

# Oki Management Strategies

Feb. 17, 2006

Oki Electric Industry Co., Ltd.

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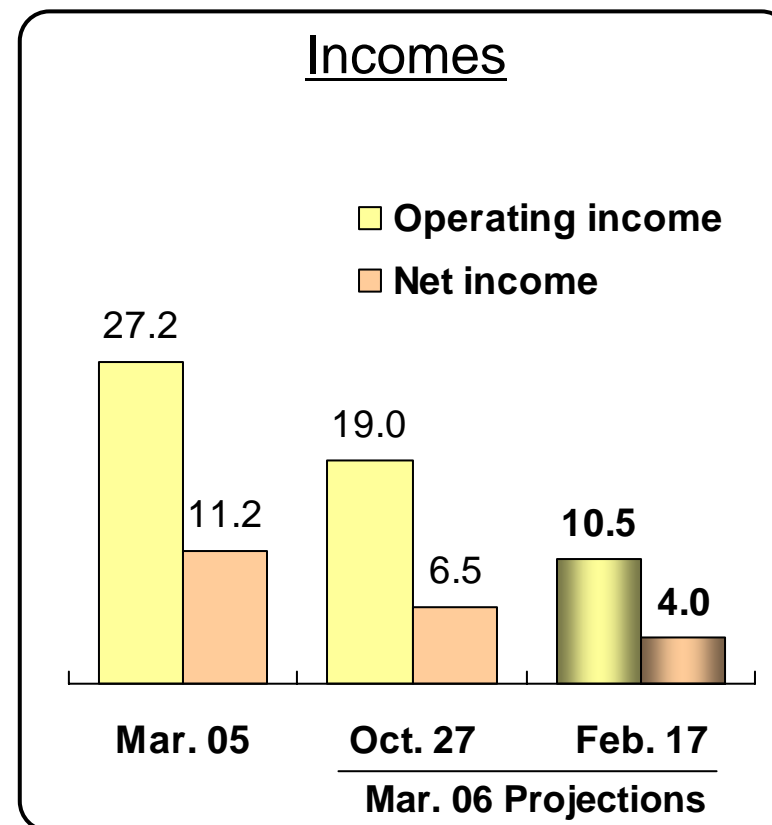
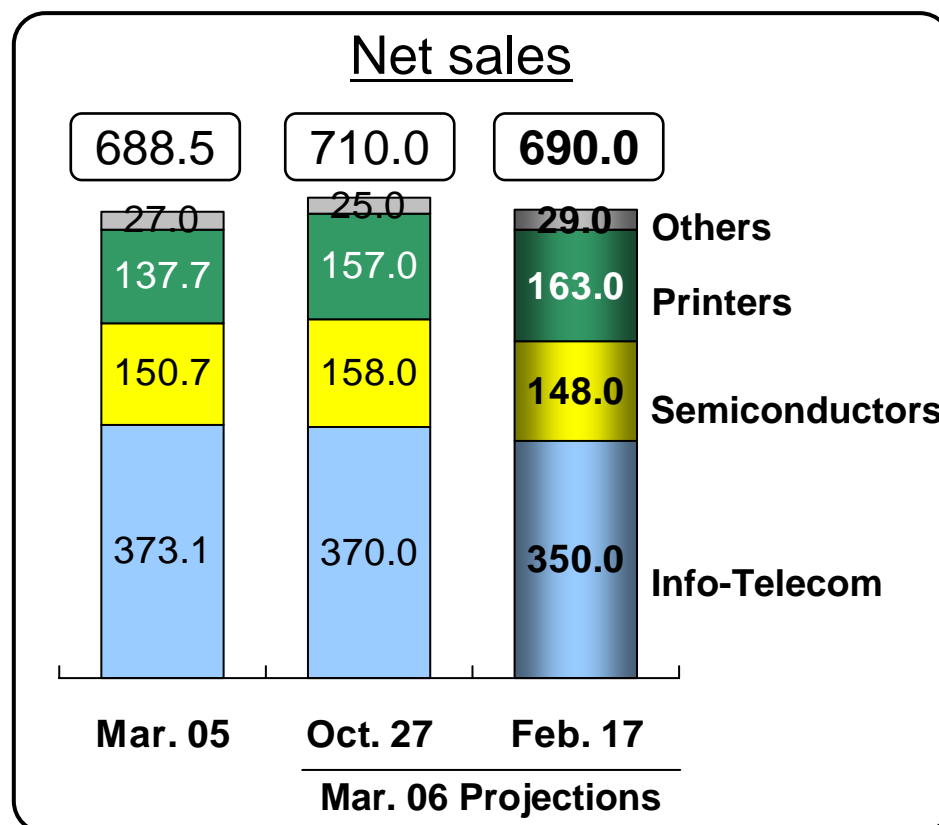
(Reference) Financial Results for Q3, FY ending Mar. 2006

# Full Year Projections for FY Mar. 2006



- Net sales is projected to be 690.0 B yen, decreased by 20.0 B yen due to reduction in sales for telecom carriers and sales of semiconductors (Accelerated digital deflation, delay in responding to customers' business environment changes)
- Operating income is projected to be 10.5 B yen, decreased by 8.5 B yen, according to sales reduction
- Recurring income and net income decreases accordingly

(Billion yen)



# P/L Projections for FY Mar. 2006



(Billion yen)

	Projections (FY Mar. 2006)			(Ref.) FY Mar. 05 Results
	Feb. 17	Oct. 27	Variance	
<b>Net sales</b>	690.0	710.0	(20.0)	688.5
<b>Operating income</b>	10.5	19.0	(8.5)	27.2
Other income	(4.0)	(6.0)	*1 2.0	6.0
Recurring income	6.5	13.0	(6.5)	21.2
Extraordinary income	*2 9.5	3.0	6.5	4.2
Extraordinary loss	*3 7.5	5.0	2.5	6.9
Income before taxes	8.5	11.0	(2.5)	18.5
Income taxes	4.5	4.5	0	7.3
<b>Net income</b>	4.0	6.5	(2.5)	11.2

\*1:

- Gain in currency exchange: 1.0

\*2:

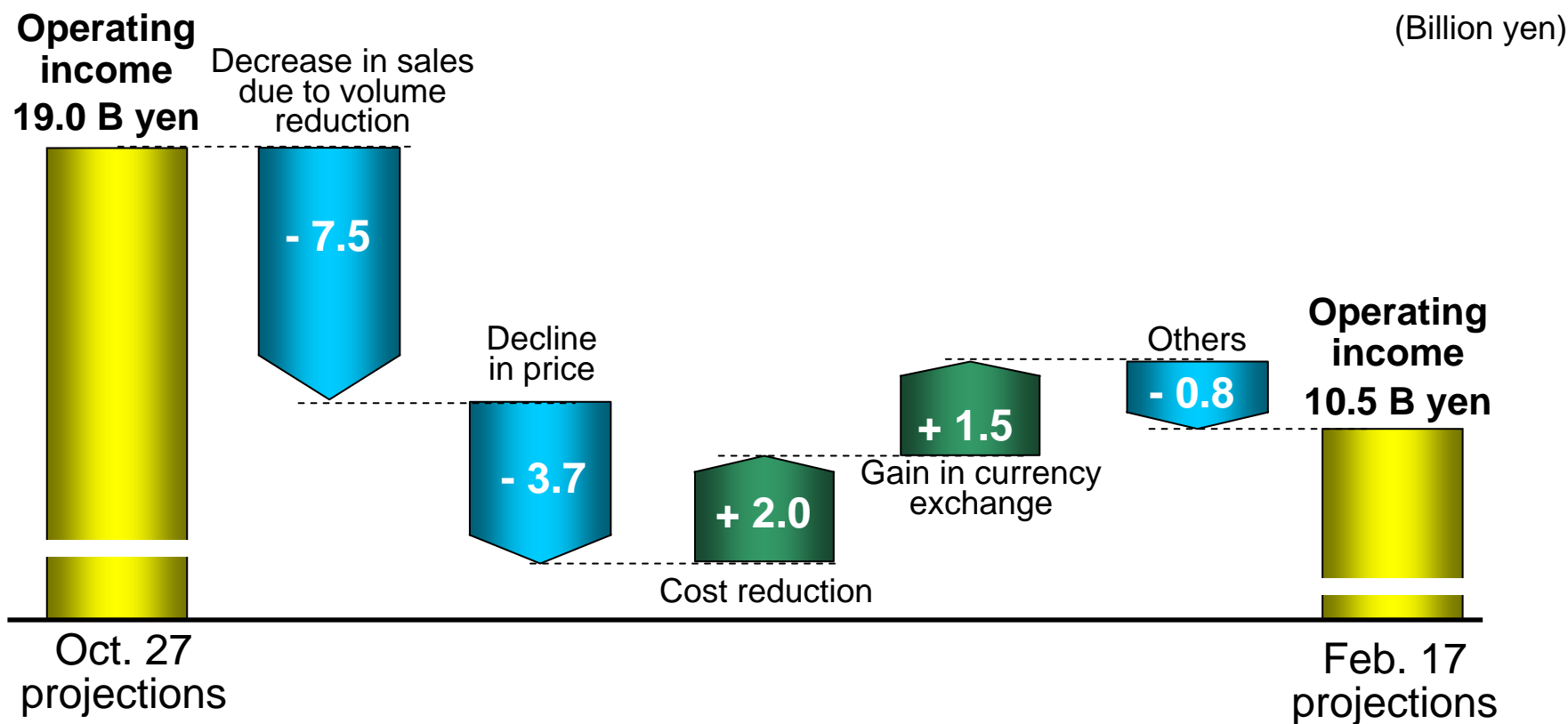
- Gain on sale of marketable securities: 7.5  
- Gain on sales of fixed assets: 2.0

\*3:

- Loss on disposal of fixed assets: 1.1  
- Impairment loss: 3.0  
- Disaster loss (earthquake in Miyagi): 0.9  
- Special retirement payments: 1.7  
- Bad debt allowance, etc.: 0.8

# Analysis of Changes in Operating Income

- Operating income expected to be 10.5 B yen, decreases by 8.5 B yen from Oct. 27 projections, due to decline in marginal profit caused by decrease in volume, and continuous price drop in semiconductors and printers



# Full Year Projections: Info-Telecom



## <Net sales>

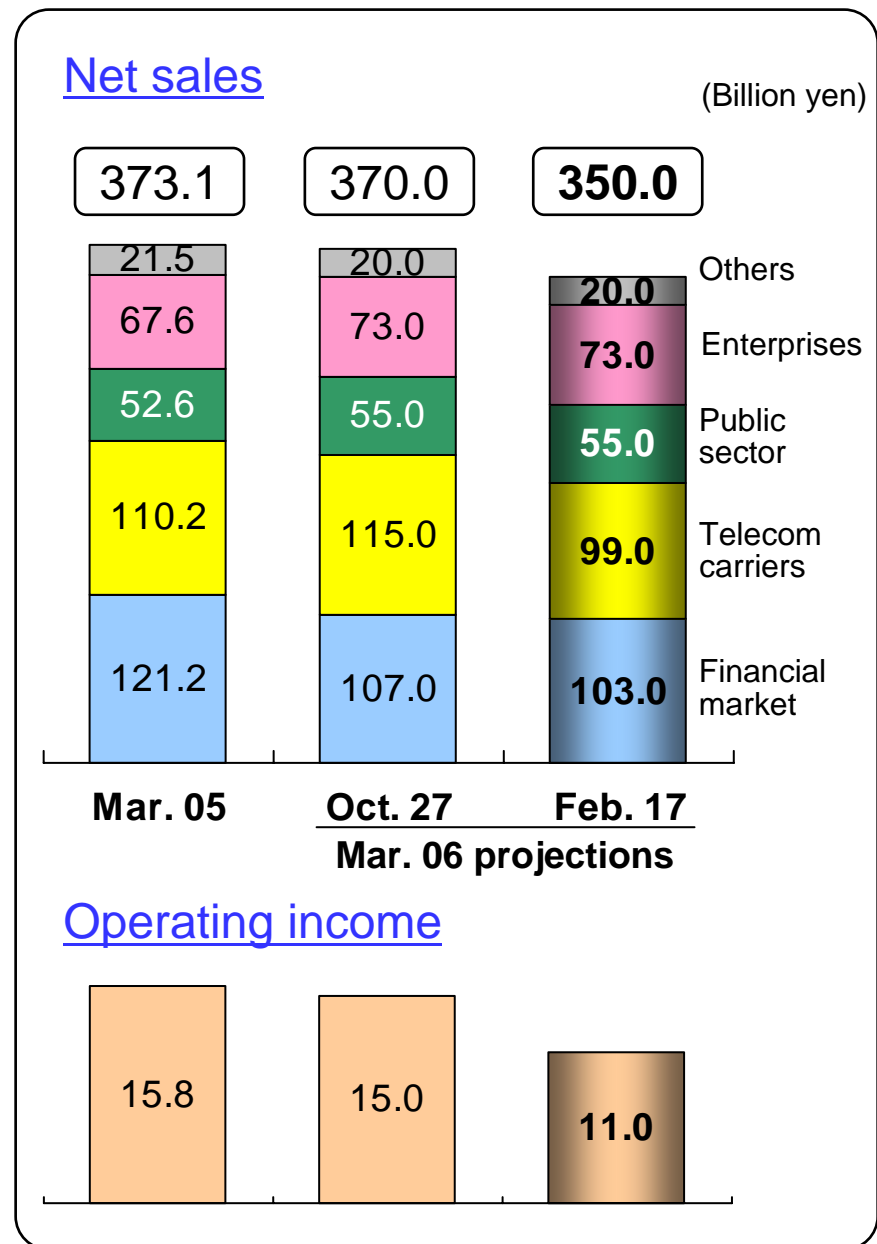
350.0 B yen, decreases by 20.0 B yen from Oct. 27 projections

- Sales for the financial market decreases by 4.0 B yen due to:
  - expected demands for security-enhanced ATM moves to the next fiscal year
  - over estimated demands for backyard and network systems
- Sales for telecom carriers decreases by 16.0 B yen due to:
  - decrease in carriers' investments due to fluctuated demand for video delivery and for direct collection of fixed-phone
  - shift of investment to mobile by new common carriers

## <Operating income>

11.0 B yen, decreases by 4.0 B yen

- Decrease in marginal profit according to sales reduction (-5.0 B yen)
- Cost reduction, etc. (+1.0 B yen)



# Full Year Projections: Semiconductors



Profitable with effects of fab-free strategy, despite business environment worsens

## <Net sales>

148.0 B yen, decreases by 10.0 B yen from Oct. 27 projections

- System LSI: Decreases by 2.0 B yen due to delay in product development, etc.
- Logic LSI: Decreases by 3.0 B yen due to volume decline in driver LSI by fiercer competition
- System memory: Decreases by 5.0 B yen due to decline in volume and price in P2ROMs caused by fiercer competition, etc.

