Financial Section

Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries
Years ended December 31, 2006, 2007 and 2008

	Millions of yen			Thousands of U.S. dollars
	2006	2007	**2008**	**2008**
Net sales	¥433,617	¥469,481	**¥467,154**	**$5,133,002**
System Integration business	263,425	279,753	**266,476**	**2,927,996**
Service and Support business	168,701	187,358	**198,761**	**2,183,950**
Other business	1,490	2,370	**1,916**	**21,055**
Operating income	26,158	30,051	**27,089**	**297,657**
Recurring profit	26,494	30,520	**27,628**	**303,576**
Income before income taxes and minority interests	26,350	33,597	**25,934**	**284,964**
Net income	15,621	18,856	**14,371**	**157,910**
Total assets	189,357	200,383	**196,946**	**2,164,006**
Interest-bearing debt	10,854	10,051	**9,630**	**105,812**
Equity	72,848	87,259	**96,876**	**1,064,458**
Net income per share (EPS) (Yen and U.S. dollars)	494.30	596.69	**454.76**	**5.00**
Dividends per share of common stock (Yen and U.S. dollars)	115.00	130.00	**130.00**	**1.43**
Cash flows from operating activities per share (Yen and U.S. dollars)	440.14	527.02	**422.35**	**4.64**
Operating income to Net sales ratio (%)	6.03	6.40	**5.80**	**—**
Net income to Net sales ratio (%)	3.60	4.02	**3.08**	**—**
Interest-bearing debt ratio (%)	5.73	5.02	**4.89**	**—**
Equity ratio (%)	38.47	43.55	**49.19**	**—**
Return on equity (ROE) (%)	23.71	23.55	**15.61**	**—**

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, 2008 exchange rate of ¥91.01 = US$1.
The dividends for 2006 include 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	
	2007	**2008**	Difference to Last Year	% Change to Last Year
Net sales	¥469,481	**¥467,154**	-2,327	-0.5%
System Integration business	279,753	**266,476**	-13,276	-4.7
Service & Support business	187,358	**198,761**	+11,403	+6.1
Other business	2,370	**1,916**	-453	-19.2
Cost of sales	360,435	**359,754**	-681	-0.2
Gross profit	109,046	**107,399**	-1,646	-1.5
Selling, general and administrative expenses	78,994	**80,310**	+1,315	+1.7
Operating income	30,051	**27,089**	-2,961	-9.9
Recurring profit	30,520	**27,628**	-2,891	-9.5
Income before income taxes and minority interests	33,597	**25,934**	-7,662	-22.8
Income taxes				
Current	13,239	**11,212**	-2,027	-15.3
Deferred	1,253	**117**	-1,135	-90.6
Net income	18,856	**14,371**	-4,485	-23.8

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded consolidated net sales of ¥467,154 million, a decrease of ¥2,327 million (0.5%) from the previous fiscal year.

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. During the fiscal year, we focused efforts on our information security-related business, color copiers and the knowledge management system and CAD systems. Nevertheless, postponements of purchases due to curtailments of IT investments led to a 4.7% decline in net sales to ¥266,476 million.

Service and Support Business

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

Other Business

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

Summary of Income and Expenses

Gross profit declined 1.5% to ¥107,399 million, and the gross profit margin was 23.0%.

Operating income declined 9.9% to ¥27,089 million due in part to an increase in selling, general and administrative expenses.

Despite a rise in non-operating income resulting from a foreign exchange gains, recurring profit declined 9.5% from the previous fiscal year to ¥27,628 million.

Income before income taxes and minority interests declined 22.8% to ¥25,934 million due to such factors as a ¥1,736 million extraordinary losses that resulted from the disposal of fixed assets.

As a result, net income declined 23.8% to ¥14,371 million, and net income per share was ¥454.76.

Financial Position

	2007	**2008**	Difference to Last Year	% Change to Last Year
				Millions of yen
Assets:	¥200,383	**¥196,946**	-3,437	-1.7%
Current assets	130,353	**129,178**	-1,174	-0.9
Fixed assets	70,030	**67,767**	-2,262	-3.2
Liabilities:	112,382	**99,155**	-13,227	-11.8
Current liabilities	108,551	**95,880**	-12,671	-11.7
Fixed liabilities	3,831	**3,275**	-555	-14.5
Net assets	88,000	**97,790**	+9,789	+11.1

Assets

Total assets at fiscal year-end decreased ¥3,437 million from the previous fiscal year-end to ¥196,946 million. Current assets declined ¥1,174 million to ¥129,178 million due to decreases in cash and time deposits and notes and accounts receivable. Fixed assets declined ¥2,262 million from the end of the previous fiscal year to ¥67,767 million.

