

OKI Business Strategies

May 28, 2008
Oki Electric Industry Co., Ltd.

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March 2008
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FY end. March 2008: Summary of financial results

- FY end. March 2008 was the year to shift the helm for a V-shape recovery
Income improved YoY by implementing short term measures to revamp business structure and by improving profitability in color NIP business
- Total assets decreased by 57.6 billion yen by reducing inventories

(Billion yen)

	FY end. March 07	FY end. March 08	Jan. 29, 2008 announcement
Net sales	718.8	719.7	735.0
Operating income/loss	(5.4)	6.2	6.0
Recurring income/loss	(12.8)	(3.9)	(2.5)
Net income/loss	(36.4)	0.6	0.5
Total assets	628.4	570.8	—
Shareholders' equity	109.4	94.6	—
Interest bearing debt	284.8	267.4	—

FY end. March 2008: Segment information

(Billion yen)	Net Sales			Operating income/loss		
	FY end. March 07	FY end. March 08	Announced Jan. 2008	FY end. March 07	FY end. March 08	Announced Jan. 2008
Info-telecom	352.7	359.0	360.0	(1.5)	(1.7)	1.0
Semiconductor	145.5	138.2	140.0	0.7	3.8	3.0
Printer	187.1	185.8	195.0	1.7	8.6	6.5
Others	33.5	36.7	40.0	3.0	4.1	4.0
Corp. & eliminations	—	—	-	(9.3)	(8.6)	(8.5)
Total	718.8	719.7	735.0	(5.4)	6.2	6.0

■ Info-telecom Business:

- For financial market: Rapid growth of ATMs for China/ Sales increased mainly from replacements in Japan and for Japan Post
- For telecom market: Sales declined due to continued reduction in carriers' investment for fixed-network equipment/ Withdrew from low profit businesses
- Info-systems: Sales increase in enterprise systems

■ Semiconductor business:

Sales declined in logic business due to decrease in product demand and narrowing down product development for low-profit system LSIs. On the other hand, P2ROM for amusement market and foundry business remained steady

■ Printer business:

Actively shifted color NIP to mid-and-high end models→ Sales of low profit low-end models declined. Increase in consumable sales. Significant improvement in profitability due to shift in strategy

FY end. March 2008: Changing factors of operating income

- Offset price decline and product mix by reducing production and procurement costs
- Improvement in printer product mix, while telecom product mix worsened
- Fixed costs declined by implementing short term measures (curtailing personnel costs and investments) to revamp business structure

(Billion yen)

Operating loss for FY end March 2007	(5.4)
Operating income for FY end March 2008	6.2
Operating income difference	+ 11.6
■ Major changing factors	
Difference in volume and product mix	(0.5)
Price decline	(9.0)
Production and procurement costs	+11.5
Changes in personnel costs	+9.0
Impact of foreign exchange	+2.5

Analysis of changes in operating income (printer, telecom)

● Printers

Profit increased significantly in the FY end. March 2008 by shifting business to value-added models where consumable sales can be expected

- Sales of hardware decreased by reducing low-end models while consumable sales increased → profitability improved
- Shifted to a lean structure as shipments declined (Reduced costs and inventories)
- Impact of foreign exchange

● Telecom

Costs occurred to respond to changes in environment

- Downturn in home network business
 - Cost of sales ratio worsens significantly due to price decline
 - Costs to terminate unprofitable models
 - Costs to develop next generation products ahead of schedule
- Terminated IP communication models
- Profit declined in profit as volume decreased

Impact of reducing fixed costs (R&D, etc)

Results of short-term measures to revamp business structure

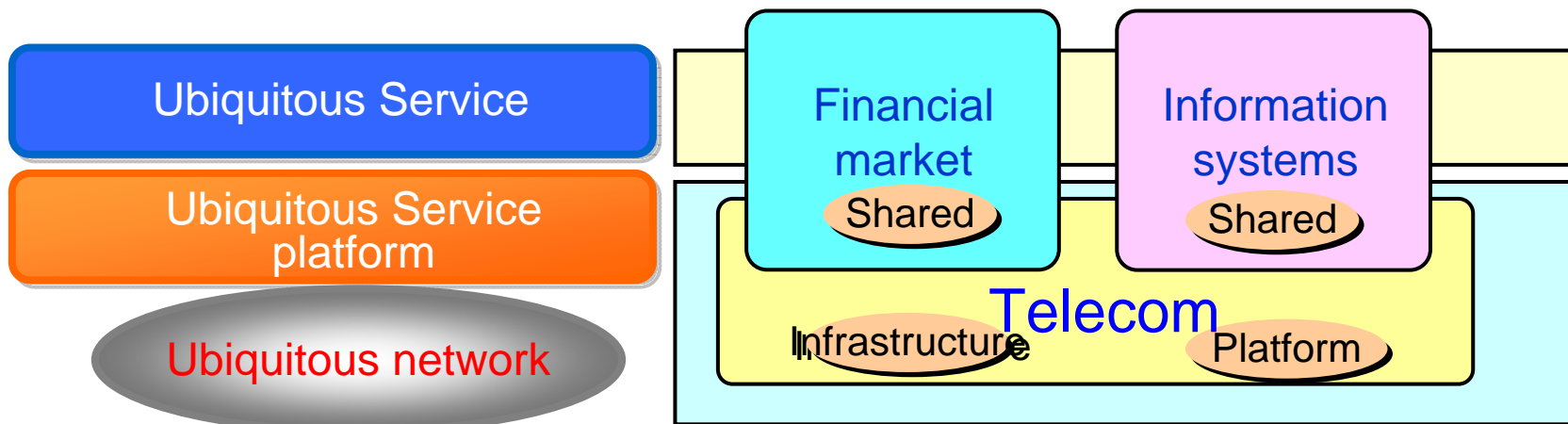
Short-term measures for FY end March 2008

