Financial Section

Three-Year Financial Data

OTSUKA CORPORATION and Its Consolidated Subsidiaries
Years ended December 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Net sales	¥409,413	¥433,617	**¥469,481**	**$4,112,851**
System Integration business	258,275	263,425	**279,753**	**2,450,754**
Service and Support business	149,100	168,701	**187,358**	**1,641,332**
Other business	2,037	1,490	**2,370**	**20,764**
Operating income	21,911	26,158	**30,051**	**263,265**
Recurring profit	22,210	26,494	**30,520**	**267,368**
Income before income taxes and minority interests	20,552	26,350	**33,597**	**294,324**
Net income	11,747	15,621	**18,856**	**165,191**
Total assets	173,927	189,357	**200,383**	**1,755,441**
Interest-bearing debt	11,695	10,854	**10,051**	**88,053**
Equity	58,920	72,848	**87,259**	**764,429**
Net income per share (EPS) (Yen and U.S. dollars)	371.72	494.30	**596.69**	**5.23**
Dividends per share of common stock (Yen and U.S. dollars)	75.00	115.00	**130.00**	**1.14**
Cash flows from operating activities per share (Yen and U.S. dollars)	710.97	440.14	**527.02**	**4.62**
Operating income to Net sales ratio (%)	5.35	6.03	**6.40**	—
Net income to Net sales ratio (%)	2.87	3.60	**4.02**	—
Interest-bearing debt ratio (%)	6.72	5.73	**5.02**	—
Equity ratio (%)	33.88	38.47	**43.55**	—
Return on equity (ROE) (%)	20.68	23.71	**23.55**	—

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, 2007 exchange rate of ¥114.15 = US$1.
The dividend on 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

	2006	2007	Difference to Last Year	% Change to Last Year
				Millions of yen
Net sales	¥433,617	**¥469,481**	+35,864	+8.3%
System Integration business	263,425	**279,753**	+16,328	+6.2
Service & Support business	168,701	**187,358**	+18,656	+11.1
Other business	1,490	**2,370**	+879	+59.0
Cost of sales	330,173	**360,435**	+30,262	+9.2
Gross profit	103,444	**109,046**	+5,601	+5.4
Selling, general and administrative expenses	77,286	**78,994**	+1,708	+2.2
Operating income	26,158	**30,051**	+3,893	+14.9
Recurring profit	26,494	**30,520**	+4,025	+15.2
Income before income taxes and minority interests	26,350	**33,597**	+7,246	+27.5
Income taxes				
Current	9,972	**13,239**	+3,266	+32.8
Deferred	693	**1,253**	+559	+80.8
Net income	15,621	**18,856**	+3,235	+20.7

Sales Summary

In the fiscal year 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 reached a record high for the fifth consecutive fiscal year, increasing 8.3% to ¥469,481 million.

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.

Summary of Income and Expenses

Gross profit increased 5.4% to ¥109,046 million, and the gross profit margin was 23.2%.

As a result of efforts to reduce selling, general and administrative (SG&A) expenses, operating income rose 14.9% to ¥30,051 million.

Recurring profit reached a record high for the seventh straight fiscal year, increasing 15.2%, to ¥30,520 million, as a result of an increase in non-operating income stemming from equity in net income of unconsolidated subsidiaries and affiliates.

As a result of posting a gain on the transition of retirement benefit plan of ¥4,298 million, income before income taxes and minority interests increased 27.5% to ¥33,597 million.

In aggregate, net income increased 20.7% to ¥18,856 million, and net income per share was ¥596.69.

Financial Position

				Millions of yen
	2006	**2007**	Difference to Last Year	% Change to Last Year
Assets:	¥189,357	**¥200,383**	+11,026	+5.8%
Current assets	116,232	**130,353**	+14,121	+12.1
Fixed assets	73,124	**70,030**	-3,094	-4.2
Liabilities:	115,942	**112,382**	-3,559	-3.1
Current liabilities	104,279	**108,551**	+4,271	+4.1
Long-term liabilities	11,663	**3,831**	-7,831	-67.2
Net assets	73,414	**88,000**	+14,586	+19.9

Assets

Total assets increased ¥11,026 million to ¥200,383 million. Current assets rose ¥14,121 million, to ¥130,353 million, as the favorable results achieved by the Company were reflected by increases in cash and time deposits and other cash equivalents and accounts and notes receivable. Fixed assets decreased ¥3,094 million to ¥70,030 million.

Liabilities

Total liabilities declined ¥3,559 million to ¥112,382 million. Current liabilities increased ¥4,271 million, to ¥108,551 million, attributable to an increase in income taxes payable. Long-term liabilities declined ¥7,831 million, to ¥3,831 million, owing to a decline in the reserve for retirement benefits.