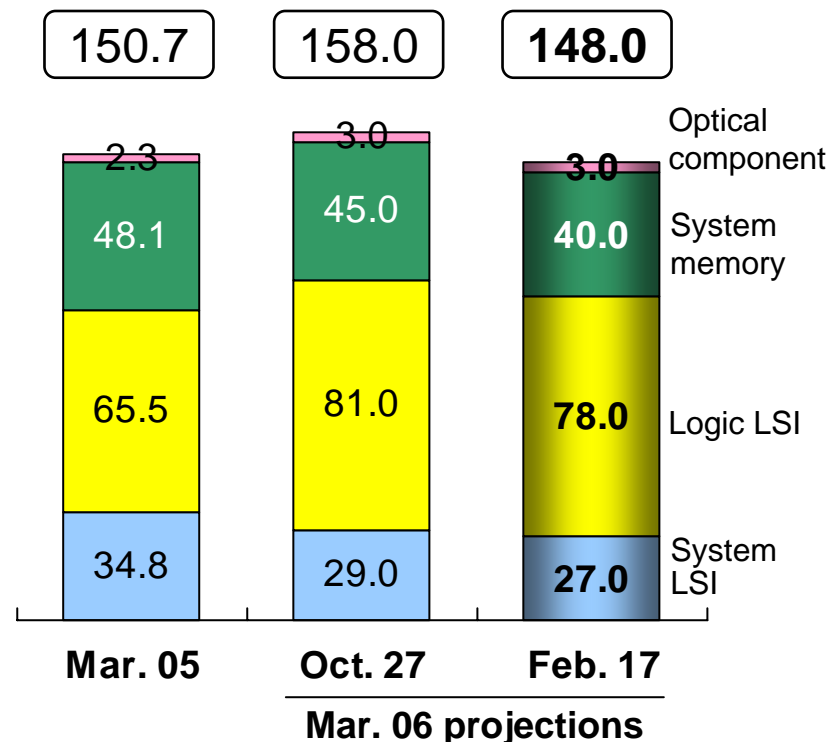
## <Operating income>

2.5 B yen, decreases by 3.0 B yen

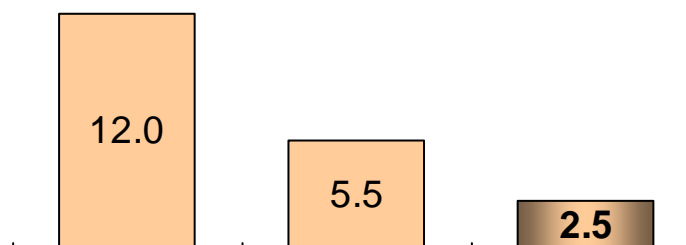
- Decrease in marginal profit according to sales decline (-3.0 B yen), price drop in driver LSI (-1.0 B yen), etc.
- Currency exchange gain, cost reduction, etc. (+1.0 B yen)

### Net sales

(Billion yen)



### Operating income



# Full Year Projections: Printers



Though competition becomes fiercer, shipment volume for color NIP is expected to grow 50% on a year-on-year basis

## <Net sales>

163.0 B yen, increases by 6.0 B yen from Oct. 27 projections

- Slight increase in unit shipment of color NIP against the plan
- Sales increase in monochrome NIP, due to increase in unit shipment. SIDM sales is as planned
- 2.5 B yen from gain in currency exchange

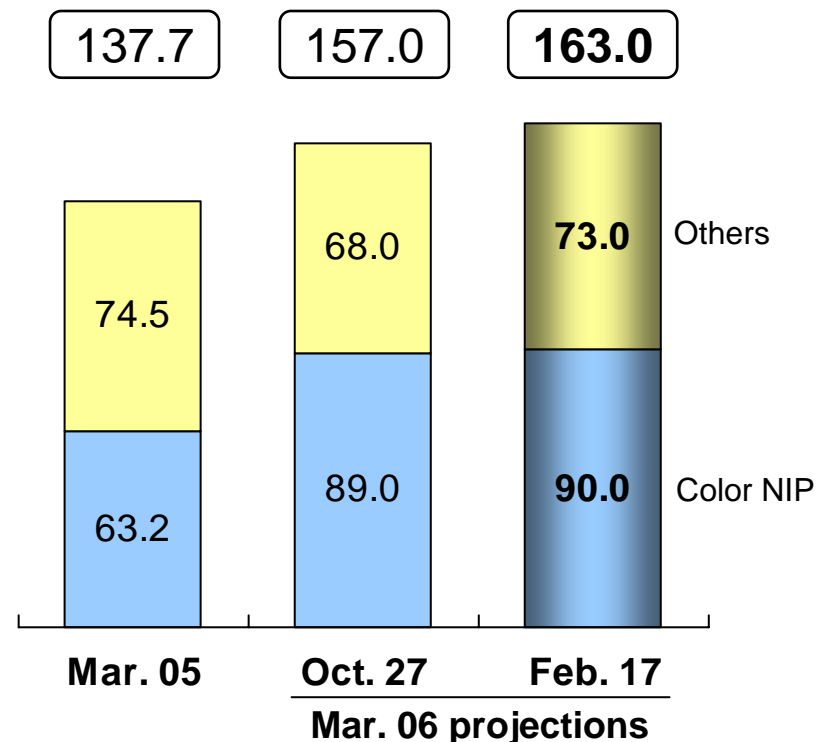
## <Operating income>

4.0 B yen, decreases by 2.0 B yen. While sales grows, competition accelerates.

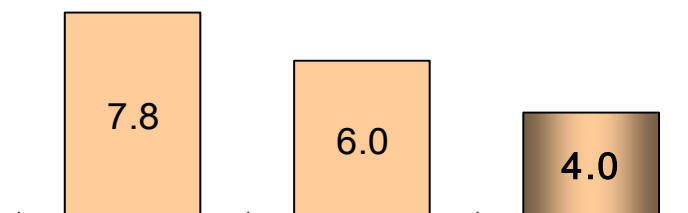
- Price drop worsens profitability in color NIP. Mono NIP income increases with the growing shipment volume. SIDM operates as planned. (-2.7 B yen)
- Gain on currency exchange (+0.7 B yen)

### Net sales

(Billion yen)



### Operating income





# Cash Flow Projections for FY Mar. 2006

**OKI**

- Increase in working capital worsens free cash flow by 31.8 B yen on year-on-year basis

- Reduce interest-bearing debts by 2.0 B yen

(Billion yen)

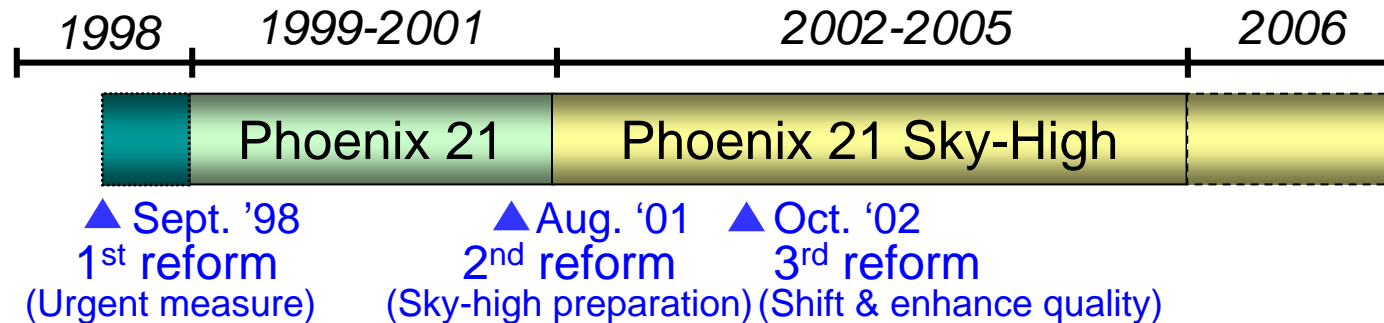
	Mar. 05	Mar. 06	Variance	Notes	Oct. 27 projections	
<b>I. Cash flows from operating activities</b>	59.3	29.3	(30.0)		52.0	
Income before income taxes	18.5	8.5	(10.0)	<b>&lt;Working capital&gt;</b> Mar.05 Mar.06	11.0	
Depreciation & amortization	34.2	38.0	3.8		Receivables 13.6 (10.0)	38.0
Changes in working capital	11.7	(23.6)	(35.3)		Inventories (9.0) (12.9)	(9.0)
Others	(5.1)	6.4	11.5		Payables 7.1 (0.7)	
					Total 11.7 (23.6)	12.0
<b>II. Cash flows from investing activities</b>	(41.5)	(43.3)	(1.8)		(49.0)	
Purchases of property, plant & equip.	(33.9)	(37.0)	(3.1)		(37.0)	
Others	(7.6)	(6.3)	1.3		(12.0)	
<b>Free cash flows (I+II)</b>	17.8	(14.0)	(31.8)		3.0	
<b>III. Cash flows from financing activities</b>	(26.9)	(3.8)	23.1		(6.8)	
Issuance and redemption of bonds	5.0	(10.0)	(15.0)		(10.0)	
Changes in other interest bearing debts, etc.	(31.9)	8.0	39.9		5.0	
Payment of dividends	0	(1.8)	(1.8)		(1.8)	
<b>Net cash flows (I+II+III)</b>	(9.1)	(17.8)	(8.7)		(3.8)	
<b>IV. Cash and cash equivalents at the period end</b>	49.4	31.6	(17.8)		45.6	
<b>V. Interest-bearing debt at the period end</b>	265.2	263.2	(2.0)		260.2	

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(Reference) Financial Results for Q3, FY ending Mar. 2006

# Status of Businesses and Reforms

**OKI**



## <Status of Each Business> Steady achievement for overall Oki group

### **Info-Telecom: Need further reforms in partial conventional businesses**

- Stable profit in public sector and enterprise segments owing to reform results  
Continued response to market changes
- Decrease in sales and profit in financial market and telecom carrier segments  
Become stable profit businesses by further reforms

### **Semiconductors: Profitable, though require further reforms**

- Profitable, owing to fab-free strategy
- Weakened product competitiveness, continuous price drop

### **Printer: Growing, shift to higher added-value**

While color NIP sales is expanding, slow profit growth due to fiercer price competition

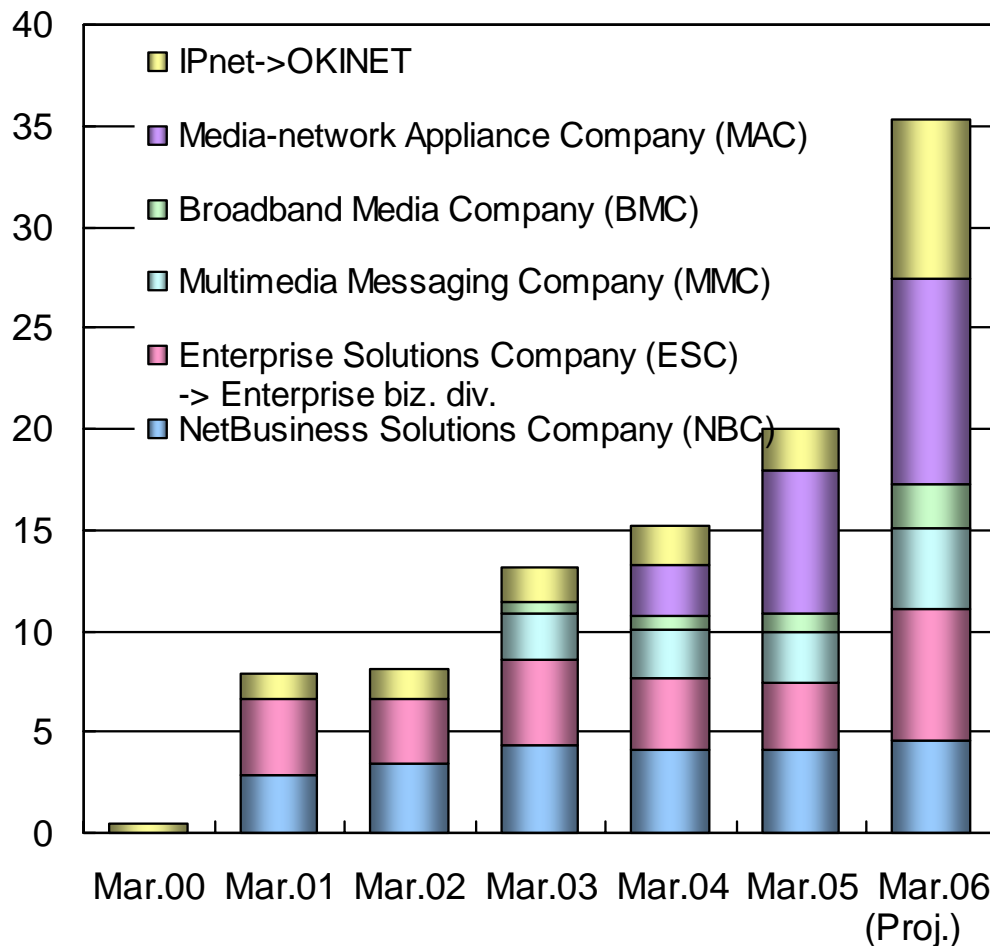
### **In-house Venture Companies: Steady growth**

# In-house Venture Companies' Performances



- Steady growth in sales of in-house venture companies
- Enterprise Solution Company (ESC) grew to a business division, and IPnet merged with two companies and grew to an integrated network SI company  
Both graduated from venture company status

(Billion yen)



## Note 1: Establishment

IPnet: FY Mar. 00

NBC, ESC: FY Mar. 01

MMC, BMC: FY Mar. 03

MAC: FY Mar. 06

(Sales in FY Mar. 03 and 04 were included in sales of IP Systems Company)

