

Overview of Consolidated Operations

■ Signs of Economic Recovery

In the fiscal year under review, the Japanese economy in the first half of the term made steady gains toward a recovery as improving global economic conditions fueled increased exports and the subsequent increase in production further fostered capital investment. Corporate earnings also made a dramatic comeback and spread from large to medium and small companies and from manufacturing to non-manufacturing industries. Unfortunately, this recovery slowed in the second half of the term amid skyrocketing crude oil and raw materials prices as well as the impact of typhoons, earthquakes and other natural disasters.

■ Full-scale Recovery in Computerization Investment

Previously delayed investment in computerization of corporate operations was finally initiated in IT-related industries, in which the OTSUKA Group operates, to produce a recovery in PCs and other computer-related equipment. Key factors included measurable progress made in “e-Japan Strategy” amid improved corporate earnings and the proliferation of broadband, an increasing interest in security countermeasures in preparation for the implementation of the Personal Information Protection Law, the need to replace systems originally purchased to address the Y2K problem as well as such government policies as the IT Investment Promotion Tax. However, this rebound has also been accompanied by an increasing demand on the part of customers to both quantitatively prove the efficacy of computerizing their systems while reducing costs.

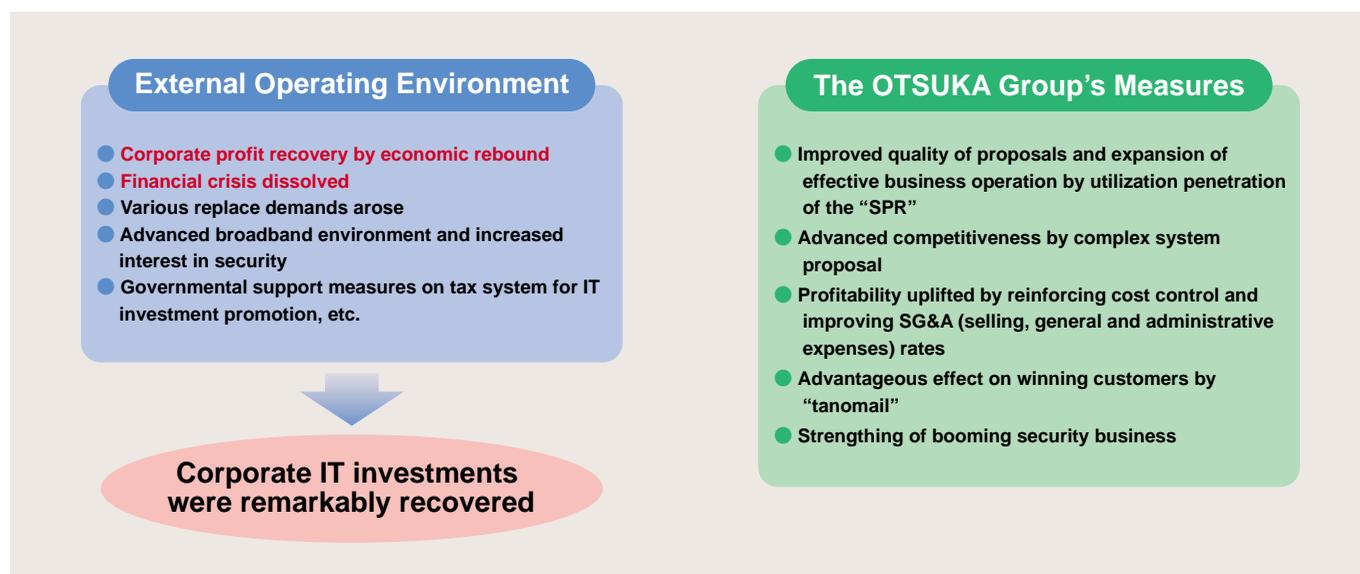
■ Proposals to Encourage IT Use for Improved Management Efficiency

Amid such conditions, the OTSUKA Group has rallied behind the slogan “Act from the Customer's Perspective and Respond to their Trust Utilizing Our Comprehensive Strengths” to focus on proposing IT-based solutions for improving operations. For example, the OTSUKA Group capitalized on the proliferation of broadband and a greater concern regarding security by offering composite systems and associated services that stem from the Group’s comprehensive capabilities. Concurrently, the OTSUKA Group raised the quality of its proposals and improved efficiency in operations by promoting greater use of “SPR,” as well as by focusing resources on the key strategic businesses of “tanomail,” “ODS21,” “SMILE” and “OSM.” Moreover, the Group continued to focus on resolving customer problems by dramatically overhauling and fusion mission critical systems and information systems that use the Internet.