Net Assets

Total net assets rose ¥14,586 million, to ¥88,000 million, owing to such factors as an increase in retained earnings. As a result, the equity ratio rose 5.0 percentage points to 43.5%.

The interest coverage ratio was 217.30 times; the interest-bearing debt ratio was 5.02%; return on equity (ROE) was 23.55%; and return on assets (ROA) was 15.51%.

	2006	**2007**
Interest coverage ratio (times)	199.91	**217.30**
Interest-bearing debt ratio (%)	5.73	**5.02**
ROE (%)	23.71	**23.55**
ROA (%)	14.46	**15.51**

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 + Equity in net income (loss) of unconsolidated subsidiaries and affiliates

Cash flows

	Millions of yen	
	2006	**2007**
Cash flows from operating activities	¥13,909	**¥16,654**
Cash flows from investing activities	-7,161	**-4,555**
Cash flows from financing activities	-1,250	**-4,271**
Cash and cash equivalents at end of year	18,305	**25,374**

Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥2,745 million (19.7%) to ¥16,654 million. This is mainly due to an increase in income before income taxes and minority interests, as well as decreases in income taxes paid and the reserve for retirement benefits.

Cash Flows from Investing Activities

Net cash used in investing activities declined ¥2,606 million (36.4%) to ¥4,555 million, mainly due to payments for purchase of investments in securities in the previous fiscal term.

Free cash flows, which are the sum of cash provided by operating activities and cash used in investing activities, increased ¥5,351 million to ¥12,099 million.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥3,021 million (241.7%) to ¥4,271 million. This is chiefly attributable to an increase in cash dividends paid.

As a result of the above factors, cash and cash equivalents at end of year increased ¥7,069 million (38.6%) to ¥25,374 million.

Outlook

For fiscal 2008, the Company forecasts a 4.2% increase in net sales to ¥489,000 million; a 2.8% rise in operating income to ¥30,900 million; a 2.2% increase in recurring profit to ¥31,200 million; and a 15.0% decline in net income to ¥16,030 million owing to the effect of an extraordinary gain on the transition of retirement benefit plan recorded in fiscal 2007.

By segment, projections call for a 0.3% increase in net sales to ¥280,600 million in the System Integration business; a 10.1% rise in net sales to ¥206,200 million in the Service and Support business; and a 7.2% decline in net sales to ¥2,200 million in the Other business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Its Consolidated Subsidiaries
As of December 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	**2007**	**2007**
ASSETS			
Current assets			
Cash, time deposits and other cash equivalents (Notes 10 and 14)	¥ 18,421	**¥ 24,785**	**$ 217,131**
Accounts and notes receivable:			
Trade	71,726	**75,773**	**663,805**
Unconsolidated subsidiaries and affiliates	21	**43**	**377**
Other	3,074	**5,130**	**44,946**
	74,823	**80,947**	**709,130**
Less: Allowance for doubtful accounts	(237)	**(247)**	**(2,170)**
	74,586	**80,699**	**706,960**
Inventories (Note 6)	16,561	**16,923**	**148,260**
Deferred tax assets (Note 9)	1,984	**2,586**	**22,656**
Other current assets	4,678	**5,357**	**46,937**
Total current assets	116,232	**130,353**	**1,141,946**
Investments and advances			
Investments in securities (Note 4)	5,699	**4,435**	**38,853**
Investments in unconsolidated subsidiaries and affiliates	1,969	**2,138**	**18,736**
Guarantee deposits	2,701	**2,824**	**24,741**
Deferred tax assets non-current (Note 9)	1,581	**1,613**	**14,136**
Other investments	5,286	**5,041**	**44,163**
Less: Allowance for doubtful accounts	(777)	**(824)**	**(7,225)**
	16,461	**15,228**	**133,406**
Property, plant and equipment (Notes 13 and 14)			
Land	17,425	**16,965**	**148,622**
Buildings and structures	66,317	**65,318**	**572,217**
Other	12,504	**13,203**	**115,672**
	96,247	**95,487**	**836,511**
Less: Accumulated depreciation	(44,195)	**(45,523)**	**(398,808)**
Net property, plant and equipment	52,051	**49,963**	**437,703**
Intangibles and deferred charges			
Software	4,306	**4,659**	**40,816**
Other	305	**179**	**1,568**
	4,611	**4,838**	**42,385**
Total assets	¥189,357	**¥200,383**	**$1,755,441**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	**2007**	**2007**
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term bank loans (Note 7)	¥ 7,650	**¥ 7,300**	**$ 63,950**
Current maturities of long-term debts (Note 7)	622	**2,621**	**22,963**
Accounts and notes payable:			
Trade	51,241	**59,425**	**520,590**
Unconsolidated subsidiaries and affiliates	366	**522**	**4,576**
Other	23,889	**15,178**	**132,967**
	75,497	**75,126**	**658,134**
Income taxes payable (Note 9)	5,446	**8,429**	**73,845**
Other current liabilities	15,062	**15,074**	**132,060**
Total current liabilities	104,279	**108,551**	**950,956**
Long-term liabilities			
Long-term debt (Note 7)	2,581	**130**	**1,138**
Reserve for retirement benefits (Note 8)	8,549	**1,820**	**15,946**
Deferred tax liabilities non-current (Note 9)	42	**1,442**	**12,637**
Deferred tax liabilities on revaluation of land	267	**216**	**1,900**
Other long-term liabilities	221	**221**	**1,940**
	11,663	**3,831**	**33,563**
Net assets			
Shareholders' equity			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: 31,667,020 shares as of December 31, 2006 and 2007	10,374	**10,374**	**90,887**
Capital surplus	16,254	**16,254**	**142,398**
Retained earnings	60,120	**75,389**	**660,441**
Treasury stock			
64,726 shares as of December 31, 2006 and			
64,954 shares as of December 31, 2007	(117)	**(120)**	**(1,051)**
Total shareholders' equity	86,632	**101,899**	**892,676**
Valuation and translation adjustments			
Unrealized gain on investment securities	1,779	**982**	**8,608**
Deferred losses on hedges	(0)	**—**	**—**
Revaluation differences on land (Note 13)	(15,500)	**(15,574)**	**(136,439)**
Foreign currency translation adjustments	(63)	**(47)**	**(415)**
Total revaluation and translation adjustments	(13,784)	**(14,639)**	**(128,246)**
Minority interests in consolidated subsidiaries	566	**741**	**6,492**
Total net assets	73,414	**88,000**	**770,922**
Total liabilities and net assets	¥189,357	**¥200,383**	**$1,755,441**

