Financial Section

Three-Year Financial Data

OTSUKA CORPORATION and Its Consolidated Subsidiaries
Years ended December 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars
	2004	2005	**2006**	**2006**
Net sales	¥372,481	¥409,413	**¥433,617**	**$3,640,173**
System Integration Business	238,729	258,275	**263,425**	**2,211,425**
Service and Support Business	130,959	149,100	**168,701**	**1,416,232**
Other Business	2,792	2,037	**1,490**	**12,515**
Operating income	17,009	21,911	**26,158**	**219,595**
Recurring profit	17,036	22,210	**26,494**	**222,418**
Income before income taxes and minority interests	18,548	20,552	**26,350**	**221,210**
Net income	11,247	11,747	**15,621**	**131,138**
Total assets	167,228	173,927	**189,357**	**1,589,633**
Total interest-bearing debt	21,337	11,695	**10,854**	**91,119**
Equity	54,667	58,920	**72,848**	**611,552**
Net income per share (EPS) (Yen and U.S. dollars)	355.88	371.72	**494.30**	**4.15**
Dividends per share of common stock (Yen and U.S. dollars)	55.00	75.00	**115.00**	**0.97**
Cash flows from operating activities per share (Yen and U.S. dollars)	743.43	710.97	**440.14**	**3.69**
Operating income to net sales ratio (%)	4.57	5.35	**6.03**	—
Net income to net sales ratio (%)	3.02	2.87	**3.60**	—
Total interest-bearing debt ratio (%)	12.76	6.72	**5.73**	—
Equity ratio (%)	32.69	33.88	**38.47**	—
Return on equity (ROE) (%)	22.80	20.68	**23.71**	—

Note:
Equity = Total net assets - Share subscription rights - Minority interests
Figures for ROE are calculated using average equity.
U.S. dollar amounts are computed using the December 31, 2006 exchange rate of ¥119.12 = US$1.
The dividend in 2006 includes a ¥10 special dividend commemorating the 45th anniversary of the Company.

Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

			Millions of yen	
	2005	**2006**	Difference to Last Year	% Change to Last Year
Net sales	¥409,413	**¥433,617**	+24,203	+5.9%
System Integration Business	258,275	**263,425**	+5,149	+2.0
Service & Support Business	149,100	**168,701**	+19,600	+13.1
Other Business	2,037	**1,490**	-546	-26.8
Cost of sales	314,142	**330,173**	+16,030	+5.1
Gross profit	95,271	**103,444**	+8,173	+8.6
Selling, general and administrative expenses	73,360	**77,286**	+3,925	+5.4
Operating income	21,911	**26,158**	+4,247	+19.4
Recurring profit	22,210	**26,494**	+4,283	+19.3
Income before income taxes and minority interests	20,552	**26,350**	+5,797	+28.2
Income taxes				
Current	9,569	**9,972**	+402	+4.2
Deferred	-994	**693**	—	—
Net income	11,747	**15,621**	+3,873	+33.0

Sales Summary

In the term under review, the System Integration Business and Service and Support Business both recorded robust sales, and consolidated subsidiaries also did well as a whole. As a result, consolidated net sales rose 5.9%, to a record ¥433,617 million.

System Integration Business

The System Integration Business provides optimized system services ranging from consulting to system design and development, transport, installation and network construction. By focusing resources on information security-related products, servers, color copiers, the “SMILE series” of integrated mission-critical operational systems, the innovative “ODS21” knowledge management system and CAD systems remained brisk, resulting in an 2.0% increase in net sales, to ¥263,425 million.

Service and Support Business

The Service and Support Business follows up system installation by providing total support that includes the provision of supplies, hardware and software maintenance, telephone support, IT education and outsourcing services. Website and catalog sales by the “tanomail” office supply mail-order service business continued to do well, and a solid performance was also recorded by the maintenance business. As a result, net sales grew 13.1%, to ¥168,701 million.

Other Business

In the Other Business, net sales decreased 26.8%, to ¥1,490 million.

Summary of Income and Expenses

Gross profit increased 8.6%, to ¥103,444 million, and the gross profit margin was 23.8%.

As a result of efforts to reduce the cost of sales, operating income rose 19.4%, to ¥26,158 million.

Recurring profit reached a record high for the sixth-straight fiscal year, increasing 19.3%, to ¥26,494 million, following a decrease in other expenses stemming from lower interest expenses.

Due to a completion of amortization of transition amount arising from adopting new accounting standard for retirement benefits in the previous fiscal year, income before income taxes and minority interests increased 28.2%, to ¥26,350 million.

In aggregate, net income increased 33.0%, to ¥15,621 million. Net income per share was ¥494.30, up from ¥371.72 in the preceding fiscal year.

Financial Position

				Millions of yen
	2005	**2006**	Difference to Last Year	% Change to Last Year
Assets:	¥173,927	**¥189,357**	+15,430	+8.9%
Current assets	100,396	**116,232**	+15,836	+15.8
Fixed assets	73,530	**73,124**	-406	-0.6
Liabilities:	113,647	**115,942**	+2,295	+2.0
Current liabilities	99,655	**104,279**	+4,624	+4.6
Long-term liabilities	13,991	**11,663**	-2,328	-16.6
Minority interests	1,359	—	—	—
Shareholders' equity	58,920	—	—	—
Net assets	—	**73,414**	—	—

Assets

Total assets increased ¥15,430 million, to ¥189,357 million. Current assets rose ¥15,836 million, to ¥116,232 million, as the favorable results achieved by the Company were reflected by increases in cash, time deposits and other cash equivalents and accounts and notes receivable. Fixed assets decreased ¥406 million to ¥73,124 million.

Liabilities

Total liabilities rose ¥2,295 million, to ¥115,942 million. Current liabilities increased ¥4,624 million, to ¥104,279 million. This is attributable to the fact that although there was a decrease in income taxes payable, there were increases in accounts and notes payables and other items. Long-term liabilities decreased ¥2,328 million to ¥11,663 million.

Net Assets

Net assets totaled ¥73,414 million owing to such factors as an increase in retained earnings. As a result, the equity ratio rose 4.6 percentage points, to 38.5%.

