

# Financial Results for the Q1 of FY ending March 31, 2008

July 27, 2007

Oki Electric Industry Co., Ltd.

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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.

## Q1 Financial Results Outline

- Financial performance resulted as planned. Projections of operating environment and progress of various initiatives also proceeded as planned
- YoY comparison
  - Net sales increased by 13.1 B yen, due to impact of currency exchange and increase in sales for Postal Office
  - Operating loss reduced by 4.3 B yen from sales increase

(Billion yen)	Q1, FY Mar. 07	<b>Q1, FY Mar. 08</b>
Net sales	130.4	<b>143.5</b>
Operating income	(9.0)	<b>(4.7)</b>
Recurring income	(10.5)	<b>(5.4)</b>
Net income	(7.4)	<b>(8.0)</b>
Net income per share	(12.04) yen	<b>(11.73) yen</b>
Total assets	617.7	<b>598.4</b>
Shareholders' equity	120.8	<b>102.4</b>
Shareholders' equity per share	197.53 yen	<b>149.84 yen</b>
Interest bearing debt	296.0	<b>282.6</b>

## Q1 Profit and Loss

(Billion yen)	Q1 FY Mar. 07	Q1 FY Mar. 08
Net sales	130.4	<b>143.5</b>
(Cost of sales ratio)	(78.4%)	<b>(77.7%)</b>
Cost of sales	102.2	<b>111.5</b>
SG&A	37.2	<b>36.7</b>
Operating income	(9.0)	<b>(4.7)</b>
Other income	(1.5)	<b>(0.7)</b>
Recurring income	(10.5)	<b>(5.4)</b>
Extraordinary income	0.3	-
Extraordinary loss	0.4	<b>0.3</b>
Income before taxes	(10.6)	<b>(5.7)</b>
Income taxes	(3.2)	<b>2.3</b>
Net income	(7.4)	<b>(8.0)</b>

- Cost of sales ratio improved by 0.7 points YoY
- Decrease in SG&A due to reduction of sales promotion costs
- Other income/expense increased due to impact from currency exchange by 1.0 B yen

<Reference: Currency exchange rate>

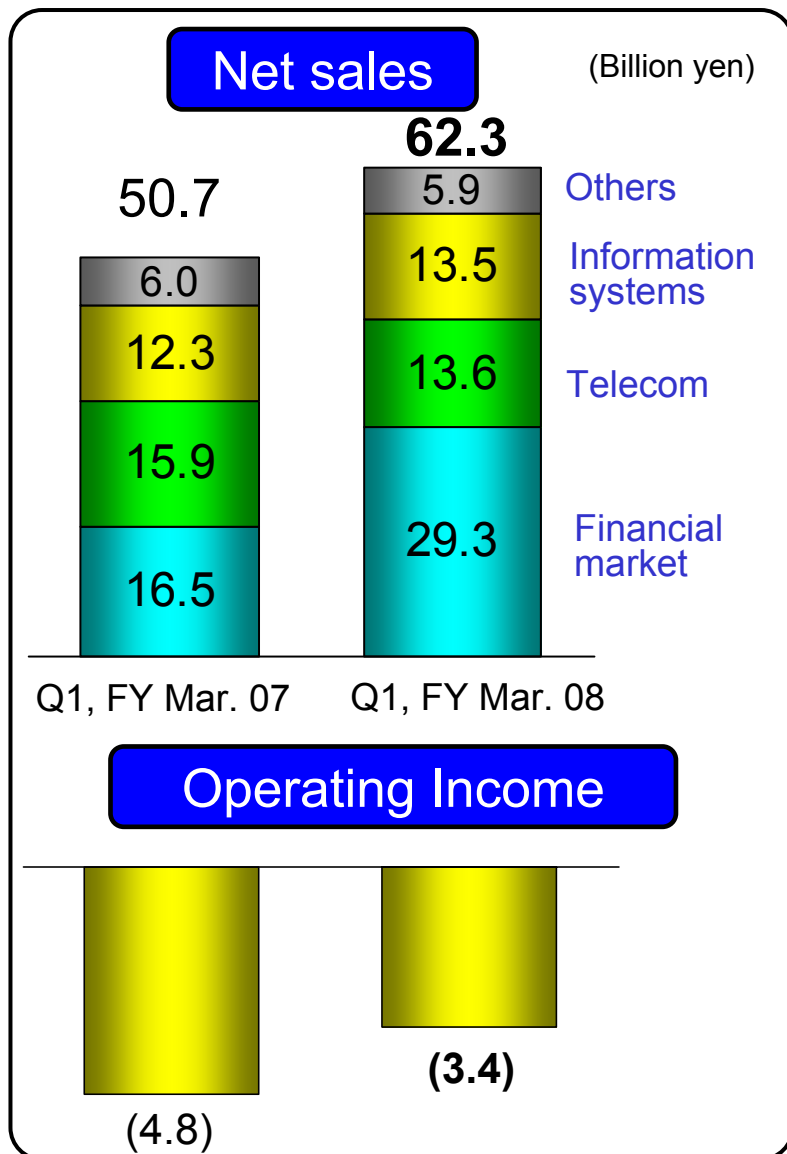
	FY Mar. 08	
	H1 OKI-rate	Q1 actual-rate
USD	115.0	120.8
Euro	150.0	162.7