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, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
Net sales (Note 16)	¥433,617	**¥469,481**	**$4,112,851**
Cost of sales (Notes 15 and 16)	330,173	**360,435**	**3,157,563**
Gross profit	103,444	**109,046**	**955,287**
Selling, general and administrative expenses (Notes 15 and 16)	77,286	**78,994**	**692,022**
Operating income	26,158	**30,051**	**263,265**
Other income (expenses)			
Interest and dividend income	105	**137**	**1,206**
Interest expenses	(131)	**(138)**	**(1,217)**
Gain on sales of stock in subsidiaries and affiliates	—	**72**	**634**
Reversal of allowance for doubtful accounts	49	**—**	**—**
Provision of allowance for doubtful accounts	—	**(142)**	**(1,250)**
Dilution gain from change in equity interest	344	**23**	**209**
Equity in net income of unconsolidated subsidiaries and affiliates	—	**43**	**382**
Gain on sales of fixed assets	—	**28**	**251**
Loss on disposal of fixed assets	(267)	**(425)**	**(3,726)**
Impairment losses	(102)	**(446)**	**(3,907)**
Loss on devaluation of investments in securities	(34)	**(93)**	**(820)**
Loss on devaluation of investments in subsidiaries and affiliates	(132)	**(238)**	**(2,092)**
Gain on transition of retirement benefit plan	—	**4,298**	**37,658**
Other, net	362	**425**	**3,730**
	192	**3,545**	**31,058**
Income before income taxes and minority interests	26,350	**33,597**	**294,324**
Income taxes (Note 9)			
Current	9,972	**13,239**	**115,983**
Deferred	693	**1,253**	**10,978**
	10,665	**14,492**	**126,961**
Minority interests	63	**247**	**2,172**
Net income	¥ 15,621	**¥ 18,856**	**$ 165,191**

	yen		U.S. dollars (Note 3)
Net income and dividends per share (Note 2(13))			
Basic net income	¥494.30	**¥596.69**	**$5.23**
Diluted net income	—	**596.56**	**5.23**
Cash dividends	115.00	**130.00**	**1.14**

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, 2006 and 2007

Millions of yen

	Number of shares issued	Shareholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2005	31,667,020	¥10,374	¥16,254	¥46,941	¥(113)	¥73,457
Dividends				(2,370)		(2,370)
Net income				15,621		15,621
Reversal of revaluation differences on land				(72)		(72)
Acquisition of treasury stock					(3)	(3)
Items other than changes in shareholders' equity						
Balance at December 31, 2006	31,667,020	10,374	16,254	60,120	(117)	86,632
Dividends				(3,634)		(3,634)
Net income				18,856		18,856
Reversal of revaluation differences on land				74		74
Acquisition of treasury stock					(2)	(2)
Other				(27)		(27)
Items other than changes in shareholders' equity						
Balance at December 31, 2007	31,667,020	¥10,374	¥16,254	¥75,389	¥(120)	¥101,899

