
Financial Results for the First Half of Fiscal Year ending March 31, 2007

Oct. 26, 2006

OKI Electric Industry Co., Ltd.

-
1. 1st Half of FY ending March 2007
 - 1.1 Financial Results Outline
 - 1.2 Profit and Loss
 - 1.3 Segment Information
 2. Revision of Full Year Projections
 3. Progress in Major Management Measures

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

- Sales increased by 12.8 billion yen from July 27 announcement
Income level, approximately as planned

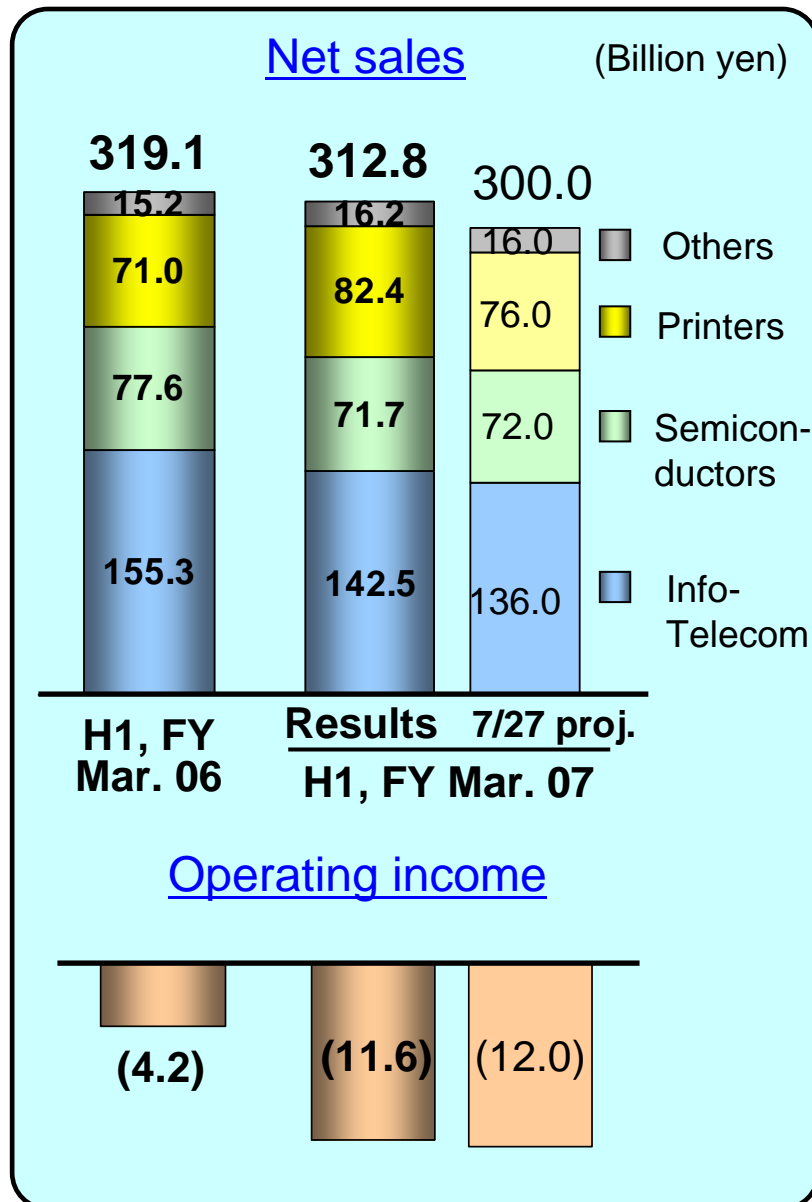
(Billion yen)	FY end. Mar.06	FY end. Mar. 07	July 27 Projections
Net Sales	319.1	312.8	300.0
Operating income	(4.2)	(11.6)	(12.0)
Recurring income	(5.7)	(15.1)	(15.5)
Net income	(3.9)	(9.8)	(9.5)
Net income per share (yen)	(6.32)	(15.81)	-
Total assets	601.6	635.3	-
Shareholders' equity	122.7	128.6	-
Interest bearing debt	269.0	289.9	-

(Billion yen)	H1, FY Mar. 06	H1, FY Mar. 07	July 27 proj.
Net sales	319.1	312.8	300.0
(Cost of sales ratio)	(77.2%)	(78.6%)	
Cost of sales	246.5	245.8	
SG&A	76.8	78.6	
Operating income	(4.2)	(11.6)	(12.0)
Other income	(1.5)	(3.5)	(3.5)
Recurring income	(5.7)	(15.1)	(15.5)
Extraordinary income	2.1	0.4	
Extraordinary loss	2.4	1.3	
Income before taxes	(6.0)	(16.0)	(17.0)
Income taxes	(2.1)	(6.2)	(7.5)
Net income	(3.9)	(9.8)	(9.5)

- Cost of sales ratio worsened by 1.4 points due to price declines, etc.
- SG&A increase due to rise in labor costs and sales promotion costs
- Other income/expense worsened due to deterioration of foreign currency exchange gain or loss and decline in dividends received

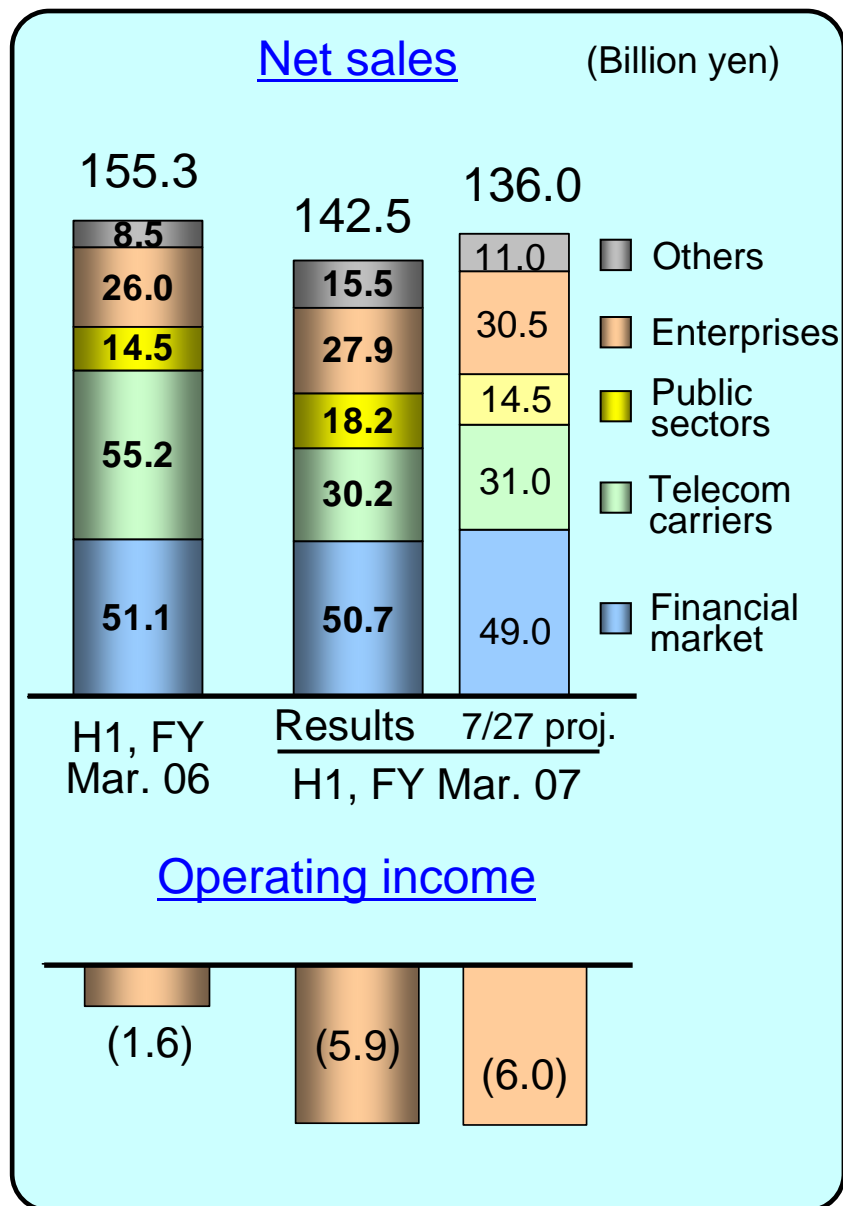
<Currency exchange ratio>

	FY Mar. 06	FY Mar. 07	
		actual	projections
USD	109.48	115.38	115.0
Euro	135.65	145.97	140.0



<Causes of YoY variance>

- Net sales: Decreased by 6.3 B yen
 - Printer sales increased, particularly in color NIP
 - Decrease in sales for telecom carriers impacted decrease in total sales
- Operating income: Decreased by 7.4B yen
 - Increase from cost reduction and currency exchange
 - However, operating income declined due to:
 - Price decline in semiconductors
 - Worsened model mixture in Info-telecom business
 - Increase in sales investment for Printers



