

OkI Electric Financial Results for the First Half of the Fiscal Year ending March 31, 2005

October 28, 2004

OkI Electric Industry Co., Ltd.

1. Financial Results of the Fiscal Year ending March 2005

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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.

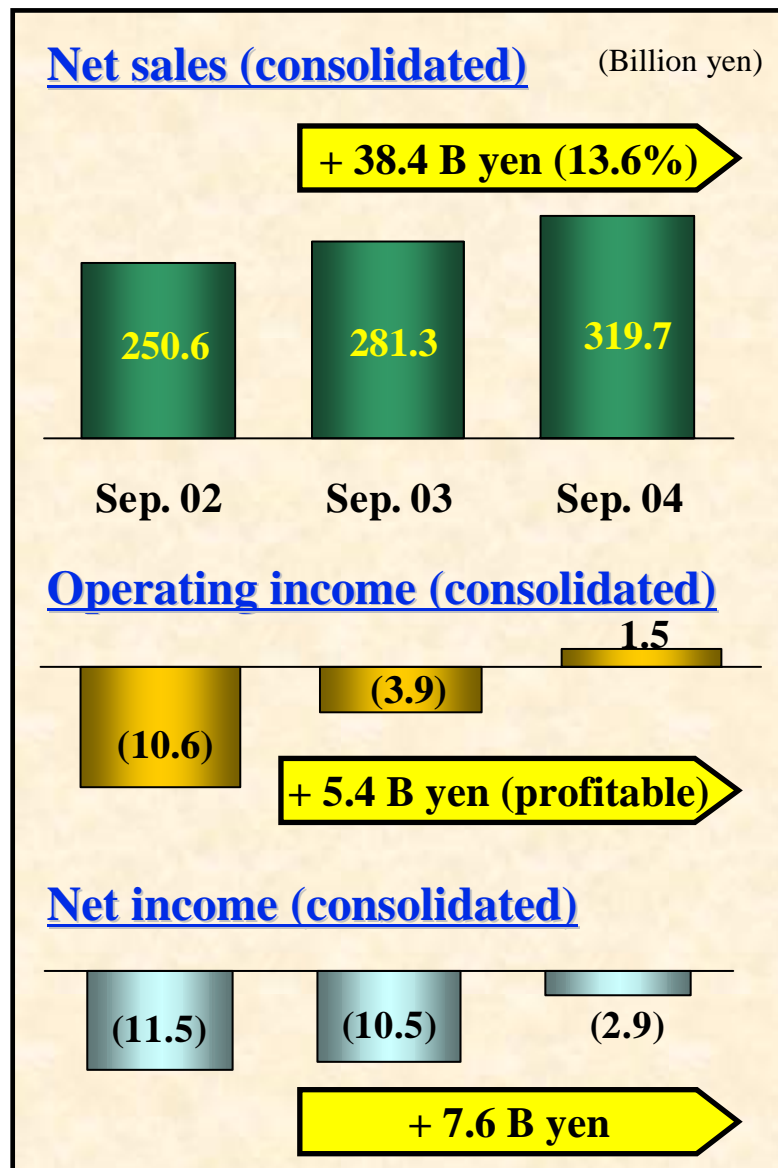
Business Environment

<Economy>

- Continued relatively steady recovery: Increase in enterprise capital investments and activities in digital home appliances

<Oki's Business> (Compared with previous FY)

- Substantial sales growth from increase in system investments by financial institutions, expansion of IP-related investments by telecom carriers, growth of color printer market, and favorable demands for semiconductors
- Operating income restored profitability and net income improved due to sales growth and business structural reforms



- Profitable operating income due to substantial sales increase and business structural reform

■ Comparison of consolidated P/L

(Billion yen)

	Sep. 03	Sep. 04	Variance
Net sales	281.3	319.7	38.4
(Cost of sales ratio)	(76.0%)	(74.7%)	(+1.3 %)
Cost of sales	213.7	238.7	25.0
SG&A	71.5	79.5	8.0
Operating income	(3.9)	1.5	5.4
Other income	(4.3)	(2.1)	2.2
Recurring income	(8.2)	(0.6)	7.6
Extraordinary income	0.9	1.0	0.1
Extraordinary loss	7.4	5.1	(2.3)
Income before taxes	(14.7)	(4.7)	10.0
Income taxes	(4.2)	(1.8)	2.4
Net income	(10.5)	(2.9)	7.6

Consolidated net sales

(Billion yen)

	Sep. 03	Sep. 04	Variance
Info sys.	151.6	160.1	8.5
Telecom	44.5	52.1	7.6
Devices	60.0	76.6	16.6
Others	25.2	30.9	5.7

Consolidated operating income

(Billion yen)

	Sep. 03	Sep. 04	Variance
Info sys.	5.1	1.8	(3.3)
Telecom	(1.6)	0.3	1.9
Devices	(2.1)	3.4	5.5
Others	0.5	1.4	0.9
Corp. & eliminates	(5.8)	(5.4)	0.4

Average currency exchange rate

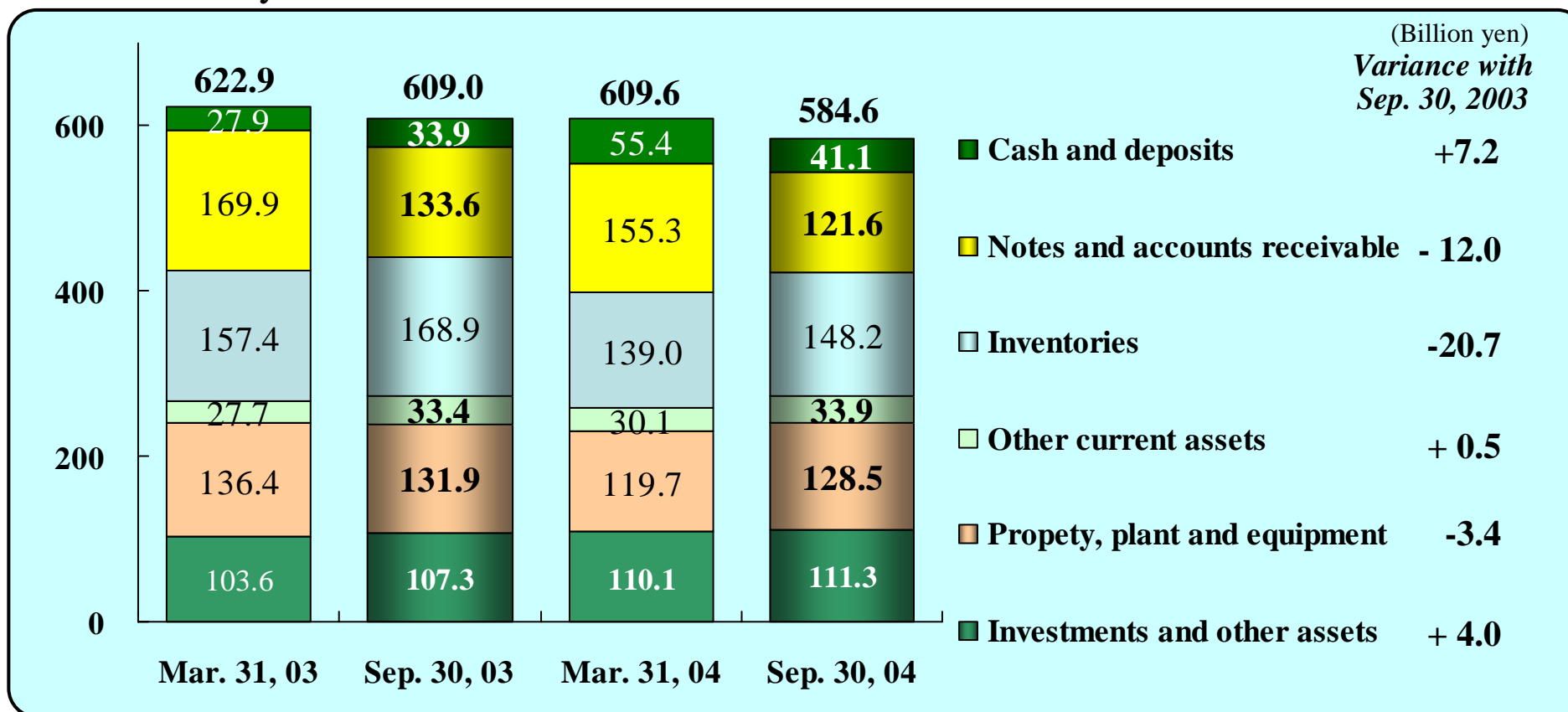
	Actual rate		Plan
	1H, FY Mar. 04	1H, FY Mar.05	FY Mar. 05
USD	118.1	109.9	105
Euro	133.5	133.3	130

<Balance Sheet: Assets>

(Times)

- Total assets decreased by 24.4 B yen from same period the previous year, due to reduction of accounts receivables and inventories
- Major turnover ratios improved substantially

Turnover ratio	Sep. 03	Sep.04	Variance
Total assets	0.91	1.07	0.16 improvement
Notes and accounts receivable	3.71	4.62	0.91 improvement
Inventory	3.45	4.45	1.00 improvement

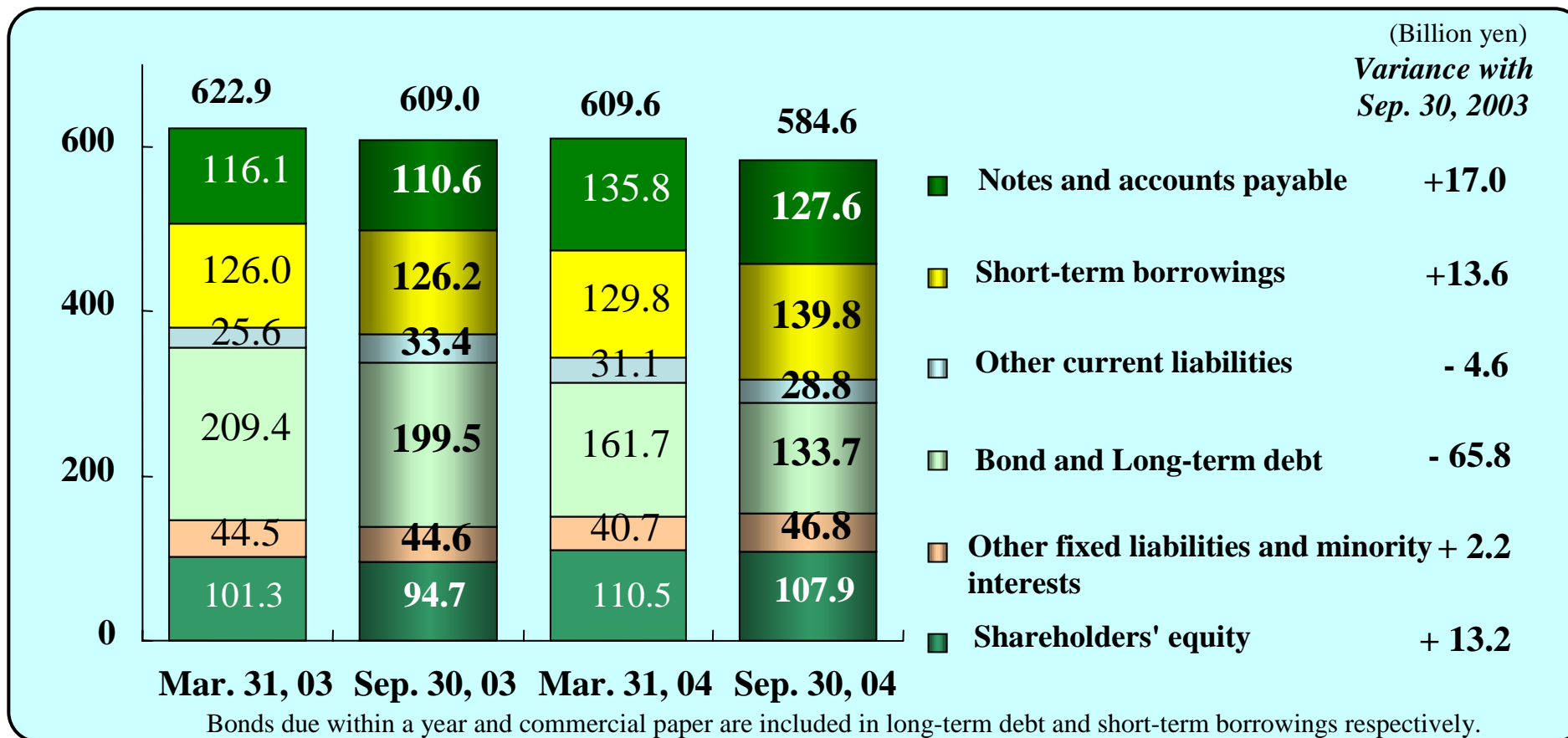


<Balance Sheet: Liabilities and Shareholders' Equity>

(%)

