

Overview of Consolidated Operations

■ Signs of Mild Economic Recovery

In the fiscal year under review, despite concerns such as crude oil appreciations in the Japanese economy, major manufacturers maintained their strong showing, and the upturn in corporate earnings expanded to large non-manufacturing companies and small and medium enterprises. An increase in corporate capital investment and an upswing in employment opportunities are other indications that a mild recovery is underway, driven by domestic demand.

■ Corporate IT Investment Remains Strong

In the IT-related industrial sector in which the OTSUKA Group operates, IT investment by enterprises remained strong. Key factors included stepped-up investment to protect the security of information inspired by the enforcement of the Personal Information Protection Law as of April 1, 2005, the continued strength of system replacement demand, and government policies such as the IT Investment Promotion Tax.

■ Helping Customers to Save Costs and Improve Productivity

Against this backdrop, and raising “Grow with Customers and Respond to Their Trust” as its slogan for fiscal 2005, the OTSUKA Group focused on expanding its business with existing customers while at the same time developing and cultivating new customers. This involved strengthening of functionality and promoting greater use of “SPR”, a system developed by OTSUKA CORPORATION that combines the functions of customer relationship management (CRM) and sales force automation (SFA) programs. “SPR” provides a way of encompassing and sharing information relating to customer transaction histories, the history of OTSUKA’s responses, customer input, and the status of business discussions. In this way, “SPR” is used to efficiently provide customers with solutions necessary to their needs, such as how to reduce costs and improve productivity.

Specifically, this involved aggressive proposals on integrated systems combining copiers, computers, facsimiles, telephones, communication lines and so forth, as part of a continuing emphasis information security-related business, and keystrategic businesses such as the “tanomail” office supply mail-order business, etc.

■ Increases of 9% in Net Sales, 28% in Operating Income and 30% in Recurring Profit

On a consolidated basis, net sales grew 9.9%, to ¥409,413 million, operating income rose 28.8%, to ¥21,911 million, recurring profit rose 30.4%, to ¥22,210 million, and net income posted an increase of 4.4%, to ¥11,747 million. Thus, the OTSUKA Group has successfully recorded the highest net income despite net income in the previous fiscal year included extraordinary gain of ¥5,481 million associated with the exemption from the obligation under the substitutional portion of the social welfare pension fund, and achieve further growth in sales and income.

(Millions of yen)

	Fiscal 2004	Fiscal 2005	
	Amount	Amount	Change to Last Year
Net sales	372,481	409,413	+9.9%
Operating income	17,009	21,911	+28.8%
Recurring profit	17,036	22,210	+30.4%
Net income	11,247	11,747	+4.4%

What is “SPR”?

“SPR” is a combined customer relationship management (CRM) and sales force automation (SFA) system developed by OTSUKA CORPORATION. “SPR” handles customer profile information and acts as a database for transaction histories (Past) that includes details of daily meetings and contact information relating to some 20,000 companies customers. It also includes information on the status of proposals that have been submitted to customers (Present), and on customers’ needs and requirements (Future). The Company comprehensively analyzes and utilizes this information to efficiently create optimal solutions for each customer.

SPR : stands for **S**ales **P**rocess **R**e-engineering

OTSUKA CORPORATION's proprietary CRM (Customer Management) and SFA (Marketing Support) System

Learn customers' profiles accurately

Learn customers' transaction history (Past)

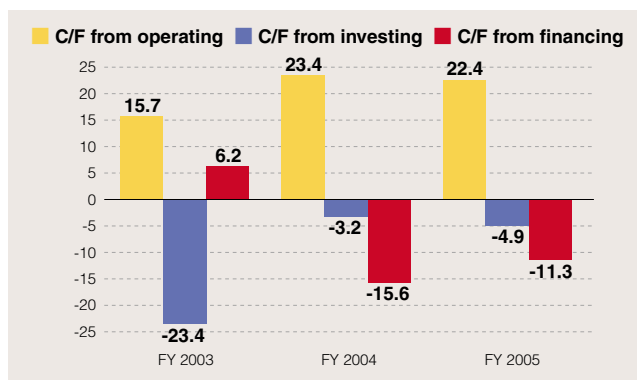
Learn status of proposals to customers (Present)

Learn customers' needs and requirements (Future)

Use a scientific sales approach to simultaneously improve CS and efficiency

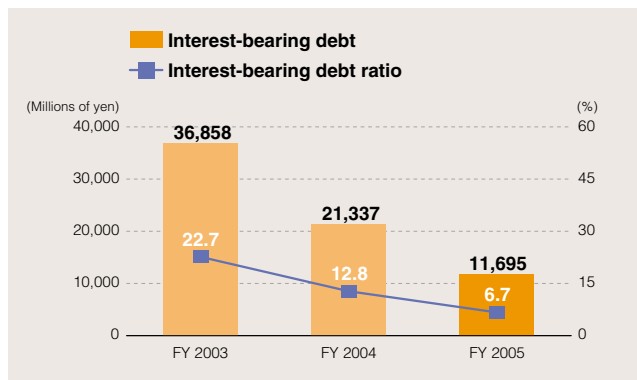
Cash Flows

(Billions of yen)



Buoyed by the solid business results, cash provided by operating activities amounted to ¥22,468 million, compared to ¥23,494 million in the preceding term. Cash used in investing activities amounted to ¥4,986 million, compared to ¥3,245 million. Cash flows from financing activities amounted to ¥11,338 million, compared to ¥15,617 million by advancing the redemption of borrowings.

Interest-bearing debt



In the fiscal year under review, interest-bearing debt (including short-term and long-term loans) decreased by approximately ¥9.6 billion, to ¥11,695 million, reflecting a reduction in loans against the backdrop of strong cash flows from operating activities. As a result, interest-bearing debt was less than “cash, time deposits and other cash equivalents”, which amounted to ¥14,507 million.

Overview of Business Segments

■ System Integration Business

The System Integration Business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. By focusing resources on the innovative “ODS21” knowledge management system and the “SMILE series” integrated mission-critical systems, personal computers, servers and information security-related products continued to do well, resulting in an increase of 8.2% in net sales, to ¥258,275 million.

■ Service and Support Business

The Service and Support Business provides customers with total support for installed systems encompassing supplies, hardware and software maintenance, telephone support and IT education. The “tanomail” office supply mail-order service via Website and catalog channels continued to generate good growth in sales of OA supplies, and robust results were also posted by the maintenance business, which includes information security-related services. As a result, net sales amounted to ¥149,100 million, 13.9% more than the preceding year.

■ Other Business

Net sales by the Other Business declined 27%, to ¥2,037 million.

Net Sales by Segment

(Millions of yen)