## Operating Income Changing Factors

- Improved by 4.3 B yen YoY
  - Reduction of procurement costs and the effect of VE covered price decline
  - Increase in quantity and impact of currency exchanges
- Fixed-costs remained the same level as the previous year
  - Though depreciation costs increased due to purchase of equipment in the previous year, covered by effect of measures to curtail personnel costs

Q1, FY Mar. 07 operating income	(9.0)	(Billion yen)
Q1, FY Mar. 08 operating income	(4.7)	
Variances	4.3	
<b>■ Major changing factors</b>		
Change in quantity and product mix	0.5	
Price decline	(2.0)	
Reduction of procurement costs and VE	2.0	
Changes in fixed-costs	0	
Impact of currency exchanges	1.5	

## Segment Information: Info-telecom Systems



■ Net sales: Increased by 11.6 B yen

Financial market: Increased by 12.8 B yen

- Sales for Postal Office increased
- Expanding ATM sales for China

Telecom: Decreased by 2.3 B yen

Continued decline in carriers' investments on fixed-network equip.

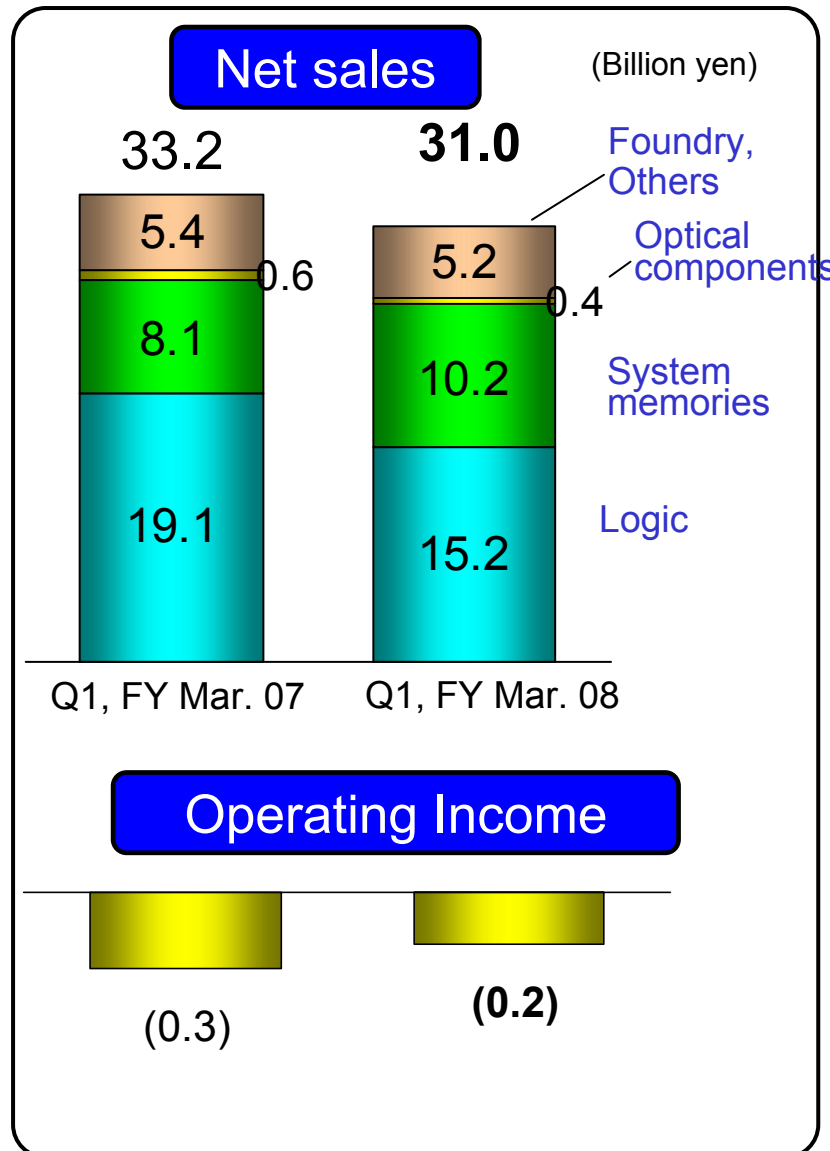
Info-sys: Increased by 1.2 B yen

Increase in system sales for enterprises

■ Operating income: Increased by 1.4 B yen

Reduction of procurement costs, effect of VE, and reduction of fixed-costs

## Segment Information: Semiconductors



■ Net sales: Decreased by 2.2 B yen

Logic: Decreased by 3.9 B yen

Decrease in sales for small driver LSI and PHS baseband LSI in China

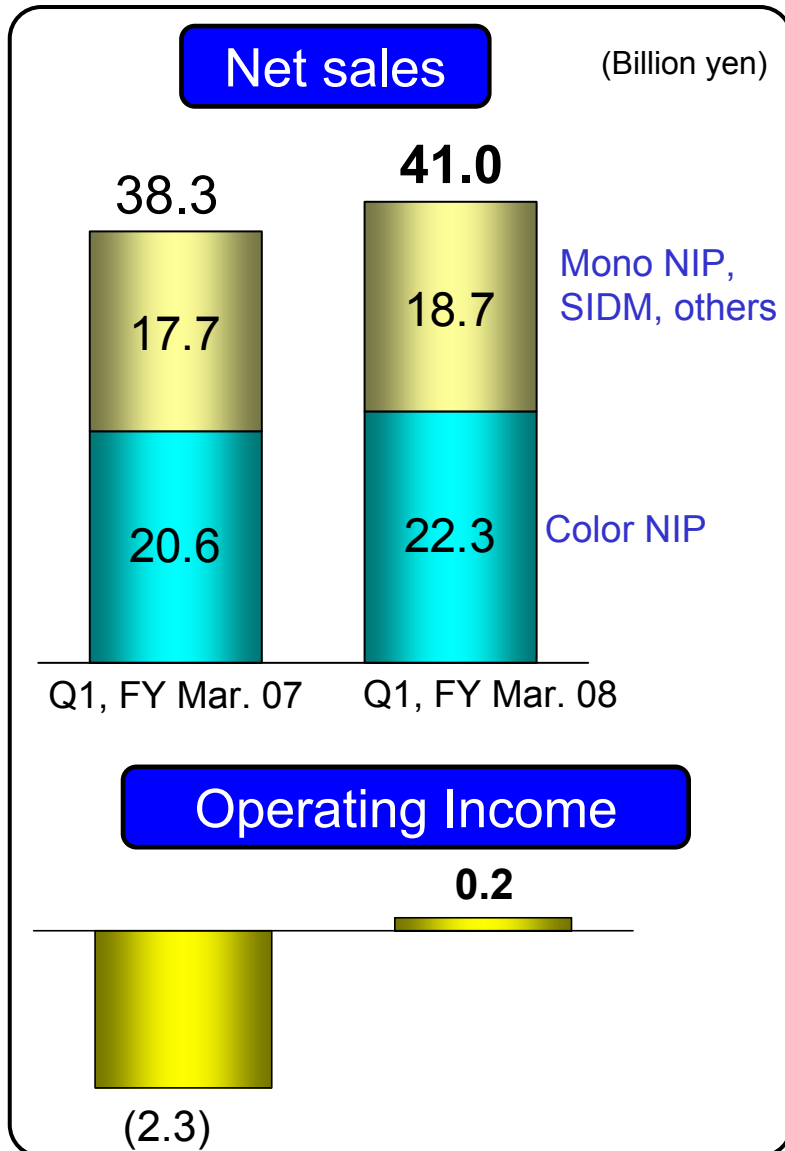
System memory: Increased by 2.1 B yen

Steady increase in P2ROM for the amusement market

■ Operating income: Increased by 0.1 B yen