- Interest bearing debt decreased by 52.3 B yen from same period the previous year, due to improvement in cash flows

	Sep. 03	Sep.04	Variance
Interest-bearing debt ratio	53.5	46.8	6.7 improvement
Shareholders' equity ratio	15.5	18.5	3.0 improvement



Premises of Full Year Projections

<Economy forecast>

- While enterprise capital investment expands and consumer spending remains steady, economy outlook is unclear
- Concerns include pricing pressure from fiercer competition and impact on economy from rising oil price

<Market trend>

- **Info systems:** Financial institutions shift from new banknotes-related investment to IT and network-related investment. Delay in large governmental projects
- **Telecom:** Carriers investments shift to Broadband IP network. Tougher price competition
- **Device:** Semiconductor market growth slows down. LSIs for telecom and digital appliances remain steady until December 2004

<Impact on profit by currency exchange rate>

	First half actual rate		Second half projections		
	Projected rate	Actual rate	Projected rate	Sales in foreign currency	Impact on profit by 1yen change*
US dollar	105 yen/\$	109.9 yen/\$	105 yen/\$	400 million USD	100 million yen
Euro	130 yen/E	133.3 yen/E	130 yen/E	350 million Euro	150 million yen

* After deducting purchase in foreign currency and exchange contract

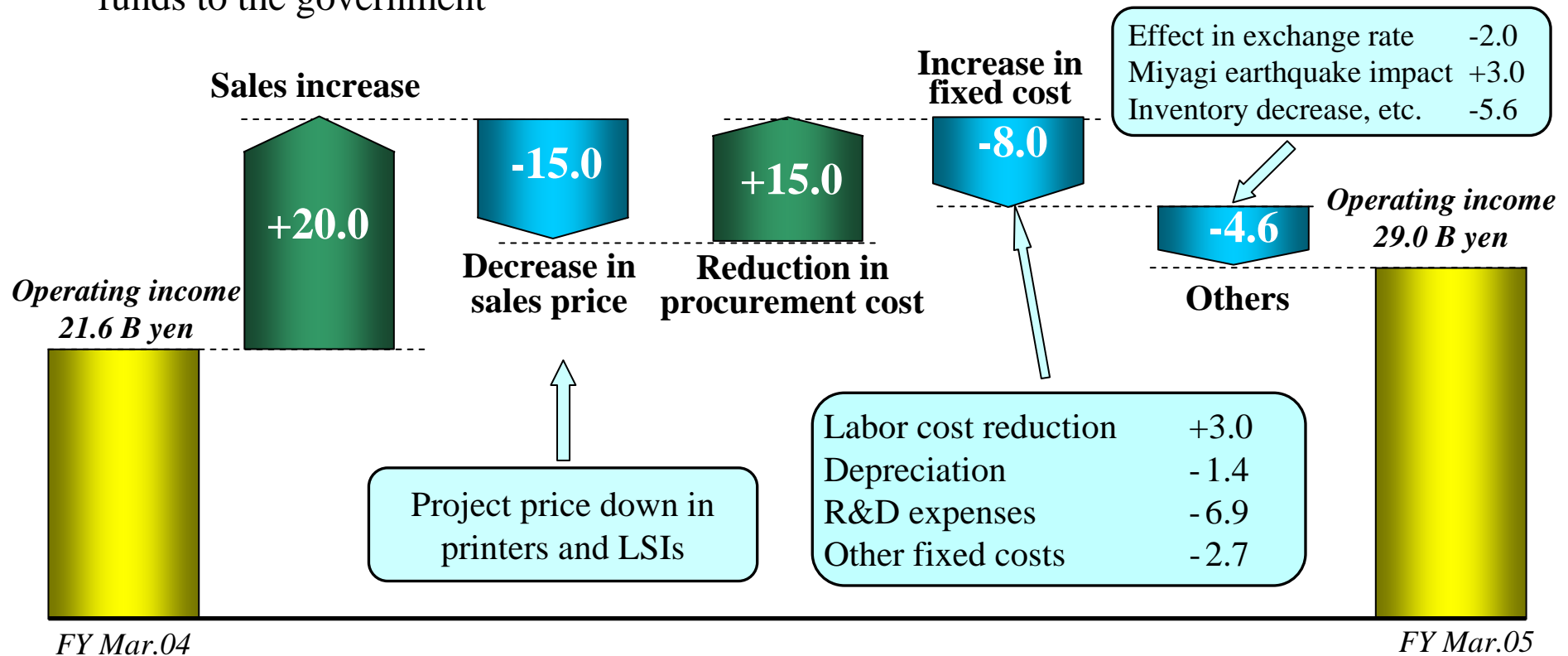
<Full year projections>

(Billion yen)	Net sales	Operating income	Recurring income	Net income
Oct. 28 projections	710.0	29.0	21.0	10.0
July 28 projections	680.0	29.0	20.0	10.0

Causes of Changes in Operating Income

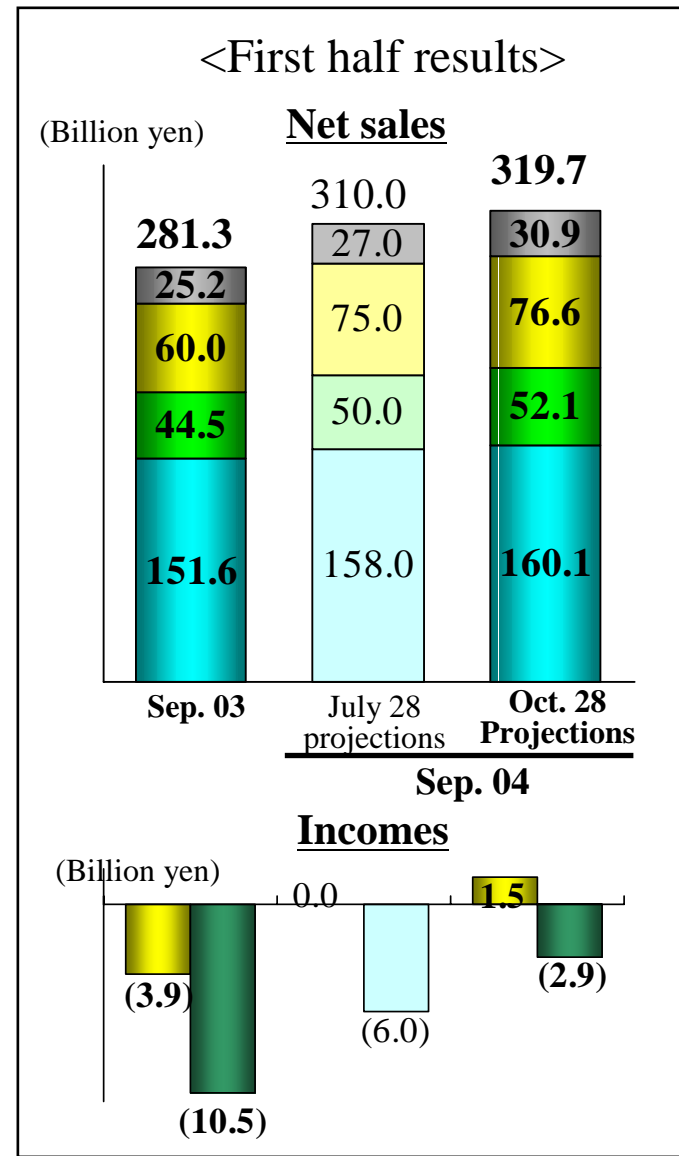
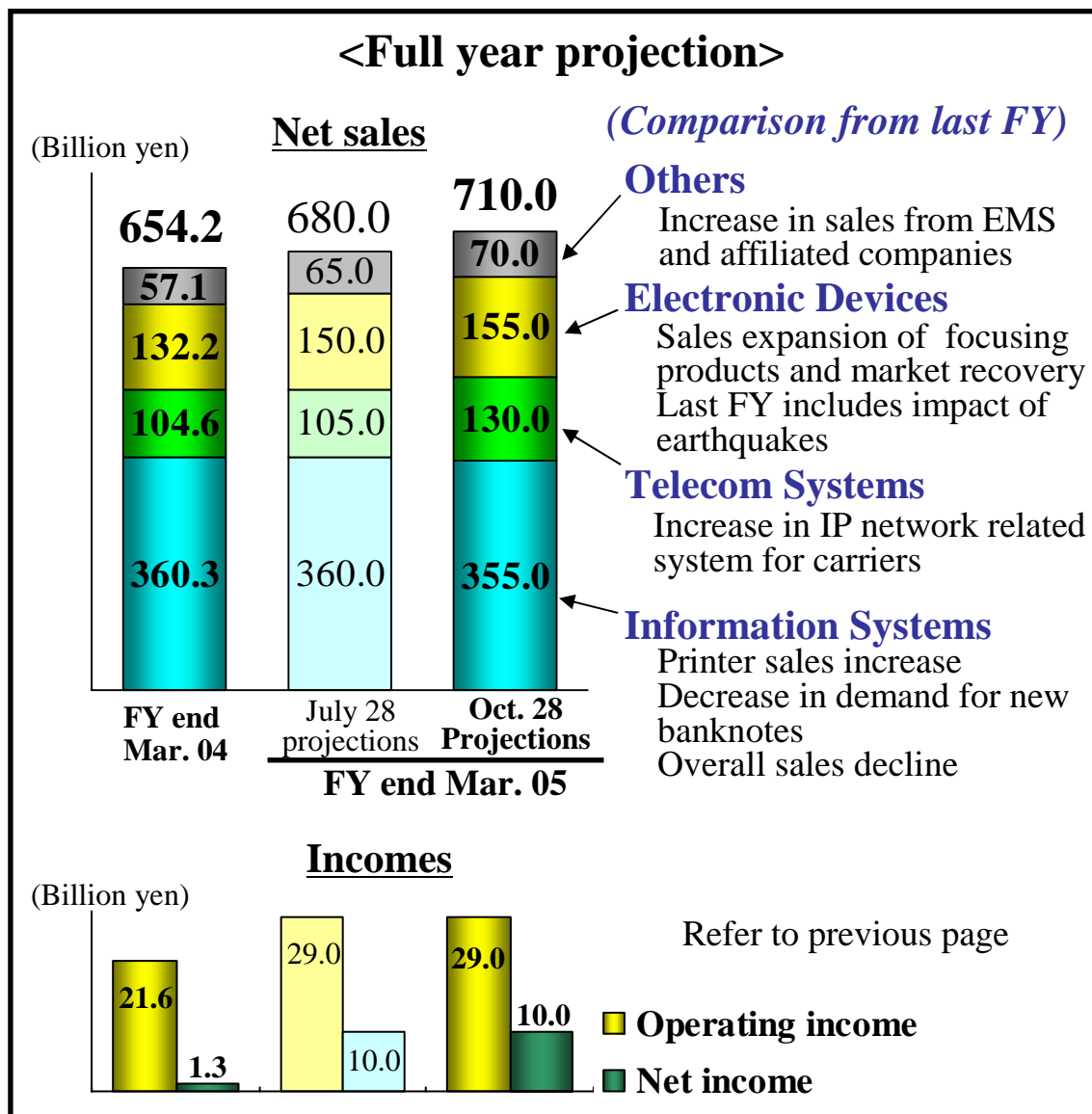
Cause of 7.4 B yen increase from the previous year in operating income

