Financial Section

Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries
Years ended December 31, 2009, 2010 and 2011

	Millions of yen			Thousands of U.S. dollars
	2009	2010	**2011**	**2011**
Net sales	¥429,927	¥463,493	**¥478,215**	**$6,152,266**
System Integration business	226,688	253,541	**262,508**	**3,377,178**
Service and Support business	200,938	208,008	**214,576**	**2,760,540**
Other business	2,300	1,942	**1,130**	**14,546**
Operating income	16,094	19,013	**23,095**	**297,120**
Ordinary income	16,427	19,508	**23,315**	**299,954**
Income before income taxes and minority interests	16,237	18,687	**22,350**	**287,542**
Net income	8,782	10,631	**12,744**	**163,952**
Total assets	198,076	213,401	**229,610**	**2,953,951**
Interest-bearing debt	8,684	7,802	**8,415**	**108,266**
Equity	101,740	108,255	**116,633**	**1,500,500**
Net income per share (EPS) (Yen and U.S. dollars)	277.92	336.42	**403.28**	**5.19**
Dividends per share of common stock (Yen and U.S. dollars)	130.00	135.00	**155.00**	**1.99**
Cash flows from operating activities per share (Yen and U.S. dollars)	505.74	564.91	**732.82**	**9.42**
Operating income to Net sales ratio (%)	3.74	4.10	**4.83**	**—**
Net income to Net sales ratio (%)	2.04	2.29	**2.66**	**—**
Interest-bearing debt ratio (%)	4.38	3.66	**3.67**	**—**
Equity ratio (%)	51.36	50.73	**50.80**	**—**
Return on equity (ROE) (%)	8.84	10.13	**11.33**	**—**

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, 2011 exchange rate of ¥77.73 = US$1.

Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

	2010	**2011**	Difference to Last Year	% Change to Last Year
				Millions of yen
Net sales	¥463,493	**¥478,215**	+14,722	+3.2%
System Integration business	253,541	**262,508**	+8,966	+3.5
Service & Support business	208,008	**214,576**	+6,567	+3.2
Other business	1,942	**1,130**	-812	-41.8
Cost of sales	363,094	**371,828**	+8,733	+2.4
Gross profit	100,398	**106,387**	+5,988	+6.0
Selling, general and administrative expenses	81,385	**83,292**	+1,907	+2.3
Operating income	19,013	**23,095**	+4,081	+21.5
Ordinary income	19,508	**23,315**	+3,807	+19.5
Income before income taxes and minority interests	18,687	**22,350**	+3,663	+19.6
Income taxes				
Current	8,865	**9,629**	+763	+8.6
Deferred	-896	**-122**	+773	—
Net income	10,631	**12,744**	+2,112	+19.9

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded consolidated net sales of ¥478,215 million, an increase of ¥14,722 million (3.2%) 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. Despite the impact of the Great East Japan Earthquake and the flood damage in Thailand, we seized demand for replacement and upgrade systems at companies and active corporate demand for IT investment. Accordingly, we achieved growth in unit sales, including for PCs, servers and copiers. Consequently, the System Integration business recorded sales growth, with net sales rising 3.5% to ¥262,508 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. Although some products and services were adversely affected by the rolling power blackouts and the mood of voluntary restraint following the earthquake, our "tanomail" office supply mail-order service business achieved steady growth in sales, while sales from maintenance and other support rose slightly. As a result, net sales in the Service and Support business rose 3.2% to ¥214,576 million.

Other Business

In the Other Business, net sales declined 41.8% from the previous fiscal year to ¥1,130 million.

Summary of Income and Expenses

Regarding profits, gross profit increased 6.0% to ¥106,387 million due to growth in net sales. Because the rise in gross profit exceeded the increase in selling, general and administrative (SG&A) expenses, operating income increased 21.5% to ¥23,095 million, ordinary income increased 19.5% to ¥23,315 million, and net income was up 19.9% to ¥12,744 million. Net income per share amounted to ¥403.28.

Financial Position

				Millions of yen
	2010	**2011**	Difference to Last Year	% Change to Last Year
Assets:	¥213,401	**¥229,610**	+16,209	+7.6%
Current assets	148,251	**166,068**	+17,817	+12.0
Fixed assets	65,150	**63,542**	-1,608	-2.5
Liabilities:	104,469	**112,224**	+7,754	+7.4
Current liabilities	101,111	**108,180**	+7,069	+7.0
Fixed liabilities	3,358	**4,043**	+685	+20.4
Net assets	108,931	**117,385**	+8,454	+7.8

Assets

Total assets at fiscal year-end increased ¥16,209 million from the previous fiscal year-end to ¥229,610 million. Current assets increased ¥17,817 million from the previous fiscal year-end to ¥166,068 million due to a rise in cash and time deposits. Fixed assets declined ¥1,608 million from the previous fiscal year-end to ¥63,542 million.