<Causes of YoY variance>

■ Net sales: Decreased by 12.8 B yen

Financial market: Decreased by 0.4 B yen

Recovery trend in security-enhanced ATM
Higher sales in volume in H2 of counter terminals impacts H1 sales

Telecom carriers: Decreased by 25.0 B yen

Decline in carriers' investments on fixed-network equipment

Public sectors: Increased by 3.7 B yen

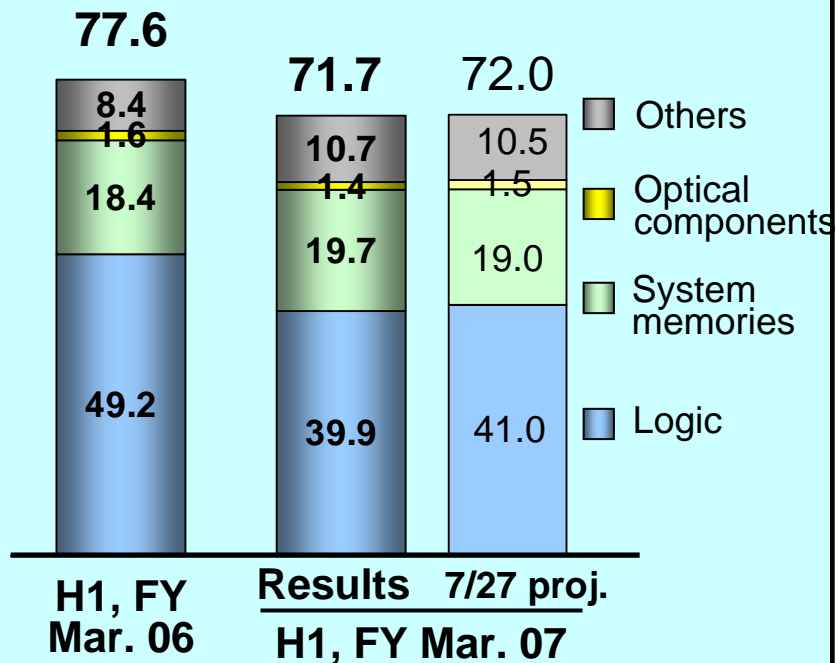
Sales of wireless systems for municipalities increased according to municipal mergers

■ Operating income: Decreased by 4.3 B yen:

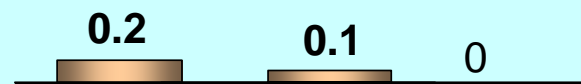
Though effective cost reduction, overall operating income decline due to worsened product mixture and decrease of marginal profit by decreased sales to carriers

Net sales

(Billion yen)



Operating income



<Causes of YoY variance>

■ Net sales: Decreased by 5.9 B yen

Logic: Decreased by 9.3 B yen

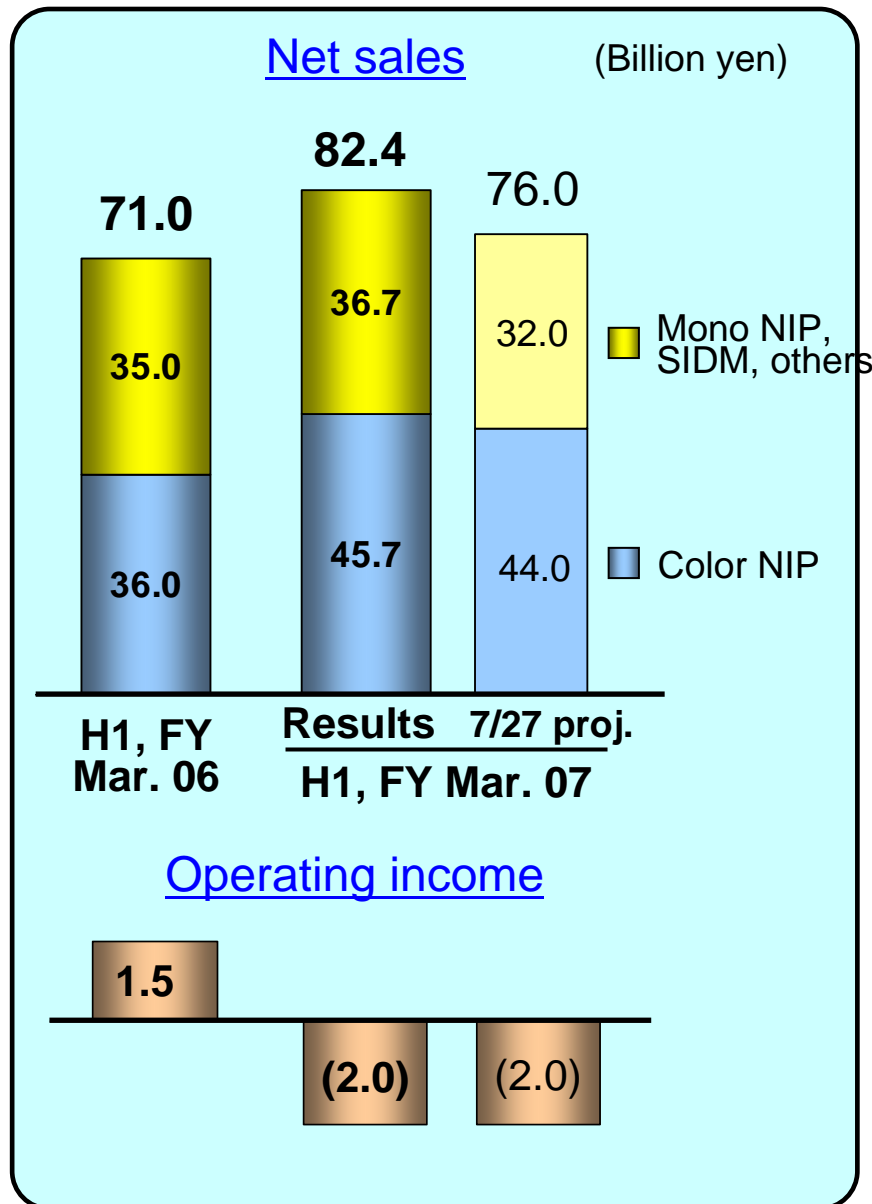
Decrease in driver sales due to inventory adjustment by LCD panel vendors
Decrease in sales of custom LSI

Foundry: Increased by 2.3 B yen

Active business deployment riding on the strength of high voltage process

■ Operating income: Decreased by 0.1 B yen:

While driver sales and price decline, Oki keeps a positive figure by reducing costs for drivers and P2ROMs and currency exchange



<Causes of YoY variance>

- Net sales: Increased by 11.4 B yen
 - Color NIP: Increased by 9.7 B yen
 - Increase in unit shipment and sales for consumables
 - Mono NIP, SIDM, others: Increased by 1.7 B yen
 - Sales increase in mono NIP
- Operating income: Decreased by 3.5 B yen
 - Increase in marginal profits, currency exchange, and cost reduction
 - However, decline in prices, active investment for sales, and delay in shifting to mid- and high-end models impacted overall operating income

-
1. 1st Half of FY ending March 2007
 2. Revision of Full Year Projections
 - 2.1 Assumption for the Projections
 - 2.2 Revision of the Projections
 3. Progress in Major Management Measures

<Operating environment>

➤ Info-telecom Systems

Recovery trend in financial institutions' investments

Telecom carriers decrease investments on fixed-network equipment, while starting trials for NGN

➤ Semiconductors

Recovery sign in LCD panels

Stable sales in chips for the amusement market, including game consoles

➤ Printers

Color printer market continues to expand by 20-30%

Price competition continues

<Impact of currency on profits>

* Deducting purchase amount in foreign currency

	H1, FY Mar. 07 (results)		H2, FY Mar. 07 (proj.)		
	Projected rate	Actual rate	Projected rate	Sales in foreign currency	Impact on operating profit by 1 yen change *
USD	115.0 yen	115.38 yen	115.0 yen	390 million	60 million yen
Euro	140.0 yen	145.97 yen	145.0 yen	360 million	150 million yen

- Net sales increases by 10.0 B yen, particularly in sales for the financial market, public sectors, and EMS
- Operating income is as planned. 1.0 B yen increase in Info-telecom and 1.0 B yen decrease in Printers

	Net sales			Operating income		
	FY Mar. 07 plan		<Ref.> FY Mar. 06 results	FY Mar. 07 plan		<Ref.> FY Mar. 06 results
	Oct. 26	Apr. 27		Oct. 26	Apr. 27	
Info-telecom	370.0	360.0	338.0	13.5	12.5	10.9
Semiconductors	154.0	154.0	150.7	5.5	5.5	3.0
Printers	172.0	172.0	160.5	4.0	5.0	4.1
Others	34.0	34.0	31.3	2.0	2.0	2.8
Eliminate & Corp.	-	-	-	(10.0)	(10.0)	(10.2)
Total	730.0	720.0	680.5	15.0	15.0	10.6

- All incomes (recurring income, income before taxes, net income) are as planned

Recurring income	8.0	8.0	7.2
Income before taxes	4.0	4.0	10.6
Net income	2.5	2.5	5.1

1. 1st Half of FY ending March 2007

2. Revision of Full Year Projections

3. Progress in Major Management Measures

- Flexible and speedy business operation
- Basic concept for NGN-related business
- Measures targeting postal service privatization
- Creating new products for enterprise networks and IP systems
- New products creation for semiconductors: SOS business
- Improve color NIP profitability
- China business expansion: ATM, semiconductor, printer
- Expansion of service and software businesses

In this fiscal year, Oki has worked to revamp its business structure, according to its “Oki’s scenario for the era of changes,” as we explained in April.