Liabilities

Total liabilities declined ¥13,227 million to ¥99,155 million. Current liabilities declined ¥12,671 million to ¥95,880 million due to a decrease in notes and accounts payable. Fixed liabilities decreased ¥555 million to ¥3,275 million owing to a decline in deferred tax liabilities non-current.

Net Assets

Total net assets rose ¥9,789 million, to ¥97,790 million, owing to such factors as an increase in retained earnings. As a result, the equity ratio rose 5.7 percentage points to 49.2%.

The interest coverage ratio was 183.65 times; the interest-bearing debt ratio was 4.89%; return on equity (ROE) was 15.61%; and return on assets (ROA) was 13.78%.

	2007	**2008**
Interest coverage ratio (times)	217.30	**183.65**
Interest-bearing debt ratio (%)	5.02	**4.89**
ROE (%)	23.55	**15.61**
ROA (%)	15.51	**13.78**

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	
	2007	**2008**
Cash flows from operating activities	¥16,654	**¥13,347**
Cash flows from investing activities	-4,555	**-6,960**
Cash flows from financing activities	-4,271	**-4,591**
Cash and cash equivalents at end of year	25,374	**27,169**

Cash and cash equivalents at end of year totaled ¥27,169 million, an increase of ¥1,794 million (7.1%) from the end of the previous fiscal year. Factors relating to each cash flow category were as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥3,307 million (19.9%) to ¥13,347 million. This was due mainly to a decrease in income before income taxes and minority interests.

Cash Flows from Investing Activities

Net cash used in investing activities increased ¥2,405 million (52.8%) to ¥6,960 million. This was due mainly to an increase in payments for the purchase of investments in securities.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥319 million (7.5%) to ¥4,591 million. This is chiefly attributable to an increase in cash dividends paid.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, decreased ¥5,713 million to ¥6,386 million.

Forecast

In fiscal 2009, in view of the expected ongoing harsh economic environment, the Company forecasts a 4.3% decrease in consolidated net sales to ¥447,000 million, a 31.7% decline in operating income to ¥18,500 million, a 31.2% decrease in recurring profit to ¥19,000 million and a 35.6 % fall in net income to ¥9,260 million.