The interest coverage ratio was 199.91 times; the interest-bearing debt ratio was 5.73%; return on equity (ROE) was 23.71%; and return on assets (ROA) was 14.46%.

	2005	**2006**
Interest coverage ratio (times)	129.08	**199.91**
Interest-bearing debt ratio (%)	6.72	**5.73**
ROE (%)	20.68	**23.71**
ROA (%)	12.88	**14.46**

Interest coverage ratio = Business profit /(Interest expenses + Interest payable on bonds)
ROA = Business profit /Total assets (average during the fiscal year)
Business profit = Operating income + Interest and dividend income

Cash flows

	Millions of yen	
	2005	**2006**
Cash flows from operating activities	¥22,468	**¥13,909**
Cash flows from investing activities	-4,986	**-7,161**
Cash flows from financing activities	-11,338	**-1,250**
Cash and cash equivalents at end of year	13,891	**18,305**

Cash Flows from Operating Activities

Cash provided by operating activities decreased ¥8,558 million (38.1%) to ¥13,909 million. This is mainly due to an increase in income taxes paid.

Cash Flows from Investing Activities

Cash used in investing activities increased ¥2,175 million (43.6%), to ¥7,161 million, mainly due a rise in payments for purchase of investments in securities.

Free cash flows, which are the sum of cash provided by operating activities and cash used in investing activities, decreased ¥10,734 million, to ¥6,747 million.

Cash Flows from Financing Activities

Cash used in financing activities decreased ¥10,087 million (89.0%) to ¥1,250 million. This is chiefly attributable to payments for the reimbursement of debts in the previous term.

Outlook

Consolidated projections for the current fiscal year ending December 31, 2007, are as follows: a 4.7% increase in net sales, to ¥454 billion; a 7.8% rise in operating income, to ¥28.2 billion; a 7.6% increase in recurring profit, to ¥28.5 billion; and a 2.4% rise in net income, to ¥16.0 billion.

For respective segments, the System Integration Business is expected to increase 2.5%, to ¥270,030 million; the Service and Support Business is expected to increase 8.4%, to ¥182,866 million; and the Other Business is expected to decrease 25.9%, to ¥1,104 million.

Consolidated Balance Sheets

OTSUKA CORPORATION and Its Consolidated Subsidiaries
December 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	**2006**	**2006**
ASSETS			
Current assets			
Cash, time deposits and other cash equivalents (Notes 10 and 14)	¥ 14,507	**¥ 18,421**	**$ 154,646**
Accounts and notes receivable:			
Trade	60,515	**71,726**	**602,139**
Unconsolidated subsidiaries and affiliates	2	**21**	**184**
Other	2,763	**3,074**	**25,811**
	63,281	**74,823**	**628,134**
Less: Allowance for bad debts	(283)	**(237)**	**(1,992)**
	62,997	**74,586**	**626,142**
Inventories (Note 6)	16,652	**16,561**	**139,035**
Deferred tax assets (Note 9)	2,151	**1,984**	**16,660**
Other current assets	4,086	**4,678**	**39,271**
Total current assets	100,396	**116,232**	**975,756**
Investments and advances			
Investments in securities (Note 4)	4,568	**5,699**	**47,847**
Investments in unconsolidated subsidiaries and affiliates	408	**1,969**	**16,536**
Guarantee deposits	2,763	**2,701**	**22,675**
Deferred tax assets non-current (Note 9)	2,579	**1,581**	**13,276**
Other investments	5,132	**5,286**	**44,383**
Less: Allowance for bad debts	(830)	**(777)**	**(6,527)**
	14,621	**16,461**	**138,190**
Property, plant and equipment (Notes 13 and 14)			
Land	17,592	**17,425**	**146,287**
Buildings and structures	65,841	**66,317**	**556,728**
Construction in progress	63	**—**	**—**
Others	12,242	**12,504**	**104,973**
	95,739	**96,247**	**807,988**
Less: Accumulated depreciation	(42,094)	**(44,195)**	**(371,017)**
Net property, plant and equipment	53,645	**52,051**	**436,970**
Intangibles and deferred charges			
Software	4,830	**4,306**	**36,153**
Others	433	**305**	**2,561**
	5,264	**4,611**	**38,715**
Total assets	¥173,927	**¥189,357**	**$1,589,633**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	**2006**	**2006**
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY (LIABILITIES AND NET ASSETS)			
Current liabilities			
Short-term bank loans (Note 7)	¥ 7,600	**¥ 7,650**	**$ 64,220**
Current maturities of long-term debts (Note 7)	891	**622**	**5,228**
Accounts and notes payable:			
Trade	46,932	**51,241**	**430,163**
Unconsolidated subsidiaries and affiliates	146	**366**	**3,080**
Other	22,251	**23,889**	**200,547**
	69,330	**75,497**	**633,791**
Income taxes payable (Note 9)	7,447	**5,446**	**45,726**
Other current liabilities	14,385	**15,062**	**126,451**
Total current liabilities	99,655	**104,279**	**875,418**
Long-term liabilities			
Long-term debt (Note 7)	3,204	**2,581**	**21,669**
Reserve for retirement benefits (Note 8)	10,277	**8,549**	**71,774**
Deferred tax liabilities non-current (Note 9)	29	**42**	**355**
Deferred tax liabilities on revaluation of land	267	**267**	**2,249**
Other long-term liabilities	212	**221**	**1,860**
	13,991	**11,663**	**97,910**
Minority interests in consolidated subsidiaries	1,359	**—**	**—**
Shareholders' equity			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: December 31, 2005 31,667,020 shares	10,374	**—**	**—**
Capital surplus	16,254	**—**	**—**
Retained earnings	46,941	**—**	**—**
Excess of land revaluation after tax-effect accounting (Note13)	(15,572)	**—**	**—**
Unrealized gain on investment securities after tax-effect accounting	1,109	**—**	**—**
Foreign currency translation adjustment	(74)	**—**	**—**
Less: Treasury stock			
December 31, 2005 64,431 shares	(113)	**—**	**—**
Total shareholders' equity	58,920	**—**	**—**
Total liabilities, minority interests and shareholders' equity	¥173,927	**—**	**—**