- Increase capital investment and R&D for future business development
- Sales increase and procurement cost reduction offset causes of profit decline including price down, strong yen, and investments
- Though bonuses increase as it links with performance, labor costs decrease by 3.0 B yen due to headcount reduction and decrease in retirement benefit through returning pension funds to the government



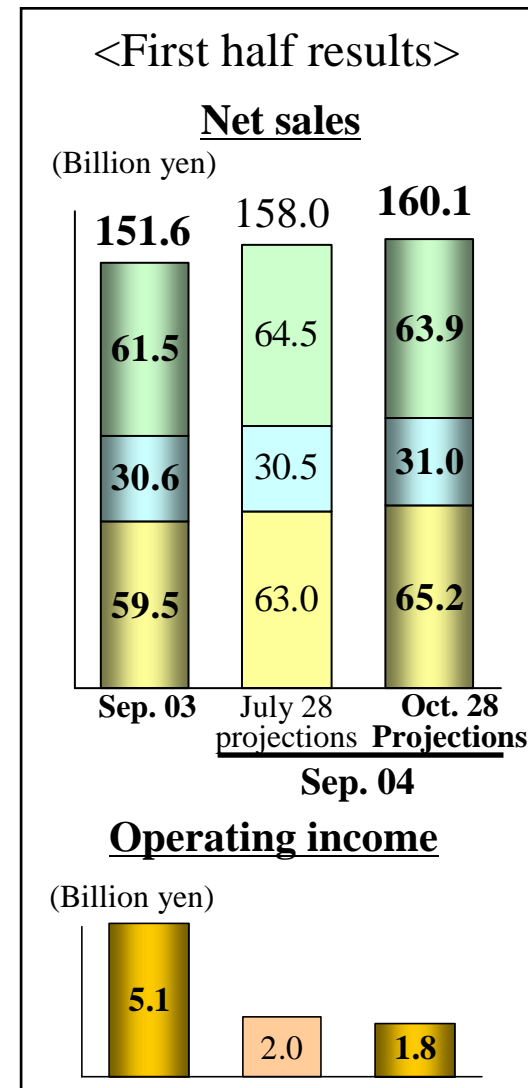
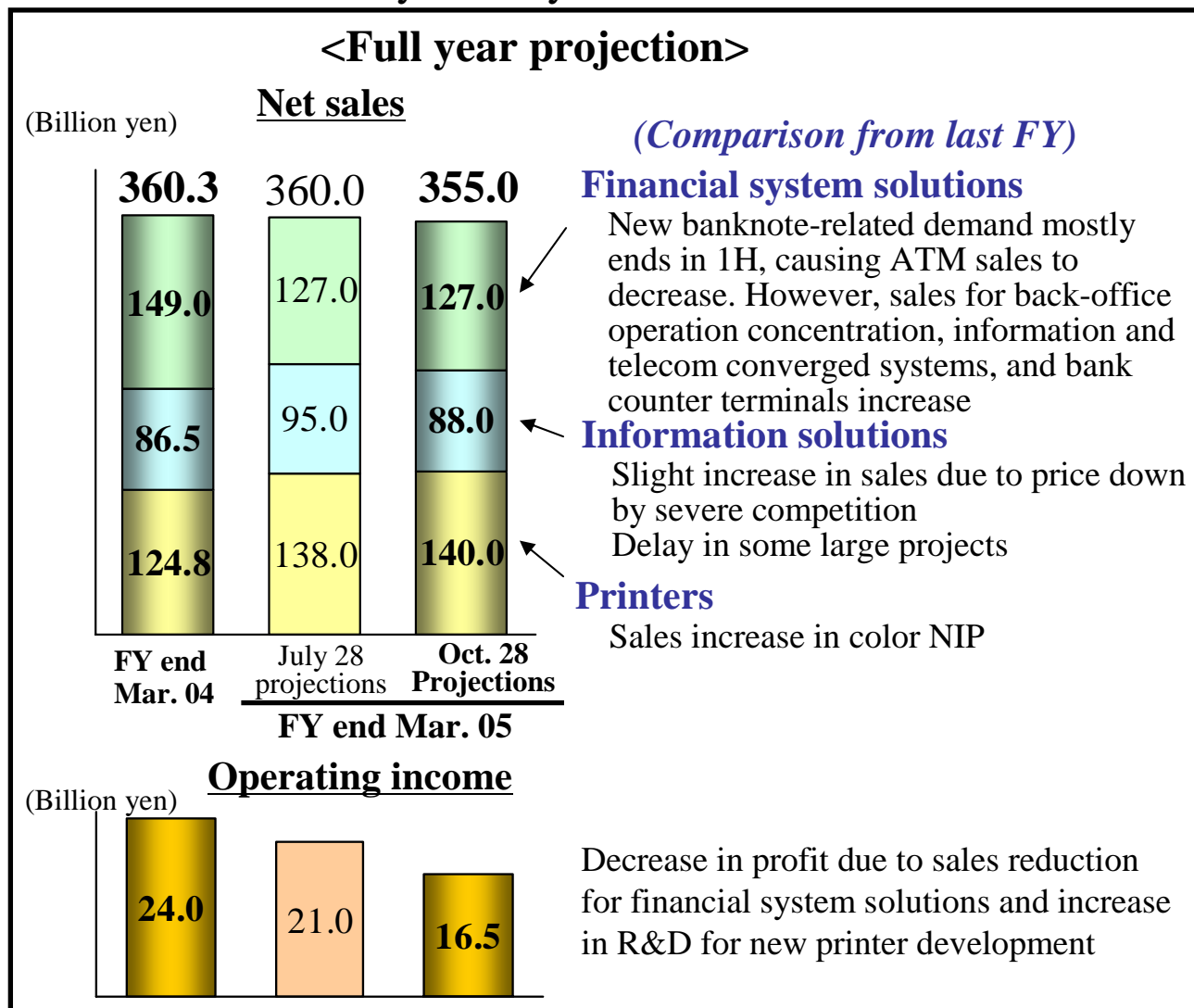
Full Year Projection by Segments

- Achieve increase in sales and income relative to the previous fiscal year

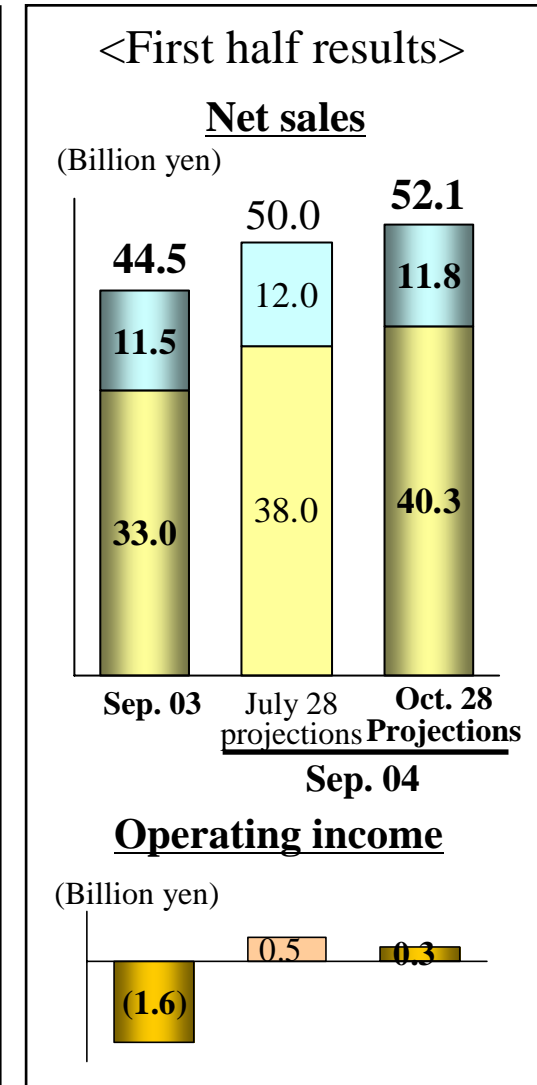
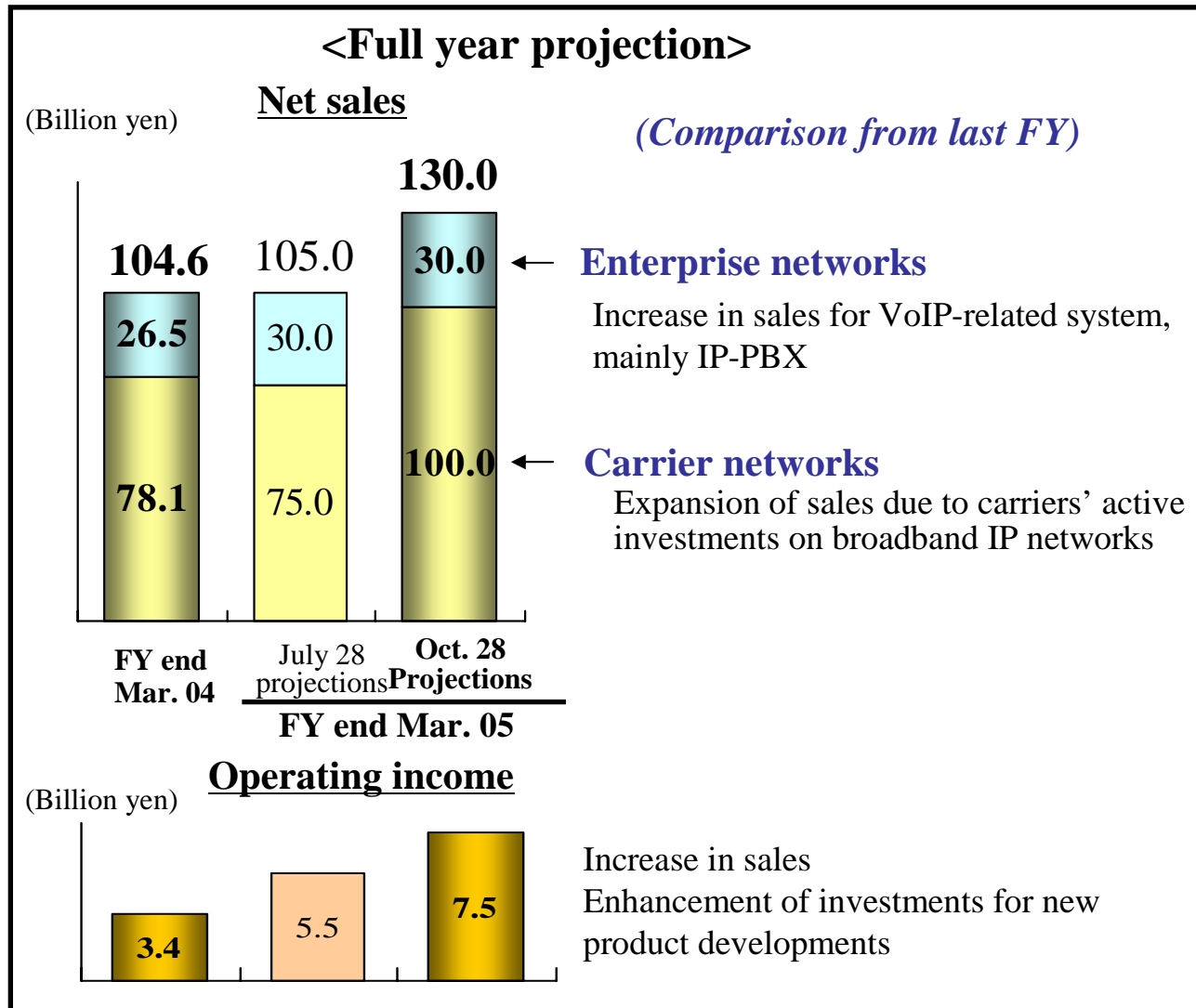


Full Year Projection: Info Systems

- Demand related to new banknote mostly ends in the 1st half. Though sales decrease was partly offset by sales from financial IT solutions and color printers, operating income decreased on an year-on-year basis due to R&D increase