By segment, we forecast a 10.6% decline in net sales to ¥238,300 million in the System Integration business, a 4.0% increase to ¥206,710 million in the Service and Support business and a 3.8% rise to ¥1,990 million in the Other business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	**2008**	**2008**
ASSETS			
Current assets			
Cash, time deposits and other cash equivalents (Notes 10 and 15)	¥ 24,785	**¥ 21,544**	**$ 236,726**
Accounts and notes receivable:			
Trade	75,773	**71,056**	**780,754**
Unconsolidated subsidiaries and affiliates	43	**157**	**1,732**
Other	5,130	**6,737**	**74,031**
	80,947	**77,951**	**856,518**
Less: Allowance for doubtful accounts	(247)	**(271)**	**(2,982)**
	80,699	**77,680**	**853,535**
Short-term investments (Notes 4 and 10)	—	**4,996**	**54,903**
Inventories (Note 6)	16,923	**16,526**	**181,588**
Deferred tax assets (Note 9)	2,586	**2,341**	**25,722**
Other current assets (Note 10)	5,357	**6,089**	**66,908**
Total current assets	130,353	**129,178**	**1,419,385**
Investments and advances			
Investments in securities (Note 4)	4,435	**3,048**	**33,493**
Investments in unconsolidated subsidiaries and affiliates	2,138	**3,307**	**36,343**
Guarantee deposits	2,824	**3,285**	**36,102**
Deferred tax assets non-current (Note 9)	1,613	**1,360**	**14,943**
Other investments	5,041	**4,910**	**53,952**
Less: Allowance for doubtful accounts	(824)	**(932)**	**(10,245)**
	15,228	**14,979**	**164,591**
Property and equipment (Note 14)			
Land	16,965	**16,727**	**183,796**
Buildings and structures	65,318	**62,244**	**683,935**
Other	13,203	**13,708**	**150,627**
	95,487	**92,680**	**1,018,359**
Less: Accumulated depreciation	(45,523)	**(44,978)**	**(494,213)**
Net property and equipment	49,963	**47,702**	**524,145**
Intangibles and deferred charges			
Software	4,659	**4,922**	**54,082**
Other	179	**163**	**1,800**
	4,838	**5,085**	**55,883**
Total assets	¥200,383	**¥196,946**	**$2,164,006**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	**2008**	**2008**
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term bank loans (Note 7)	¥ 7,300	**¥ 9,500**	**$ 104,384**
Current maturities of long-term debts (Note 7)	2,621	**40**	**439**
Accounts and notes payable: (Note 15)			
Trade	59,425	**53,629**	**589,275**
Unconsolidated subsidiaries and affiliates	522	**678**	**7,455**
Other	15,178	**13,400**	**147,246**
	75,126	**67,709**	**743,978**
Income taxes payable (Note 9)	8,429	**5,297**	**58,207**
Other current liabilities	15,074	**13,333**	**146,502**
Total current liabilities	108,551	**95,880**	**1,053,511**
Long-term liabilities			
Long-term debt (Note 7)	130	**90**	**988**
Reserve for retirement benefits (Note 8)	1,820	**2,044**	**22,461**
Deferred tax liabilities non-current (Note 9)	1,442	**671**	**7,374**
Deferred tax liabilities on revaluation of land	216	**216**	**2,383**
Other long-term liabilities	221	**253**	**2,785**
Total fixed liabilities	3,831	**3,275**	**35,993**
Net assets			
Shareholders' equity (Note 13)			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: 31,667,020 shares as of December 31, 2007 and 2008	10,374	**10,374**	**113,996**
Capital surplus	16,254	**16,254**	**178,603**
Retained earnings	75,389	**85,652**	**941,133**
Treasury stock			
64,954 shares as of December 31, 2007 and			
65,342 shares as of December 31, 2008	(120)	**(122)**	**(1,350)**
Total shareholders' equity	101,899	**112,159**	**1,232,384**
Valuation and translation adjustments			
Unrealized gains on available-for-sale securities	982	**429**	**4,714**
Revaluation differences on land (Note 14)	(15,574)	**(15,574)**	**(171,130)**
Foreign currency translation adjustments	(47)	**(137)**	**(1,510)**
Total valuation and translation adjustments	(14,639)	**(15,282)**	**(167,926)**
Minority interests in consolidated subsidiaries	741	**913**	**10,042**
Total net assets	88,000	**97,790**	**1,074,500**
Total liabilities and net assets	¥200,383	**¥196,946**	**$2,164,006**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	**2008**	**2008**
Net sales (Note 17)	¥469,481	**¥467,154**	**$5,133,002**
Cost of sales (Notes 16 and 17)	360,435	**359,754**	**3,952,912**
Gross profit	109,046	**107,399**	**1,180,089**
Selling, general and administrative expenses (Notes 16 and 17)	78,994	**80,310**	**882,432**
Operating income	30,051	**27,089**	**297,657**
Other income (expenses)			
Interest and dividend income	137	**173**	**1,908**
Interest expenses	(138)	**(148)**	**(1,629)**
Gain on sales of stock of subsidiaries and affiliates	72	**—**	**—**
Reversal of allowance for doubtful accounts	—	**22**	**252**
Provision for allowance for doubtful accounts	(142)	**(50)**	**(552)**
Dilution gain (loss) from change in equity interest	23	**(17)**	**(190)**
Equity in net income of unconsolidated subsidiaries and affiliates	43	**18**	**206**
Gain on sales of fixed assets	28	**7**	**85**
Loss on disposal of fixed assets	(425)	**(1,108)**	**(12,182)**
Impairment losses	(446)	**(275)**	**(3,031)**
Loss on devaluation of investments in securities	(93)	**(284)**	**(3,123)**
Loss on devaluation of investments in subsidiaries and affiliates	(238)	**—**	**—**
Gain on transition of retirement benefit plan	4,298	**—**	**—**
Other, net	425	**506**	**5,565**
	3,545	**(1,155)**	**(12,692)**
Income before income taxes and minority interests	33,597	**25,934**	**284,964**
Income taxes (Note 9)			
Current	13,239	**11,212**	**123,199**
Deferred	1,253	**117**	**1,291**
	14,492	**11,329**	**124,491**
Minority interests	247	**233**	**2,563**
Net income	¥ 18,856	**¥ 14,371**	**$ 157,910**

