

OKI Business Strategies

March 30, 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.

I-1. Management issues: Recognition of current situation

Though net sales will increase, OKI is regretful to expect a loss for the fiscal year ending March 2007 with declining operating income. The reasons include gaps that occurred between market changes (i.e., needs, speed and competitors) and OKI's business, technology and products. While acceleration in globalization, saturation in the Japanese market, and acceleration in customers' efforts for efficiency in investments continue, OKI's response was insufficient. As a result, OKI is facing:

1. Weakened driving power in business development
2. Lack of product competitiveness (Worsened variable cost ratio)
3. Insufficient restraint on fixed costs

OKI's business deployment is at a turning-point. In the macro trend towards NGN, there is no mistake in OKI's business direction, which is to help provide Ubiquitous Services to customers through proactive, proposal-based activities.

OKI will reconstruct a strong competitive edge by fully examining all OKI Group's business activities

I-2. Management issues: Major reasons of current situation

- ◆ Weakened driving power in business development
 - Dispersed resources due to expansion in business domain
 - Declined speed and efficiency in business operation. Insufficient utilization of human resources
 - Limit in saturated Japan's domestic market. Insufficiency in developing sales channels including channels for overseas deployment
- ◆ Lack of product competitiveness (Worsened variable cost ratio)
 - Declined product strength: Stiffer competition/ Accelerated product 'openness'/ Decline in price/ Not enough strong technologies/ Lack of cost reduction in products and manufacturing
 - Accelerated system integration business: Increase in OEM and procurement from 3rd parties/ Decline in developing OKI products/ Lack of alliances/ Reestablish differentiating technologies/ Lack of creating software and service products
 - Curtailed investment from customers
- ◆ Insufficient restraint on fixed costs
 - Gap between rapidly changing technologies and skills of OKI's software/ hardware engineers: Declined efficiency
 - Surplus of indirect staff and fixed cost at each division

Review issues and establish measures

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II-1. Measures for implementation

Reviewing measures announced on February 15, 2007

Measure 1: Accelerate business selection and concentration

- Full examination of businesses
- Shift resources to focusing businesses and strengthening business processes
- Enhance technologies with “Info-telecom convergence + Mechatronics + energy saving”

Measure 2: Revamp towards a more efficient management style

- Review organization and operation/ Reorganize affiliated companies
- Fully examine fixed cost structure: Efficient utilization of human resources.
Optimization of personnel costs
- Enhance alliance strategies

Measure 3: Develop strong businesses with strong products

- Create strong products based on “providing Ubiquitous Services”
- Reestablish differentiating competitive edge (convergence, consolidation, integration)
- Accelerate overseas business development (Info-telecom sales and production)
- Enhance market accessibility. Develop new markets

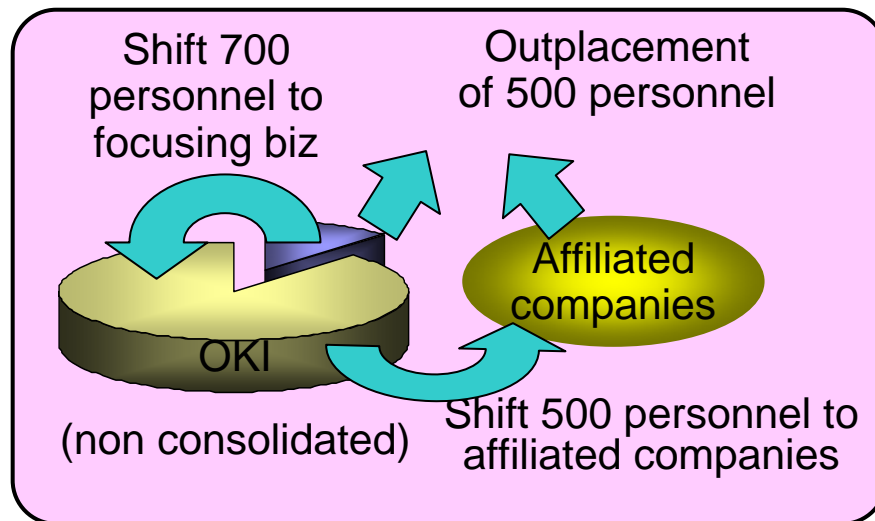
II-1-1: [1] Accelerate business selection and concentration

■ Full examination of businesses

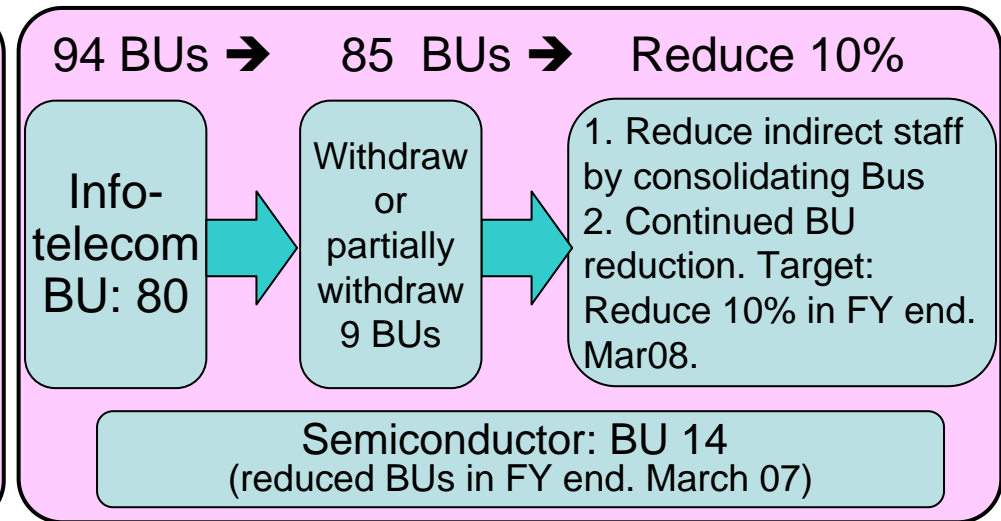
- ◆ Consider businesses with 3% or less operating income as subject of withdrawal
 - Shift resources to focusing business/ Enhance product competitive edge/ Expand sales
- ◆ Consider spinning off or selling out businesses with low synergy

