

Okī Electric Financial Results  
for the Third Quarter of the Fiscal Year  
ending March 31, 2004

January 28, 2004

Okī Electric Industry Co., Ltd.

<http://www.oki.com/>

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\* The projections and plans on this material are subject to change depending upon the changes of business environments and other conditions.

## Financial Result Outline for the Third Quarter of the FY Mar. 04

- Nine month financial results considerably improved on a year-on-year basis.
- Q3 three month recurring income achieved positive results.
- Nine month free cash flows improved by 72.6 billion yen on a year-on-year basis.

(Amounts are rounded to the nearest 100 million yen.)

(Billion yen)

	Nine month results			Q3 three month results		
	Previous period (Apr-Dec 02)	Current period (Apr-Dec 03)	Variance	Previous period (Oct-Dec 02)	Current period (Oct-Dec 03)	Variance
Net Sales	360.9	428.3	67.4	110.2	147.0	36.8
Operating income	(22.5)	(0.5)	22.0	(11.9)	3.3	15.2
Recurring income	(29.3)	(7.0)	22.3	(13.6)	1.1	14.7
Net income	(21.2)	(11.5)	9.7	(9.7)	(0.9)	8.8
Shareholders' equity	83.7	94.9	11.2	-	-	-
Free cash flows	(41.5)	31.1	72.6	(28.0)	14.4	42.4

Free cash flows = Cash flows from operating activities + Cash flows from investing activities

## Profit and Loss Outline for the Third Quarter of the FY Mar. 04

### ■ Q3 Consolidated P/L Comparison

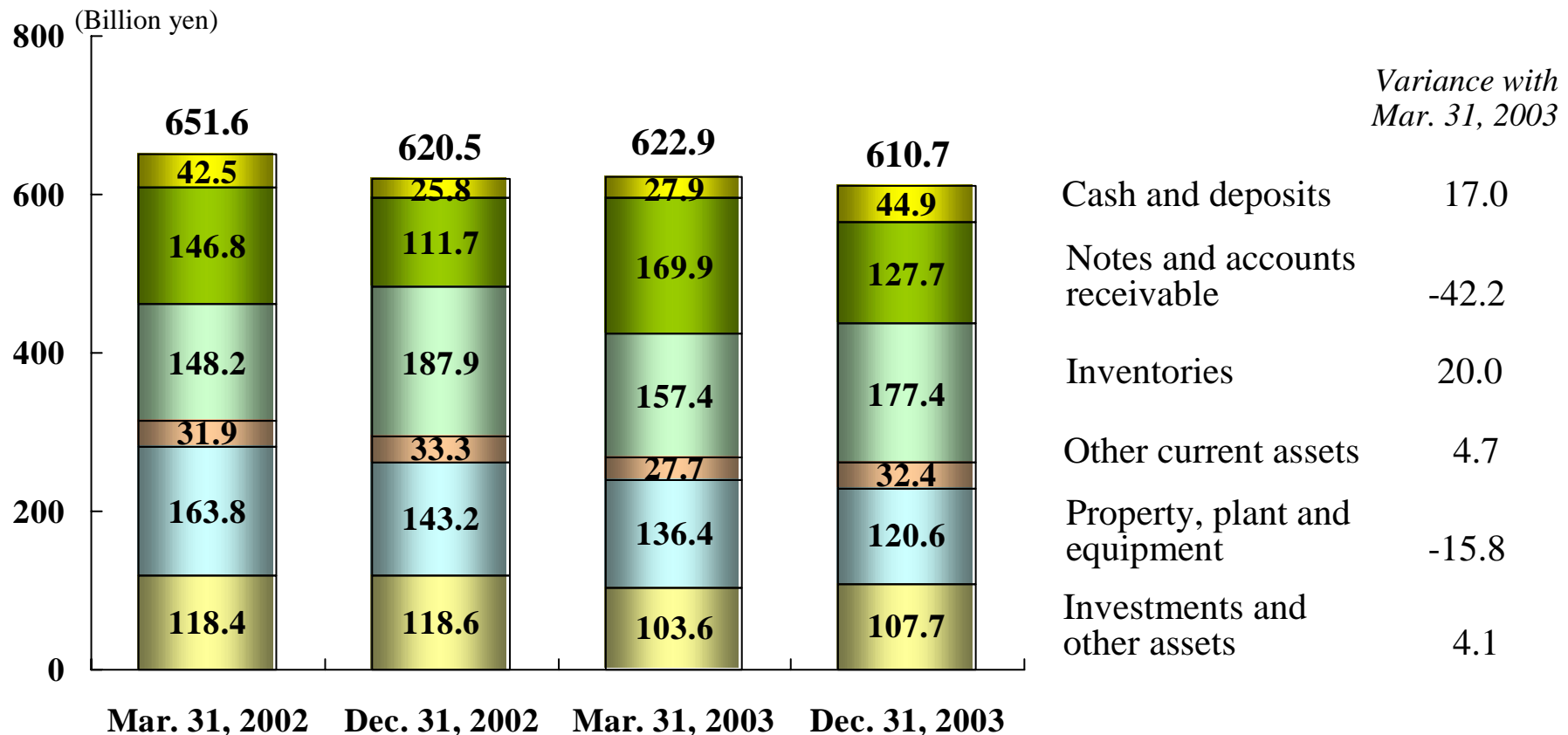
(Billion yen)

	9 mo. FY Mar. 03	9 mo. FY Mar. 04	Change	3 mo. FY Mar. 03	3 mo. FY Mar. 04
Net sales	360.9	<b>428.3</b>	67.4	110.2	147.0
(ratio)	(78.2%)	<b>(75.4%)</b>	(+2.8%)	(79.6%)	(74.3%)
Cost of sales	282.1	<b>323.0</b>	40.9	87.7	109.2
(ratio)	(28.0%)	<b>(24.7%)</b>	(-3.3%)	(31.2%)	(23.4%)
SG&A expenses	101.2	<b>105.9</b>	4.7	34.4	34.4
Operating income	(22.5)	<b>(0.5)</b>	22.0	(11.9)	3.3
Other income	(6.9)	<b>(6.5)</b>	0.4	(1.7)	(2.2)
Recurring income	(29.3)	<b>(7.0)</b>	22.3	(13.6)	1.1
Extraordinary income	0.8	<b>1.2</b>	0.4		0.3
Extraordinary loss	5.1	<b>10.4</b>	5.3	1.6	3.0
Income before taxes	(33.7)	<b>(16.3)</b>	17.4	(15.2)	(1.6)
Income taxes	(12.5)	<b>(4.8)</b>	7.7	(5.5)	(0.6)
Net income	(21.2)	<b>(11.5)</b>	9.7	(9.7)	(0.9)

- Net sales of all segments increased, especially sales of information systems segment.
- Cost of sales ratio improved by 2.8% due to business structural reform and sales increase.
- In other income, 1.6B yen foreign currency exchange loss occurred due to appreciation of yen against dollar. (2.2B yen loss in previous period)
- Extraordinary loss includes 3.5B yen of disaster loss, 2.3B yen of loss on disposal of fixed assets, 2.1B yen of special retirement payments, and 1.4B yen of write-down loss of marketable securities.