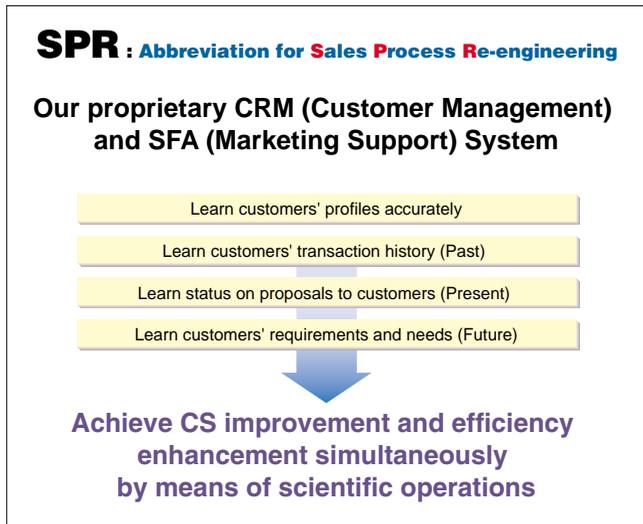
*See page 6 for a description of respective strategic businesses.

■ Achieving Increased Sales and Profits

On a consolidated basis, net sales rose 8.2% to ¥372,481 million; operating income jumped 84.5% to ¥17,009 million; recurring profit jumped 88.1% to ¥17,036 million; and net income soared 357.7% to ¥11,247 million.



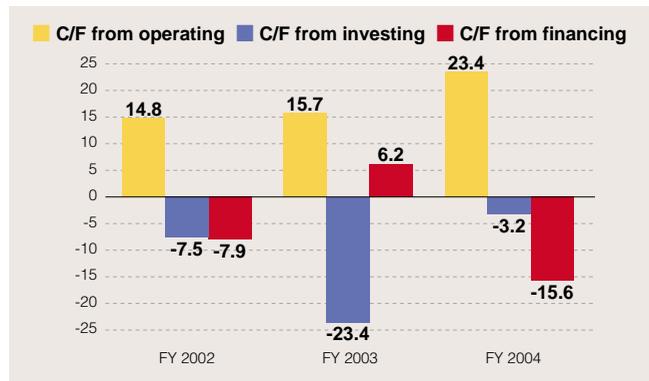
■ A Precise Systematic Approach Using “SPR”



The Company employs Sales Process Re-engineering (SPR) as a mechanism for efficiently providing optimal solutions that raise customer satisfaction. “SPR” is a system developed by OTSUKA CORPORATION and features functions that combine Customer Relationship Management (CRM) with Sales Force Automation (SFA). “SPR” naturally handles customer profile information, but also acts as a database for transaction histories (past), status reports for submitted proposals (present) and desires and needs (future). The database includes interviews and daily contact information for up to 20,000 companies as well as information on other companies. Analyzing and using this data in various and creative ways enables the Company to efficiently provide customers with optimal solutions.

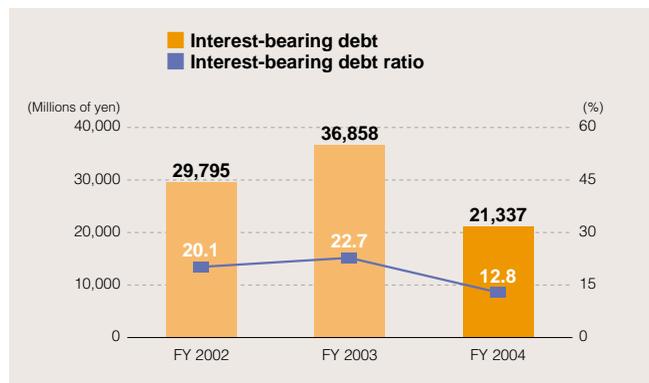
■ Cash Flows

(Billions of yen)



Cash provided by operating activities rose by ¥7,745 million on the back of positive business results. Cash used in investing activities decreased by ¥20,160 million following the acquisition of a new head office in the previous term, while cash used in financing activities increased by ¥21,901 million to fund such activities as the repayment of loans.

