

Financial Results for  
the First Half of FY ending March 31, 2006

Oct. 27, 2005

OKI Electric Industry Co., Ltd.

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Appendix

■ While sales remained at the same level on a year-on-year basis, income decreased due to price drop in major products. No major changes from the previous projections on July 28

(Billion yen)

	Sept. 04	Sept. 05	Variance	Previous projections
Net sales	319.7	<b>319.1</b>	(0.6)	320.0
Operating income	1.5	<b>(4.2)</b>	(5.7)	(4.0)
Recurring income	(0.6)	<b>(5.7)</b>	(5.1)	(7.0)
Net income	(2.9)	<b>(3.9)</b>	(1.0)	(5.0)
Net income per share	(4.82) yen	<b>(6.32) yen</b>	(1.50) yen	-
Total assets	584.6	<b>601.6</b>	17.0	-
Shareholders' equity	107.9	<b>122.7</b>	14.8	-
Shareholders' equity per share	176.43 yen	<b>200.69 yen</b>	24.26 yen	-
Interest-bearing debt	273.4	<b>269.0</b>	(4.4)	-

(Billion yen)

	Sept. 04	Sept. 05		Variance
		Previous projections	Results	
<b>Net sales</b>	319.7	320.0	<b>3,19.1</b>	(0.6)
(Cost of sales ratio)	(74.7%)		<b>(77.2%)</b>	(+2.5 %)
Cost of sales	238.7	-	<b>246.5</b>	7.8
SG&A	79.5	-	<b>76.8</b>	(2.7)
<b>Operating income</b>	1.5	(4.0)	<b>(4.2)</b>	(5.7)
Other income	(2.1)	(3.0)	<b>(1.5)</b>	0.6
Recurring income	(0.6)	(7.0)	<b>(5.7)</b>	(5.1)
Extraordinary income	1.0		<b>2.1</b>	1.1
Extraordinary loss	5.1	(0.5)	<b>2.4</b>	(2.7)
Income before taxes	(4.7)	(7.5)	<b>(6.0)</b>	(1.3)
Income taxes	(1.8)	(2.5)	<b>(2.1)</b>	(0.3)
Net income	(2.9)	(5.0)	<b>(3.9)</b>	(1.0)

- Price drop made cost of sales ratio worse by 2.5 points
- Semiconductor segment retained positive in operating income

## Consolidated net sales

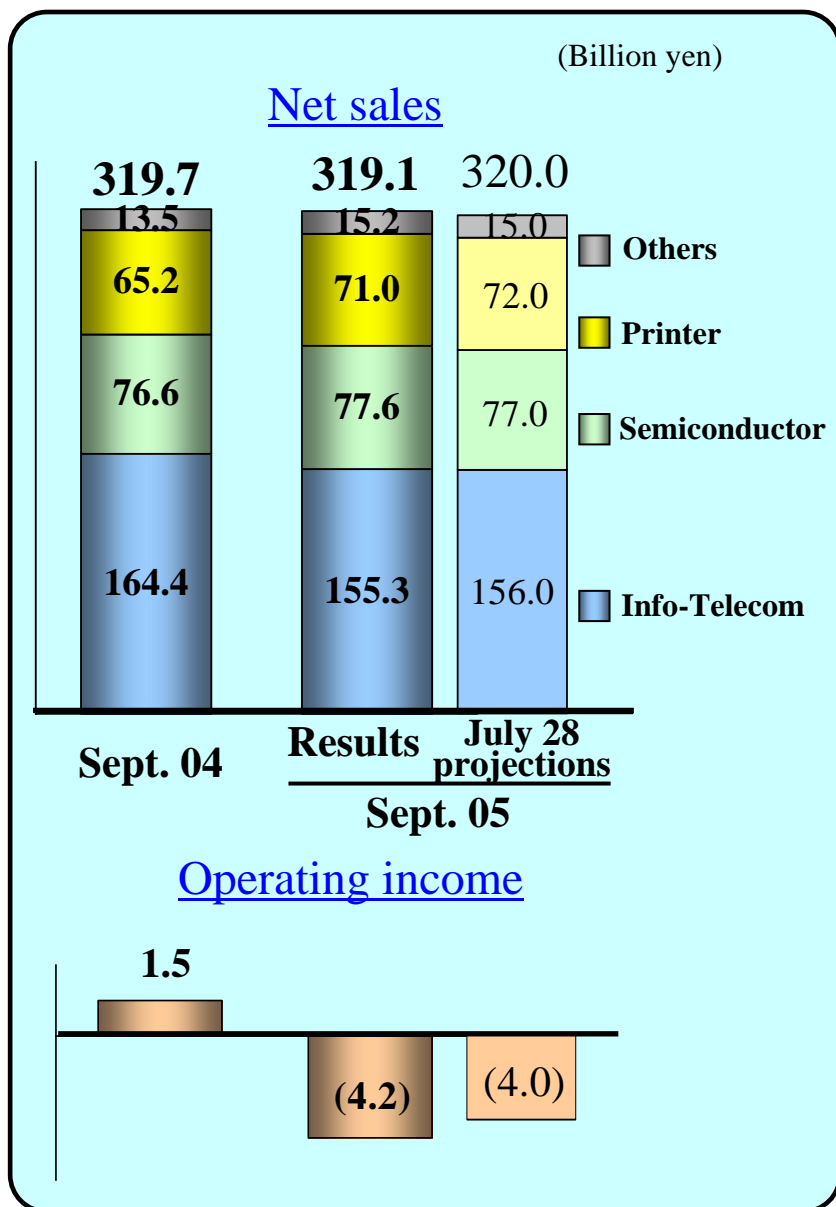
(Billion yen)

	Sept. 04	Sept. 05	Variance
Info-telecom	164.4	<b>155.3</b>	(9.1)
Semiconductor	76.6	<b>77.6</b>	1.0
Printer	65.2	<b>71.0</b>	5.8
Others	13.5	<b>15.2</b>	1.7

## Consolidated operating income

(Billion yen)

	Sept. 04	Sept. 05	Variance
Info-telecom	0.2	<b>(1.6)</b>	(1.8)
Semiconductor	3.4	<b>0.2</b>	(3.2)
Printer	2.1	<b>1.5</b>	(0.6)
Others	1.2	<b>1.1</b>	(0.1)
Corp. & eliminates	(5.4)	<b>(5.4)</b>	0



**Net sales**

<Year-on-year comparison>

<Info-Telecom Systems> - 9.1

- Sales decrease by 9.1 B yen. While sales for the financial and public sector markets decrease, sales for the telecom carrier market increase

<Semiconductors> +1.0

- Increase in sales by 1.0 B yen. Acquisition of Japan TI's driver business led to sales increase, while price drop and volume decline in PHS baseband LSIs and sound generator LSIs decreased sales

<Printers> +5.8

- Increase in sales by 5.8 B yen. Price drop continued in color NIP due to fiercer competition, while shipment volume increased significantly

<Others> +1.7

**Operating income**

Decrease by 5.7 B yen on a year-on-year basis due to decrease in sales for Info-Telecom, and price drop in Semiconductor and Printer segments. No significant changes from previous projections on July 28

# OKI Assumptions Underlying Full Year Projections

## <Economy outlook>

- Overall economy shows recovery
- Several concerning factors are weak public investments and continued rise in oil price

## <Oki's operating environment>

- Price drop due to digital deflation in the overall IT market
- Info-Telecom: Full recovery of IT investments by financial institutions begin next fiscal year  
Telecom carriers expand investments on optical access and IP networks
- Semiconductors: Overall recovery trend in volume  
Price pressure increases/ Shift in product model accelerates
- Printers: Color printer market continues to expand by 20-30%  
Price competition further escalates