■ Shift resources to focusing business and strengthening biz. processes

Shift 1700 personnel



Reduce the number of BUs



■ Establish full and in-house venture companies to respond to new areas of focus

II-1-2: (2) Revamp towards a more efficient management style

■ Review organization and operation

◆ Revamp business operation

- Clarify the three roles of measure assigning, implementation and implementation management to monitor business operation in a timely manner

◆ Review Info-telecom Business Group

- Conduct close-to-market, speedy and autonomous operation
- Reorganize into 3 business groups in line with business characters and domains

◆ Flatten organization to accelerate business execution speed and flexibility

- Reduce number of divisions
 - Simplify communication and decision making processes
 - Reduce line administrative positions and shift to practical biz. positions

■ Fully examine fixed cost structure

- ◆ Effectively utilize human resources (Internal, external, young, experts)
- ◆ Curtail personnel costs/ Shift personnel/ Shift indirect staff to direct staff
- ◆ Curtail capital expenditure/ Reduce subcontract outsourcing expense

II-1-3. (3) Develop strong businesses with strong products

■ Reestablish differentiating competitive edge based on alliances with global partners

- ◆ **Info-telecom Group: Develop biz. in the NGN era with info-telecom technologies as a core and with strengths in mechatronics**
 - Enhance competitive edge in OKI hardware products (mechatronics, electronics) by withdrawing from unprofitable businesses
 - Expand software and service businesses by establishing new organization and reviewing global software development structure
 - Expand overseas business with new Global Business Development Division
- ◆ **Semiconductor Business Group: Shift from a chip-only business to an electronic function module business**
 - Contraction of system LSI business/ Focus on differentiating technologies and application specific standard LSIs
 - Created highly added-value businesses by integrating with OKI Groups own technologies
 - Enhance profitability for large TFT driver business (consider spin-off/ alliance)
 - Continued improvement to achieve 110 B yen breakeven point structure
- ◆ **Printer Business Group: Increase profit with MFP and mid-high-end color NIP**
 - Focus on SMB (Small Medium-size Business) market for color NIP business
 - Thoroughly enhance profitability in SIDM business (Mainly in BRICs)
 - Expand market share in Japan through alliances
 - Reexamine global operations (consider alliances, etc.)

II-2. Establishing target for fiscal year ending March 2008

Achieve a V-sign recovery in the fiscal year ending March 2008

[Establish Target]

Operating income (consolidated basis)
for fiscal year ending March 2008:
Over 8 billion yen

II-3. Deploying measures for a V-sign recovery (Short-term measures for FY end. March 2008)

Implementation of initiatives based on the 3 measures to revamp business structure
Improve profit in FY end. March 2008 mainly by implementing urgent measures such as reducing fixed costs, etc.

Accelerate selection and concentration	Revamp towards an efficient management style	Develop strong businesses with strong products
<p><Fully examine businesses></p> <ul style="list-style-type: none"> • Reduce/consolidate BUs 10% • Shift resources 1200 • Outplacement of personnel 500 	<p><Review organization and operation></p> <p>Fully examine fixed cost structure</p> <ul style="list-style-type: none"> • Curtail personnel costs 3.5 B yen • Curtail investments 10 B yen • Reduce subcontract outsourcing expense 3 B yen • Reduce inventory 15 % 	<p><Reduce costs for major products></p> <p>Info-telecom G 4 B yen</p> <p>Semi. BG 2 B yen</p> <p>Printer BG 1 B yen</p>

II-3. Deploying measures for a V-sign recovery

(Mid-long term initiatives for FY end. March 2008 and after)