Liabilities

Total liabilities increased ¥7,754 million to ¥112,224 million. Current liabilities increased ¥7,069 million to ¥108,180 million due to an increase in accounts and notes payable. Fixed liabilities increased ¥685 million from the previous fiscal year-end to ¥4,043 million.

Net Assets

Total net assets increased ¥8,454 million from the previous fiscal year-end to ¥117,385 million owing to such factors as an increase in retained earnings. As a result, the equity ratio rose 0.1 percentage point to 50.8%.

The interest coverage ratio was 299.28 times; the interest-bearing debt ratio was 3.67%; return on equity (ROE) was 11.33%; and return on assets (ROA) was 10.33%.

	2010	**2011**
Interest coverage ratio (times)	207.26	**299.28**
Interest-bearing debt ratio (%)	3.66	**3.67**
ROE (%)	10.13	**11.33**
ROA (%)	9.29	**10.33**

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

	2010	2011
	Millions of yen	
Cash flows from operating activities	¥17,851	**¥23,158**
Cash flows from investing activities	-7,527	**-4,604**
Cash flows from financing activities	-5,205	**-4,229**
Cash and cash equivalents at end of year	37,924	**52,320**

Cash Flows

Cash and cash equivalents at end of year totalled ¥52,320 million, an increase of ¥14,395 million (38.0%) 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 amounted to ¥23,158 million, an increase of ¥5,306 million from the previous fiscal year, due to an increase in income before income taxes and minority interests and a decrease in inventories.

Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥2,923 million from the previous fiscal year to ¥4,604 million due to such factors as the completion of the rebuilding of the Yokohama Building.

Cash Flows from Financing Activities

Net cash used in financing activities decreased ¥976 million to ¥4,229 million.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, increased ¥8,229 million to ¥18,553 million.

Forecast for Fiscal 2012

In fiscal 2012, the Company forecasts a 3.1% increase in consolidated net sales to ¥493,000 million, a 3.9% increase in operating income to ¥24,000 million, a 5.1% increase in ordinary income to ¥24,500 million and a 6.3% increase in net income to ¥13,550 million.

By segment, we forecast a 2.5% increase in net sales to ¥269,110 million in the System Integration business, a 3.9% increase to ¥222,990 million in the Service and Support business and a 20.4% decrease to ¥900 million in the Other business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	**2011**	**2011**
ASSETS			
Current assets			
Cash, time deposits and other cash equivalents (Notes 10 and 15)	¥ 32,669	**¥ 45,600**	**$ 586,655**
Accounts and notes receivable:			
Trade	75,574	**80,606**	**1,037,011**
Unconsolidated subsidiaries and affiliates	1,350	**1,146**	**14,753**
Other	5,225	**4,658**	**59,930**
	82,149	**86,412**	**1,111,695**
Less: Allowance for doubtful accounts	(608)	**(455)**	**(5,865)**
	81,541	**85,956**	**1,105,830**
Short-term investments (Notes 4 and 10)	5,000	**5,000**	**64,325**
Inventories (Note 6)	19,537	**17,613**	**226,594**
Deferred tax assets (Note 9)	3,505	**3,723**	**47,905**
Other current assets (Note 10)	5,997	**8,174**	**105,169**
Total current assets	148,251	**166,068**	**2,136,480**
Investments and other assets			
Investments in securities (Note 4)	2,460	**2,311**	**29,732**
Investments in unconsolidated subsidiaries and affiliates	2,992	**2,607**	**33,549**
Guarantee deposits	3,049	**2,555**	**32,875**
Deferred tax assets non-current (Note 9)	1,358	**1,354**	**17,427**
Other investments	3,326	**3,841**	**49,422**
Less: Allowance for doubtful accounts	(997)	**(1,099)**	**(14,142)**
	12,191	**11,571**	**148,865**
Property and equipment			
Land (Note 14)	17,179	**17,291**	**222,455**
Buildings and structures	61,939	**65,059**	**836,993**
Other	16,671	**14,525**	**186,874**
	95,791	**96,876**	**1,246,323**
Less: Accumulated depreciation	(48,562)	**(50,262)**	**(646,622)**
Net property and equipment	47,228	**46,614**	**599,700**
Intangibles and deferred charges			
Software	5,544	**5,197**	**66,870**
Other	185	**158**	**2,034**
	5,730	**5,355**	**68,905**
Total assets	¥213,401	**¥229,610**	**$2,953,951**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	**2011**	**2011**
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term bank loans (Note 7)	¥ 7,300	**¥ 7,400**	**$ 95,201**
Current maturities of long-term debts (Note 7)	40	**10**	**128**
Accounts and notes payable (Note 15):			
Trade	59,028	**61,341**	**789,155**
Unconsolidated subsidiaries and affiliates	1,010	**1,044**	**13,437**
Other	12,973	**14,996**	**192,924**
	73,012	**77,381**	**995,517**
Income taxes payable (Note 9)	5,182	**5,377**	**69,181**
Other current liabilities (Note 9)	15,576	**18,011**	**231,721**
Total current liabilities	101,111	**108,180**	**1,391,750**
Long-term liabilities			
Long-term debt (Note 7)	10	**—**	**—**
Reserve for retirement benefits (Note 8)	2,343	**2,384**	**30,674**
Deferred tax liabilities non-current (Note 9)	93	**83**	**1,073**
Deferred tax liabilities on revaluation of land (Note 14)	216	**189**	**2,443**
Other long-term liabilities	694	**1,386**	**17,833**
Total fixed liabilities	3,358	**4,043**	**52,025**
Net assets			
Shareholders' equity (Note 13)			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: 31,667,020 shares as of December 31, 2010 and 2011	10,374	**10,374**	**133,472**
Capital surplus	16,254	**16,254**	**209,118**
Retained earnings	95,830	**104,308**	**1,341,929**
Treasury stock			
65,718 shares as of December 31, 2010 and			
65,855 shares as of December 31, 2011	(124)	**(125)**	**(1,615)**
Total shareholders' equity	122,335	**130,812**	**1,682,904**
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	383	**291**	**3,746**
Revaluation differences on land (Note 14)	(14,331)	**(14,304)**	**(184,026)**
Foreign currency translation adjustments	(131)	**(165)**	**(2,123)**
Total accumulated other comprehensive income	(14,079)	**(14,178)**	**(182,403)**
Minority interests in consolidated subsidiaries	675	**752**	**9,674**
Total net assets	108,931	**117,385**	**1,510,175**
Total liabilities and net assets	¥213,401	**¥229,610**	**$2,953,951**