## <Impact of currency on profits>

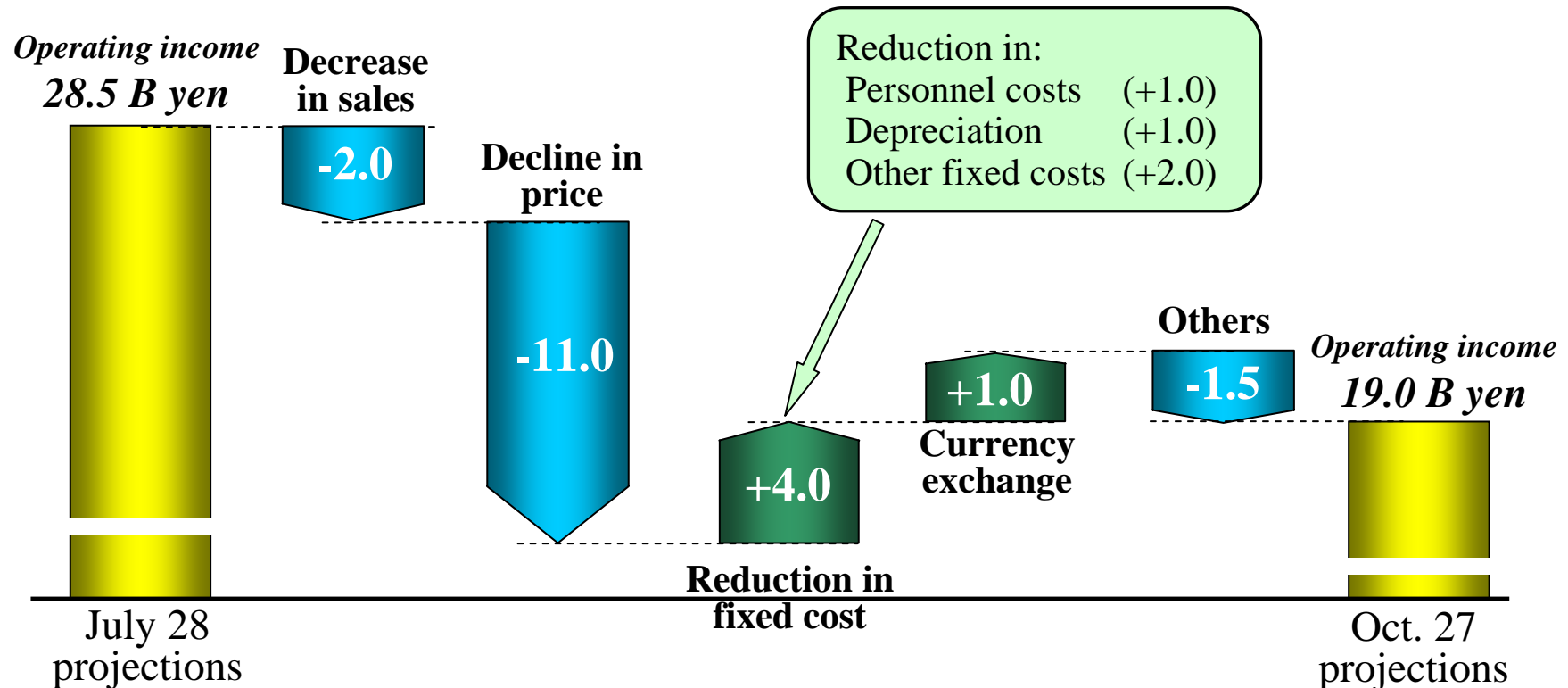
	First Half		Second Half Projections		
	Projected rate	Actual rate	Projected rate	Sales in foreign currency	Impact on operating profit by 1 yen change *
USD	105 yen/\$	109.5 yen/\$	110 yen/\$	650 million USD	130 million yen
Euro	135 yen/E	135.7 yen/E	135 yen/E	320 million Euro	150 million yen

\* After deducting purchase in foreign currency and exchange contract

- Net sales projected to be 710.0 B yen, a 10.0 B yen decrease from previous announcement. While broadband IP systems for telecom carriers and color NIP unit shipment grow, sales for financial institutions decreases and price for semiconductors drops, etc.
- Operating income projected to be 19.0 B yen, a 9.5 B yen decrease from previous projections, largely due to continuing price drops

(Billion yen)	Previous projections (Apr. 27, 2005)	Projections for FY Mar. 2006 (Oct. 27)	Variances	FY Mar. 2005 Results
Net sales	720.0	<b>710.0</b>	(10.0)	688.5
Operating income	28.5	<b>19.0</b>	(9.5)	27.2
Other income	(7.0)	<b>(6.0)</b>	1.0	(6.0)
Recurring income	21.5	<b>13.0</b>	(8.5)	21.2
Extraordinary income	(3.0)	<b>(2.0)</b>	1.0	(2.7)
Income before taxes	18.5	<b>11.0</b>	(7.5)	18.5
Income taxes	7.0	<b>4.5</b>	(2.5)	7.3
Net income	11.5	<b>6.5</b>	(5.0)	11.2

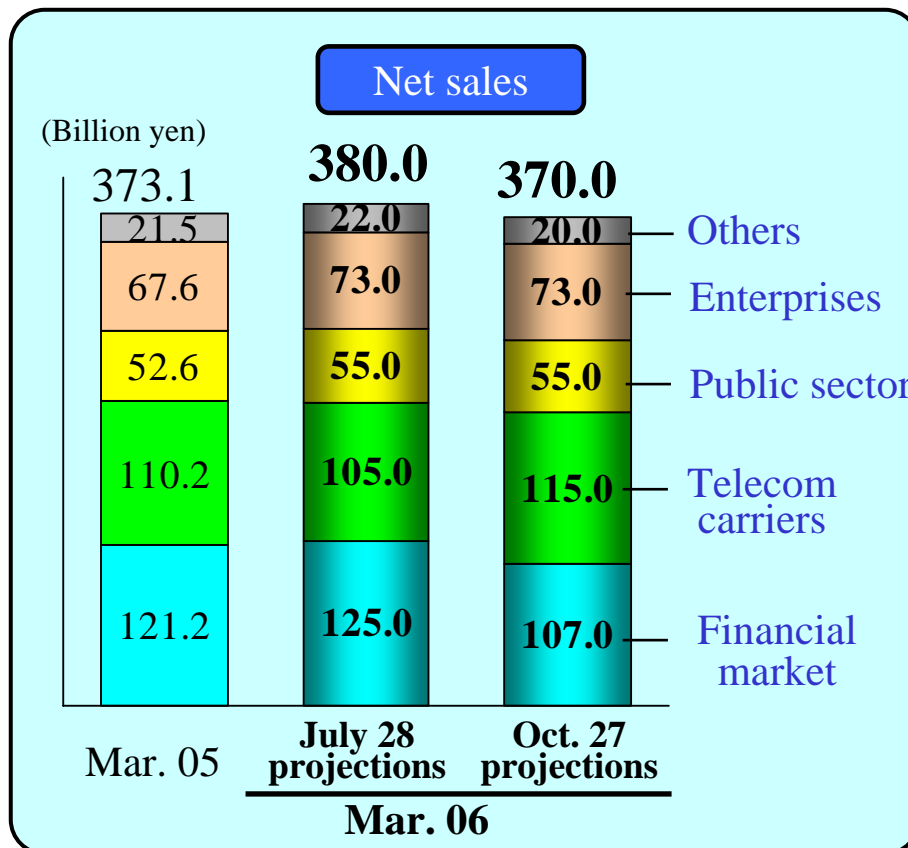
- Decline in price will enlarge by 11.0 B yen from the previous July 28 projections (For ATMs, semiconductors, printers, etc.)
- Deploy additional measures to reduce variable costs and fixed costs. Operating income will decrease by 9.5 B yen from previous projections





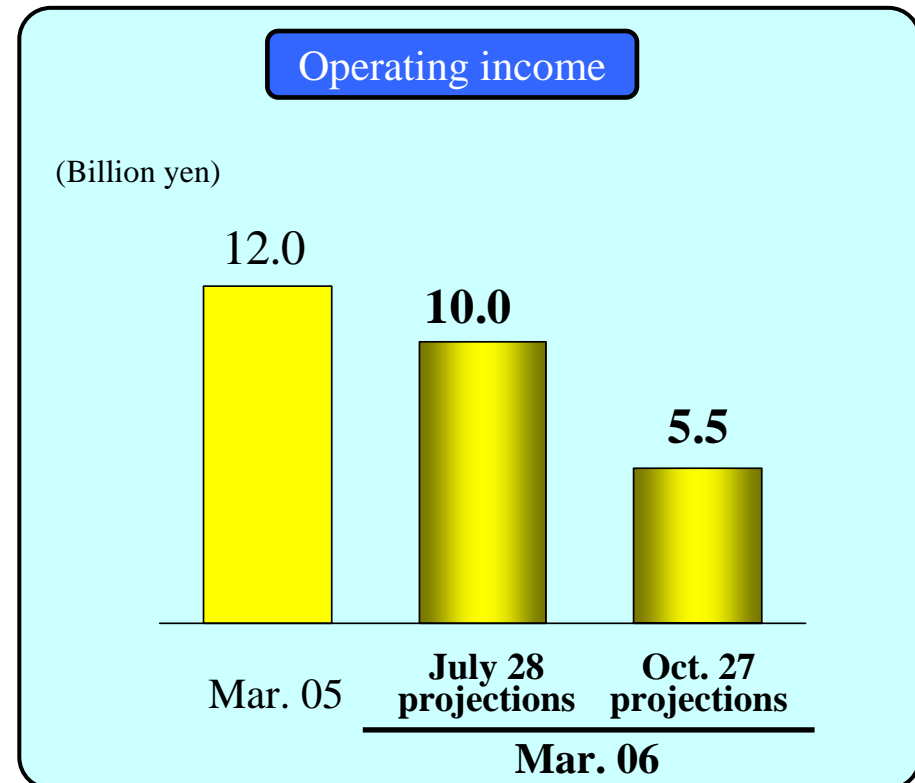
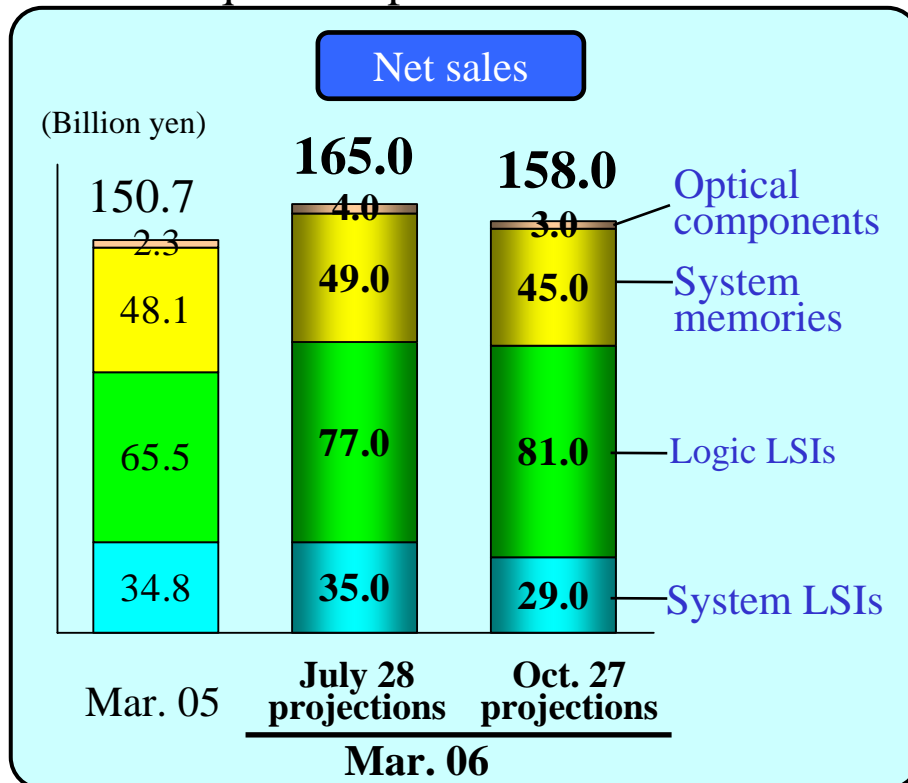
<Comparison from previous projections (July 28)>