## Note 2: ESC

- Reformed in FY Mar. 04

- In FY Mar. 06, integrated with other business areas, and became a business division of System Solutions Company

## Note 3: IPnet

- In FY Mar. 06, integrated with a part of Oki Customer Adtech and IP Systems Company, and restructured to Oki Network Integrations (OKINET)

## ■ Issues:

- Enhancement in product competitiveness (cost reduction, new product creation)
- Strengthen sales capability
- Respond to customers' business environment changes

## ■ Measures: Revamp Business Structures

Innovate conventional-type businesses and expand new businesses

### <Issues>

Lower costs responding to decline in price

Create high value-added products and strong businesses

Strengthen sales capabilities

Respond to customers' business environment changes

### <Measures>

#### Revamp Business Structures

##### Refine conventional businesses

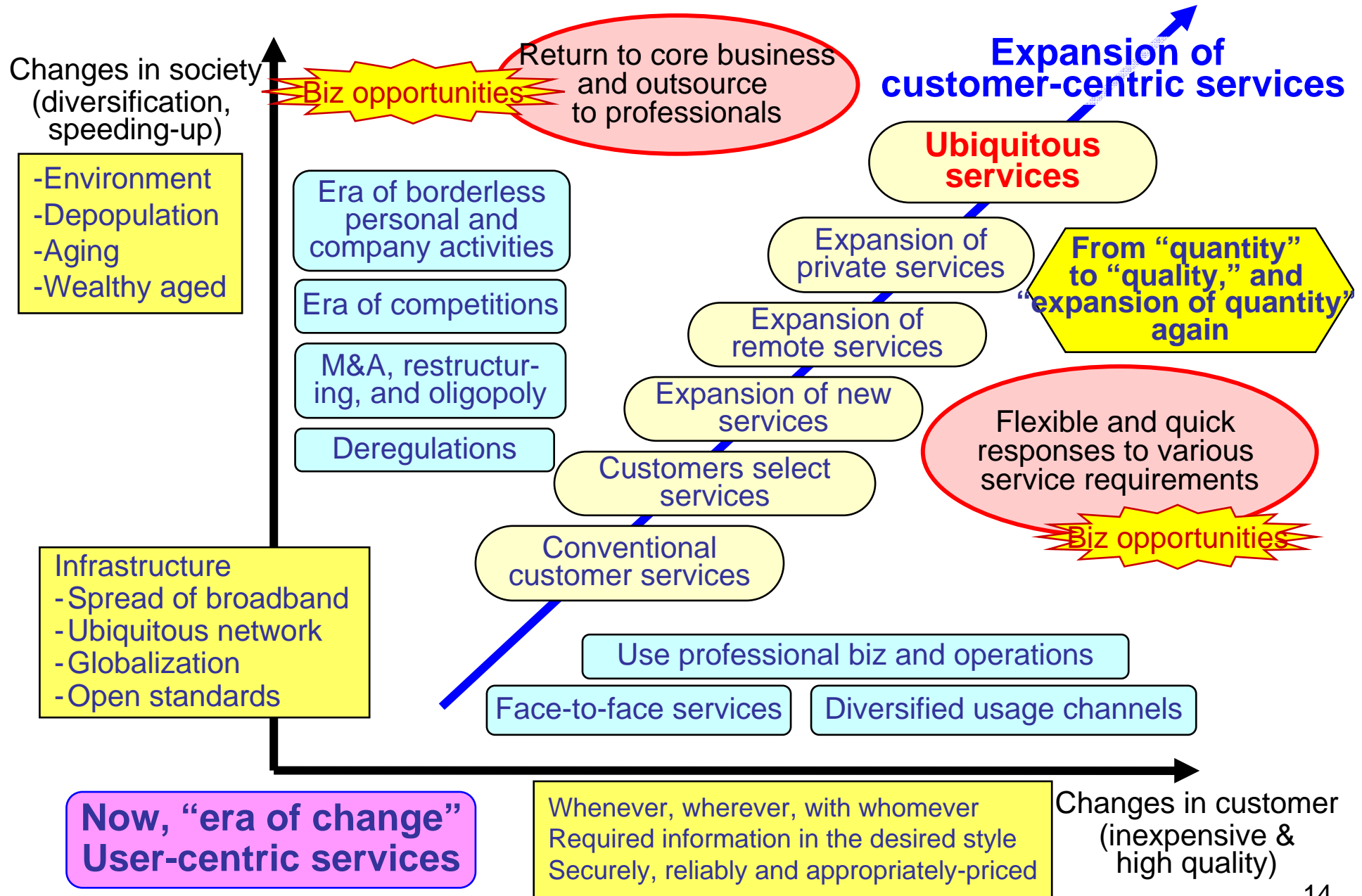
- Further clarify focus business areas
- Enhance product planning and development
- Strengthen indirect sales

##### Expand new businesses

Expand service and software businesses

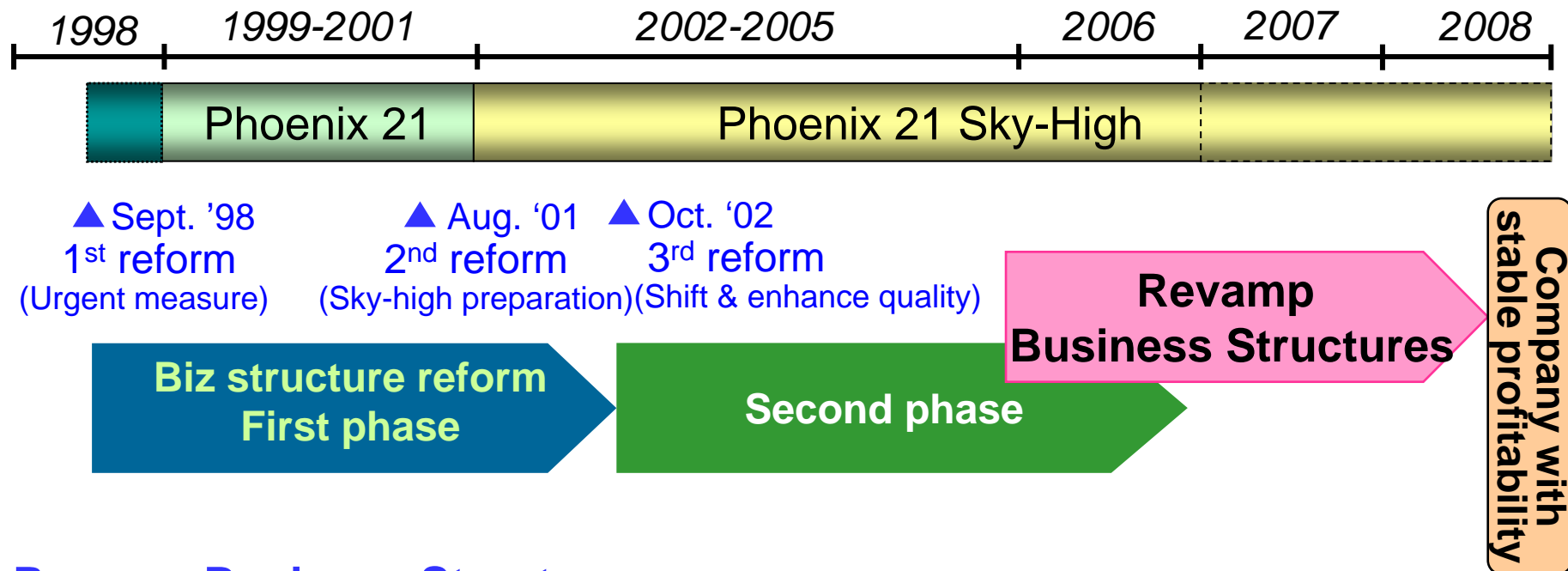
Expand China business

# Changes in Customers' Business Environments



# Revamp Business Structures

**OKI**



## Revamp Business Structure

### Urgent issue: Flexibly respond to customers' business environment changes

#### ■ Refine conventional businesses

- Review and reform existing business to become a company with stable profitability

#### ■ Expand new businesses

1. Enhance service and software businesses: Double the sales by FY Mar. 2011
2. Expand China business: Enhance localization and target 10% of sales in FY Mar. 2011

# Policy to Revamp Conventional Businesses



Clarify focusing business area, enhance product planning and development capabilities, and strengthen indirect sales by looking ahead to the market trend, including customers' business environment changes

Clarify focus biz area

Enhance product planning and development capabilities

Strengthen indirect sales

Info-Telecom

**Financial market:** In addition to mechatronics and branch systems, focus on systems for diversified channels (e-finance) and service biz. Enhance response to privatization of postal biz. Strengthen China ATM.

**Telecom carriers:** In addition to current areas, focus on systems for network edge and services, Oki products for FMC, and broadband home routers for domestic and overseas markets

**Development structure:** Strengthen divisions for financial and network systems

**Indirect sales:** Enhance domestic and overseas indirect sales of mechatronics, enterprise network and carrier network products

Semi-conductors

**Focus area:** Focus on high voltage process, low power consumption, non-volatile memory, and telecom LSI (wireless). Concentrate resources and enhance product planning and development capabilities

**Sales:** Establish stable business in Japan, and expand sales in Asia

Printers

**Focus area:** Focus on high functioned, value-added color NIP. Enhance SIDM lineup  
**Development structure:** Strengthen planning and development for solution business deployment

**Sales:** Further strengthen domestic sales



# Enhance Indirect Sales in Info-Telecom



Indirect sales ratio: 17% in FY Mar. 2006 → 25% in FY Mar. 2011 (target)

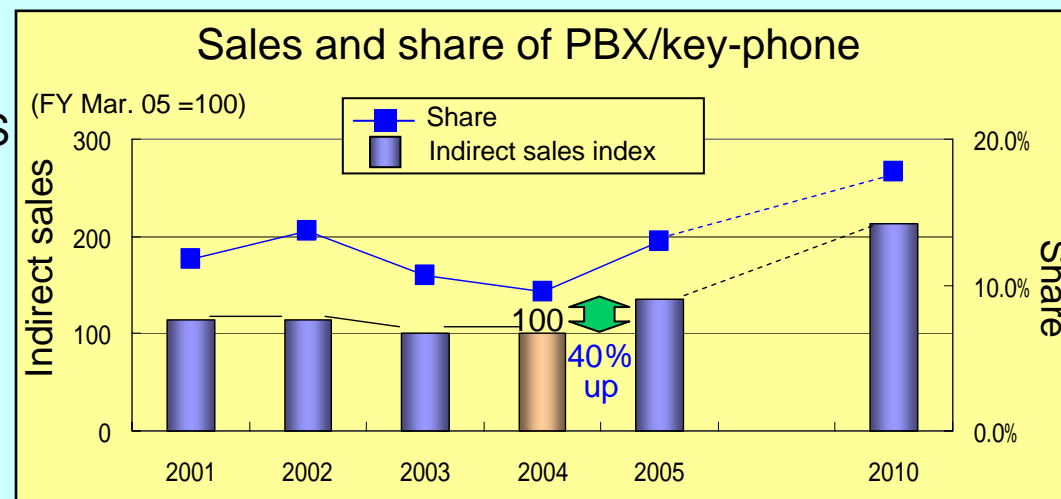
<Status in FY Mar. 2006>

- ◆ Increasing indirect sales for enterprise network products (increase by 40% on a year-on-year basis)
  - Expand IP-PBX products: SS9100 (large-scale PBX), IPstageEX300 (Mid & small PBX)

<For FY Mar. 2011>

Further expand enterprise network products:  
Target for FY Mar. 2011 Large-scale PBX: 35%  
PBX/key-phones: 18%

- ◆ Create new products
  - Improve PBX/key-phone lineup
  - New terminals following Oki PHS and wireless applications
- ◆ Enhance sales channel
  - Develop new domestic and overseas channels
  - Strengthen channel support structure



# Financial Systems: Business Status and Market Trend **OKI**

## <Status in FY Mar. 06>

- Inaccurate estimation of customers' investment timing (Investment grows after initial evaluation)
  - Delay in full-scale investment on security-enhancement, including personal information protection and biometrics
  - Delay in replacement for backyard systems and back office operation concentration systems
- Decline in prices of ATM unit, ATM maintenance, back office operation concentration systems (fiercer competition)
- Delay in rise of market for Oki targeted products: ATM, backyard, e-financial sys.
- Sign of slight recovery

## <Market trend>

- Investment trend: Recovery in commercial banks and postal offices, delay in local banks and cooperative banks
- Accelerated cooperation beyond the industry
- Diversifying retail channels according to deregulation in representative business by banks
- Personal information protection law, crimes using counterfeit card → Increasing demand for security
- Various measures for management reconstruction (outsourcing, requirements for price)

## ■ Enhance existing products and sales capability

- New organization clarifying market and product responsibilities (Jan. 06). Shift resources
- Enhance product capabilities of ATMs, bank-branch systems, and back office operation concentration systems, and gain market shares
  - Keep top share in ATMs and back office concentration systems
  - Take over No. 1 share in bank-branch systems
- Recover profitability by reforming support service business
  - Close relationship with customers/ Improve satisfaction/ Enhance support for non-OkI products
- Expand business area and enhance structure for the privatization of the postal service

## ■ Accelerate planning, commercializing, and sales of focusing products

- Enhance security products for compliance and crime preventions
- Create products for e-finance and services as retail channels diversify beyond industry (enhance ubiquitous service)
- Expand new businesses including outsourcing (Enhance JBO and network services)

## ■ Strengthen mechatronics products

- Create and expand sales for new cash management-related mechatronics products
- Expand overseas business (China, Korea, Taiwan, Europe)

## ■ Enhance organization and structure

- Concentrate SE and development team into Financial Systems div. Plan and develop new products, and enhance SE skills
- Strengthen Chinese ATM business by localizing ATM development structure