	yen		U.S. dollars (Note 3)
Net income and dividends per share (Note 2(12))			
Basic net income	¥596.69	**¥454.76**	**$5.00**
Diluted net income	596.56	**454.53**	**4.99**
Cash dividends	130.00	**130.00**	**1.43**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2007 and 2008

		Shareholders' equity					Millions of yen
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total 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
Purchase 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
Dividends				(4,108)		(4,108)
Net income				14,371		14,371
Purchase of treasury stock					(2)	(2)
Items other than changes in shareholders' equity						
Balance at December 31, 2008	31,667,020	¥10,374	¥16,254	¥85,652	¥(122)	¥112,159

Millions of yen

	Valuation and translation adjustments						
	Unrealized gains on availabe-for-sale securities	Deferred losses on hedges	Revaluation differences on land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interest in consolidated subsidiaries	Total net assets
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
Purchase 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
Dividends							(4,108)
Net income							14,371
Purchase of treasury stock							(2)
Items other than changes in shareholders' equity	(553)	—	—	(90)	(643)	172	(470)
Balance at December 31, 2008	¥ 429	—	¥(15,574)	¥(137)	¥(15,282)	¥913	¥97,790

The accompanying notes are an integral part of these statements.

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2007 and 2008

	Thousands of U.S. dollars (Note 3)					
		Shareholders' equity				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2007	31,667,020	$113,996	$178,603	$828,364	$(1,318)	$1,119,646
Dividends				(45,140)		(45,140)
Net income				157,910		157,910
Purchase of treasury stock					(31)	(31)
Items other than changes in shareholders' equity						
Balance at December 31, 2008	31,667,020	$113,996	$178,603	$941,133	$(1,350)	$1,232,384

	Thousands of U.S. dollars (Note 3)					
	Valuation and translation adjustments					
	Unrealized gains on availabe-for-sale securities	Revaluation differences on land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interest in consolidated subsidiaries	Total net assets
Balance at December 31, 2007	$10,797	$(171,130)	$ (520)	$(160,854)	$ 8,143	$ 966,935
Dividends						(45,140)
Net income						157,910
Purchase of treasury stock						(31)
Items other than changes in shareholders' equity	(6,082)	—	(989)	(7,071)	1,899	(5,172)
Balance at December 31, 2008	$ 4,714	$(171,130)	$(1,510)	$(167,926)	$10,042	$1,074,500

