Financial Section

Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries
Years ended December 31, 2007, 2008 and 2009

	Millions of yen			Thousands of U.S. dollars
	2007	2008	**2009**	**2009**
Net sales	¥469,481	¥467,154	**¥429,927**	**$4,669,566**
System Integration business	279,753	266,476	**226,688**	**2,462,130**
Service and Support business	187,358	198,761	**200,938**	**2,182,449**
Other business	2,370	1,916	**2,300**	**24,987**
Operating income	30,051	27,089	**16,094**	**174,801**
Ordinary income	30,520	27,628	**16,427**	**178,418**
Income before income taxes and minority interests	33,597	25,934	**16,237**	**176,359**
Net income	18,856	14,371	**8,782**	**95,390**
Total assets	200,383	196,946	**198,076**	**2,151,371**
Interest-bearing debt	10,051	9,630	**8,684**	**94,325**
Equity	87,259	96,876	**101,740**	**1,105,029**
Net income per share (EPS) (Yen and U.S. dollars)	596.69	454.76	**277.92**	**3.02**
Dividends per share of common stock (Yen and U.S. dollars)	130.00	130.00	**130.00**	**1.41**
Cash flows from operating activities per share (Yen and U.S. dollars)	527.02	422.35	**505.74**	**5.49**
Operating income to Net sales ratio (%)	6.40	5.80	**3.74**	—
Net income to Net sales ratio (%)	4.02	3.08	**2.04**	—
Interest-bearing debt ratio (%)	5.02	4.89	**4.38**	—
Equity ratio (%)	43.55	49.19	**51.36**	—
Return on equity (ROE) (%)	23.55	15.61	**8.84**	—

Notes:
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, 2009 exchange rate of ¥92.07 = US$1.

Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

	2008	2009	Difference to Last Year	% Change to Last Year
				Millions of yen
Net sales	¥467,154	**¥429,927**	-37,227	-8.0%
System Integration business	266,476	**226,688**	-39,788	-14.9
Service & Support business	198,761	**200,938**	+2,176	+1.1
Other business	1,916	**2,300**	+384	+20.1
Cost of sales	359,754	**335,436**	-24,317	-6.8
Gross profit	107,399	**94,490**	-12,909	-12.0
Selling, general and administrative expenses	80,310	**78,396**	-1,913	-2.4
Operating income	27,089	**16,094**	-10,995	-40.6
Ordinary income	27,628	**16,427**	-11,201	-40.5
Income before income taxes and minority interests	25,934	**16,237**	-9,697	-37.4
Income taxes				
Current	11,212	**7,861**	-3,350	-29.9
Deferred	117	**-602**	-719	—
Net income	14,371	**8,782**	-5,588	-38.9

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded consolidated net sales of ¥429,927 million, a decrease of ¥37,227 million (8.0%) 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, sales of SI-related products declined sharply owing to the adverse effects of curtailments in IT investments by companies. Consequently, net sales in the System Integration business declined 14.9% to ¥226,688 million.

Service and Support Business

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. With companies continuing to reduce expenses, our "tanomail" office supply mail-order service business steadily secured an increase in sales due in part to the effects of the implementation of a sales campaign. On the other hand, our "tayoreru" support business recorded sales at a level only slightly above the amount of the previous fiscal year, as customers re-evaluated the contents of their service contracts and cut back on the use of copies. As a result, net sales in the Service and Support business rose 1.1% to ¥200,938 million.

Other Business

In the Other business, net sales increased 20.1% from the previous fiscal year to ¥2,300 million.

Summary of Income and Expenses

Regarding profits, gross profit declined 12.0% to ¥94,490 million due to a decrease in the gross profit margin and lower net sales. Despite efforts to curb selling, general and administrative (SG&A) expenses, operating income declined 40.6% to ¥16,094 million, ordinary income decreased 40.5% to ¥16,427 million, income before income taxes and minority interests decreased 37.4% to ¥16,237 million and net income was down 38.9% to ¥8,782 million. Net income per share amounted to ¥277.92.