Millions of yen

	Valuation and translation adjustments: Unrealized gain on investment securities	Deferred losses on hedges	Revaluation differences on land	Foreign currency translation adjustments	Total revaluation and translation adjustments	Share subscription rights	Minority interest in consolidated subsidiaries	Total net assets
Balance at December 31, 2005	¥1,109	—	¥(15,572)	¥(74)	¥(14,537)	—	¥1,359	¥60,279
Dividends								(2,370)
Net income								15,621
Reversal of revaluation differences on land								(72)
Acquisition of treasury stock								(3)
Items other than changes in shareholders' equity	670	(0)	72	10	752	—	(793)	(40)
Balance at December 31, 2006	1,779	(0)	(15,500)	(63)	(13,784)	—	566	73,414
Dividends								(3,634)
Net income								18,856
Reversal of revaluation differences on land								74
Acquisition of treasury stock								(2)
Other								(27)
Items other than changes in shareholders' equity	(797)	0	(74)	16	(854)	—	(175)	(679)
Balance at December 31, 2007	¥982	—	¥(15,574)	¥(47)	¥(14,639)	—	¥741	¥88,000

The accompanying notes are an integral part of these statements.

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 2006 and 2007

	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
		Thousands of U.S. dollars (Note 3)				
		Shareholders' equity				
Balance at December 31, 2006	31,667,020	$90,887	$142,398	$526,678	$(1,028)	$758,935
Dividends				(31,837)		(31,837)
Net income				165,191		165,191
Reversal of revaluation differences on land				651		651
Acquisition of treasury stock					(22)	(22)
Other				(241)		(241)
Items other than changes in shareholders' equity						
Balance at December 31, 2007	31,667,020	$90,887	$142,398	$660,441	$(1,051)	$892,676

	Unrealized gain on investment securities	Deferred losses on hedges	Revaluation differences on land	Foreign currency translation adjustments	Total revaluation and translation adjustments	Share subscription rights	Minority interest in consolidated subsidiaries	Total net assets
	Thousands of U.S. dollars (Note 3)							
	Valuation and translation adjustments							
Balance at December 31, 2006	$15,592	(3)	$(135,787)	$(558)	$(120,756)	—	$4,958	$643,137
Dividends								(31,837)
Net income								165,191
Reversal of revaluation differences on land								651
Acquisition of treasury stock								(22)
Other								(241)
Items other than changes in shareholders' equity	(6,984)	3	(651)	142	(7,489)	—	1,533	(5,956)
Balance at December 31, 2007	$8,608	—	$(136,439)	$(415)	$(128,246)	—	$6,492	$770,922

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, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	**2007**	**2007**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥26,350	**¥33,597**	**$294,324**
Depreciation and amortization	5,883	**5,388**	**47,209**
Amortization of (negative) goodwill	132	**(4)**	**(43)**
Equity in net income of unconsolidated subsidiaries and affiliates	—	**(43)**	**(382)**
Decrease in reserve for retirement benefits	(1,666)	**(6,331)**	**(55,462)**
Increase(decrease) in allowance for doubtful accounts	(81)	**60**	**528**
Interest and dividend income	(105)	**(137)**	**(1,206)**
Interest expenses	131	**138**	**1,217**
Gain on sales of fixed assets	—	**(28)**	**(251)**
Loss on disposal of fixed assets	267	**425**	**3,726**
Impairment losses	102	**446**	**3,907**
Loss on devaluation of investments in securities	34	**93**	**820**
Gain on sales of stock of subsidiaries and affiliates	—	**(72)**	**(634)**
Loss on devaluation of investments in subsidiaries and affiliates	132	**238**	**2,092**
Dilution gain from change in equity interest	(344)	**(23)**	**(209)**
Increase in accounts and notes receivable	(11,090)	**(6,324)**	**(55,400)**
Increase in inventories	(113)	**(465)**	**(4,076)**
Increase in accounts and notes payable	5,961	**21**	**185**
Other	123	**(32)**	**(283)**
Subtotal	25,719	**26,946**	**236,061**
Interest and dividend income received	102	**157**	**1,379**
Interest expenses paid	(124)	**(137)**	**(1,205)**
Income taxes paid	(11,787)	**(10,311)**	**(90,330)**
Net cash provided by operating activities	13,909	**16,654**	**145,904**
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(2,253)	**(2,528)**	**(22,152)**
Proceeds from sales of property, plant and equipment	206	**546**	**4,789**
Payments for software developed	(2,146)	**(2,567)**	**(22,489)**
Payments for purchase of investments in securities	(2,486)	**(279)**	**(2,450)**
Proceeds from sales of investments in securities	39	**—**	**—**
Proceeds from sales of consolidated subsidiaries' stock	—	**470**	**4,122**
Payments for long-term loans receivable	(6)	**(428)**	**(3,755)**
Proceeds from long-term loans receivable	5	**16**	**146**
Other	(520)	**214**	**1,879**
Net cash used in investing activities	(7,161)	**(4,555)**	**(39,908)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	50	**(350)**	**(3,066)**
Proceeds from long-term debts	1,000	**200**	**1,752**
Repayments for long-term debts	(891)	**(652)**	**(5,718)**
Proceeds from issuance of new shares	1,008	**192**	**1,681**
Cash dividends paid	(2,370)	**(3,632)**	**(31,822)**
Other	(46)	**(28)**	**(249)**
Net cash used in financing activities	(1,250)	**(4,271)**	**(37,422)**
Effect of exchange rate changes on cash and cash equivalents	7	**(25)**	**(220)**
Net increase in cash and cash equivalents	5,504	**7,802**	**68,352**
Cash and cash equivalents at beginning of year	13,891	**18,305**	**160,363**
Decrease in cash and cash equivalents due to exclusion of subsidiaries from scope of consolidation (Note 10(2))	(1,090)	**(732)**	**(6,421)**
Cash and cash equivalents at end of year (Note 10(1))	¥18,305	**¥25,374**	**$222,294**