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, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	**2011**	**2011**
Net sales (Note 17)	¥463,493	**¥478,215**	**$6,152,266**
Cost of sales (Notes 16 and 17)	363,094	**371,828**	**4,783,585**
Gross profit	100,398	**106,387**	**1,368,680**
Selling, general and administrative expenses (Notes 16 and 17)	81,385	**83,292**	**1,071,560**
Operating income	19,013	**23,095**	**297,120**
Other income (expenses)			
Interest and dividend income	109	**108**	**1,401**
Interest expenses	(92)	**(76)**	**(983)**
Reversal of allowance for doubtful accounts	2	**91**	**1,179**
Provision for allowance for doubtful accounts	(202)	**(292)**	**(3,764)**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	(4)	**(325)**	**(4,187)**
Loss on disposal of fixed assets	(330)	**(167)**	**(2,157)**
Impairment losses	(127)	**(19)**	**(256)**
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	**(510)**	**(6,564)**
Loss on devaluation of investments in securities	(4)	**(48)**	**(617)**
Loss on devaluation of stocks of subsidiaries and affiliates	(113)	**(0)**	**(0)**
Loss on liquidation of subsidiaries and affiliates	(37)	**—**	**—**
Gain (loss) on sales of investment securities	(8)	**3**	**48**
Other, net	481	**491**	**6,325**
	(326)	**(744)**	**(9,578)**
Income before income taxes and minority interests	18,687	**22,350**	**287,542**
Income taxes (Note 9)			
Current	8,865	**9,629**	**123,877**
Deferred	(896)	**(122)**	**(1,582)**
	7,968	**9,506**	**122,295**
Income before minority interests	10,718	**12,844**	**165,246**
Minority interests	86	**100**	**1,294**
Net income	¥ 10,631	**¥ 12,744**	**$ 163,952**

	yen		U.S. dollars (Note 3)
Net income and dividends per share (Note 2(14) and 11)			
Basic net income	¥336.42	**¥403.28**	**$5.19**
Diluted net income	336.28	**403.10**	**5.19**
Cash dividends	135.00	**155.00**	**1.99**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2011	**2011**
Income before minority interests	**¥12,844**	**$165,246**
Other comprehensive income		
Unrealized gains on available-for-sale securities	**(89)**	**(1,145)**
Revaluation difference on land	**26**	**346**
Share of other comprehensive income of unconsolidated subsidiaries and associates accounted for using equity method	**(37)**	**(482)**
Total other comprehensive income (Note 2(15))	**(99)**	**(1,280)**
Comprehensive income	**¥12,745**	**$163,965**
Comprehensive income attributable to (Note 2(15)):		
Shareholders of OTSUKA CORPORATION (owners of the parent)	**¥12,645**	**$162,681**
Minority interests	**99**	**1,284**

The accompanying notes are an integral part of this statement.