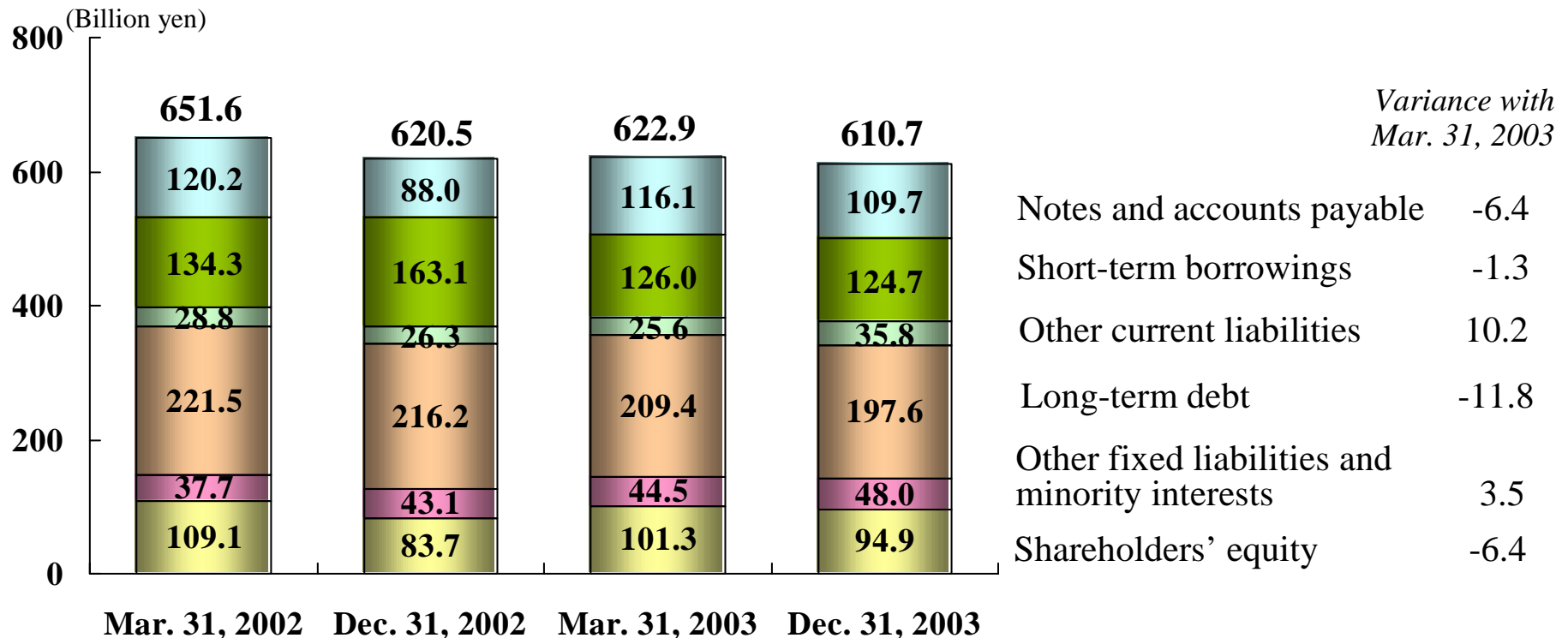
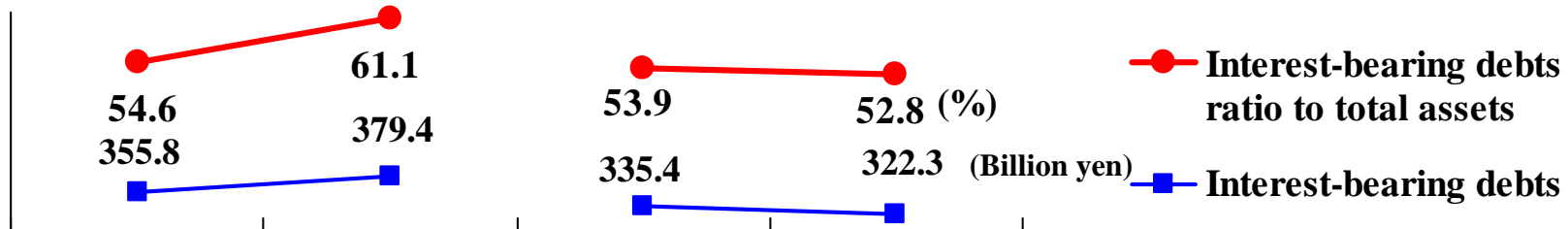
## Balance Sheet Outline - Assets

- **Cash and deposits increased by 17.0B yen from Mar. 31, 2003.**
- **Collection of notes and accounts receivable proceeded in favor. The receivables decreased by 42.2B yen from Mar. 31, 2003.**
- **Inventories increased by 20.0B yen from Mar. 31, 2003, due to the manufacturing preparation for Q4, while it decreased by 10.5B yen on a year-on-year basis.**



## Balance Sheet Outline - Liabilities and Shareholders' Equity

- Redeemed 7.7B yen of straight bond in Apr. 2003. Interest-bearing debts decreased by 13.1B yen.



Note: Short-term borrowing includes commercial paper.

## Conditions of Cash Flows

- Free cash flows improved by 72.6B yen on a year-on-year basis.

(Billion yen)

	9 mo. FY Mar. 03	9 mo. FY Mar. 04	Change	Notes
<b>I. Cash flows from operating activities</b>	<b>(32.5)</b>	<b>38.7</b>	<b>71.2</b>	
Income (loss) before income taxes	(33.7)	(16.3)	17.4	
Depreciation & amortization	29.4	25.2	(4.2)	
Changes in operating assets & liabilities	(28.6)	16.9	* 45.5	Inventories 19.5B yen Accounts payable 17.2B yen Notes and accounts receivable 8.7B yen
Others	0.4	* 12.9	12.5	Increase of allowance for retirement benefits 9.4B yen
<b>II. Cash flows from investing activities</b>	<b>(8.9)</b>	<b>(7.6)</b>	<b>1.3</b>	
Purchases of property, plant & equipment	(15.9)	(14.5)	1.4	
Others	7.0	6.9	(0.1)	
<b>Free cash flows (I+II)</b>	<b>(41.5)</b>	<b>31.1</b>	<b>72.6</b>	
<b>III. Cash flows from financing activities</b>	<b>23.8</b>	<b>(12.6)</b>	<b>(36.4)</b>	
Redemption of bonds	(22.7)	(7.7)	15.0	Redeemed 7.7B yen of bonds in Apr.
Change in interest bearing debts, etc.	46.5	(4.9)	(51.4)	
<b>Net cash flow (I+II+III)</b>	<b>(17.6)</b>	<b>18.5</b>	<b>36.1</b>	
<b>IV. Cash and cash equivalents at the period end</b>	<b>27.3</b>	<b>47.2</b>	<b>19.9</b>	

## Projections of the FY ending Mar. 04

### <Full year financial projections for the FY ending Mar. 2004>

- Net sales is expected to be 650.0B yen, increased by 5.0B yen from the previous announcement (Oct. 03). Operating income will be 21.5B yen, increasing 1.5B yen.
- While 20.0B yen of gain is expected by returning substitution portion of pension funds to the government (“daiko-henjyo”), extraordinary loss including restructuring loss and loss on disposal of fixed assets will be recorded (Refer to page 10). Net income will be 4.5B yen, 1.0B yen increase from the previous projections.

