interest-Bearing Debt

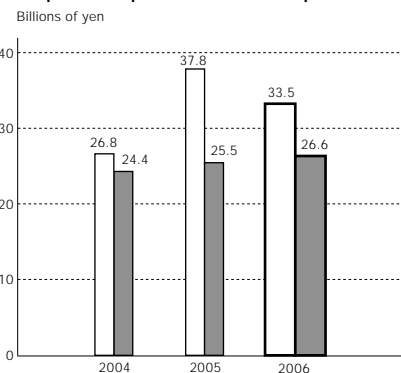


#### Cash Flows



- Cash Flows from Operating Activities
- Cash Flows from Investing Activities
- Cash Flows from Financing Activities

#### Capital Expenditures / Depreciation



- Capital Expenditures
- Depreciation

### Sudden Technological Innovation

The Oki Group's principal business segments comprising Info-Telecom Systems, Semiconductors and Printers are subject to rapid technological innovation. Accordingly, the Oki Group strives to preserve its competitive advantage through new technologies and product research and development. In the event, however, the Group is unable to keep pace with new innovations in technologies and products, is labored with obsolete products, and is unable to deliver products and services that appeal to customers, its performance and financial position may be affected.

### Market Trends

- The product and geographical markets in which the Oki Group operates are subject to frequent entry by new participants and persistent competition. In an effort to secure competitive advantage, the Group strives to enhance product development and reduce costs. In the event the Oki Group is unable to implement effective product development and cost rationalization measures and fails to maintain and secure sufficient market share, business performance and financial position may be affected.
- The performance of the Info-Telecom Systems segment is subject to a variety of factors including: (1) changes in investment trends by financial institutions due to revisions of financial regulation, poor performance and other factors; (2) changes in investment trends by telecom carriers owing to amendments to telecommunication regulations, shifts in business strategy and other factors, and; (3) a significant decline in public-sector investment due to national and local government policies.
- The semiconductor market in which the Oki Group operates is characterized by intensive fluctuation. While the Group makes every effort to establish and develop a business structure that is resilient to movements in the market, in the event of a substantial unforeseen drop in demand or price deterioration, the Semiconductor segment's performance may be affected.
- The printer market, a core component of the Oki Group's field of operations, is experiencing intense price competition, particularly in color printers, as companies seek to secure and expand market share. In an effort to secure a strong market position and profitability, the Oki Group is endeavoring to develop new products and reduce costs. Despite these efforts, continued downward revisions to product prices beyond the Group's expectations may impact the Printer segment's performance.

### Raw Material and Component Procurement

The Oki Group procures a variety of raw materials and components in support of its manufacturing activities. In the event the Group is unable to procure such material and components in a timely manner or find alternative vendors or certain materials due to their highly specialized nature, delayed product shipment to customers may result in lost business opportunities. The Group's performance and financial position may be affected by such an event.

The Oki Group is reliant upon the direct and indirect supply of crude oil and gold as a part of its manufacturing activities. A sharp rise in the price of these and other key materials may impact the Group's performance and financial position.

### Products Defects and Delays in Delivery

Despite every effort to ensure quality assurance, the Oki Group is unable to eliminate all possibility of product and service defect. In the event of product or service defect, the Group may be liable for damages. In addition, any incidence of defect may impact the Group's reputation and standing and contribute to a drop in demand. In either case, the Group's performance and financial position may be affected.

While the Oki Group adopts complete and thorough measures to ensure the timely delivery of its products and services, unforeseen incidents in design, material procurement and production control may lead to a delay in shipment. In this case, the Group may become liable for the payment of damages.

### Success or Failure of Strategic Alliances

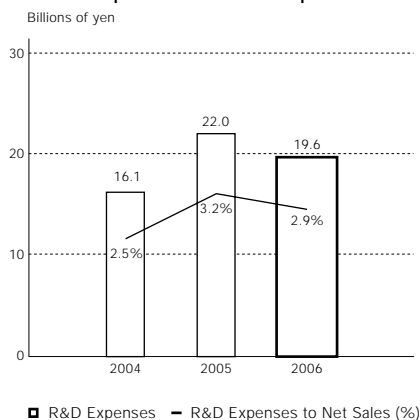
The Group is aggressively engaged with other companies in strategic alliances in research and development, manufacturing, sales and other activities. While the Group only enters into and maintains such alliances with the utmost circumspection, there may in theory be instances where the Group is not able to obtain the desired cooperation from the strategic partner in business strategy, production and technical development, finance or other activity, or where the alliance does not yield satisfactory results. The Group's performance and financial condition may be adversely affected by such an event.

### Overseas Business Activities

The Oki Group is engaged in business activities across a variety of countries and regions. Accordingly, it is subject to a number of risks specific to overseas business activities including country risk and foreign currency fluctuation risk. In the implementation of its business, the Oki Group takes all necessary care to avoid and minimize risks. In particular the Group enters into forward currency and currency swap contracts to minimize the risk of short-term movements in foreign currencies. Notwithstanding the aforementioned, a sharp appreciation of the yen against the U.S. dollar and the euro may affect the Group's performance and financial position.

The Oki Group operates production sites in Thailand and China. The Group's performance and financial position may therefore be affected in the event of a deterioration of political or economic conditions, movements in local currency exchange rates and unforeseen circumstances in either of these countries.

### R&D Expenses / R&D Expenses to Net Sales



### **Patents and Intellectual Property**

The Oki Group strives to protect its patents and to secure new patents with the aim of differentiating the Group from its competitors. Failure to do so may impact the performance of relevant businesses. The Oki Group is also active in developing new products and securing the right to use other companies' patents. In the event the Group is unable to secure patents or rights, or secures patents or rights under unfavorable terms and conditions, its performance and financial position may be affected.

The Oki Group endeavors to comply with patents held by third parties. It is not, however, in a position to completely guarantee the Group will not violate intellectual property rights held by another party. In the event the Group is involved in a claim relating to the violation of intellectual property rights, it is likely to incur legal and other expenses. In the event the Group is found to have breached intellectual property rights held by another party then it is likely to incur damages. In either event, the performance and financial position of the Group may be affected.