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	**2006**	**2006**
Net assets			
Owners' equity			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: December 31, 2006 31,667,020 shares	—	**¥ 10,374**	**$ 87,095**
Capital surplus	—	**16,254**	**136,456**
Retained earnings	—	**60,120**	**504,703**
Treasury stock			
December 31, 2006 64,726 shares	—	**(117)**	**(985)**
Total owners' equity	—	**86,632**	**727,271**
Revaluation and translation adjustments			
Unrealized gain on investment securities after tax-effect accounting	—	**1,779**	**14,942**
Deferred losses on hedges	—	**(0)**	**(3)**
Excess of land revaluation after tax-effect accounting (Note 13)	—	**(15,500)**	**(130,122)**
Foreign currency translation adjustment	—	**(63)**	**(534)**
Total revaluation and translation adjustments	—	**(13,784)**	**(115,718)**
Minority interests in consolidated subsidiaries	—	**566**	**4,751**
Total net assets	—	**73,414**	**616,304**
Total liabilities and net assets	—	**¥189,357**	**$1,589,633**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	**2006**	**2006**
Net sales (Note 16)	¥409,413	**¥433,617**	**$3,640,173**
Cost of sales (Notes 15 and 16)	314,142	**330,173**	**2,771,769**
Gross profit	95,271	**103,444**	**868,404**
Selling, general and administrative expenses (Notes 15 and 16)	73,360	**77,286**	**648,808**
Operating income	21,911	**26,158**	**219,595**
Other income (expenses)			
Interest and dividend income	61	**105**	**881**
Interest expenses	(170)	**(131)**	**(1,102)**
Gain on sale of investments in subsidiaries and affiliates	86	**—**	**—**
Transfer from allowance for bad debts	16	**49**	**411**
Dilution gain from change in equity interest	13	**344**	**2,892**
Loss on sale / disposal of property, plant and equipment	(99)	**(267)**	**(2,245)**
Impairment losses	—	**(102)**	**(861)**
Loss on sale of investments in securities	(4)	**—**	**—**
Loss on revaluation of investments in securities	—	**(34)**	**(291)**
Loss on revaluation of investments in subsidiaries and affiliates	—	**(132)**	**(1,114)**
Loss on revaluation of membership	(1)	**—**	**—**
Amortization of transition amount arising from adopting new accounting standard for retirement benefits	(1,668)	**—**	**—**
Other, net	408	**362**	**3,043**
	(1,358)	**192**	**1,614**
Income before income taxes and minority interests	20,552	**26,350**	**221,210**
Income taxes (Note 9)			
Current	9,569	**9,972**	**83,719**
Deferred	(994)	**693**	**5,819**
	8,575	**10,665**	**89,538**
Minority interests in net gains of consolidated subsidiaries	229	**63**	**532**
Net income	¥ 11,747	**¥ 15,621**	**$ 131,138**

	yen		U.S. dollars (Note 3)
Net income and dividends per share (Note 2(14))			
Basic net income	¥371.72	**¥494.30**	**$4.15**
Diluted net income	371.66	**—**	**—**
Cash dividends	75.00	**115.00**	**0.97**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 2005 and 2006

		Owners' equity				Millions of yen
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Balance at December 31, 2004	31,667,020	¥10,374	¥16,254	¥36,932	¥(109)	¥63,452
Dividends from surplus				(1,738)		(1,738)
Net income				11,747		11,747
Acquisition of treasury stock					(3)	(3)
Items other than changes in owners' equity						
Balance at December 31, 2005	31,667,020	10,374	16,254	46,941	(113)	73,457
Dividends from surplus				(2,370)		(2,370)
Net income				15,621		15,621
Reversal of revaluation difference on land				(72)		(72)
Acquisition of treasury stock					(3)	(3)
Items other than changes in owners' equity						
Balance at December 31, 2006	31,667,020	¥10,374	¥16,254	¥60,120	¥(117)	¥86,632

	Revaluation and translation adjustments						Millions of yen
	Unrealized gain on investment securities	Deferred losses on hedges	Revaluation of land	Foreign currency translation adjustments	Total revaluation and translation adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance at December 31, 2004	¥413	—	¥(9,075)	¥(122)	¥(8,785)	¥1,098	¥55,765
Dividends from surplus							(1,738)
Net income							11,747
Acquisition of treasury stock							(3)
Items other than changes in owners' equity	696		(6,496)	48	(5,751)	261	(5,490)
Balance at December 31, 2005	1,109	—	(15,572)	(74)	(14,537)	1,359	60,279
Dividends from surplus							(2,370)
Net income							15,621
Reversal of revaluation difference on land							(72)
Acquisition of treasury stock							(3)
Items other than changes in owners' equity	670	(0)	72	10	752	(793)	(40)
Balance at December 31, 2006	¥1,779	¥(0)	¥(15,500)	¥(63)	¥(13,784)	¥566	¥73,414

The consolidated statements of changes in net assets for the fiscal year ended December 31, 2005 are presented under the new standard.
The accompanying notes are an integral part of these statements.

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 2005 and 2006

	Thousands of U.S. dollars (Note 3)					
		Owners' equity				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Balance at December 31, 2005	31,667,020	$87,095	$136,456	$394,071	$(954)	$616,668
Dividends from surplus				(19,897)		(19,897)
Net income				131,138		131,138
Reversal of revaluation difference on land				(608)		(608)
Acquisition of treasury stock					(30)	(30)
Items other than changes in owners' equity						
Balance at December 31, 2006	31,667,020	$87,095	$136,456	$504,703	$(985)	$727,271

	Thousands of U.S. dollars (Note 3)						
	Revaluation and translation adjustments						
	Unrealized gain on investment securities	Deferred losses on hedges	Revaluation of land	Foreign currency translation adjustments	Total revaluation and translation adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance at December 31, 2005	$9,314	—	$(130,730)	$(621)	$(122,037)	$11,411	$506,043
Dividends from surplus							(19,897)
Net income							131,138
Reversal of revaluation difference on land							(608)
Acquisition of treasury stock							(30)
Items other than changes in owners' equity	5,627	(3)	608	86	6,318	(6,660)	(341)
Balance at December 31, 2006	$14,942	$(3)	$(130,122)	$(534)	$(115,718)	$4,751	$616,304