Financial Position

				Millions of yen
	2008	**2009**	Difference to Last Year	% Change to Last Year
Assets:	¥196,946	**¥198,076**	+1,130	+0.6%
Current assets	129,178	**133,729**	+4,550	+3.5
Fixed assets	67,767	**64,347**	-3,420	-5.0
Liabilities:	99,155	**95,297**	-3,858	-3.9
Current liabilities	95,880	**92,293**	-3,586	-3.7
Fixed liabilities	3,275	**3,004**	-271	-8.3
Net assets	97,790	**102,779**	+4,989	+5.1

Assets

Total assets at fiscal year-end increased ¥1,130 million from the previous fiscal year-end to ¥198,076 million. Current assets increased ¥4,550 million from the previous fiscal year-end to ¥133,729 million due to a rise in cash and time deposits. Fixed assets declined ¥3,420 million from the previous fiscal year-end to ¥64,347 million.

Liabilities

Total liabilities declined ¥3,858 million to ¥95,297 million. Current liabilities declined ¥3,586 million to ¥92,293 million due to a decrease in income taxes payable. Fixed liabilities decreased ¥271 million from the previous fiscal year-end to ¥3,004 million.

Net Assets

Total net assets rose ¥4,989 million from the previous fiscal year-end to ¥102,779 million owing to such factors as an increase in retained earnings. As a result, the equity ratio rose 2.2 percentage points to 51.4%.

The interest coverage ratio was 134.84 times; the interest-bearing debt ratio was 4.38%; return on equity (ROE) was 8.84%; and return on assets (ROA) was 8.23%.

	2008	**2009**
Interest coverage ratio (times)	183.65	**134.84**
Interest-bearing debt ratio (%)	4.89	**4.38**
ROE (%)	15.61	**8.84**
ROA (%)	13.78	**8.23**

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 income + Interest on securities + Dividends income + Equity in net income (loss) of unconsolidated subsidiaries and affiliates

Cash flows

	Millions of yen	
	2008	**2009**
Cash flows from operating activities	¥13,347	**¥15,982**
Cash flows from investing activities	-6,960	**-4,927**
Cash flows from financing activities	-4,591	**-5,417**
Cash and cash equivalents at end of year	27,169	**32,806**

Cash Flows

Cash and cash equivalents at end of year totaled ¥32,806 million, an increase of ¥5,636 million (20.7%) 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 increased ¥2,635 million (19.7%) to ¥15,982 million. This was due mainly to a decrease in income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥2,033 million (29.2%) to ¥4,927 million. This was due mainly to a decrease in payments for purchase of investments in securities.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥826 million (18.0%) to ¥5,417 million. This was due mainly to a net decrease in short-term bank loans.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, increased ¥4,668 million to ¥11,054 million.

Forecast

In fiscal 2010, the Company forecasts a 4.9% increase in consolidated net sales to ¥451,000 million, a 3.8% increase in operating income to ¥16,700 million, a 3.5% increase in ordinary income to ¥17,000 million and a 4.3% increase in net income to ¥9,160 million.