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	**2008**	**2008**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥33,597	**¥25,934**	**$284,964**
Depreciation and amortization	5,388	**6,012**	**66,062**
Amortization of (negative) goodwill	(4)	**—**	**—**
Equity in net income of unconsolidated subsidiaries and affiliates	(43)	**(18)**	**(206)**
Increase (decrease) in reserve for retirement benefits	(6,331)	**486**	**5,346**
Increase in allowance for doubtful accounts	60	**131**	**1,443**
Interest and dividend income	(137)	**(173)**	**(1,908)**
Interest expenses	138	**148**	**1,629**
Gain on sales of fixed assets	(28)	**(7)**	**(85)**
Loss on disposal of fixed assets	425	**961**	**10,567**
Impairment losses	446	**275**	**3,031**
Loss on devaluation of investments in securities	93	**284**	**3,123**
Gain on sales of stock of subsidiaries	(72)	**—**	**—**
Loss on devaluation of investments in subsidiaries and affiliates	238	**—**	**—**
Dilution loss (gain) from change in equity interest	(23)	**17**	**190**
Decrease (increase) in accounts and notes receivable	(6,324)	**3,511**	**38,580**
Decrease (increase) in inventories	(465)	**397**	**4,367**
Increase (decrease) in accounts and notes payable	21	**(7,298)**	**(80,197)**
Other	(32)	**(2,888)**	**(31,741)**
Subtotal	26,946	**27,773**	**305,170**
Interest and dividend income received	157	**202**	**2,222**
Interest expenses paid	(137)	**(148)**	**(1,636)**
Income taxes paid	(10,311)	**(14,479)**	**(159,100)**
Net cash provided by operating activities	16,654	**13,347**	**146,655**
Cash flows from investing activities:			
Payments for purchase of property and equipment	(2,528)	**(2,812)**	**(30,904)**
Proceeds from sales of property and equipment	546	**292**	**3,213**
Payments for software developed	(2,567)	**(2,702)**	**(29,691)**
Payments for purchase of investments in securities	(279)	**(1,293)**	**(14,210)**
Proceeds from sales of investments in securities	—	**112**	**1,230**
Proceeds from sales of stock of consolidated subsidiaries' stock	470	**—**	**—**
Payments for long-term loans receivable	(428)	**(355)**	**(3,906)**
Proceeds from long-term loans receivable	16	**92**	**1,014**
Other	214	**(294)**	**(3,230)**
Net cash used in investing activities	(4,555)	**(6,960)**	**(76,486)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	(350)	**2,200**	**24,173**
Proceeds from long-term debts	200	**—**	**—**
Repayments for long-term debts	(652)	**(2,621)**	**(28,802)**
Proceeds from issuance of new shares	192	**—**	**—**
Cash dividends paid	(3,632)	**(4,107)**	**(45,128)**
Other	(28)	**(63)**	**(695)**
Net cash used in financing activities	(4,271)	**(4,591)**	**(50,452)**
Effect of exchange rate changes on cash and cash equivalents	(25)	**—**	**—**
Net increase in cash and cash equivalents	7,802	**1,794**	**19,717**
Cash and cash equivalents at beginning of year	18,305	**25,374**	**278,814**
Decrease in cash and cash equivalents due to exclusion of subsidiaries from scope of consolidation	(732)	**—**	**—**
Cash and cash equivalents at end of year (Note 10)	¥25,374	**¥27,169**	**$298,531**

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 Companies Act 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.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The Company had 13 subsidiaries (majority-owned companies) and 12 subsidiaries as at December 31, 2007 and 2008, respectively. The consolidated financial statements include the accounts of the Company and 8 subsidiaries for the years ended December 31, 2007 and 2008.

The 8 subsidiaries which were consolidated in the year ended December 31, 2008 are listed below:

	A ratio of voting rights held by the Company
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%
Networld Corporation	68.3%
Otsuka Business Service Co., LTD.	65.0%

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

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 5 unconsolidated subsidiaries and 4 unconsolidated subsidiaries as at December 31, 2007 and 2008, respectively, consisted of insignificant amounts in terms of total assets, net sales, net income and retained earnings, and have, therefore, been excluded from consolidation.

(2) Investments in unconsolidated subsidiaries and affiliates

The Company had 5 unconsolidated subsidiaries and 9 affiliates at December 31, 2007 and 4 unconsolidated subsidiaries and 9 affilates at December 31, 2008.

The Company had 2 investments in affiliate and 3 investments in affiliate for the equity method at December 31, 2007 and 2008, 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 3 investment in affiliate by the equity method at December 31, 2008, are listed below:

	A ratio of voting rights held by the Company
SIOS Technology, Inc.	46.1%
Otsuka Information Technology Corp.	39.8%
LION OFFICE PRODUCTS CORP.	40.4%

(Fiscal year 2008)

LION OFFICE PRODUCTS CORP. became an affiliate company of the Company and accounted for by the equity method after its capital increase through third party allotment on May 28, 2008.

(3) 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.

(4) 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

(5) Financial instruments

(a) Securities

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

• Held-to-maturity debt securities

Held-to-maturity debt securities are stated using amortized cost method on a straight-line basis.

• 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.

• Available-for-sale 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, and forward exchange contracts. 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.

(6) Property 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.

(Fiscal year 2008)

Due to the revision to corporate tax legislation, the Company and its subsidiaries adopted the depreciation method based on the revised Corporate Tax Law for tangible fixed assets acquired on or before March 31, 2007. With this method, the difference between the amounts equivalent to 5% of the acquisition costs and the residual value are depreciated evenly over five years effectively from the year following the fiscal year when the residual value reached the amounts equivalent to 5% of the acquisition costs, and recorded as depreciation expenses.