- Sales of back office operation concentration systems and backyard systems for financial institutions falls below the previous projections
- Telecom carriers' investments on broadband IP network systems remain strong
- Operating income decreases due to decline in sales and impact of price drops



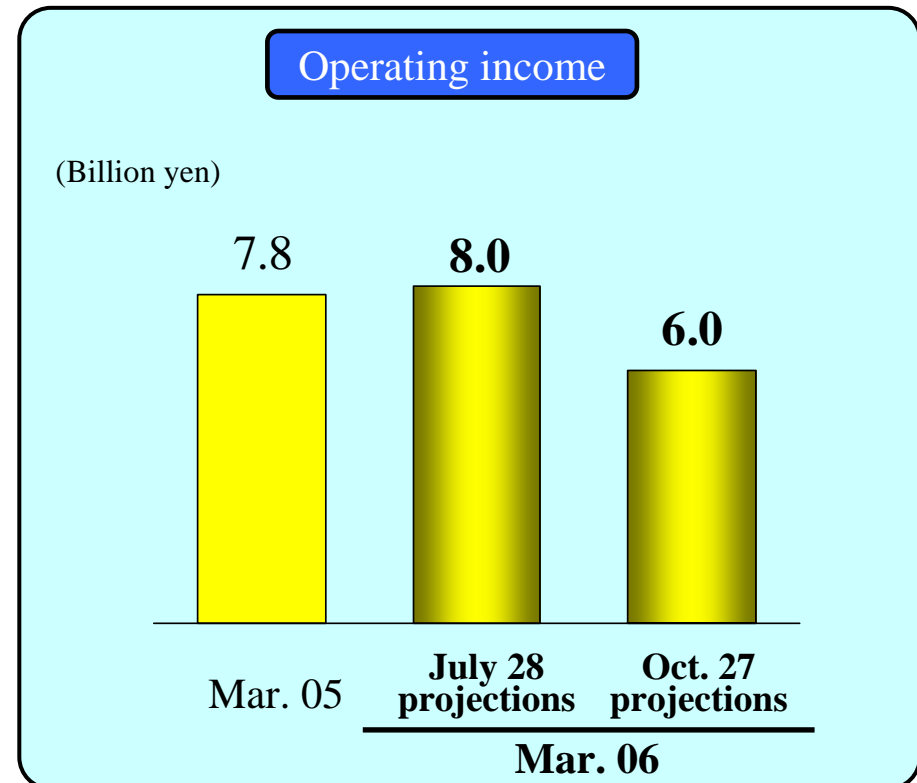
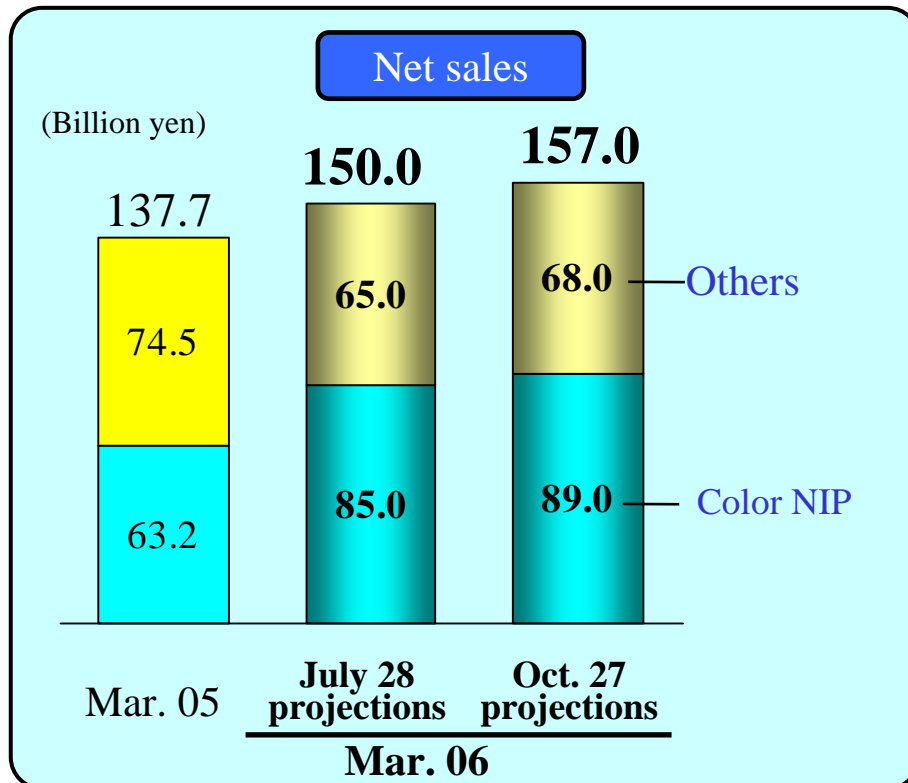
<Comparison from previous projections (July 28)>

- Sales for logic LSIs increases due to the effect of the acquisition of Japan TI's driver business
  - Achieved world No. 1 share (13.4%) in large-scale TFT drivers
- Sales for system LSIs decreases due to decline in volume for PHS baseband LSIs
- P2ROM's price drop reduces sales in system memories
- Operating income decreases due to the impact of price drops, while typhoon and earthquake impacts are minimum



<Comparison from previous projections (July 28)>

- Sales increases due to expansion in shipment volume for color NIP and MFP
- Sales for SIDM and mono NIP remains steady
- Due to the impact of price drops, operating income decreases against the sales increase



FY Mar. 2006: Digital deflation impacts Oki's major products, which decreases sales by 11.0 B yen from the previous projections

## <Issues>

- Cost control ahead of price drops
- Improve business value by enhancing ability to create new products
- Shift business models to fit changes in markets
- Cultivate existing markets and develop new markets
- Concentrate resources on core businesses and review low profit businesses

## <Measures to resolve issues>

1. Enhance product competitiveness and expand businesses
  - (1) Financial System Business
    - Enhance profitability and accelerate business model shift
  - (2) Business for Telecom Carriers
    - Appropriate and prioritized response to the changes in market
  - (3) Semiconductor Business
    - Enhance product competitiveness (price, product model change)
  - (4) Printer Business
    - Expand business aggressively (new products, sales capability)
2. Proactive deployment of info-telecom converged business

## <Enhance profitability and accelerate business model shift>

### <Situation in the FY Mar. 2006>

- Price drop in ATM units, ATM maintenance, and back office operation concentration systems (5% in total)
- Misread timing of investments by financial institutions (expand proposal activities, expect growth in the coming fiscal years)
  - Full scale investments on securities, including personal information protection and biometric recognitions
  - Investments on back office operation concentration systems and backyard systems
- Though sales increases for e-finance\* business, it does not reach original plans

\* e-finance: solutions and services used for sales and distribution of financial products

### <Measures for the FY Mar. 2007>

- Expand sales and shares by launching new ATM products (both domestic and overseas)
- Strengthen products for bank branch systems and back office operation concentration systems
- Capture the needs and concentrate resources on e-finance business
- Enhance profitability via improving efficiency of maintenance and expanding alliances
- Accelerate service businesses, including ATM outsource, operation outsource, and net payment, etc.