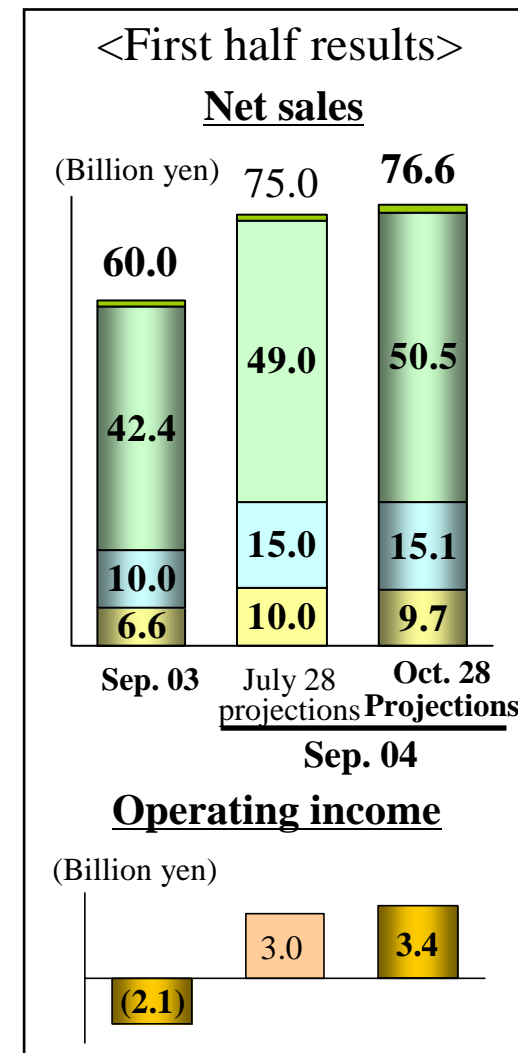
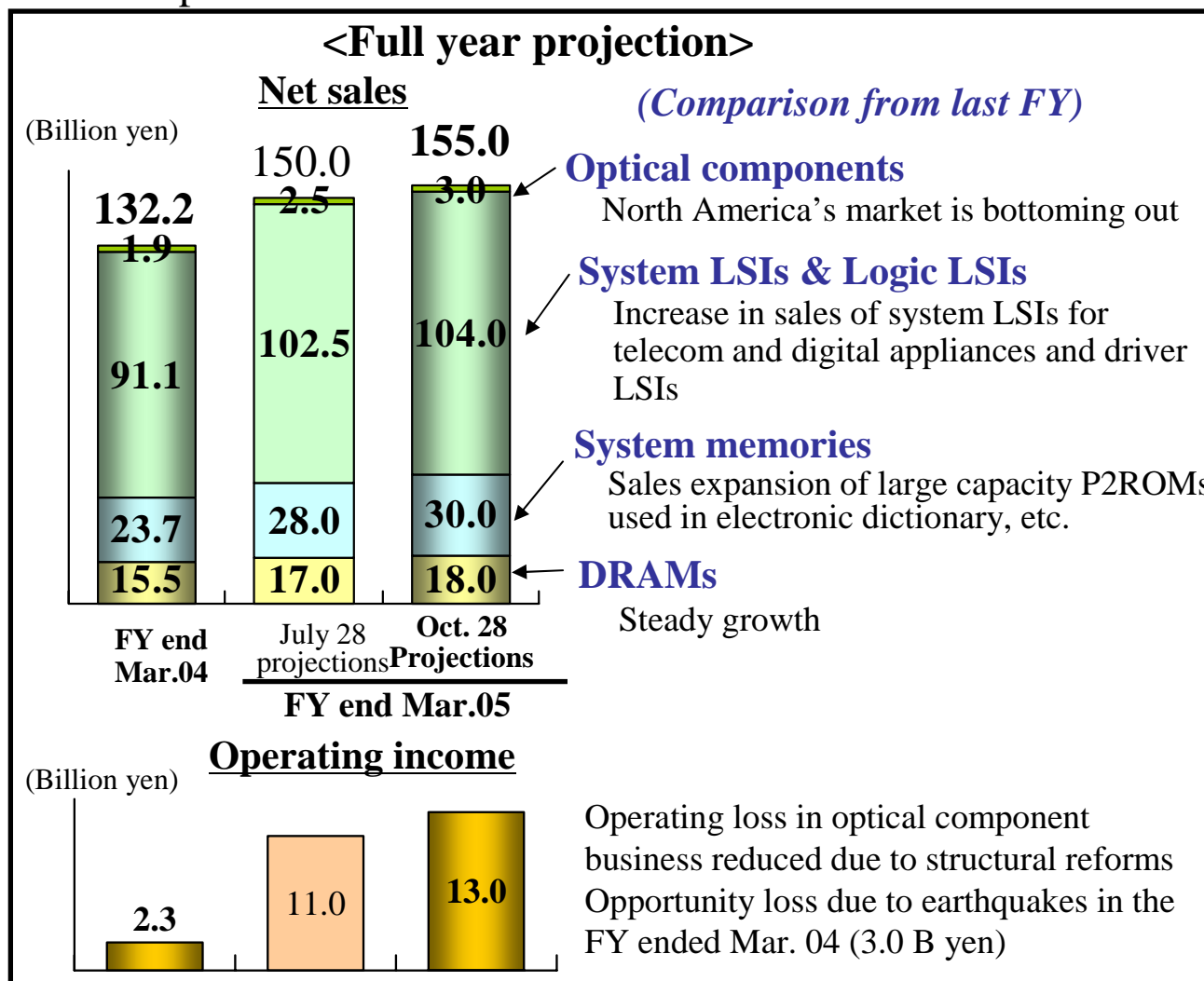


- Increase in both sales and operating income backed by carriers' investments on networks
- Enhance R&D investments for future growth



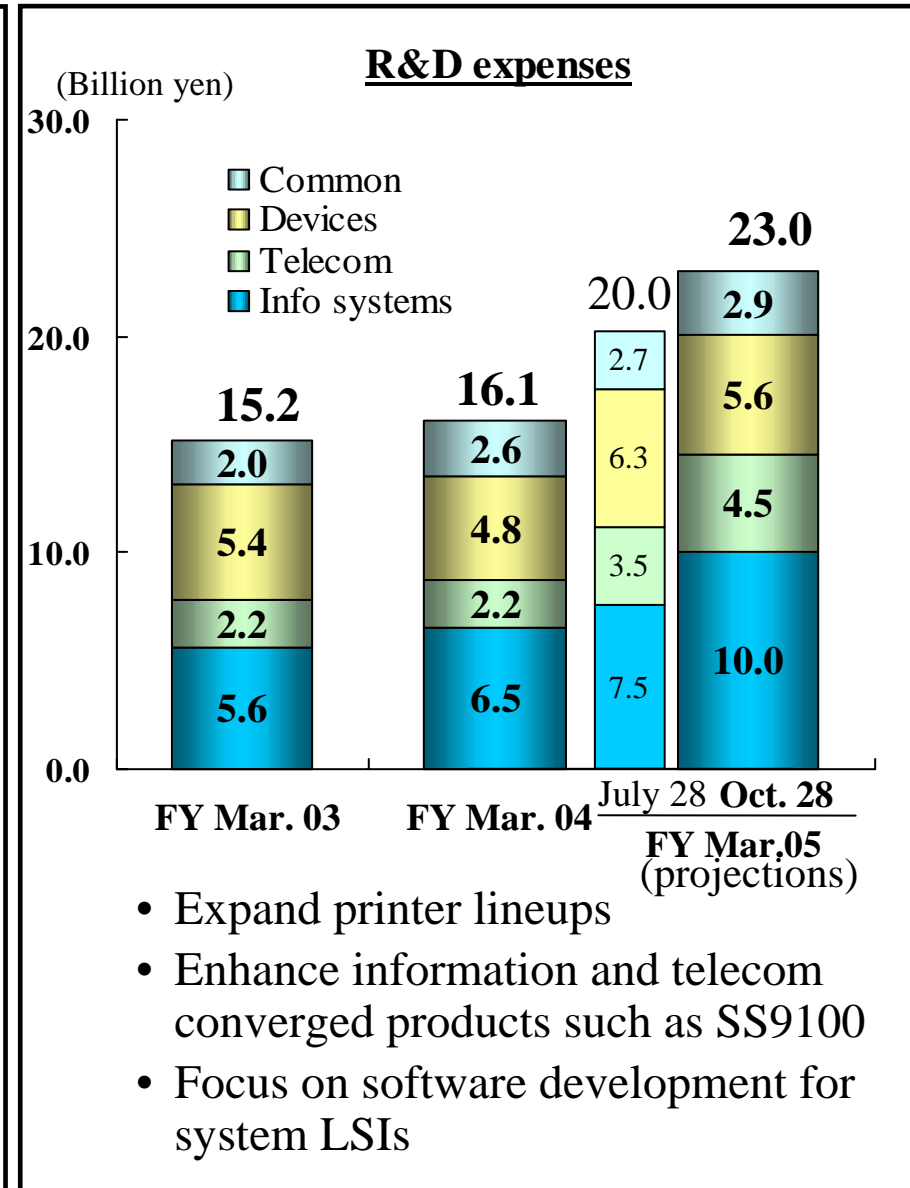
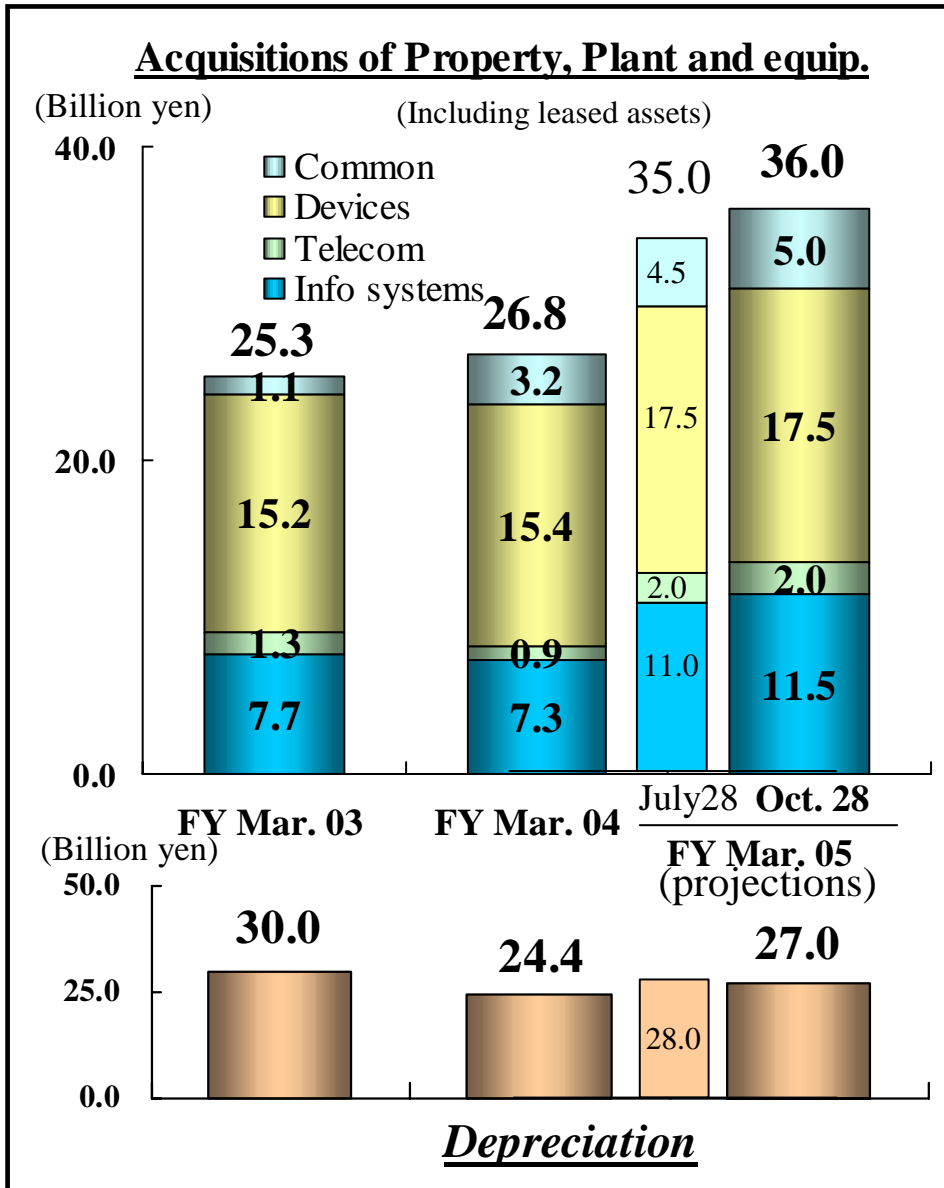
Full Year Projection: Electronic Devices

