

# Overview of Consolidated Operations

## Limited Recovery within the Japanese Economy

In the fiscal year under review, some industries within the Japanese economy displayed signs of a recovery despite political instability overseas as characterized by the Iraq conflict and friction with North Korea. Nonetheless, the recovery covered only a portion of industries, owing to a rise in stock prices in Japan from the middle of the year after earlier dramatic fluctuations coupled with a scaling back of domestic production in the manufacturing industry following the SARS outbreak. Despite some positive indications, a sustainable recovery remained illusive during the fiscal year.

## Capital investment begins in corporate information technology

In the IT-related industries, in which the OTSUKA Group is involved, the push among large-scale companies to improve their business conditions has spread to small and medium companies, finally setting in motion previously delayed investment in computerization of corporate operations. Accordingly, a rebound was witnessed in both business and consumer applications for computers and similar equipment.

## “Act from the Customer’s Perspective and Respond to their Trust”

Amid such conditions, the OTSUKA Group has rallied behind the slogan “Act from the Customer’s Perspective and Respond to their Trust” to focus efforts on proposing new IT-based solutions for improving operations. Also, customer service capabilities and productivity was also boosted through the consolidation and integration of head office functions following the relocation of key functions to the new head office. Similarly, OTSUKA CORPORATION finished withdrawing from the “ $\alpha$  Land” retail business, which was scaled back in increments. Additionally, the Company introduced an executive officer system from July to augment corporate governance and bolster operational efficiency, as well as developed a corporate framework to enable rapid decision-making in order to properly handle new developments in the business environment.



OTSUKA CORPORATION new head office

## Achieving Record Recurring Profit for a Third Consecutive Fiscal Year

Increased sales were the result of both the above measures as well as the Company’s focused efforts on such key strategic businesses as “MRO,” “SMILE” and “ODS21.” A third consecutive fiscal year of record recurring profit was achieved on account of strong performance in the highly profitable maintenance operations of the Service & Support Business, coupled with efforts in expense reduction. Net income for the term rose from the previous fiscal year despite an extraordinary loss associated with relocation of the head office and withdrawal from the over-the-counter sales business.

In aggregate, net sales rose 6.2% to ¥344,377 million, operating income increased 15.4% to ¥9,221 million, recurring profit increased 16.6% to ¥9,055 million and net income edged up 2.2% to ¥2,457 million.

- MRO** : Marketing business for such peripheral products as stationary, daily necessities used in the office and OA supplies.
- tanomail** : Office supply mail-order service centered around the “MRO” business.
- SMILE** : The Company’s proprietary integrated mission-critical operational system Possessing 24 years of experience extending back to the Office computer days, OTSUKA CORPORATION boasts “SMILE  $\alpha$  AD” geared to the needs of midsize companies and small-medium-sized businesses and “SMILE ie” for large and mid-size companies.
- ODS21** : A knowledge management system that digitally captures paper-based information using copiers, allowing such information to be stored with other data as a centrally managed bank that can be shared and utilized.

## Overview of Business Segments

### System Integration Business

The System Integration Business provides optimized system services ranging from consulting to system design and introduction, transport and installation and network construction. As a result of focusing resources on the innovative “ODS21” knowledge management system and the “SMILE” integrated mission-critical operational system, brisk sales of color copiers, computers and servers produced a 2.8% rise in net sales to ¥225,842 million.

### Service and Support Business

The Service and Support Business offers total support for systems installed by customers with supplies, hardware and software maintenance, telephone support and IT education. Focused efforts on the “tanomail” office supply mail-order services via Website and catalog channels fueled continued growth in sales of supplies chiefly for OA supplies. Combined with favorable performance in maintenance and similar fields, net sales climbed 12.9% to ¥116,665 million.

### Other Business

In Other Business, the construction industry, in which Fujimi Construction Co., LTD. operates, continued to experience harsh conditions, but aggressive marketing activities resulted in brisk sales. This performance, combined with the inclusion of Otsuka Auto Service Co., LTD. (automobile maintenance, etc.) and Otsuka Business Service Co., LTD. (direct mail production and shipment outsourcing, etc.) into the scope of consolidation, contributed to a sharp increase of 53.3% in net sales to ¥1,869 million.

### Net Sales by Segment

(Millions of yen)