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 the 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 Financial Instruments and Exchange Law of Japan.

Certain items presented in the consolidated financial statements 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 13 subsidiaries as at December 31, 2006 and 2007, respectively. The consolidated financial statements include the accounts of the Company and ten subsidiaries and eight subsidiaries for the years ended December 31, 2006 and 2007, respectively.

The eight subsidiaries which were consolidated in the year ended December 31, 2007 are listed below:

	Equity ownership percentage
OSK Co., LTD.	100.0%
Netplan Co., Ltd.	100.0%
Alpha Techno Co., LTD.	100.0%
Alpha System Co., LTD.	100.0%
Alpha Net Co., LTD.	100.0%
Otsuka Auto Service Co., LTD	100.0%
Net World Corporation	68.3%
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 five unconsolidated subsidiaries as at December 31, 2006 and 2007, 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 2007)

Fujimi Construction Co.,LTD, a consolidated subsidiary, and Netplan Co.,Ltd , a consolidated subsidiary,have merged in April 2007, and been operating as Netplan Co.,Ltd.

Otsuka Information Technology Corp. was changed from a consolidated subsidiary to an affiliate which was accounted for the equity method effective fiscal year 2007, due to a decrease in the interest ratio and decrease in the number of the directors who were dispatched from the Company. The Consolidated Statements of Income for the year ended December 31, 2007 included the Statements of Income of Otsuka Information Technology Corp.

(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 five unconsolidated subsidiaries and nine affiliates at December 31, 2006 and 2007.

The Company had one investment in affiliate for the equity method and two investment in affiliate for the equity method at December 31, 2006 and 2007, respectively. 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 two investment in affiliate by the equity method at December 31, 2007, are listed below:

	Equity ownership percentage
SIOS Technology, Inc.	45.9%
Otsuka Information Technology Corp	44.1%

(Fiscal year 2007)

Otsuka Information Technology Corp was changed from a consolidated subsidiary to an affiliate for the equity method from fiscal year 2007, due to a decrease in the share ratio and decrease in the number of the directors from the Company.

(4) 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.

(5) 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

(6) 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, determined 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, with such a gain or loss being based on the 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.

(7) 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.

Estimated useful lives of assets are principally as follows:
Building and structures — 15 to 50 years
Other — 4 to 6 years

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

(Accounting change in 2007)
Effective as of the consolidated accounting period ended December 31, 2007, the Company and its domestic subsidiaries have changed their depreciation procedure based on an amendment in corporation tax law for the tangible assets acquired on and after April 1, 2007. The effect of this change on the financial result is immaterial.

(8) 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.

(9) Software and other intangible assets
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 mainly 5 years.

Other intangible assets with finite useful lives are amortized using the straight-line method over the estimated useful lives.

(10)Accounting for income taxes

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

(11) Allowance for doubtful accounts

An allowance for doubtful accounts 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.

(12) 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, 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 six 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.

(13) 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.

(14) 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.

(15)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 ¥114.15=US$1, the rate of exchange on December 31, 2007, 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, 2006 and 2007 investments in securities were as follows:

(1) Other securities with fair value

	Millions of yen						Thousands of U.S. dollars		
	2006			**2007**			**2007**		
	Acquisition cost	Carrying value	Unrealized gain(loss)	Acquisition cost	Carrying value	Unrealized gain(loss)	Acquisition cost	Carrying value	Unrealized gain(loss)
Securities whose carrying value exceed their acquisition cost									
Stocks	¥1,311	¥4,304	¥2,992	**¥1,075**	**¥2,790**	**¥1,714**	**$ 9,423**	**$24,446**	**$15,022**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	92	151	59	**92**	**119**	**26**	**808**	**1,042**	**234**
	¥1,403	¥4,455	¥3,052	**¥1,167**	**¥2,909**	**¥1,741**	**$10,231**	**$25,489**	**$15,257**
Securities whose carrying value does not exceed their acquisition cost									
Stocks	¥ 266	¥ 216	¥ (50)	**¥ 468**	**¥ 383**	**¥ (84)**	**$ 4,100**	**$ 3,359**	**$ (740)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 266	¥ 216	¥ (50)	**¥ 468**	**¥ 383**	**¥ (84)**	**$ 4,100**	**$ 3,359**	**$ (740)**
Total	¥1,670	¥4,672	¥3,001	**¥1,635**	**¥3,293**	**¥1,657**	**$14,331**	**$28,848**	**$14,516**