#### ■ Impact of foreign currency exchange

##### <Average foreign currency exchange rate>

	Second half inter-office rate	Q4 (estimation)		
		Assumed rate	Sales in foreign currencies (100 million)	Impact to earnings by 1 yen change
1 US\$ =	110 yen	106 yen	2.0	*
1 Euro =	125 yen	130 yen	1.5	*

\* The fluctuation of the exchange rate will have minor impact on operating income, as the forward exchange contracts for Q4 have mostly been conducted.

- Acquisitions of property, plant and equipment is 30.0B yen, and R&D expenses is 17.0B yen, both of which remain as previously announced.
- Total number of headcounts in domestic companies (including non consolidated companies) is 17,300 as of Dec. 31.  
Decreased 1,000 headcounts, which exceeds the plan of 900.

## Full Year Financial Projections

### ■ Consolidated P/L comparison (Billion yen)

	FY ended Mar. 03	FY ending Mar. 04 (Announced date)		Variance (Amount of Jan. 28 from Mar. 03)
		Oct. 29, 03	Jan. 28, 04	
Net sales	585.5	645.0	650.0	64.5
(ratio to sales)	(76.1%)		(72.8%)	(+3.3%)
Cost of sales	445.7		473.5	27.8
SG&A expenses	138.4		155.0	16.6
Operating income	1.4	20.0	21.5	20.1
Other income	(9.2)		(9.0)	0.2
Recurring income	(7.8)	11.0	12.5	20.3
Extraordinary income	21.2		21.0	(0.2)
Extraordinary loss	16.8		21.0	4.2
Income before taxes	(3.5)	6.0	12.5	16.0
Income taxes	3.1		8.0	4.9
Net income	(6.6)	3.5	4.5	11.1

- Net sales of all segments increase. (Refer to segment information)
- Cost of sales ratio improves by 3.3% due to business structural reform and sales increase.

#### Impact of Tohoku area earthquakes to P/L

	1st half	2nd half	Full year
Net sales	(4.0)	(1.0)	(5.0)
Operating income	(2.5)	(0.5)	(3.0)
Extraordinary loss	(3.1)	(0.4)	(3.5)

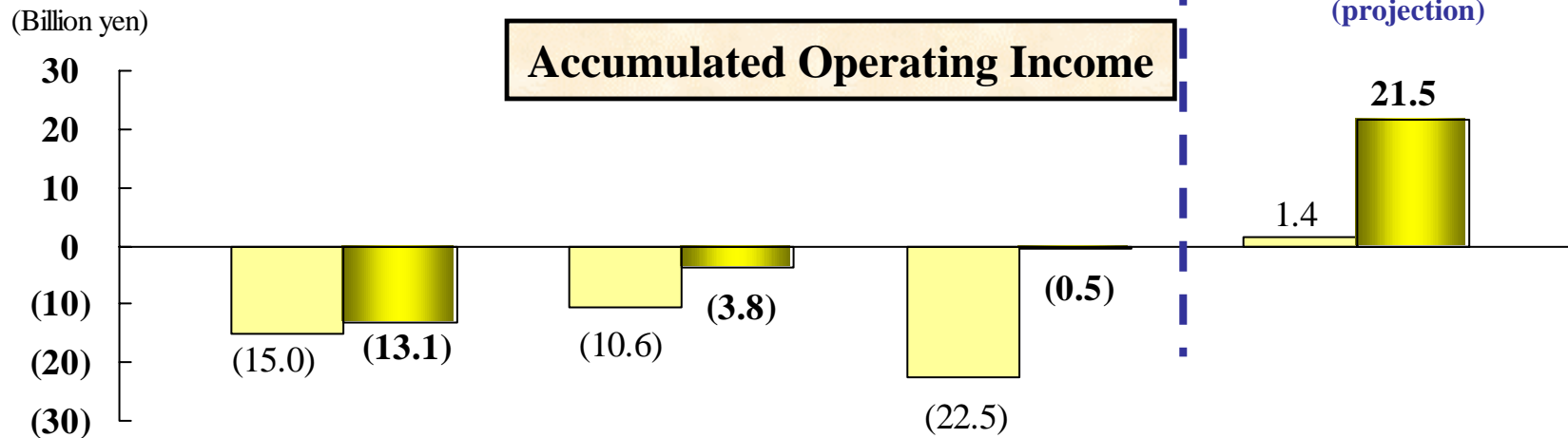
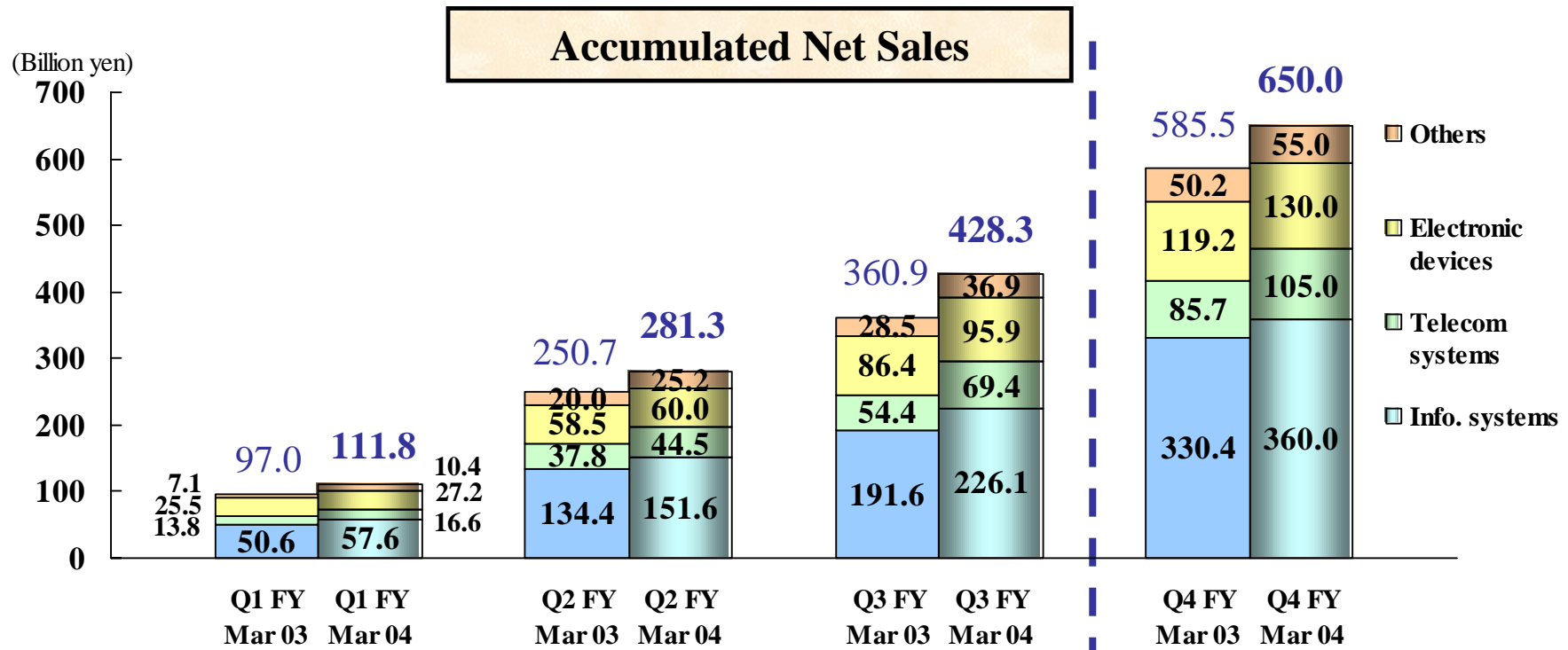
- Detail information on extraordinary income and loss is mentioned later.