<Measures>

1. Flexible and speedy business operation
2. Changes in base business structure
3. Expand new businesses

By implementing these measures and achieving results, Oki aims to achieve the management targets in the FY Mar. 2008 and to become a stably profitable company.

At this point, the business structure revamp is proceeding as planned, and the interim financial results also met original plan.

Following are progresses of each measure and recent changes of the program.

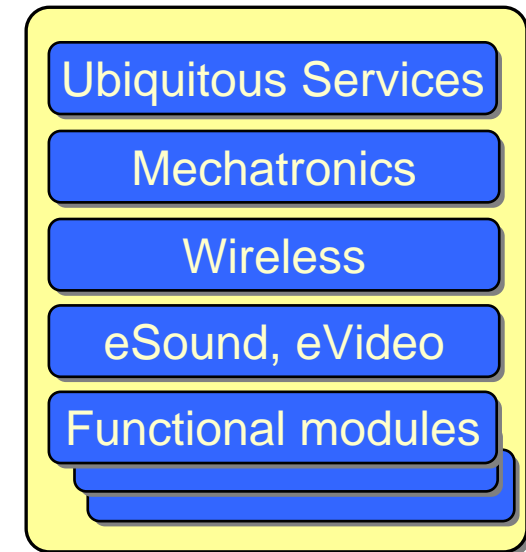
1. Create new in-house venture companies and units

<Aims>

- Handle company-wide projects and novel projects flexibly and speedily, which are difficult for existing in-house companies
- Gain profitability with early business launch with small overhead

<Status>

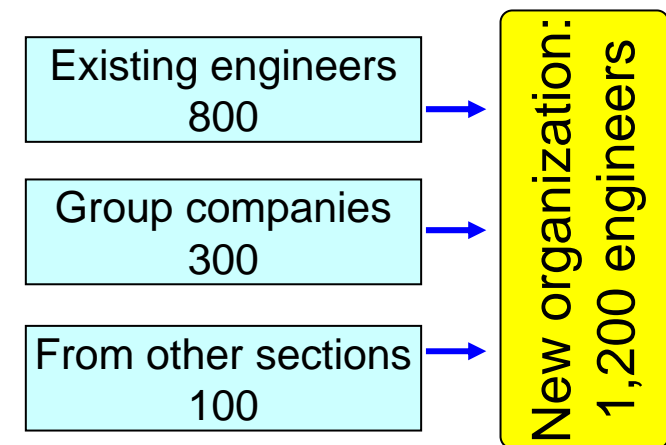
- Selecting candidate projects with differentiating technologies
- Create venture units within this fiscal year



2. Reorganization

- Establish development organization for NGN business (Oct. 06)
- Reorganized Semiconductor segment to product group-oriented business structure (Apr. 06)
- Establish International Business Development division (Apr. 06)

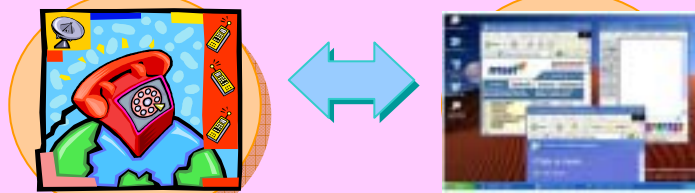
Organization for NGN



<OkI's NGN vision> Three convergences which realize Ubiquitous Services

- Various applications of voice, video and data can be used ubiquitously, free from wired/ wireless, access types or media types
- Ubiquitous Services: Individualize and provide services at users' fingertip

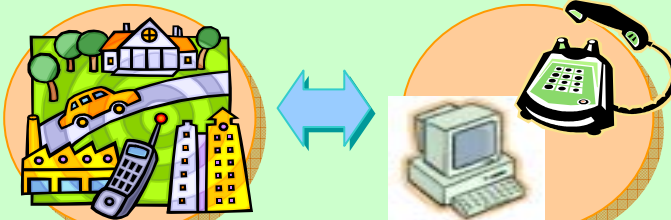
<<Information & Communications>>



- Quadruple play (voice, video, data, wireless)
- Convergence of web service and voice/video communications

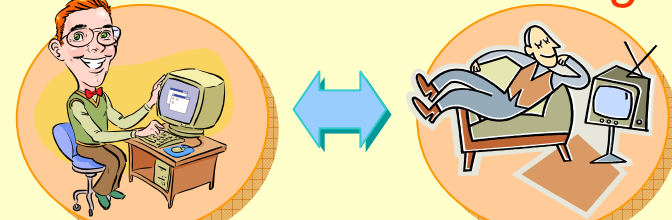
NGN (Carrier network)

<<Fixed & Mobile>>



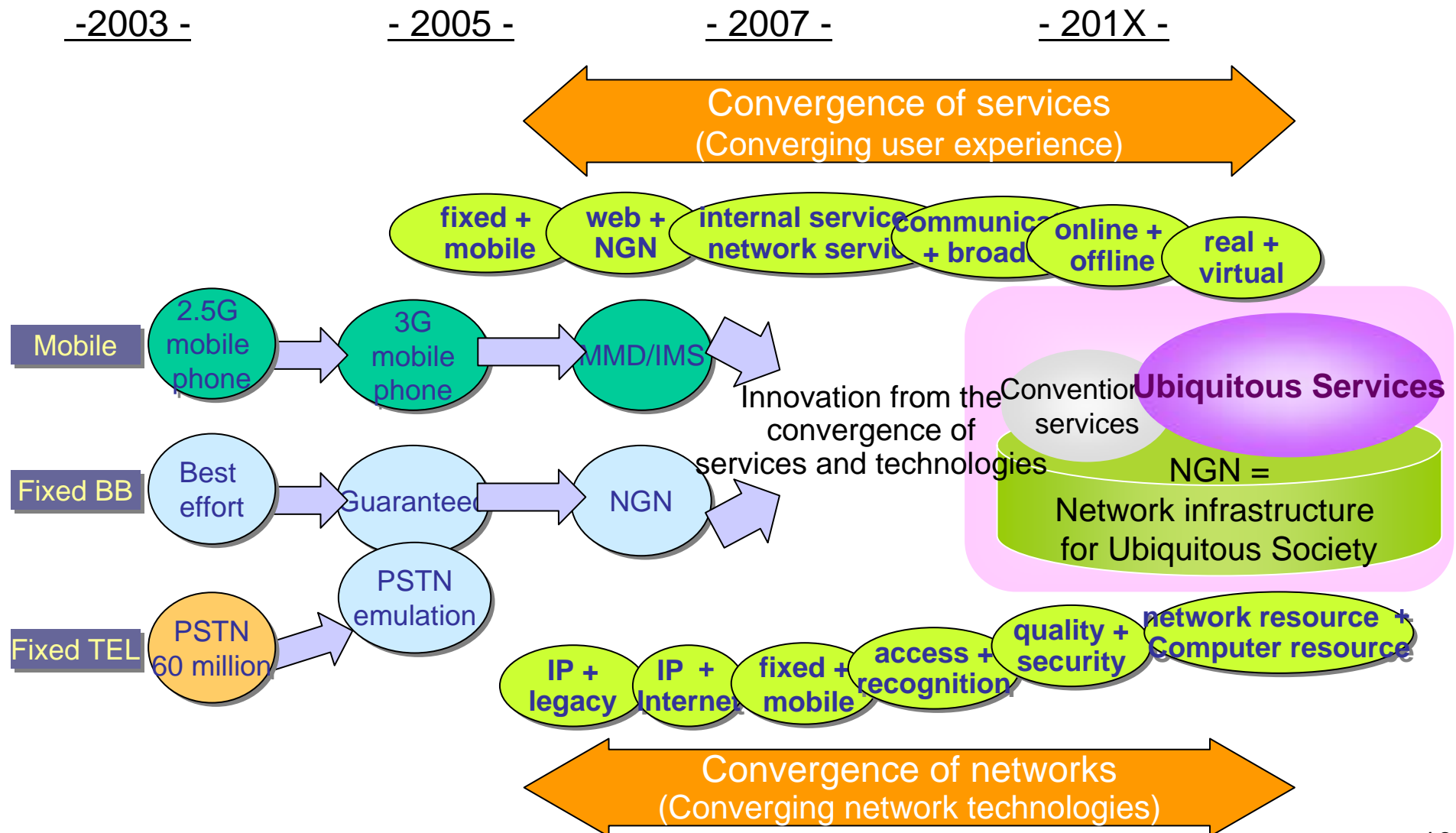
- Seamless service through convergence of fixed network and mobile network