### **Statutory and Regulatory Compliance**

The Oki Group is subject to statutory and regulatory requirements, business and investment applications and approvals, export restrictions relating to national security and other factors, import regulations including customs and taxation and a variety of government ordinances in each of the countries and regions in which it operates. The Group is also subject to statutory and regulatory requirements relating to commerce, antitrust, patents and intellectual property rights, taxation, foreign currency, the environment and recycling. In the event the Group is unable to comply with any of the aforementioned, the possibility exists its activities would be restricted or suspended. Accordingly, the aforementioned and other statutory and regulatory requirements may impact the Group's performance and financial position.

### **Natural and Other Disaster**

The Oki Group conducts periodic inspections and implements a variety of accident, disaster and fire prevention measures to minimize stoppages of its production line. There is, however, no complete guarantee that accidents, disasters and fire that would impact the production line can be prevented.

In particular, stoppages to the Group's semiconductor production lines located in Hachioji (Tokyo), Miyazaki Prefecture, Miyagi Prefecture and Thailand due to earthquake, wide and flood damage and power blackout may affect the Group's performance and financial position.

### **Information Security**

The Oki Group has adopted various computer virus protection systems and other preventative measures to minimize information loss and leakage in connection with its internal systems. There is, however, no guarantee that a leak in information or system interruption due to human error, new kinds of computer viruses or other factors can be completely avoided. Furthermore, additional losses may arise in the each of the aforementioned.

### **Procurement and Training of Human Resources**

The ability to secure and foster high-quality human resources is a key factor in ensuring further growth as a stable earnings company. Accordingly, the Group strives to recruit capable employees at every level including new graduates and mid-career employees. In an effort to foster quality human resources the Group also conducts on-the-job training, education and a variety of training activities. In the event the Group is unable to secure and foster high-quality human resources or a number of key employees leave the Group, future growth may be affected.

### **Interest-Rate Fluctuations**

Although the Group has been reducing its interest-bearing debt, it is still susceptible to changes in interest rates. The Group utilizes interest-rate swaps and other instruments to manage the risks of interest-rate fluctuations, however, there is a possibility that interest charges may be increased associated with a rise in interest rates, and that the increased cost of raising capital would adversely affect the Company's ability to raise working capital.

### **Changes to Accounting Standards**

The Company makes consolidated and non-consolidated financial statements in accordance with accounting standards generally recognized as fair and accurate. Should changes to accounting standards occur, there is a possibility that the Group's performance and financial position may be adversely affected.

### **Debt Recovery**

While the Company constantly appraises the financial situation of its customers and makes provision for bad debts after the Balance Sheet date, a sudden deterioration in the financial condition of a major customer could exert a negative influence on the Group's performance.

### **Deferred Tax Assets**

The Oki Group amortizes deferred tax assets against retained losses carried forward and temporary differences as appropriate. In the event the Group is unable to eliminate retained losses and other temporary differences due to the decline in taxable income brought on by fluctuations in its business results, a liquidation of deferred tax assets may affect the Group's performance.

### **Retirement Benefit Obligations**

The Oki Group provides for retirement benefit obligations based on a discount rate established using actuarial calculations. Accordingly, a significant change in the discount rate and other preconditions and assumptions that leads to an increase in the retirement benefit obligation may impact the Group's performance and financial position.

# Consolidated Balance Sheets

Oki Electric Industry Co., Ltd. and consolidated subsidiaries  
As of March 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>Current assets:</b>			
Cash and cash equivalents	¥ 38,419	¥ 49,411	\$ 328,367
Time deposits	—	30	—
Marketable securities (Note 3)	500	—	4,273
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	11,787	12,831	100,743
Other	153,699	149,240	1,313,666
Less: Allowance for doubtful receivables	(1,842)	(1,798)	(15,743)
Inventories (Note 4)	166,899	149,298	1,426,487
Other current assets (Note 8)	9,875	16,029	84,401
<b>Total current assets</b>	<b>379,339</b>	<b>375,043</b>	<b>3,242,213</b>
<b>Investments and long-term receivables:</b>			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 5)	15,643	14,494	133,700
Other investments in securities (Note 3)	57,900	48,180	494,871
Other long-term receivables	3,089	4,271	26,401
Less: Allowance for doubtful receivables	(5,581)	(5,453)	(47,700)
<b>Total investments and long-term receivables</b>	<b>71,052</b>	<b>61,492</b>	<b>607,282</b>
<b>Property, plant and equipment (Notes 6 and 10):</b>			
Land	15,940	18,247	136,239
Buildings	124,515	122,528	1,064,230
Machinery and equipment	482,365	473,125	4,122,777
Construction in progress	431	985	3,683
	623,253	614,887	5,326,948
Less: Accumulated depreciation	(498,030)	(488,416)	(4,256,666)
<b>Property, plant and equipment, net</b>	<b>125,223</b>	<b>126,470</b>	<b>1,070,282</b>
<b>Other assets (Note 8)</b>	<b>43,244</b>	<b>45,008</b>	<b>369,606</b>
<b>Total assets</b>	<b>¥ 618,859</b>	<b>¥ 608,015</b>	<b>\$ 5,289,393</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>Current liabilities:</b>			
Short-term borrowings (Note 6)	¥ 79,412	¥ 80,092	\$ 678,735
Current portion of long-term debt (Note 6)	56,665	65,202	484,316
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	6,370	7,536	54,444
Other	98,130	103,806	838,717
Accrued income taxes	1,182	2,327	10,102
Other accrued expenses	44,350	43,727	379,059
Other current liabilities (Note 8)	9,752	11,136	83,350
<b>Total current liabilities</b>	<b>295,865</b>	<b>313,828</b>	<b>2,528,760</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 6)	132,229	119,860	1,130,162
Retirement benefits (Note 7)	42,897	37,876	366,641
Other long-term liabilities	7,644	5,631	65,333
<b>Total long-term liabilities</b>	<b>182,770</b>	<b>163,369</b>	<b>1,562,136</b>
<b>Minority interests in consolidated subsidiaries</b>	<b>6,335</b>	<b>5,989</b>	<b>54,145</b>
<b>Shareholders' equity:</b>			
Common stock:			
Authorized—2,400,000,000 shares			
Issued—612,371,797 shares	67,882	67,877	580,188
Additional paid-in capital	37,801	37,797	323,085
Retained earnings	16,580	14,854	141,709
Net unrealized holding gain on other securities	19,113	12,441	163,358
Translation adjustments	(7,210)	(7,925)	(61,623)
Less: Treasury stock, at cost: 915,526 shares in 2006 and 753,771 shares in 2005	(280)	(217)	(2,393)
<b>Total shareholders' equity</b>	<b>133,887</b>	<b>124,827</b>	<b>1,144,333</b>
<b>Contingent liabilities (Note 16)</b>			
<b>Total liabilities and shareholders' equity</b>	<b>¥ 618,859</b>	<b>¥ 608,015</b>	<b>\$ 5,289,393</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Income