## ■ ATM Business

### <Domestic market>

**Market trend:** Recovery trend in the second half of the FY Mar. 2006  
Full recovery from the FY Mar. 2007

#### ● Launch new products

- Begin sales of security-enhanced “ATM-BankIT” according to the market recovery  
Expect large increase in shipment volume

#### ● Enhance market accessibility

- Enhance marketing by products
- Strengthen sales organization close to markets

### <Overseas market>

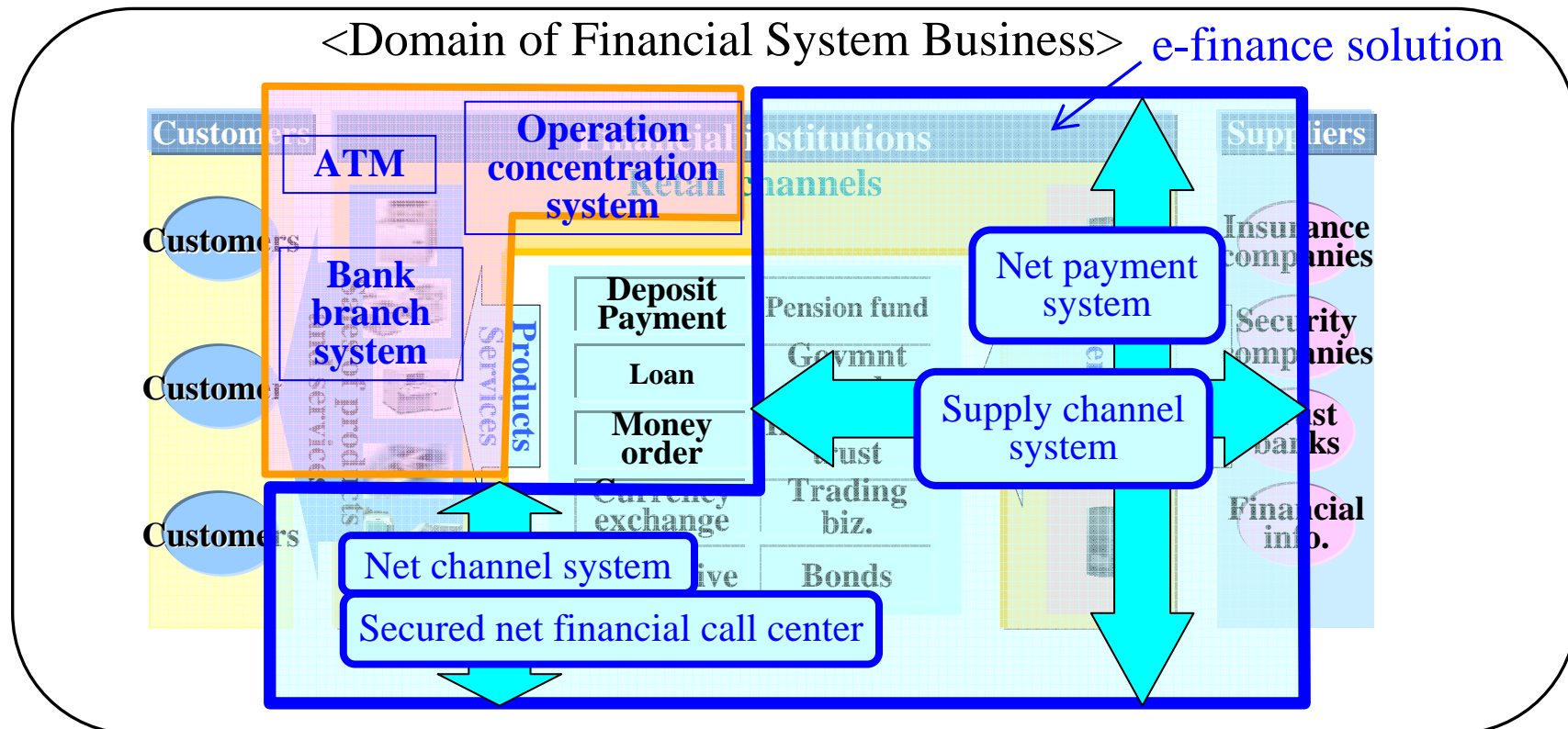
#### ● Deploy business to China, Taiwan, Korea

- China: Rise of market is slower than expected. Direct sales began in the first half of the FY Mar. 2006. Expand in-direct sales through alliances with OEM partners
- Taiwan, Korea: Gain market share by introducing products developed for Japan and China

■ e-finance solution business

Opportunity to expand the business

- Expansion of bank business caused by deregulations
- Expansion of customer bases with net business companies entering financial business
- Linkage between net payment service and real channels, such as ATM
- Expansion of secured net financial call center systems to Internet-based financial institutions



■ Service business (expansion of outsourcing business and fee business)

● Expand outsourcing business

<Situation>

- Expand in number of ATMs that OkI entrusted services
- Expand operation outsourcing biz. for entrusted operation and maintenance of IT systems under multi-vendor environment

<Future Deployment>

- Increase sales by expanding new users and improving service menus

● Expand net payment service business

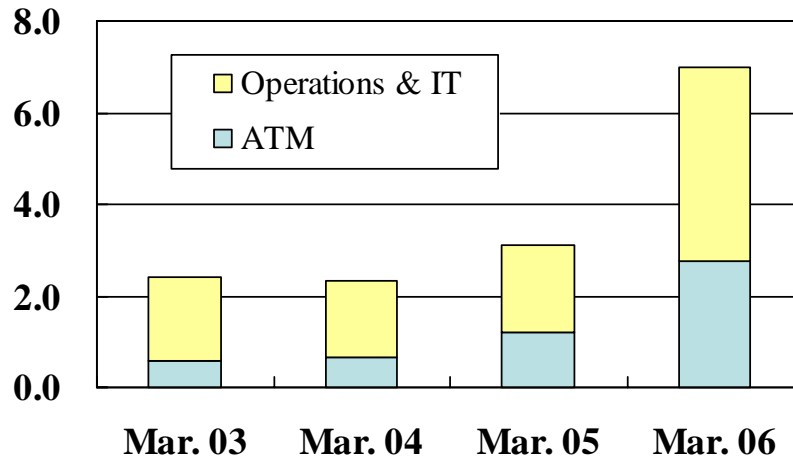
<Situation>

- Began electronic money charging service, and delivered to city banks and consumer loans
- 6-folds of transaction numbers in 4 months

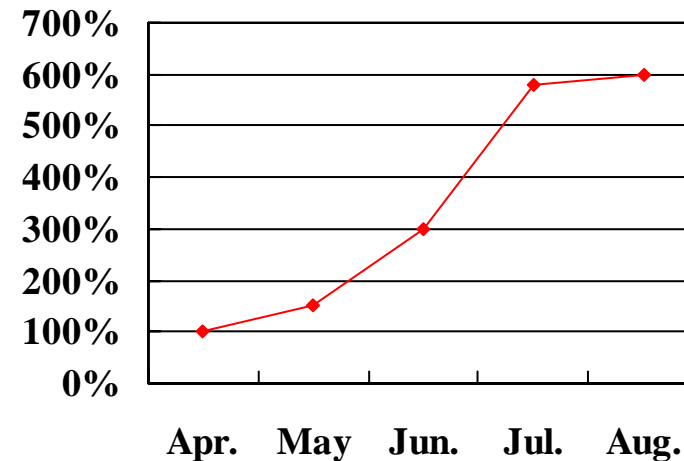
<Future Deployment>

- Expand new services according to expanding applications of “wallet-mobilephone”
- Expand business that collaborates with existing financial services, according to the increasing needs for e-money charge using ATMs and bank terminals

(Billion yen) <OkI's financial outsourcing business sales>



<OkI's e-money charge transaction amounts>



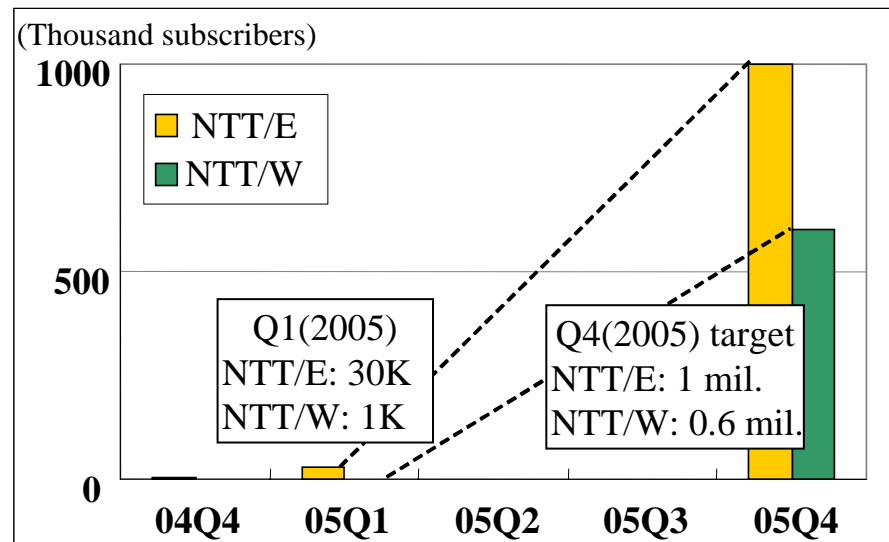


<Situation in the FY Mar. 2006>

Market trend: Steady needs in broadband IP-related systems, particularly optical access

- Rapid increase of IP telephony according to optical access diffusion
  - Significant increase in number of broadband home routers (top share)
- Growth in carriers' investments on infrastructure with traffic increase and faster speed
  - Increase in sales of optical transmission equipment for KDDI's CDN access network, etc.