		Target	Results
[Measure 1] Accelerate biz selection and concentration	Consolidate/ reduce number of biz units	10%	Implemented withdrawal or partial withdrawal of 12% of BUs
	Shift resources	To focusing bizs: 700 personnel	Completed shift of 1100 personnel
		To group companies: 500 personnel	Shifted 285 personnel (Not attained)
	Outplacements	500 personnel	Outplacement of 606 personnel
[Measure 2] More efficient management style (Review fixed costs structure)	Cut personnel costs	By 3.5 B yen	Reduced 3.5 B yen as planned
	Curb investments	By 10.0 B yen	Reduced 19.5 B yen
	Curb subcontract outsourcing expenses	By 3.0 B yen	Reduced 3.0 B yen as planned
	Reduce inventories	15% from Mar. 31,2007 End of period target: 145.0 B yen	Reduce 17% from end of FY end. March 2006 End of term: 138.9 B yen (reduced by 6.1 B yen against plan)
[Measure 3] Strong biz. with strong products	Reduce costs for major products	Info-tel: 4.0 B yen Semicon: 2.0 B yen Printer: 1.0 B yen	Each business group achieves year target

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Topics

- OKI is firmly implementing measures to “revamp business structure” as announced in OKI’s Business Strategies on March 30, 2007 (Towards OKI’s direction in its mid-term plan)
- Each business group in info-telecom business are implementing the business measures to provide “Ubiquitous Services” (below), which OKI has been advocating since June 2006
- Today we explain the challenges and measures to respond to the changes in business environment



Status of revamping business structure: Info-telecom Group

For telecom market

■ Directions in the mid-term business plan

Respond to NGN and provide service infrastructure by converging OKI's technologies for carriers and enterprises

- Consolidate carrier business and enterprise business into Telecom Biz Group
Aim for 100 billion yen net sales in NGN area in FY end. March 2009

■ Status:

Shift in telecom carriers' business strategies: Clearer carriers' mid-term NGN plans

- OKI established basic business foundation (technology and product planning) for NGN
- OKI will restructure its business framework from the 2H of FY end. March 2009 to respond to carriers' strategies

Status of revamping business structure: Info-telecom Group

For financial market

■ Directions in the mid-term business plan

With its mechatronics technology and know-how for financial business as its core competence and utilizing alliances, OKI will expand its business in Japan and overseas focusing on three business domains

- Mechatronics biz: Aim to become a world-class mechatronics vendor with its advanced technologies
- System biz: Aim to become Japan's top vendor for retail banking
- Service biz: Expand existing businesses and create ubiquitous services for the financial market

■ Status: Proceeding as planned

Information systems

■ Directions in the mid-term business plan

Aim for a high-profit business by reorganizing unprofitable businesses and shifting to a business with close access to the market

■ Status: Proceeding as planned

Status of revamping business structure: Semiconductors and Printers

Semiconductor business

■ Directions in the mid-term business plan

Enhance profitability by deploying business utilizing OKI's strengths

- Reduce system LSIs, shift attention to differentiating technologies and application specific standard LSIs
- Create and expand new high value-added businesses by creating synergy effect with OKI Group's own technologies

■ Status: Proceeding as planned

- Operating a semiconductor business leveraging OKI's strengths
e-functional module: Consolidated business to subsidiary
Silicon-on-sapphire (SOS): Accelerate business by creating an in-house venture unit
- Profitability in driver LSI remains a challenge: Pursue higher profit structure

Printer business

■ Directions in the mid-term business plan

- Establish global profitability in color NIP/ Focus on SMB market
- Thoroughly enhance profitability in SIDM business

■ Status: Proceeding as planned

Slight delay in revamping business structure for future growth

Challenges and measure to revamp business structure

■ Challenges to revamp business structure

- Telecom business: Become more responsive to market changes
- Semiconductor business: Enhance profitability

■ Measures to respond to challenges

Based on OKI's "Network-style Company Management" policy, OKI will spin-off its telecom and semiconductor businesses to enable a flexible, agile, and self-sustained business operation

Directions of the new companies

Increase flexibility in management and quickly respond to market changes

Directions of the new telecom company

- Enhance to provide ubiquitous services in the NGN era
- Balance stable operation of legacy network business and active business deployment for NGN
- Complete measures that started from FY end. March 2007: Respond to new technologies and services/ Implement speedy management/ Concentrated development of ubiquitous service platforms/ Enhance network system integrated service for SMB
- Actively deploy overseas business

Directions of the new semiconductor company

- Shift to value-added business:
Established SOS in-house venture unit and spun off e-functional module business
- Enhance marketing functions and sales skills. Realize agile management
- Concentrate resources on value-added businesses
- Further transform the partner-fab strategy
- Strengthen foundry business