<<Telecom & Broadcasting>>



- Converged digital media services

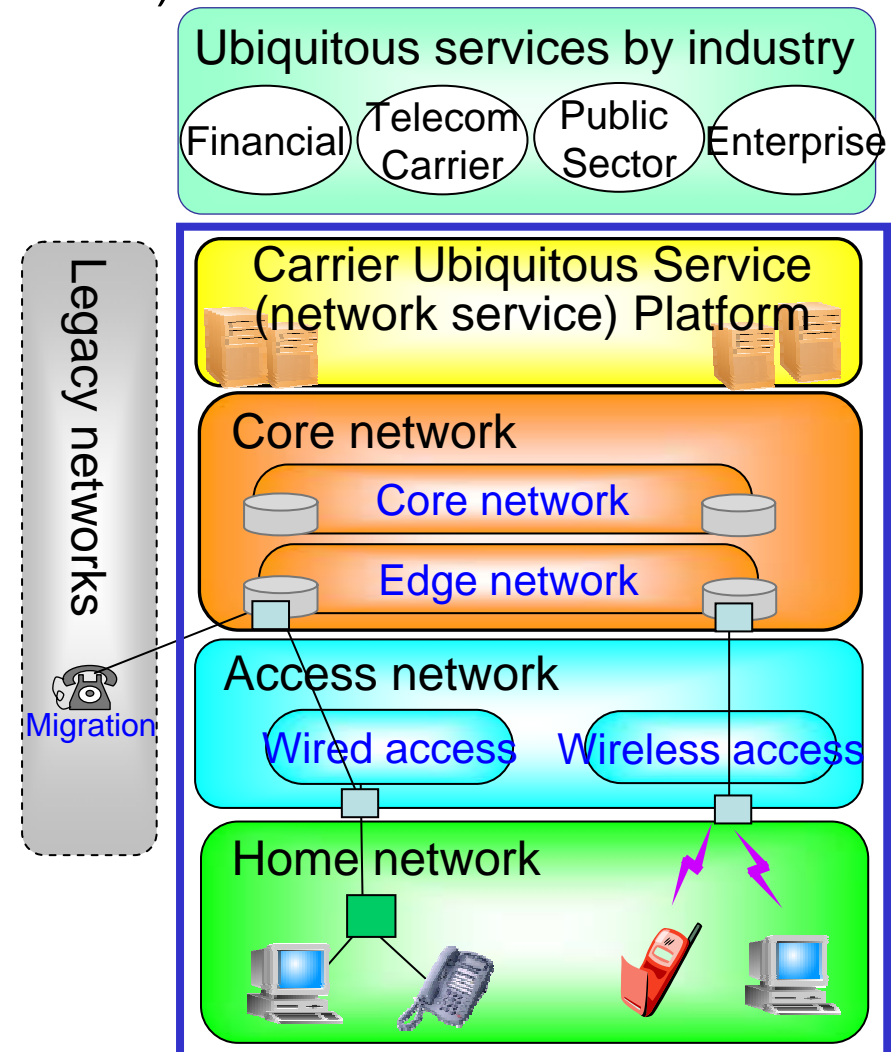
Convergence of services and networks enabled by NGN



- Next generation telecom network based on full-IP integrated network
(The infrastructure for carrier networks)
ITU-T recommendation Y.2001

Features

- Integrated IP network
- Convergence of fixed and mobile networks
- High-speed access
- Open and interoperable
- End-to-end QoS assurance
- Separated service and transferring
- Mobility



Oki will become the key player in the NGN market through information and telecom convergence

- Oki promotes info-telecom convergence strategy at an early stage
 - Develops Japan's first VoIP system (1996)
 - Create market with Japan's first CTI system (1997)
 - Operate world's largest (5 million subscribers) carrier-grade softswitch (2002)
 - Announced info-telecom convergence concept: AP@PLAT (2003)
 - Ship Japan's largest IP-PBX, "SS9100" (2004)
 - Launch carrier-grade application server to enable convergence of information and telecommunication (2004)
 - Unite an info-telecom organization prior to competitors to enhance product development and expand market (2004)
 - Establish software development company for next generation mobile terminals with ACCESS (2005)
 - Unveil NGN communication server, "CenterStage NX5000" (2006)
- Utilize track record in info-telecom business and bring out Oki's strengths in the NGN market
 - Focus on four network areas
 - Provide Ubiquitous Services by industry based on AP@PLAT
 - Advance in Ubiquitous Services in the financial market, where Oki has strengths

Oki's strategy for carrier networks:
Focus on creating value at each edge in the four areas

Carrier Ubiquitous Service Platform

- Provide info-telecom converged server for NGN services: Collaborate with BEA
- Offer softswitches, gateways, and OPS for NGN based on track record with world's largest carrier grade softswitch (CenterStage NX Series)

Core Network

- Provide large-scale network system integration using open vendor products (Cisco, Nortel, etc.) and enhance products with joint development
- Promote NGN migration products necessary to connect with existing networks and core networks (media gateways)

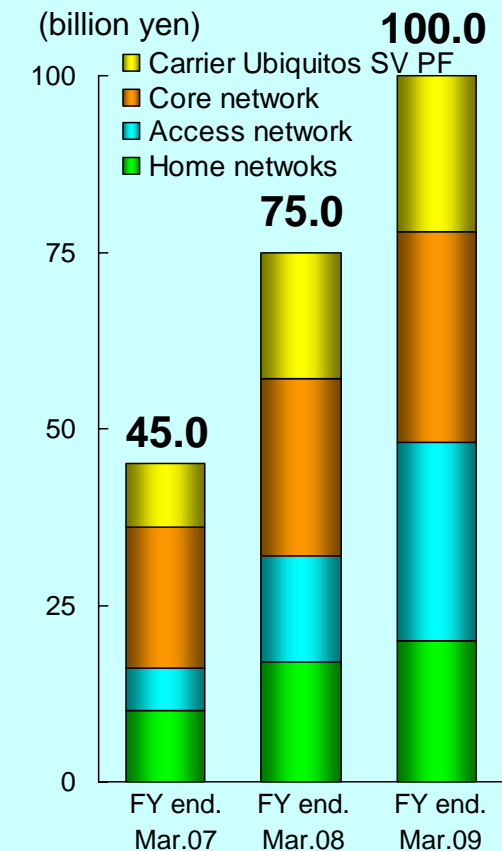
Access Network

- Launch optical access products, focusing on GE-PON
- Enter the wireless access (WiMax) market: Consider to collaborate with overseas vendors

Home Network

- Provide products to enable connection between home networks and mobile terminals: Collaboration with ACCESS
- DLNA application products based on eSound and eVideo: IP-STB/VoIP router

Target for NGN carrier related business



Enhance organization to respond to NGN

- Focus on NGN as it will expand as the infrastructure for Ubiquitous Society
- Deploy business by enhancing info-telecom convergence
- Share enterprise business know-how with carriers' NGN business

Actively deploy NGN business with
Network Systems Company (NSC) as the core

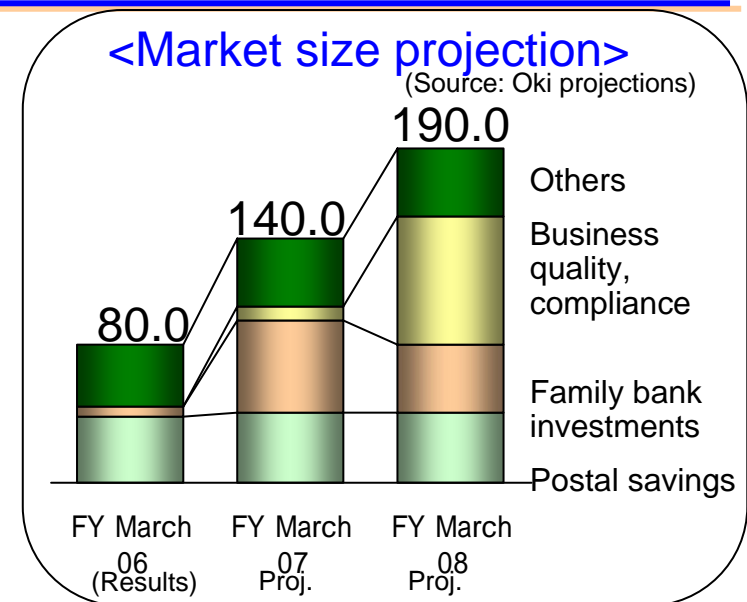
- ◆ Improve development structure for quadruple play-related technologies and products:
 - Increase engineers for info-telecom convergence and IP networking
 - Increase network-related hardware engineers
 - Shift wireless-related engineers to NGN business
- ◆ Shift development resource within the Oki Group:
 - Increase engineers: 800 → 1200
- ◆ Enhance collaboration for company-wide projects
 - Promote through Network Application Division

■ Market size of postal office privatization (Amount of IT investments excluding host-related business)