Consolidated Statements of Changes in Net Assets

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2010 and 2011

Millions of yen

	Number of shares issued	Shareholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2009	31,667,020	¥10,374	¥16,254	¥ 89,307	¥(123)	¥115,813
Dividends				(4,108)		(4,108)
Net income				10,631		10,631
Purchase of treasury stock					(1)	(1)
Items other than changes in shareholders' equity						
Balance at December 31, 2010	31,667,020	10,374	16,254	95,830	(124)	122,335
Dividends				(4,266)		(4,266)
Net income				12,744		12,744
Purchase of treasury stock					(0)	(0)
Items other than changes in shareholders' equity						
Balance at December 31, 2011	31,667,020	¥10,374	¥16,254	¥104,308	¥(125)	¥130,812

Millions of yen

	Accumulated other comprehensive income: Unrealized gains on availabe-for-sale securities	Revaluation differences on land	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interest in consolidated subsidiaries	Total net assets
Balance at December 31, 2009	¥380	¥(14,331)	¥(122)	¥(14,073)	¥1,039	¥102,779
Dividends						(4,108)
Net income						10,631
Purchase of treasury stock						(1)
Items other than changes in shareholders' equity	3	—	(9)	(6)	(363)	(369)
Balance at December 31, 2010	383	(14,331)	(131)	(14,079)	675	108,931
Dividends						(4,266)
Net income						12,744
Purchase of treasury stock						(0)
Items other than changes in shareholders' equity	(92)	26	(33)	(98)	76	(22)
Balance at December 31, 2011	¥291	¥(14,304)	¥(165)	¥(14,178)	¥ 752	¥117,385

The accompanying notes are an integral part of these statements.

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2010 and 2011

	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, 2010	31,667,020	$133,472	$209,118	$1,232,861	$(1,605)	$1,573,846
Dividends				(54,884)		(54,884)
Net income				163,952		163,952
Purchase of treasury stock					(10)	(10)
Items other than changes in shareholders' equity						
Balance at December 31, 2011	31,667,020	$133,472	$209,118	$1,341,929	$(1,615)	$1,682,904

	Thousands of U.S. dollars (Note 3)					
	Accumulated other comprehensive income					
	Unrealized gains on availabe-for-sale securities	Revaluation differences on land	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interest in consolidated subsidiaries	Total net assets
Balance at December 31, 2010	$4,934	$(184,373)	$(1,693)	$(181,132)	$8,695	$1,401,409
Dividends						(54,884)
Net income						163,952
Purchase of treasury stock						(10)
Items other than changes in shareholders' equity	(1,187)	346	(430)	(1,271)	979	(291)
Balance at December 31, 2011	$3,746	$(184,026)	$(2,123)	$(182,403)	$9,674	$1,510,175

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, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	**2011**	**2011**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥18,687	**¥22,350**	**$287,542**
Depreciation and amortization	6,089	**5,944**	**76,479**
Equity in net income of unconsolidated subsidiaries and affiliates	4	**325**	**4,187**
Increase (decrease) in reserve for retirement benefits	202	**(20)**	**(257)**
Increase in allowance for doubtful accounts	108	**116**	**1,495**
Interest and dividend income	(95)	**(103)**	**(1,335)**
Interest income on securities	(13)	**(5)**	**(66)**
Interest expenses	92	**76**	**983**
Loss on retirement of noncurrent assets	210	**167**	**2,157**
Impairment losses	127	**19**	**256**
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	**510**	**6,564**
Loss (gain) on sales of investment securities	(0)	**(3)**	**(48)**
Loss on devaluation of investments in securities	4	**48**	**617**
Loss on devaluation of stocks of subsidiaries and affiliates	113	**0**	**0**
Loss on liquidation of subsidiaries and affiliates	37	**—**	**—**
Decrease (increase) in accounts and notes receivable	(4,803)	**(3,884)**	**(49,973)**
Decrease (increase) in inventories	(3,083)	**1,931**	**24,847**
Increase (decrease) in accounts and notes payable	4,077	**3,992**	**51,361**
Other	2,150	**1,069**	**13,756**
Subtotal	23,908	**32,535**	**418,568**
Interest and dividend income received	133	**144**	**1,862**
Interest expenses paid	(93)	**(77)**	**(996)**
Income taxes paid	(6,096)	**(9,444)**	**(121,504)**
Net cash provided by operating activities	17,851	**23,158**	**297,929**
Cash flows from investing activities:			
Payments for purchase of property and equipment	(4,421)	**(2,459)**	**(31,645)**
Proceeds from sales of property and equipment	—	**17**	**221**
Payments for software developed	(3,029)	**(2,522)**	**(32,453)**
Payments for purchase of investments in securities	(62)	**(110)**	**(1,419)**
Proceeds from sales of investments in securities	157	**8**	**108**
Purchase of investments in subsidiaries	(490)	**—**	**—**
Payments for long-term loans receivable	(308)	**(291)**	**(3,747)**
Proceeds from long-term loans receivable	149	**63**	**818**
Other	477	**690**	**8,880**
Net cash used in investing activities	(7,527)	**(4,604)**	**(59,236)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	(1,000)	**100**	**1,286**
Repayments for long-term debts	(40)	**(40)**	**(514)**
Cash dividends paid	(4,105)	**(4,264)**	**(54,868)**
Other	(60)	**(24)**	**(315)**
Net cash used in financing activities	(5,205)	**(4,229)**	**(54,411)**
Net increase in cash and cash equivalents	5,118	**14,324**	**184,281**
Cash and cash equivalents at beginning of year	32,806	**37,924**	**487,905**
Increase (decrease) in cash and cash equivalents resulting from merger of subsidiaries	—	**71**	**914**
Cash and cash equivalents at end of year (Note 10)	¥37,924	**¥52,320**	**$673,101**