The consolidated statements of changes in net assets for the fiscal year ended December 31, 2005 are presented under the new standard.
The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	**2006**	**2006**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥20,552	**¥26,350**	**$221,210**
Depreciation and amortization	6,066	**5,883**	**49,387**
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	20	**—**	**—**
Amortization of goodwill	—	**132**	**1,111**
Increase(decrease) in reserve for retirement benefits	1,100	**(1,666)**	**(13,986)**
Increase(decrease) in allowance for bad debts	28	**(81)**	**(680)**
Interest and dividend income	(61)	**(105)**	**(881)**
Interest expenses	170	**131**	**1,102**
Loss on sale / disposal of property, plant and equipment	99	**267**	**2,245**
Impairment losses	—	**102**	**861**
Gain on sale of investments in subsidiaries and affiliates	(86)	**—**	**—**
Loss on sale of investments in securities	4	**—**	**—**
Loss on revaluation of investments in securities	—	**34**	**291**
Loss on revaluation of investments in subsidiaries and affiliates	—	**132**	**1,114**
Loss on revaluation of membership	1	**—**	**—**
Dilution gain from change in equity interest	(13)	**(344)**	**(2,892)**
Increase in accounts and notes receivable	(5,249)	**(11,090)**	**(93,105)**
Increase in inventories	(367)	**(113)**	**(948)**
Increase in accounts and notes payable	4,178	**5,961**	**50,047**
Other	1,764	**123**	**1,034**
Subtotal	28,209	**25,719**	**215,911**
Interest and dividend income received	61	**102**	**862**
Interest expenses paid	(169)	**(124)**	**(1,048)**
Income taxes paid	(5,632)	**(11,787)**	**(98,956)**
Net cash provided by operating activities	22,468	**13,909**	**116,769**
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(2,561)	**(2,253)**	**(18,915)**
Proceeds from sale of property, plant and equipment	11	**206**	**1,733**
Payments for software developed	(2,166)	**(2,146)**	**(18,017)**
Payments for purchase of investments in securities	(357)	**(2,486)**	**(20,874)**
Proceeds from sale of investments in securities	144	**39**	**331**
Payments for long-term loans receivable	(6)	**(6)**	**(50)**
Proceeds from long-term loans receivable	4	**5**	**42**
Other	(53)	**(520)**	**(4,371)**
Net cash used in investing activities	(4,986)	**(7,161)**	**(60,123)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	(6,250)	**50**	**419**
Proceeds from long-term debts	2,900	**1,000**	**8,394**
Repayments for long-term debts	(6,291)	**(891)**	**(7,486)**
Proceeds from issue of new shares	63	**1,008**	**8,465**
Cash dividends paid	(1,737)	**(2,370)**	**(19,897)**
Other	(22)	**(46)**	**(391)**
Net cash used in financing activities	(11,338)	**(1,250)**	**(10,496)**
Effect of exchange rate changes on cash and cash equivalents	29	**7**	**62**
Net increase in cash and cash equivalents	6,174	**5,504**	**46,212**
Cash and cash equivalents at beginning of year	7,717	**13,891**	**116,615**
Decrease in cash and cash equivalents due to exclusion of subsidiaries from scope of consolidation (Note 10(2))	—	**(1,090)**	**(9,155)**
Cash and cash equivalents at end of year (Note 10(1))	¥13,891	**¥18,305**	**$153,672**

The accompanying notes are an integral part of these statements.

1. Basis of Presenting the Consolidated Financial Statements

Accounting Principles

The accompanying consolidated financial statements of OTSUKA CORPORATION (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Company Law and the Securities and Exchange Law of Japan.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The Company had 15 subsidiaries (majority-owned companies) and 15 subsidiaries as at December 31, 2005 and 2006, respectively. The consolidated financial statements include the accounts of the Company and 11 subsidiaries and 10 subsidiaries for the years ended December 31, 2005 and 2006, respectively.

The 10 subsidiaries which were consolidated in the year ended December 31, 2006 are listed below:

	Equity ownership percentage
OSK Co., LTD.	100.0%
Netplan Co., LTD.	100.0%
Alpha Techno Co., LTD.	100.0%
Fujimi Construction Co., LTD.	100.0%
Alpha System Co., LTD.	100.0%
Alpha Net Co., LTD.	100.0%
Otsuka Information Technology Corp.	100.0%
Otsuka Auto Service Co., LTD	100.0%
Net World Corporation	68.4%
Otsuka Business Service Co., LTD.	65.0%

The Company and its consolidated subsidiaries are hereinafter referred to as the "Companies".

Generally, Companies that are owned more than 50 % are classified as subsidiaries and companies that are owned more than 20 % are classified as affiliates. However, companies that are owned between 40 % and 50 % may also be classified as subsidiaries and companies that are owned between 15 % and 20 % may also be classified as affiliates, if the Company substantially controls the investees' management or has significant influence and relationships with the investees, respectively.

The consolidated subsidiaries listed above apply a fiscal year ending on December 31 of each year, which is the same as that of the Company.

The accounts of the remaining 4 and 5 unconsolidated subsidiaries as at December 31, 2005 and 2006, respectively, consisted of insignificant amounts in terms of total assets, net sales, net income and retained earnings, and have, therefore, been excluded from consolidation.

(Fiscal year 2006)

SIOS Technology, Inc. (formerly 10art-ni Corporation) was changed from a consolidated subsidiary to an affiliate for the equity method from fiscal year 2006, due to a decrease in the share ratio and decrease in the number of the directors from the Company. The Consolidated Statements of Income for the year ended December 31, 2006 included the Statements of Income of SIOS Technology, Inc.

(2) Elimination of intercompany accounts

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated in full, and the portion attributable to minority interests is charged/credited to minority interests.

For the elimination of investments in common stock of consolidated subsidiaries, together with the equity in the net assets of such subsidiaries, any difference between such investment costs and the amount of underlying equity in the net assets of the subsidiary is deferred and amortized to income over five years on a straight-line basis.