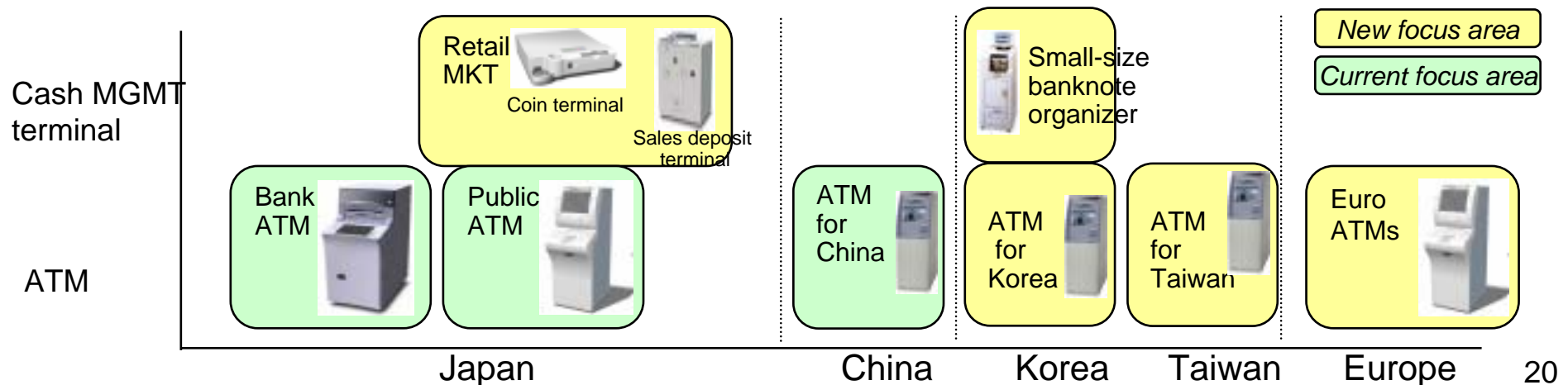
# Financial Systems: Strengthen Mechatronic Business **OKI**

## Japanese Market: Enhance cash management business in addition to ATMs

- ◆ **ATM for banks:** Increase in replacement demand for security enhanced functions (i.e. IC card, biometrics)
  - Increase sales of security-enhanced ATM BankIT and expand No.1 market share (Target: 50% or more)
- ◆ **ATMs for public-use:** Replacement increase/ Deployment for IC cards and biometrics accelerates
  - Maintain No.1 market share (80%) by introducing new large-capacity, high-speed models, and deploy new channels
- ◆ **Retail market:** Tightening of cash management, increasing needs in power savings
  - Launch new products according to market needs (banknote organizer, coin terminals, sales deposit)
  - Expand sales through new channels

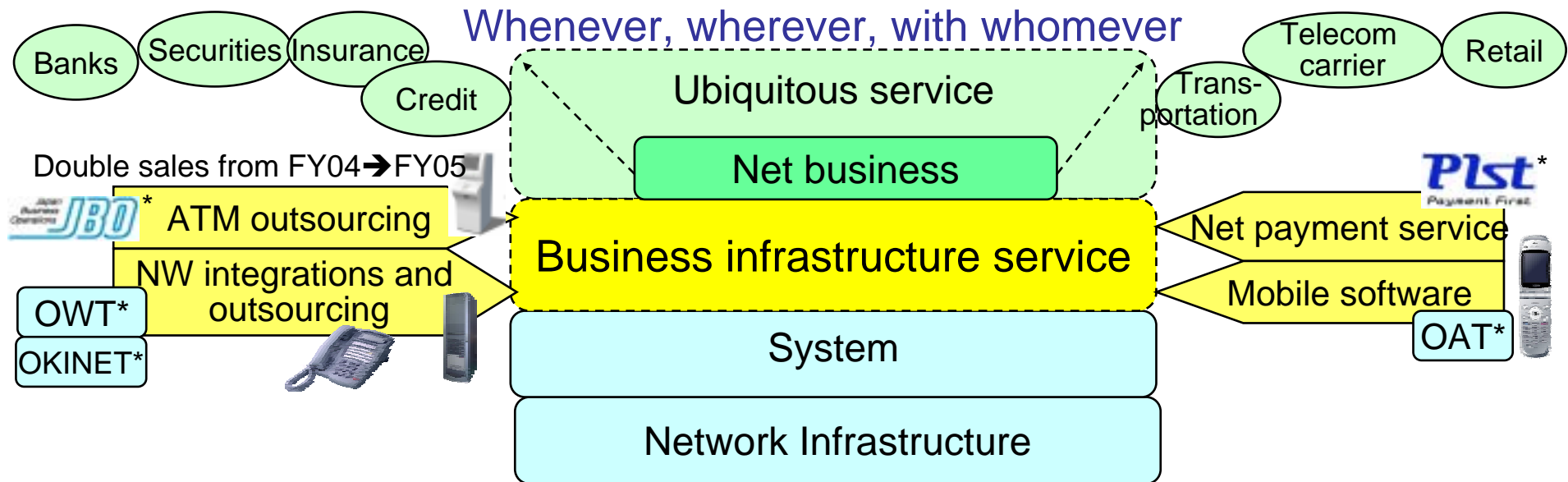
## Overseas Market: Deploy ATMs and cash management terminals to China, Taiwan, Korea and Europe

- ◆ **China:** Expand ATM sales through OEM channels. Replace CDs to small ATMs. Enhance local support
- ◆ **Korea:** Launch small-size banknote organizer to respond to new banknotes. Increase ATM share
- ◆ **Taiwan:** Launch ATMs and small-size banknote organizers
- ◆ **Europe:** Examine conditions to join the Euro ATM market



# Financial Systems: Enhance Service Business

- ◆ Ubiquitous service expands with the increase of net business
- ◆ Key for ubiquitous service is business infrastructure service (payment, security, outsourcing)
- ◆ Expand business infrastructure service area, based on products and services which Oki is planning and developing, along with customers alliances
  - Expand ATM outsourcing as ATM channels expand
  - Increase sales and business area for fee service business by working with new channel service such as wallet-phone service
  - Expand services by working with customers in financial institutions, telecom carriers and transportation and retail market



\* Oki group companies

JBO: Japan Business Operations, OWT: Oki Wintech, OKINET: Oki Network Integration, P1st: Payment First, OAT: OKI ACCESS Technologies

## <Status in FY Mar. 06>

### ■ Broadband Home Router:

- Steady growth all year with the expansion of FTTN. Expand sales (Maintain top share)
- However, does not offset the sales decrease of broadband IP network equipment

### ■ Broadband IP Network Equipment:

- Enjoyed steady sales of optical transmission equipment in the 1H
- Investments slows down with fluctuated demand for video delivery and direct collection service in the 2H
- Sales decrease as the new common carriers' investments shift to mobile related business

## <Market trend>

### ■ Continued investment for 30 million optical subscribers

- Lights and shades for the rise of broadband applications including video delivery

### ■ Investments for existing nodes are inclined to decrease

### ■ Trials start for full-scale investment for the 2007 next-generation networks

### ■ Focus on the convergence of fixed, mobile and the Internet for differentiation

- Searching killer services

### ■ New mobile phone carriers increase capital expenditure for mobile and wireless investments

## Concentrate resources on planning and development of Oki products Enhance development structure

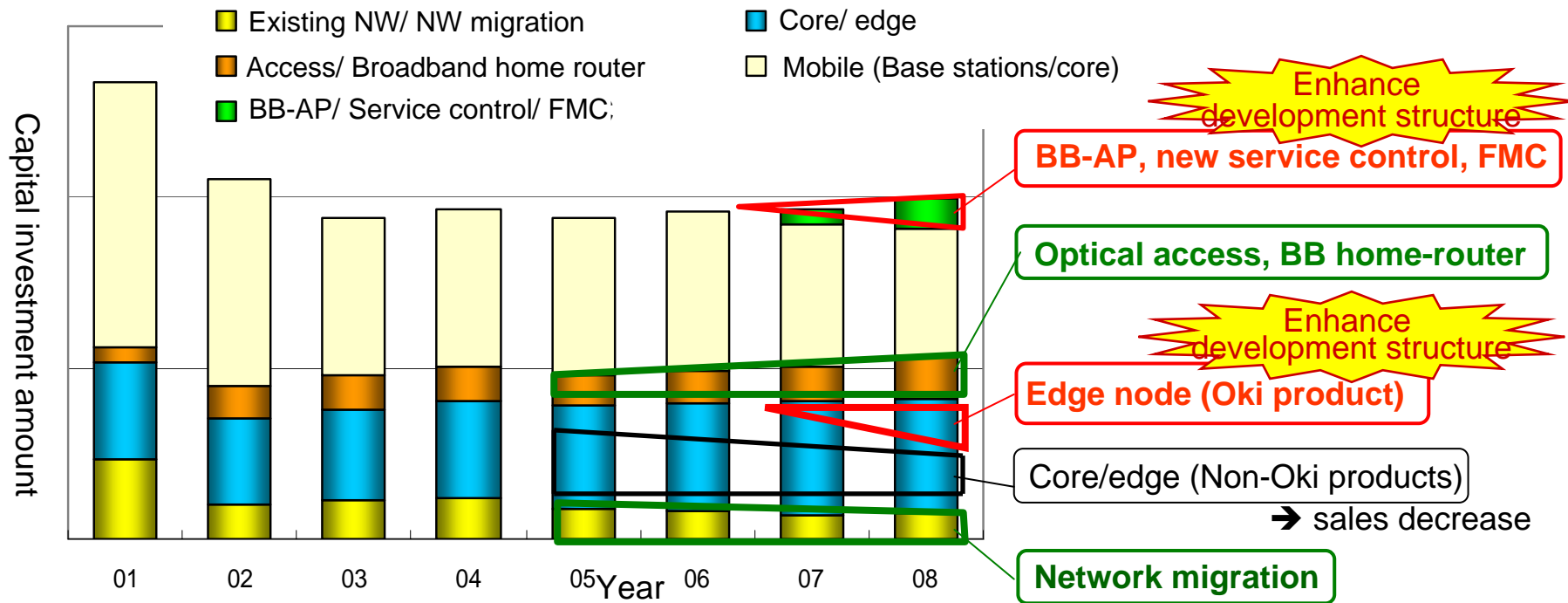
- Continue to strengthen products for optical access and optical IP phones
  - Increase market share with higher value added broadband home routers, ahead of other companies
- Accelerate development of new products for next-gen network as trials begin
  - Accelerate and strengthen network migration products with expertise based on existing networks
  - Enhance company structure to develop Oki products for edge nodes, broadband applications, new service controls and FMC areas
- Strengthen broadband applications to support new services from carriers
  - Actively propose with SipAs on WebLogic to customer base
- Expand overseas business including China
  - Deploy home routers and middleware for the digital home network market
  - Create products for Japan and overseas mobile phone carriers maximizing the alliance with ACCESS

# Telecom Carriers: Accelerate Creation for Focus Products **OKI**

Changes in focusing area in the NGN market (Shift resources to increase profitability)

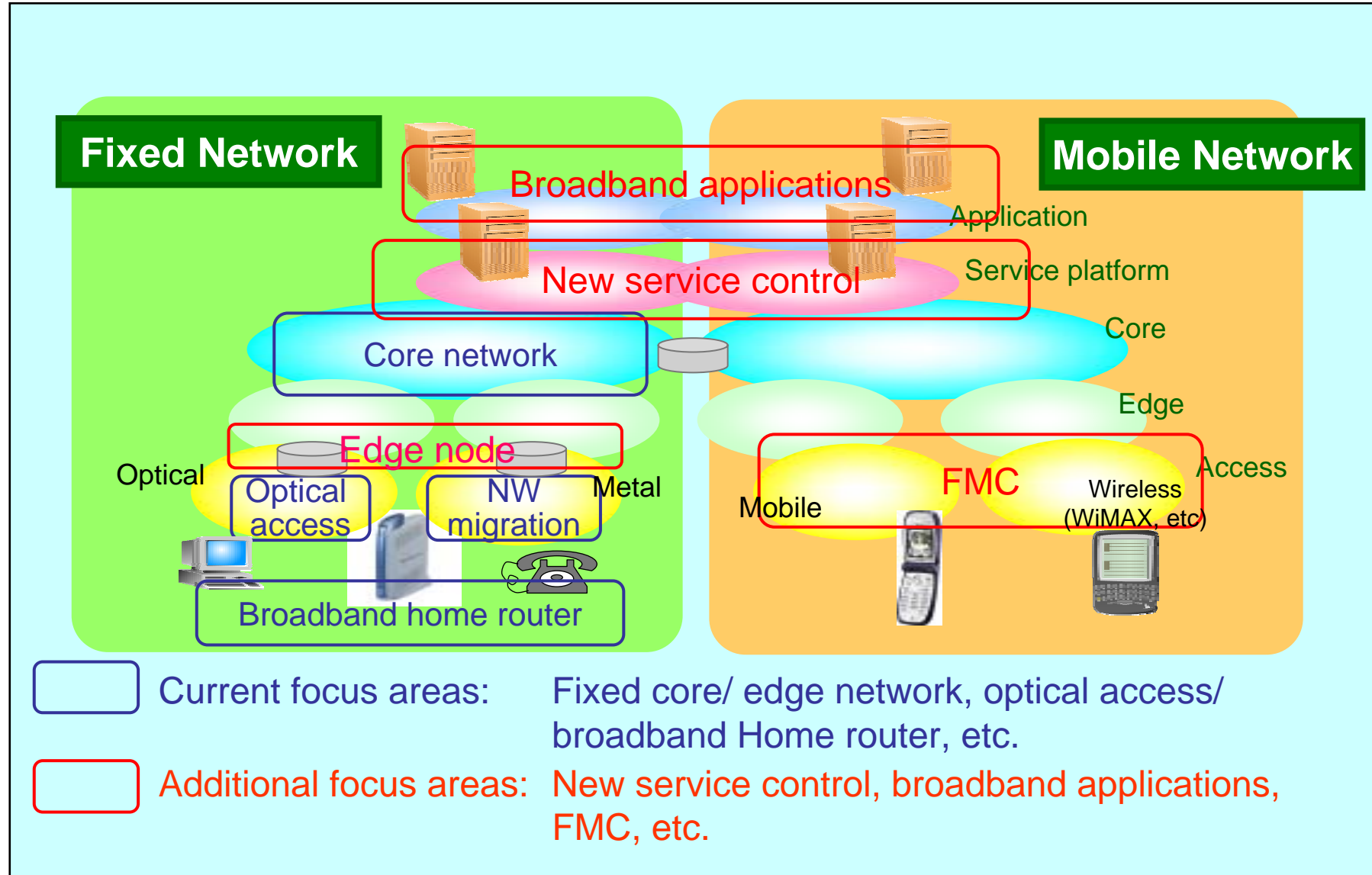
- Enhance product development structure to accelerate in developing products for:
  - Edge node area, broadband applications/ new service control, FMC area
- Continue focusing with Oki products:
  - Broadband home routers, optical access, network migration
- Core/edge market (non-Oki product area) is shrinking