- Demand increase in personal and mobile markets. Though unclear outlook in the second half, sales increase is expected
- Increase in operating income due to sales increase and structural reform in optical components business



- Free cash flows (FCF) improved 12.3 B yen from previous projections (July 28) due to decrease in operating assets and liabilities, etc. Full year FCF also expected to improve by 5.0 B yen

(Billion yen)	FY Mar. 04 (results)		FY Mar. 05 (results/projections)		FY Mar. 05 (July 28 project.)
	1 st Half	Full year	1 st Half	Full year	Full year
I. Cash flows from operating activities	27.1	92.3	30.8	65.0	55.0
Income (loss) before income taxes	(14.7)	2.3	(4.7)	16.0	18.0
Depreciation & amortization	16.8	33.6	15.7	35.0	36.0
Changes in operating assets & liabilities	16.7	40.1	18.0	10.0	0
Others	8.3	16.3	1.8	4.0	1.0
II. Cash flows from investing activities	(10.4)	(19.2)	(28.5)	(45.0)	(40.0)
Purchases of property, plant & equipment	(10.1)	(24.0)	(22.0)	(36.0)	(31.0)
Others	(0.3)	4.8	(6.5)	(9.0)	(9.0)
Free cash flows (I+II)	16.7	73.1	2.3	20.0	15.0
III. Cash flows from financing activities	(9.3)	(43.6)	(15.7)	(25.0)	(25.0)
Redemption of bonds	(7.7)	(39.9)	(10.0)	(15.0)	(15.0)
Changes in other interest bearing debts, etc.	(1.6)	(3.7)	(5.7)	(10.0)	(10.0)
Net cash flow (I+II+III)	7.4	29.5	(13.4)	(5.0)	(10.0)
IV. Cash and cash equivalents at the period end	36.3	58.1	45.3	53.1	48.1
V. Interest-bearing debts at the period end	325.7	291.4	273.4	266.4	266.4



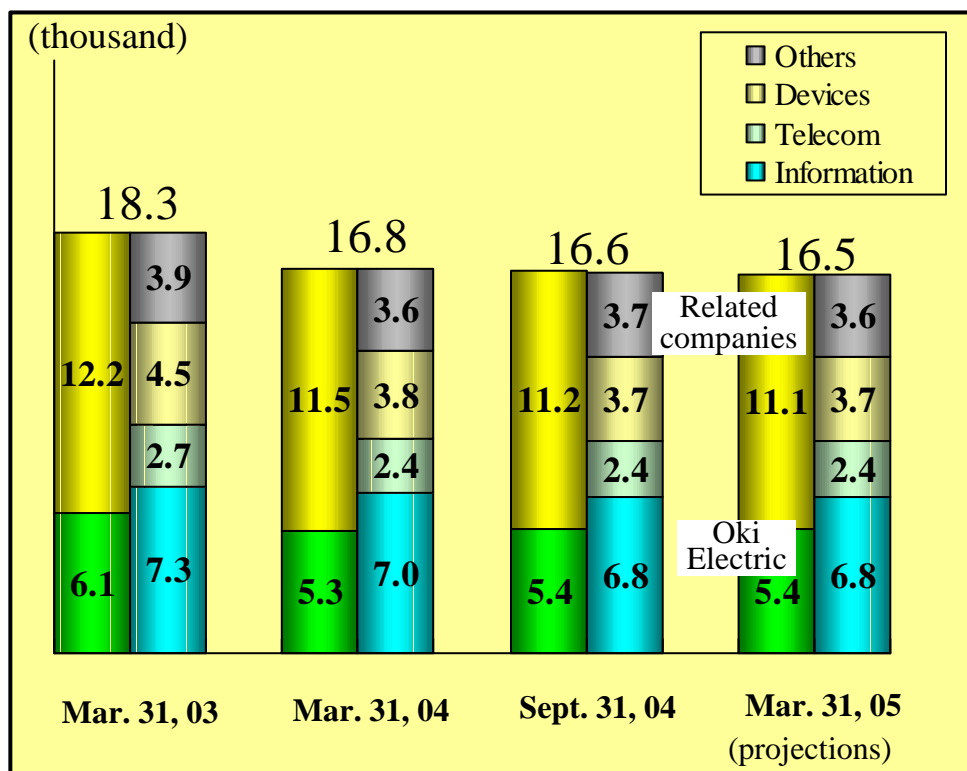
Number of Employees

■ To respond to changes in business environment, promote optimal human resource allocation

- Actively promote mid-career recruiting as immediate workforce for focusing businesses
→ Increase 200 employees in FY ending Mar. 05, a three fold increase from previous years
- Put brakes on decreasing trend of newly graduate recruitment
- Maintain the number of total employees appropriate to business operation size

Number of Employees in Japan

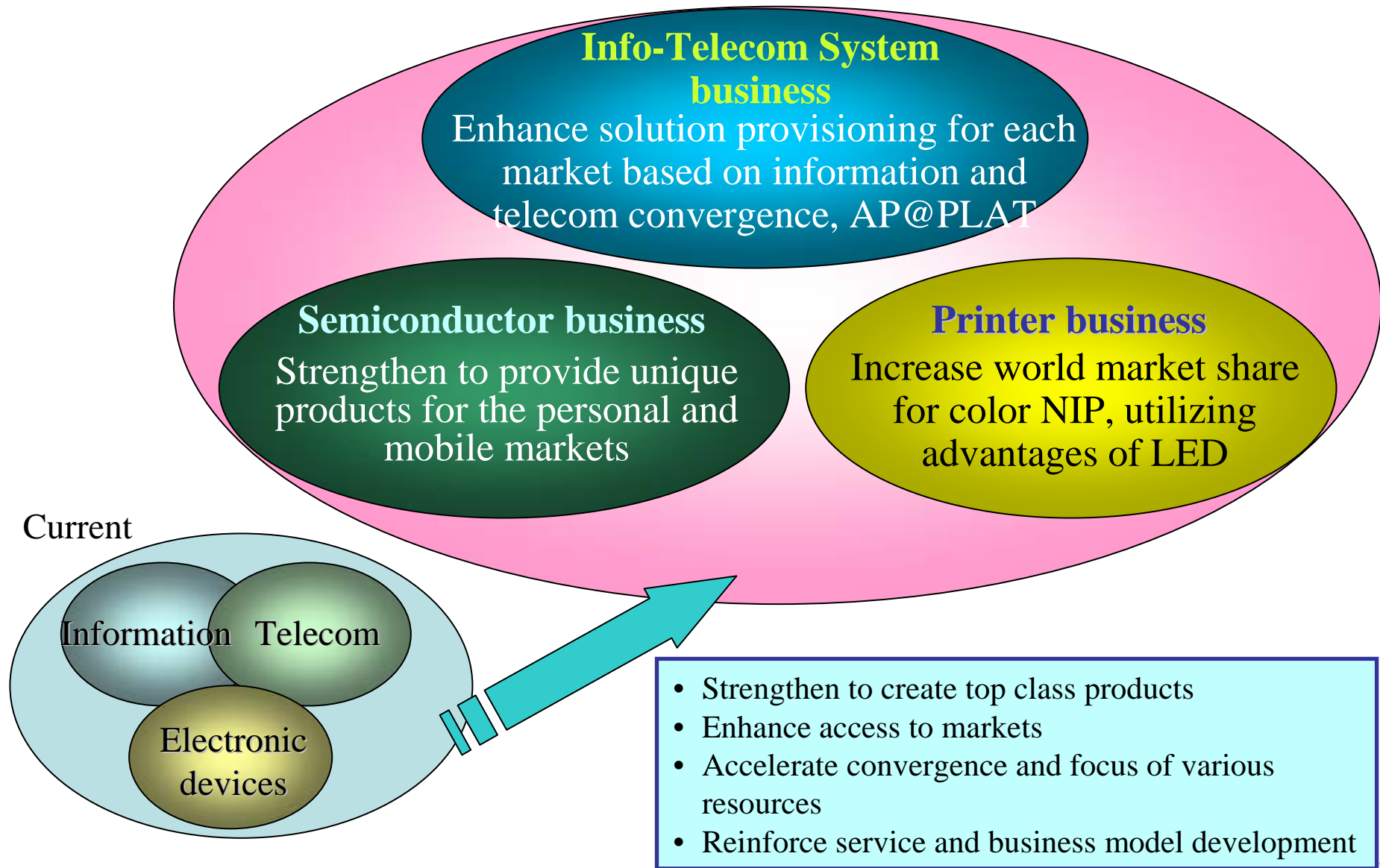
(including non-consolidated subsidiaries and affiliates)



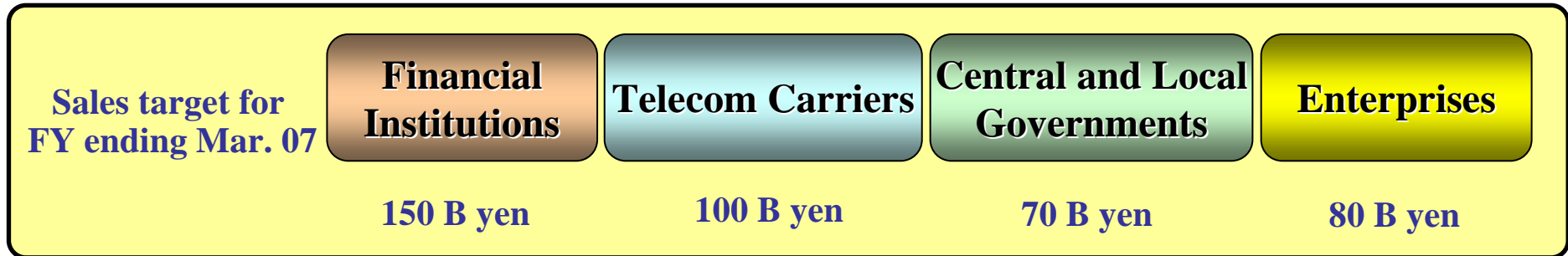
	FY ended Mar. 03	FY ended Mar. 04	Number of people	
			FY ending Mar. 05 First half	FY ending Mar. 05 Full year
New graduates	240	190	200	200
Mid-career	70	60	60	200
Recruit	310	250	260	400
Retirement, transfer, etc.	-2,000	-1,750	-460	-700
Total	18,300	16,800	16,600	16,500

Three Focusing Businesses

Restructure business targeting FY ending Mar. 2007



FY ending Mar. 2007 target:
Net sales 400 B yen, Operating income 35 B yen



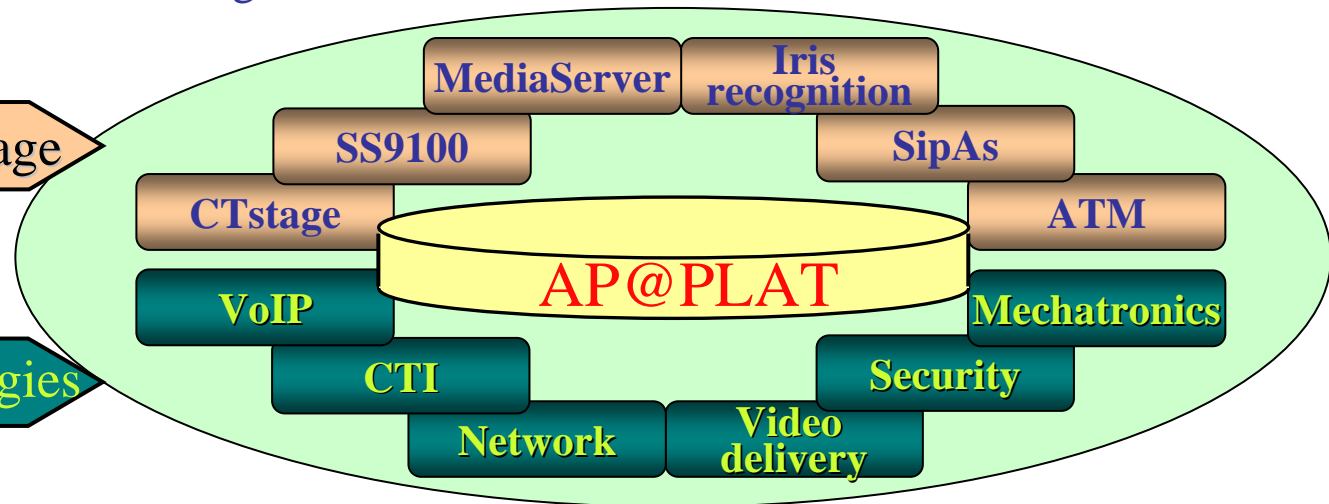
“Obediently provide products that customers desire or will desire”