The effect of this change on the financial result is immaterial.

(7) 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.

(8) 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.

(9)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.

(10) 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.

(11) 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 the 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.

(12) 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.

(13) 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.

(14) 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 ¥91.01=US$1, the rate of exchange on December 31, 2008, 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, 2007 and 2008 investments in securities were as follows:

(1) Available-for-sale securities with fair value

	Millions of yen						Thousands of U.S. dollars		
	2007			2008			2008		
	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 costs									
Stocks	¥1,075	¥2,790	¥1,714	**¥ 962**	**¥1,753**	**¥791**	**$10,573**	**$19,268**	**$8,694**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	92	119	26	**—**	**—**	**—**	**—**	**—**	**—**
	¥1,167	¥2,909	¥1,741	**¥ 962**	**¥1,753**	**¥791**	**$10,573**	**$19,268**	**$8,694**
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥ 468	¥ 383	¥ (84)	**¥ 428**	**¥ 377**	**¥ (51)**	**$ 4,711**	**$ 4,144**	**$ (567)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**92**	**61**	**(30)**	**1,013**	**677**	**(336)**
	¥ 468	¥ 383	¥ (84)	**¥ 521**	**¥ 438**	**¥ (82)**	**$ 5,725**	**$ 4,821**	**$ (903)**
Total	¥1,635	¥3,293	¥1,657	**¥1,483**	**¥2,192**	**¥709**	**$16,298**	**$24,089**	**$7,791**

(2) Available-for-sale securities sold in 2007 and 2008 (for the years ended December 31, 2007 and 2008)

	Millions of yen						Thousands of U.S. dollars		
	2007			**2008**			**2008**		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
	—	—	—	**¥112**	**¥12**	**—**	**$1,230**	**$131**	**—**

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

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
	Carrying value on consolidated balance sheets	Carrying value on consolidated balance sheets	Carrying value on consolidated balance sheets
Held-to-maturity debt securities			
Negotiable certificates of deposit	—	**¥3,000**	**$32,963**
Commercial paper	—	**1,996**	**21,940**
Available-for-sale securities			
Unlisted stocks	866	**655**	**7,204**
Investment limited liability partnerships	276	**200**	**2,199**

(4) The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		**2008**		**2008**	
	Within one year	More than one year	Within one year	More than one year	Within one year	More than one year
Held-to-maturity debt securities						
Negotiable certificates of deposit	—	—	**¥3,000**	**—**	**$32,963**	**—**
Commercial paper	—	—	**1,996**	**—**	**21,940**	**—**
Total	—	—	**¥4,996**	**—**	**$54,903**	**—**

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 used for hedging are summarizing as follows:

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

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

There remains 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, 2007 and 2008, derivatives were as follows:

Currency-related transactions

				Millions of yen
				2007
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts				
Purchased U.S.dollar	—	—	—	—

				Millions of yen
				2008
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts				
Purchased U.S.dollar	**¥126**	**—**	**¥127**	**¥0**

				Thousands of U.S. dollars
				2008
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts				
Purchased U.S.dollar	**$1,394**	**—**	**$1,398**	**$4**

6. Inventories

Inventories at December 31, 2007 and 2008 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Merchandise and maintenance parts	¥16,072	**¥15,526**	**$170,600**
Work-in-process	737	**892**	**9,806**
Supplies	114	**107**	**1,181**
	¥16,923	**¥16,526**	**$181,588**

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

The annual average interest rates applicable to short-term bank loans at December 31, 2007 and 2008 were 1.45% and 1.32%, respectively.