**Major telecom carrier capital investments (projections)**



Source: Oki's estimation based on CIAJ and Fuji Chimera Research Institute's data

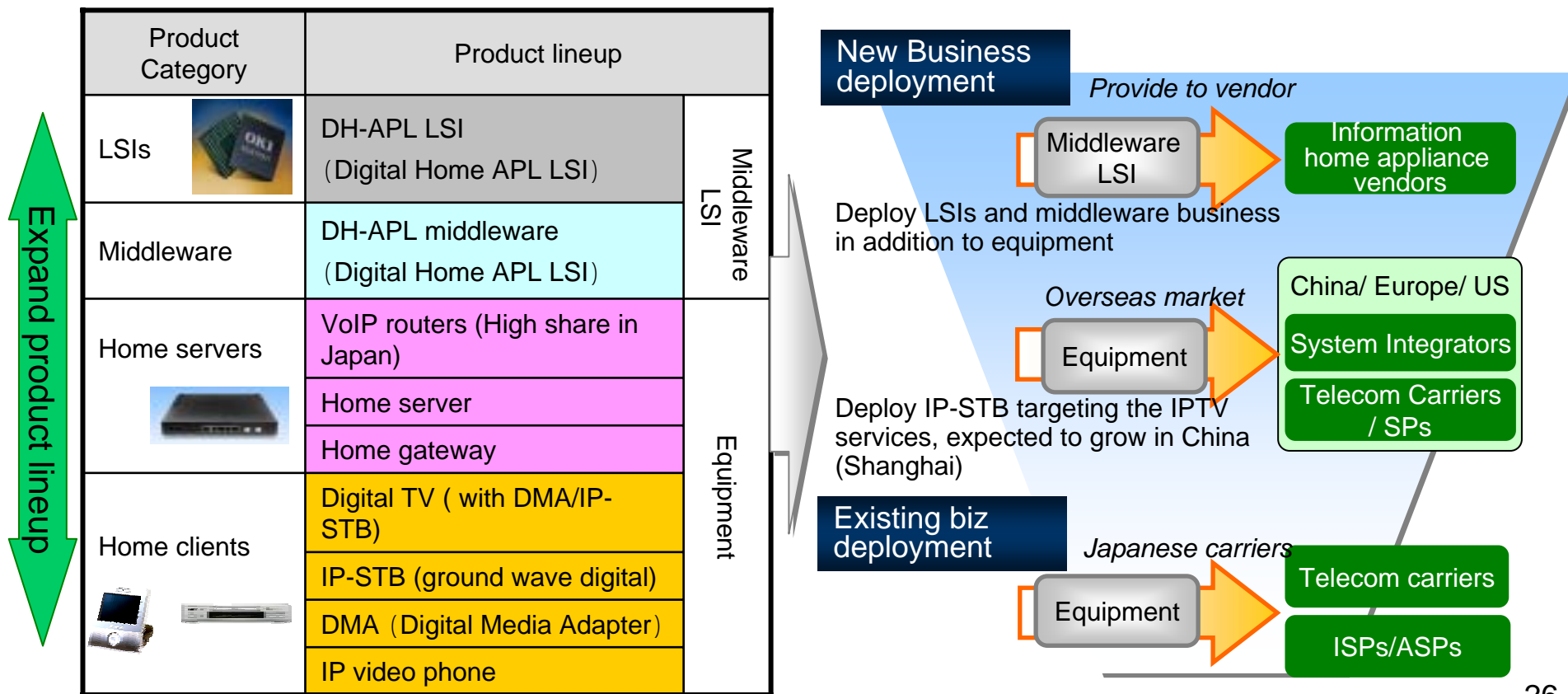




# Telecom Carriers: Global Deployment of BB Home Routers **OKI**

Oki will deploy business in the digital home network market, with its strong market share in Japan, known as the world-leading broadband country

- ◆ Create strong products based on Oki and non-Oki core competence
  - Expand core products including BB home router/ server/ client, middleware, and LSIs
- ◆ Deploy business through active alliances
- ◆ Target various carriers/xSPs, home appliance vendors, and overseas diverse customers



# Semiconductors: Business Status and Market Trend **OKI**

## <Status of FY Mar. 06>

**Expect to be profitable with effects of Fab-free strategy, despite business environment worsens**

- **Market:** Overall recovery trend. Strong demand in flat screen TV, digital audio, laptops raise the level, though Oki's strong areas experience slow growth (PHS, sound generator, DSC)
- **Price drop:** Continued price drop, severer than expected. Especially in areas Oki has strengths in: TFT driver, P2ROM, PHS, sound generator
- **Cost reduction:** While measures to reduce materials and chip shrinks for TFT drivers and P2ROMs, profit does not improve due to severe price falls
- **Volume decline:** Sales decline against projections caused by volume decline due to changes in customer demands (Mix change). Obsolescence of existing products, and delay in developing new products

## <Market Trend>

- **Overall:** Though recovery trend continues, no change in partial applications being the driver. While recovery trend in part of Oki's strength areas, price fall continues
  - ✓ **In-vehicle:** Shift from audio to visual for car electronics increases semiconductor volume. ITS enters the full-scale practical-use stage
  - ✓ **Consumer:** Flat Panel TV and DVD recorders continues to soar, though unit price falls significantly. Companies shift to higher function, higher definition. Acceleration in pricing pressure for materials. Amusement products continue to be steady
  - ✓ **Telecom:** Low-end mobile phones for rising countries increases by 6.6%. Increase in terminals with sound generators. PHS remains at the FY Mar. 06 level. Price competition for base-band LSI continues

## Re-establish a business structure less subject to market

### ■ Concentrate resources to strong businesses

Businesses where Oki can exert its strengths, and where steady sales and profit is expected  
Focus on SOS products.

#### ➤ Establish a strong business based on manufacturing

- Technologies in high-voltage processing, low power consumption(SOS, SOI), non-volatile memory: Display drivers, P2ROM, power control, RF, radio controlled watches, sensors
- Pursue high-quality and low cost→Maximize Oki fabs, work with material manufactures

#### ➤ Expand value-added business based on core system technologies

- Focus on telecom system technologies: PHS base-band, VoIP, ZigBee, power line communication, identified low electric power, communication between cars
- Industry-leading technologies, proposal skills→Work closely with major customers

### ■ Enhance business and organization through speed

#### ➤ Enhance organization and structure

Improve product planning, developing, and supporting skills through close relationships with marketing and development team

#### ➤ Develop promising new products

Plan to launch new products with sales ratio of over 20%. Accelerate development by utilizing resources effectively and through management

#### ➤ Increase alliances

Enhance and expand focusing business by making alliances with companies that complement each other through products and technologies

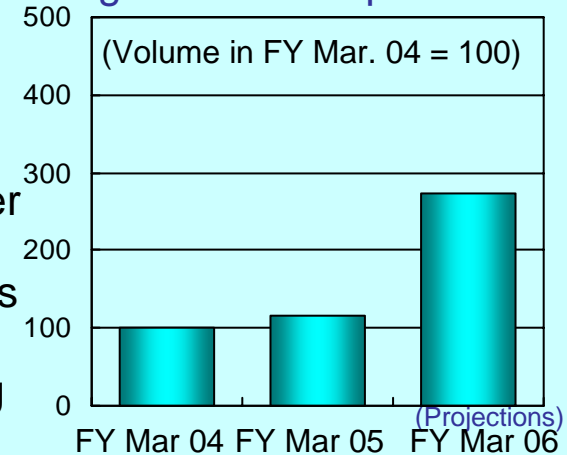
# Semiconductors: Manufacturing-based Business Strategies for Major Products



## ◆ TFT Driver

- **Policy:** Expand market share by driving the market with differentiating products
- **New products:**
  - Focus on developing differentiating products that enable high value-added products for customers (high definition, low power consumption). Drive the market
  - Provide various control LSI chipset, including timing controllers
- **Cost reduction:**
  - Reduce costs prior to other companies by chip shrink, utilizing in-house assembly fabs, efficient testing

Large TFT driver production

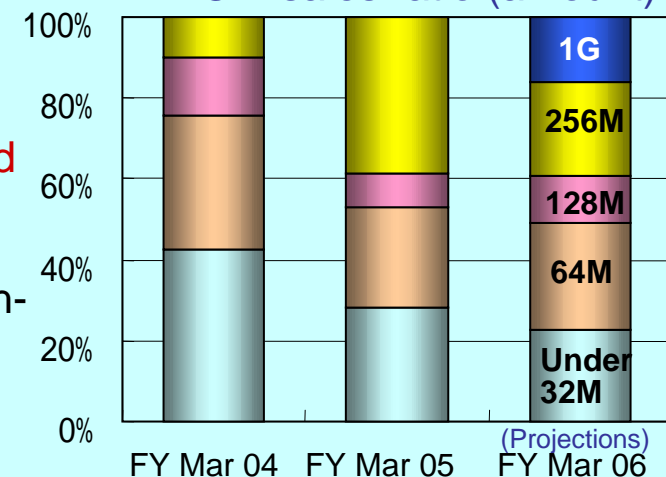


**Recent announcement (Jan.24):** Oki succeeds in developing 13-bit LCD source driver with 500Mbps high speed interface; a key component for high-definition LCD systems LCD Systems

## ◆ P2ROM

- **Policy**
  - Create new market with functions and specs that cannot be done by flash memory
  - Large capacity and high-speed, prevents falsification and unauthorized reading, includes ID functions**
- **New products**
  - Focus on developing products with high-density cell, high-speed circuits, custom logic, and security functions
- **Cost reduction**
  - By adopting new cell structure, chip shrink, improving production efficiency

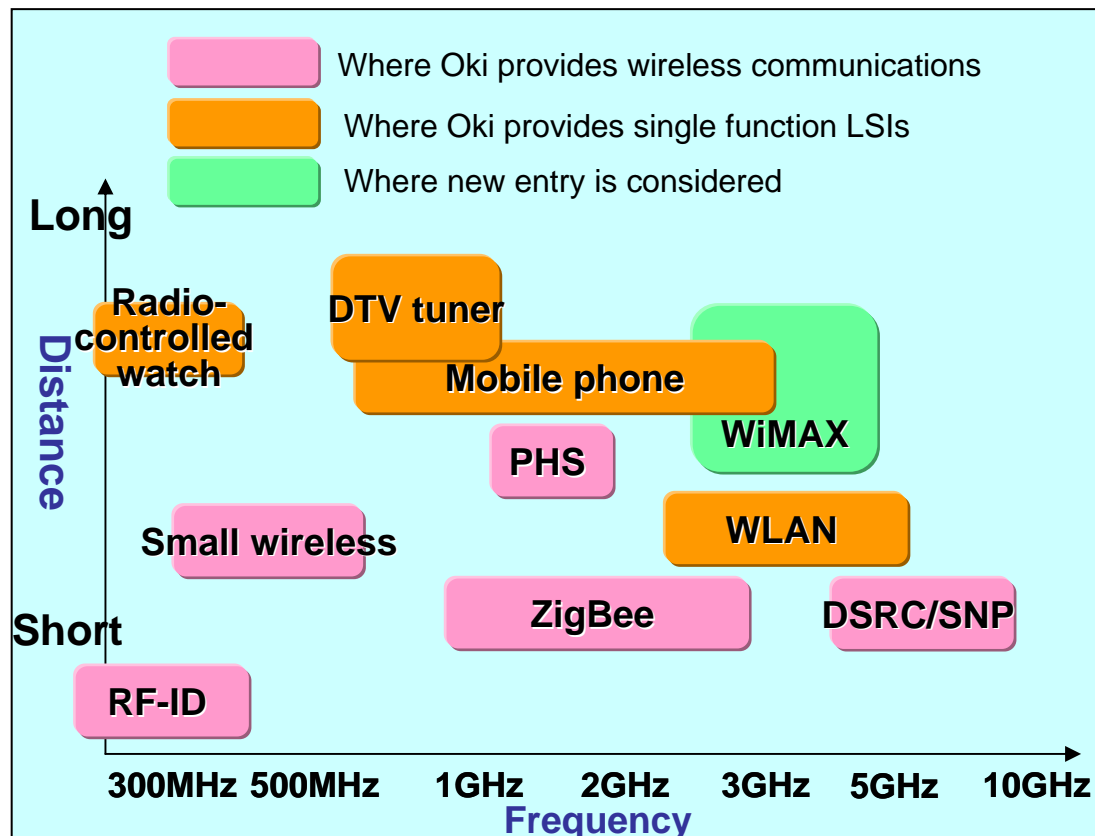
P2ROM sales ratio (amount)



# Semiconductors: Strategies based on Core System Technologies

## ◆ Telecom LSIs

- **Policy:** Provide attractive products that lead the personal and mobile industry by converging telecom system technologies and low power consumption semiconductor technologies
- **New products**
  - Short distance: Provide main wireless communications functions (RF and base-band)
    - ➔ Expand to application and system proposals
  - Wide area: Provide single function LSI such as sound, tuners and antenna switches (SOS)
    - ➔ Expand entry areas, consider entering WiMAX



## Main products for FY Mar. 07

- **PHS:**
  - RF and BB 1chip for China
  - Data communications use BB LSI for high performance PHS
- **Mobile phone:**
  - SOS antenna switch for GSM/WCDMA
  - Ground wave DTV 1/3 segments demodulated LSI
  - Electronic compass
- **WLAN:**
  - VoIP-LSI for WiFi phone
- **Short distance wireless:**
  - ZigBee for sensor networks
  - LSI and network software for low electric power
- **ITS :**
  - RF for DSRC + demodulated 1 chip

## <Status of FY Mar. 06>

- Though shipment volume for color NIP increases, profit decreases due to price fall, growth in ratio for low price models, and decline in consumable ratio
  - Sales for SIDM decrease with the shrinking market
  - Though shipment volume increase for mono NIP for a large account, impacted with significant price drop
  - Launch of new MFP product (Overseas: Jul. 2005, Japan: Dec. 2005)