(2) Other securities sold in 2006 and 2007 (for the years ended December 31, 2006 and 2007)

	Millions of yen						Thousands of U.S. dollars		
	2006			**2007**			**2007**		
	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss
	¥38	¥1	—	**—**	**—**	**—**	**—**	**—**	**—**

(3) Carrying value of major securities whose fair value is not available

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
	Carrying value on consolidated balance sheets	Carrying value on consolidated balance sheets	Carrying value on consolidated balance sheets
Other securities			
Unlisted stocks	¥713	**¥866**	**$7,586**
Preferred subscription certification	10	**—**	**—**
Investment limited liability partnerships	303	**276**	**2,418**

(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	
	2006		**2007**		**2007**	
	Within one year	More than one year	Within one year	More than one year	Within one year	More than one year
Others	¥10	—	**—**	**—**	**—**	**—**
Total	¥10	—	**—**	**—**	**—**	**—**

5. Derivative Information

The Companies utilize derivative transactions for the purpose of hedging their exposure to fluctuation in foreign exchange rates on payables denominated in foreign currencies and interest rates on interest-bearing debt, however, do not enter into transactions involving derivatives for speculative purposes.

The relevant derivative transactions are used for hedging are summarizing as follows:

Foreign exchange risk associated with liabilities denominated in foreign currencies: forward foreign exchange contracts are currency swaps

Interest rate risk associated with sourcing funds and investing: interest rate swaps

There remain the risk of foreign currency exchange fluctuations on currency transactions and the risk of interest rate fluctuations on interest rate transactions. As the Companies enter into derivative transactions only with financial institutions which have a sound credit profile, we believe that a credit risk is insignificant.

All risk hedge operations and management are carried out pursuant to the Companies rules which stipulate management policies of derivative transactions, limitation of a hedging position and so forth by treasury department with an appropriate approval.

At December 31,2006 and 2007 derivatives were as follows:

Currency-related transactions

	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

	Millions of yen			
	2007			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain(loss)
Currency swap Purchased U.S.dollar	**—**	**—**	**—**	**—**

	Thousands of U.S. dollars			
	2007			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain(loss)
Currency swap Purchased U.S.dollar	**—**	**—**	**—**	**—**

(Note)

Except for derivatives that are designed as hedging instruments

6. Inventories

Inventories at December 31, 2006 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Merchandise and maintenance parts	¥15,797	**¥16,072**	**$140,804**
Work-in-process	655	**737**	**6,456**
Supplies	108	**114**	**998**
	¥16,561	**¥16,923**	**$148,260**

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

The annual average interest rates applicable to short-term bank loans at December 31, 2006 and 2007 were 1.14% and 1.45%, respectively.

Long-term debt at December 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Long-term loans from banks with annual interest rates from 0.83% to 1.87%	¥3,204	**¥2,751**	**$24,102**
	3,204	**2,751**	**24,102**
Less : Current maturities of long-term debts	(622)	**(2,621)**	**(22,963)**
	¥2,581	**¥ 130**	**$ 1,138**

Aggregate annual maturities of long-term debt subsequent to December 31, 2007 are as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2008	¥2,621	$22,963
2009	40	350
2010	40	350
2011	40	350
2012	10	87
	¥2,751	$24,102

8. Reserve for Retirement Benefits

(1) Retirement benefit plan

The Company and certain its subsidiaries operated a fund type corporate pension plan, an agreement type corporate pension plan and a termination allowance plan as defined-benefit pension plans, but they have changed its fund type corporate pension plan in to a new defined contribution pension plan and an agreement type corporate pension plan. As a result of these changes, a settlement profit of ¥4,298 million ($37,658 thousand) was recognized as income for the year ended December 31, 2007.

(2) The reserve for retirement benefits as of December 31, 2006 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Projected benefit obligations	¥(40,623)	**¥ (29,317)**	**$(256,834)**
Plan assets	42,723	**39,741**	**348,151**
	2,099	**10,423**	**91,317**
Unrecognized prior service cost	(6,389)	**(5,698)**	**(49,920)**
Unrecognized actuarial gain or loss	(683)	**(3,351)**	**(29,357)**
	(4,973)	**1,374**	**12,040**
Prepaid pension cost	3,134	**2,690**	**23,571**
Reserve for retirement benefits	¥ (8,107)	**¥ (1,316)**	**$ (11,531)**

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2006 and 2007 included retirement benefits for directors in the amounts of 441 million yen and 504 million yen (4,415 thousand U.S. dollars), respectively.