## Extraordinary Income and Loss

(Billion yen)

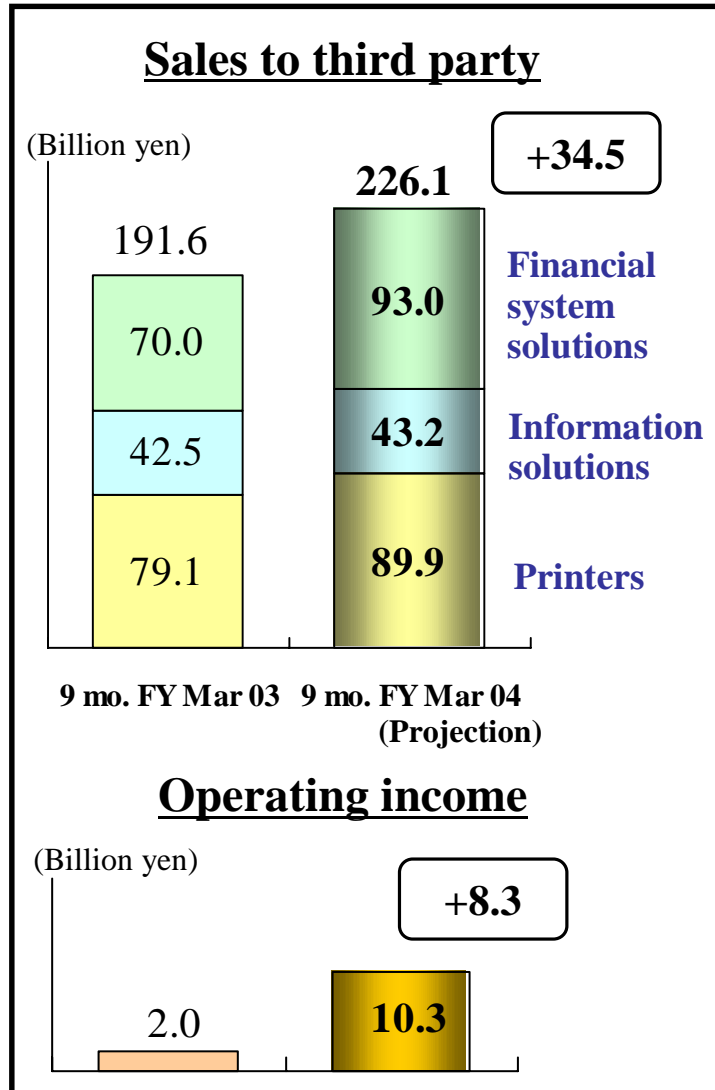
Announced date		Oct. 29, 03	Jan. 28, 04	Notes
<b>Recurring income</b>		<b>11.0</b>	<b>12.5</b>	
Extraordinary income	Gain on sale of marketable securities, etc.	4.5	(*1) 1.0	(*1) Cutback in plans.
	Gain by returning substituted pension funds (“daiko-henjyo”)		20.0	
	Total	4.5	21.0	
Extraordinary loss	Loss on disposal of fixed assets	2.0	(*2) 5.0	(*2) Oki Wintech Office locations reorganization 1.3 (*3) Ashikaga Bank FG Others 1.1 0.9 (*4) Special retirement payments Restructuring loss in optical component business 3.5 4.0 (*5) Social insurance premium related to bonus, etc.
	Write-down loss on marketable securities	0.4	(*3) 2.0	
	Restructuring loss	3.0	(*4) 7.5	
	Disaster loss	3.1	3.5	
	Others	1.0	(*5) 3.0	
	Total	9.5	21.0	
<b>Income before taxes</b>		<b>6.0</b>	<b>12.5</b>	