## <Market Trend>

- Color NIP and MFP markets continue to expand. The most expanding low-price-model-market goes through severe price competition
- SIDM market shrinks/ Severer price drop against increased shipment for mono NIP
  - Color NIP:
    - Though units shipped increase by 30%, experience 20-25% price fall
    - MFP ratio in color NIP rapidly increases (U.S.: 10% of color NIP)
  - SIDM: Though price is steady, market decreases by 5% yearly. Shipment volume is expected to increase for low price model in BRICs
  - Mono NIP: Units shipped increase by 3% yearly with the low price model market expanding, though price falls by 16%

## <Measures to Expand Profit>

### ■ Enhance profitability for the color NIP business

- Improve sales ratio for high value added products
  - ✓ Enhance product lineup focusing on high function models. Reduce sales for low price models
  - ✓ Strengthen Oki unique products and create solutions to maximize such products
- Improve cost competitiveness
  - ✓ By renewing major color NIP products. Reorganize production structure
- Strengthen sales in Japan (Target: 20% or more share in Japan's color NIP market)
  - ✓ Expand channels by reorganizing sales structure to improve indirect sales
  - ✓ Strengthen push-sales and support activities toward existing channels and retail stores
- Enhance consumable business

### ■ Maximize existing profit

- Maximize SIDM profit by launching low-end model
  - ✓ Launch products to growing markets
- Reorganize resources to maximize existing profit



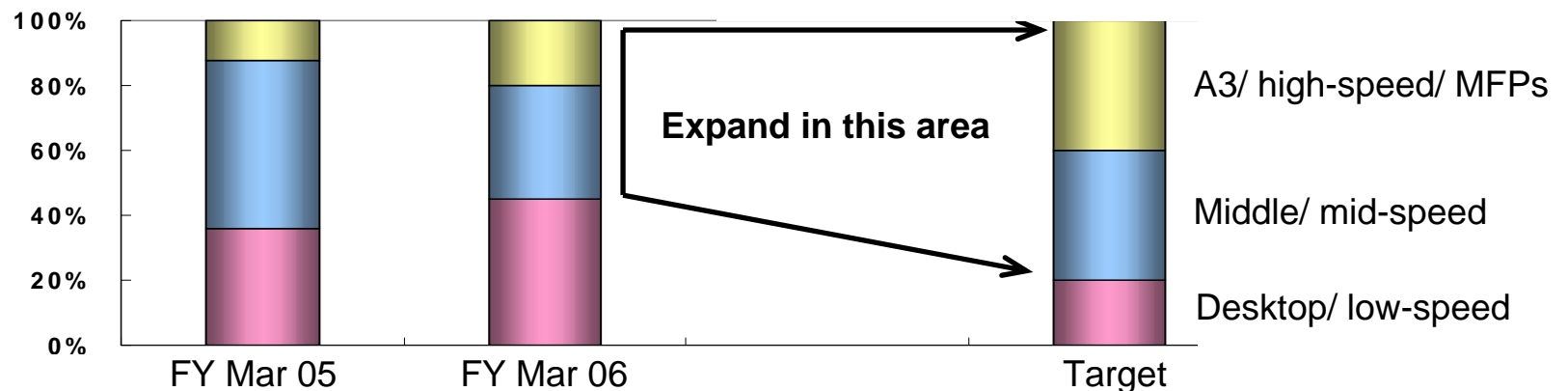
# Printers: Strategies for Products and Consumables



## Product strategy

- Focus on mid/high-end models
- Increase sales ratio of high value-added products by improving MFP lineup
- Differentiate with first-class printing quality utilizing characteristics of LED heads

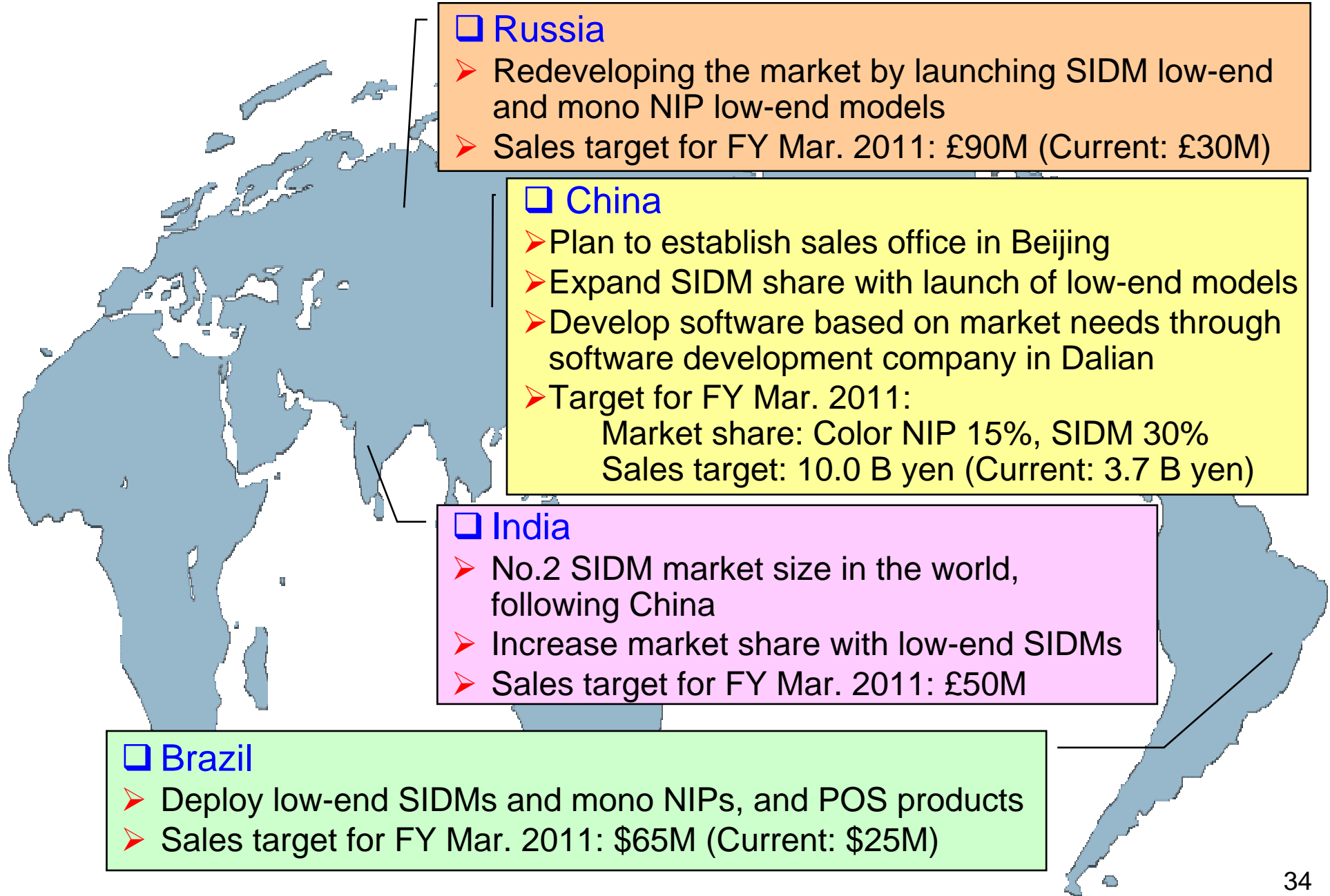
<Plans of Improving Sales Ratio>



## Consumable strategy

- Expand demand for consumables by shifting sales to mid/high-end models
- Improve profitability by creating solutions which increase use of consumables

# Printers: Strategies for BRICs

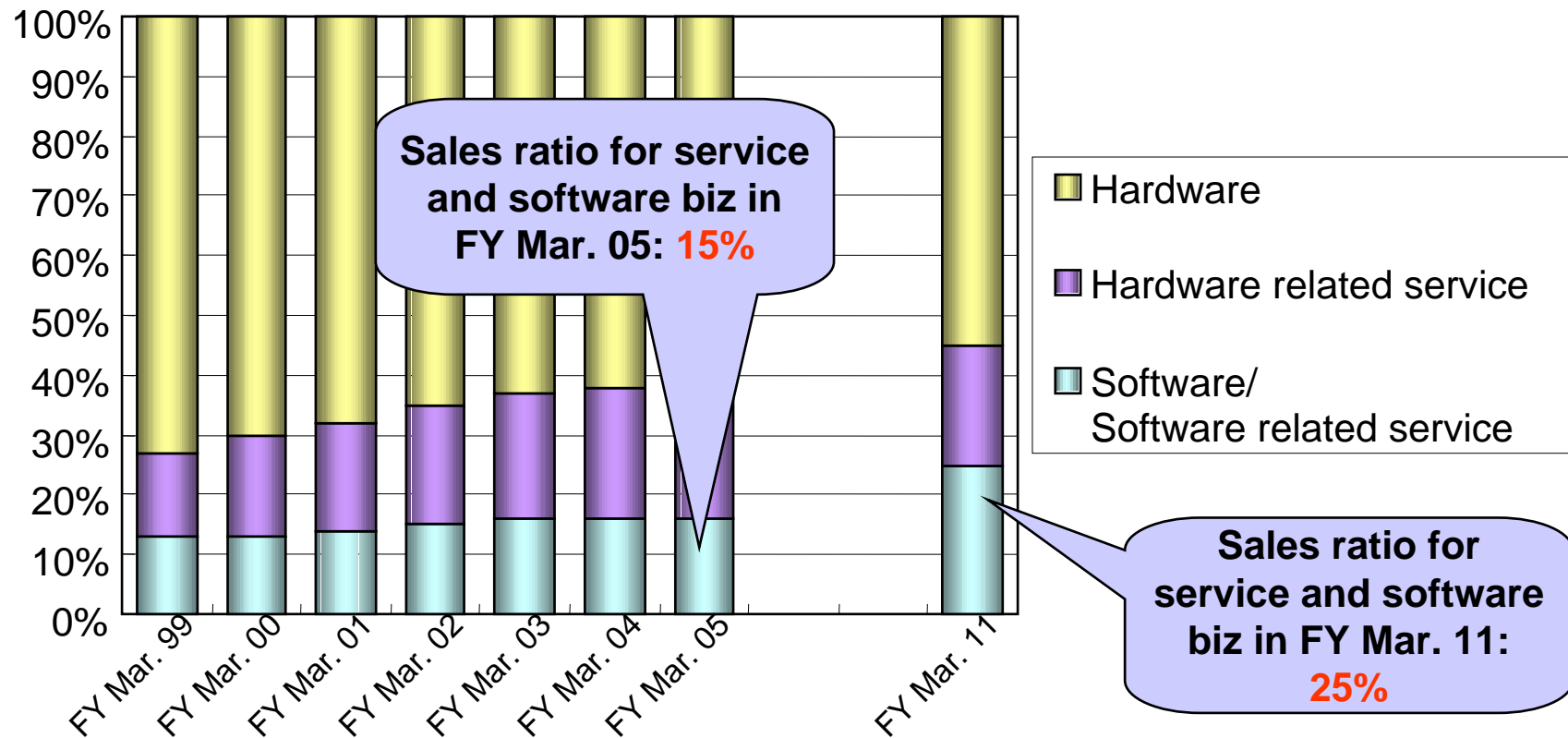


# Expand Service and Software Businesses



- Currently, 62% of Info-telecom Business sales come from hardware – a hardware dependent business model in sales and profit
- Shift to a business structure to generate income from service and software in addition to hardware profit
- Double the sales of service and software business in FY Mar. 2011 (c.f. FY Mar. 2005)

*Sales Ratio of Hardware/Software/Service for Info-Telecom Segment*

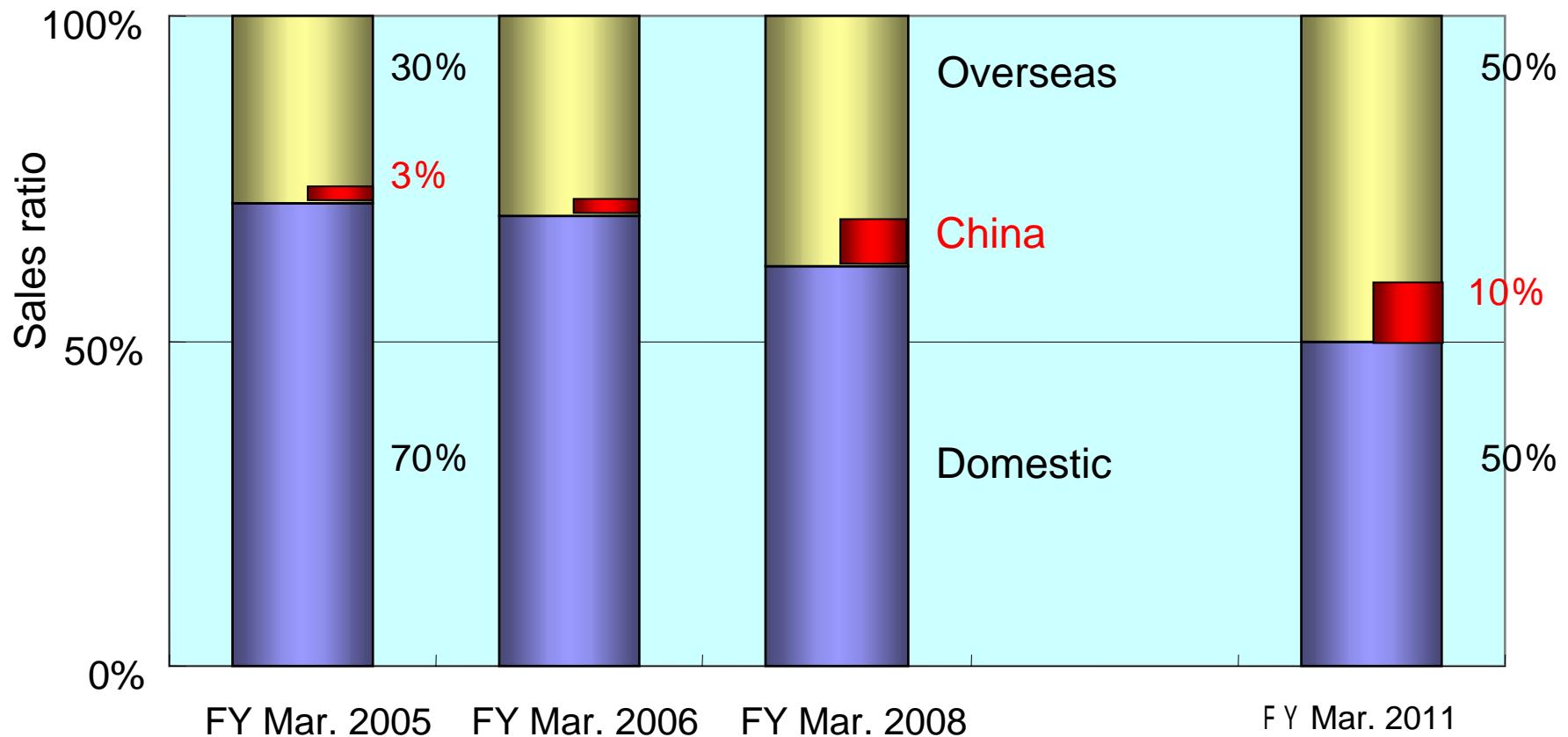


# Expand China Business



FY Mar. 2011 target: Overseas sales ratio 50%, **China sales ratio 10%**

- Shift Oki's business in China from a Japan-controlled style to a locally controlled business
  - Deploy business with strong products/technologies as core competence
  - Enhance new business cultivation, product planning, and support for existing businesses
  - Plan to conduct business planning, proposal, design, production through to sales in China by 2007-2008