■ Interest-bearing debt



In the fiscal year under review, the Company finished redeeming corporate bonds previously issued. Despite the acquisition of a new head office building in the previous term that contributed to a temporary increase in loans, interest-bearing debt (including short-term and long-term loans and corporate bonds) declined by roughly ¥15.5 billion as a result of a reduction in loans against the backdrop of strong cash flows from operating activities.

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, sales of color copiers, computers and servers continued to be strong, and posted a 5.7% increase in net sales to ¥238,729 million.

■ Service and Support Business

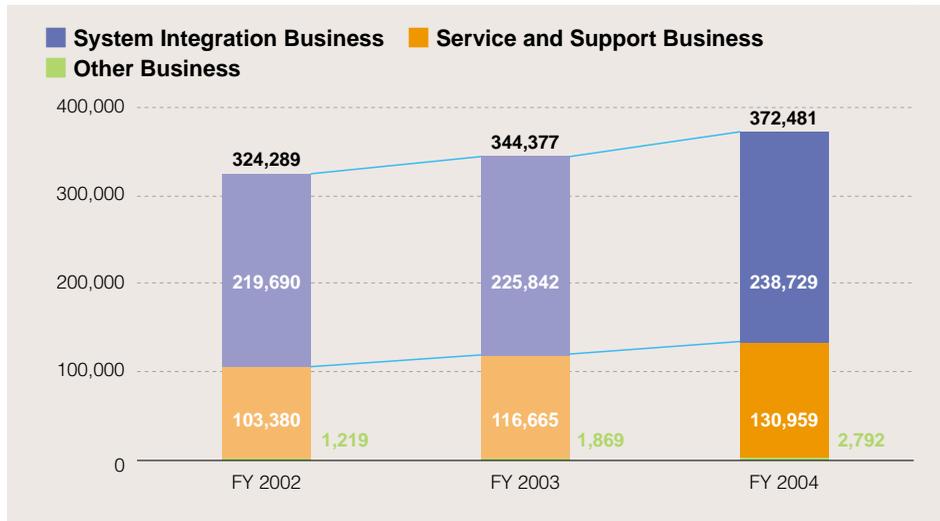
The Service and Support Business offers total support for systems installed by customers with supplies, hardware and software maintenance, telephone support and IT education. The “tanomail” office supply mail-order services via Website and catalog channels fueled continued growth in sales chiefly for OA supplies. Combined with a favorable performance in maintenance and similar fields, net sales increased 12.3% to ¥130,959 million.

■ Other Business

In Other Business, the construction industry, in which Fujimi Construction Co., LTD. operates, continued to be subjected to harsh conditions, but aggressive marketing activities resulted in a 49.4% increase in net sales to ¥2,792 million.

Net Sales by Segment

(Millions of yen)



Overview of Key Strategic Businesses (Non-consolidated)

OTSUKA CORPORATION has positioned “MRO,” “SMILE,” “ODS21” and “OSM” as its key strategic businesses and has concentrated resources accordingly. An overview of respective strategic businesses for this fiscal year is as follows.

Key Strategic Business

MRO

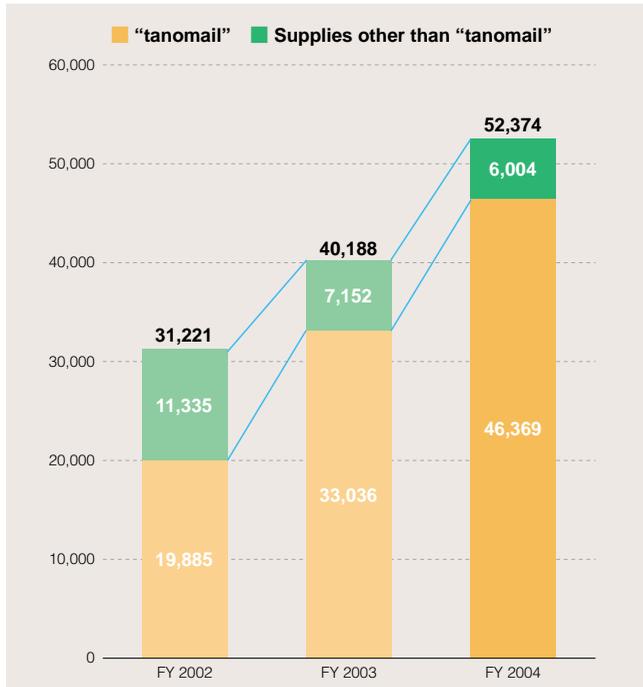
For the fiscal year under review, net sales rose **30.3%** to **¥52,374 million**.

of the above, “tanomail”:

For the fiscal year under review, net sales rose **40.4%** to **¥46,369 million**.