Oki Electric Industry Co., Ltd. and consolidated subsidiaries  
 Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Net sales	¥ 680,526	¥ 688,542	¥ 654,214	\$ 5,816,461
Cost of sales	514,483	504,340	484,455	4,397,290
<b>Gross profit</b>	<b>166,043</b>	<b>184,202</b>	<b>169,759</b>	<b>1,419,170</b>
Selling, general and administrative expenses	155,449	156,982	148,153	1,328,623
<b>Operating income</b>	<b>10,593</b>	<b>27,220</b>	<b>21,606</b>	<b>90,538</b>
Other income (expenses):				
Interest expense	(6,171)	(6,724)	(7,464)	(52,743)
Interest and dividend income	1,837	1,323	1,074	15,700
Foreign exchange gain (loss), net	1,403	561	(2,039)	11,991
Gain on sale of investments in securities	8,043	3,037	1,374	68,743
Write-downs of investments in subsidiaries and other investments in securities	—	(1,193)	(1,538)	—
Gain (loss) on sale and disposition of property, plant and equipment	1,045	(1,300)	(4,630)	8,931
Gain on return of substitutional portion of the Welfare Pension Fund Plan	—	—	8,282	—
Loss on impairment of fixed assets (Note 12)	(2,973)	—	—	(25,410)
Loss on natural disaster (Note 13)	(856)	—	(3,344)	(7,316)
Restructuring charges (Note 14)	(1,442)	(2,363)	(7,709)	(12,324)
Other, net	(1,019)	(2,261)	(3,415)	(8,709)
	(133)	(8,920)	(19,410)	(1,136)
Income before income taxes, minority interests and equity in earnings of affiliates	10,460	18,299	2,195	89,410
Income taxes (Note 8):				
Current	1,579	2,695	2,555	13,495
Deferred	3,773	4,377	(1,720)	32,247
	5,352	7,072	835	45,743
Income before minority interests and equity in earnings of affiliates	5,107	11,226	1,360	43,658
Minority interests in earnings of consolidated subsidiaries	(211)	(297)	(140)	(1,803)
Equity in earnings of affiliates	161	245	109	1,376
<b>Net income (Note 17)</b>	<b>¥ 5,058</b>	<b>¥ 11,174</b>	<b>¥ 1,328</b>	<b>\$ 43,230</b>

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, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
<b>Common stock:</b>				
Balance at beginning of the year	¥ 67,877	¥ 67,862	¥ 67,862	\$ 580,145
Issuance of new shares of common stock	4	15	—	34
<b>Balance at end of the year</b>	<b>¥ 67,882</b>	<b>¥ 67,877</b>	<b>¥ 67,862</b>	<b>\$ 580,188</b>
<b>Additional paid-in capital (Note 9):</b>				
Balance at beginning of the year	¥ 37,797	¥ 71,150	¥ 71,150	\$ 323,051
Increase due to issuance of new shares of common stock	4	15	—	34
Decrease due to transfer to retained earnings	—	(33,369)	—	—
<b>Balance at end of the year</b>	<b>¥ 37,801</b>	<b>¥ 37,797</b>	<b>¥ 71,150</b>	<b>\$ 323,085</b>
<b>Retained earnings (Note 9):</b>				
Balance at beginning of the year	¥ 14,854	¥ (29,685)	¥ (31,004)	\$ 126,957
Net income	5,058	11,174	1,328	43,230
Increase at beginning of the year due to initial consolidation of subsidiaries	308	—	—	2,632
Increase due to transfer from additional paid-in capital	—	33,369	—	—
Cash dividends paid	(1,834)	—	—	(15,675)
Decrease in unfunded retirement benefit obligation with respect to foreign subsidiaries	(1,805)	—	—	(15,427)
Decrease at beginning of the year due to initial consolidation of subsidiaries	—	—	(8)	—
Decrease due to exclusion of subsidiaries from consolidation	—	(4)	—	—
<b>Balance at end of the year</b>	<b>¥ 16,580</b>	<b>¥ 14,854</b>	<b>¥ (29,685)</b>	<b>\$ 141,709</b>
<b>Net unrealized holding gain on other securities:</b>				
Balance at beginning of the year	¥ 12,441	¥ 10,932	¥ 1,513	\$ 106,333
Net change during the year	6,671	1,508	9,419	57,017
<b>Balance at end of the year</b>	<b>¥ 19,113</b>	<b>¥ 12,441</b>	<b>¥ 10,932</b>	<b>\$ 163,358</b>
<b>Translation adjustments:</b>				
Balance at beginning of the year	¥ (7,925)	¥ (9,619)	¥ (8,098)	\$ (67,735)
Net change during the year	714	1,694	(1,521)	6,102
<b>Balance at end of the year</b>	<b>¥ (7,210)</b>	<b>¥ (7,925)</b>	<b>¥ (9,619)</b>	<b>\$ (61,623)</b>
<b>Treasury stock, at cost:</b>				
Balance at beginning of the year	¥ (217)	¥ (141)	¥ (100)	\$ (1,854)
Net change during the year	(62)	(75)	(41)	(529)
<b>Balance at end of the year</b>	<b>¥ (280)</b>	<b>¥ (217)</b>	<b>¥ (141)</b>	<b>\$ (2,393)</b>
<b>Total shareholders' equity</b>	<b>¥ 133,887</b>	<b>¥ 124,827</b>	<b>¥ 110,499</b>	<b>\$ 1,144,333</b>

