

Overview of Consolidated Operations

■ Sustained Mild Economic Expansion

In the fiscal year under review, despite a growing sense of uncertainty about the future fueled by the emergence of rising crude oil prices and the impact of the U.S. subprime loan issue, the Japanese economy continued to be in a phase of mild economic expansion on the back of improved corporate earnings and an increase in capital spending.

In the IT-related industrial sector in which the OTSUKA Group operates, IT investments by major corporations demonstrated significant growth and were robust for small and mid-sized companies as well. In addition to strengthening management foundations by streamlining and raising performance of information processing, IT investment needs included handling computerization of legal and official procedures, establishing internal control systems, bolstering information security countermeasures and developing information system infrastructure.

■ Proposing Information Systems that Utilize Comprehensive Strengths

Amid these conditions, the OTSUKA Group remained dedicated to its fiscal 2007 slogan “Respond to customers’ trust from their viewpoint and grow with customers” by strengthening functionality and 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. The Group utilized its comprehensive strengths to conduct aggressive proposals that integrated copiers, computers, facsimiles, telephones and communication lines.

Further, we continued to focus resources on the information security-related business, the “ODS21” knowledge management system, “SMILE” integrated mission-critical systems, as well as the “tanomail” office supply mail-order service and the “tayloreru” IT and business support service. Additionally, the Group worked to raise development quality and productivity by enhancing operating efficiency with the expansion of operations at the Sales Support Center, as well as by strengthening project management in system development projects.

- SPR:** OTSUKA CORPORATION’s proprietary Customer Relationship Management (CRM) and Sales Force Automation (SFA) system
- ODS21:** Knowledge management system that digitally captures paper-based information, bringing it under the same central management as other digital information, and in turn, facilitating the sharing and utilization of such information
- SMILE:** OTSUKA Group’s proprietary integrated mission-critical operational system
- “tanomail”:** Business brand of the office supply mail-order service
- “tayloreru”:** Business brand that supports customer information systems and customers’ overall corporate activities

■ Five Consecutive Terms of Increased Sales and Income

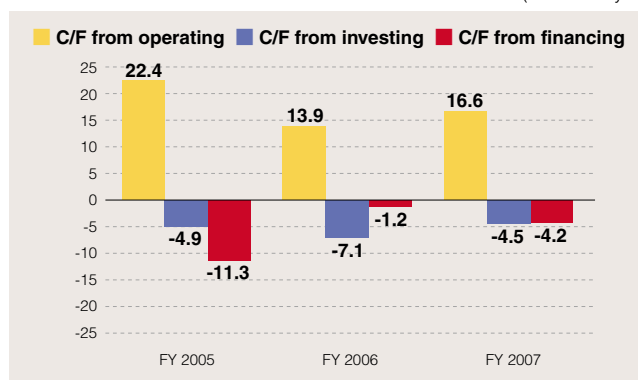
On a consolidated basis, net sales rose 8.3% to ¥469,481 million, operating income increased 14.9% to ¥30,051 million, recurring profit expanded 15.2% to ¥30,520 million and net income jumped 20.7% to ¥18,856 million, resulting from the effect of an extraordinary gain on the transition of retirement benefit plan. This was the fifth consecutive term of increased sales and income.

(Millions of yen)

	FY 2006	FY 2007	
	Amount	Amount	Change to Last Year
Net sales	433,617	469,481	+8.3%
Operating income	26,158	30,051	+14.9%
Recurring profit	26,494	30,520	+15.2%
Net income	15,621	18,856	+20.7%

■ Cash Flows

(Billions of yen)



Cash provided by operating activities amounted to ¥16,654 million as a result of such factors as an increase in income before income taxes and minority interests, compared with ¥13,909 million in the previous term.

Cash used in investing activities amounted to ¥4,555 million owing to such factors as a decrease in payments for purchase of investments in securities, compared with ¥7,161 million in the preceding term. Cash used in financing activities amounted to ¥4,271 million, compared with ¥1,250 million in the preceding term, stemming from such factors as an increase in the amount of cash dividends paid.

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. Due to favorable conditions in the information security-related business, color copiers, the “ODS21” knowledge management system and CAD systems, net sales increased 6.2% to ¥279,753 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, as well as the “tayoreru” service that offers maintenance support to customers, are collectively known as the accumulated business, which generated solid growth. As a result, net sales amounted to ¥187,358 million, 11.1% higher than the preceding fiscal year.

■ Other Business

In the Other business, net sales amounted to ¥2,370 million, representing a 59.0% increase from the previous fiscal year.

Net Sales by Segments

(Millions of yen)