Net Sales of “MRO”

(Millions of yen)



The “MRO” business, which sells products such as stationary, daily necessities used in the office and OA supplies, recorded sales in excess of ¥52 billion due to the significant gains made by the “tanomail” office supply mail-order service, the core pillar of the “MRO” business.

In this respect, “tanomail” is the portal for OTSUKA CORPORATION’s one-stop solutions, and the Company is working to expand transactions for every aspect of customers’ systems.



“tanomail” catalog, Vol. 13



“tanomail” via Internet
<http://www.tanomail.com>

Key Strategic Business

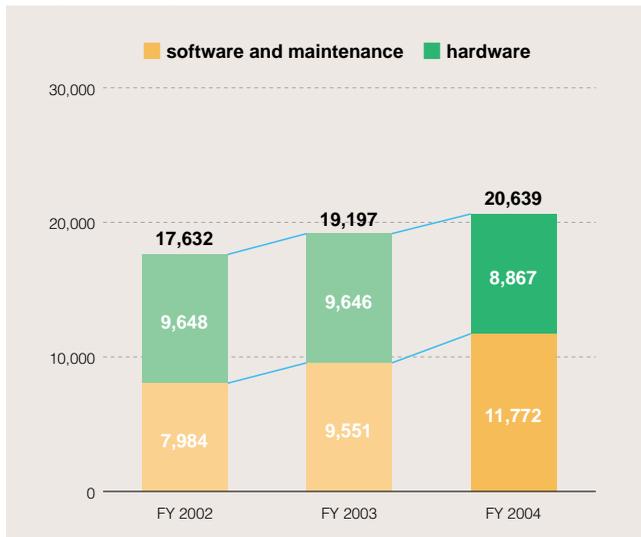
SMILE

For the fiscal year under review, net sales rose **7.5%** to **¥20,639 million**.

of the above, software and maintenance:

For the fiscal year under review, net sales rose **23.3%** to **¥11,772 million**.

Net Sales of "SMILE" (Millions of yen)



"SMILE" is the Company's proprietary integrated mission-critical operational system, which encompasses 26 years of experience extending back to the office computer days. OTSUKA CORPORATION boasts "SMILE α AD" geared to the needs of midsize companies and small-medium size businesses and "SMILE ie" for large and midsize companies. The system capitalizes on its ease of introduction into any customer's corporate system owing to the broad range of optional software for specific industries and operations, thereby ensuring strong sales in software and maintenance against the backdrop of companies revamping their mission-critical systems in line with management reforms.

Key Strategic Business

ODS21

For the fiscal year under review, net sales rose **36.9%** to **¥25,429 million**.

Net Sales of "ODS21" (Millions of yen)



"ODS21" is a knowledge management system that digitally captures paper-based information using copiers, allowing such information to be stored with other digital data at a centrally managed bank that can be shared and utilized. "ODS21" provides proposals to improve operations at midsize companies by relying on the unique strengths of OTSUKA CORPORATION for providing both copiers and computers, thereby contributing to strong sales for this business.

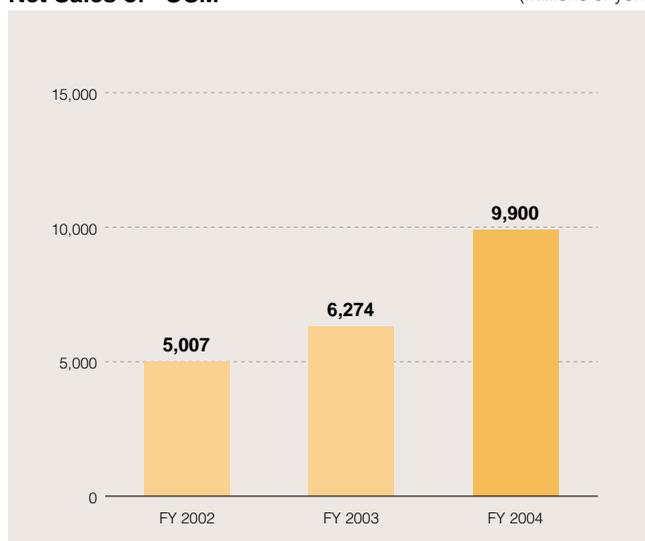
Key Strategic Business

OSM

For the fiscal year under review, net sales rose **57.8%** to **¥9,900 million**.