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, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
<b>Cash flows from operating activities:</b>				
Net income	¥ 5,058	¥ 11,174	¥ 1,328	\$ 43,230
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	34,691	34,245	33,577	296,504
Loss on impairment of fixed assets	2,973	—	—	25,410
Provision for retirement benefits, net of payments	2,651	4,490	1,990	22,658
Write-downs of investments in subsidiaries and other investments in securities	—	1,193	1,676	—
Gain on sale and disposition of marketable securities, investments in subsidiaries and other investments in securities	(8,043)	(3,037)	(1,597)	(68,743)
(Gain) loss on sale and disposition of property, plant and equipment	(1,045)	1,300	4,630	(8,931)
Deferred income taxes	3,773	4,377	(1,720)	32,247
Other	(802)	1,025	4,685	(6,854)
Changes in operating assets and liabilities:				
Notes and accounts receivable	(1,371)	13,620	10,098	(11,717)
Inventories	(15,536)	(9,014)	17,087	(132,786)
Notes and accounts payable	(5,276)	7,056	12,912	(45,094)
Accrued income taxes	(1,138)	923	(303)	(9,726)
Other accrued expenses	(633)	1,135	7,183	(5,410)
Other assets and liabilities	(334)	(9,167)	720	(2,854)
<b>Net cash provided by operating activities</b>	<b>14,965</b>	<b>59,323</b>	<b>92,269</b>	<b>127,905</b>
<b>Cash flows from investing activities:</b>				
Decrease (increase) in time deposits and marketable securities	30	89	(19)	256
Increase in investments and other long-term receivables	(1,911)	(7,280)	(6,273)	(16,333)
Purchases of property, plant and equipment	(29,153)	(33,926)	(24,026)	(249,170)
Proceeds from sale of property, plant and equipment	2,808	1,895	11,117	24,000
Payment for purchase of business	(328)	(2,292)	—	(2,803)
<b>Net cash used in investing activities</b>	<b>(28,555)</b>	<b>(41,514)</b>	<b>(19,202)</b>	<b>(244,059)</b>
<b>Cash flows from financing activities:</b>				
Decrease in short-term borrowings	(999)	(6,843)	(12,355)	(8,538)
Issuance of long-term debt	70,692	19,182	31,544	604,205
Repayment of long-term debt	(67,540)	(59,071)	(58,552)	(577,264)
Issuance of bonds	—	19,942	—	—
Cash dividends paid	(1,817)	(1)	(16)	(15,529)
Other	438	(98)	(4,183)	3,743
<b>Net cash provided by (used in) financing activities</b>	<b>774</b>	<b>(26,890)</b>	<b>(43,564)</b>	<b>6,615</b>
Effect of exchange rate changes on cash and cash equivalents	714	417	(759)	6,102
Net (decrease) increase in cash and cash equivalents	(12,102)	(8,664)	28,743	(103,435)
Cash and cash equivalents at beginning of the year	49,411	58,075	29,294	422,316
Cash of initially consolidated subsidiaries at beginning of the year	1,110	—	37	9,487
<b>Cash and cash equivalents at end of the year</b>	<b>¥ 38,419</b>	<b>¥ 49,411</b>	<b>¥ 58,075</b>	<b>\$ 328,367</b>
<b>Supplemental disclosures of cash flow information:</b>				
Cash paid during the year for:				
Interest	¥ 5,928	¥ 7,123	¥ 7,509	\$ 50,666
Income taxes	2,717	1,771	2,858	23,222

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, 2006

## 1.

### 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 account 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 requirements as those specified in the Japanese accounting 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 identical to 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 either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

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 a permanent decline in the value of such investments, the Company has written them down to reflect the impairment.

#### (c) Foreign currency transaction

(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. Differences arising from translation where two exchange rates have been used are presented under translation adjustments as a component of shareholders' equity.

(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 foreign 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 retirement benefit plans covering substantially all its employees.

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.

The transition difference arising from the initial adoption of the accounting standard for retirement benefits is being amortized over a period of 15 years except for certain domestic consolidated subsidiaries which charged it to income when it was recognized or certain overseas consolidated subsidiaries which charged it directly to retained earnings.

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 participants in the plans. The amortization of such gains and losses is recognized in the year subsequent to the year in which they arise except for certain overseas subsidiaries which charged or credited it directly to retained earnings.

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.

#### (k) Income taxes

Deferred income taxes are recognized by the asset and liability method, 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 currency 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 and long-term loans with variable interest rates.

The Group has developed hedging policies to control various aspects of derivatives transactions, including levels of authorization and transaction volume. 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 inception 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 the cumulative cash flows and to respond to any changes in the market.

#### (m) Change in Method of Accounting

(1) In August 2002, the Business Accounting Council of Japan issued "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued Financial Accounting Standards Implementation Guidance No.6, "Implementation Guidance for Accounting Standard for Impairment of Fixed Assets."

These new pronouncements went into effect for fiscal years beginning on or after April 1, 2005.

This standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies are required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and if the book value of the fixed asset exceeds the undiscounted sum of its future cash flows.

The effect of the adoption of this standard was to decrease income before income taxes, minority interests and equity in earnings of affiliates by ¥2,973 million (\$25,410 thousand) for the year ended March 31, 2006.

(2) Certain overseas consolidated subsidiaries have adopted the new accounting standards for retirement benefits in their respective countries effective the year ended March 31, 2006. The adoptions of the new accounting standards had no significant impact on net income.

However, because under these new accounting standards, the transition differences arising from the initial adoption of these new accounting standards and the actuarial differences were deducted directly from retained earnings, retained earnings decreased by ¥1,805 million (\$15,427 thousand).

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## 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 ¥117=US\$1.00, the approximate exchange rate

prevailing on March 31, 2006. 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 the above or any other rate.