Changes in the telecom business environment

Continued restraint in telecom carrier investments for existing network

Delay in NGN plan

- In FY end. March 2007, NGN was expected to commercialize from FY end. March 2008, bringing stable growth from FY end. March 2008 and after
- In the second half of FY end. March 2008, NTT made a downward revision of its number of fiber optic subscriber plan from 30 million to 20 million in FY end. March 2011
- NGN commercial service started partially in Tokyo and Osaka in March 2008

Impact to OKI's business

- Delay of the rise in market impacted OKI's loss stronger than expected
- Concentrate resources on R&D

Changes in the telecom business environment

Market trends in NGN going forward

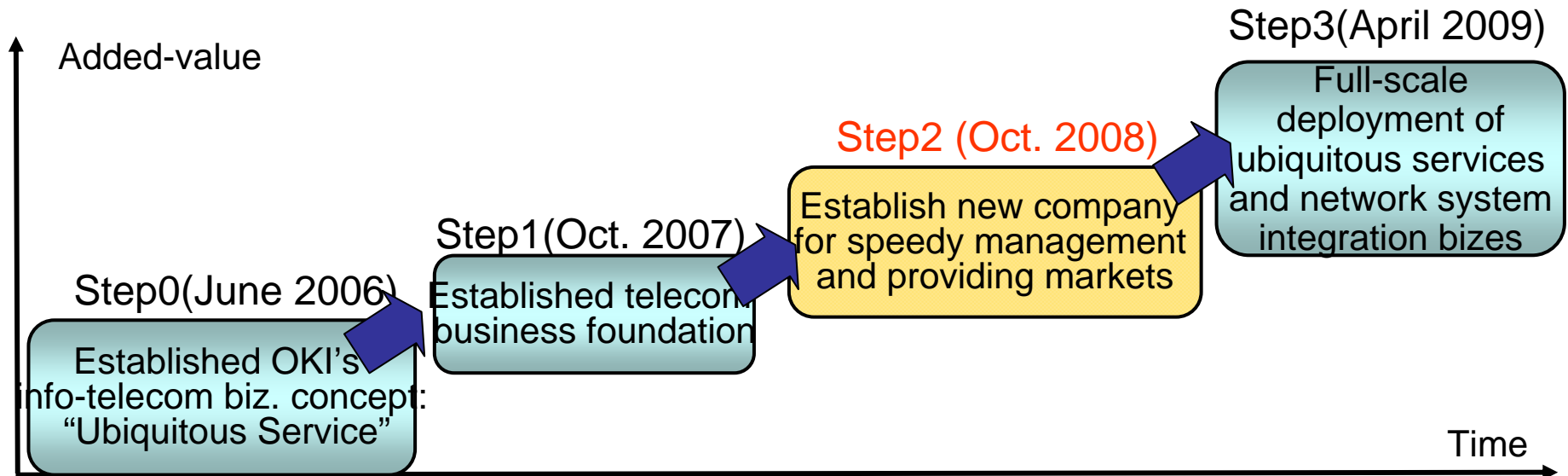
- NTT's mid-term plan: Reform to a business model focusing on IP-related business, solution business and new businesses
- Direction of OKI's "Ubiquitous Service" and NTT's "Broadband Ubiquitous Service" match
- Necessity to shift to NGN as content become larger and more secure
- IP communication markets in Japan and overseas are growing as digitalization progress
- Enterprises are actively utilizing network service provided by telecom carriers

OKI's direction

- Respond to rapidly changing NGN while keeping the existing network business as a source of earning
 - ➔ Balance the two operations by promptly spinning off NGN business

Telecom business (Directions going forward: Achieving ubiquitous service)

- ◆ Announce “Ubiquitous Service” concept in June 2006
- ◆ Step1 (Oct. 2007)
 - Established info-telecom converged business structure (telecom, financial, info-systems)
 - Prepared for FMC: Team-up with Aruba Networks
- ◆ Step2 (Oct. 2008)
 - Consolidated telecom carrier business and enterprise network business
 - Spin off NGN development division to increase management speed to respond to the rapidly changing market
 - Create products and services that converge telecom carrier networks and enterprise networks
- ◆ Step3 (April 2009)
 - Enhance collaboration with divisions close to market to provide Ubiquitous Service
 - Increase sales in Japan and overseas market via alliance strategies
 - Establish a one-stop service structure for small to large-size network system integration



Semiconductor business (Status of revamping business structure)

[Achieve mid-term plan]

- Revamp business structure for system LSI and logic LSI
 - Improve profitability by scaling-down low-profit system LSI business
 - Shift resources to IDM logic products to increase sales in FY end March 2009 and after
 - Reduce fixed costs by consolidating design sites: Consolidated N. America and Singapore locations last fiscal year
- Improve profitability in large TFT driver business
 - Offset price decline through cost cutting efforts (i.e. reduce procurement costs)/ Profitability improved last fiscal year
 - Since volume decreased against plan, OKI did not attain profit in Q4
 - Aim to reach profit in H2 of FY end. March 2009/ Continue to consider alliances, etc.
- Expand sales and profit with e-functional module business
Consolidated “e-functional module promotion division” to subsidiary in charge of printed circuit business/ Establish new business structure by gathering OKI group personnel for marketing, planning, designing and sales