Long-term debt at December 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Long-term loans from banks with annual interest rates:			
1.63%	¥2,751	**¥130**	**$1,428**
	2,751	**130**	**1,428**
Less : Current maturities of long-term debts	(2,621)	**(40)**	**(439)**
	¥ 130	**¥ 90**	**$ 988**

Aggregate annual maturities of long-term debt subsequent to December 31, 2008 are as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 40	$ 439
2010	40	439
2011	40	439
2012	10	109
	¥130	$1,428

8. Reserve for Retirement Benefits

(1) Retirement benefit plan

The Company and certain its subsidiaries operated a defined contribution 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, 2007 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Projected benefit obligations	¥ (29,317)	**¥(31,095)**	**$(341,668)**
Plan assets	39,741	**26,742**	**293,836**
	10,423	**(4,353)**	**(47,831)**
Unrecognized prior service cost	(5,698)	**(5,007)**	**(55,023)**
Unrecognized actuarial gain or loss	(3,351)	**10,248**	**112,609**
	1,374	**887**	**9,755**
Prepaid pension cost	2,690	**2,401**	**26,390**
Reserve for retirement benefits	¥ (1,316)	**¥(1,514)**	**$(16,635)**

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2007 and 2008 included retirement benefits for directors in the amounts of 504 million yen and 530 million yen (5,825 thousand U.S. dollars), respectively.

(3) Pension expense related to the retirement benefits for the years ended December 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Service cost	¥ 2,731	**¥2,352**	**$25,846**
Interest cost	525	**431**	**4,742**
Expected return on plan assets	(1,240)	**(1,192)**	**(13,100)**
Amortization of the unrecognized prior service cost	(690)	**(690)**	**(7,589)**
Amortization of the unrecognized actuarial gain or loss	11	**(187)**	**(2,058)**
Payments for defined contribution pension plan	377	**772**	**8,489**
Additional benefits for employees' early retirement	188	**151**	**1,666**
Net periodic pension cost	¥ 1,903	**¥1,638**	**$17,998**
Gain on transition of retirement benefit plan	¥(4,298)	**—**	**—**

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

(4) Computation basis of pension liabilities

As of December 31, 2007and 2008

	2007	**2008**
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

A reconciliation between the normal statutory tax rates and the effective tax rates reflected in the accompanying consolidated statements of income for the years ended December 31, 2007 and 2008 was as follows:

	2007	**2008**
Statutory tax rate	40.7%	**40.7%**
Expenses not deductible for tax purposes	0.6%	**0.7%**
Per capita inhabitant tax	0.4%	**0.5%**
Valuation allowance	1.7%	**2.4%**
Deduction for tax incentive to help strengthen information infrastructure for business	(0.4%)	**(0.1%)**
Other	0.1%	**(0.5%)**
Effective tax rate	43.1%	**43.7%**

At December 31, 2007 and 2008, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Deferred tax assets:			
Allowance for doubtful accounts	¥ 299	**¥ 322**	**$3,545**
Enterprise taxes	753	**519**	**5,704**
Accrued bonuses	1,111	**1,018**	**11,187**
Retirement benefits for employees	537	**617**	**6,786**
Retirement benefits for directors	205	**216**	**2,377**
Impairment losses	781	**742**	**8,163**
Software cost	1,240	**1,357**	**14,915**
Eliminated unrealized profits	420	**411**	**4,520**
Other	1,050	**1,185**	**13,029**
Total deferred tax assets	6,401	**6,391**	**70,230**
Less: Valuation allowance	(823)	**(1,443)**	**(15,859)**
Net deferred tax assets	5,578	**4,948**	**54,370**
Deferred tax liabilities:			
Reserve for computer program	1,035	**639**	**7,023**
Prepaid pension cost	1,097	**979**	**10,763**
Unrealized gains on available-for-sale securities	674	**288**	**3,167**
Other	19	**21**	**233**
Total deferred tax liabilities	2,826	**1,928**	**21,187**
Net deferred tax assets	¥2,751	**¥3,019**	**$33,182**

10. Supplementary Cash Flow Information

Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Cash, time deposits and other cash equivalents	¥24,785	**¥21,544**	**$236,726**
Time deposits with deposit terms of more than three months	(105)	**(55)**	**(604)**
Short-term investments with maturity or redemption dates within three months of acquisition date	—	**4,996**	**54,903**
Trust beneficiary interests included in other current assets with investment terms with three months or less	694	**683**	**7,506**
Cash and cash equivalents at end of year	¥25,374	**¥27,169**	**$298,531**

11. Subsequent Events

(1) Appropriation

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2008 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 27, 2009:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥130.00 per share)	¥4,108	$45,140