- ✓ Expect a market size of 190 billion yen in FY ending March 2008 with increased investments in security and automated cashiers. OkI to obtain 20% share in this market

■ OkI's business opportunities

- ✓ Projects until privatization (Oct. 2007)
 - Cash management business required at each company
 - Stricter cash management due to change in control authority
 - Enhance business quality and compliance
- ✓ Projects predicted after privatization
 - Systems for new or expanding businesses
 - System installation for business efficiency and profit improvement
 - System installation for smoother agent businesses



[Target models]

- Automated cashier
(Banknote/coin withdrawal and deposit function)
- Automated cash management system
- Cash management solution

Combine the advanced functions of SS9100,
the stability of IPstage EX300 and the usability of Office stage
in a single Key Telephone System



Advanced
functions



Stability



Usability

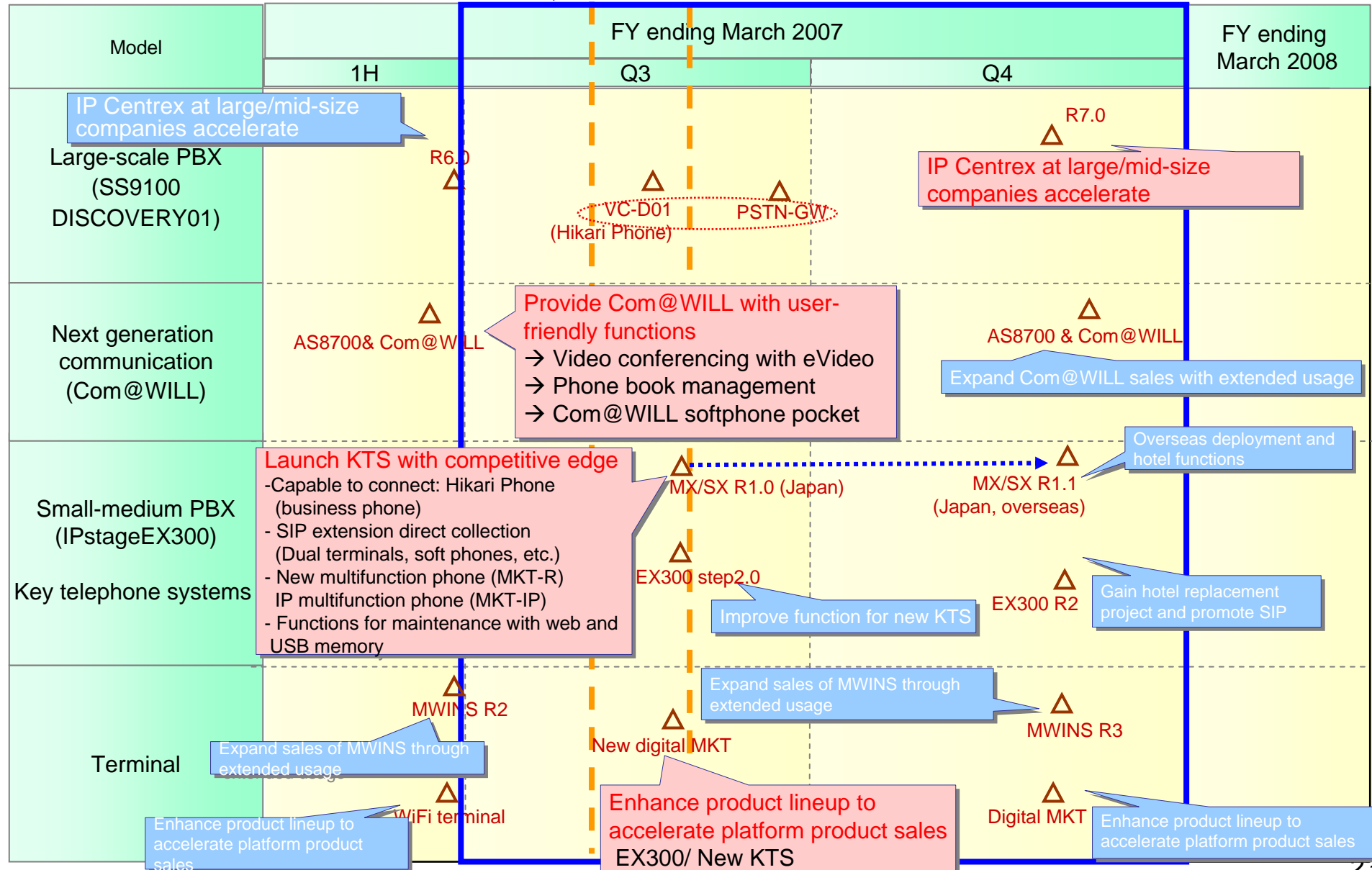
Most powerful compatibility
with IP and Mobile

IPstage Mx/Sx



Create New Products for Enterprise Networks and IP Systems

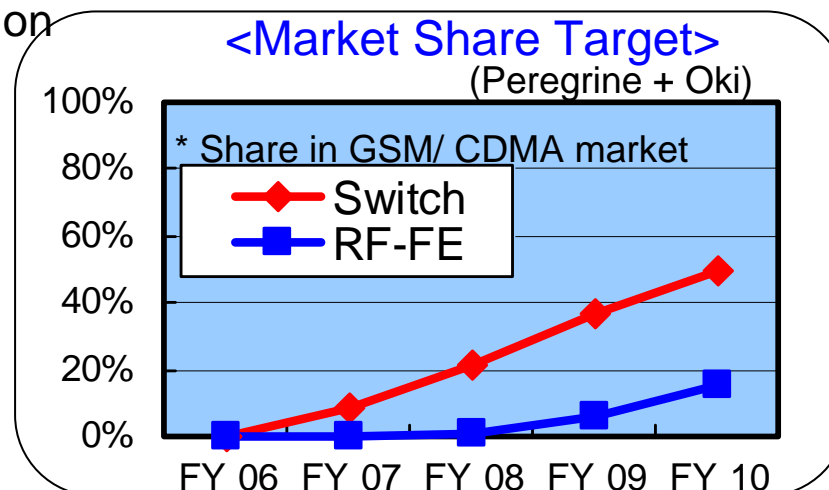
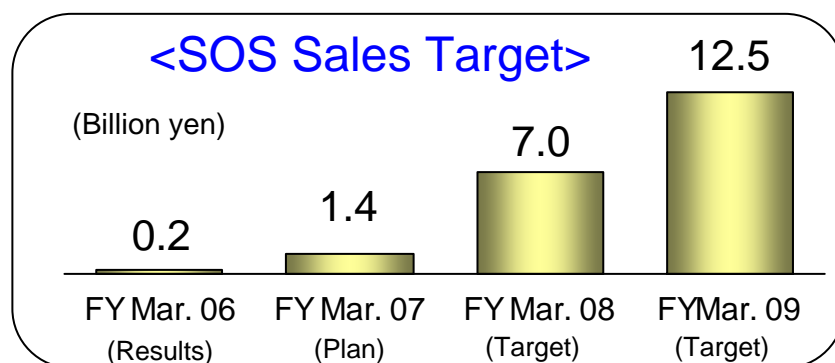
▽ Oki Fare ▽ Telecom 06



Create New Semiconductor Products

- SOS Business Deployment -

- Enhance alliance with Peregrine Semiconductor Corp.:
 - Launch business of RF front end (RF-FE) products utilizing ultra CMOS, SOS features
 - ✓ FY Mar. 07: Expand business by establishing coherent production at Oki and enhancing business with differentiating products (RF switches)
 - ✓ FY Mar. 08: Establish organization for a 10.0 B yen business with RF-FE products
- Measures to expand business
 - ✓ Launch joint project with Peregrine: Improve structure for marketing, sales and design
 - ✓ Obtain Peregrine's assembly and measurement technologies and start volume production of SOS products:
 - Appoint engineer for evaluation/ Start volume production in-house/ Consider ATP coherent structure
 - ✓ Jointly develop RF-FE products/ Select industry-leading customers
 - ✓ Develop smaller packaging technology and WCSP technology for SOS
 - ✓ Improve process and promote miniaturization



- Promote cost reduction project
 - Review cost structure at development and production processes
 - Reduce logistic costs, make efficient sales investments, and review other costs
 - **Reduce costs through new LED head**
- Shift from low-end desktop models to mid and high-end models
 - Changed all desktop models to network-type models
 - Stopped business with an LFR in the U.S.
 - Continue to focus on models with high usage of consumables
- Enhance profitability for consumables
 - Increase toner product lineup
 - Enhance consumable sales by providing various solutions

Shift Oki's business in China from a Japan-controlled style
to a locally controlled business

1. Enhance marketing and sales capabilities

- Establish a sales administration company (June, 06)
- Enhance alliance with local system integrators

2. Strengthen development structure

- Improve development bases for products sold in China (Changzhou, Shanghai, Shenzhen)
- Enhance software development companies (Changzhou, Dalian)

3. Strengthen production structure

- Start operation of a new plant in Shenzhen (Jan. 07)