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, 2010 to conform to the presentation for the year ended December 31, 2011.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The Company had 14 subsidiaries (majority-owned companies) and 12 subsidiaries as at December 31, 2010 and 2011, respectively. The consolidated financial statements include the accounts of the Company and 8 subsidiaries for the years ended December 31, 2010 and 2011.

The 8 subsidiaries which were consolidated in the year ended December 31, 2011 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	81.5%
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 6 unconsolidated subsidiaries and 4 unconsolidated subsidiaries as at December 31, 2010 and 2011, 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 6 unconsolidated subsidiaries and 9 affiliates at December 31, 2010 and 4 unconsolidated subsidiaries and 10 affiliates at December 31,2011.

The Company had 3 investments in affiliate for the equity method at December 31, 2010 and 2011. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method were carried at cost, 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, 2011, are listed below:

	A ratio of voting rights held by the Company
SIOS Technology, Inc.	47.0%
Otsuka Information Technology Corp.	38.2%
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

(5) Financial instruments

(a) Securities

Securities held by the Companies are classified into two categories:

• Held-to-maturity debt securities

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

• 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 statement of income.

(b) Derivatives

All derivatives are stated at fair value, with changes in fair value included in the consolidated statement of income for the period in which they arise.

(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. Depreciation of buildings newly acquired after April 1, 1998 has been provided based on the straight-line method.

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) Software and other intangible assets(excluding lease assets)

Development costs of computer software to be sold are amortized based on the estimated sales revenue with the minimum amortization amount calculated based on a useful life with in 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.

(8) Leases

Depreciation of finance lease assets, which do not transfer ownership of the assets at the end of the lease term,is calculated by the straight-line method over the lease periods, which are deemed as the useful lives, assuming no residual value.

However, finance lease transactions entered before December 31, 2008, which do not substantially transfer ownership of the assets, are continuously accounted for as operating leases.

(9) Accounting for income taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

The Companies 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) 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 mainly 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 7 consolidated subsidiaries have retirement benefits for directors.

Retirement benefits for directors at the balance sheet date are based on an estimate of the amounts to be paid as retirement allowance by the Company and certain of its consolidated subsidiaries for services rendered by directors by that date.

(12) The revenue recognition basis regarding the make-to-order software

Revenues and costs of the make-to-order software contacts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

(13) Accounting standard for asset retirement obligations

Effective from the current fiscal year, the Companies applied “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008). As a result of this change, operating income increased by 46 million yen (595 thousand U.S. dollars), and income before income taxes decreased by 463 million yen (5,968 thousand U.S.dollars), in the current fiscal year.

(14) Net income and dividends per share

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

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

(15) Other Comprehensive Income

The following table presents components of other comprehensive income for the year ended December 31, 2010:

For the year ended	December 31, 2010 (Millions of yen)
Unrealized gains on available-for-sale securities	¥ 3
Share of other comprehensive income of unconsolidated subsidiaries and associates accounted for using equity method	(9)
Total other comprehensive income	(6)

Comprehensive income attributable to:

Shareholders of OTSUKA CORPORATION (owners of the parent)	¥10,625
Minority interests	86

(16) 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 Companies 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.

(17) 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 ¥77.73=US$1, the rate of exchange on December 31, 2011, 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.