By segment, we forecast a 6.0% increase in net sales to ¥240,330 million in the System Integration business, a 3.7% increase to ¥208,340 million in the Service and Support business and a 1.3% rise to ¥2,330 million in the Other business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2008 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	**2009**	**2009**
ASSETS			
Current assets			
Cash, time deposits and other cash equivalents (Notes 10 and 15)	¥ 21,544	**¥ 27,716**	**$ 301,033**
Accounts and notes receivable:			
Trade	71,056	**71,347**	**774,923**
Unconsolidated subsidiaries and affiliates	157	**1,005**	**10,917**
Other	6,737	**4,149**	**45,063**
	77,951	**76,501**	**830,904**
Less: Allowance for doubtful accounts	(271)	**(459)**	**(4,995)**
	77,680	**76,041**	**825,908**
Short-term investments (Notes 4 and 10)	4,996	**4,998**	**54,285**
Inventories (Note 6)	16,526	**16,436**	**178,523**
Deferred tax assets (Note 9)	2,341	**2,740**	**29,760**
Other current assets (Note 10)	6,089	**5,796**	**62,959**
Total current assets	129,178	**133,729**	**1,452,471**
Investments and other assets			
Investments in securities (Note 4)	3,048	**2,465**	**26,776**
Investments in unconsolidated subsidiaries and affiliates	3,307	**3,358**	**36,480**
Guarantee deposits	3,285	**3,281**	**35,639**
Deferred tax assets non-current (Note 9)	1,360	**1,227**	**13,333**
Other investments	4,910	**3,217**	**34,949**
Less: Allowance for doubtful accounts	(932)	**(1,037)**	**(11,266)**
Less:Allowance for investment loss	—	**(34)**	**(375)**
	14,979	**12,478**	**135,536**
Property and equipment (Note 14)			
Land	16,727	**17,193**	**186,739**
Buildings and structures	62,244	**62,121**	**674,716**
Other	13,708	**14,287**	**155,184**
	92,680	**93,602**	**1,016,640**
Less: Accumulated depreciation	(44,978)	**(47,337)**	**(514,147)**
Net property and equipment	47,702	**46,264**	**502,492**
Intangibles and deferred charges			
Software	4,922	**5,486**	**59,588**
Other	163	**118**	**1,282**
	5,085	**5,604**	**60,870**
Total assets	¥196,946	**¥198,076**	**$2,151,371**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	**2009**	**2009**
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term bank loans (Note 7)	¥ 9,500	**¥ 8,300**	**$ 90,148**
Current maturities of long-term debts (Note 7)	40	**40**	**434**
Accounts and notes payable: (Note 15)			
Trade	53,629	**55,000**	**597,378**
Unconsolidated subsidiaries and affiliates	678	**831**	**9,027**
Other	13,400	**12,897**	**140,085**
	67,709	**68,729**	**746,491**
Income taxes payable (Note 9)	5,297	**2,516**	**27,334**
Other current liabilities	13,333	**12,707**	**138,017**
Total current liabilities	95,880	**92,293**	**1,002,426**
Long-term liabilities			
Long-term debt (Note 7)	90	**50**	**543**
Reserve for retirement benefits (Note 8)	2,044	**2,125**	**23,087**
Deferred tax liabilities non-current (Note 9)	671	**93**	**1,013**
Deferred tax liabilities on revaluation of land (Note 14)	216	**216**	**2,355**
Other long-term liabilities	253	**518**	**5,627**
Total fixed liabilities	3,275	**3,004**	**32,627**
Net assets			
Shareholders' equity (Note 13)			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: 31,667,020 shares as of December 31, 2008 and 2009	10,374	**10,374**	**112,684**
Capital surplus	16,254	**16,254**	**176,547**
Retained earnings	85,652	**89,307**	**969,991**
Treasury stock 65,342 shares as of December 31, 2008 and 65,425 shares as of December 31, 2009	(122)	**(123)**	**(1,338)**
Total shareholders' equity	112,159	**115,813**	**1,257,885**
Valuation and translation adjustments			
Unrealized gains on available-for-sale securities	429	**380**	**4,128**
Revaluation differences on land (Note 14)	(15,574)	**(14,331)**	**(155,657)**
Foreign currency translation adjustments	(137)	**(122)**	**(1,327)**
Total valuation and translation adjustments	(15,282)	**(14,073)**	**(152,855)**
Minority interests in consolidated subsidiaries	913	**1,039**	**11,287**
Total net assets	97,790	**102,779**	**1,116,317**
Total liabilities and net assets	¥196,946	**¥198,076**	**$2,151,371**

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, 2008 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2009	2009
Net sales (Note 17)	¥467,154	**¥429,927**	**$4,669,566**
Cost of sales (Notes 16 and 17)	359,754	**335,436**	**3,643,279**
Gross profit	107,399	**94,490**	**1,026,286**
Selling, general and administrative expenses (Notes 16 and 17)	80,310	**78,396**	**851,484**
Operating income	27,089	**16,094**	**174,801**
Other income (expenses)			
Interest and dividend income	173	**151**	**1,643**
Interest expenses	(148)	**(120)**	**(1,306)**
Reversal of allowance for doubtful accounts	22	**0**	**1**
Provision for allowance for doubtful accounts	(50)	**(152)**	**(1,661)**
Gain (loss) on change in equity interest	(17)	**5**	**64**
Equity in net income of unconsolidated subsidiaries and affiliates	18	**1**	**13**
Gain on sales of fixed assets	7	**—**	**—**
Loss on disposal of fixed assets	(1,108)	**(131)**	**(1,428)**
Impairment losses	(275)	**(292)**	**(3,173)**
Loss on devaluation of investments in securities	(284)	**(81)**	**(881)**
Gain on sales of investment securities	12	**415**	**4,516**
Provision of allowance for investment loss	—	**(34)**	**(375)**
Other, net	494	**381**	**4,146**
	(1,155)	**143**	**1,557**
Income before income taxes and minority interests	25,934	**16,237**	**176,359**
Income taxes (Note 9)			
Current	11,212	**7,861**	**85,386**
Deferred	117	**(602)**	**(6,542)**
	11,329	**7,259**	**78,843**
Minority interests	233	**195**	**2,125**
Net income	¥ 14,371	**¥ 8,782**	**$ 95,390**

	yen		U.S. dollars (Note 3)
Net income and dividends per share (Note 2(13))			
Basic net income	¥454.76	**¥277.92**	**$3.02**
Diluted net income	454.53	**277.82**	**3.02**
Cash dividends	130.00	**130.00**	**1.41**