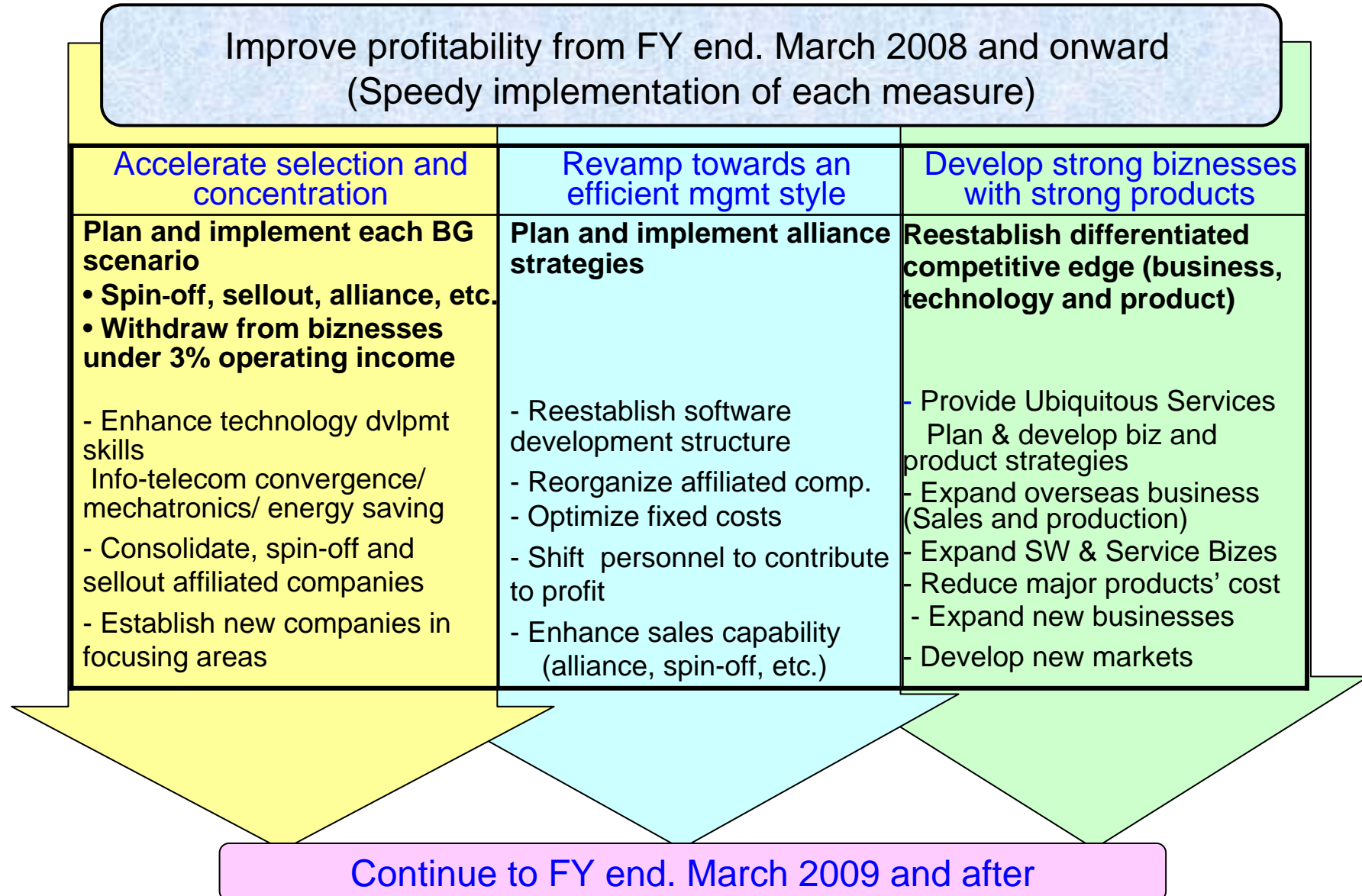


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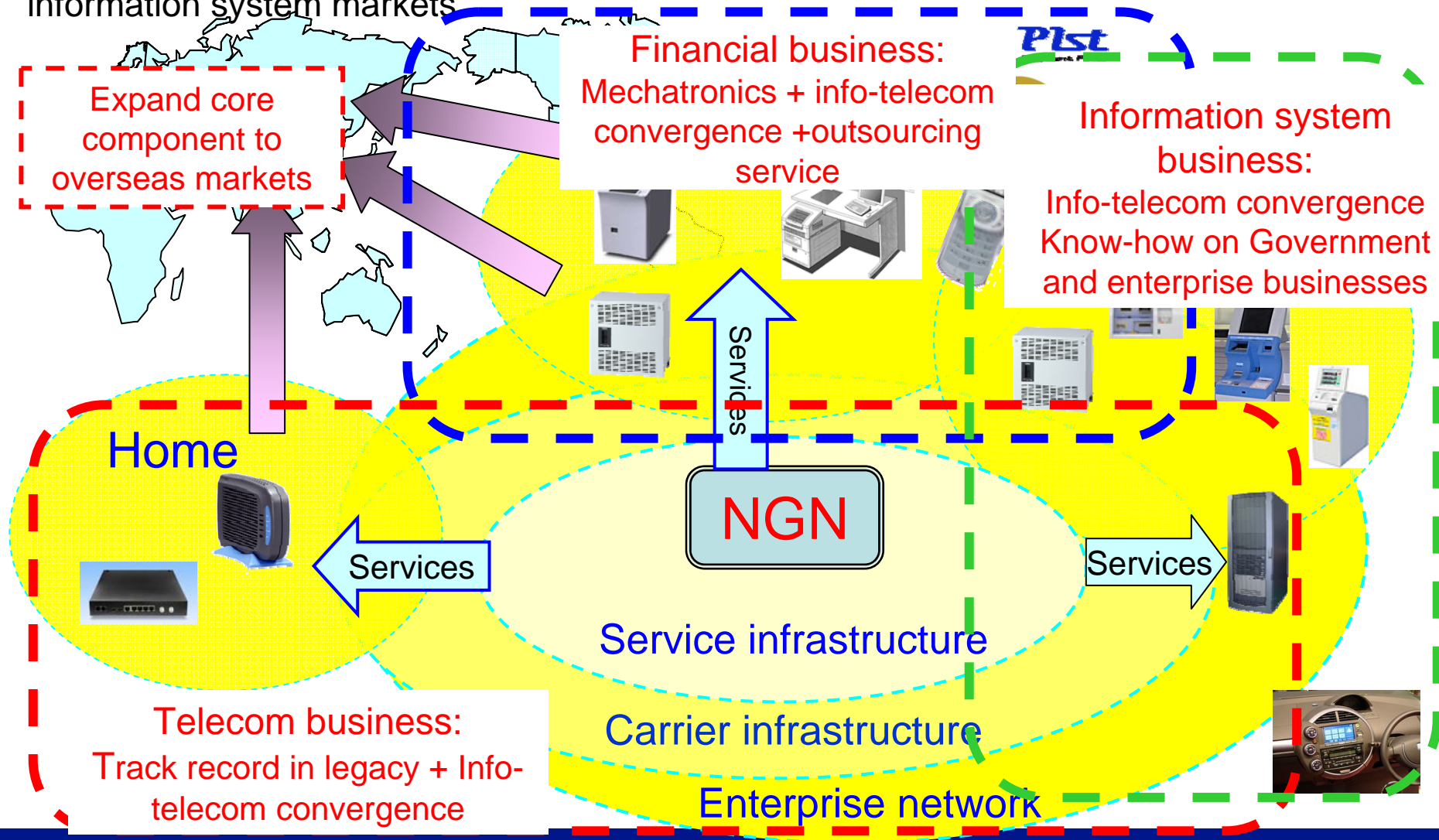
II-2. Establish targets for the fiscal year ending March 2008

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III-1. Directions for Info-telecom Group