4. Investments in Securities

At December 31, 2010 and 2011 investments in securities were as follows:

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

	Millions of yen						Thousands of U.S. dollars		
	2010			**2011**			**2011**		
	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	¥ 855	¥1,581	¥725	**¥ 694**	**¥1,297**	**¥ 603**	**$ 8,929**	**$16,693**	**$ 7,763**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 855	¥1,581	¥725	**¥ 694**	**¥1,297**	**¥ 603**	**$ 8,929**	**$16,693**	**$ 7,763**
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥ 183	¥ 148	¥ (34)	**¥ 372**	**¥ 277**	**¥ (95)**	**$ 4,794**	**$ 3,570**	**$(1,223)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	92	70	(21)	**92**	**60**	**(31)**	**1,187**	**778**	**(408)**
	¥ 275	¥ 219	¥ (56)	**¥ 464**	**¥ 338**	**¥(126)**	**$ 5,981**	**$ 4,349**	**$(1,631)**
Total	¥1,131	¥1,800	¥668	**¥1,159**	**¥1,635**	**¥ 476**	**$14,911**	**$21,042**	**$ 6,131**

(2) Available-for-sale securities sold in 2010 and 2011 (for the years ended December 31, 2010 and 2011)

	Millions of yen						Thousands of U.S. dollars		
	2010			**2011**			**2011**		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
	¥157	¥0	¥8	**¥8**	**¥3**	**—**	**$102**	**$43**	**—**

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

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
	Carrying value	Carrying value	Carrying value
Held-to-maturity debt securities			
Negotiable certificates of deposit	¥5,000	**¥5,000**	**$64,325**
Available-for-sale securities			
Unlisted stocks	576	**593**	**7,641**
Investment in limited liability partnerships	84	**81**	**1,048**

(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	
	2010		**2011**		**2011**	
	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	¥5,000	—	**¥5,000**	**—**	**$64,325**	**—**
Commercial paper	—	—	**—**	**—**	**—**	**—**
Total	¥5,000	—	**¥5,000**	**—**	**$64,325**	**—**

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, 2010 and 2011, derivatives were as follows:
Currency-related transactions

	Millions of yen			
	2010			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts purchased in U.S.dollar	¥57	—	¥(0)	¥(0)

	Millions of yen			
	2011			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts purchased in U.S.dollar	**¥46**	**—**	**¥(0)**	**¥(0)**

	Thousands of U.S. dollars			
	2011			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts purchased in U.S.dollar	**$601**	**—**	**$(1)**	**$(1)**

6. Inventories

Inventories at December 31, 2010 and 2011 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Merchandise	¥17,858	**¥15,833**	**$203,699**
Work in process	625	**818**	**10,529**
Raw materials and supplies	1,053	**961**	**12,365**
	¥19,537	**¥17,613**	**$226,594**

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

The annual average interest rates applicable to short-term bank loans at December 31, 2010 and 2011 were 1.02% and 0.99%, respectively.

Long-term debt at December 31, 2010 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Long-term loans from banks with annual interest rates:			
1.63%	¥50	**¥10**	**$128**
	50	**10**	**128**
Less : Current maturities of long-term debts	(40)	**(10)**	**(128)**
	¥10	**—**	**—**

Aggregate annual maturities of long-term debt subsequent to December 31, 2011 are as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2012	¥10	$128
2013	—	—
2014	—	—
2015	—	—
	¥10	$128

8. Reserve for Retirement Benefits

(1) Retirement benefit plan

The Company and certain its subsidiaries have 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, 2010 and 2011 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Projected benefit obligations	¥(33,687)	**¥(33,944)**	**$(436,699)**
Plan assets	32,586	**33,305**	**428,476**
	(1,100)	**(639)**	**(8,223)**
Unrecognized actuarial gain or loss	4,176	**4,231**	**54,434**
Unrecognized prior service cost	(3,626)	**(4,122)**	**(53,032)**
	(550)	**(530)**	**(6,821)**
Prepaid pension cost	1,233	**1,371**	**17,648**
Reserve for retirement benefits	¥ (1,783)	**¥ (1,902)**	**$ (24,469)**

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2010 and 2011 included retirement benefits for directors in the amounts of 559 million yen and 482 million yen (6,205 thousand U.S. dollars), respectively.