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, 2008 and 2009

						Millions of yen
		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	¥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
Dividends				(4,108)		(4,108)
Net income				8,782		8,782
Reversal of revaluation differences on land				(1,019)		(1,019)
Purchase of treasury stock					(0)	(0)
Items other than changes in shareholders' equity						
Balance at December 31, 2009	31,667,020	¥10,374	¥16,254	¥89,307	¥(123)	¥115,813

						Millions of yen
	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	¥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
Dividends						(4,108)
Net income						8,782
Reversal of revaluation differences on land						(1,019)
Purchase of treasury stock						(0)
Items other than changes in shareholders' equity	(48)	1,243	15	1,209	125	1,334
Balance at December 31, 2009	¥380	¥(14,331)	¥(122)	¥(14,073)	¥1,039	¥102,779

The accompanying notes are an integral part of these statements.

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2008 and 2009

		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, 2008	31,667,020	$112,684	$176,547	$930,298	$(1,334)	$1,218,195
Dividends				(44,620)		(44,620)
Net income				95,390		95,390
Reversal of revaluation differences on land				(11,076)		(11,076)
Purchase of treasury stock					(3)	(3)
Items other than changes in shareholders' equity						
Balance at December 31, 2009	31,667,020	$112,684	$176,547	$969,991	$(1,338)	$1,257,885

	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, 2008	$4,660	$(169,160)	$(1,492)	$(165,992)	$ 9,927	$1,062,130
Dividends						(44,620)
Net income						95,390
Reversal of revaluation differences on land						(11,076)
Purchase of treasury stock						(3)
Items other than changes in shareholders' equity	(531)	13,502	165	13,136	1,360	14,497
Balance at December 31, 2009	$4,128	$(155,657)	$(1,327)	$(152,855)	$11,287	$1,116,317

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, 2008 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	**2009**	**2009**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥25,934	**¥16,237**	**$176,359**
Depreciation and amortization	6,012	**5,939**	**64,508**
Equity in net income of unconsolidated subsidiaries and affiliates	(18)	**(1)**	**(13)**
Increase (decrease) in reserve for retirement benefits	486	**1,235**	**13,422**
Increase in allowance for doubtful accounts	131	**293**	**3,186**
Interest and dividend income	(150)	**(123)**	**(1,340)**
Interest income on securities	(23)	**(27)**	**(302)**
Interest expenses	148	**120**	**1,306**
Loss (gain) on sales of noncurrent assets	10	**43**	**474**
Loss on retirement of noncurrent assets	943	**84**	**921**
Impairment losses	275	**292**	**3,173**
Loss (gain) on sales of investment securities	(12)	**(415)**	**(4,516)**
Loss on devaluation of investments in securities	284	**81**	**881**
Increase (decrease) in allowance for investment loss	—	**34**	**375**
Loss (gain) from change in equity interest	17	**(5)**	**(64)**
Decrease (increase) in accounts and notes receivable	3,511	**1,247**	**13,552**
Decrease (increase) in inventories	397	**73**	**800**
Increase (decrease) in accounts and notes payable	(7,298)	**944**	**10,258**
Other	(2,876)	**438**	**4,759**
Subtotal	27,773	**26,492**	**287,744**
Interest and dividend income received	202	**179**	**1,950**
Interest expenses paid	(148)	**(122)**	**(1,331)**
Income taxes paid	(14,479)	**(10,567)**	**(114,774)**
Net cash provided by operating activities	13,347	**15,982**	**173,588**
Cash flows from investing activities:			
Payments for purchase of property and equipment	(2,812)	**(2,278)**	**(24,746)**
Proceeds from sales of property and equipment	292	**11**	**124**
Payments for software developed	(2,702)	**(3,167)**	**(34,402)**
Payments for purchase of investments in securities	(1,293)	**(104)**	**(1,137)**
Proceeds from sales of investments in securities	112	**841**	**9,139**
Payments for long-term loans receivable	(355)	**(124)**	**(1,356)**
Proceeds from long-term loans receivable	92	**166**	**1,811**
Other	(294)	**(271)**	**(2,953)**
Net cash used in investing activities	(6,960)	**(4,927)**	**(53,521)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	2,200	**(1,200)**	**(13,033)**
Repayments for long-term debts	(2,621)	**(40)**	**(434)**
Cash dividends paid	(4,107)	**(4,107)**	**(44,609)**
Other	(63)	**(70)**	**(768)**
Net cash used in financing activities	(4,591)	**(5,417)**	**(58,846)**
Effect of exchange rate changes on cash and cash equivalents	—	**0**	**2**
Net increase in cash and cash equivalents	1,794	**5,636**	**61,223**
Cash and cash equivalents at beginning of year	25,374	**27,169**	**295,094**
Cash and cash equivalents at end of year (Note 10)	¥27,169	**¥32,806**	**$356,318**