# Accumulated Net Sales and Operating Income by Quarter

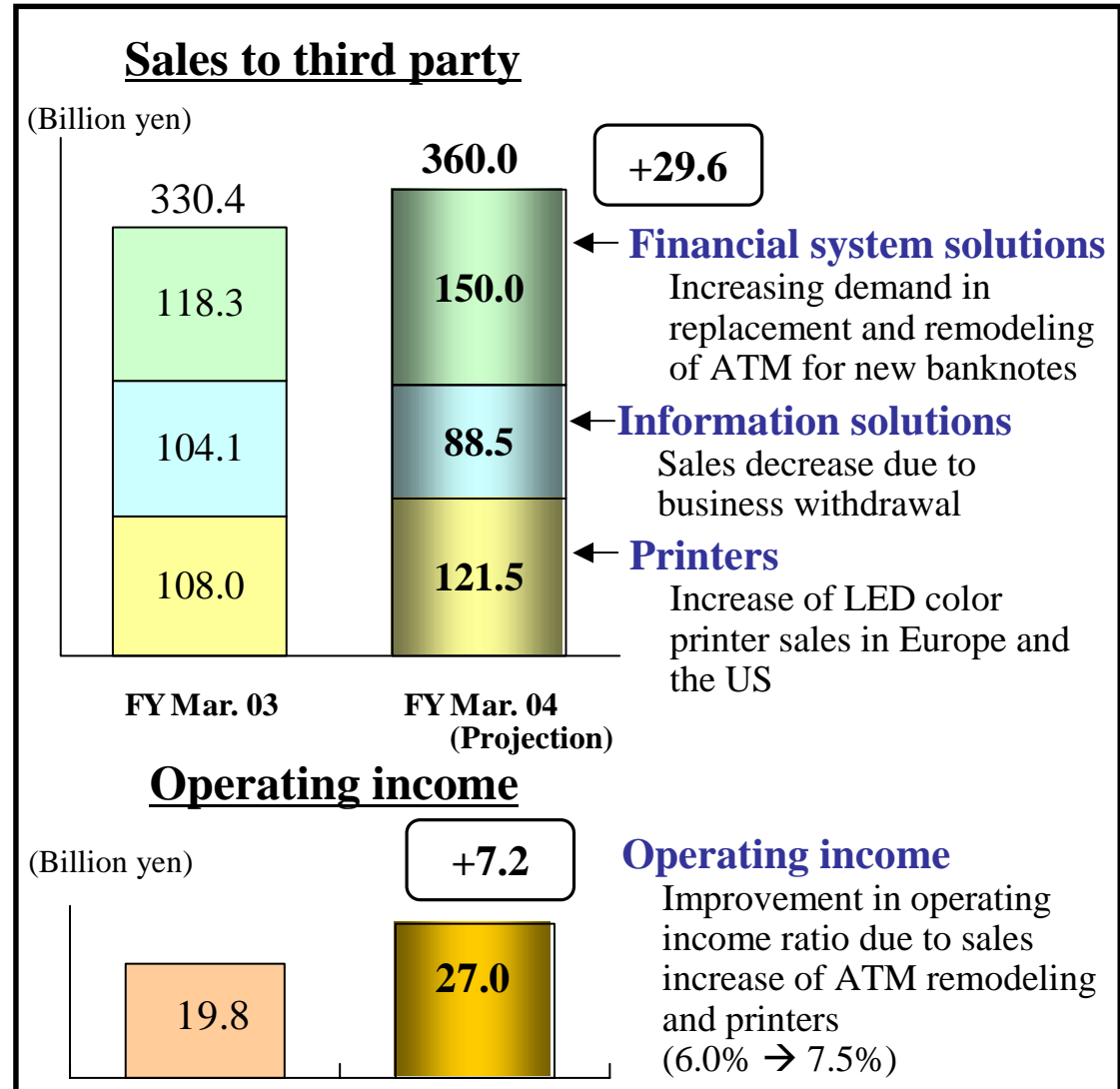


# Info Systems: Nine Month Results and Full Year Projections

**Financial Results**  
for Nine Months of FY Mar. 2004



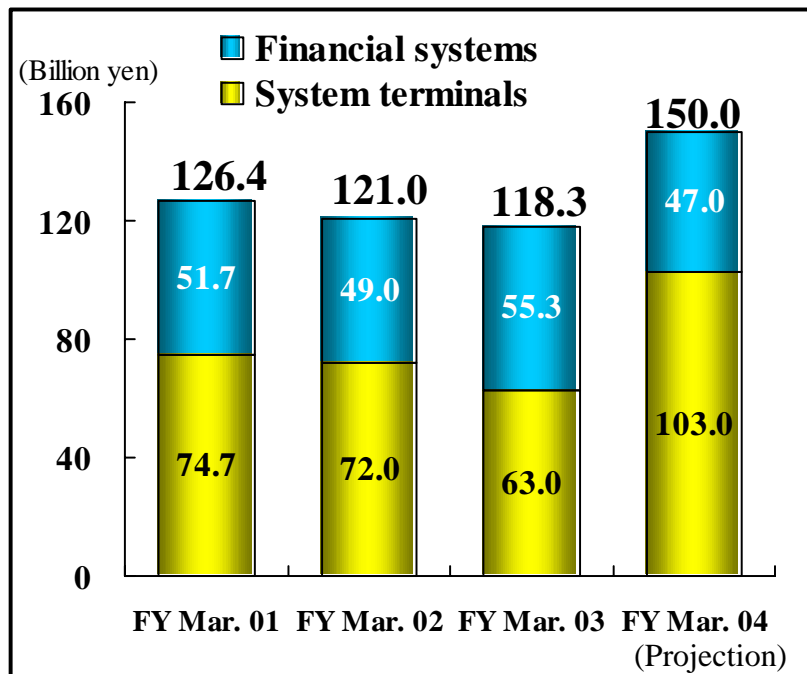
**Full Year Projections**  
for the FY ending Mar. 2004



## Financial System Solutions

- Demand for existing systems peaks out, due to consolidation of branches in the financial institutions according to their reorganization
- Increase in demand for ATM remodeling and replacement due to new banknotes issuance (Fall of 2004)
- After the new banknotes issuance, the investment by financial institutions shifts to back office center systems and e-financial systems

### Sales of financial system solutions business



(System terminals include ATMs, cash management terminals, cashiers, etc.)

### Maintain and expand No. 1 position of ATM share

(40% share of ATM in operation in Japan)

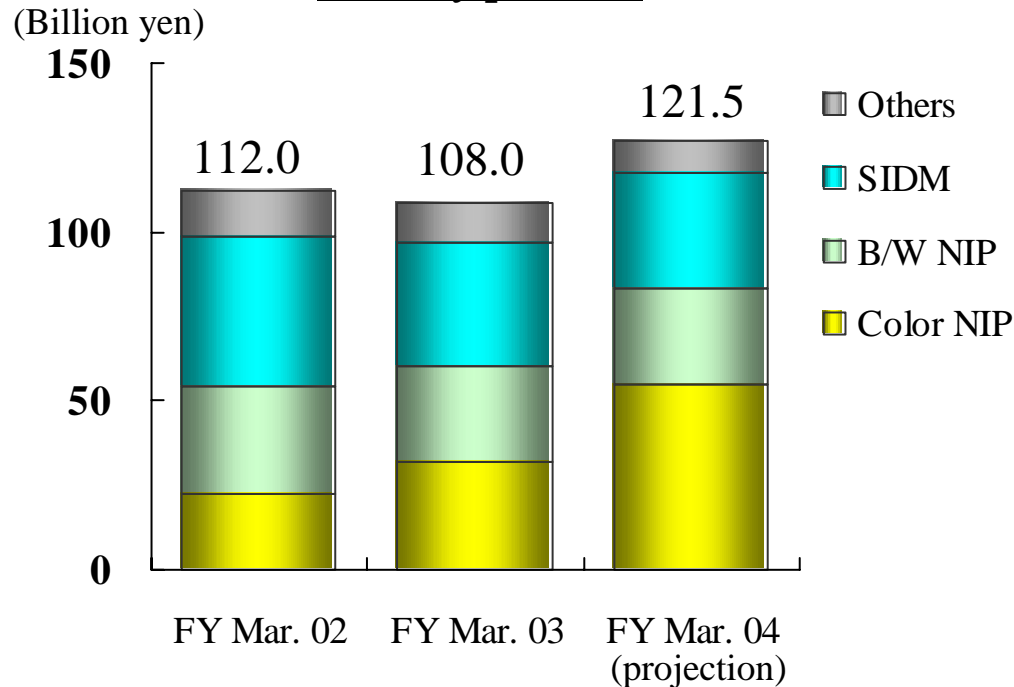
- New banknote-related demand peaks out in the first half of the FY ending Mar. 2005.
- Challenge for the expected sales decrease after the FY ending Mar. 2005.

- Enhance sales activity for back office center system
- Focus on e-financial systems
- Deploy ATM business for overseas markets
- Develop ATM market in other business sectors

## Printer Business Outline

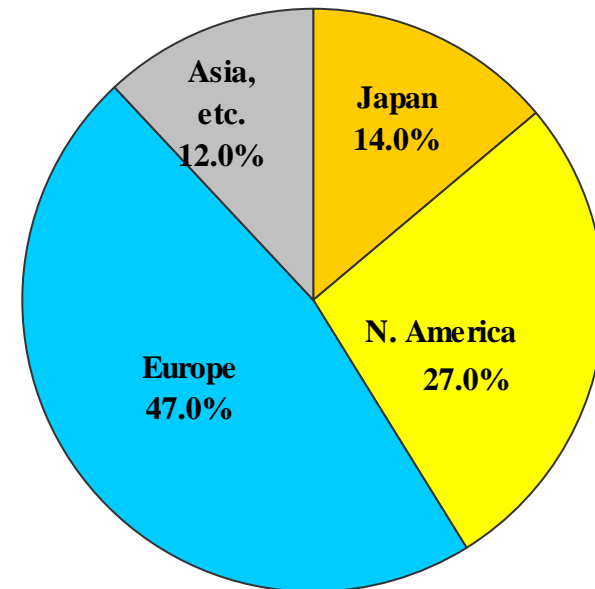
- Rapid increase in non-impact color printer market share in Europe and North America, owing to the competitive advantages in high speed printing using LED print head
  - Western Europe: Oct.-Dec. 02 No.6 (5%) → Jul.-Sep. 03 No.4 (11%)
  - North America: Oct.-Dec. 02 No.8 (3%) → Jul.-Sep. 03 No.3 (14%)
- Expand market share in the SIDM market