(3) Pension expense related to the retirement benefits for the year ended December 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Service cost	¥3,028	**¥ 2,731**	**$ 23,926**
Interest cost	563	**525**	**4,606**
Expected return on plan assets	(1,108)	**(1,240)**	**(10,866)**
Amortization of the unrecognized Prior service cost	(690)	**(690)**	**(6,050)**
Amortization of the unrecognized actuarial gain or loss	328	**11**	**103**
Payments for defined contribution pension plan	—	**377**	**3,309**
Additional benefits for employees' early retirement	126	**188**	**1,649**
Net periodic pension cost	¥2,246	**¥ 1,903**	**$ 16,677**
Gain on transition of retirement benefit plan	—	**¥(4,298)**	**$(37,658)**

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

(4) Computation Basis of Pension Liabilities

As of December 31, 2006 and 2007

	2006	**2007**
Discount rate	1.5%	**1.5%**
Expected rate of return on plan assets	3.0%	**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 unrecognized actuarial gain or loss	12 years from the fiscal year following occurrence	**12 years from the fiscal year following occurrence**

9. Income Taxes

(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.

(Fiscal year 2007)

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2007 was 40.7%.

At December 31,2007,the reconciliation of the statutory tax rate to the effective income tax rate was as follows.

Statutory tax rate	40.7%
Expenses not deductible for tax purposes	0.6%
Per capita inhabitant tax	0.4%
Valuation allowance	1.7%
Deduction for tax incentive to help strengthen information infrastructure for business	△0.4%
Other	0.1%
Effective tax rate	43.1%

At December 31, 2006 and 2007, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Allowance for doubtful accounts	¥ 244	**¥ 299**	**$ 2,626**
Enterprise taxes	537	**753**	**6,605**
Accrued bonuses	1,076	**1,111**	**9,736**
Retirement benefits for employees	3,271	**537**	**4,706**
Retirement benefits for directors	192	**205**	**1,802**
Impairment losses	653	**781**	**6,846**
Software cost	347	**1,240**	**10,870**
Eliminated unrealized profits	460	**420**	**3,683**
Other	921	**1,050**	**9,203**
Total deferred tax assets	7,704	**6,401**	**56,081**
Less: Valuation allowance	(231)	**(823)**	**(7,213)**
Net deferred tax assets	7,473	**5,578**	**48,867**
Deferred tax liabilities:			
Reserve for computer program	1,432	**1,035**	**9,072**
Prepaid pension cost	1,284	**1,097**	**9,616**
Unrealized gain on investment securities	1,221	**674**	**5,908**
Other	16	**19**	**167**
Total deferred tax liabilities	3,955	**2,826**	**24,764**
Net deferred tax assets	¥3,518	**¥2,751**	**$24,103**

10. Supplementary Cash Flow Information

(1) Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cash, time deposits and other cash equivalents	¥18,421	**¥24,785**	**$217,131**
Time deposits with deposit terms of more than three months	(116)	**(105)**	**(919)**
Trust beneficiary interests included in other current assets with investment terms with three months or less	—	**694**	**6,082**
Cash and cash equivalents at end of year	¥18,305	**¥25,374**	**$222,294**

(2) The summary of assets and liabilities of SIOS technology, Inc and Otsuka Information Technology Corp which were changed from a consolidated subsidiary to an affiliate for the equity method are as follows:

(Fiscal year 2006)

The summary of assets and liabilities of SIOS technology, Inc

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥2,825**	**$24,756**
(Cash and cash equivalents)	**(1,090)**	**(9,544)**
Non-current assets	**2,437**	**21,350**
Total assets	**5,263**	**46,107**

	Millions of yen	Thousands of U.S. dollars
Current liabilities	**1,454**	**12,738**
Non-current liabilities	**1,055**	**9,249**
Total liabilities	**¥2,509**	**$21,987**

(Fiscal year 2007)

The summary of assets and liabilities of Otsuka Information Technology Corp.

