

Overview of Consolidated Operations

■ Rapid Deterioration of Economy

During the first half of the fiscal year, the Japanese economy entered a recessionary phase owing to the effects of soaring crude oil and raw materials prices, a weak U.S. dollar and falling stock prices. In the second half, amid worldwide financial uncertainties and a credit crunch triggered by the bankruptcy of U.S.-based Lehman Brothers, overseas economies decelerated and large declines in exports and the sharp appreciation of the yen led to a worsening of corporate earnings, primarily in export-oriented industries. Moreover, corporate fund-raising became increasingly difficult, and bankruptcies of profit-making companies spread from the construction and real estate industries to a broad range of other industries. Reflecting these factors, the economy deteriorated rapidly and the management environment became exceedingly harsh.

Amid such circumstances, there was solid demand by companies for raising productivity and reducing costs by utilizing IT as well as stable latent demand for implementing information security countermeasures and renovating existing information system infrastructures. Nevertheless, the postponement of purchases due to the worsening economy was evident, while cut-backs in IT investments accelerated, particularly from the fourth quarter.

■ Promoting Combined System Proposals to Achieve Cost Reductions

Under our fiscal 2008 slogan, “Respond to customers’ trust from their viewpoint and make a leap forward together with customers,” the OTSUKA Group worked to raise levels of customer satisfaction and enhance operational efficiency by strengthening our community-based sales structure; bolstering functionality and making greater use of “SPR,” a proprietary, independently developed system by OTSUKA CORPORATION that combines the functions of customer relationship management (CRM) and sales force automation systems; and expanding the operations of the “Sales Support Center.” Additionally, the Group worked to strengthen our support structure and raise system development quality and productivity.

External Environment

Drastic Change in Market Conditions from Autumn

Entering a worldwide recession due to the financial crisis

The credit crunch and worsening of fund-raising environment

Sharp decline in stock markets

Steep appreciation of the yen

Increased sense of uncertainty about the future

Despite needs for IT utilization, investments in IT are being curtailed or postponed

OTSUKA Group’s Activities

- **Strengthening “community-based sales structure”**
- **Assessment of IT investment trends by size of each enterprise and promoting combined system proposals and comprehensive proposals**
- **Proposing specific cost reductions**
- **Enhancing efficiency of sales activities by reinforcing the functions of “SPR” and making full use of the “Sales Support Center”**
- **Strengthening accumulated business**

In carrying out activities for making proposals to customers, while closely focusing on the needs and IT investment trends by size of enterprise, we strived to help customers achieve cost reductions and productivity improvements by promoting combined system proposals and comprehensive proposals that integrate such products as copiers, computers, facsimiles, telephones and communications lines. We also continued to focus efforts on the “OSM” information security-related business, “ODS21” knowledge management system and “SMILE” integrated mission-critical systems, as well as on the “tanomail” office supply mail-order service and “tayoreru” IT and business support service.

- SPR:** OTSUKA CORPORATION’s proprietary Customer Relationship Management (CRM) and Sales Force Automation (SFA) system
- OSM:** Business brand in the information security-related business
- 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
- “tayoreru”:** Business brand that supports customer information systems and customers’ overall corporate activities

■ Sales and Income Rise in the First Half But Decline for the Full Fiscal Year

As a result of the aforementioned circumstances, consolidated net sales declined 0.5% to ¥467,154 million, operating income fell 9.9% to ¥27,089 million, recurring profit decreased 9.5% to ¥27,628 million and net income declined 23.8% to ¥14,371 million. The double-digit decline in net income was also due in part to the effect of an extraordinary gain on the transition of a retirement benefit plan amounting to ¥4,298 million that was recorded in the previous fiscal year.

(Millions of yen)

	FY 2007	FY 2008	
	Amount	Amount	Change to Last Year
Net sales	469,481	467,154	-0.5%
Operating income	30,051	27,089	-9.9%
Recurring profit	30,520	27,628	-9.5%
Net income	18,856	14,371	-23.8%

Overview of Business Segments

■ System Integration Business

— Impacted by Postponements of Purchases —

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. During the fiscal year, we focused efforts on our information security-related business, color copiers and the knowledge management system and CAD systems. Nevertheless, postponements of purchases due to curtailments of IT investments led to a 4.7% decline in net sales to ¥266,476 million.

■ Service and Support Business

— Steady Growth Achieved —

The Service and Support business provides customers with total support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support, IT education and outsourcing. We recorded steady growth in our “tanomail” office supply mail-order service via the Company’s Website and catalog channels, as well as in our “tayoreru” service that offers maintenance support to customers. As a result, net sales rose 6.1% from the previous year to ¥198,761 million.

■ Other Business

In the Other business, net sales declined 19.2% from the previous fiscal year to ¥1,916 million.

Net Sales by Segments

(Millions of yen)