### 3.

#### SECURITIES

Securities with quoted market prices at March 31, 2006 and 2005 are summarized as follows:

##### Held-to-maturity securities with quoted market prices

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	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	¥ 500	¥ —	¥ 500	¥ 504	¥ 4	\$ 4,273	\$ 4,273	\$ —
Held-to-maturity securities whose market value does not exceed amounts recorded in balance sheet:									
Debt securities	—	—	—	—	—	—	—	—	—
Total	¥ 500	¥ 500	¥ —	¥ 500	¥ 504	¥ 4	\$ 4,273	\$ 4,273	\$ —

##### Other securities with quoted market prices

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	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	¥ 12,868	¥ 45,157	¥ 32,288	¥ 9,958	¥ 31,410	¥ 21,451	\$ 109,982	\$ 385,957	\$ 275,965
Other	499	553	53	397	430	33	4,264	4,726	452
Subtotal	13,367	45,710	32,342	10,355	31,840	21,485	114,247	390,683	276,427
Other securities whose market value recorded in balance sheet does not exceed their acquisition costs:									
Equity securities	302	238	(64)	3,477	3,127	(350)	2,581	2,034	(547)
Other	—	—	—	100	96	(4)	—	—	—
Subtotal	302	238	(64)	3,578	3,223	(355)	2,581	2,034	(547)
Total	¥ 13,670	¥ 45,948	¥ 32,278	¥ 13,934	¥ 35,064	¥ 21,130	\$ 116,837	\$ 392,717	\$ 275,880

Other securities without quoted market prices at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2006	2005	2006
Other investments in securities:			
Medium-term government bond fund	¥ 100	¥ 100	\$ 854
Money management fund	3,701	2,701	31,632
Unlisted equity securities	11,046	11,729	94,410
Investment in a limited liability joint business partnership	600	577	5,128

## 4. INVENTORIES

Inventories at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods	¥ 53,277	¥ 48,404	\$ 455,358
Work in process	69,231	60,131	591,717
Raw materials and supplies	44,392	40,762	379,418
	¥ 166,899	¥ 149,298	\$ 1,426,487

## 5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Investments stated:			
By equity method	¥ 4,788	¥ 4,564	\$ 40,923
At cost or less	4,146	4,176	35,435
Advances	6,708	5,753	57,333
	¥ 15,643	¥ 14,494	\$ 133,700

## 6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans, principally from banks, at weighted-average interest rates of 1.3% and 1.4% at March 31, 2006 and 2005, respectively:			
Secured	¥ —	¥ —	\$ —
Unsecured	79,412	80,092	678,735
	¥ 79,412	¥ 80,092	\$ 678,735

Long-term debt at March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans from banks, insurance companies and government agencies, due through 2018:			
Secured	¥ 1,102	¥ 1,474	\$ 9,418
Unsecured	138,292	124,089	1,181,982
	139,394	125,563	1,191,401
Unsecured convertible bonds:			
Zero coupon convertible bonds with stock acquisition rights due 2008*	20,000	20,000	170,940
Unsecured bonds in yen:			
3.15% bonds due 2006	20,000	20,000	170,940
2.65% bonds due 2007	9,500	9,500	81,196
3.00% bonds due 2005	—	10,000	—
	188,894	185,063	1,614,478
Less: Current portion	(56,665)	(65,202)	(484,316)
	¥ 132,229	¥ 119,860	\$ 1,130,162

\*The zero coupon convertible bonds with stock acquisition rights due 2008 (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 (\$4.3) per share.

At March 31, 2006, long-term debt of ¥2,232 million (\$19,076 thousand) in the aggregate was collateralized by property, plant and equipment which amounted to ¥1,102 million (\$9,418 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 the 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, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 56,665	\$ 484,316
2008	36,575	312,606
2009	44,980	384,444
2010	13,036	111,418
2011 and thereafter	37,636	321,675
	¥ 188,894	\$ 1,614,478

The Group has access to substantial sources of funds at numerous banks worldwide. The total unused credit available to the Group at March 31, 2006 was ¥119,459 million (\$1,021,017 thousand).

## 7.

### RETIREMENT BENEFITS

The Group has noncontributory defined benefit pension plan, 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 pensions plan. In addition, eligible employees, upon termination of their employment with the Group, may receive certain additional payments under the plan.

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, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥(168,038)	¥(178,882)	\$ (1,436,222)
Fair value of plan assets	82,999	73,847	709,393
Funded status	(85,039)	(105,035)	(726,829)
Transition differences arising from initial adoption of new accounting standard for retirement benefits	38,999	43,333	333,324
Unrecognized actuarial loss	17,514	39,361	149,692
Unrecognized prior service cost	(13,989)	(15,087)	(119,564)
Obligation recognized in the consolidated balance sheets	(42,515)	(37,427)	(363,376)
Prepaid pension cost	10	—	85
Allowance for retirement benefits	¥ (42,525)	¥ (37,427)	\$ (363,461)

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, 2006, 2005 and 2004:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service cost during the year	¥ 5,208	¥ 5,585	¥ 7,881	\$ 44,512
Interest cost on projected benefit obligation	3,850	4,887	8,069	32,905
Expected return on plan assets	(2,959)	(2,657)	(4,422)	(25,290)
Amortization of obligation at transition	4,333	4,511	5,968	37,034
Amortization of actuarial difference	3,638	2,753	6,771	31,094
Amortization of prior service cost	(1,097)	(274)	(560)	(9,376)
Net periodic pension cost	¥ 12,974	¥ 14,807	¥ 23,707	\$ 110,888
Gain on return of substitutional portion of the Welfare Pension Fund Plan	¥ —	¥ —	¥ 8,282	\$ —

(1) Retirement payments of ¥1,442 million (\$12,324 thousand) and ¥1,947 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, 2006 and 2005, respectively.

(2) 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.