[Continue to implement conventional measures]

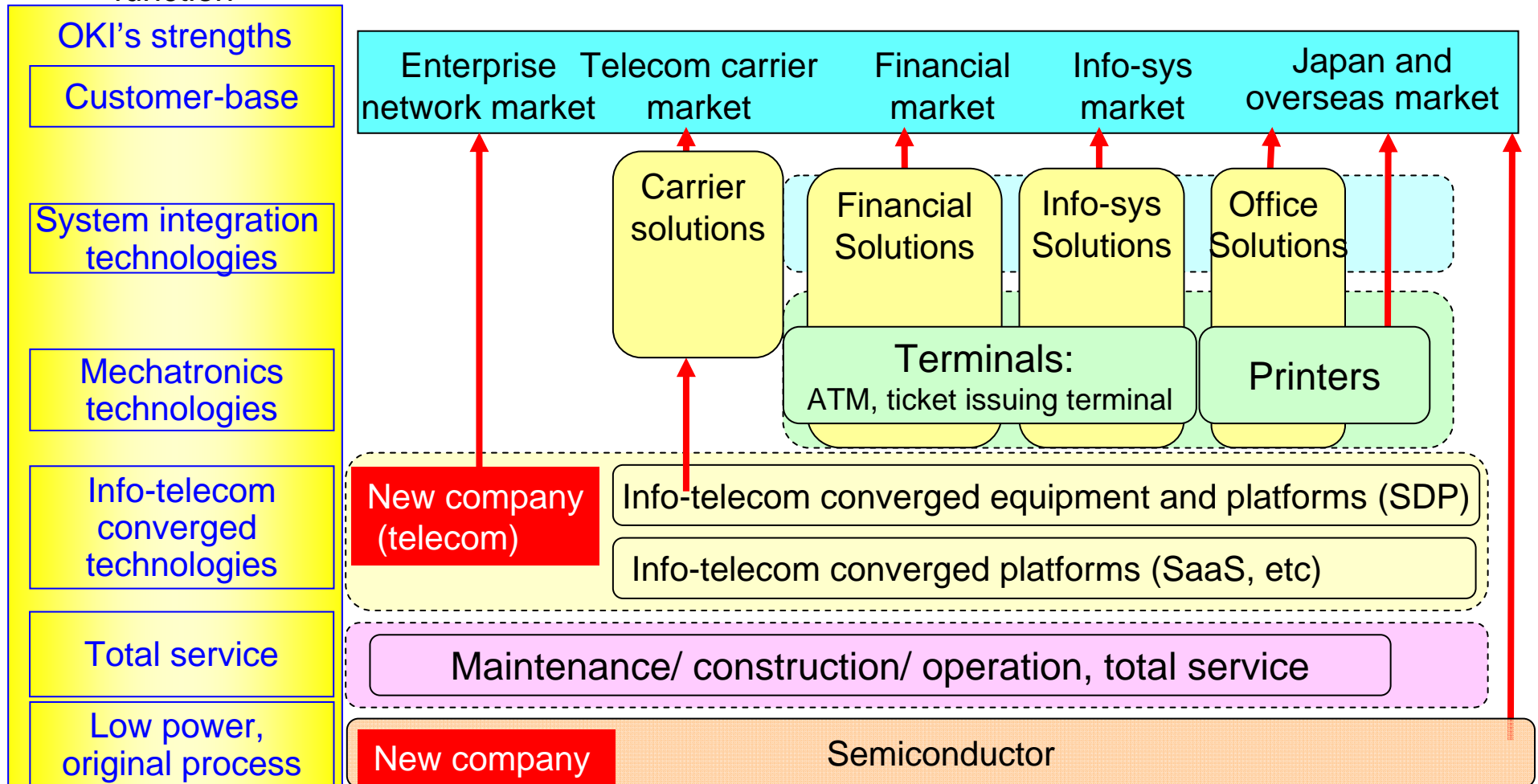
- System memory and foundry businesses remain steady during the fiscal year ending March 2009

[Next step]

- Spin-off semiconductor business to enable higher management efficiency and flexibility

OKI Group Business Structure (Outline)

- Spinning off telecom and semiconductor businesses is part of OKI's Network-style Company Management
- Improve management efficiency in each business and streamline and enhance corporate function



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[FY end. March 2009] Profit and Loss Projections

Achieve 12.0 B yen operating income as targeted in the Mid-term Business Plan

(Billion yen)	Full year		First half	
	FY end March 2008 (Results)	FY end. March 2009 (Plan)	FY end. March 2008 (Results)	FY end. March 2009 (Plan)
Net sales	719.7	700.0	327.6	300.0
Operating income	6.2	12.0	(7.1)	(9.0)
Other income	(10.1)	(8.0)	(3.9)	(3.5)
Recurring income	(3.9)	4.0	(11.0)	(12.5)
Extraordinary income/loss	8.9	(13.5)	(0.5)	(12.0)
Net Income	0.6	(14.0)	(12.5)	(24.5)