(3) Investments in unconsolidated subsidiaries and affiliates

The Company had 4 unconsolidated subsidiaries and 10 affiliates at December 31, 2005 and 5 unconsolidated subsidiaries and 9 affiliates at December 31, 2006.

The Company had no investment in affiliate for the equity method and 1 investment in affiliate for the equity method at December 31, 2005 and 2006. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method were carried at cost or less, since they did not have a material impact on consolidated net income and retained earnings in the consolidated financial statements.

The 1 investment in affiliate by the equity method at December 31, 2006, is listed below:

	Equity ownership percentage
SIOS Technology, Inc.	46.0%

(Fiscal year 2006)

SIOS Technology, Inc. was changed from a consolidated subsidiary to an affiliate for the equity method from fiscal year 2006, due to a decrease in the share ratio and decrease in the number of the directors from the Company.

(4) Translation of foreign currency

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The shareholders' equity at the beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year. Differences in yen amounts arising from the use of different rates are presented as "Foreign currency translation adjustment" in net assets.

(5) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits which can be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

(6) Inventories

Inventories are valued by the methods according to the category of inventories as follows:

Merchandise and maintenance parts:	Merchandise and maintenance parts are stated at cost mainly determined by the moving-average method
Work-in-process:	Work-in-process is stated at cost determined by the individual cost method
Supplies:	Supplies are stated at cost determined by the latest purchase price

(7) Financial instruments

(a) Securities

Securities held by the Company and its subsidiaries are classified into two categories:

• Equity investment in subsidiaries and affiliates

Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. In exceptional cases, investments in certain unconsolidated subsidiaries and affiliates are stated at cost, determined by the moving-average method, because the effect of application of the equity method would be immaterial.

• Other securities

Securities with market quotations are stated at fair value, based on market prices at the balance sheet date. (Unrealized gains/losses from valuation of marketable securities are charged directly to net assets at a net-of-tax amount, while cost of sale is determined by the moving-average method.)

Securities without market quotations are stated at cost; this is calculated by the moving-average method.

Regarding investments in limited partnerships and similar investments, an amount equivalent to the Company's partnership investment gain or loss under the equity method of accounting, with such a gain or loss being based on th latest available financial statements of the corresponding limited partnerships, was recognized in the consolidated financial statements.

(b) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments".

(c) Hedge accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

Also, if interest rate swap contracts are used as a hedge and meet certain hedging criteria, the amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The derivatives designated as hedging instruments by the Companies are principally interest swaps, forward exchange contracts and currency swaps. The related hedged items are trade bank loans and accounts payable.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Companies' exposure to the risks of interest and foreign exchange rate fluctuation. Thus, the Companies' purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(8) Property, plant and equipment

Depreciation is computed using the declining-balance method, at rates based on the estimated useful lives of assets, which are prescribed by Japanese income tax laws. Depreciation of buildings newly acquired after April 1, 1998 has been provided based on the straight-line method in conformity with Japanese tax laws.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(9) Accounting for leases

Leases that transfer substantially all the risks and rewards of ownership of the assets to lessees are accounted for as capital leases, except that leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(10) Software

The amortization of costs of software developed for external sales is computed at an amount based on the ratio of actual sales during the year to total estimated sales for the estimated salable period. However, the amortization costs should not be lower than the amount computed based on asset purchase value on a straight-line basis over the estimated remaining useful life of the asset, which is 3 years.

Software developed for internal use is amortized on a straight-line basis over the estimated useful life of the asset, which is 5 years.

(11) Accounting for income taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local taxes and enterprise taxes.

The Company and its subsidiaries have adopted the deferred tax accounting method. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(12) Allowance for bad debts

An allowance for bad debts is provided at an amount of potential losses from uncollectable receivables based on the actual historical rate of losses from bad debts for ordinary receivables, and on the estimated recoverability of specific doubtful receivables.

(13) Reserve for retirement benefits

(a) Retirement benefits for employees

The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, except that the unrecognized transition amount arising from adopting the new accounting standard is amortized on a straight-line basis over 5 years, the unrecognized actuarial differences are amortized on a straight-line basis over a period of 12 years from year following the year in which they arise, and the unrecognized prior service cost is amortized on a straight-line basis over a period of 12 years.

(b) Retirement benefits for directors

The Company and 6 consolidated subsidiaries have provided for accrued retirement benefits to directors at an amount equivalent to 100% of the benefits the Company would be required to pay, had all eligible directors retired at the balance sheet date.

(Fiscal year 2005)

Along with the maintenance of bylaw, 2 consolidated subsidiaries have provided for accrued retirement benefits to directors from this fiscal year. The effect of this is negligible.

(Fiscal year 2006)

Along with the maintenance of bylaw, 1 consolidated subsidiary has provided for the accrued retirement benefits to directors from this fiscal year. This effect is negligible.

(14) Net income and dividends per share

Net income per common share is based upon the weighted average number of common shares outstanding during each year. Cash dividends per share shown for each year in the consolidated statements of income represent dividends declared as applicable to the respective year.

Diluted net income per common share assumes full exercise of outstanding stock options which have a dilutive effect.

Diluted net income per common share for the year ended December 31, 2006, is not disclosed because there were no potentially dilutive securities outstanding.

(15) Accounting for the consumption tax

The Japanese Consumption Tax Law generally imposes consumption tax at a flat rate on all domestic consumption of goods and services. The consumption tax withheld upon sale is not included in the amount of "Net sales" in the accompanying consolidated statements of income but is recorded as a liability. Consumption tax, which is paid by the Company and domestic subsidiaries on purchases of goods and services, is not included in the amounts of costs/expenses in the consolidated statements of income , but is offset against the balance withheld, and the net balance is included in "Other current liabilities" in the consolidated balance sheets.

(16) Change of accounting policy

(Fiscal year 2006)

Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended December 31, 2006, the Company has applied “Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)”, and “Implementaion guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)” both issued by the Accounting Standard Board of Japan on December 9, 2005.

The amount corresponding to the conventional “Shareholders’ equity” in the balance sheet is ¥72,848 million.

“Net assets” in the balance sheets for this year is presented according to the revision of “Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements” dated on April 25, 2006.

Furthermore, the Company presented its net assets in the balance sheets using the new presentation as of December 31, 2006.