<“Hikari Denwa (optical phone)” by NTT E/W>



(Source: NTT material, Aug. 3, 2005)

## &lt;Measures for the FY Mar. 2007&gt;

Appropriate and prioritized response to the changes in market

- Capture continuous expansion of investments on broadband IP network
  - Expand sales of products with Oki's strengths in the triple-play market
  - Broadband home router, set-top box for video distribution
  - Early introduction of GE-PON systems to the market
- Develop new technologies and products, which appropriately capture trends of next generation networks
  - Accelerate development of products for smooth migration of existing network
  - Enhance planning and proposals of next generation network products
- Retain constant profitability in the existing network infrastructure business
- Expand business domains and enhance capability to create new products through alliances
  - Cultivate new markets for mobile phone carriers both in Japan and overseas through the alliance with ACCESS
- Concentrate resources on this business in priority to promote development of new products and technologies

## <Situation in the FY Mar. 2006>

- Decline of product competitiveness
  - Cost reduction did not catch up with price drops
  - Delay in creating attractive large-volume products

## <Measures for the FY Mar. 2007>

- Recover competitiveness of large-volume products (price, product model change)
  - Cost reduction
    - P2ROM, TFT driver
  - Accelerate development of new products
    - For wireless, digital appliances, ITS

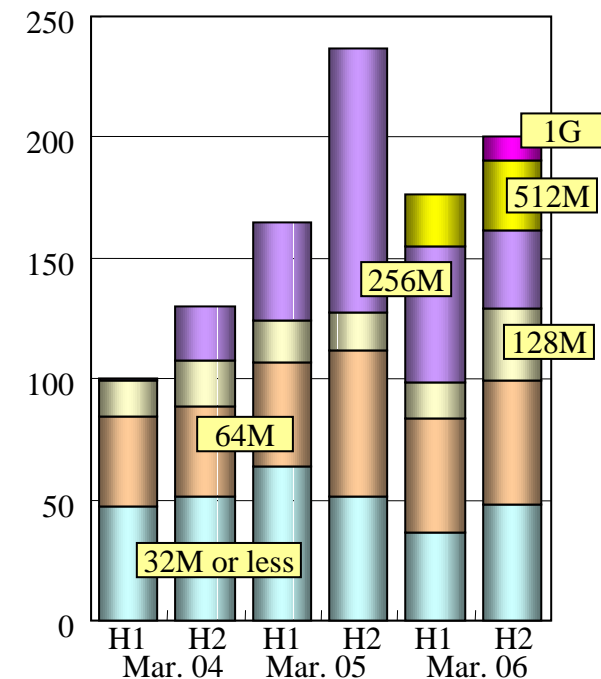
## ■ Cost reduction of large-volume products: P2ROM

### Steadily expanding business (38% share)

Significant growth in large-capacity P2ROM (256M+)

- Cost reduction ahead of price drops
  - ✓ Accelerate shrinkage
  - ✓ Maximize production efficiency (boost yield, effective testing)
- Increase product values
  - ✓ Enhance line-up of large-capacity products (512M, 1G)
  - ✓ Prepare needs for custom specifications (incorporation of custom logic, support for specific operating conditions)

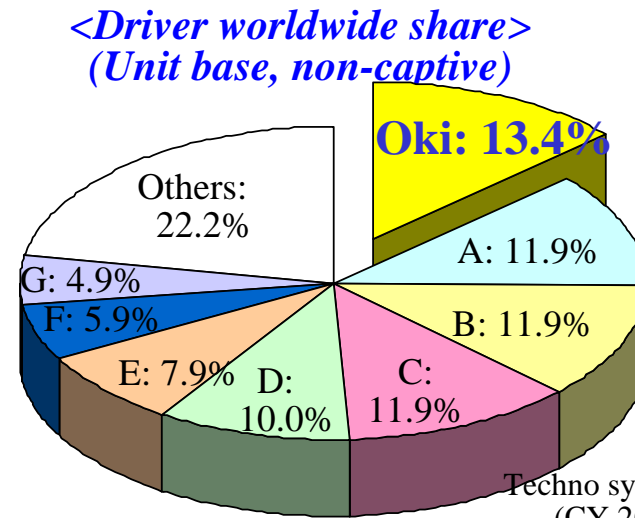
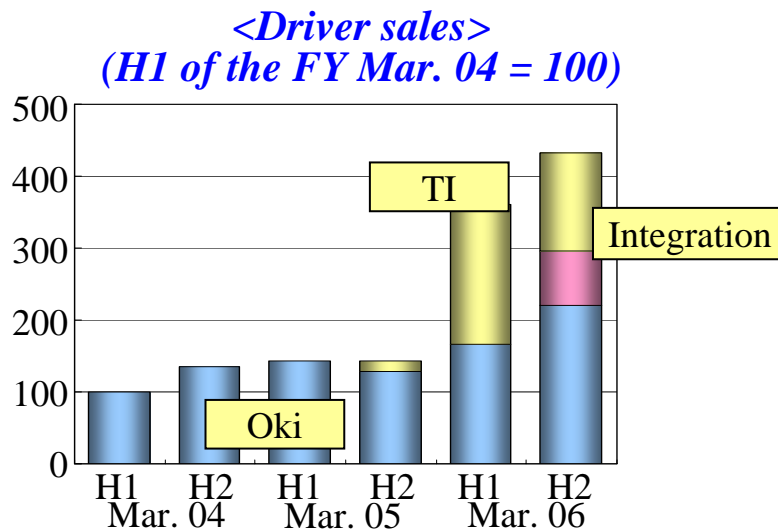
<P2ROM sales>  
(H1 of the FY Mar. 04 = 100)



■ Cost reduction of large-volume products: TFT driver (World No.1 share)

**Steadily expand business through acquisition of Japan TI's driver business**

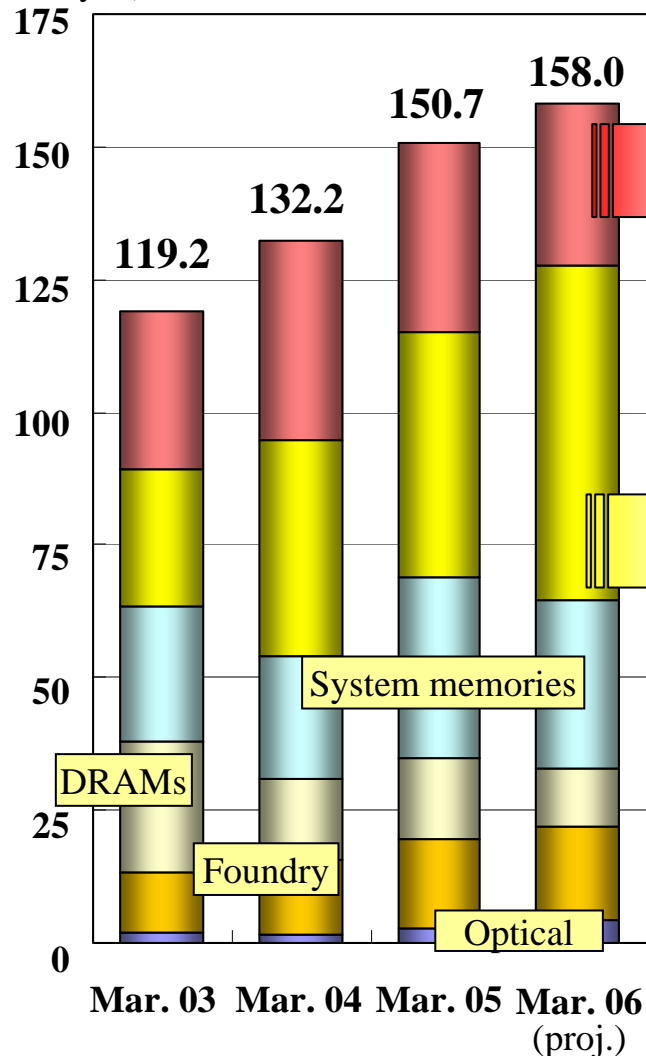
- ✓ Ensure industry top technologies through integration of Japan TI's design capability and Oki's highly reliable process technology
- ✓ Deploy business to all markets (PC & TV) and customers for large TFT drivers
- **Reduce costs ahead of price drops**
  - ✓ Develop new architecture with industry top technologies
  - ✓ Accelerate shrinkage
  - ✓ Improve profitability and select production bases effectively by leveraging scale merits
- **Increase product values**
  - ✓ Increase differentiating technologies (develop new I/F, promote de-facto standards, lower power consumption, higher density)



■ Accelerate development of new products

<Products expected to change models and expand business>

<Sales by product segments>  
(Billion yen)



<<System LSIs>>

(exclude P2ROM, TFT driver)

**[Wireless]**  
 ZigBee Expand existing 1-chip LSI, develop LSI with embedded applications  
 PHS Develop and supply to Japan and China  
 SOS Expand RF switch, RF-IC between roads and cars

**[Digital appliances]**  
 LSIs for digital TV tuner and HDD digital audio

**[ITS/Car electronics]**  
 MCU for car navigation, low-power GPS  
 LSIs for communication between roads and cars, and among cars

<<Logic LSIs>>

**Sound generator:** Develop and expand low-end products and MP3-capable products

**Sound integration:** Provide various solutions related to sound

**Organic EL:** Keep No.1 position for the in-vehicle market  
 Enter the mobile phone market

**SOI:** Commercialize LSIs for highly-sensitive radio-wave clock and ultra-low power consumption RTC (real-time clock)

**Power LSI:** Expand single-function LSIs, expand line-up  
 Improve intelligence

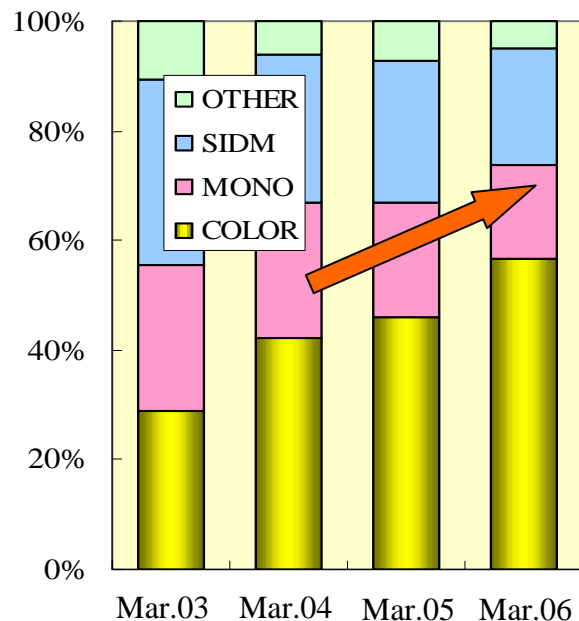
## <Situation in the FY Mar. 2006>

- Increase in sales
  - Increase in color NIP sales unit
- Decline in operating income
  - Price drop in color NIP due to fiercer competition
  - Consumable sales ratio did not increase as expected