Assumptions used in the actuarial calculation:

	Years ended March 31	
	2006	2005
Discount rates:	2.10%	2.10%
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, commencing the year subsequent to the period in which the cost was incurred)	
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, in the year subsequent to the period in which such difference was incurred) except for certain overseas subsidiaries which charge directly to retained earnings.	
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, and certain overseas subsidiaries which charge directly to retained earnings	

# 8.

## INCOME TAXES

Deferred tax assets (liabilities) at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Loss carryforwards	¥ 15,457	¥ 22,245	\$ 132,111
Nondeductible accrued bonuses	5,715	5,623	48,846
Nondeductible retirement benefits	16,600	14,882	141,880
Nondeductible write-downs of inventories	1,622	1,388	13,863
Loss on impairment of fixed assets	1,218	—	10,410
Other	8,402	7,172	71,811
Gross deferred tax assets	49,017	51,312	418,948
Less: Valuation allowance	(17,825)	(16,752)	(152,350)
Total deferred tax assets	31,191	34,560	266,589
Deferred tax liabilities:			
Net unrealized holding gain on other securities	(13,292)	(8,679)	(113,606)
Other	(105)	(83)	(897)
Total deferred tax liabilities	(13,397)	(8,763)	(114,504)
Net deferred tax assets	¥ 17,793	¥ 25,797	\$ 152,076

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Other current assets	¥ 6,508	¥ 10,620	\$ 55,623
Other assets	11,294	15,212	96,529
Other current liabilities	(4)	(31)	(34)
Other liabilities	(5)	(4)	(42)
Net deferred tax assets	¥ 17,793	¥ 25,797	\$ 152,076

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 years ended March 31, 2006 and 2005 and 42% for the year ended March 31, 2004. 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, 2006, 2005 and 2004 is summarized as follows:

	2006	2005	2004
Statutory rates	41.0%	41.0%	42.0%
Additions to (deductions from) income taxes resulting from:			
Increase in valuation allowance for deferred tax assets	10.1	4.0	(38.2)
Permanent nondeductible differences such as entertainment expenses	6.9	2.9	19.5
Permanent differences unrecognized for tax purposes such as dividends received	(3.5)	(1.0)	—
Differences between the Company's statutory tax rates and the overseas consolidated subsidiaries' effective tax rates	(2.3)	(2.5)	—
Per capita portion of inhabitants' taxes	—	—	6.7
Other, net	(1.8)	(6.3)	6.3
Effective tax rates	50.4%	38.1%	36.3%

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## 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 addi-

tional 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 was appropriated to eliminate the accumulated deficit under this rule.

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## 10.

### DEPRECIATION

Depreciation of property, plant and equipment for the years ended March 31, 2006, 2005 and 2004 was as follows:

Millions of yen			Thousands of U.S. dollars
2006	2005	2004	2006
¥ 26,590	¥ 25,549	¥ 24,441	\$ 227,264

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## 11.

### RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2006, 2005 and 2004 were as follows:

Millions of yen			Thousands of U.S. dollars
2006	2005	2004	2006
¥ 19,614	¥ 21,987	¥ 16,117	\$ 167,641

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## 12.

### LOSS ON IMPAIRMENT OF FIXED ASSETS

The Company has recognized a loss on impairment of fixed assets for the year ended March 31, 2006.

In accordance with the new accounting standard for the impairment of fixed assets, the Company has recognized a loss on impairment of certain fixed assets due to a projected change in their usage, from shared usage within the Company, to the rental of such assets to external third parties. This loss recognition was determined based on the net sale prices of the respective assets.

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## 13.

### LOSS ON NATURAL DISASTERS

Due to earthquakes that 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.

Following an earthquake which took place just off the coast of Miyagi Prefecture on August 16, 2005, the production lines of Miyagi Oki Electric Industry Co., Ltd. were again suspended and the subsidiary recognized the related loss for the year ended March 31, 2006.

# 14.

## RESTRUCTURING CHARGES

Restructuring charges for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Special retirement payments	¥ 1,442	¥ 2,363	¥ 3,369	\$ 12,324
Loss on devaluation of inventories	—	—	4,339	—

# 15.

## 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 risk of interest-rate fluctuation and to equalize their financial costs for each fiscal 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 specu-

late in derivatives which are subject to significant market value fluctuation. The Company and its subsidiaries do not anticipate any credit risk resulting from nonperformance by any of the counterparties because all 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 on a daily basis by the Financial Section, which has established an internal control system to supervise the procedures and transaction limits, and are confirmed with the respective financial institutions by the Accounting Section.

# 16.

## LEASES

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥3,633 million (\$31,051 thousand), ¥2,415 million and ¥3,242 million for the years ended March 31, 2006, 2005 and 2004, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Machinery and equipment	¥ 16,802	¥ 11,930	\$ 143,606
Other	1,142	317	9,760
Less: Accumulated amortization	6,749	5,006	57,683
	¥ 11,195	¥ 7,242	\$ 95,683

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
2007	¥ 3,399	\$ 29,051
2008 and thereafter	7,796	66,632
	¥ 11,195	\$ 95,683

Minimum rental payments subsequent to March 31, 2006 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
2007	¥ 1,813	\$ 15,495
2008 and thereafter	1,351	11,547
	¥ 3,165	\$ 27,051

# 17.

## CONTINGENT LIABILITIES

At March 31, 2006, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
As endorsers of trade notes discounted and endorsed	¥ 11	\$ 94
As guarantors of indebtedness of:		
Unconsolidated subsidiaries and affiliates	1,332	11,384
Other	2,541	21,717
	¥ 3,884	\$ 33,196

# 18.

## 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
	2006	2005	2004	2006
Net income:				
Basic	¥ 8.27	¥ 18.27	¥ 2.17	\$ 0.07
Diluted	7.77	17.87	2.17	0.06

	Yen		U.S. dollars
	2006	2005	2006
Net assets	¥ 218.96	¥ 204.11	\$ 1.87

# 19.

## STOCK OPTION PLANS

At March 31, 2006, 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 28, 2001	June 27, 2002	June 27, 2003	June 29, 2004	June 29, 2005
Grantees	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	9 directors, 12 executive officers, 8 management officials and 3 directors of subsidiaries
Shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	334,000 shares	153,000 shares	815,000 shares	452,000 shares	442,000 shares
Option price per warrant	¥613	¥271	¥384	¥458	¥406
Exercise period	July 1, 2003– June 30, 2006	July 1, 2004– June 30, 2007	July 1, 2005– June 26, 2013	July 1, 2006– June 28, 2014	July 1, 2007– June 28, 2015

On June 29, 2006, 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 Corporation Law of Japan and Item 12 of the Company's Articles of Incorporation. Under the plan, shares of up to a maximum of 347,000 were granted.

The stock option price is determined by multiplying the highest 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, or the corresponding final share price on the day prior to the date of the annual general meeting of shareholders 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, 2008 to June 28, 2016.