(17) Change of presentation

(Fiscal year 2005)

Balance Sheet

In accordance with the "Law for the Partial Revision of the Securities and Exchange Law etc." (Law No.97 of June 9, 2004), effective from December 1, 2004, and the revision of the "Practical Guidelines Concerning Accounting for Financial Instruments" (Accounting Committee Report No.14) on February 15, 2005, the investments in investment limited liability partnerships or similar partnerships (Which are defined as securities under the Securities and Exchange Law) are changed to be presented as the "Investments in securities". The relevant amount included in "Investments in securities" is ¥182 million at December 31, 2005 and these amount included in "Other investments" was ¥183 million at December 31, 2004.

(Fiscal year 2006)

Statement of Cash Flows

In accordance with the revision of "Regulations concerning the Terminology Form and Presentation Methods of Consolidated Financial Statements" dated on April 25, 2006, "Amortization of Goodwill", which was included in "Depreciation" in the previous fiscal year, is presented separately in the current year. "Amortization of Goodwill" included in "Depreciation" was ¥126 million at December 31, 2005. "Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries" which was presented separately in the previous fiscal year, is included in "Amortization of Goodwill" in the current year.

(18) Rounding of amounts

Rounding down sums of less than a million yen.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥119.12=US$1, the rate of exchange on December 31, 2006, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

4. Investments in Securities

At December 31, 2005 and 2006 investments in securities were as follows:

(1) Other securities with fair value

	Millions of yen						Thousands of U.S. dollars		
	2005			**2006**			**2006**		
	Cost	Carrying amount	Differences	Cost	Carrying amount	Differences	Cost	Carrying amount	Differences
Fair value greater than cost									
Stocks	¥1,316	¥3,087	¥1,771	**¥1,311**	**¥4,304**	**¥2,992**	**$11,011**	**$36,135**	**$25,124**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	89	182	93	**92**	**151**	**59**	**774**	**1,271**	**497**
	¥ 1,405	¥3,270	¥1,865	**¥1,403**	**¥4,455**	**¥3,052**	**$11,785**	**$37,407**	**$25,621**
Fair value less than or equal to cost									
Stocks	¥ 1	¥ 1	¥ (0)	**¥ 266**	**¥ 216**	**¥ (50)**	**$ 2,237**	**$ 1,814**	**$ (423)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 1	¥ 1	¥ (0)	**¥ 266**	**¥ 216**	**¥ (50)**	**$ 2,237**	**$ 1,814**	**$ (423)**
Total	¥1,407	¥3,272	¥1,864	**¥1,670**	**¥4,672**	**¥3,001**	**$14,023**	**$39,221**	**$25,197**

(2) Other securities sold in 2005 and 2006 (for the years ended December 31, 2005 and 2006)

	Millions of yen						Thousands of U.S. dollars		
	2005			**2006**			**2006**		
	Amount for sale	Total gains on sale	Total losses on sale	Amount for sale	Total gains on sale	Total losses on sale	Amount for sale	Total gains on sale	Total losses on sale
	¥2	—	¥4	**¥38**	**¥1**	**—**	**$322**	**$8**	**—**

(3) Securities not stated at fair value

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
	Stated amount on consolidated balance sheets	Stated amount on consolidated balance sheets	Stated amount on consolidated balance sheets
Other securities			
Unlisted stocks	¥1,068	**¥713**	**$5,992**
Foreign currency-denominated mutual fund	35	**—**	**—**
Preferred subscription certification	10	**10**	**83**
Investment limited liability partnerships	182	**303**	**2,549**

(4) Prospected amounts of redemption of other securities with maturity dates subsequent to the consolidated balance sheet dates

	Millions of yen				Thousands of U.S. dollars	
	2005		**2006**		**2006**	
	Within one year	More than one year	Within one year	More than one year	Within one year	More than one year
Others	—	¥10	**¥10**	**—**	**$83**	**—**
Total	—	¥10	**¥10**	**—**	**$83**	**—**

5. Derivative Information

At December 31,2005 and 2006 derivatives were as follows:

Currency

	Millions of yen			
	2005			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain(loss)
Currency swap Purchased U.S.dollar	¥377	¥266	¥379	¥1

	Millions of yen			
	2006			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain(loss)
Currency swap Purchased U.S.dollar	**¥266**	**—**	**¥279**	**¥13**

	Thousands of U.S. dollars			
	2006			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain(loss)
Currency swap Purchased U.S.dollar	**$2,235**	**—**	**$2,347**	**$111**

(Note)

Except for derivatives that are designed as hedging instruments

6. Inventories

Inventories at December 31, 2005 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Merchandise and maintenance parts	¥15,766	**¥15,797**	**$132,618**
Work-in-process	763	**655**	**5,502**
Supplies	122	**108**	**914**
	¥16,652	**¥16,561**	**$139,035**

7. Short-term Bank Loans and Long-term Debt

The annual average interest rates applicable to short-term bank loans at December 31, 2005 and 2006 were 0.75% and 1.14%, respectively.

Long-term debt at December 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Long-term loans from banks with annual interest rates from 0.83% to 1.87%	¥4,095	**¥3,204**	**$26,898**
	4,095	**3,204**	**26,898**
Less : Current maturities of long-term debts	(891)	**(622)**	**(5,228)**
	¥3,204	**¥2,581**	**$21,669**

Aggregate annual maturities of long-term debt subsequent to December 31, 2006 are as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 622	$ 5,228
2008	2,581	21,669
	¥3,204	$26,898

8. Reserve for Retirement Benefits

(1) Retirement benefit plan

The Company and certain of its subsidiaries operate a fund type corporate pension plan, an agreement type corporate pension plan and a termination allowance plan as defined-benefit pension plans.

(2) The reserve for retirement benefits as of December 31, 2005 and 2006 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Projected benefit obligations	¥(38,389)	**¥(40,623)**	**$(341,033)**
Plan assets	36,958	**42,723**	**358,658**
	(1,430)	**2,099**	**17,625**
Unrecognized prior service cost	(7,079)	**(6,389)**	**(53,635)**
Unrecognized actuarial differences	1,877	**(683)**	**(5,739)**
	(6,632)	**(4,973)**	**(41,750)**
Prepaid pension cost	(3,261)	**(3,134)**	**(26,313)**
Reserve for retirement benefits	¥ (9,893)	**¥ (8,107)**	**$ (68,064)**

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2005 and 2006 included retirement benefits for directors in the amounts of 384 million yen and 441 million yen (3,709 thousand U.S. dollars), respectively.