Strengthen access to OkI’s strong markets with information and telecom converged products



Products with advantage

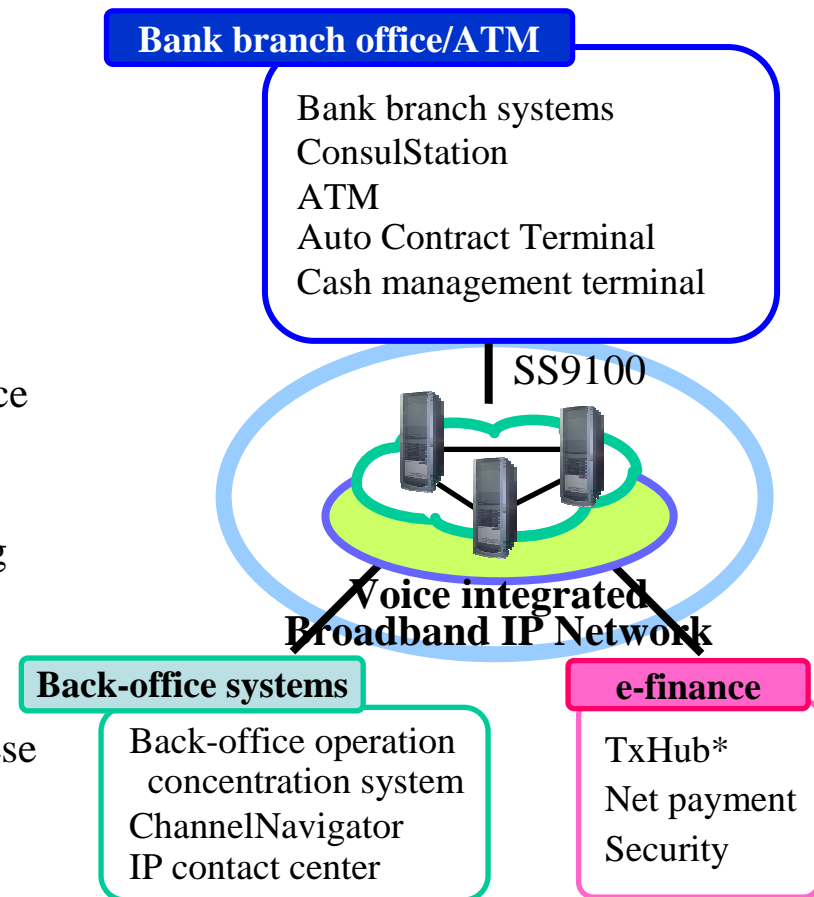
OkI’s unique technologies



- New banknote-related demand ends in the 1st half of the FY Mar. 2005
Increase R&D investment for new business deployment for the FY Mar. 2006 and after
- Expand solution business and strengthen ATM business (market share: 40%) further

[Business Strategy]

- Enhance sales for back-office operation concentration systems*
High demand in back-office systems as progress in restructuring and consolidation in financial institutions
→ Expand sales based on the top share (24%) in Japan
- Focus on financial IT solutions
Strengthen sales channel to attract customers
→ Provide IT solutions for bank branch office, e-finance and back-office
- Expand ATM business to non-financial sectors
Expand sales of multifunctional ATMs and ticket issuing system to non-financial sectors such as retail, travel and transportation markets
- Deploy ATM business for overseas market
Launched a multifunctional ATM dedicated to the Chinese market
Target 30% of the Chinese market by the FY Mar. 06 (based on units)




* Back-office operation concentration system: money order, personal seal check, personal identification, etc.

* TxHub: An application hub used in banks to control and transfer account-type transactions between terminals and hosts servers

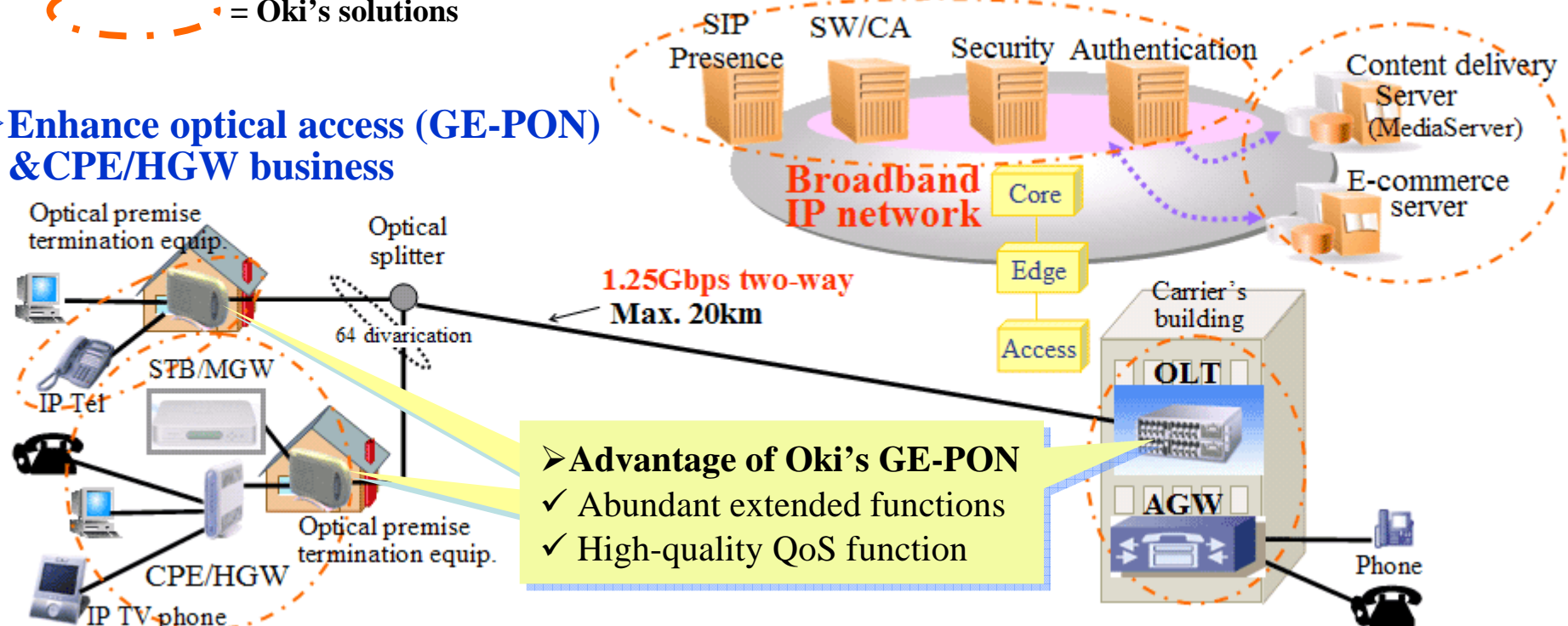
Telecom Carriers Investment Trends

- Active investment towards backbone network accelerates/ Local IP network expands as B-FLETS sales increase/ Optical access investment increases → **Full scale introduction of GE-PON**
- **Full scale CPE sales expansion** as optical IP telephony service demand increases, highly functioned CPE integrated into HGW
- Softbank/ Japan Telecom’s entrance to the fixed phone services → **Provide new services**
- Demand increase in AP@PLAT including **IP telephony, video delivery, and web-linked SIP-based applications**, as IP network expands

➤ **Expand application & service platform business**

 = Oki’s solutions

➤ **Enhance optical access (GE-PON) & CPE/HGW business**

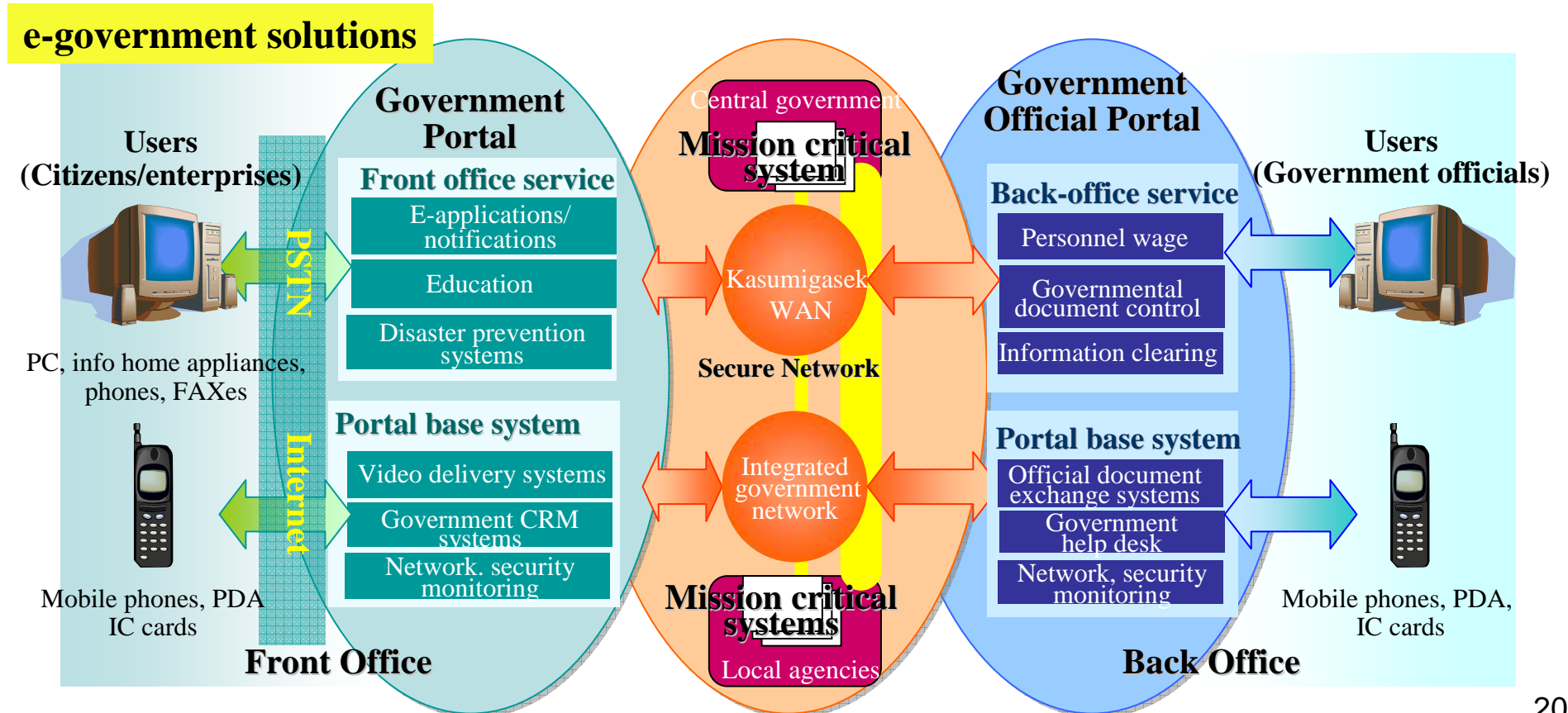


Focus on large projects based on e-Japan II Strategy

- Deploy e-government solutions with security as a core for applications and networks
 - ✓ Focus on government portals/ mission critical systems / government official portal based on AP@PLAT
- Focus on ITS related systems including VICS and ETC that promote sophisticated road traffic

