

Overview of Consolidated Operations

■ Sustained Mild Economic Recovery

In the fiscal year under review, the Japanese economy continued to experience a long-term mild economic recovery on the back of capital spending fueled by improved corporate earnings and higher demand.

In the IT-related industrial sector in which the OTSUKA Group operates, while there were some dark spots, the industry overall was strong amid greater business confidence and an improved capital procurement environment owing to strong sentiment toward IT investment among corporations endeavoring to strengthen operations and survive competition. Efforts included handling the computerization of legal and official procedures, improving efficiency in core facilities and operations for expanding business, reducing costs and tackling a shortage of personnel and other manpower.

Specifically, considerable activity has been seen in measures such as strengthening information security measures, remodeling system infrastructures and introducing integrated operational package software. Increased outsourcing of functions such as system operations and management also is evident.

However, with customers voicing strong demand for total cost reductions and clarifying investment efficiency, the biggest challenge for the entire industry lies in offering solutions with optimal added value while keeping costs down.

Despite room for growth in IT among many small- and medium-size businesses and heightened interest in IT investment, given a slight shortage in IT staff and personnel, customers are further demanding timely provision of product information and case studies for installing IT along with the provision of systems optimally designed for resolving management issues and friendly support and rapid response after installation.

■ Offering Systems that Meet Customer Needs

Amid these conditions, the OTSUKA Group will remain dedicated to its fiscal 2006 slogan “Respond to customers’ trust from their viewpoint” by strengthening the 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. Concurrently, the Group will conduct aggressive and efficient provision of systems tailored to customer needs. The Group conducted aggressive proposals on integrated systems that include combining copiers, computers, facsimiles,

telephones and communication lines, as well as concentrated on the information security-related business, “SMILE series” of integrated mission-critical systems, the “tanomail” office supply mail-order business and the “ODS21” knowledge management system. Concurrently, the OTSUKA Group focused on expanding its business with existing customers while developing and cultivating new customers.

The Group also worked to raise productivity by expanding operations and raising operating efficiency in the Sales Support Center, as well as strengthening project management in system development projects.

In addition, the Group will consolidate the Service and Support Business into the “tanomail” and “tayoreru”* brands, and improve its service and support menu as well as enhance ease of understanding.

*“tayoreru”: A business brand that supports customer information systems and customers’ overall corporate activities

■ Increases of 5.9% in Net Sales, 19.4% in Operating Income and 19.3% in Recurring Profit

On a consolidated basis, net sales rose 5.9% to ¥433,617 million, operating income increased 19.4% to ¥26,158 million, recurring profit expanded 19.3% to ¥26,494 million and net income jumped 33.0% to ¥15,621 million, resulting in four consecutive terms of increased sales and income.

(Millions of yen)

	Fiscal 2005	Fiscal 2006	
	Amount	Amount	Change to Last Year
Net sales	409,413	433,617	+5.9%
Operating income	21,911	26,158	+19.4%
Recurring profit	22,210	26,494	+19.3%
Net income	11,747	15,621	+33.0%

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 **Sales Process Re-engineering**

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

Learn customers’ profiles accurately

Learn customers’ transaction history (Past)

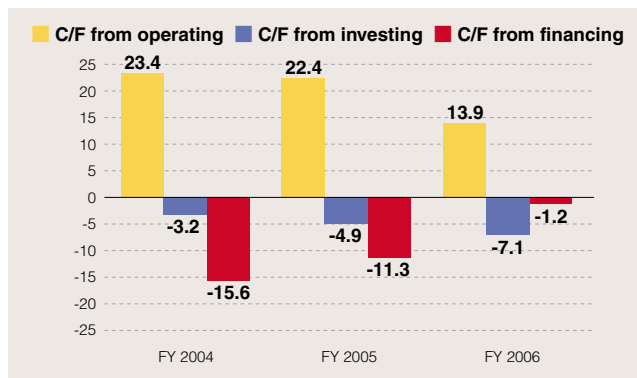
Learn status of proposals to customers (Present)

Learn customers’ needs and requirements (Future)

Use a scientific sales approach to simultaneously improve CS and efficiency

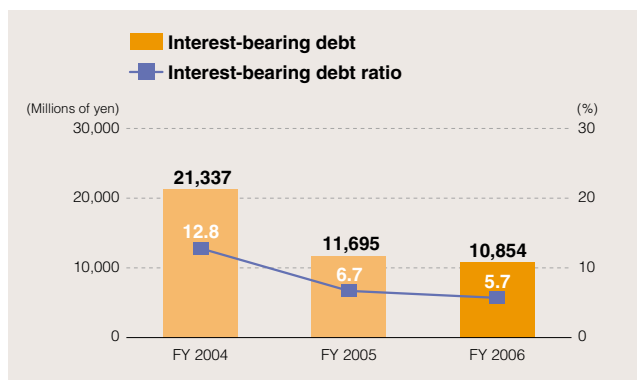
Cash Flows

(Billions of yen)



Cash provided by operating activities amounted to ¥13,909 million as a result of an increase in income taxes paid and other payments, compared with ¥22,468 million in the previous term. Cash used in investing activities amounted to ¥7,161 million owing to an increase in payments for purchase of investments in securities, compared with ¥4,986 million in the preceding term. Cash used in financing activities amounted to ¥1,250 million, compared with ¥11,338 million in the preceding term stemming from repayments of debts.

Interest-bearing debt



In the fiscal year under review, interest-bearing debt (including short-term and long-term loans) decreased by approximately ¥800 million to ¥10,854 million. As a result, interest-bearing debt was less than “cash, time deposits and other cash equivalents,” which amounted to ¥18,421 million.

As a result, the interest-bearing debt ratio declined 1.0 percentage points, to 5.7%.

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 information security-related products, servers, color copiers, the “SMILE series” of integrated mission-critical systems, the “ODS21” knowledge management system and CAD systems, net sales edged up 2.0% to ¥263,425 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, IT education and outsourcing. The “tanomail” office supply mail-order service via the Company’s Website and catalog channels continued to generate solid growth, and robust results were also posted by the maintenance business. As a result, net sales amounted to ¥168,701 million, 13.1% higher than the preceding year.

■ Other Business

In the Other Business, net sales amounted to ¥1,490 million, representing a 26.8% decrease compared with the previous year.

Net Sales by Segments

(Millions of yen)