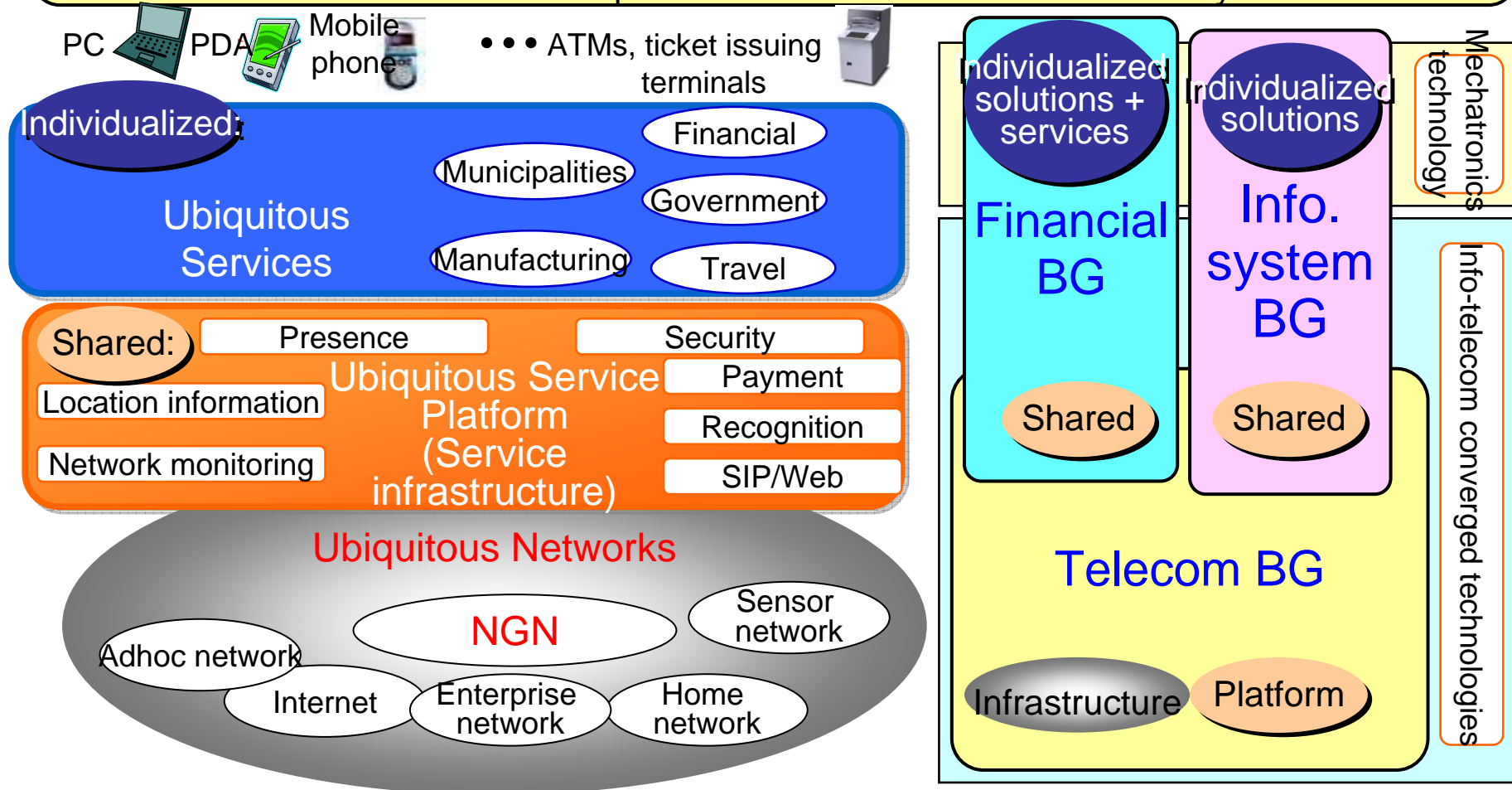
Position NGN infrastructure and service platform as the core for telecom business domain and strengthen market accessibility and offer Ubiquitous Services to financial and information system markets



III-1. New organization for Info-telecom Group

Info-telecom Group - Composed with 3 business groups in line with business areas and characteristics

Speedy management/ Clarifying biz. and responsibility with autonomous management/
Global business expansion/ Enhanced market accessibility

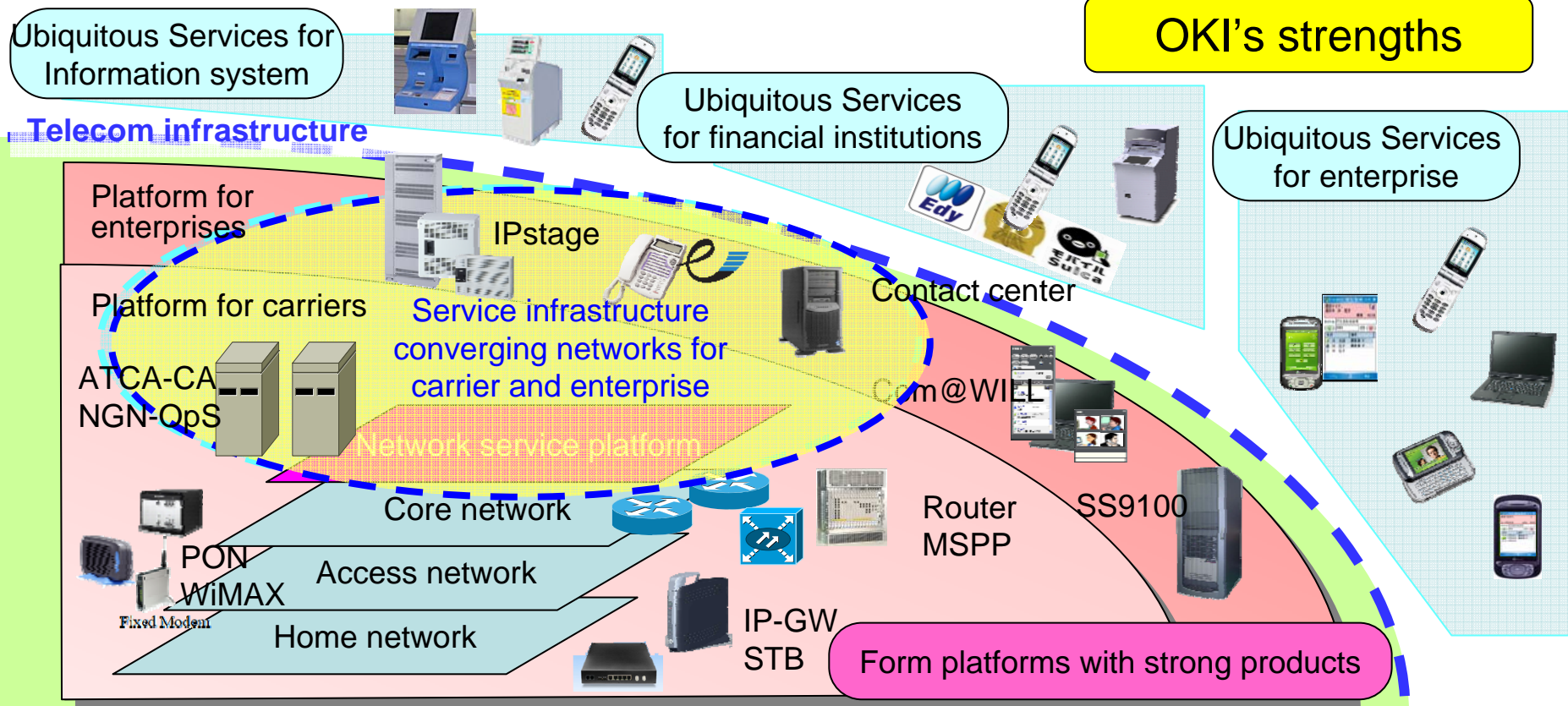


III-2. Telecom Business Group

Business direction

Responding to the NGN era, OKI will provide service infrastructure converging carrier and enterprise networks