The accompanying notes are an integral part of these statements.

1. Basis of Presentation of 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.

Certain reclassifications have been made in the consolidated financial statements for the year ended December 31, 2008 to conform to the presentation for the year ended December 31, 2009.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The Company had 12 subsidiaries (majority-owned companies) and 13 subsidiaries as at December 31, 2008 and 2009, respectively. The consolidated financial statements include the accounts of the Company and 8 subsidiaries for the years ended December 31, 2008 and 2009.

The 8 subsidiaries which were consolidated in the year ended December 31, 2009 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 4 unconsolidated subsidiaries and 5 unconsolidated subsidiaries as at December 31, 2008 and 2009, 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 4 unconsolidated subsidiaries and 9 affiliates at December 31, 2008 and 5 unconsolidated subsidiaries and 9 affiliates at December 31,2009.

The Company had 3 investments in affiliate for the equity method at December 31, 2008 and 2009. 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 investments in affiliate by the equity method at December 31, 2009, are listed below:

	A ratio of voting rights held by the Company
SIOS Technology, Inc.	47.0%
Otsuka Information Technology Corp.	39.2%
LION OFFICE PRODUCTS CORP.	40.4%

(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 stated at cost (the book value of inventories on the balance sheet is stated, by writing down based on their decrease in profitability).

Merchandise	Primarily, moving-average method
Work in process	Specific identification method
Raw materials and supplies	Primarily, moving-average method

(Fiscal year 2009)

Effective the year ended December 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Measurement of Inventories" issued by the Accounting Standards Board of Japan ("ASBJ") on july 5, 2006.

As a result, operating income and income before income taxes and minority interests decreased by 106 million yen (1,153 thousand U.S. dollars), respectively.

(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.

The derivatives designated as hedging instruments by the Companies are forward foreign exchange contracts. The related hedged items are accounts payable denominated in foreign currencies.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Companies' exposure to the risks of 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 (excluding lease assets)

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.

(7) Accounting for leases

Effective from the current fiscal year , finance leases that do not transfer ownership of the leased assets to the lessee are depreciated using the straight-line method over the period of the lease, with zero residual value.

Previously, the Company and its domestic consolidated subsidiaries treated finance leases that do not transfer ownership of the leased assets to the lessee as operating leases. Effective from the current fiscal year, however, the Company and its domestic consolidated subsidiaries have applied “Accounting Standard for Lease Transactions” (ASBJ, Statement No.13, March 30, 2007; revised from standard originally issued by the Corporate Accounting Counncil on June 17 ,1993) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ, Guidance No.16, March 30, 2007; revised from the standard originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994). Accordingly, from the current fiscal year, the Company and its domestic consolidated subsidiaries have treated such leases as capital leases.

For finance leases that do not transfer ownership of the leased assets to the lessee commencing on or before December 31, 2008, they will continue to be accounted for by a method corresponding to that used for operating leases.

There was no effect of this change on operating income, income before income taxes and minority interests and net income in the current fiscal year.

(8) Software and other intangible assets(excluding lease assets)

Development costs of computer software to be sold are amortized based on the estimated volume of sales or the estimated sales revenue with the minimum amortization amount calculated based on a useful life of three 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 historical rate of losses from bad debts for ordinary receivables, and on the estimated collectability of receivables from companies in financial difficulty.

(11) Allowance for investment loss

An allowance for investment loss is provided at an estimated amount of possible investment losses for investment in affiliates etc., based on the financial condition of the investees.