Sales by product



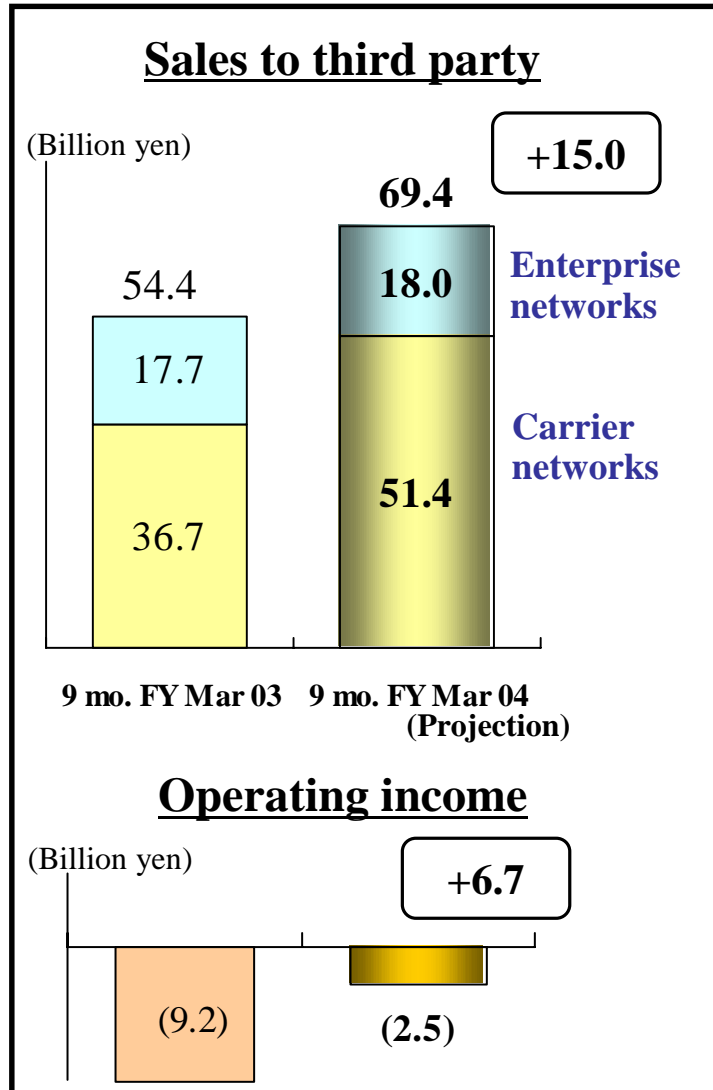
Sales by market

(Projection for FY Mar. 2004)

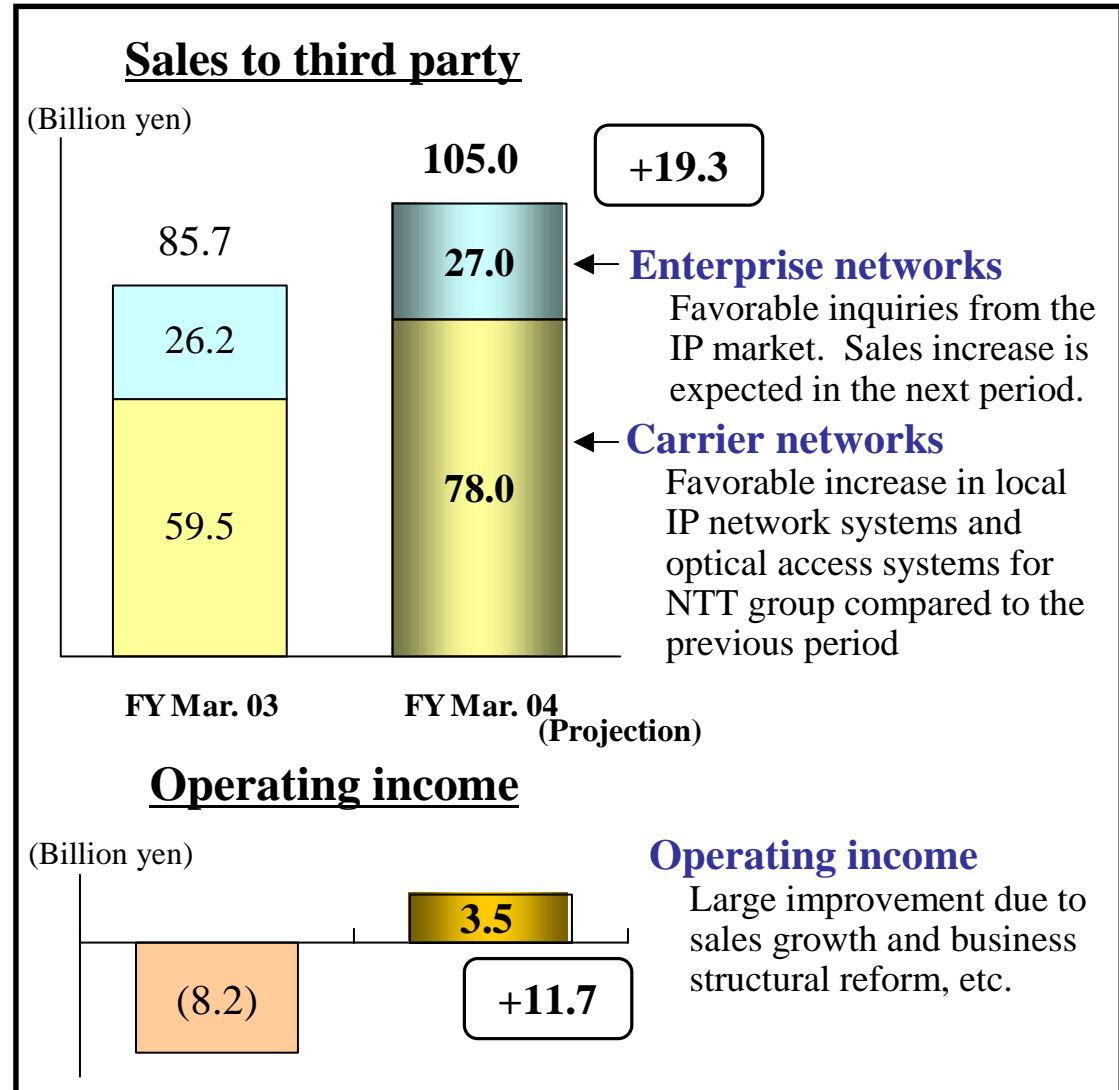


# Telecom Systems: Nine Month Results and Full Year Projections

***Financial Results  
for Nine Months of FY Mar. 2004***



***Full Year Projections  
for the FY ending Mar. 2004***



# VoIP Business Strategy

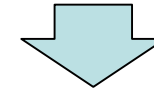
**Lead the market in construction of IP telephony infrastructure**

- Track record on the largest IP telephone carrier in Japan
- No.1 position in Japan in the enterprise-use VoIP systems