Stayed at the same level as the previous year: Price decline was covered by reduction of procurement costs, effect of VE, and impact of currency exchange

## Segment Information: Printers



■ Net sales: Increased by 2.7 B yen

Color NIP: Increased by 1.7 B yen

- Currency exchange impact: 1.6 B yen  
Actual sales remains in the same level YoY
- While sales in Japan increased, overseas sales declined more than expected, due to stiffer price competition
- Launch of low-price MFP contributed to increase in sales

Mono NIP, SIDM, etc.: Increased by 1.0 B yen

- Currency exchange impact: 1.4 B yen  
Actual sales decreased
- Steady sales for SIDM, while shipped units for mono NIP decreased

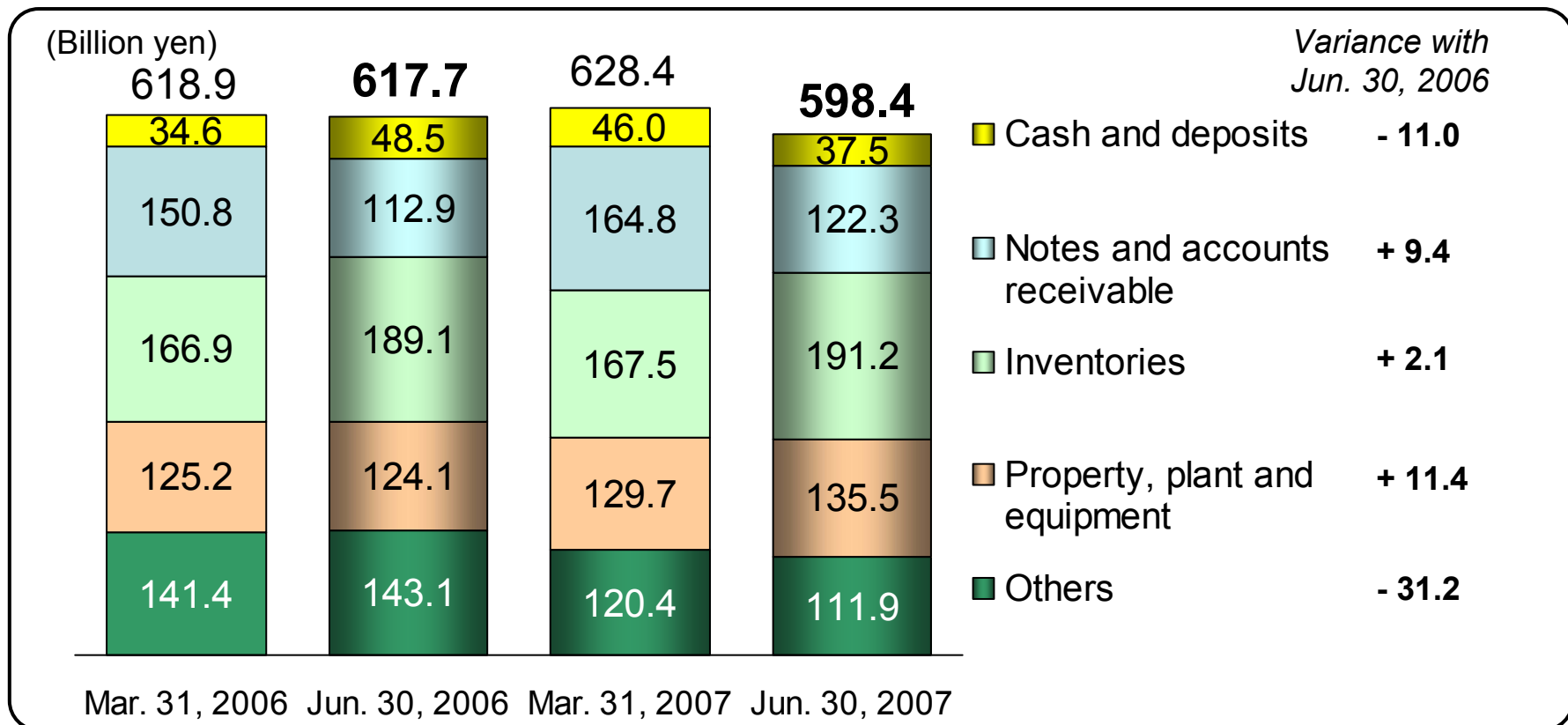
■ Operating income: Increased by 2.5 B yen