[FY end. March 2009] Net Sales and Operating Income by Segment

[Full year] (Billion yen)	Net sales		Operating Income	
	FY end. March 2008 (Results)	FY end. March 2009 (Plan)	FY end. March 2008 (Results)	FY end. March 2009 (Plan)
Info-telecom system	359.0	337.0	(1.7)	8.0
Semiconductor	138.2	135.0	3.8	4.0
Printer	185.8	190.0	8.6	7.0
Others	36.7	38.0	4.1	1.0
Corp. & elimination	-	-	(8.6)	(8.0)
Total	719.7	700.0	6.2	12.0

[First half] (Billion yen)	Net sales		Operating Income	
	FY end. March 2008 (Results)	FY end. March 2009 (Plan)	FY end. March 2008 (Results)	FY end. March 2009 (Plan)
Info-telecom system	153.9	136.0	(5.7)	(6.0)
Semiconductor	68.4	64.0	(0.2)	(1.0)
Printer	87.2	83.0	1.8	2.0
Others	18.1	17.0	1.5	0
Corp. & elimination	-	-	(4.5)	(4.0)
Total	327.6	300.0	(7.1)	(9.0)

[FY end. March 2009] Reason of changes in operating income

(billion yen)	Net sales		Operating income		Highlights of changes (summary of chapter II)
	FY end. Mar. 08 (Results).	FY end. Mar. 09 (Plan)	FY end. Mar.08 (Results)	FY end. Mar. 09 (Plan)	
Info- telecom	359.0	337.0	(1.7)	8.0	Financial: Sales remain flat YoY for private financial institutions. Though sales will decline for Japan Post by 20.0 B yen, impact to income will be minor
					Telecom: Please refer to P6 Income will improve YoY due to last FY's temporary costs to respond to market, reduction of fixed costs by shifting resources and reduction of costs by establishing new company
					Information system: Though sales will decline YoY due to termination of unprofitable businesses, profit will improve
Semi- conductor	138.2	135.0	3.8	4.0	Though sales will decline YoY due to impact of foreign exchange, income will remain approx. flat with efforts in reducing production and procurement costs and terminating low profit models
Printer	185.8	190.0	8.6	7.0	Sales will increase with launch of new models. Though prices will decline, income will offset by reducing procurement and production costs. Investment will increase to develop new models.

[FY end. March 2009] Changing factors of operating income

- Though marginal profit decreases due to decline of volume, product mix improves considerably mainly in Info-telecom systems
- Price decline is expected in semiconductor and printer businesses. However, this will be covered by reduction of production and procurement costs
- R&D expenses in fixed-costs will increase by 4.3 B yen to strengthen and grow businesses

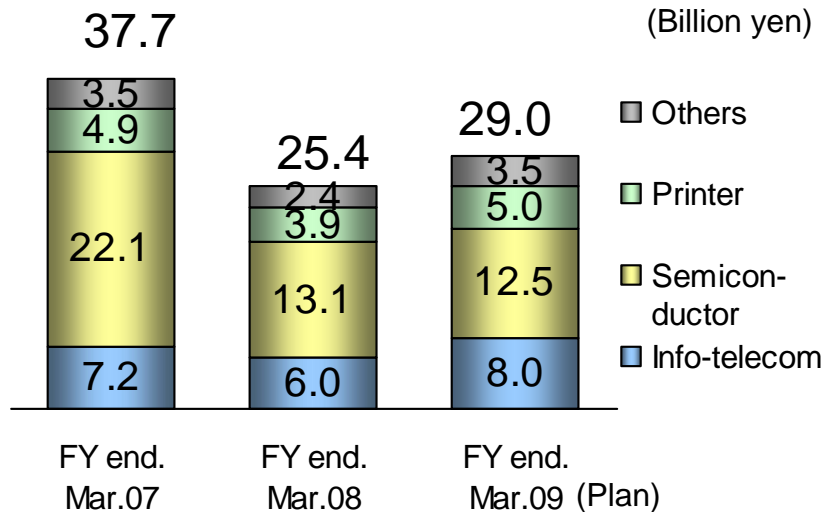
Operating income FY ended March 2008	6.2	(Billion yen)
Operating income FY ending March 2009 (plan)	12.0	
Variance	5.8	
■ Major changing factors		
Difference in volume and product mix	6.0	
Price decline	(8.5)	
Reduction of production and procurement costs	16.0	
Changes in fixed-costs	(6.5)	
Impact of currency exchange	(2.5)	

[FY end. March 2009] Capital Expenditure & R&D Expenses

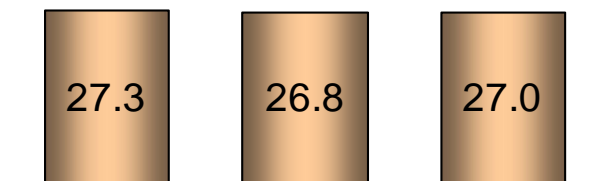
- Moving from a phase to curb investments, mentioned in short-term measures to revamp business structure, to a phase to increase investment to strengthen and grow businesses

Property, Plant & Equip.