## 20.

### SEGMENT INFORMATION

#### Business segments

The Group classifies its businesses into Info-Telecom Systems, Semiconductors, Printers and Other.

The business segment information for the years ended March 31, 2006 and 2005 is summarized as follows:

Year ended March 31	Millions of yen						
	2006						Consolidated
	Info-Telecom Systems	Semi-conductors	Printers	Other	Total	Corporate and eliminations	
Sales to third parties	¥ 338,048	¥ 150,723	¥ 160,483	¥ 31,271	¥ 680,526	¥ —	¥ 680,526
Intersegment sales and transfers	1,950	5,004	4,844	25,279	37,078	(37,078)	—
Total sales	339,998	155,728	165,327	56,551	717,605	(37,078)	680,526
Operating expenses	329,075	152,750	161,181	53,736	696,744	(26,811)	669,933
Operating income	¥ 10,922	¥ 2,977	¥ 4,146	¥ 2,814	¥ 20,860	¥ (10,267)	¥ 10,593
Total assets	¥ 248,973	¥ 145,506	¥ 116,895	¥ 34,940	¥ 546,316	¥ 72,543	¥ 618,859
Depreciation	¥ 7,622	¥ 16,700	¥ 6,632	¥ 1,236	¥ 32,192	¥ 2,499	¥ 34,691
Loss on impairment of fixed assets	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 2,973	¥ 2,973
Capital expenditures	¥ 9,662	¥ 16,353	¥ 9,415	¥ 1,629	¥ 37,060	¥ 3,401	¥ 40,461

Year ended March 31	Millions of yen						
	2005						Consolidated
	Info-Telecom Systems	Semi-conductors	Printers	Other	Total	Corporate and eliminations	
Sales to third parties	¥ 373,132	¥ 150,721	¥ 137,710	¥ 26,977	¥ 688,542	¥ —	¥ 688,542
Intersegment sales and transfers	6,714	5,595	1,842	26,047	40,200	(40,200)	—
Total sales	379,847	156,316	139,553	53,024	728,742	(40,200)	688,542
Operating expenses	364,032	144,301	131,791	50,494	690,621	(29,298)	661,322
Operating income	¥ 15,814	¥ 12,014	¥ 7,761	¥ 2,530	¥ 38,121	¥ (10,901)	¥ 27,220
Total assets	¥ 241,039	¥ 150,662	¥ 113,396	¥ 27,684	¥ 532,781	¥ 75,233	¥ 608,015
Depreciation	¥ 8,218	¥ 16,758	¥ 6,210	¥ 1,130	¥ 32,317	¥ 1,927	¥ 34,245
Capital expenditures	¥ 9,282	¥ 23,027	¥ 6,977	¥ 1,376	¥ 40,663	¥ 3,886	¥ 44,550

Year ended March 31	Thousands of U.S. dollars						
	2006						Consolidated
	Info-Telecom Systems	Semi-conductors	Printers	Other	Total	Corporate and eliminations	
Sales to third parties	\$ 2,889,299	\$ 1,288,230	\$ 1,371,649	\$ 267,273	\$ 5,816,461	\$ —	\$ 5,816,461
Intersegment sales and transfers	16,666	42,769	41,401	216,059	316,905	(316,905)	—
Total sales	2,905,965	1,331,008	1,413,051	483,341	6,133,376	(316,905)	5,816,461
Operating expenses	2,812,606	1,305,555	1,377,615	459,282	5,955,076	(229,153)	5,725,923
Operating income	\$ 93,350	\$ 25,444	\$ 35,435	\$ 24,051	\$ 178,290	\$ (87,752)	\$ 90,538
Total assets	\$ 2,127,974	\$ 1,243,641	\$ 999,102	\$ 298,632	\$ 4,669,367	\$ 620,025	\$ 5,289,393
Depreciation	\$ 65,145	\$ 142,735	\$ 56,683	\$ 10,564	\$ 275,145	\$ 21,358	\$ 296,504
Loss on impairment of fixed assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 25,410	\$ 25,410
Capital expenditures	\$ 82,581	\$ 139,769	\$ 80,470	\$ 13,923	\$ 316,752	\$ 29,068	\$ 345,820

- (1) Business segments are divided into categories based on the nature of the products or services rendered and the similarity of sales methodology.  
Change in segmentation:  
Effective the year ended March 31, 2006, the Company changed its management organization in accordance with the Group's mid-term business plan. As presented above, the business segment information for the year ended March 31, 2005 has been restated to reflect the revised segmentation.
- (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 ¥10,362 million (\$88,564 thousand) and ¥10,921 million for the years ended March 31, 2006 and 2005, 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 ¥142,288 million (\$1,216,136 thousand) and ¥162,189 million for the years ended March 31, 2006 and 2005, respectively.
- (4) Included in depreciation and capital expenditures are amortization and additions to long-term prepaid expenses, respectively.

### Geographical segments

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is outlined as follows:

Year ended March 31	Millions of yen						
	2006						Corporate and eliminations
	Japan	North America	Europe	Asia	Total		
Sales to third parties	¥ 494,513	¥ 65,669	¥ 84,867	¥ 35,475	¥ 680,526	¥ —	¥ 680,526
Interarea sales	128,245	393	2,397	95,326	226,363	(226,363)	—
Total sales	622,759	66,063	87,265	130,801	906,889	(226,363)	680,526
Operating expenses	602,204	64,934	89,175	129,309	885,624	(215,691)	669,933
Operating income (loss)	¥ 20,554	¥ 1,128	¥ (1,909)	¥ 1,492	¥ 21,265	¥ (10,671)	¥ 10,593
Total assets	¥ 533,137	¥ 35,167	¥ 50,374	¥ 42,695	¥ 661,375	¥ (42,515)	¥ 618,859

Year ended March 31	Millions of yen						
	2005						Corporate and eliminations
	Japan	North America	Europe	Asia	Total		
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	606,116	57,951	80,870	114,410	859,349	(198,027)	661,322
Operating income	¥ 36,016	¥ 924	¥ 875	¥ 2,423	¥ 40,240	¥ (13,020)	¥ 27,220
Total assets	¥ 508,187	¥ 24,579	¥ 50,886	¥ 33,803	¥ 617,457	¥ (9,442)	¥ 608,015