Consolidate carrier business and enterprise network business into Telecom Business Group: Target net sales of 100 B yen in FY ending March 2009 in NGN



III-2. Telecom Business Group: Initiatives to improve profitability

Initiatives to enhance profitability in FY end. March 2008

Target of enhancing profitability: 5 billion yen

- Implement thorough cost reduction for GE-PON, CPE, etc.
- Reduce variable cost for PBX / Reduce subcontract outsourcing expense
- Basic R&D for PBX makes a round. Focus on overseas deployment and cost reduction

Initiatives to enhance profitability in FY end. March 2009

Continued NGN-related investment in FY end. March 2008

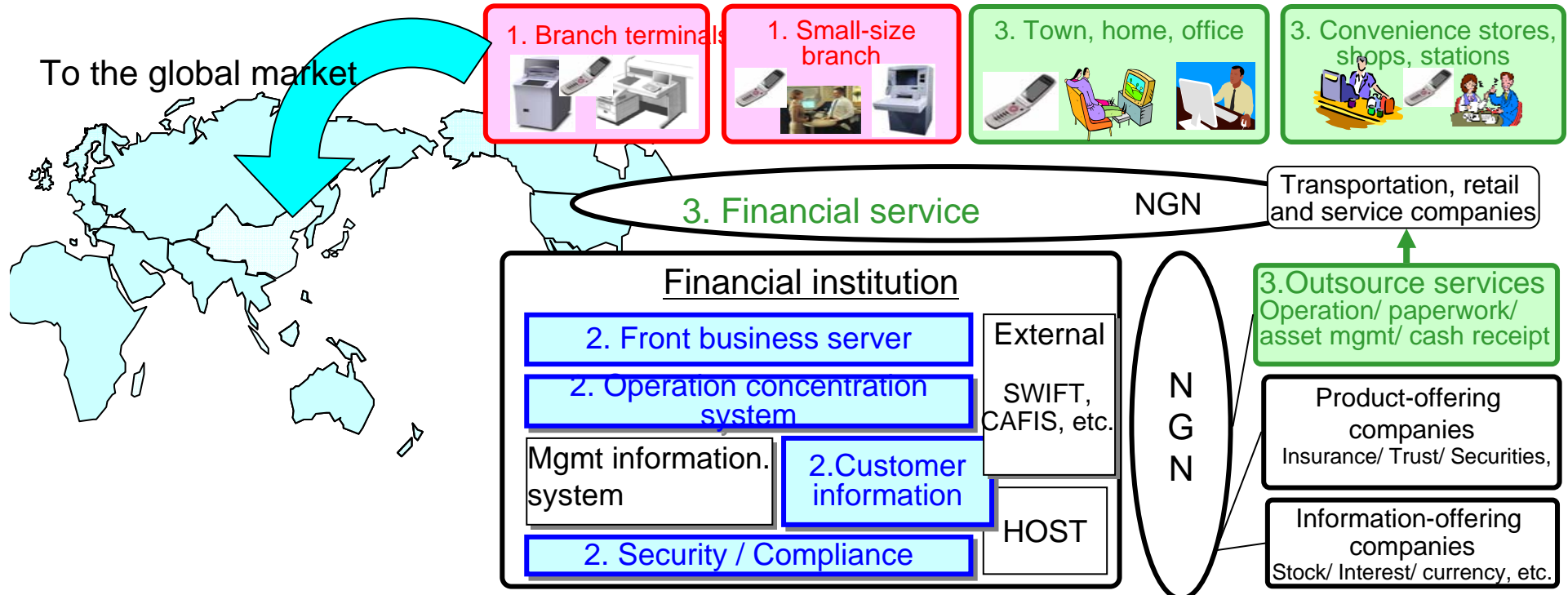
- Maintain the development structure (1200 personnel) since FY end. March 2007. Provide strong telecom infrastructure to become core in services by consolidating enterprise and telecom business
- Contribute to carriers' commercial services from 2H of FY end. March 2008 based on numerous trials with carriers
- Establish application platform for carriers focusing most on network service platform. Enhance market accessibility, and expand solutions businesses for financial and government market, in which OKI has strengths
- Enter the mobile market through alliance: Aim to expand business with active overseas business deployment

III-3. Financial Business Group

Business direction

Expand businesses in Japan and overseas based on the 3 business domains:
Utilize alliances and position OKI's mechatronics technologies and financial business know-how as core competence.

1. **Mechatronics business:** Leveraging OKI's strong technologies, aim to become a world-class mechatronics vendor
2. **System business:** Aim to become the top vendor in Japan in retail finance
3. **Service business:** Expand existing businesses and create financial Ubiquitous Services



III-3. Financial Business Group: Initiatives to improve profitability

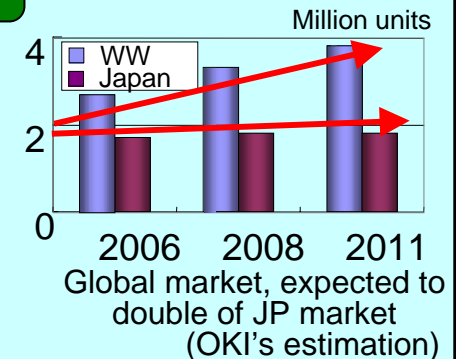
Initiatives to enhance profitability in FY end. March 2008

- Shift resources to focusing businesses/ Enhance market accessibility (120staff)
 - Increase number of sales reps. and system engineers (SE) to enhance sales structure for mechatronics business
 - Review software development structure to improve productivity
 - Increase number of sales reps., SEs and engineers to enhance system business
- Strengthen profitability in OKI's hardware products
 - Reduce variable costs (shift to overseas production/ Reduce procurement material costs/ value engineering)

Initiatives to enhance profitability in FY end. March 2009

- Expand overseas mechatronics business
 - Increase sales with alliances including China's Yihua and Korea's Hyosung.
 - Establish ATM business company in China (FY end. Mar.08)
Enhance skills to create new global products
 - Deploy business from China, Korea, and Taiwan
- Expand sales
 - Ensure order for next gen. branch terminals, which is expected to grow in full-scale from the 2H of FY end. March 2008.
 - Expand business outsourcing and ubiquitous service business (i.e. Edy charge, ASP service, etc.)