Due to reduction of procurement costs, effect of VE, and impact of currency exchange



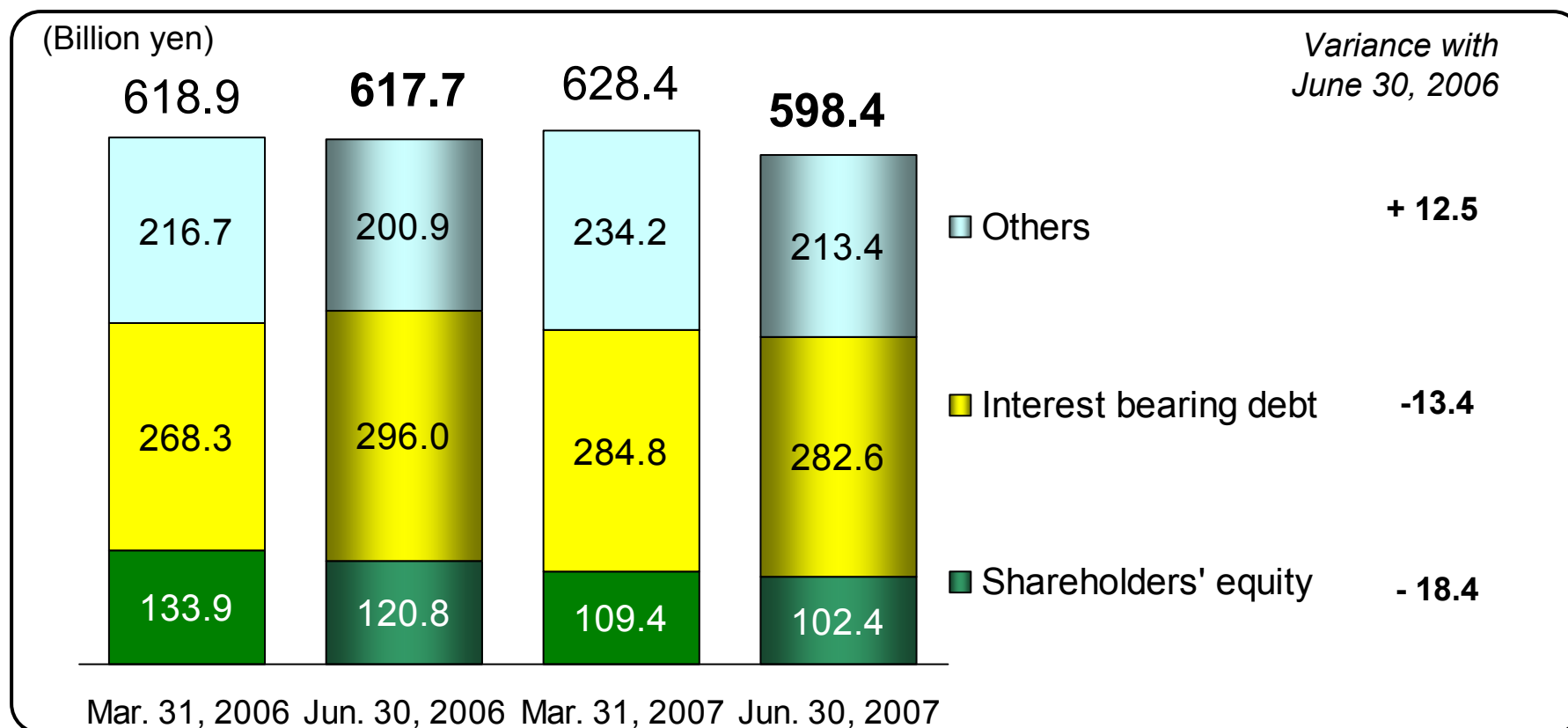
## Q1 Balance Sheets: Assets

- Property, plant and equipment increased by 11.4 B yen due to the addition of new consolidated subsidiaries
- Actual inventories decrease due to sales growth excluding the impact of currency exchange (5.7 B yen)