(3) Pension expense related to the retirement benefits for the years ended December 31, 2010 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Service cost	¥2,304	**¥2,213**	**$28,478**
Interest cost	480	**476**	**6,125**
Expected return on plan assets	(155)	**(162)**	**(2,096)**
Amortization of the unrecognized prior service cost	(690)	**(793)**	**(10,213)**
Amortization of the unrecognized actuarial gain or loss	621	**553**	**7,124**
Payments for defined contribution pension plan	788	**798**	**10,267**
Additional benefits for employees' early retirement	239	**234**	**3,012**
Net periodic pension cost	¥3,587	**¥3,319**	**$42,699**

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

(4) Computation basis of pension liabilities

As of December 31, 2010 and 2011

	2010	**2011**
Discount rate	1.5%	**1.5%**
Expected rate of return on plan assets	0.5%	**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	mainly12 years from the fiscal year following occurrence	**mainly 12 years from the fiscal year following occurrence**

9. Income Taxes

(Fiscal year 2010)

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2010 was 40.7%.

Since the difference between the statutory tax rate and the effective tax rate (42.6%) for the fiscal year ended December 31, 2010 is less than 5%, a reconciliation of two rates is not presented.

(Fiscal year 2011)

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2011 was 40.7%.

Since the difference between the statutory tax rate and the effective tax rate (42.5%) for the fiscal year ended December 31, 2011 is less than 5%, a reconciliation of two rates is not presented.

At December 31, 2010 and 2011, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Deferred tax assets:			
Allowance for doubtful accounts	¥ 421	**¥ 351**	**$ 4,528**
Enterprise taxes	520	**537**	**6,911**
Accrued bonuses	1,087	**1,152**	**14,829**
Retirement benefits for employees	727	**688**	**8,859**
Retirement benefits for directors	228	**173**	**2,229**
Impairment losses	1,110	**950**	**12,232**
Software cost	1,529	**1,444**	**18,578**
Eliminated unrealized profits	320	**280**	**3,605**
Other	1,945	**1,768**	**22,751**
Total deferred tax assets	7,893	**7,347**	**94,527**
Less: Valuation allowance	(2,181)	**(1,624)**	**(20,893)**
Net deferred tax assets	5,711	**5,723**	**73,633**
Deferred tax liabilities:			
Reserve for computer program	112	**—**	**—**
Prepaid pension cost	503	**495**	**6,379**
Unrealized gains on available-for-sale securities	271	**164**	**2,115**
Other	65	**71**	**919**
Total deferred tax liabilities	952	**731**	**9,414**
Net deferred tax assets	¥4,759	**¥4,991**	**$64,219**

(Fiscal year 2011)

Adjustment of deferred tax assets and liabilities due to change in the statutory tax rates

The “Reform bill for partial revision of income tax law, etc. in response to the changing economic structure” and the “Special measures for secure the funds to realize the restoration of the damages following the Great East Japan Earthquake” were promulgated on December 2, 2011 and the statutory tax rates will be changed for the fiscal years beginning on or after April 1, 2012. The Company and its domestic subsidiaries changed the statutory tax rate used to measure defferd tax assets and liabilities from 40.7% to 38.0% for temporary differences expected to be settled on realized in the fiscal years beginning on or after January 1, 2013, and from 40.7% to 35.6% for temporary differences expected to be settled on realized in the fiscal years beginning on or after January 1, 2016.

As a result of this change, the net amount of deferred tax assets (net of deferred tax liabilities) as of December 31, 2011 decreased by 109million yen (1,408 thousand U.S. dollars), and deferred income taxes and unrealized gains on available-for-sale securities recognized for fiscal year 2011 increased by 132million yen (1,704 thousand U.S. dollars) and 23 million yen (296 thousand U.S. dollars), respectively.

10. Supplementary Cash Flow Information

Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2010	**2011**	**2011**
Cash, time deposits and other cash equivalents	¥32,669	**¥45,600**	**$586,655**
Time deposits with deposit terms of more than three months	(555)	**(55)**	**(707)**
Short-term investments with maturity or redemption dates within three months from acquisition date	5,000	**5,000**	**64,325**
Trust beneficiary interests included in other current assets with investment terms with three months or less	809	**1,774**	**22,827**
Cash and cash equivalents at end of year	¥37,924	**¥52,320**	**$673,101**

11. Dividends

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2011 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 28, 2012:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥155.00 per share)	¥4,898	$63,015

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, 2010 is summarized as follows:

Such information for the year ended December 31, 2011 is not disclosed because that is immaterial.

	Millions of yen
	2010
Acquisition cost	¥2,147
Accumulated depreciation	(1,557)
Net book value	¥ 589

Future minimum lease payments under finance leases at December 31, 2010 is summarized as follows:

	Millions of yen
	2010
Due within one year	¥366
Due after one year	248
	¥614

Lease expenses, depreciation and interest expenses for the years ended December 31, 2010 is summarized as follows:

	Millions of yen
	2010
Lease expenses	¥638
Depreciation	604
Interest expenses	21

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, 2010 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Due within one year	¥ 256	**¥ 692**	**$8,906**
Due after one year	1,162	**1,782**	**22,933**
	¥1,419	**¥2,474**	**$31,839**

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 748 million yen and 734 million yen (9,448 thousand U.S. dollars) at December 31, 2010 and 2011, respectively.