Year ended March 31	Thousands of U.S. dollars						
	2006						Corporate and eliminations
	Japan	North America	Europe	Asia	Total		
Sales to third parties	\$ 4,226,606	\$ 561,273	\$ 725,358	\$ 303,205	\$ 5,816,461	\$ —	\$ 5,816,461
Interarea sales	1,096,111	3,358	20,487	814,752	1,934,726	(1,934,726)	—
Total sales	5,322,726	564,641	745,854	1,117,957	7,751,188	(1,934,726)	5,816,461
Operating expenses	5,147,042	554,991	762,179	1,105,205	7,569,435	(1,843,512)	5,725,923
Operating income (loss)	\$ 175,675	\$ 9,641	\$ (16,316)	\$ 12,752	\$ 181,752	\$ (91,205)	\$ 90,538
Total assets	\$ 4,556,726	\$ 300,572	\$ 430,547	\$ 364,914	\$ 5,652,777	\$ (363,376)	\$ 5,289,393

As presented above, the geographical segment information for the year ended March 31, 2005 has been restated to reflect the revised segmentation.

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales of the overseas consolidated subsidiaries (other than exports to Japan) totaled ¥237,502 million (\$2,029,931 thousand) and ¥203,023 million, or 34.9% and 29.5% of consolidated net sales for the years ended March 31, 2006 and 2005, respectively.

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# 21.

## SUBSEQUENT EVENTS

(a) Issuance of unsecured convertible bonds with stock acquisition rights

Pursuant to a resolution of the Board of Directors at a meeting held on May 23, 2006, the Company issued the following unsecured convertible bonds with stock acquisition rights.

- (1) 31st unsecured convertible bonds with stock acquisition rights
  - 1) Total amount of bond issue: ¥18,000 million (\$153,846 thousand)
  - 2) Type: Zero coupon
  - 3) Maturity date: June 5, 2009
  - 4) Security of the bonds: Unsecured and not guaranteed
- (2) 32nd unsecured convertible bonds with stock acquisition rights
  - 1) Total amount of the bond issue: ¥12,000 million (\$102,564 thousand)
  - 2) Type: Zero coupon
  - 3) Maturity date: June 7, 2011
  - 4) Security: Unsecured and not guaranteed

(b) Appropriation of retained earnings

The following appropriation of retained earnings, which has not been reflected in the consolidated financial statements for the year ended March 31, 2006, was approved at a meeting of the shareholders of the Company held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3=US\$0.02 per share)	¥ 1,834	\$ 15,675



■ Certified Public Accountants  
EYCS (Kokusai Heng  
Shin Nihon) Ltd.  
Chiyoda-ku, Tokyo, Japan 100-0001  
EYCS (Shin Nihon) Corp. (EYCS-INC)

■ Tel. 03-5561-1100  
Fax 03-5561-1107

## 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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, 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 respects, the consolidated financial position of Oki Electric Industry Company, Limited and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

As described in Note 1(m), Oki Electric Industry Company, Limited and consolidated subsidiaries have adopted a new accounting standard for the impairment of fixed assets effective the year ended March 31, 2006.

As described in Note 1(m), certain overseas consolidated subsidiaries of the Company have adopted a new accounting standard for retirement benefits effective the year ended March 31, 2006.

As described in Note 20, the Company and consolidated subsidiaries have revised their business segmentation effective the year ended March 31, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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 ShinNihon*

June 29, 2006

# Investor Information

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TEL: +81-3-3501-3111 URL: <http://www.oki.com>

## FOUNDED IN

1881

## COMPANY ESTABLISHED

November 1, 1949

## NUMBER OF SHARES OF COMMON STOCK

Authorized: 2,400,000,000  
Issued: 612,371,797

## NUMBER OF SHAREHOLDERS

111,379

## STOCK EXCHANGE LISTINGS

Tokyo, Osaka

## TRANSFER AGENT

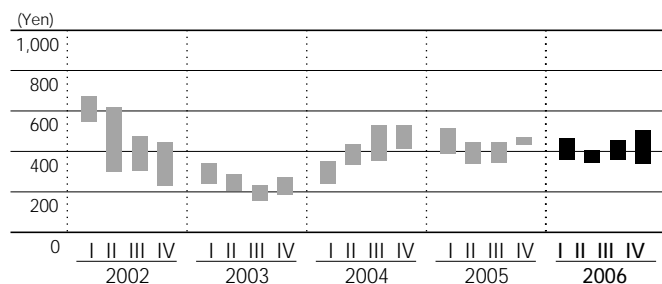
The Mizuho Trust & Banking Co., Ltd.  
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

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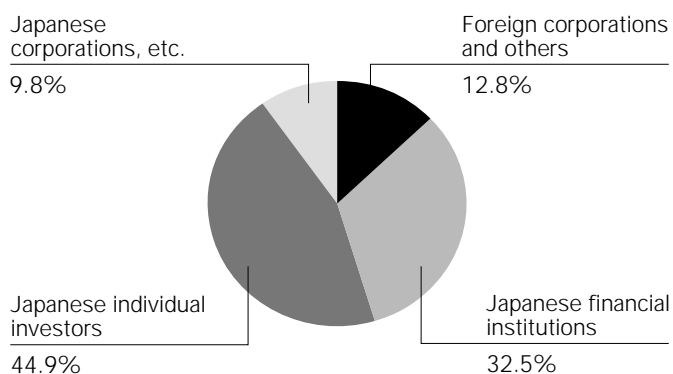
## COMMON STOCK PRICE RANGE ON THE TOKYO STOCK EXCHANGE

(Years ended March 31)



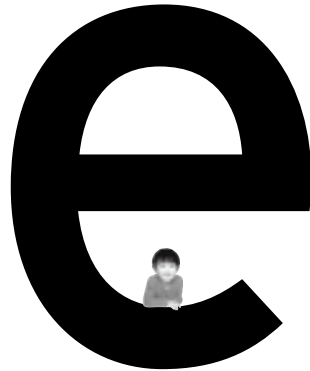
## BREAKDOWN OF SHARES HELD BY SHAREHOLDER TYPE

(As of March 31, 2006)



# OKI

Oki Electric Industry Co., Ltd.



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