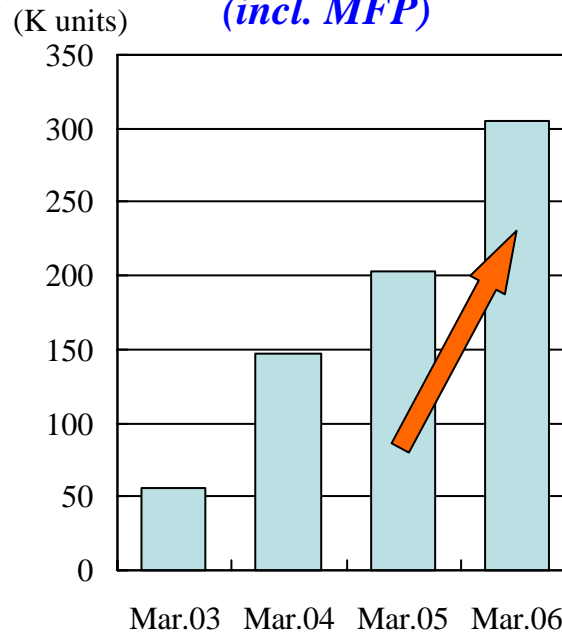
## <Measures for the FY Mar. 2007>

- Aggressive expansion of business
- Develop new competitive products
  - Enhance sales force
    - Strengthen domestic sales capability
    - Establish new overseas sales bases, and enhance overseas production and support functions

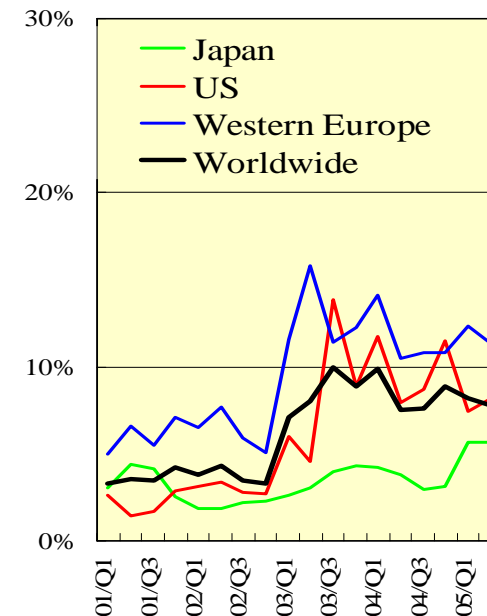
### <Growth of color NIP sales ratio>



### <Color NIP sales (units)> (incl. MFP)



### <Color NIP share by region>



■ Develop new competitive products

**Enhance cost competitiveness of color NIP, and maximize advantageous characteristics of LED tandem method**

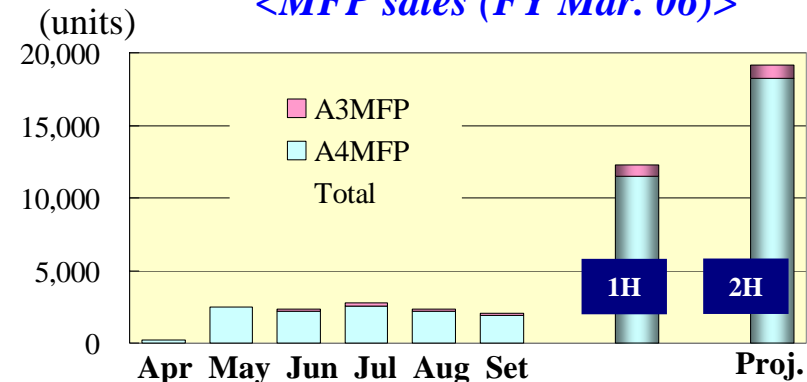
- **Develop major products**
  - Further improve compactness, high-speed and high-resolution of color NIP with LED tandem method
  - Short product development time with know-how of function simulation technology
  - Enhance line-up of MFP, the market of which is expected to grow (stable start)
  - Enhance resources for further improvement of leading technologies
- **Control of cost**
  - By capitalizing on advantages in mechatronics technology, reduce costs by decreasing the number of parts and by using low-price parts

*<Stable start in MFP business>*



- Smooth start for color A4-size MFP
- 18% share in western Europe in Q1 of FY Mar. 06
- This year sales plan: 32,000 units (A4+A3)
- Introduce to domestic market in Nov.

*<MFP sales (FY Mar. 06)>*

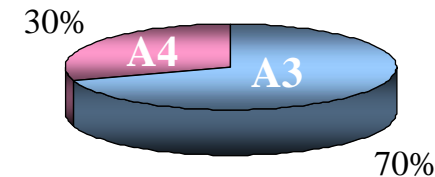


■ Enhance sales capability

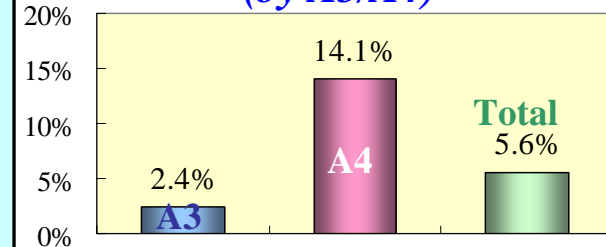
**By penetrating OKI Printing Solutions,  
increase share and enhance added-values**

- Integrated printer sales divisions of Oki Data and Oki Customer Adtech (Oct. 2005)
  - Double in sales staff and sales bases
- Enhance domestic sales strategy
  - Cultivate large SI and office machine channels
  - Strengthen existing large-scale channels
  - Expand consumable business to mass retailer channels
  - Expand sales to directly sold customers
- Begin MFP sales in the domestic market (Nov. 2005)
  - Expand share of high value-added products (MFP, A3 color)

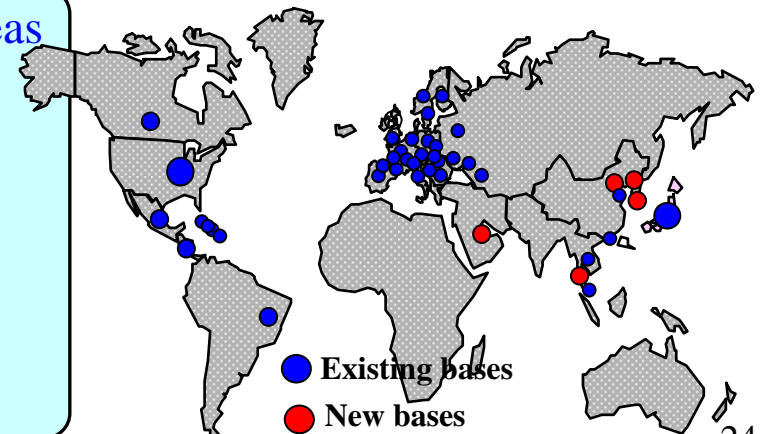
<Domestic market>



<Color NIP share in Japan>  
(by A3/A4)