1. Full Year Projections for FY ending Mar. 2006
  - 1) Revision of Full Year Projections
  - 2) P/L Projections
  - 3) Projections by Segment
  - 4) Cash Flow Projections
2. Revamp Business Structure
  - 1) Status of Business and Reforms
  - 2) Revamp Business Structures
    - 2-1) Review and Enhancement of Conventional Businesses
      - Business for Financial Market
      - Business for Telecom Carriers
      - Semiconductor Business
      - Printer Business
    - 2-2) Expansion of New Businesses
      - Enhancement of Soft and Service Business
      - Enhancement of China Business

(Reference) Financial Results for Q3, FY ending Mar. 2006

# Outline of Q3 Results



- Sales decreased by 13.1 B yen on a year-on-year basis, due to reaction of ATM demands related to new-banknote issuance, and decline in price of semiconductors
- Operating income decreased by 12.3 B yen, impacted by price decline in semiconductors and printers
- Total assets increased by 30.4 B yen, due to increase in inventories and improvement in evaluation of marketable securities

(Billion yen)

	Q3 (Nine months)			Q3 (Three months)		
	Dec. 04	Dec. 05	Variance	Dec. 04	Dec. 05	Variance
Net sales	478.4	<b>465.3</b>	(13.1)	158.7	<b>146.2</b>	(12.5)
Operating income	6.4	<b>(5.9)</b>	(12.3)	4.9	<b>(1.7)</b>	(6.6)
Recurring income	1.7	<b>(7.9)</b>	(9.6)	2.3	<b>(2.3)</b>	(4.6)
Net income	(1.1)	<b>(6.2)</b>	(5.1)	1.8	<b>(2.3)</b>	(4.1)
Total assets	589.1	<b>619.5</b>	30.4			
Shareholders' equity	111.5	<b>127.1</b>	15.6			
Interest-bearing debt	286.1	<b>293.9</b>	7.8			

# Q3 P/L (Nine Months)

## ■ Consolidated P/L comparison

(Billion yen)

	Dec. 04	Dec. 05	Variance
<b>Net sales</b>	478.4	<b>465.3</b>	(13.1)
(Cost of sales ratio)	(74.1%)	<b>(76.9%)</b>	(-2.8 points)
Cost of sales	354.6	<b>357.8</b>	3.2
SG&A	117.4	<b>113.4</b>	(4.0)
<b>Operating income</b>	6.4	<b>(5.9)</b>	(12.3)
Other income	(4.7)	<b>(2.0)</b>	2.7
Recurring income	1.7	<b>(7.9)</b>	(9.6)
Extraordinary income	2.7	<b>2.0</b>	(0.7)
Extraordinary loss	5.3	<b>2.7</b>	(2.6)
Income before taxes	(0.9)	<b>(8.6)</b>	(7.7)
Income taxes	0.2	<b>(2.4)</b>	(2.6)
<b>Net income</b>	(1.1)	<b>(6.2)</b>	(5.1)

## Net sales

	Dec. 04	Dec. 05	Variance
Info-Telecom	246.8	<b>218.8</b>	(28.0)
Semiconductors	113.8	<b>112.0</b>	(1.8)
Printers	97.9	<b>111.4</b>	13.5
Others	19.9	<b>23.1</b>	3.2

## Operating income

	Dec. 04	Dec. 05	Variance
Info-Telecom	1.5	<b>(1.3)</b>	(2.8)
Semiconductors	7.8	<b>(0.8)</b>	(8.6)
Printers	3.7	<b>2.1</b>	(1.6)
Others	1.7	<b>1.9</b>	0.2
Corp & Elimination	(8.3)	<b>(7.8)</b>	0.5

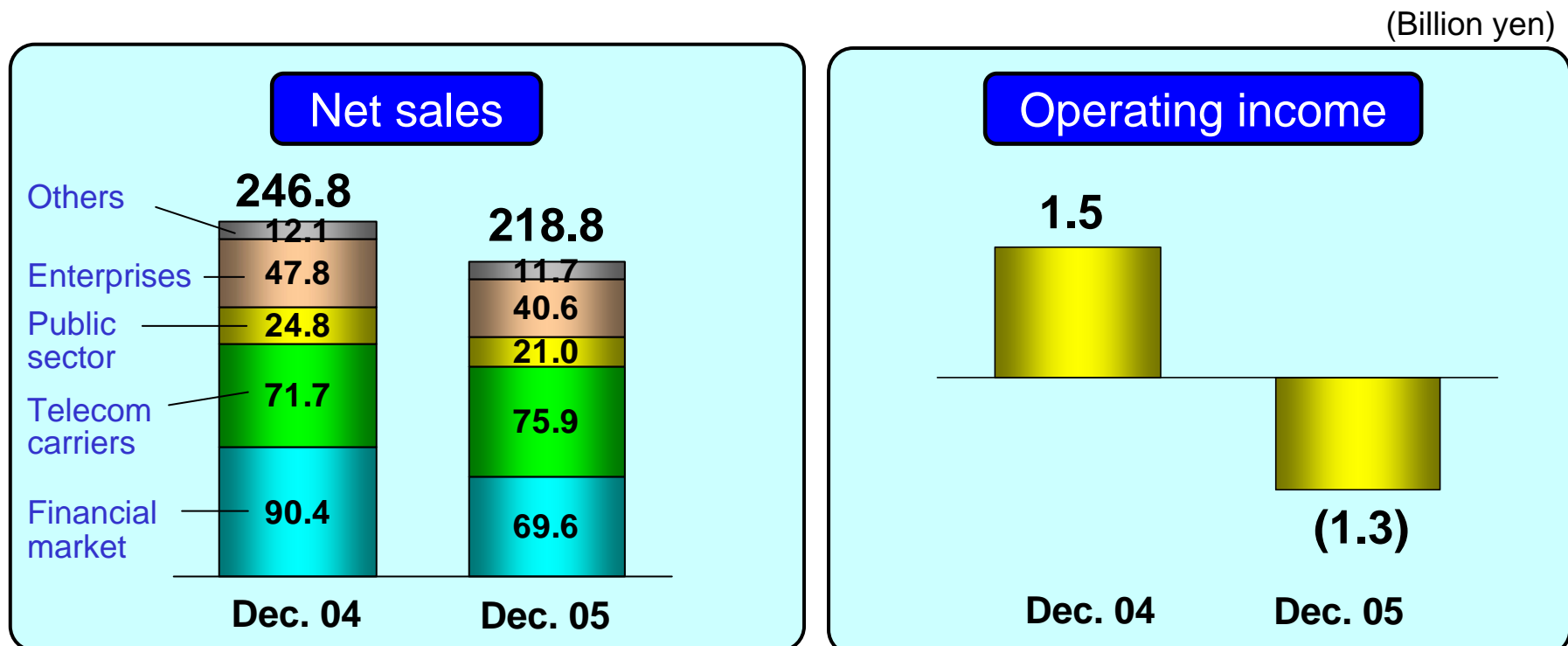
- Other income improved due to gain in currency exchange (1.1), increase in dividend income (0.5), and decrease in interest cost (0.4), etc.
- Extraordinary loss includes decrease in loss on disposal of fixed assets (1.2), write-down loss in marketable securities (1.0), and special retirement payments (0.9), while records disaster loss (-0.9)

# Segment Information: Info-Telecom



## <Nine months results>

- Sales for the financial market decreased by 20.8 B yen on year-on-year basis, due to reaction to ATM demand related to new-banknote issuance
- Sales for telecom carriers increased by 4.2 B yen, due to increase in systems for broadband IP network, while reaction to initial investments on service for direct collection of fixed-phone
- Operating income decreased by 2.8 B yen due to sales decline





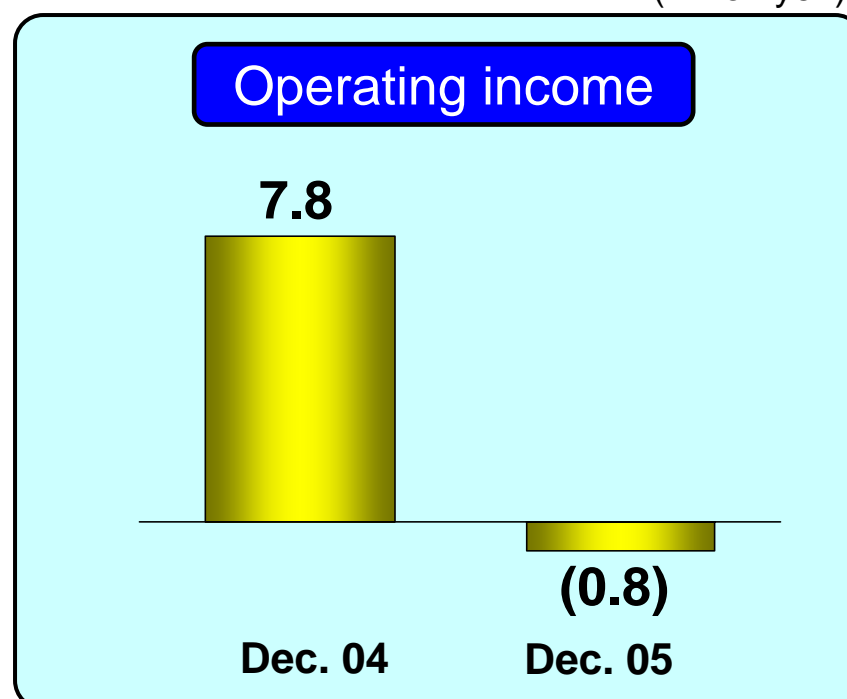
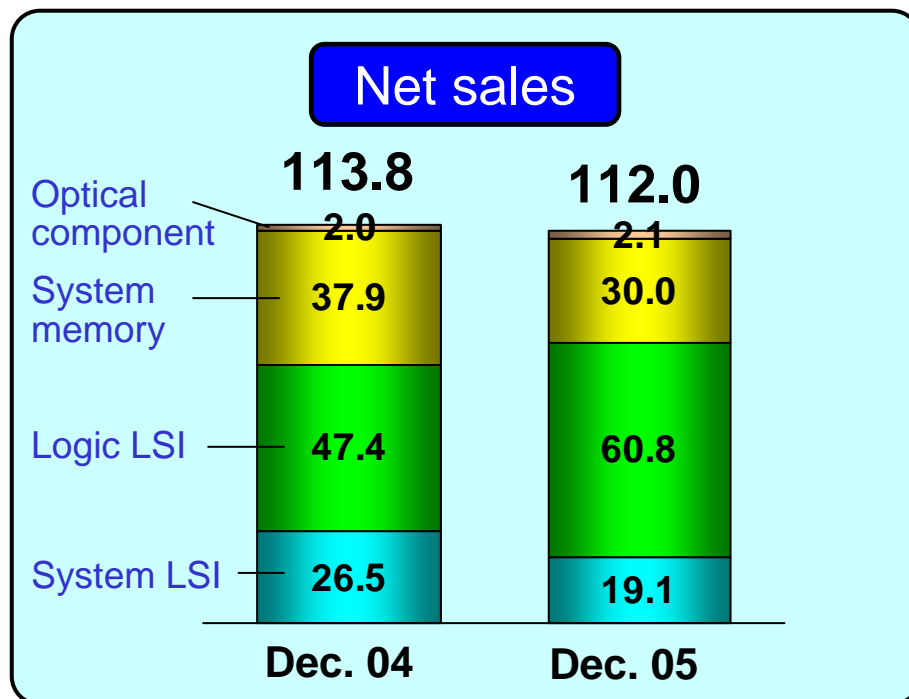
# Segment Information: Semiconductors



## <Nine months results>

- Sales in logic LSI increased, including effect of acquiring Japan TI's driver business
- Sales in system LSI decreased due to volume decrease mainly in PHS base-band LSI
- Sales in system memory decreased due to decline of volume and price in P2ROM for amusement and AS-DRAM for audio equipment
- Operating income decreased by 8.6 B yen due to decrease in volume and price decline

(Billion yen)