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥1,179**	**$10,332**
(Cash and cash equivalents)	**(732)**	**(6,421)**
Non-current assets	**145**	**1,277**
Total assets	**1,325**	**11,610**
Current liabilities	**256**	**2,246**
Non-current liabilities	**16**	**140**
Total liabilities	**¥ 272**	**$ 2,386**

11. Subsequent Events

(1) Appropriation

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2007 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 29, 2008:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥130.00 per share)	¥4,108	$35,990

12. Lease Transactions

The *proforma* information of acquisition costs, accumulated depreciation and net book values of leased assets at December 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Acquisition cost	¥6,586	**¥6,152**	**$53,895**
Accumulated depreciation	(3,630)	**(3,543)**	**(31,043)**
Net book value	¥2,955	**¥2,608**	**$22,852**

Future minimum lease payments under finance leases at December 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Due within one year	¥1,127	**¥ 998**	**$ 8,746**
Due after one year	1,871	**1,652**	**14,474**
	¥2,999	**¥2,650**	**$23,220**

Lease rental expenses, depreciation and interest expenses for the years ended December 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Lease rental expenses	¥1,317	**¥1,311**	**$11,490**
Depreciation	1,246	**1,254**	**10,989**
Release of accumulated impairment loss on leaseholds	0	**—**	**—**
Interest expenses	65	**59**	**523**

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, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Due within one year	¥ 475	**¥ 761**	**$ 6,675**
Due after one year	711	**2,088**	**18,292**
	¥1,187	**¥2,850**	**$24,967**

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 “Revaluation difference on land” 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 are 1,509 million yen and 1,212 million yen (10,626 thousand U.S. dollars) at December 31, 2006 and 2007 , respectively.

14. Pledged Assets

At December 31, 2006 and 2007, assets pledged as collateral for accounts and notes payable and loan from banks were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Time deposits	¥ 11	**¥5**	**$43**
Land	535	**—**	**—**
Buildings	653	**—**	**—**
	¥1,199	**¥5**	**$43**

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, 2006 and 2007 amounted to 839 million yen and 829 million yen (7,263 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, 2006 and 2007 is summarized as follows:

(1) Business segment information

	Millions of yen					
	2006					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
Net sales to:						
Third parties	¥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, impairment losses 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

	Millions of yen					
	2007					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
Net sales to:						
Third parties	**¥279,753**	**¥187,358**	**¥2,370**	**¥469,481**	**¥ —**	**¥469,481**
Inter-segment sales/transfers	**96**	**284**	**2,358**	**2,738**	**(2,738)**	**—**
	279,850	**187,642**	**4,728**	**472,220**	**(2,738)**	**469,481**
Operating expenses	**255,445**	**174,873**	**4,587**	**434,906**	**4,523**	**439,430**
Operating income	**¥ 24,404**	**¥ 12,769**	**¥ 140**	**¥ 37,314**	**¥ (7,262)**	**¥ 30,051**
Assets, depreciation, impairment losses and capital expenditure:						
Assets	**¥ 88,233**	**¥ 74,147**	**¥2,036**	**¥164,417**	**¥35,966**	**¥200,383**
Depreciation and amortization	**2,529**	**2,098**	**24**	**4,651**	**737**	**5,388**
Impairment losses	**4**	**5**	**304**	**314**	**131**	**446**
Capital expenditure	**2,215**	**1,712**	**14**	**3,942**	**1,153**	**5,095**

	Thousands of U.S. dollars					
	2007					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
Net sales to:						
Third parties	**$2,450,754**	**$1,641,332**	**$20,764**	**$4,112,851**	**$ —**	**$4,112,851**
Inter-segment sales/transfers	**844**	**2,491**	**20,657**	**23,993**	**(23,993)**	**—**
	2,451,599	**1,643,824**	**41,421**	**4,136,844**	**(23,993)**	**4,112,851**
Operating expenses	**2,237,805**	**1,531,960**	**40,191**	**3,809,957**	**39,628**	**3,849,585**
Operating income	**$ 213,793**	**$ 111,864**	**$ 1,229**	**$ 326,887**	**$(63,621)**	**$ 263,265**
Assets, depreciation, impairment losses and capital expenditure:						
Assets	**$ 772,959**	**$ 649,559**	**$17,843**	**$1,440,362**	**$315,079**	**$1,755,441**
Depreciation and amortization	**22,155**	**18,383**	**213**	**40,752**	**6,456**	**47,209**
Impairment losses	**38**	**49**	**2,663**	**2,752**	**1,155**	**3,907**
Capital expenditure	**19,404**	**15,000**	**128**	**34,533**	**10,108**	**44,641**

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 Repair, sale of automobiles Insurance Printing

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

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Non-allocable operating expenses	¥ 6,923	**¥ 7,326**	**$ 64,184**
Corporate assets	29,214	**37,262**	**326,437**

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.

(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

The Board of Directors
OTSUKA CORPORATION

We have audited the accompanying consolidated balance sheets of OTSUKA CORPORATION and consolidated subsidiaries as of December 31, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company and consolidated subsidiaries as of December 31, 2006 and for the year then ended were audited by other auditors whose report dated March 29, 2007 expressed an unqualified opinion on those statements.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OTSUKA CORPORATION and consolidated subsidiaries at December 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

March 27, 2008