Global ATM market

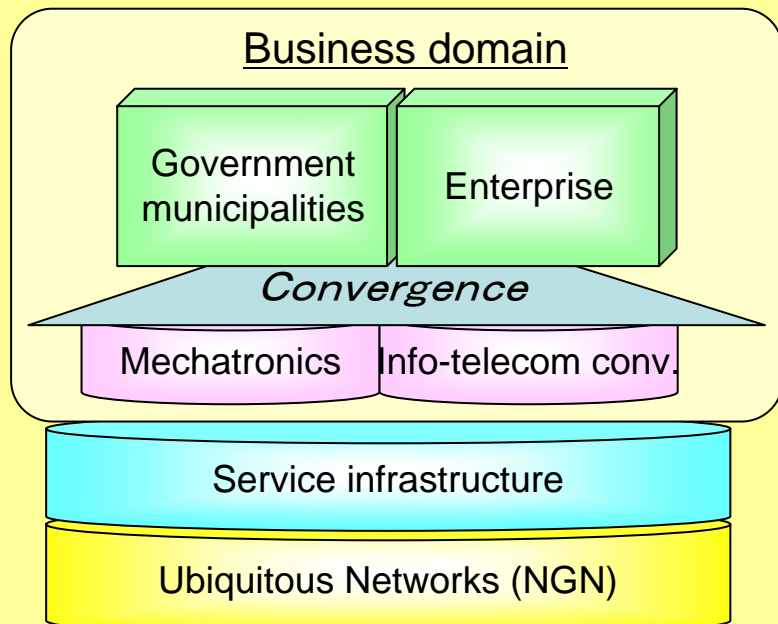


III-4. Information System Business Group

Business direction

Aim to become a high profit business by reviewing unprofitable businesses and shifting to a business with strong market accessibility.

Achieve growth based on information and telecom convergence and mechatronics



Initiatives to enhance profitability in FY end. March 2008

- Review cost structure
 - Increase OKI's hardware sales ratio
 - Reduce variable costs ratio by reviewing product design
- Shift personnel to enhance business process
 - Shift to focusing businesses
 - Shift to enhance related-processes

Initiatives to enhance profitability in FY end. March 2009

- Expand new businesses
 - Establish Japan Post Solutions Company
Expand business domain based on mechatronics
 - Establish ITS Solutions Company
Utilize strong DSRC technologies and develop new markets
- Enhance business structure
Continue to shift business to achieve high-profit

III-5. Semiconductor Business Group

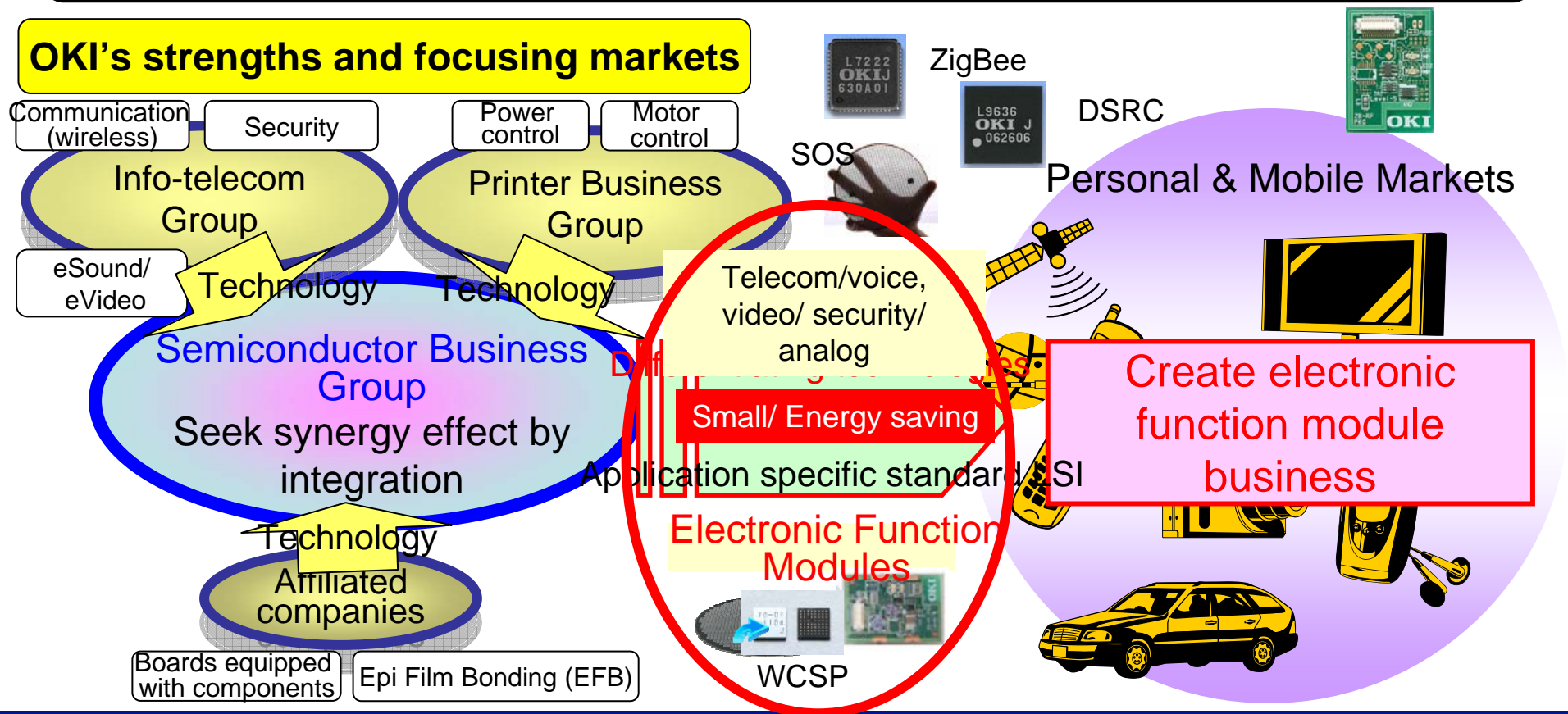
Business direction

Enhance profitability by developing OKI-unique semiconductor business

Contraction of system LSI biz./ Shift to differentiating technologies and application specific standard LSIs/