(3) Pension expense related to the retirement benefits for the year ended December 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Service cost	¥2,910	**¥3,028**	**$25,420**
Interest cost	527	**563**	**4,728**
Expected return on plan assets	(554)	**(1,108)**	**(9,307)**
Amortization of transition amount	1,668	**—**	**—**
Amortization of the unrecognized Prior service cost	(690)	**(690)**	**(5,798)**
Amortization of the unrecognized actuarial differences	831	**328**	**2,756**
Additional benefits for employees' early retirement	126	**126**	**1,057**
Net pension expense	¥4,819	**¥2,246**	**$18,856**

Service cost includes the pension costs of subsidiaries under the simplified method.

(4) Computation Basis of Pension Liabilities

As of December 31, 2005 and 2006

	2005	**2006**
Discount rate	1.5%	**1.5%**
Expected rate of return on plan assets	2.0%	**3.0%**
Periodic allocation principle for projected benefit obligation	Standard of fixed-amount-for-period	**Standard of fixed-amount-for-period**
Amortization of unrecognized prior service cost	12 years	**12 years**
Amortization of transition amount	5 years	**—**
Amortization of unrecognized actuarial differences	12 years from the fiscal year following occurrence	**12 years from the fiscal year following occurrence**

9. Income Taxes

(Fiscal year 2005)

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2005 was 40.7%.

Since the difference between the statutory tax rate and the effective tax rate (41.7%) for the fiscal year ended December 31, 2005 is less than 5%, a reconciliation of these two rates is not presented.

(Fiscal year 2006)

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2006 was 40.7%.

Since the difference between the statutory tax rate and the effective tax rate (40.5%) for the fiscal year ended December 31, 2006 is less than 5%, a reconciliation of these two rates is not presented.

At December 31, 2005 and 2006, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Deferred tax assets:			
Allowance for bad debts	¥ 248	**¥ 244**	**$ 2,052**
Enterprise taxes	684	**537**	**4,515**
Accrued bonuses	1,029	**1,076**	**9,033**
Retirement benefits for employees	3,994	**3,271**	**27,466**
Retirement benefits for directors	168	**192**	**1,614**
Membership	291	**—**	**—**
Impairment losses	912	**653**	**5,485**
Software cost	137	**347**	**2,915**
Operating loss carryforwards	173	**—**	**—**
Eliminated unrealized profits	445	**460**	**4,442**
Other	837	**921**	**7,156**
Total deferred tax assets	8,923	**7,704**	**64,681**
Less: Valuation allowance	(326)	**(231)**	**(1,940)**
Net deferred tax assets	8,596	**7,473**	**62,740**
Deferred tax liabilities:			
Reserve for computer program	1,786	**1,432**	**12,023**
Prepaid pension cost	1,333	**1,284**	**10,783**
Unrealized gain on investment securities	761	**1,221**	**10,255**
Other	17	**16**	**141**
Total deferred tax liabilities	3,898	**3,955**	**33,204**
Net deferred tax assets	¥4,698	**¥3,518**	**$29,536**

10. Supplementary Cash Flow Information

(1) Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Cash, time deposits and other cash equivalents	¥14,507	**¥18,421**	**$154,646**
Time deposits with deposit terms of more than three months	(616)	**(116)**	**(973)**
Cash and cash equivalents at end of year	¥13,891	**¥18,305**	**$ 153,672**

(2) **The main items of assets and liabilities of SIOS technology, Inc. which was changed from a consolidated subsidiary to an affiliate for the equity method are as follows:**

(Fiscal year 2006)

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥2,825**	**$23,723**
(Cash and cash equivalents)	**(1,090)**	**(9,155)**
Non-current assets	**2,437**	**20,460**
Total assets	**5,263**	**44,183**
Current liabilities	**1,454**	**12,206**
Non-current liabilities	**1,055**	**8,863**
Total liabilities	**2,509**	**21,069**

11. Subsequent Events

(1) Appropriation

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2006 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 29, 2007:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥115.00 per share)	¥3,634	$30,509

The dividend in 2006 includes a 10-yen special dividend commemorating the 45th anniversary of the Company.

12. Lease Transactions

Acquisition costs, accumulated depreciation and net book values of leased assets at December 31, 2005 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Acquisition cost	¥6,154	**¥6,586**	**$55,294**
Accumulated depreciation	(3,307)	**(3,630)**	**(30,479)**
Net book value	¥2,847	**¥2,955**	**$24,814**

Future minimum lease payments under finance leases at December 31, 2005 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Due within one year	¥1,159	**¥1,127**	**$ 9,466**
Due after one year	1,734	**1,871**	**15,715**
	¥2,893	**¥2,999**	**$25,181**
Accumulated impairment loss on leaseholds	0	**—**	**—**

Lease rental expenses, depreciation and interest expenses for the years ended December 31, 2005 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Lease rental expenses	¥1,395	**¥1,317**	**$11,059**
Depreciation	1,330	**1,246**	**10,461**
Release of accumulated impairment loss on leaseholds	0	**0**	**0**
Interest expenses	55	**65**	**553**

Depreciation expense is calculated using the straight-line method, with the lease period as the useful life and a residual value of zero.

The amounts of future lease payments on operating leases at December 31, 2005 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Due within one year	¥ 479	**¥ 475**	**$3,992**
Due after one year	1,152	**711**	**5,977**
	¥1,632	**¥1,187**	**$9,969**

13. Land Revaluation

Pursuant to the Law Concerning Land Revaluation, the Company revalued land used for business activities on December 31, 2001. The excess of the revalued carrying amount over the book value before revaluation was recorded as “Excess of land revaluation after tax-effect accounting” net assets in the accompanying consolidated balance sheets. The land prices used for the revaluation were determined based on the prices in the official notice published by the Commissioner of the National Tax Agency in accordance with Article 2, Paragraphs 3 and 4 of the Enforcement Ordinance Concerning Land Revaluation, after making reasonable adjustments. Revaluation is permitted for one time only. The excess of the book value after revaluation over the fair value is 1,509 million yen (12,671 thousand U.S. dollars) at December 31, 2006.