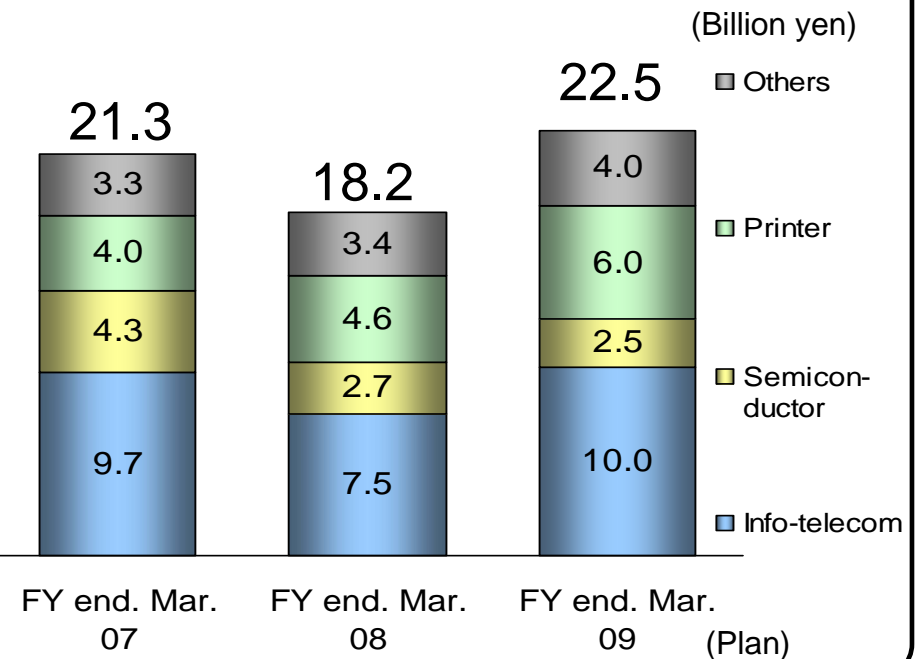
[Capital Expenditure]



[Depreciation]



R&D Expenses



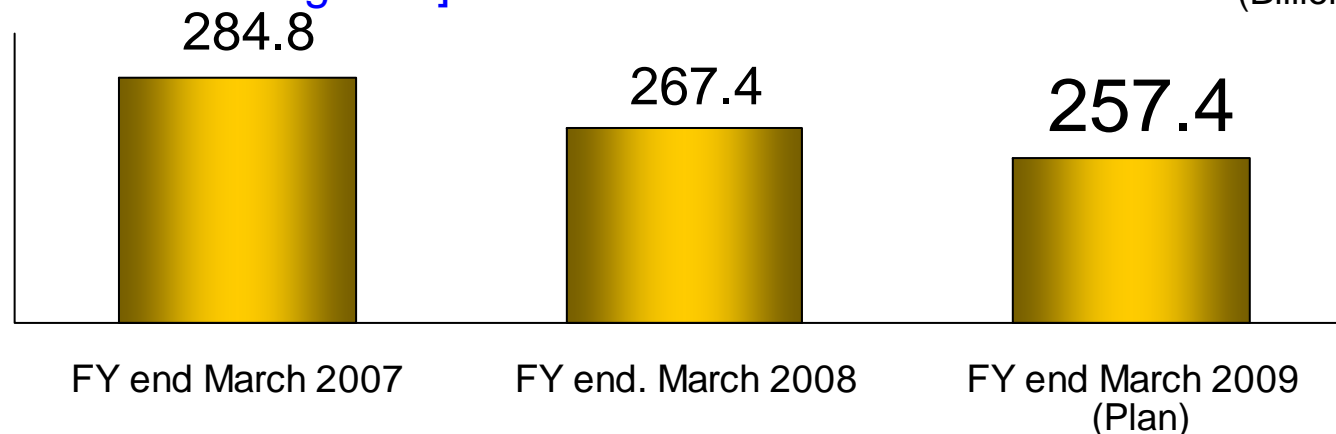
[FY end. March 2009] Cash Flows Projections

- OKI expects to create 10.0B yen free cash flow in the FY ending March 2009 through improvement in working capital (Billion yen)

	FY end. March 2008 (Actual)	FY end. March 2009 (Plan)
I. Cash flows from operating activities	42.5	44.0
II. Cash flows from investing activities	(22.9)	(34.0)
Free cash flows (I+II)	19.6	10.0
III. Cash flows from financing activities	(19.4)	(10.0)
Net cash flow (I+II+III)	0.2	0
IV. Cash and cash equivalents at the period end	49.8	49.8

[Balance of interest bearing debt]

(Billion yen)



(Reference) [FY end. March 2008] Summary of Profit and Loss

Printer: Color NIP greatly contributed to profit by shifting to value-added models