(Fiscal year 2009)

Effective the year ended December 31, 2009, an allowance for investment loss is provided at an estimated amount of possible investment losses for investment in affiliates etc., based on the financial condition of the investees. As a result, income before income taxes and minority interests decreased by 34 million yen (375 thousand U.S. dollars).

(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 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 seven 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.

(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

Amounts of less than a million yen have been omitted.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥92.07=US$1, the rate of exchange on December 31, 2009, 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 of settled in U.S. dollars at this or any other rate.

4. Investments in Securities

At December 31, 2008 and 2009 investments in securities were as follows:

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

	Millions of yen						Thousands of U.S. dollars		
	2008			2009			2009		
	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	¥ 962	¥1,753	¥791	**¥ 762**	**¥1,483**	**¥721**	**$ 8,284**	**$16,116**	**$7,832**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 962	¥1,753	¥791	**¥ 762**	**¥1,483**	**¥721**	**$ 8,284**	**$16,116**	**$7,832**
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥ 428	¥ 377	¥ (51)	**¥ 254**	**¥ 216**	**¥ (37)**	**$ 2,759**	**$2,354**	**$ (404)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	¥ 92	¥ 61	¥ (30)	**92**	**71**	**(20)**	**1,002**	**775**	**(226)**
	¥ 521	¥ 438	¥ (82)	**¥ 346**	**¥ 288**	**¥ (58)**	**$ 3,761**	**$ 3,129**	**$ (631)**
Total	¥1,483	¥2,192	¥709	**¥1,109**	**¥1,772**	**¥662**	**$12,046**	**$19,246**	**$7,200**

(2) Available-for-sale securities sold in 2008 and 2009 (for the years ended December 31, 2008 and 2009)

	Millions of yen						Thousands of U.S. dollars		
	2008			2009			2009		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
	¥112	¥12	—	**¥841**	**¥415**	**—**	**$9,139**	**$4,516**	**—**

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

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
	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	**¥3,000**	**$32,583**
Commercial paper	1,996	**1,998**	**21,701**
Available-for-sale securities			
Unlisted stocks	655	**574**	**6,244**
Investment in limited liability partnerships	200	**118**	**1,285**

(4) The redemption schedule for securities classified as available-for-sale and held-to-maturity were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2008		2009		2009	
	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	—	**¥3,000**	**—**	**$32,583**	**—**
Commercial paper	1,996	—	**1,998**	**—**	**21,701**	**—**
Total	¥4,996	—	**¥4,998**	**—**	**$54,285**	**—**

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, however, do not enter into transactions involving derivatives for speculative purposes.

The derivatives designated as hedging instruments by the Companies are forward foreign exchange contracts. The related hedged items are accounts payable denominated in foreign currencies.

That remains the risk of foreign currency exchange fluctuations on currency transactions. As the Companies enter into derivative transactions only with financial institutions which have high credit ratings, 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, 2008 and 2009, derivatives were as follows:
Currency-related transactions

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

	Millions of yen			
	2009			
	Contractual value or notional principal amount			Valuation gain
	Total	Over one year	Fair value	(loss)
Forward foreign exchange contracts purchased U.S.dollar	**¥36**	**—**	**¥36**	**¥0**

	Thousands of U.S. dollars			
	2009			
	Contractual value or notional principal amount			Valuation gain
	Total	Over one year	Fair value	(loss)
Forward foreign exchange contracts purchased U.S.dollar	**$391**	**—**	**$399**	**$8**

6. Inventories

Inventories at December 31, 2008 and 2009 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Merchandise	¥14,442	**¥14,191**	**$154,133**
Work in process	892	**1,179**	**12,813**
Raw materials and supplies	1,191	**1,065**	**11,576**
	¥16,526	**¥16,436**	**$178,523**

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

The annual average interest rates applicable to short-term bank loans at December 31, 2008 and 2009 were 1.32% and 1.11%, respectively.