Net Sales of "OSM"

(Millions of yen)



OSM
Otsuka
Security
Management

“OSM” is OTSUKA CORPORATION’s name-brand security business, and has enjoyed robust performance as a result of rising interest in corporate security in preparation for implementation of the Personal Information Protection Law.

■ Corporate Alliance for Information Leakage Prevention

Nowadays, corporate management is being heavily impacted by the frequent occurrence of personal information leaks, which is becoming one of their most pressing issues. However, many companies are at a loss as to where to begin implementing concrete measures to prevent such occurrences. Also, there is no all-encompassing product that can prevent every possible leak. To address the problem, OTSUKA CORPORATION acted as a facilitator in forming a corporate alliance with integrated leak prevention solutions in line with the rising demand for companies that offer optimal products and specific countermeasures. The member alliance includes the top vendors in each field, covering every aspect from prevention to security in cases where personal information has been leaked.

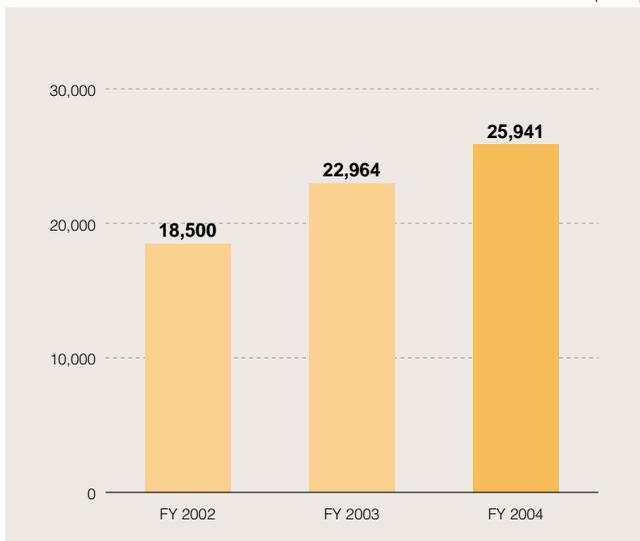
Nine-Member Corporate Alliance

RSA Security Japan Ltd.
MOTEX Inc.
OTSUKA CORPORATION
Quality Corporation
Citrix Systems Japan K.K.
SOMPO JAPAN INSURANCE INC.
Trend Micro Incorporated
Hitachi Software Engineering Co., Ltd.
Microsoft Corporation

Overview of Unit Sales for Computers and Copiers

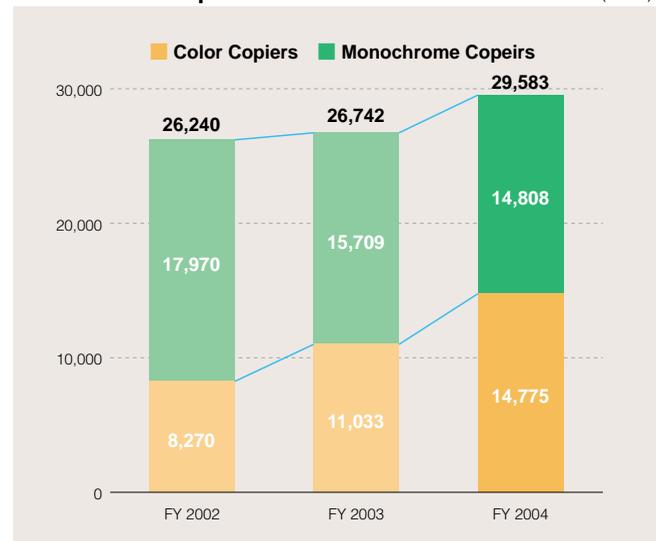
Unit Sales of Servers

(units)



Unit Sales of Copiers

(units)



Unit Sales of Personal Computers

(units)