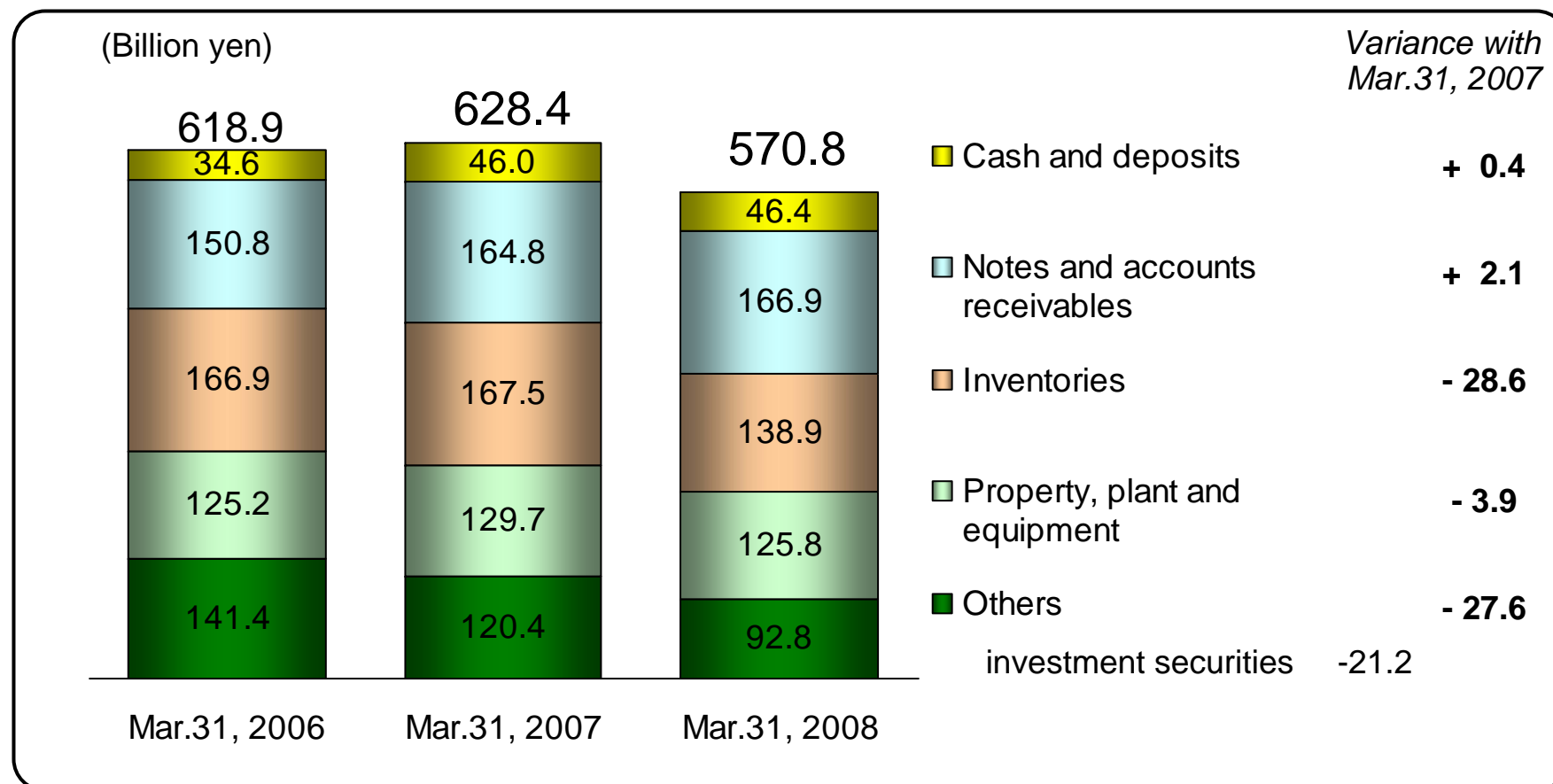
(Billion yen)	FY end. Mar. 2007	FY end. Mar. 2008	Jan.29, 2008 announcement
Net sales	718.8	719.7	735.0
(Cost of sales ratio)	(78.0%)	(77.0%)	
Cost of sales	560.9	554.4	
SG&A	163.3	159.1	
Operating income	(5.4)	6.2	6.0
Other income	(7.4)	(10.1)	
Recurring income	(12.8)	(3.9)	(2.5)
Extraordinary income/loss	(3.4)	8.9	
Income before taxes	(16.2)	5.0	3.0
Income taxes	20.2	4.4	2.5
Net income	(36.4)	0.6	0.5

【YoY comparison】

- Cost of sales ratio improved by 1.0 point from 78.0% to 77.0%
- SG&A decreased by 4.2 B yen due to reduction of personnel costs and investments, and through more efficient sales promotion expenses, etc.
- Extraordinary income increased by 12.3 B yen through gain on partial property disposal and from employee pension trust
- Income taxes declined as OKI had reversal of deferred tax assets the previous fiscal year