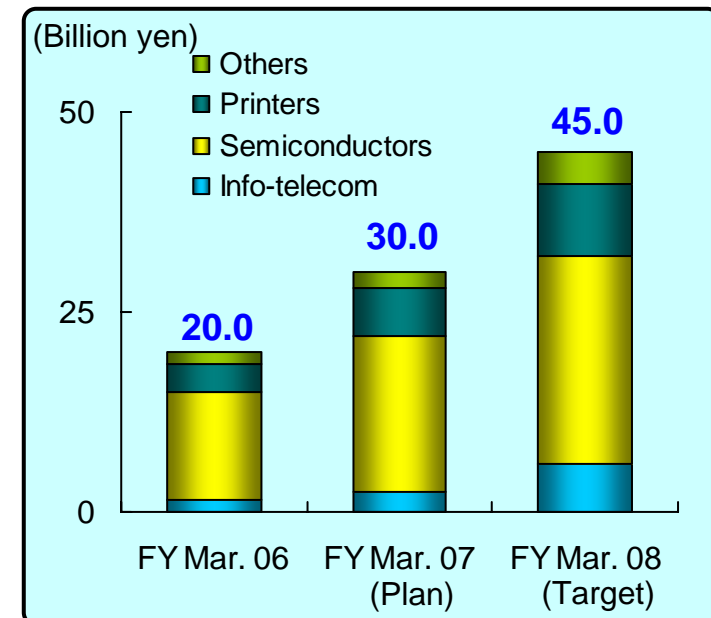
4. Establishment of a China business administration company

- Start preparation to establish company within the FY ending March 2008

5. Sales target

- 45.0 B yen in FY Mar. 2008
- 10% or more of total sales in FY Mar. 2011

Sales in China



Business bases in China

Businesses	qty.
Sales & marketing	4
Design & development	4
Production (Partially includes development)	3

Market and customer trend

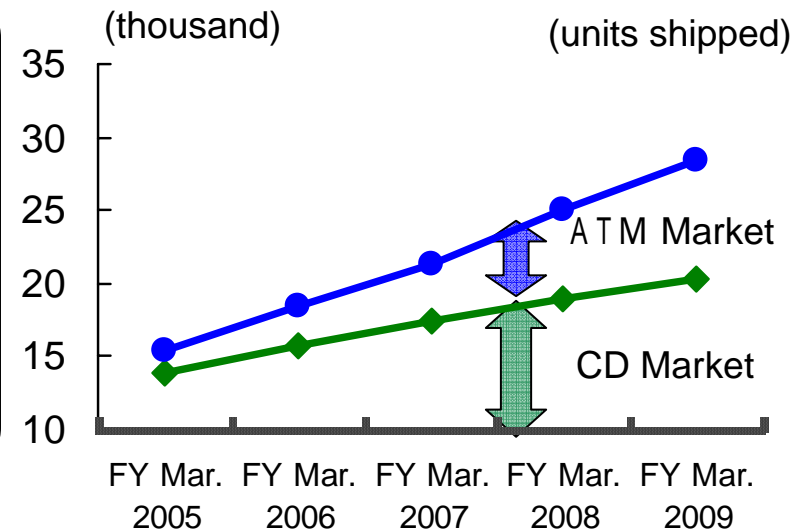
- Installation of ATMs rapidly expand, mainly in large bank branch offices (50% annual growth)
- Small branch offices install low-cost CDs
- Full scale demand to enhance security to prevent forged cards, stolen PIN numbers
- Standardize specs to share middleware and applications amongst the 4 banks and commerce banks

Business strategies

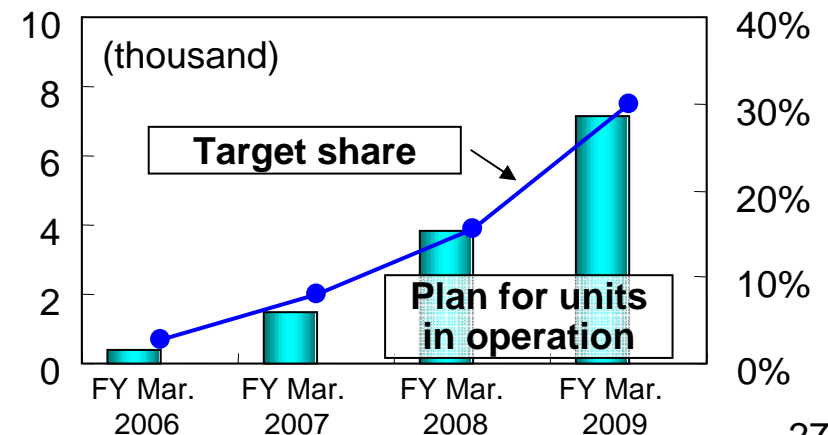
Business target: 30% market share (operation base) in FY Mar. 2009

- Launch low price, small ATM in the high-function CD market (H2, FY March 2007)
- Increase product lineup for ATM21S with higher security functions (non-contact IC cards, etc.)
- Completion of developing standardized applications for bank ATMs

China ATM market size



Target share & units in operation



Business Strategy

Enhance product creation

Plan to integrate function of Shanghai's sales office and development and marketing office

Product strategy

Deploy products utilizing Oki's differentiating technologies

[Differentiating technologies] High voltage process, low power consumption, wireless

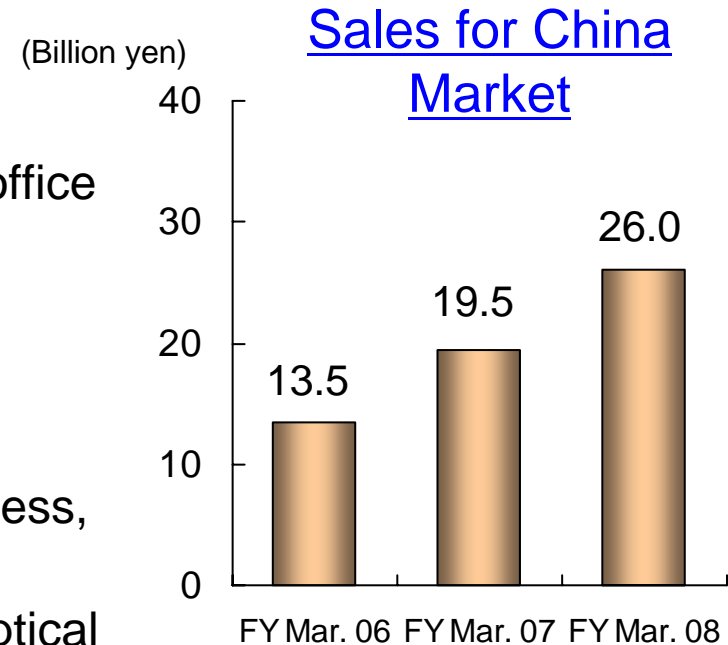
[Product] Drivers, power control, PHS, SOS, optical components

Enhance technology support structure

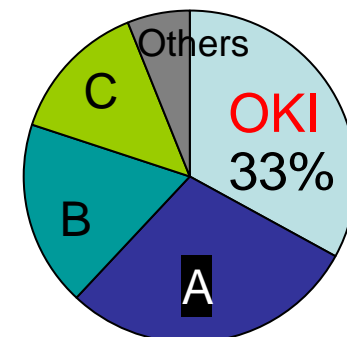
Establish strong collaboration with development team in Japan

Strengthen sales

Explore distributors with strong system engineering skills



Ensure top market share in PHS-BB



SIDM: Maximize SIDM profit by exploring new channels and changing model mix

- Establishing relationship with China's largest distributor and increase sales of low end products
- Avoid price competition by building OKI brand awareness throughout industry channels

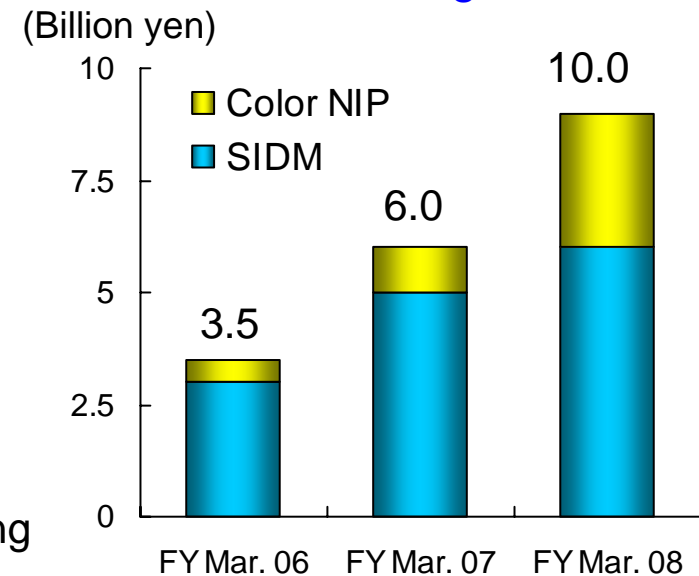
Color: Focus on users with high profit from consumables