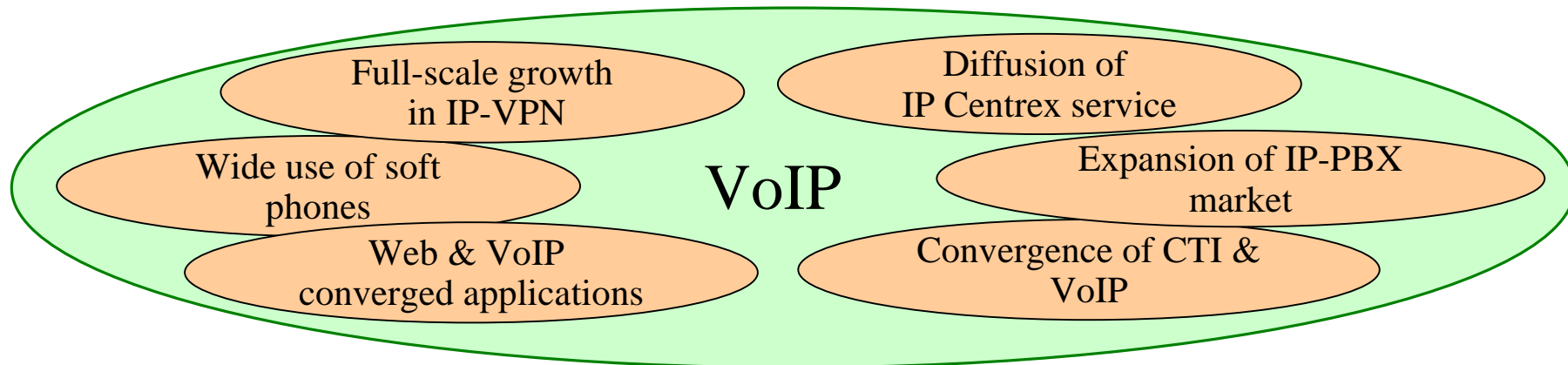
**Strengthen earning capability by providing various applications on IP telephony infrastructure – Web/CTI & VoIP convergence**

**IP telephony market rises in full-scale in the FY ending Mar. 2005**

- 6 million IP telephony subscribers expected
- Increase in enterprise use, 050 service started in Oct. 03 (half-year delay)



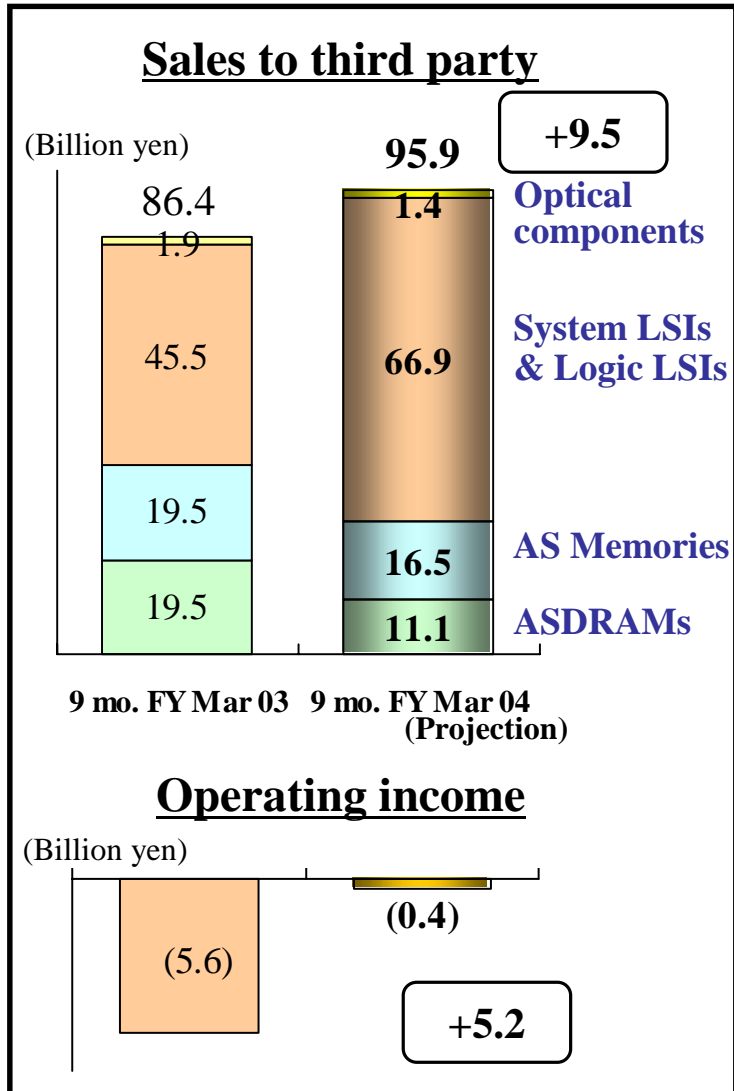
**Various services and markets based on VoIP expand.**



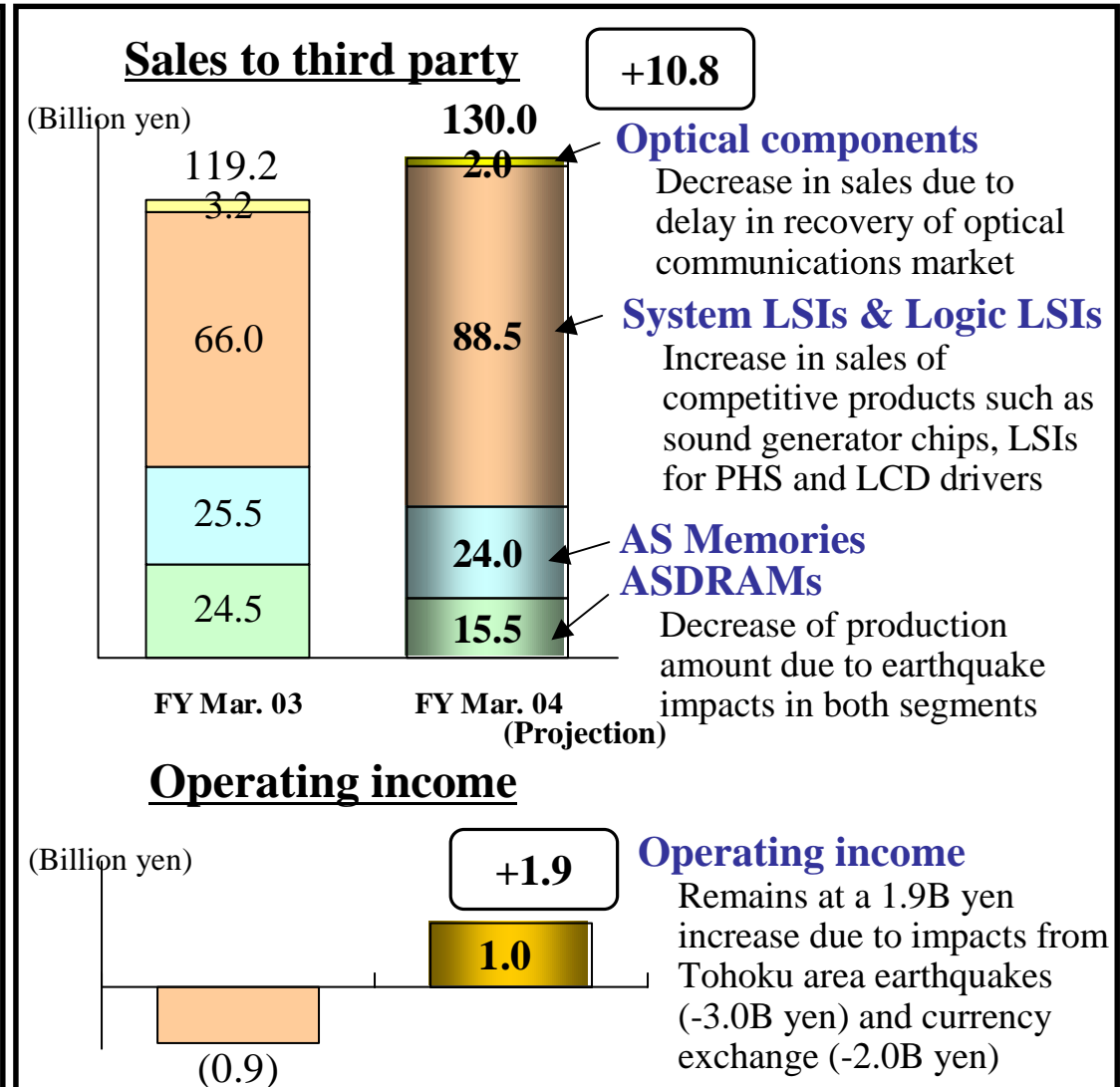
- 30% average annual growth in the VoIP-related market
- 900B yen market in the FY ending Mar. 08