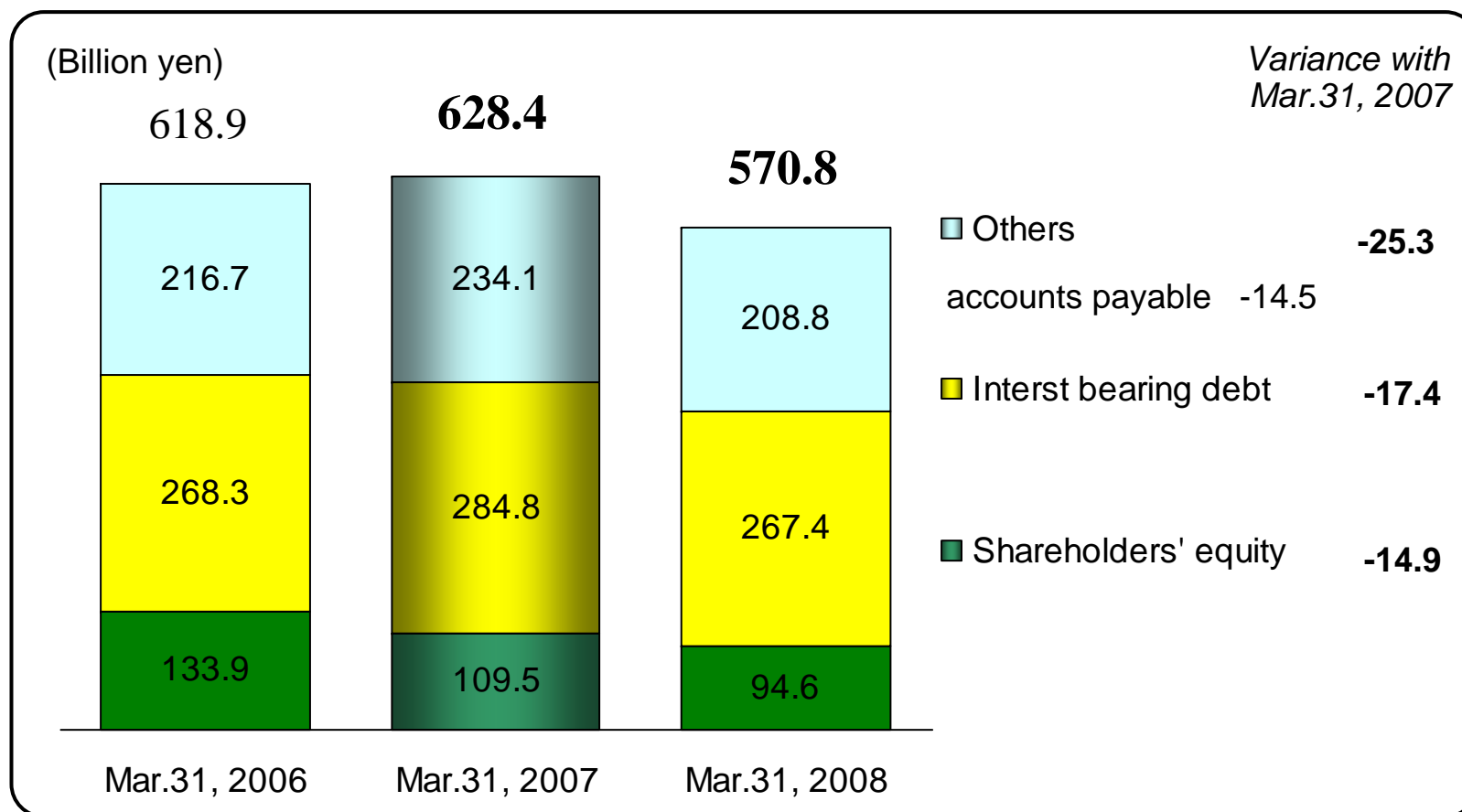
(Reference) [FY end. March 2008] Balance Sheet [Assets]

- Inventories decreased by 28.6 B yen YoY through improvement activities
- Total assets decreased by 57.6 B yen YoY through improvement in inventories and through decline in investment securities (21.1 B yen) as current value declined



(Reference) [FY end. March 2008] Balance Sheet [Liabilities and shareholders' equity]

- Interest-bearing debt decreased by 17.4B yen YoY
- Shareholders' equity declined by 14.9 B yen YoY, due to decrease in marketable securities valuation difference of 13.7 B yen, etc.



(Reference) [FY end. March 2008] Cash Flows

- Free cash flows improved by 38.4 B yen from decrease in working capital, improvement in income, etc.

	Mar. end. 2007	Mar. end 2008	(Billion yen)	
I. Cash flows from operating activities	16.1	42.5		
Income before income taxes	(16.2)	5.0	< Changes in working capital >	
Depreciation & amortization	35.0	34.8	Mar. 07	Mar. 08
Changes in working capital	(4.8)	5.6	Receivables (7.4)	(6.9)
Others	2.1	(2.9)	Inventories 2.7	24.3
			Payables (0.1)	(11.8)
			Total (4.8)	5.6
II. Cash flows from investing activities	(34.9)	(22.9)		
Purchases of property, plant & equipment	(26.7)	(25.4)		
Others	(8.2)	2.5		
Free cash flows (I+II)	(18.8)	19.6		
III. Cash flows from financing activities	28.1	(19.4)		
Issuance and redemption of bonds	10.0	(9.5)		
Changes in other interest bearing debts, etc.	18.5	(11.3)		
Payment of dividends	(0.4)	1.4		
Net cash flow (I+II+III)	9.3	0.2		
IV. Cash and cash equivalents at the period end	49.8	49.8		
V. Interest bearing debt at the period end	284.8	267.4		

Glossary

P3	FY	Fiscal Year
	YoY	Year-on-year
P4	ATM	Automated Teller Machine
	LSI	Large Scale Integration
	P2ROM	Production Programmable Read-Only Memory
P6	NIP	Non-Impact Printer
	IP	Internet Protocol
	R&D	Research & Development
P10	NGN	Next Generation Network
P12	SMB	Small and Medium Business
	SIDM	Serial Impact Dot Matrix
P17	FMC	Fixed Mobile Convergence
P18	IDM	Integrated Device Manufacturer
	TFT	Thin Film Transistor
P19	SDP	Service Delivery Platform
	SaaS	Software as a service
	SG&A	Selling, General and Administrative expense

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