Government portal system: Provide one-stop governmental service to citizens and enterprises

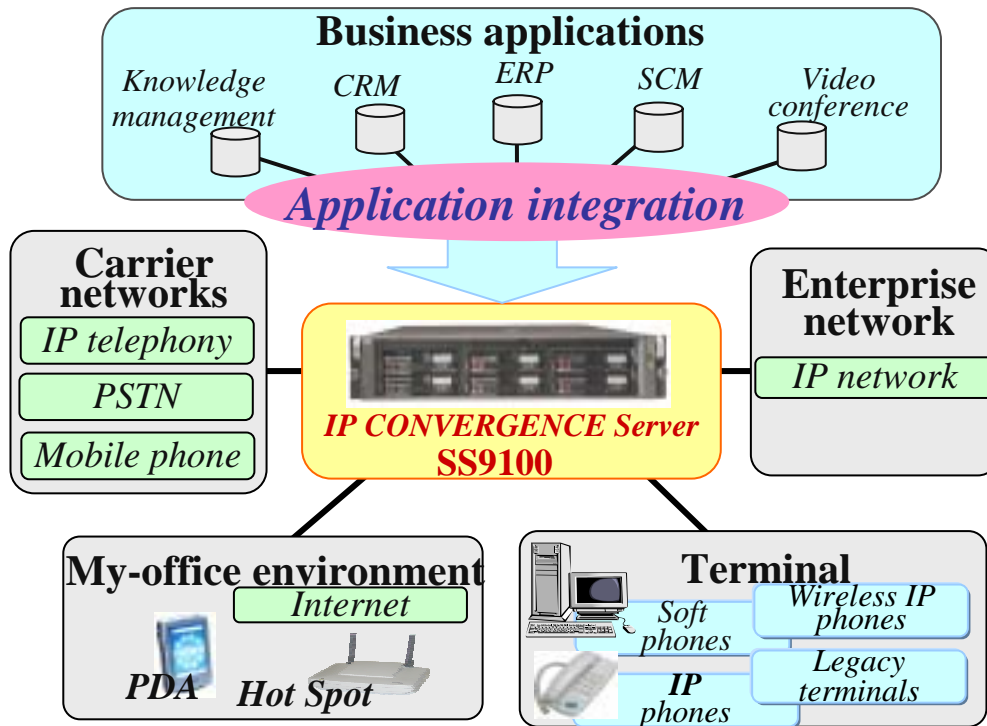
Mission critical system/ government official portal system: Promote business efficiency to each governmental agencies



- Enterprise-use info-telecom system market expands rapidly as info and telecom converges
- Progress of network convergence in channel systems such as ticket reservation and issuing systems and KIOSKS
- Increase sales based on Oki's top share in VoIP, call center systems and ticket issuing terminals

Info-telecom solutions for enterprise

Provide business process improvement with **SS9100** as a core that converges large scale IP-PBX function with mission-critical business applications on **Microsoft .NET**



Solutions for Travel Industry

Strength in mechatronics and security

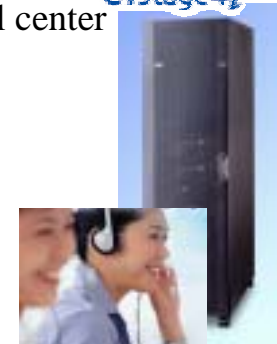
- Ticket issuing terminal market share:
No.1 in Japan (60%)
- Auto reservation and ticket issuing terminal for railways: 40%



Airport check-in system

IP Contact center CTstage

- A leader in the Japanese CTI market
 - ✓ 38% of the Japanese call center market
- Cumulative sales: 4,000 sets
 - ✓ Fuji Xerox, Toshiba, NTT DATA, etc.
- 120+ partners
 - ✓ Microsoft, IBM, Intel, NEC, etc.

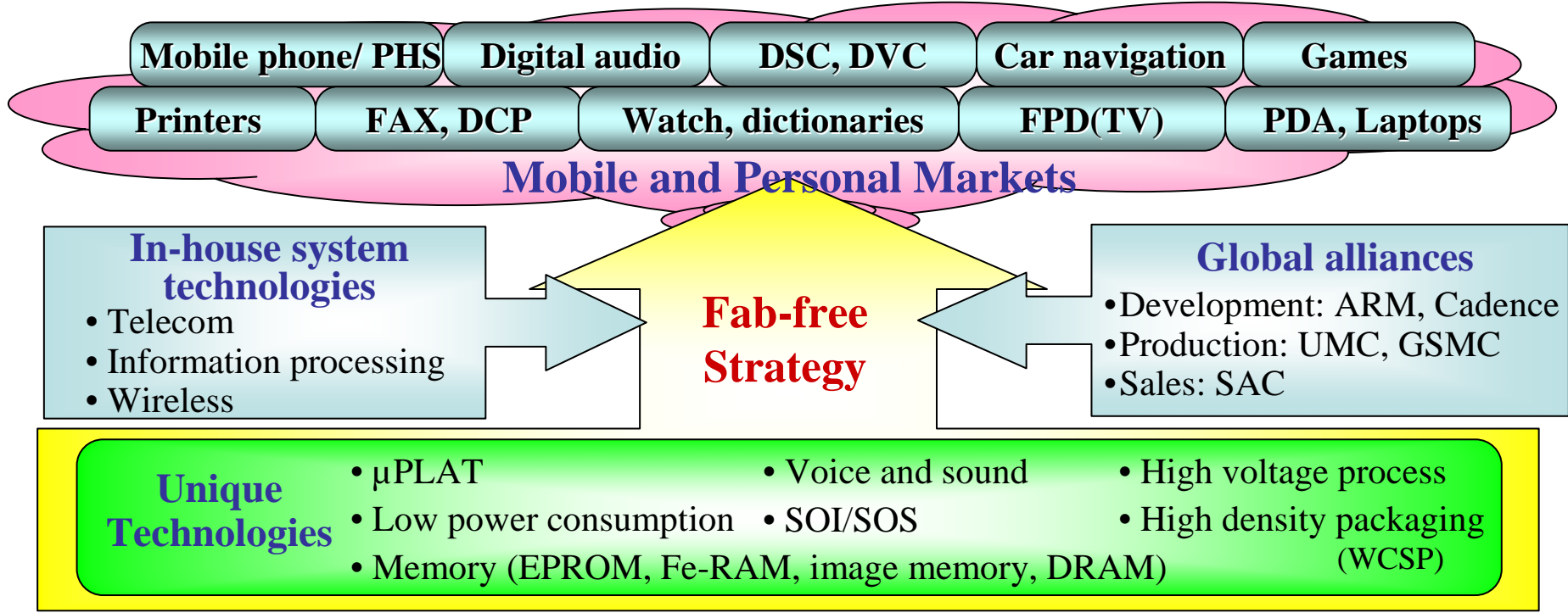


Semiconductor Business

FY ending Mar. 2007 target:
Net sales 170 B yen, Operating income 17 B yen

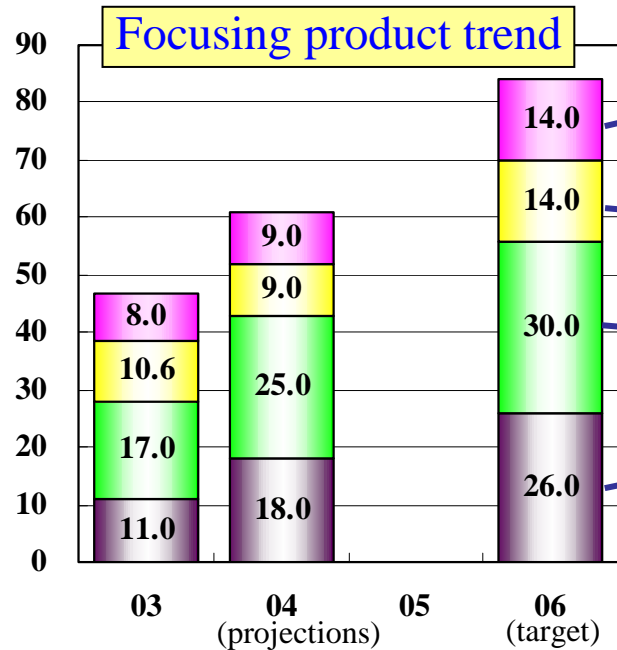
Growth strategy with advanced technologies
Establish business structure strong to market changes and to generate profit
(BEP: 110.0 B yen strategy)

- **Converge semiconductor technology and system technology/ Actively promote global alliances**
Provide high value added products to personal and mobile markets with low power consumption
- **Establish new business model (Oki's Fab-free model)**
Plan products not restricted to Oki-fabs → Enhance agile product creation and flexible production



- Expand business through advanced technologies such as low power consumption, high voltage process, SOI/SOS, etc.
- Expand products by converging internal system technologies (information/ telecom) (ZigBee, VoIP, analog-mixed)
- Enhance product planning and development through working together with customers and partners

(Billion yen)



Worldwide market share for focusing products
(Projections for FY end. Mar. 2005)

- [PHS Baseband] 40%
- [Sound Generator LSI] 25% (40% in GSM market)
- [P2ROM] 35% (ROM market)
- [Large TFT driver] 5% (40% in large LCD TV)

Further growth with products for market that are expected to grow i.e) world's first single chip ZigBee-LSI, silicon audio LSI, organic EL driver, etc.

Other major product market share (worldwide: Estimated by Oki for the FY Mar. 2004)

- LSIs for cordless phone: 40%
- Voice synthesis LSIs: 25%
- Memories for TV (FIFO) 80%
- Digital camera drivers: 30%
- Silicon audio LSIs: 30%
- LSIs for ADSL modems: 24%

FY ending Mar. 2007 target:
Net sales 180 B yen, Operating income 15 B yen

- Color NIP:
- Dell joining the market stimulates the color NIP market
 - Achieve 20% worldwide market share utilizing LED advantages (compact, high speed, high quality)
- SIDM:
- Maximize profit by increasing SIDM share and decreasing costs

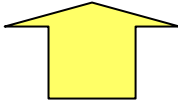
Provide world's best cost performance product by increasing customer satisfaction

Color NIP

Worldwide share: over 20%

SIDM

- Maintain top share in N. America (over 50%)
- Capture Chinese market



- SOHO/ enterprise use business domain
- LED tandem/ single pass technology

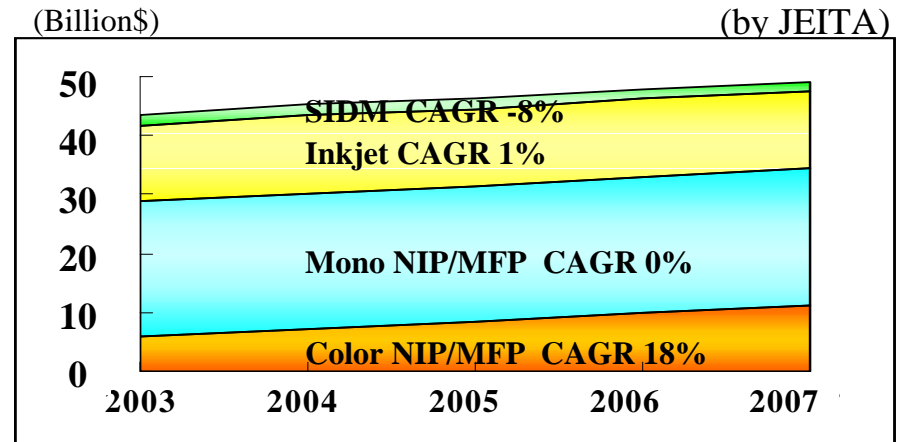
• Low cost, high-quality

- Actively deploy markets in China, Eastern Europe and South America
- Cultivate replacement demand