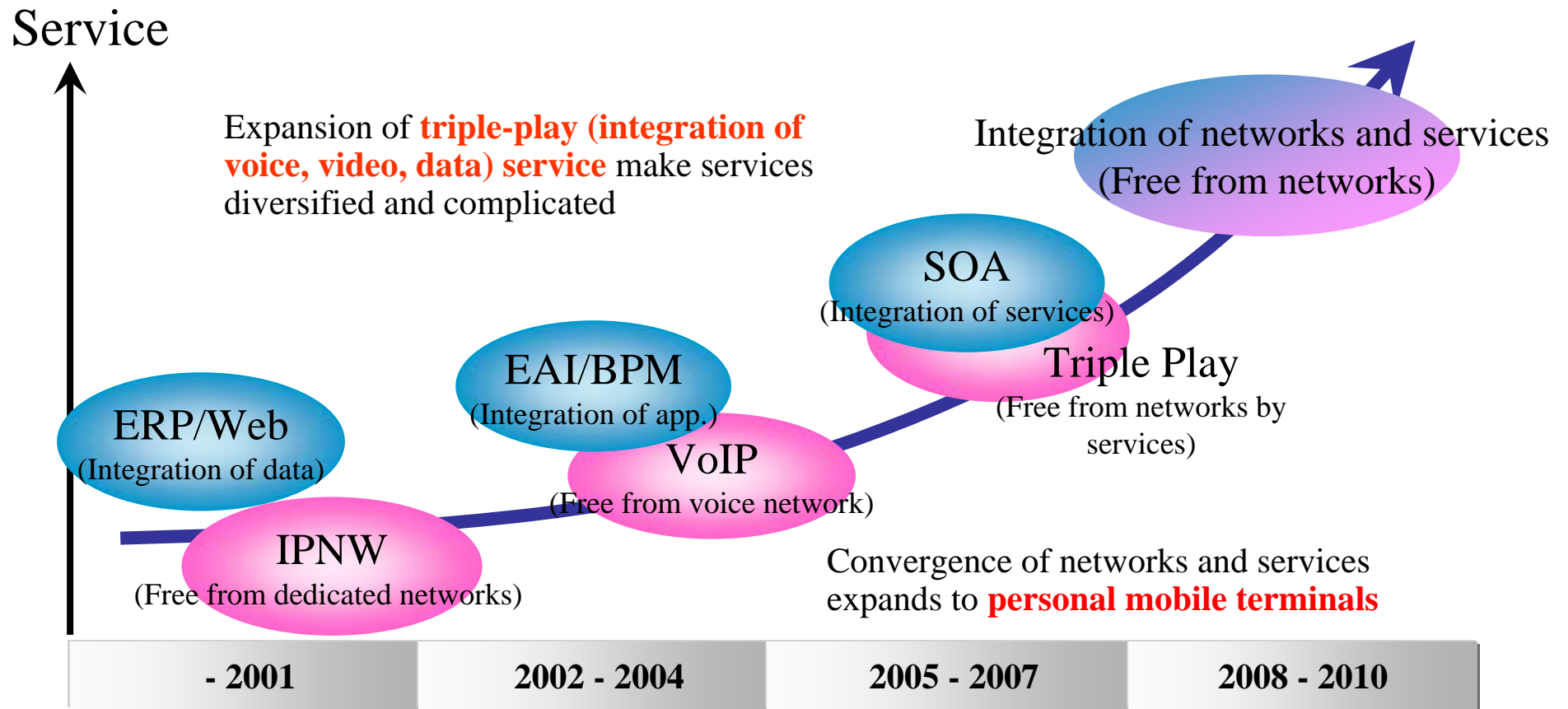


- Establish new overseas sales bases, and enhance overseas production and support functions
  - New sales bases in China, Korea, Malaysia, etc.
  - Develop channels for the MFP and high-end markets
  - Expand SIDM sales in China for local-tax available products and in the emerging market
  - Local production of consumables, enhance localization support function in each area





Year 2010: A time when networks and services are converged to enable users to take advantage of various services without being aware of networks.



■ Create new products for broadband IP services

**SS9100** Launch “SS9100 Type M” as a small all-in-one model of SS9100 (began sales in Oct. 2005)

**EX300** Launch “IPstage EX300,” targeting the 100 to 200 line market (began sales in Sept. 2005)

**Existing PBX market** (containing EX300 icon)

**Voice switch server**

**SIP-AP server**

**SIP server market**

**SS9100-TypeM**

New communication style realized by collaboration

**AP server market (Info-telecom converged market)**

■ Deploy new business models

- Establishment of Oki Network Integrations (July 2005)
  - Provide one-stop solutions from consultation, design, construction and operation, through to maintenance in order to establish “reliable” and “secured” IP networks providing triple-play service
- Establishment of OKIACCESS Technologies (Joint venture, start in Nov. 2005)
  - Provide solutions to create triple-play applications on next generation mobile terminals (“eSound,” “eVideo (excellent video)”)
  - Aim:
    - ✓ Challenge to enter mobile software license business
    - ✓ Enhance home appliance business
    - ✓ Expand info-telecom converged solution business

*<<Oki's strengths>>*

- IP telephony system
- Video distribution system technology, know-how

*<<ACCESS' strengths>>*

- Browser function
- Tech to embed high function to terminal

## ■ Enhance corporate governance system

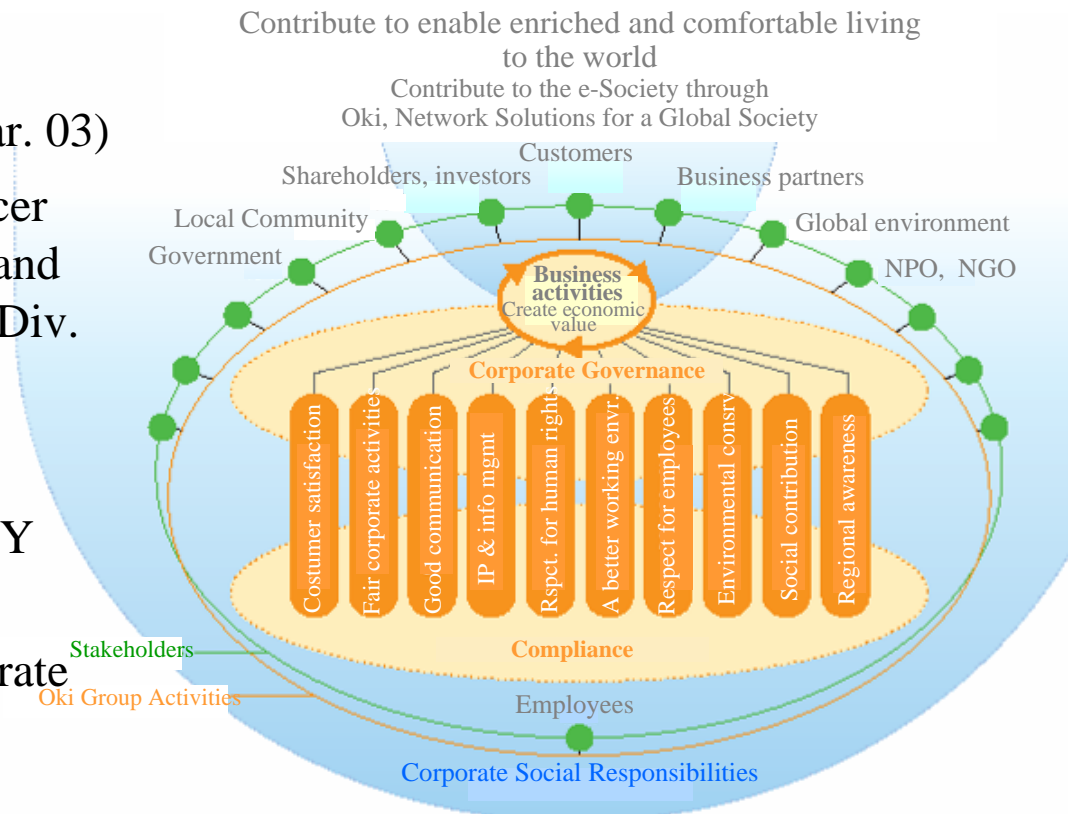
- Introduction of executive officer system (FY Mar. 01)
- Set external directors, management advisory committee, and compensation committee (FY Mar. 02)
- Established disclosure committee (FY Mar. 05)

## ■ Strengthen Compliance system

- Set Oki Code of Conduct (FY Mar. 03)
- Assigned Chief Compliance Officer (CCO), Compliance Committee, and Compliance and Business Ethics Div. (FY Mar. 05)

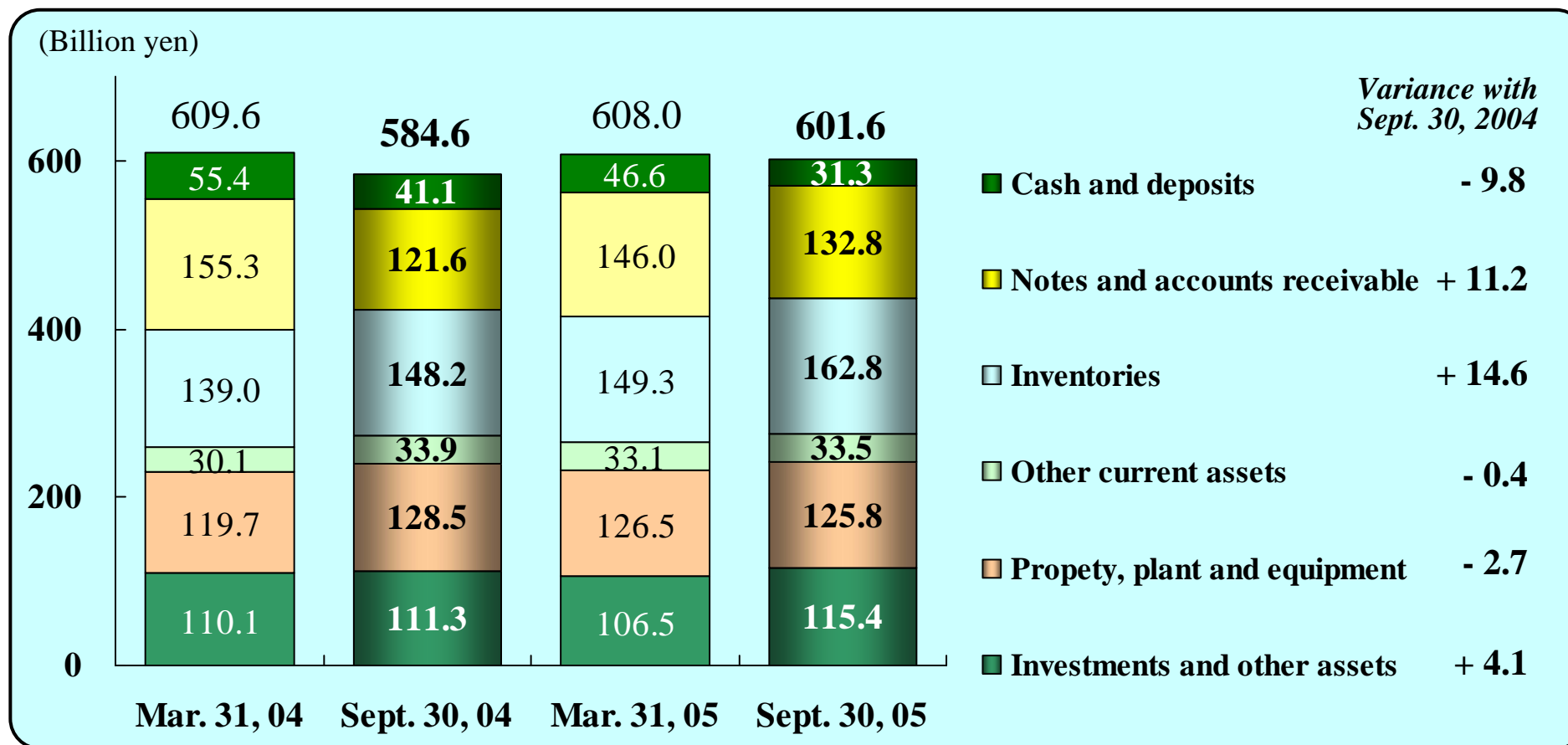
## ■ Enhance CSR system

- Establish CSR Promotion Div. (FY Mar. 05)
- Set “Charter of Oki Group Corporate Behavior” (FY Mar. 06)