- Continue to explore high-end channels through solution proposals
- Establish a project team for high-end models at the Beijing office

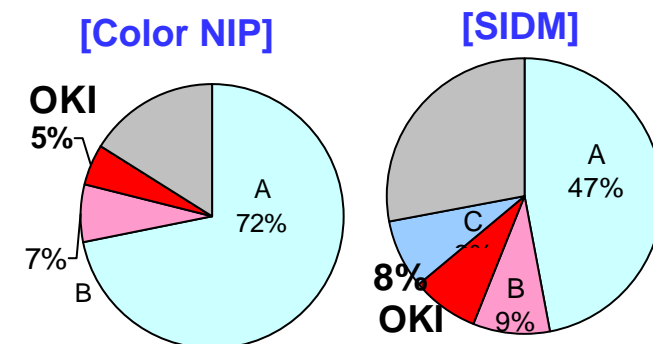
By establishing sales office, enhance sales and support structure to improve market share and profit

- Expand sales offices: Allocate sales representatives in 7 locations throughout China (Shanghai, Sheyang, Jinan, Xian, Wuhan, Chengdu, Guangzhou)
- Utilize synergy by integrating Oki Group offices: Mutual introduction of customers, and utilizing networks

Sales Target



China Printer Share



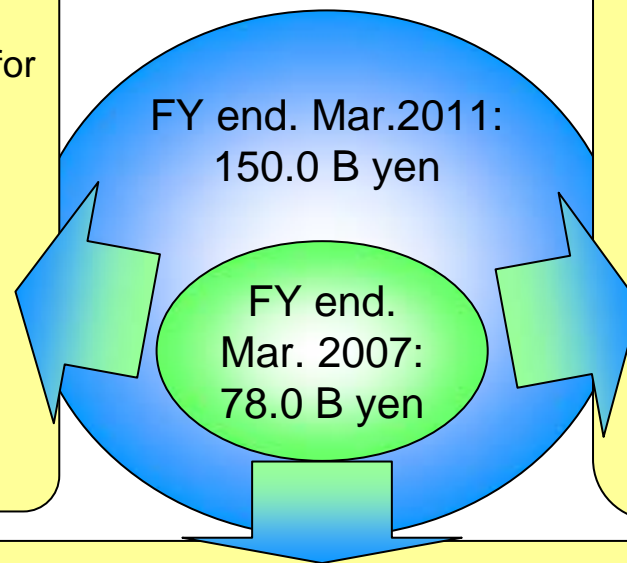
Expand and Create Service and Software Business

By utilizing Oki's technologies, knowledge and assets, Oki will expand service and software business that enable customers to focus on their primary business

Sales target for operating service and software service in FY end. Mar. 2011: 150.0 B yen

Expand operating service

- ATM full outsourcing
 - Enhance service menus/ ATMs for convenience stores/ Predicting banknotes necessary in ATMs
- Network outsourcing
 - Operating voice network/ Triple play network
- IT management service
 - Responding to mutli-vendor/ Expand service menus and promote SLA



Expand solutions service business

- Expand strong areas
 - Increase sales for retail systems to financial institutions/ Respond to JR's Life Service business/ Deploy private ITS
- Explore new business
 - Enter mission-critical system business by government EA

Create new service businesses

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • Enhance payment service <ul style="list-style-type: none"> - for electronic money - for Suica, Nanaco payment | <ul style="list-style-type: none"> • Bank branch office service <ul style="list-style-type: none"> Provide ubiquitous banking services - Respond to new customer contact (mobile phone, convenience store) : Remote consultation | <ul style="list-style-type: none"> • Service proposal solution <ul style="list-style-type: none"> Shift from equipment purchase to service purchase - Open software (OSS)/ Expand SOA - NGN, Web 2.0 services |
|--|--|--|

- FY Mar. 08: Become a company with stable profitability by achieving management target
- FY Mar. 11: Aim to be an excellent growing & global company

Company with stable profitability
Net sales: 760.0 B yen
Operating income: 30.0 B yen

Excellent Growing & Global Company
Operating income ratio: 8%+
Overseas sales ratio: 50%+

FY Mar. 11

FY Mar. 08

Select & concentrate resources on focus biz.
Create new biz. (China market, service biz.)

FY Mar. 02

Phoenix 21 Sky-high mid-term plan

FY Mar. 99

Phoenix 21 mid-term plan

Status of 'Changes in Base Business Structure' (1)

Area	Category	Status	Plans
Financial	Privatization of postal office	Establish a division for privatization of postal office in the in-house Financial Solutions Company	Accelerating in proposing solutions to the 4 business companies
	Strengthen base financial business	Increase Bank-IT sales, establish new bank customers	Expand ATM share, increase in orders of bank branch terminal replacement
	Create new financial products	Mobile terminals, Internet banking, telephone banking, call centers, etc.	Establish business plan for NGN Ubiquitous banking
	Expand ATM business in China	Shipment for the 1H of FY end. Mar. 2007: 1200 units (+400 from original plan)	[p. 28]
Telecom Carrier	Restructure business	Enhance NGN development structure (Oct. 2006)	Enhance alliances
	Establish basic NGN related business plan	[p.15]	
Enterprise	Enhance Japan and China sales skills	Re-establish sales structure when launching new KTS	Strengthen strategic partners, Establish sales structure in China
	Create new products for triple play	Enhance enterprise network, IP system products	[p.24]

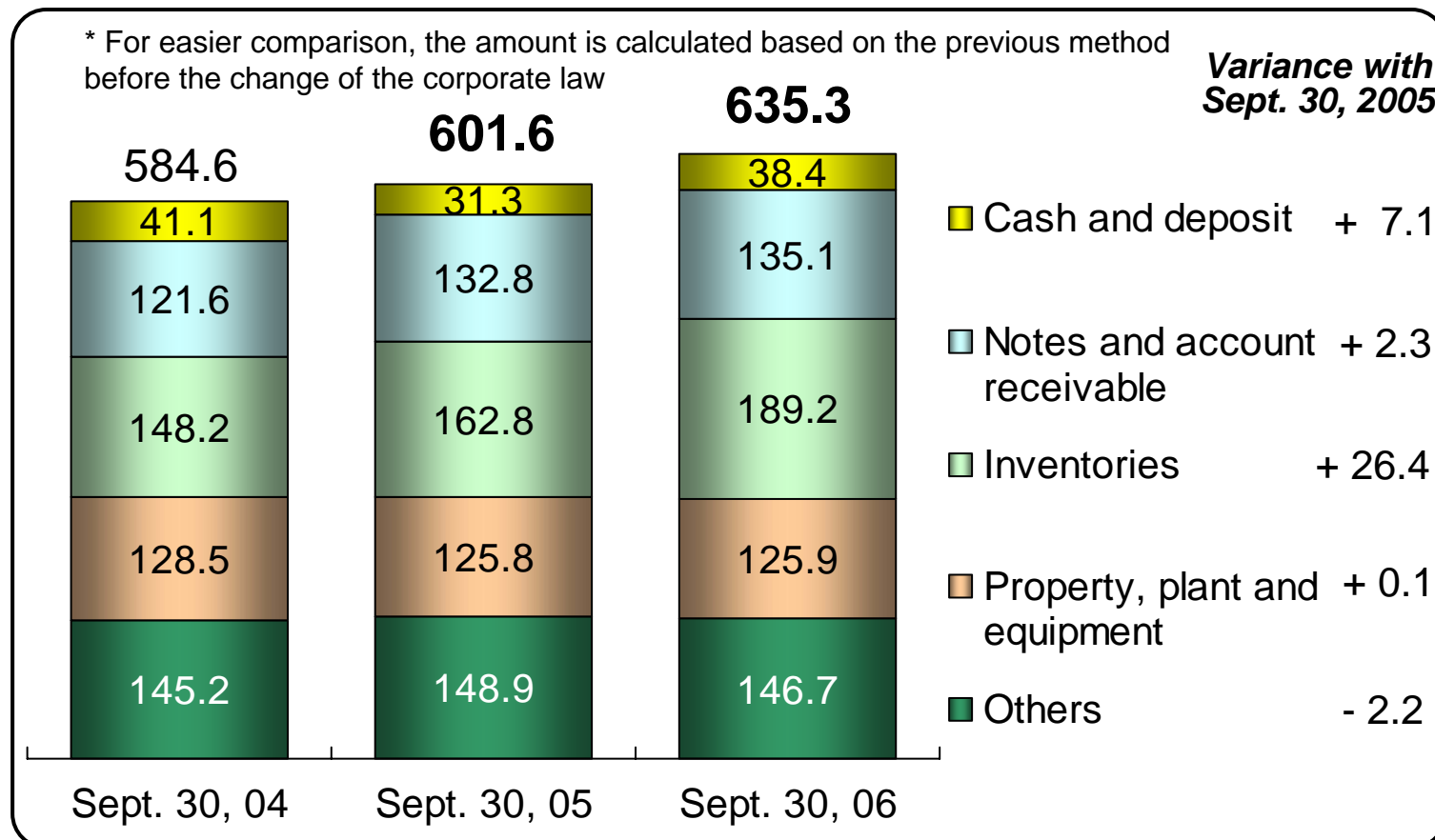
Status of 'Changes in Base Business Structure' (2)