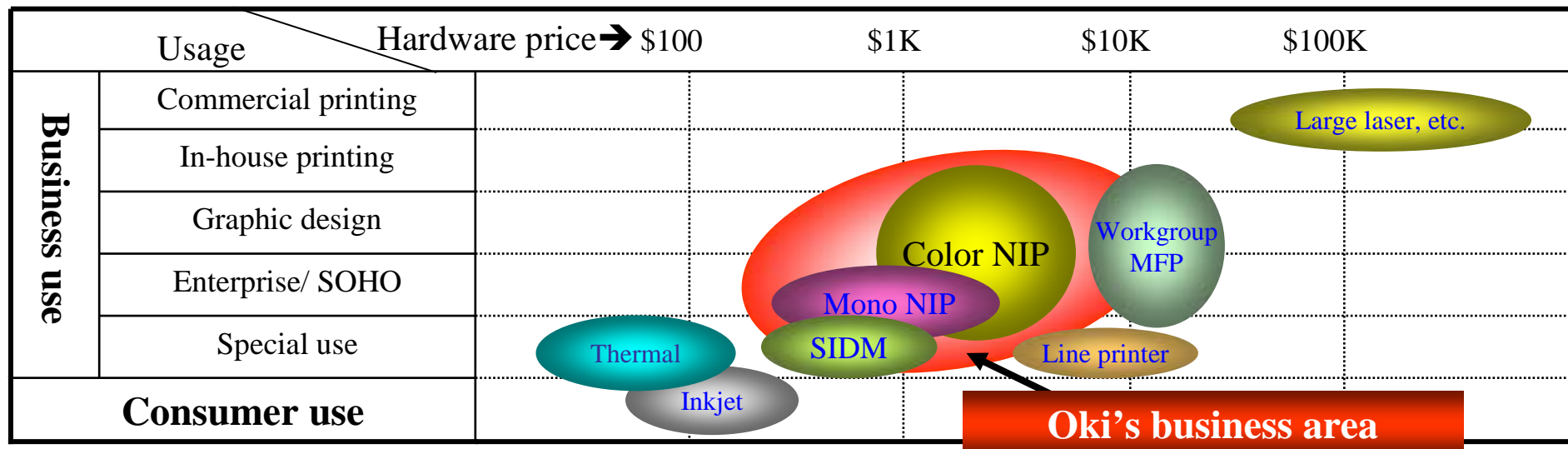
Deploy business targeting office use for SOHO/ enterprises

- 18% annual growth in color NIP/ MFP
- Stable business in SIDM mainly for specific applications, expand Chinese market

Printer market (hardware shipment)



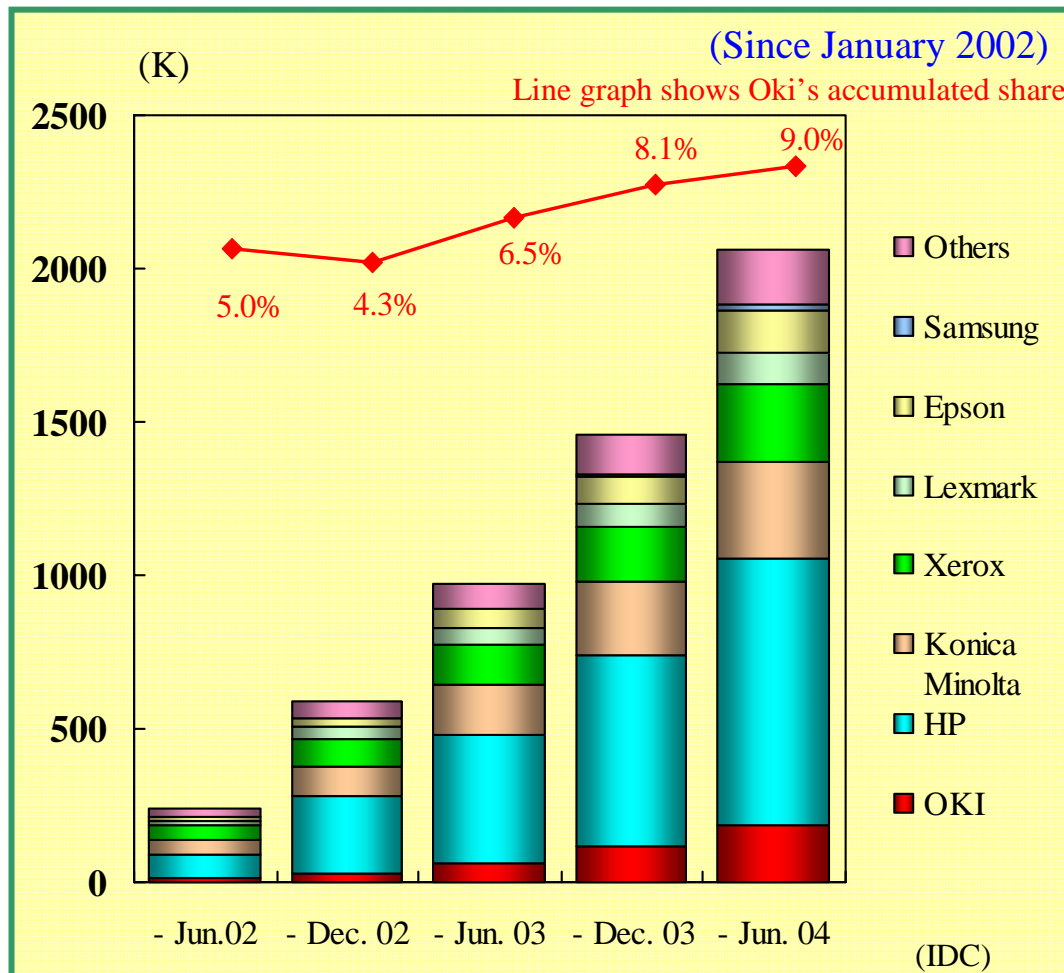
<Oki's Business Area>



- Europe and US market share increases steadily from FY ending March 2004
- Rank into high market share group in major countries

<Accumulated color NIP shipment in Europe and US>

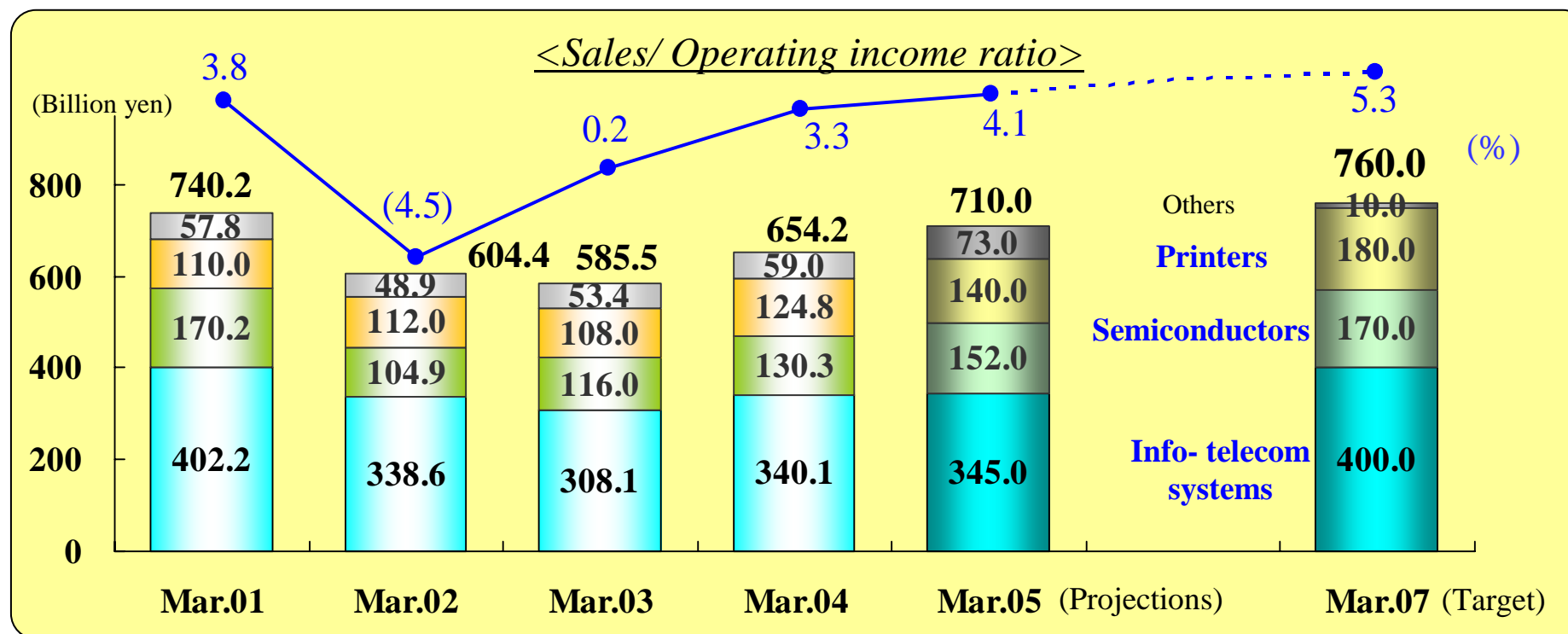
<Market share by major countries>



IDC Jan-Jun/04

	Market ratio	Oki's share	
		Share	Ranking
Worldwide	100%	8.6%	No.5
US	29.8%	9.6%	No.4
Japan	13.7%	4.0%	No.5
Germany	7.9%	10.5%	No.4
UK	7.5%	6.5%	No.6
France	4.4%	6.2%	No.5
Italy	3.8%	14.9%	No.2
Spain	2.9%	40.8%	No.1
Switzerland	1.8%	8.9%	No.3
Sweden	1.5%	16.0%	No.2
Netherlands	1.5%	3.7%	No.6
Others	25.3%	5.7%	No.5

Mid-term Business Target [New Business Segment]



	FY Mar. 03 (Result)	FY Mar. 04 (Result)	FY Mar. 05 (Projections)	FY Mar. 07 (Target)
Net Sales	585.5 B yen	654.2 B yen	710.0 B yen	760.0 B yen
Operating income	1.4 B yen	21.6 B yen	29.0 B yen	40.0 B yen or more
Net income	(6.6) B yen	1.3 B yen	10.0 B yen	20.0 B yen or more
ROE	-	1.2%	8.3 %	15% or more
D/E ratio	3.3 times	2.6 times	2.2 times	1.5 times or less

P3	IP	Internet Protocol	P20	ETC	Electronic Toll Collection
P7	IT	Information Technology		PDA	Personal Digital Assistance
	LSI	Large Scale Integration		PSTN	Public Switched Telephone Network
P8	R&D	Research and Development		CRM	Customer Relationship Management
P9	EMS	Electric Manufacturing Service	P21	ERP	Enterprise Resource Planning
P10	ATM	Automated Teller Machine		SCM	Supply Chain Management
	NIP	Non-Impact Printer	P22	BEP	Break Even Point
P11	VoIP	Voice over Internet Protocol		PHS	Personal Handy-phone System
	PBX	Private Branch eXchange		DSC	Digital Still Camera
P12	P2ROM	Production Programmed Read Only Memory		DVC	Digital Video Camera
	DRAM	Dynamic Random Access Memory		DCP	Digital Cordless Phone
P16	LED	Light-Emitting Diode		FPD	Flat Panel Display
P17	CTI	Computer and Telephony Integration		SOI	Silicon on Insulator
P19	GE-PON	Giga-bit Ethernet Passive Optical Network		SOS	Silicon on Sapphire
	CPE	Customer Premises Equipment		WCSP	Wafer level Chip Size Package
	SIP	Session Initiation Protocol		EPROM	Erasable Programmable Read Only Memory
	HGW	Home Gate Way		Fe-RAM	Ferroelectric Random Access Memory
	SW/CA	Soft Switch / Call Argent	P23	GSM	Global System for Mobile Communications
	STB	Set Top Box		TFT	Thin Film Transistor
	MGW	Media Gate Way		EL	Electro-Luminescence
	AGW	Access Gate Way		FIFO	First-In First-Out
	OLT	Optical Line Terminal		ADSL	Asymmetric Digital Subscriber Line
	QoS	Quality of Service	P24	SIDM	Serial Impact Dot Matrix
P20	ITS	Intelligent Transport System		SOHO	Small office / Home office
	VICS	Vehicle Information Communication System		MFP	Multi Function Printer