Create and expand new highly value-added businesses by seeking synergy with OKI Group's technologies

OKI's strengths and focusing markets



III-5. Semiconductor Biz. Group: Initiatives to improve profitability

Initiatives to enhance profitability in FY end. March 2008

- Achieve a business structure with BEP 110billion yen (exclude P-Fab)
 - Reduce fixed costs: Reduce by 5 billion yen (from FY end. March 2007)
 - Reduce variable costs
 - Optimize personnel: Shift approx. 500 personnel
- Achieve profit in large TFT driver business
 - Reduce costs: Substantially review costs in manufacturing and SG&A
 - Establish competitive edge with differentiating technologies (high-speed interface, multi gray scale, low heat generation)

Initiatives to enhance profitability in FY end. March 2009

- **Business selection and concentration**
 - Withdraw from unprofitable businesses: System LSI (engine control, etc.), ASIC
 - Focus on application specific standard LSI, micro device, foundry
 - Create new added-value businesses by working with other OKI Group businesses
- **Enhance profitability in large TFT driver business (Consider spinning-off, alliances, etc.)**
- Continue to improve BEP through improved productivity and personnel relocation
- Reorganize organization for stronger marketing, product planning and development (Jan. 2007)

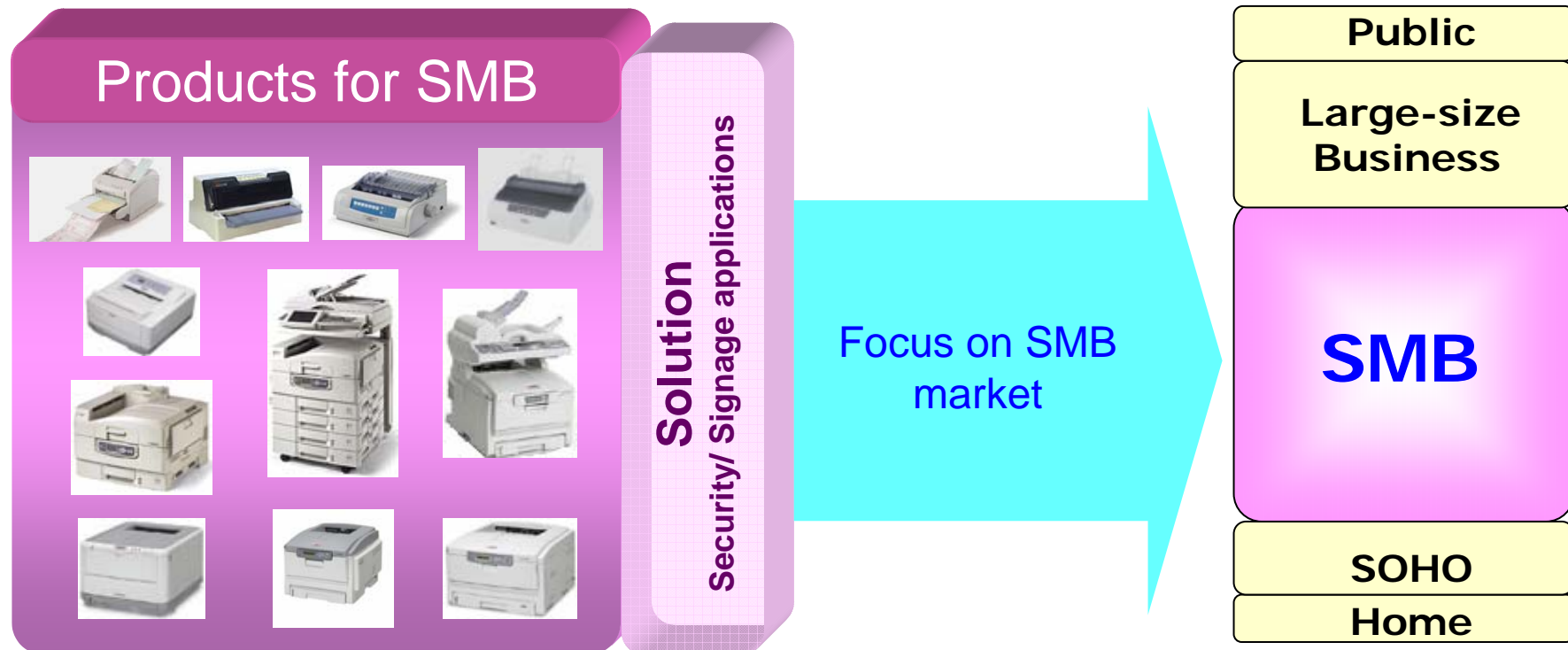
III-6. Printer Business Group

Business direction

Ensure profit in a global level with color NIP

Expand share in the SMB market with Printing Solution as the core
Establish “The First Choice Alternative to HP”

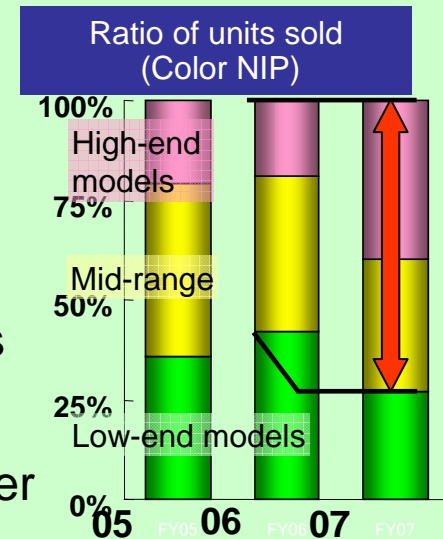
Thoroughly enhance profitability in SIDM business