12. Lease Transactions

The *proforma* information of acquisition costs, accumulated depreciation and net book values of leased assets at December 31, 2007 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Acquisition cost	¥6,152	**¥4,617**	**$50,736**
Accumulated depreciation	(3,543)	**(2,602)**	**(28,600)**
Net book value	¥2,608	**¥2,014**	**$22,136**

Future minimum lease payments under finance leases at December 31, 2007 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Due within one year	¥ 998	**¥ 795**	**$ 8,744**
Due after one year	1,652	**1,260**	**13,846**
	¥2,650	**¥2,056**	**$22,591**

Lease rental expenses, depreciation and interest expenses for the years ended December 31, 2007 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Lease rental expenses	¥1,311	**¥1,060**	**$11,653**
Depreciation	1,254	**1,009**	**11,095**
Interest expenses	59	**48**	**529**

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, 2007 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Due within one year	¥ 761	**¥ 663**	**$ 7,292**
Due after one year	2,088	**1,574**	**17,300**
	¥2,850	**¥2,238**	**$24,593**

13. Shareholders' Equity

The Companies Act of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

14. 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 1,212 million yen and 672 million yen (7,391 thousand U.S. dollars) at December 31, 2007 and 2008, respectively.

15. Pledged Assets

At December 31, 2007 and 2008, assets pledged as collateral for accounts and notes payable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2008**	**2008**
Time deposits	¥5	**¥5**	**$54**
	¥5	**¥5**	**$54**

16. 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, 2007 and 2008 amounted to 829 million yen and 757 million yen (8,324 thousand U.S. dollars), respectively.

17. Segment Information

The business segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2007 and 2008 is summarized as follows:

(1) Business segment information

	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

	Millions of yen					
	2008					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
Net sales to:						
Third parties	**¥266,476**	**¥198,761**	**¥1,916**	**¥467,154**	**¥ —**	**¥467,154**
Inter-segment sales/transfers	**191**	**296**	**2,142**	**2,630**	**(2,630)**	**—**
	266,668	**199,057**	**4,058**	**469,785**	**(2,630)**	**467,154**
Operating expenses	**243,679**	**187,517**	**3,911**	**435,108**	**4,956**	**440,064**
Operating income	**¥ 22,989**	**¥ 11,539**	**¥ 146**	**¥ 34,676**	**¥ (7,586)**	**¥ 27,089**
Assets, depreciation, impairment losses and capital expenditure:						
Assets	**¥ 82,639**	**¥ 75,758**	**¥1,618**	**¥160,017**	**¥36,928**	**¥196,946**
Depreciation and amortization	**2,898**	**2,215**	**22**	**5,136**	**875**	**6,012**
Impairment losses	**14**	**291**	**—**	**305**	**(30)**	**275**
Capital expenditure	**2,915**	**1,790**	**8**	**4,715**	**819**	**5,535**

	Thousands of U.S. dollars					
	2008					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
Net sales to:						
Third parties	**$2,927,996**	**$2,183,950**	**$21,055**	**$5,133,002**	**$ —**	**$5,133,002**
Inter-segment sales/transfers	**2,106**	**3,257**	**23,540**	**28,904**	**(28,904)**	**—**
	2,930,102	**2,187,208**	**44,595**	**5,161,907**	**(28,904)**	**5,133,002**
Operating expenses	**2,677,498**	**2,060,410**	**42,980**	**4,780,888**	**54,456**	**4,835,345**
Operating income	**$ 252,604**	**$ 126,798**	**$ 1,614**	**$ 381,018**	**$ (83,360)**	**$ 297,657**
Assets, depreciation, impairment losses and capital expenditure:						
Assets	**$ 908,029**	**$ 832,424**	**$17,786**	**$1,758,239**	**$405,766**	**$2,164,006**
Depreciation and amortization	**31,848**	**24,342**	**249**	**56,441**	**9,621**	**66,062**
Impairment losses	**163**	**3,198**	**—**	**3,362**	**(330)**	**3,031**
Capital expenditure	**32,040**	**19,675**	**95**	**51,811**	**9,009**	**60,820**

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
	2007	**2008**	**2008**
Non-allocable operating expenses	¥ 7,326	**¥ 7,654**	**$ 84,110**
Corporate assets	37,262	**38,304**	**420,885**

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, 2008 and 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.

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, 2008 and 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, 2008 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 LLC

March 27, 2009