Area	Category	Status	Plans
Semiconductor	Restructure business	Change organization to product-based organization (April 2004)	Accelerate new products by integrating planning, development and sales divisions
	Create new wireless system LSIs	Launch RF equipped LSIs for PHS, DTV and DSRC	Focus on next generation high-speed communication, and short range wireless applications Enhance SOS business
	Develop products with differentiating technologies	Large capacity P2ROM (1G, 2Gbit), P2ROM with copy prevention function, low heat generating 10bit drivers, etc.	Accelerate development of secure P2ROM, shrink source drive
Printer	Shift to high/middle level models	Select LFRs focusing on profitability/ Raise price	Reestablish LFR strategy (December 2006)
	Reduce Color NIP hardware costs	Launch new printer head (Reduce cost by two-thirds) Equipped from C-3400 (May 2006)	Equip new printer head on new products Volume effect to be seen after FY end. March 2008
	Improve market share in Japan	Explore new dealers, restructure OCA, 6.3% share in Q2, CY2006	Explore partners by enhancing products and support
Overall	Withdraw from unprofitable business units	Reduce business units by 25% through merge and consolidation	Further reduce business units by 15%

H1, FY Mar. 07 Balance Sheet (1)

<Balance Sheet: Assets>

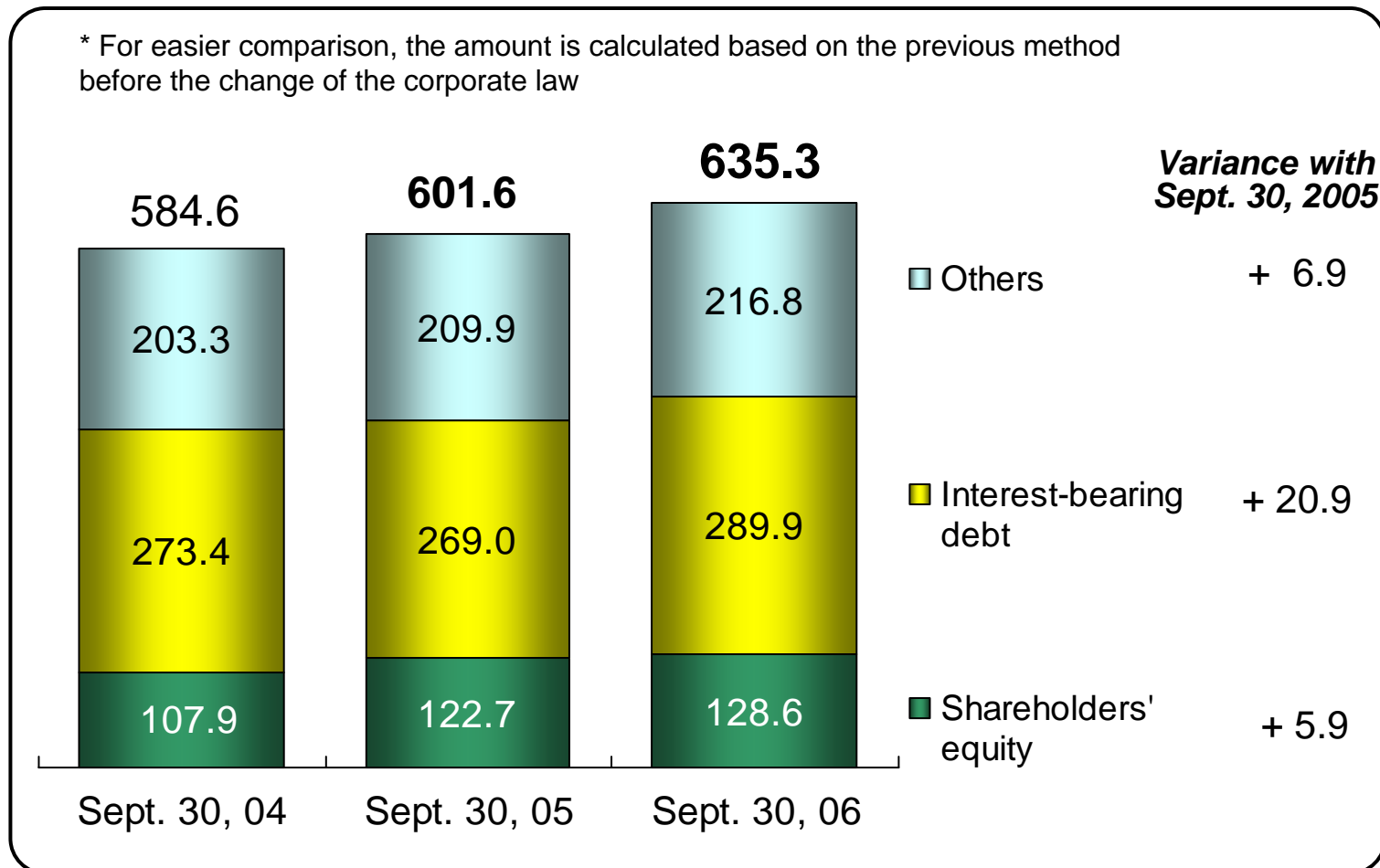
- Cash and deposits increased by 7.1 B yen on a YoY basis due to increase in cash from issuance of corporate bond (For corporate bond redemption)
- Inventories increased by 26.4 B yen on a YoY basis due to sales increase in printers, long-term project for the government, and the affect of currency exchange



H1, FY Mar. 07 Balance Sheet (2)

<Balance Sheet: Liabilities and Shareholders' Equity>

- Issued 30.0 B yen of convertible-bond-type-bonds with stock acquisition rights in June 2006



H1, FY Mar. 07 Cash Flows

- Free cash flows of H1, FY Mar. 07 remains as same as the previous year
- Issued 30.0 B yen of convertible-bond-type-bonds with stock acquisition rights in June 2006

(Billion yen)	FY Mar. 06		FY Mar. 07	
	H1	Full year	H1	Full year (plan)
I. Cash flows from operating activities	(4.3)	15.0	(7.2)	50.6
Income before income taxes	(6.0)	10.6	(16.0)	4.0
Depreciation & amortization	16.2	34.7	16.3	39.0
Changes in working capital	(8.4)	(22.2)	(9.9)	7.5
Others	(6.1)	(8.1)	2.4	0.1
II. Cash flows from investing activities	(17.0)	(28.6)	(17.8)	(50.6)
Purchases of property, plant & equip.	(16.3)	(29.2)	(14.0)	(38.9)
Others	(0.7)	0.6	(3.8)	(11.7)
Free cash flows (I+II)	(21.3)	(13.6)	(25.0)	0.0
III. Cash flows from financing activities	5.8	0.8	29.1	4.2
Issuance and redemption of bonds	(10.0)	(10.0)	30.0	10.0
Changes in other interest bearing debts, etc	15.8	10.8	(0.9)	(5.8)
Net cash flows (I+II+III)	(15.5)	(12.8)	4.1	4.2
IV. Cash and cash equivalents at the period end	35.3	38.4	43.8	42.6

P5	NIP	Non-Impact Printer	P19	STB	Set Top Box
	ATM	Automated Teller Machine	P21	IT	Information Technology
	LCD	Liquid Crystal Display	P23	MKT	Multifunction Key Telephone
	LSI	Large Scale Integration	P24	CMOS	Complementary Metal Oxide Semiconductor
	P2ROM	Production Programmed Read Only Memory		RF	Radio Frequency
P8	SIDM	Serial Impact Dot Matrix		ATP	Assembly and Testing
P10	NGN	Next Generation Network		WCSP	Wafer Chip Scale Package
P11	EMS	Electronic Manufacturing Service		GSM	Global System for Mobile Communications
P12	IP	Internet Protocol		CDMA	Code Division Multiple Access
	SOS	Silicon on Sapphire	P25	LFR	Large Format Reseller
P16	MMD	Multi Media Domain	P27	CD	Cash Dispenser
	IMS	IP Media Subsystem		PIN	Personal Identification Number
	PSTN	Public Switched Telephone Networks	P28	PHS	Personal Handy-phone System
P17	ITU-T	International Telecommunication Union - Telecommunication Standardization Sector		BB	Base band
	QoS	Quality of Service	P30	SLA	Service Level Agreement
P18	VoIP	Voice over IP		ITS	Intelligent Transport Systems
	CTI	Computer Telephony Integration		EA	Enterprise Architecture
	PBX	Private Branch Exchange		SoA	Service Oriented Architecture
P19	OPS	Operation System	P32	KTS	Key Telephone System
	GE-PON	Gigabit Ethernet Passive Optical Network	P33	DSRC	Dedicated Short Range Communication
	WiMAX	Worldwide Interoperability for Microwave Access		OCA	Oki Customer Adtech
	DLNA	Digital Living Network Alliance		BU	Business Unit