Long-term debt at December 31, 2008 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Long-term loans from banks with annual interest rates:			
1.63%	¥130	**¥90**	**$977**
	130	**90**	**977**
Less : Current maturities of long-term debts	(40)	**(40)**	**(434)**
	¥ 90	**¥50**	**$543**

Aggregate annual maturities of long-term debt subsequent to December 31, 2009 are as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2010	¥40	$434
2011	40	434
2012	10	108
2013	—	—
	¥90	$977

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, 2008 and 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Projected benefit obligations	¥(31,095)	**¥(32,691)**	**$(355,071)**
Plan assets	26,742	**31,061**	**337,366**
	(4,353)	**(1,630)**	**(17,705)**
Unrecognized prior service cost	(5,007)	**(4,316)**	**(46,887)**
Unrecognized actuarial gain or loss	10,248	**5,599**	**60,813**
	887	**(348)**	**(3,779)**
Prepaid pension cost	2,401	**1,293**	**14,050**
Reserve for retirement benefits	¥(1,514)	**¥(1,641)**	**$(17,830)**

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2008 and 2009 included retirement benefits for directors in the amounts of 530 million yen and 483 million yen (5,256 thousand U.S. dollars), respectively.

(3) Pension expense related to the retirement benefits for the years ended December 31, 2008 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Service cost	¥2,352	**¥2,315**	**$25,143**
Interest cost	431	**456**	**4,961**
Expected return on plan assets	(1,192)	**(133)**	**(1,452)**
Amortization of the unrecognized prior service cost	(690)	**(690)**	**(7,502)**
Amortization of the unrecognized actuarial gain or loss	(187)	**928**	**10,082**
Payments for defined contribution pension plan	772	**781**	**8,491**
Additional benefits for employees' early retirement	151	**145**	**1,577**
Net periodic pension cost	¥1,638	**¥3,802**	**$41,303**

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

(4) Computation basis of pension liabilities

As of December 31, 2008 and 2009

	2008	**2009**
Discount rate	1.5%	**1.5%**
Expected rate of return on plan assets	3.0%	**0.5%**
Periodic allocation principle for projected benefit obligation	Straight line basis	**Straight line basis**
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 statutory tax rates and the effective tax rates reflected in the accompanying consolidated statements of income for the years ended December 31, 2008 and 2009 was as follows:

	2008	**2009**
Statutory tax rate	40.7%	**40.7%**
Expenses not deductible for tax purposes	0.7%	**0.8%**
Per capita inhabitant tax	0.5%	**0.8%**
Valuation allowance	2.4%	**2.2%**
Deduction for tax incentive to help strengthen information infrastructure for business	△0.1%	**△0.1%**
Other	△0.5%	**0.3%**
Effective tax rate	43.7%	**44.7%**

At December 31, 2008 and 2009, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Deferred tax assets:			
Allowance for doubtful accounts	¥ 322	**¥ 384**	**$ 4,170**
Enterprise taxes	519	**290**	**3,149**
Accrued bonuses	1,018	**977**	**10,614**
Retirement benefits for employees	617	**671**	**7,289**
Retirement benefits for directors	216	**197**	**2,146**
Impairment losses	742	**1,109**	**12,048**
Software cost	1,357	**1,611**	**17,508**
Eliminated unrealized profits	411	**355**	**3,857**
Other	1,185	**1,503**	**16,332**
Total deferred tax assets	6,391	**7,100**	**77,118**
Less: Valuation allowance	(1,443)	**(2,045)**	**(22,216)**
Net deferred tax assets	4,948	**5,054**	**54,901**
Deferred tax liabilities:			
Reserve for computer program	639	**333**	**3,625**
Prepaid pension cost	979	**527**	**5,734**
Unrealized gains on available-for-sale securities	288	**269**	**2,927**
Other	21	**59**	**641**
Total deferred tax liabilities	1,928	**1,190**	**12,928**
Net deferred tax assets	¥3,019	**¥3,864**	**$41,973**

10. Supplementary Cash Flow Information

Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Cash, time deposits and other cash equivalents	¥21,544	**¥27,716**	**$301,033**
Time deposits with deposit terms of more than three months	(55)	**(755)**	**(8,200)**
Short-term investments with maturity or redemption dates within three months of acquisition date	4,996	**4,998**	**54,285**
Trust beneficiary interests included in other current assets with investment terms with three months or less	683	**846**	**9,199**
Cash and cash equivalents at end of year	¥27,169	**¥32,806**	**$356,318**

11. Dividends

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2009 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 26, 2010:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥130.00 per share)	¥4,108	$44,620

12. Lease Transactions

With regard to finance leases that do not transfer ownership of the leased assets to the lessee commencing on or before December 31, 2008, they will continue to be accounted for by a method corresponding to that used for operating leases.