III-6: Printer Business Group: Initiatives to improve profitability

Initiatives to enhance profitability in FY end. March 2008

- Focus on the SMB market
 - Accelerate shift to mid-high end models
 - Expand sales for high-function small-size A3 color printers, Launch new MFP and products for signage applications
- Thorough cost reduction. Target: 3 billion yen
- Enhance SIDM sales by launching flatbed dot matrix printer for the China market

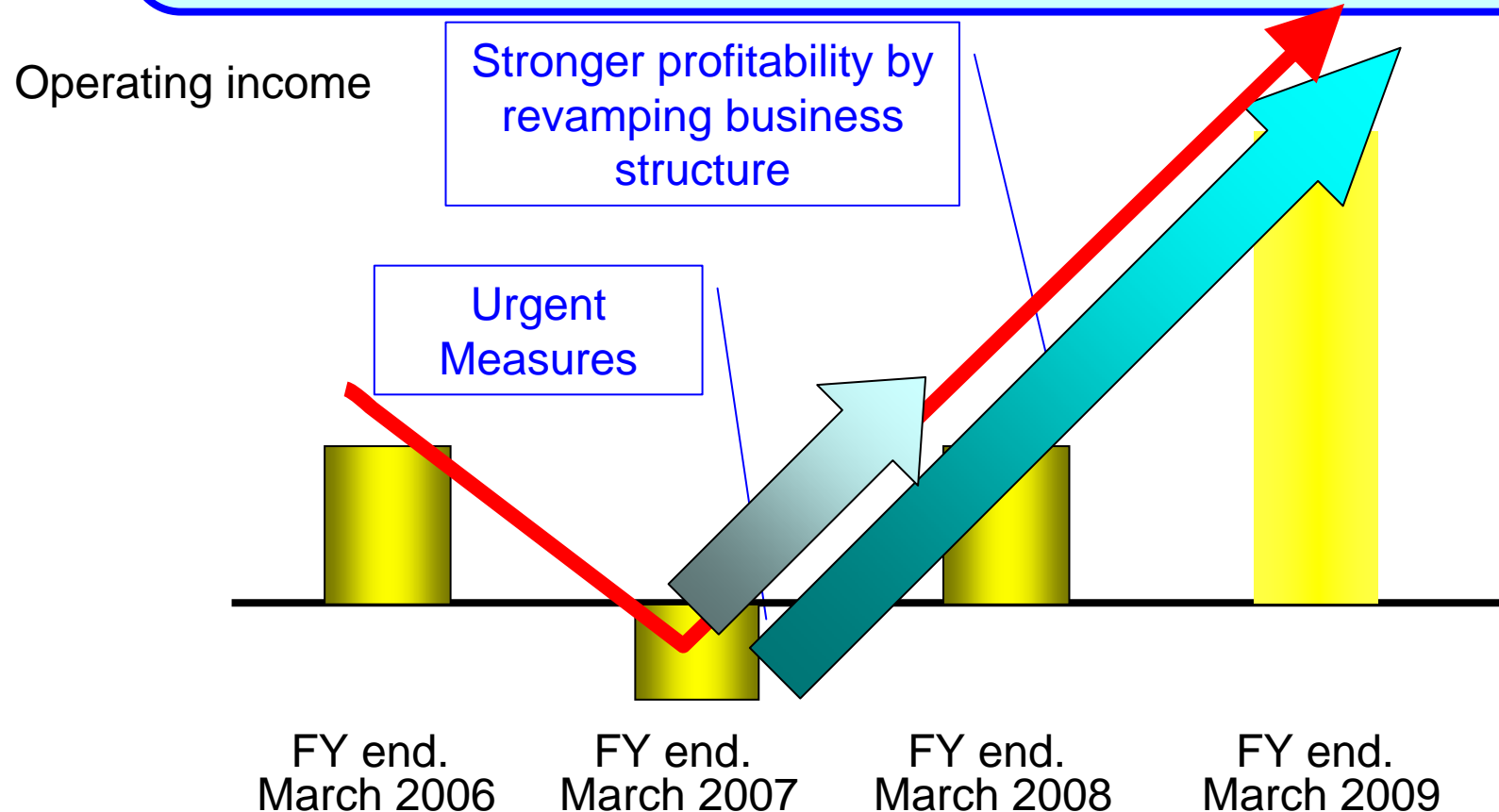


Initiatives to enhance profitability in FY end. March 2009

- Expand market share in Japan by enhancing distributor channel
- Reexamine global operations
 - Strengthen supply chain management
 - Reexamine profitability in overseas sales channels and revamp the structures

OKI's Target

In tandem with implementing urgent measures to achieve a V-sign recovery in the FY ending March 2008, OKI will execute various initiatives based on the three measures to “revamp business structure” and aim to achieve continued profit



Glossary

P3	NGN	Next Generation Network	P17	MSPP	Multi-Service Performance Platform
P4	OEM	Original Equipment Manufacturer		IP-GW	Internet Protocol Gateway
P7	BU	Business Unit		STB	Set-top-box
P9	LSI	Large Scale Integration		GE-PON	Gigabit Ethernet PON
	TFT	Thin Film Transistor		CPE	Customer Premise Equipment
	MFP	Multifunction Printer		PBX	Private Branch Exchange
	NIP	Non-Impact Printer		ASP	Application Service Platform
	SIDM	Serial Impact Dot Matrix	P19		
	BRIC	Brazil, Russia, India, China	P20	DSRC	Dedicated Short Range Communication
P11	BG	Business Group			
P12	SW	Software	P21	SOS	Silicon on Sapphire
P15	PDA	Personal Digital Assistance		WCSP	Wafer level Chip Size Package
	ATM	Automated Teller Machine	P22	BEP	Break Even point
	SIP	Session Initiation Protocol		P-Fab	Partner fab
P16	ATCA-CA	Advanced Telecom Computing Architecture for Call Agents		SG&A	Selling, general and administrative
	OpS	Operation System		ASIC	Application Specific Integrated Circuit
	PON	Passive Optical Network			
	WiMAX	Worldwide Interoperability for Microwave Access			