## Q1 Balance Sheets: Liabilities and shareholders' equity

- 18.0 B yen of “convertible-bond-type-bonds with stock acquisition rights” were converted to stocks, increasing shareholders' equity and decreased interest-bearing debts
- While shareholder' equity increased from above reason, it decreased in total by 18.4 B yen due to net loss incurred in FY Mar. 07



## Q1 Cash Flows

- Free cash flows improved by 11.1 B yen due to reduction of income loss and improvement of working capital

(Billion yen)	Q1, FY Mar.07	Q1, FY Mar.08	Variance	Notes
I. Cash flows from operating activities	(6.6)	5.5	12.1	
Income before income taxes	(10.6)	(5.7)	4.9	<b>&lt;Working capital&gt;</b> Mar.07 Mar.08 Receivables 39.8 48.3 Inventories (22.0) (21.5) Payables (10.9) (15.7) Total 6.9 11.1
Depreciation & amortization	7.9	8.4	0.5	
Changes in working capital	6.9	11.1	4.2	
Others	(10.8)	(8.3)	2.5	
Free cash flows (I+II)	(12.2)	(1.1)	11.1	
II. Cash flows from investing activities	(5.6)	(6.6)	(1.0)	
Purchases of property, plant & equip.	(4.7)	(6.4)	(1.7)	
Others	(0.9)	(0.2)	0.7	
III. Cash flows from financing activities	26.7	(8.4)	(35.1)	
Issuance of bonds	30.0	0	(30.0)	
Changes in other interest bearing debts, etc.	(3.3)	(8.4)	(5.1)	
Net cash flows (I+II+III)	14.5	(9.5)	(24.0)	
IV. Cash and cash equivalents at the period end	53.8	42.3	(11.5)	

## (Reference) Depreciation Method

### ■ Depreciation method for the FY ending Mar. 08

- Though the method for depreciation has been revised under the 2007 Tax Reform, OKI and part of its group companies will use the conventional method as tax reduction cannot be expected with the new calculation. Other OKI Group companies adopt the new income tax method, starting this Q1.
- The amount of depreciation for the FY Mar. 08 (announced on Apr. 27) was calculated with the new method. Thus, this will be affecting the operating income. However, OKI will not change its full year projections, as the future market trend remains uncertain.

## (Reference) Business Environment Outlook

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### Info-telecom systems

- Financial: Expanding ATM sales in China
- Telecom: Carriers' business scale of NGN commercial services is uncertain, and capital investment plans are fluctuating at this point  
Domestic and overseas sales for key telephone system is steady

### Semiconductors

- Market outlook:  
Growth ratio projections by research companies significantly declined compared to the year-beginning projections
- OKI customers and markets:  
LCD panel is generally steady  
PHS in China is shifting to mobile phones in the telecom LSIs  
Sluggish demand for automotive system LSIs in Japan and the US

### Printers

- Impact of low-price campaigns by other companies in the overseas markets
- Intensifying competition due to slower growth in Japan's color printer market

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II. Status of “Business Structure Revamp” Initiative

## Q1 Status of Business Structure Revamp Initiatives

- Urgent measures are being implemented as planned
- Resource shift has been completed by shifting 700 employees to focusing businesses

Basic directions for mid- and long-term measures are being implemented, while partial revisions were made according to changes in business environment

### Measure 1: Accelerate business selection and concentration

- Clarifying biz. reform directions for focusing businesses and relocate resources
- Started reviewing directions for non-core and non-focus businesses with external consultation firms

### Measure 2: Revamp towards a more efficient management style

- Accelerating partnerships to complement business processes and products
- Promoting partnerships to enhance domestic and overseas sales force