The *proforma* information of acquisition costs, accumulated depreciation and net book values of leased assets at December 31, 2008 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Acquisition cost	¥4,617	**¥3,320**	**$36,066**
Accumulated depreciation	(2,602)	**(2,114)**	**(22,971)**
Net book value	¥2,014	**¥1,205**	**$13,095**

Future minimum lease payments under finance leases at December 31, 2008 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Due within one year	¥ 795	**¥ 621**	**$ 6,751**
Due after one year	1,260	**621**	**6,750**
	¥2,056	**¥1,243**	**$13,502**

Lease expenses, depreciation and interest expenses for the years ended December 31, 2008 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Lease expenses	¥1,060	**¥837**	**$9,095**
Depreciation	1,009	**788**	**8,558**
Interest expenses	48	**37**	**407**

Depreciation 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, 2008 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Due within one year	¥ 663	**¥ 297**	**$ 3,227**
Due after one year	1,574	**1,332**	**14,476**
	¥2,238	**¥1,629**	**$17,703**

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 672 million yen and 539 million yen (5,860 thousand U.S. dollars) at December 31, 2008 and 2009, respectively.

15. Pledged Assets

At December 31, 2008 and 2009, assets pledged as collateral for accounts and notes payable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
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, 2008 and 2009 amounted to 757 million yen and 348 million yen (3,780 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, 2008 and 2009 is summarized as follows:

(1) Business segment information

	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

	Millions of yen					
	2009					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
Net sales to:						
Third parties	**¥226,688**	**¥200,938**	**¥2,300**	**¥429,927**	**¥ —**	**¥429,927**
Inter-segment sales/transfers	**190**	**278**	**1,838**	**2,308**	**(2,308)**	**—**
	226,879	**201,216**	**4,139**	**432,235**	**(2,308)**	**429,927**
Operating expenses	**210,943**	**194,089**	**4,020**	**409,053**	**4,779**	**413,833**
Operating income	**¥ 15,935**	**¥ 7,127**	**¥ 119**	**¥ 23,181**	**¥(7,087)**	**¥ 16,094**
Assets, depreciation, impairment losses and capital expenditure:						
Assets	**¥ 78,262**	**¥ 74,671**	**¥2,625**	**¥155,559**	**¥42,516**	**¥198,076**
Depreciation and amortization	**2,789**	**2,270**	**25**	**5,085**	**854**	**5,939**
Impairment losses	**29**	**61**	**—**	**90**	**201**	**292**
Capital expenditure	**3,091**	**1,733**	**452**	**5,278**	**167**	**5,445**

	Thousands of U.S. dollars					
	2009					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
Net sales to:						
Third parties	**$2,462,130**	**$2,182,449**	**$24,987**	**$4,669,566**	**$ —**	**$4,669,566**
Inter-segment sales/transfers	**2,071**	**3,027**	**19,972**	**25,071**	**(25,071)**	**—**
	2,464,202	**2,185,476**	**44,959**	**4,694,638**	**(25,071)**	**4,669,566**
Operating expenses	**2,291,124**	**2,108,066**	**43,665**	**4,442,857**	**51,907**	**4,494,764**
Operating income	**$ 173,077**	**$ 77,409**	**$ 1,294**	**$ 251,780**	**$ (76,979)**	**$ 174,801**
Assets, depreciation, impairment losses and capital expenditure:						
Assets	**$ 850,034**	**$ 811,029**	**$28,518**	**$1,689,582**	**$ 461,788**	**$2,151,371**
Depreciation and amortization	**30,295**	**24,655**	**280**	**55,232**	**9,275**	**64,508**
Impairment losses	**316**	**669**	**—**	**985**	**2,187**	**3,173**
Capital expenditure	**33,578**	**18,828**	**4,920**	**57,327**	**1,820**	**59,148**

Notes ;

1. Business segments are defined in consideration of the operations of the companies.
2. Significant operations of each segment are as summarized as follows:

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
	2008	**2009**	**2009**
Non-allocable operating expenses	¥ 7,654	**¥ 7,170**	**$ 77,884**
Corporate assets	38,304	**44,293**	**481,086**

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

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

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

5. As described in Note 2 (4), effective the year ended December 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard, “Accounting Standard for Measurement of Inventories” issued by the Accounting Standards Board of Japan (“ASBJ”) on july 5, 2006. The effect of this change was to decrease operating income in the “System Integration” segment by 97 million yen (1,061 thousand U.S. dollars) and “Service & Support” segment by 8 million yen (91 thousand U.S. dollars).

(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, 2009 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2009 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 26, 2010