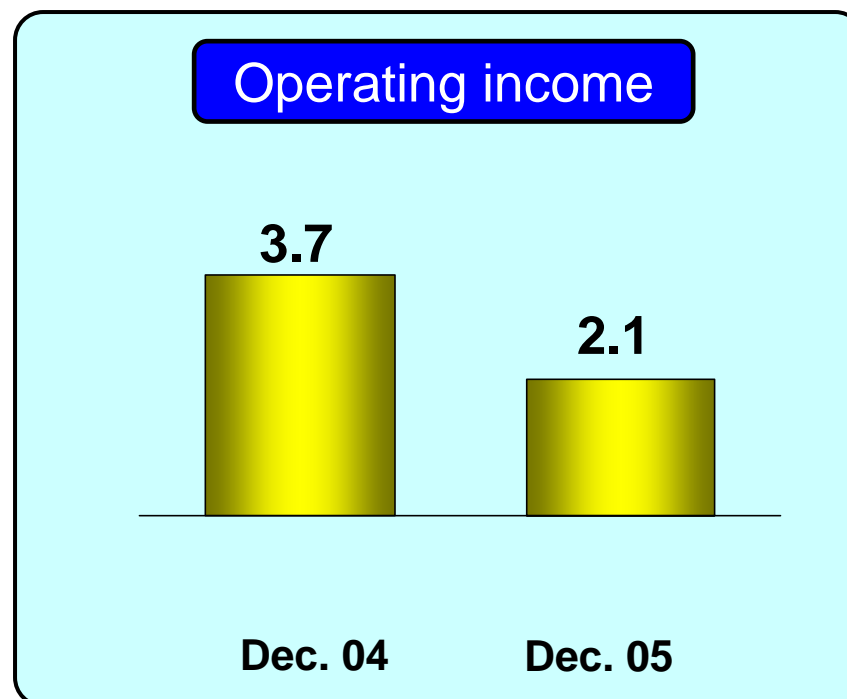
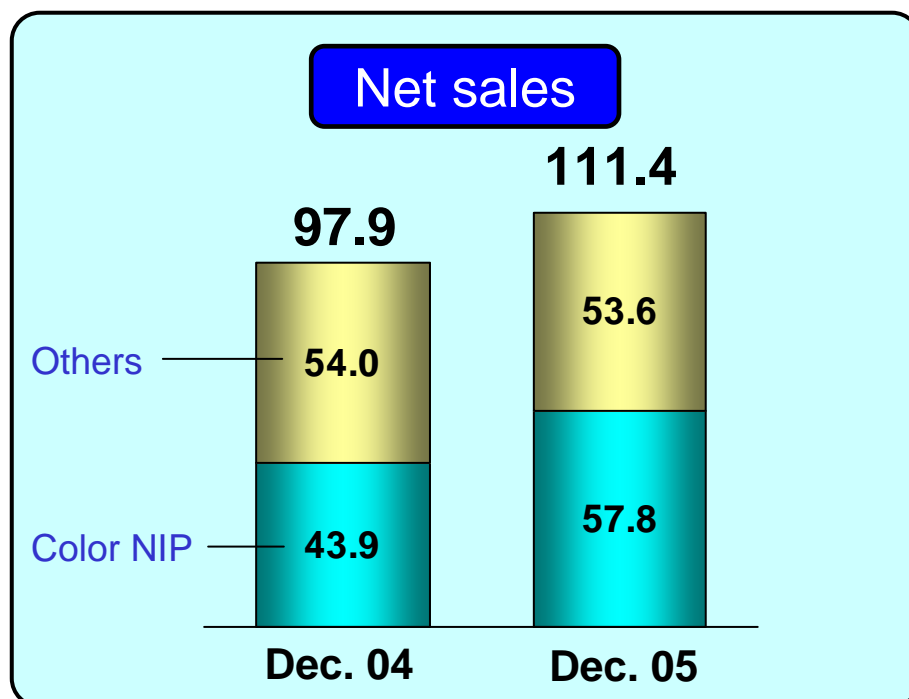
# Segment Information: Printers



## <Nine months results>

- Sales increased due to expansion in shipment units of color NIP and MFP
- Steady sales in SIDM and mono NIP
- While net sales increased, operating income decreased due to impact of price decline

(Billion yen)

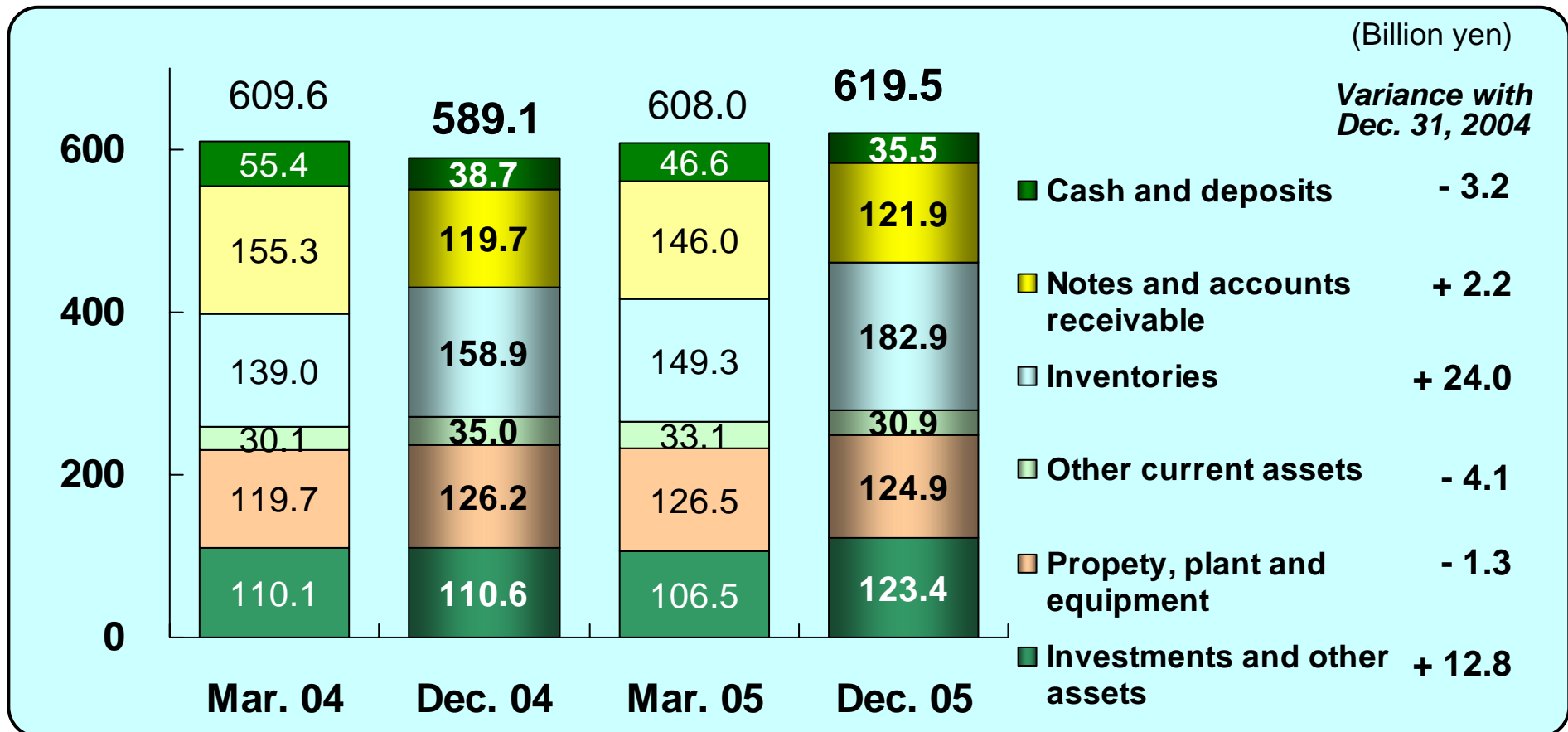


# Balance Sheet (1)



## <Assets>

- Inventory increased by 24.0 B yen from Dec. 04, due to preparation for increasing units of printers and depreciation in yen, etc.

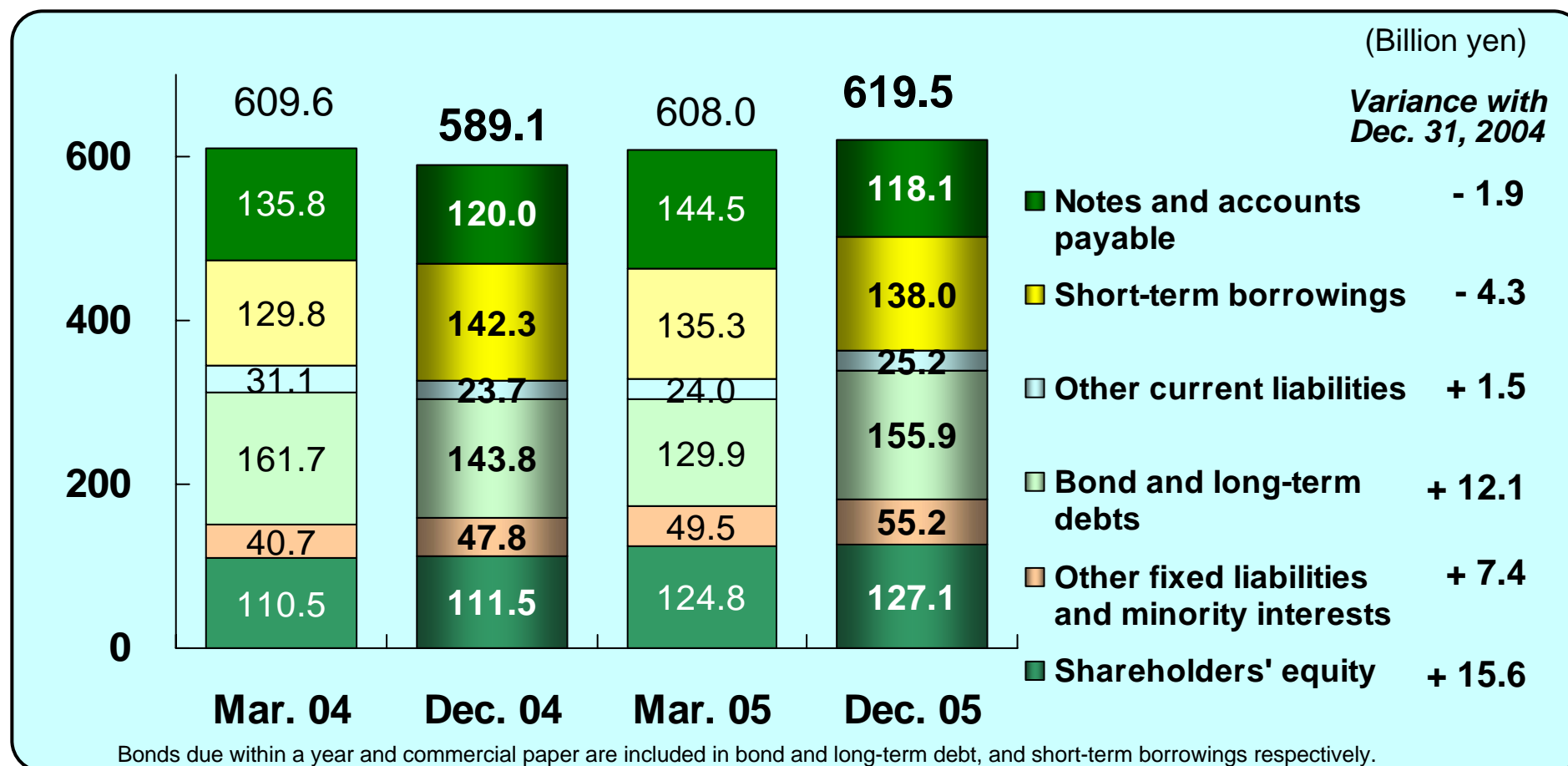


# Balance Sheet (2)



## <Liabilities and Shareholders' Equity>

- Interest-bearing debt increased by 7.8 B yen from Dec. 04
- Shareholders' equity ratio was 20.5%, 1.6 point improvement, due to increase in evaluation of marketable securities by 11.3 B yen



# Cash Flows

- Free cash flow worsened by 30.3 B yen, mainly due to increase in working capital by 32.7 B yen

(Billion yen)

Nine months		Dec. 04	Dec. 05	Variance	Notes
<b>I. Cash flows from operating activities</b>		24.8	(18.6)	(43.4)	
	Income before income taxes	(0.9)	(8.6)	(7.7)	<b>&lt;Working capital&gt;</b> Mar.05   Mar.06 Receivables 37.8   26.2 Inventories (19.6)   (31.8) Payables (8.8)   (17.7) Total 9.4   (23.3)
	Depreciation & amortization	23.7	25.2	1.5	
	Changes in working capital	9.4	(23.3)	(32.7)	
	Others	(7.4)	(11.9)	(4.5)	
<b>II. Cash flows from investing activities</b>		(35.9)	(22.8)	13.1	
	Purchases of property, plant & equip.	(30.5)	(20.3)	10.2	
	Others	(5.4)	(2.5)	2.9	
<b>Free cash flows (I+II)</b>		(11.1)	(41.4)	(30.3)	
<b>III. Cash flows from financing activities</b>		(5.6)	28.6	34.2	
	Issuance and redemption of bonds	5.0	(10.0)	(15.0)	
	Changes in other interest bearing debts, etc.	(10.6)	40.4	51.0	
	Payment of dividends	0	(1.8)	(1.8)	
<b>Net cash flows (I+II+III)</b>		(16.7)	(12.8)	3.9	
<b>IV. Cash and cash equivalents at the period end</b>		41.7	38.4	(3.3)	

# Glossary



P6	ATM	Automated Teller Machine	P27	PHS	Personal Handy-phone System
P7	LSI	Large Scale Integration		DSC	Digital Still Camera
	P2ROM	Production Programmed Read Only Memory		TFT	Thin Film Transistor
P8	NIP	Non-Impact Printer		ITS	Intelligent Transport System
	SIDM	Serial Impact Dot Matrix	P28	SOI	Silicon on Insulator
P16	FMC	Fixed Mobile Convergence		SOS	Silicon on Sapphire
	NW	Network		VoIP	Voice over Internet Protocol
P17	IP	Internet Protocol	P29	LCD	Liquid Crystal Display
	PBX	Private Branch Exchange	P30	DTV	Digital TV
P19	SE	System Engineer		RF-ID	Radio Frequency Identification
P20	OEM	Original Equipment Manufacturer		DSRC	Dedicated Short Range Communication
	CD	Cash Dispenser		SNP	Smart Number Plate
P22	FTTH	Fiber To The Home		WCDMA	Wideband Code Division Multiple Access
P24	BB-IP	Broadband- Internet Protocol		GSM	Global System for Mobile Communications
P25	WiMAX	Worldwide Interoperability for Microwave Access		WiFi	Wireless Fidelity
P26	STB	Set Top Box	P31	MFP	Multi Function Printer
	ISP	Internet Services Provider	P34	POS	Point Of Sales system
	ASP	Application Service Provider			

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





Printed by Oki's color LED printer