### Measure 3: Develop strong businesses with strong products

- Establishing and promoting structure to provide Ubiquitous Services (Mobile phones, FMC related businesses)
- Shifting semiconductor business
- Establishing new service businesses

## Status of Urgent Measures

		Urgent Measures	
		Target	Q1 Status
Accelerate biz selection and concentration	Consolidate/ reduce number of biz units	10%	Evaluated core/non-core biz. Reviewing measures for enhancement, spinning-out, selling-out, withdrawal, independent, etc.
	Shift resources	To focusing biz: 700 personnel	Completed
		To group companies: 500 personnel	Proceeding as planned
	Outplacements	500 personnel	Proceeding as planned
More efficient management style (Review fixed costs structure)	Cut personnel costs	3.5 B yen	Proceeding as planned
	Curb investments	10.0 B yen	
	Curb subcontract outsourcing expenses	3.0 B yen	
	Reduce inventories	15%	
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	Proceeding as planned



## Status of Mid- and Long-Measures 1

- Discuss and implement based on basic directions of business revamp initiatives
- Conclude advisory agreement with external firms for biz groups' strategies

		Mid- and Long-Measures		
			Target (by H1)	Items for consideration
Accelerate biz selection and concentration	Establish and implement scenario for each biz. group		Decide direction	<ul style="list-style-type: none"> <li>- Complete organizing businesses to be withdrawn or to be strengthened amongst unprofitable businesses</li> <li>- Decide scenarios of withdrawal /enhancement in each business group</li> </ul>
	Consolidate /spin-off/sell-out affiliate companies		Reach basic agreement (First step)	<ul style="list-style-type: none"> <li>- Complete evaluation of synergy and business potentials by end of June</li> <li>- Work with external advisory firms for non-core businesses</li> </ul>
More efficient management style	Establish/ implement alliance strategies	Alliance strategies	Reach basic agreement	Decide directions for Joint development for products, mutual complement for products and biz. processes, establish joint venture, sell businesses
		Enhance sales force	Reach basic agreement	<ul style="list-style-type: none"> <li>- Alliances to enhance sales structure in Japan and overseas</li> </ul>

## Status of Mid- and Long-Measures 2

- Discuss and implement based on basic directions of business revamp initiatives
- Conclude advisory agreement with external firms for biz groups' strategies

Mid- and Long-Measures			
		Target	Items for consideration
Strong biz. with strong products	Provide Ubiquitous Services	Create strong products based on Ubiquitous Services	<ul style="list-style-type: none"> <li>- Complete clarifying Ubiquitous Services Financial/ travel/ transportation/home&amp;personal</li> <li>- Establish Ubiquitous Service platform Establish in-house venture company</li> <li>- Commercialize Ubiquitous Services</li> </ul>
	Expand overseas biz.	Overseas sales ratio of 50% by 2010	<ul style="list-style-type: none"> <li>- Establish ATM sales and biz structure in China (within 2007)</li> <li>- Enhance sales structure for key telephone systems (China, India, Oceania, Europe)</li> </ul>
	Expand software/ service businesses	H1: Complete consideration	<ul style="list-style-type: none"> <li>- Reestablish system/network integration businesses including affiliate companies</li> <li>- Total network service biz.</li> <li>- Commercialize financial-related outsourcing biz.</li> </ul>
	Shift from sole semiconductor biz. to an e-functional module biz.	H1: Establish biz. plan and biz. structure	<ul style="list-style-type: none"> <li>- Establish structure to discuss e-functional module biz. Started biz. promotion project</li> <li>- Establish biz. plan (Announce at end of Aug.)</li> </ul>

## Glossary

P2	FY	Fiscal Year
P3	YoY	Year-on-year
P4	SG&A	Selling, General and Administrative expense
P5	VE	Value Engineering
P6	ATM	Automated Teller Machine
P7	LSI	Large Scale Integration
	PHS	Personal Handy-phone System
	P2ROM	Production Programmed Read Only Memory
P8	NIP	Non-Impact Printer
	MFP	Multi-functional Printer
	SIDM	Serial Impact Dot Matrix
P13	NGN	Next Generation Network
	LCD	Liquid Crystal Display
P15	FMC	Fixed Mobile Convergence