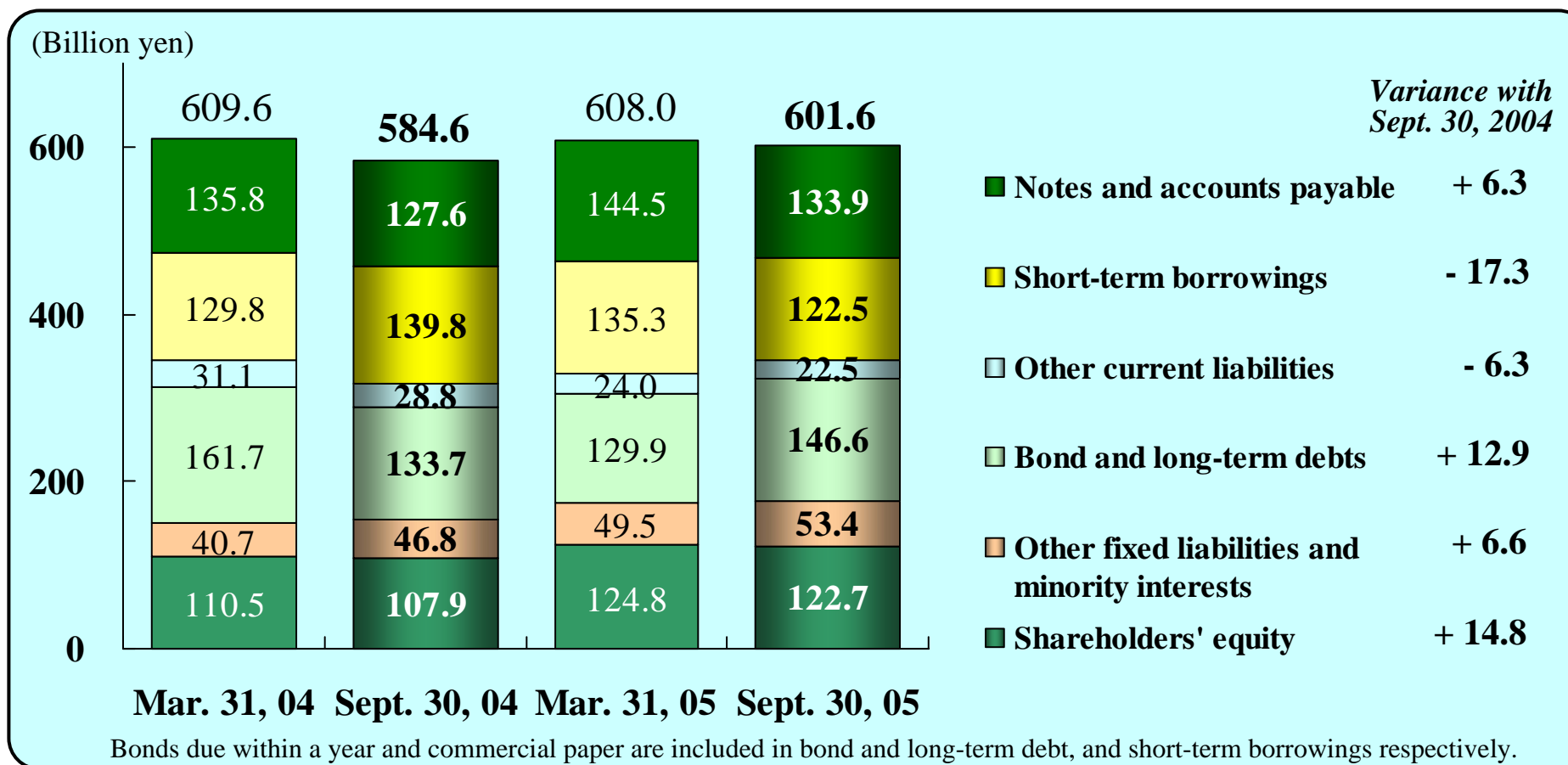
<Assets>

- Inventory increased by 14.6 B yen on a year-on-year basis due to expected increase in shipment volume for semiconductors and printers, and effect of yen depreciation



<Liabilities and Shareholders' Equity>

- Interest-bearing debt decreased by 4.4 billion yen on a year-on-year basis
- Both interest-bearing debt ratio and shareholders' equity ratio improved



- Increase in working capital, including notes and accounts receivable and inventory, worsened free cash flows by 23.6 billion yen on a year-on-year basis

(Billion yen)

	Sept. 04	Sept. 05	Variance	Notes
<b>I. Cash flows from operating activities</b>	30.8	(4.3)	(35.1)	
Income before income taxes	(4.7)	(6.0)	(1.3)	<b>&lt;Changes in working capital&gt;</b> Sept. 04    Sept. 05 Receivables    35.4    14.1 Inventories    (8.4)    (12.9) Payables    (9.0)    (9.6) Total    18.0    (8.4)
Depreciation & amortization	15.7	16.2	0.5	
Changes in working capital	18.0	(8.4)	(26.4)	
Others	1.8	(6.1)	(7.9)	
<b>II. Cash flows from investing activities</b>	(28.5)	(17.0)	11.5	
Purchases of property, plant & equipment	(22.0)	(16.3)	5.7	
Others	(6.5)	(0.7)	5.8	
<b>Free cash flows (I+II)</b>	2.3	(21.3)	(23.6)	
<b>III. Cash flows from financing activities</b>	(15.7)	5.8	21.5	
Redemption of bonds	(10.0)	(10.0)	0	
Changes in other interest bearing debts, etc.	(5.7)	15.8	21.5	
<b>Net cash flow (I+II+III)</b>	(13.4)	(15.5)	(2.1)	
<b>IV. Cash and cash equivalents at the period end</b>	45.3	35.3	(10.0)	

- Increase in working capital worsens free cash flows by 14.8 billion yen on a year-on-year basis

(Billion yen)

	Mar. 05	Mar. 06	Variance	Notes
<b>I. Cash flows from operating activities</b>	59.3	<b>52.0</b>	(7.3)	
Income before income taxes	18.5	<b>11.0</b>	(7.5)	<b>&lt;Changes in working capital&gt;</b> Mar. 05    Mar. 06 Receivables    13.6    (4.0) Inventories    (9.0)    3.0 Payables        7.1    (8.0) Total            11.7    (9.0)
Depreciation & amortization	34.2	<b>38.0</b>	3.8	
Changes in working capital	11.7	<b>(9.0)</b>	(20.7)	
Others	(5.1)	<b>12.0</b>	17.1	
<b>Free cash flows (I+II)</b>	17.8	<b>3.0</b>	(14.8)	
<b>II. Cash flows from investing activities</b>	(41.5)	<b>(49.0)</b>	(7.5)	
Purchases of property, plant & equipment	(33.9)	<b>(37.0)</b>	(3.1)	
Others	(7.6)	<b>(12.0)</b>	(4.4)	
<b>III. Cash flows from financing activities</b>	(26.9)	<b>(6.8)</b>	20.1	
Bond issuance	20.0		(20.0)	
Redemption of bonds	(15.0)	<b>(10.0)</b>	5.0	
Changes in other interest bearing debts, etc.	(31.9)	<b>3.2</b>	35.1	
<b>Net cash flow (I+II+III)</b>	(9.1)	<b>(3.8)</b>	5.3	
<b>IV. Cash and cash equivalents at the period end</b>	49.4	<b>45.6</b>	(3.8)	

P4	SG&A	Selling, General and Administrative expense	P21	SOS	Silicon on Sapphire
P5	PHS	Personal Handy-phone System		RF	Radio Frequency
	LSI	Large Scale Integration		RF-IC	Radio Frequency Integrated Circuit
	NIP	Non-Impact Printer		HDD	Hard Disk Drive
P6	IP	Internet Protocol		MCU	Microcontroller
P8	ATM	Automated Teller Machine		GPS	Global Positioning System
P10	TFT	Thin Film Transistor	P23	LED	Light-Emitting Diode
	P2ROM	Production Programmed Read Only Memory	P24	SI	System Integrator
P11	MFP	Multi Function Printer	P25	ERP	Enterprise Resource Planning
	SIDM	Serial Impact Dot Matrix		IPNW	IP Network
P17	CDN	Content Delivery Network		EAI	Enterprise Application Integration
P18	GE-PON	Giga-bit Ethernet Passive Optical Network		BPM	Business Process Management
P19	ITS	Intelligent Transport System		VoIP	Voice over Internet Protocol
P20	I/F	InterFace		SOA	Service Oriented Architecture
			P26	PBX	Private Branch eXchange

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