14. Pledged Assets

At December 31, 2005 and 2006, assets pledged as collateral for accounts and notes payable and loan from banks were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Land	¥ 816	**¥ 535**	**$ 4,493**
Buildings	813	**653**	**5,486**
Time deposits	11	**11**	**92**
	¥1,641	**¥1,199**	**$10,072**

15. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended December 31, 2005 and 2006 amounted to 667 million yen and 839 million yen (7,048 thousand U.S. dollars), respectively.

16. Segment Information

The business segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2005 and 2006 is summarized as follows:

(1) Business segment information

	Millions of yen					
	2005					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
Net sales to:						
Outside customers	¥258,275	¥149,100	¥2,037	¥409,413	¥ —	¥409,413
Inter-segment sales/transfers	96	203	2,331	2,631	(2,631)	—
	258,372	149,304	4,368	412,045	(2,631)	409,413
Operating expenses	239,706	140,040	4,262	384,008	3,494	387,502
Operating income	¥ 18,665	¥ 9,263	¥ 106	¥ 28,036	¥ (6,125)	¥ 21,911
Assets, depreciation and capital expenditure:						
Assets	¥ 87,140	¥ 60,411	¥1,954	¥149,506	¥24,421	¥173,927
Depreciation and amortization	3,237	2,211	33	5,482	583	6,066
Capital expenditure	2,512	1,940	4	4,456	273	4,730

	Millions of yen					
	2006					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
Net sales to:						
Outside customers	**¥263,425**	**¥168,701**	**¥1,490**	**¥433,617**	**¥ —**	**¥433,617**
Inter-segment sales/transfers	**106**	**234**	**2,505**	**2,845**	**(2,845)**	**—**
	263,531	**168,935**	**3,996**	**436,463**	**(2,845)**	**433,617**
Operating expenses	**242,772**	**156,731**	**3,915**	**403,419**	**4,039**	**407,459**
Operating income	**¥ 20,758**	**¥ 12,204**	**¥ 80**	**¥ 33,044**	**¥ (6,885)**	**¥ 26,158**
Assets, depreciation and capital expenditure:						
Assets	**¥ 90,523**	**¥ 69,290**	**¥2,029**	**¥161,843**	**¥27,513**	**¥189,357**
Depreciation and amortization	**2,938**	**2,187**	**29**	**5,155**	**727**	**5,883**
Impairment losses	**68**	**34**	**—**	**102**	**(0)**	**102**
Capital expenditure	**2,171**	**2,115**	**7**	**4,294**	**210**	**4,504**

	Thousands of U.S. dollars					
	2006					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
Net sales to:						
Outside customers	**$2,211,425**	**$1,416,232**	**$12,515**	**$3,640,173**	**$ —**	**$3,640,173**
Inter-segment sales/transfers	**891**	**1,967**	**21,032**	**23,891**	**(23,891)**	**—**
	2,212,317	**1,418,199**	**33,548**	**3,664,065**	**(23,891)**	**3,640,173**
Operating expenses	**2,038,050**	**1,315,743**	**32,870**	**3,386,663**	**33,913**	**3,420,577**
Operating income	**$ 174,267**	**$ 102,456**	**$ 678**	**$ 277,401**	**$ (57,805)**	**$ 219,595**
Assets, depreciation and capital expenditure:						
Assets	**$ 759,932**	**$ 581,688**	**$17,036**	**$1,358,657**	**$230,975**	**$1,589,633**
Depreciation and amortization	**24,666**	**18,364**	**250**	**43,281**	**6,106**	**49,387**
Impairment losses	**575**	**286**	**—**	**861**	**(0)**	**861**
Capital expenditure	**18,232**	**17,758**	**62**	**36,054**	**1,764**	**37,818**

Notes ;

1. Business segments are defined in consideration of the operations of the companies.

2. Significant operations of each segment are as summarized below;

Segment	Major product and services
System Integration business	Research, analysis, design, and introduction for comprehensive information system Transport and installation Network construction Introduction for packaged software Development of consigned software Other related services
Service and Support business	Supplies for comprehensive information system Telephone support Maintenance Consigned system operation Data recovery IT education Guidance for operation of packaged software Hotel business
Other business	Construction Sale, repair of automobiles Insurance Printing

3. Significant components of “Eliminations or corporate” are as follows;

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Non-allocable operating expenses	¥ 6,165	**¥ 6,923**	**$ 58,120**
Corporate assets	26,126	**29,214**	**245,251**

Non-allocable operating expenses include administrative expenses incurred by the management control department of the Company.

Corporate assets include surplus funds, long-term Investments (investment securities) and assets used by the management control department of the Company.

4. Depreciation and amortization and capital expenditure include amortization and increase of long-term prepaid expenses.

5. (Fiscal year 2006)

In accordance with the revision of “Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements” dated on April 25, 2006, amortization of goodwill is excluded from “Depreciation and amortization”. Amortization of goodwill was included in “Depreciation and amortization” (¥126 million) at December 31, 2005.

(2) Segment information by geographic area is not disclosed pursuant to regulations on consolidated financial statements in Japan, since both net sales and assets of the Company and its domestic consolidated subsidiaries, taken as a whole, were more than 90% of consolidated net sales and assets.

(3) Information for overseas sales is not disclosed pursuant to regulations on consolidated financial statements in Japan, since aggregate of overseas sales of the Company and its domestic consolidated subsidiaries and overseas consolidated subsidiaries, were less than 10% of consolidated net sales.

Report of Independent Auditors

To the Board of Directors and Shareholders of

OTSUKA CORPORATION

We have audited the accompanying consolidated balance sheets of OTSUKA CORPORATION and its subsidiaries as of December 31, 2005 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OTSUKA CORPORATION and its subsidiaries as of December 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

Misuzu Audit Corporation

MISUZU Audit Corporation

Tokyo, Japan

March 29, 2007