# Electronic Devices: Nine Month Results and Full Year Projections

***Financial Results  
for Nine Months of FY Mar. 2004***



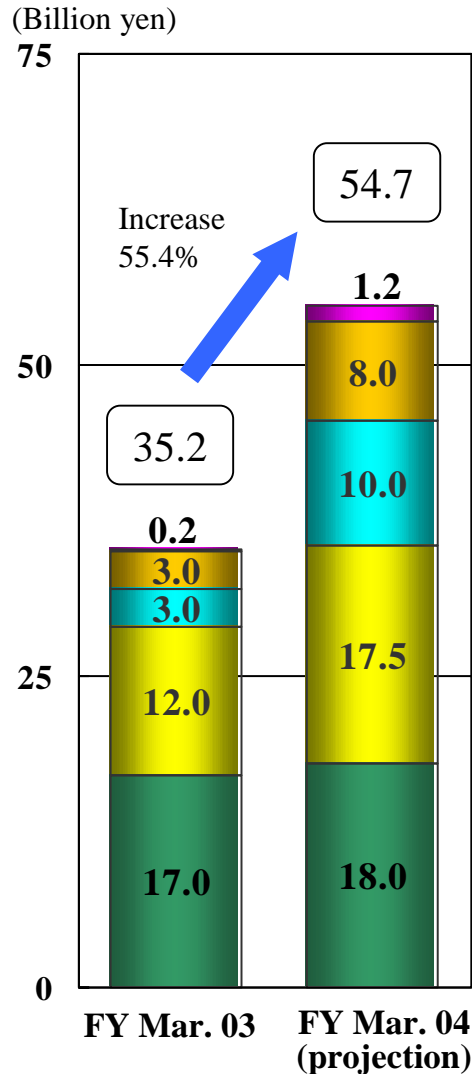
***Full Year Projections  
for the FY ending Mar. 2004***



## Trend of Focusing LSI Business

### OkI's unique LSIs

#### *Sales*



#### *Business trend*

<b>VoIP-LSIs</b>	<ul style="list-style-type: none"> <li>- Deploying business focusing on LSIs for ADSL modems (30% domestic share)</li> <li>- Enhance product families for terminal adapters and phone terminals</li> </ul>
<b>LSIs for PHS</b>	<ul style="list-style-type: none"> <li>- China: Promoting voice terminal use</li> <li>- Plan to expand sales to other countries</li> <li>- Japan: Stable demand for data card use (50% share)</li> </ul>
<b>Sound generator LSIs</b>	<ul style="list-style-type: none"> <li>- Focus on the GSM market in Europe, US, China and Korea (40% share)</li> <li>- Strengths in high voice quality, W-CSP, and standard format compliance</li> </ul>
<b>Driver LSIs</b>	<ul style="list-style-type: none"> <li>- Focus on large LCD monitor and LCD TV uses</li> <li>- Succeed in gaining large customers in LCD TVs</li> <li>- Close partnership with LCD vendors</li> </ul>
<b>P2ROMs</b>	<ul style="list-style-type: none"> <li>- Stable customer demand from electronic dictionaries, games, and printers</li> </ul>

## Conditions of Cash Flows

- Free cash flows improved by 47.0B yen on a year-on-year basis.
- 32.2B yen of redemption of bonds due in Mar. 04 is to be executed by cash reserves.

<b>&lt;Full year comparison&gt;</b> (Billion yen)	<b>FY ended Mar. 03</b>	<b>FY ending Mar. 04</b>	<b>Change</b>	<b>Notes</b>
<b>I. Cash flows from operating activities</b>	<b>0.2</b>	<b>81.5</b>	<b>81.3</b>	
Income (loss) before income taxes	(3.5)	12.5	16.0	
Depreciation & amortization	39.9	37.0	(2.9)	
Changes in operating assets & liabilities	(33.9)	22.0	* 55.9	Inventories +26.4B yen, Notes and accounts receivable +22.6B yen
Others	(2.3)	10.0	12.3	
<b>II. Cash flows from investing activities</b>	<b>4.3</b>	<b>(30.0)</b>	<b>(34.3)</b>	
Purchases of property, plant & equipment	(23.6)	* (25.0)	(1.4)	Acquisitions of property, plant and equipment 30.0B yen in FY Mar. 04
Others	* 27.9	(5.0)	(32.9)	Sales of land and buildings in Shibaura and Koganei 26.3B yen
<b>Free cash flows (I+II)</b>	<b>4.5</b>	<b>51.5</b>	<b>47.0</b>	
<b>III. Cash flows from financing activities</b>	<b>(20.1)</b>	<b>(40.0)</b>	<b>(19.9)</b>	
Redemption of bonds	(22.7)	(39.9)	(17.2)	
Change in other interest bearing debts, etc.	2.6	(0.1)	(2.7)	
<b>Net cash flow (I+II+III)</b>	<b>(15.6)</b>	<b>11.5</b>	<b>27.1</b>	
<b>IV. Cash and cash equivalents at the period end</b>	<b>29.3</b>	<b>40.7</b>	<b>11.4</b>	

## Glossary

P12.	ATM	Automated Teller Machine
	LED	Light-Emitting Diode
P14.	SIDM	Serial Impact Dot Matrix
	B/W	Black and white
	NIP	Non-Impact Printer
P15.	IP	Internet Protocol
P16.	VoIP	Voice over Internet Protocol
	CTI	Computer Telephony Integration
	IP-VPN	Internet Protocol - Virtual Private Network
	IP-PBX	Internet Protocol - Private Branch eXchange
P17.	LSI	Large Scale Integrated circuit
	LCD	Liquid Crystal Display
	AS Memory	Application Specific Memory
	ASDRAM	Application Specific Dynamic Random Access Memory
	PHS	Personal Handyphone System
P18.	ADSL	Asymmetric Digital Subscriber Line
	GSM	Global System for Mobile Communications
	W-CSP	Wafer level Chip Size Package
	P2ROM	Production Programmed Read Only Memory

\* The projections and plans on this material are subject to change depending upon the changes of business environments and other conditions.