15. Pledged Assets

At December 31, 2010 and 2011, assets pledged as collateral for accounts and notes payable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Time deposits	¥5	**¥5**	**$64**
	¥5	**¥5**	**$64**

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, 2010 and 2011 amounted to 187 million yen and 217 million yen (2,803 thousand U.S. dollars), respectively.

17. Segment Information

Effective the fiscal year ended December 31, 2011, the Company has adopted new accounting standards for disclosures about segments of an enterprise and related information. Segment information for the year ended December 31, 2010 has been restated in accordance with such accounting standards for comparative purposes.

(1) Overview of reportable segments

The reportable segments of the Companies are periodically examined by the Board of Directors for the purpose of deciding the allocation of business resources and evaluating the operating results.

The Companies' main businesses are “System Integration business”, whose business fields encompass the construction of information systems and their cutover, and “Service and Support business”, which has support following the cutover of systems as its business field.

Therefore, the Companies are composed of two reportable segments, “System Integration business” and “Service and Support business.”

The details of the two segments are as follows. The “System Integration business” provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. The “Service and Support business” provides customers with total support for their business operations and installed systems encompassing supply provision, hardware and software maintenance, telephone support and outsourcing.

(2) Basis of measurement for reportable segment profit or loss, segment assets and other material items

The accounting treatment method for the Companies' reported business segments is generally described in the same as “2. Summary of Significant Accounting Policies”. Also, segment income is based on operating income. The prices of inter-segment transactions is determined by price after taking market conditions into account.

(3) Information about reportable segment profit or loss, segment assets and other items

Segment information as of and for the fiscal years ended December 31, 2010 and 2011 were as follows:

Millions of yen

	Reportable segments						2010
	System Integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to：							
Third parties	¥253,541	¥208,008	¥461,550	¥1,942	¥463,493	¥ —	¥463,493
Inter-segment sales/transfers	254	317	571	2,047	2,618	(2,618)	—
Total	¥253,795	¥208,326	¥462,121	¥3,990	¥466,112	¥ (2,618)	¥463,493
Segment profit or loss	¥ 18,818	¥ 7,182	¥ 26,001	¥ 155	¥ 26,157	¥ (7,143)	¥ 19,013
Segment assets	¥ 86,202	¥ 77,591	¥163,794	¥2,218	¥166,012	¥47,388	¥213,401
Other items							
Depreciation and amortization	¥ 3,037	¥ 2,238	¥ 5,275	¥ 35	¥ 5,310	¥ 779	¥ 6,089
Investments in associates accounted for using equity method	1,847	817	2,664	—	2,664	—	2,664
Capital expenditure in property and equipment and intangible assets	4,059	3,085	7,145	71	7,216	233	7,450

	Reportable segments						Millions of yen 2011
	System Integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to :							
Third parties	¥262,508	¥214,576	¥477,084	¥1,130	¥478,215	¥ —	¥478,215
Inter-segment sales/transfers	104	488	593	2,048	2,641	(2,641)	—
Total	¥262,612	¥215,065	¥477,678	¥3,178	¥480,857	¥ (2,641)	¥478,215
Segment profit or loss	¥ 22,717	¥ 7,485	¥ 30,202	¥ 97	¥ 30,299	¥ (7,204)	¥ 23,095
Segment assets	¥ 89,240	¥ 79,120	¥168,360	¥1,853	¥170,214	¥59,396	¥229,610
Other items							
Depreciation and amortization	¥ 3,157	¥ 2,198	¥ 5,356	¥ 47	¥ 5,404	¥ 540	¥ 5,944
Investments in associates accounted for using equity method	1,319	943	2,262	—	2,262	—	2,262
Capital expenditure in property and equipment and intangible assets	2,936	2,168	5,104	26	5,131	191	5,322

	Reportable segments						Thousands of U.S. dollars 2011
	System Integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to :							
Third parties	$3,377,178	$2,760,540	$6,137,719	$14,546	$6,152,266	$ —	$6,152,266
Inter-segment sales/transfers	1,347	6,285	7,632	26,350	33,983	(33,983)	—
Total	$3,378,525	$2,766,826	$6,145,351	$40,897	$6,186,249	$ (33,983)	$6,152,266
Segment profit or loss	$ 292,255	$ 96,301	$ 388,557	$ 1,250	$ 389,807	$ (92,687)	$ 297,120
Segment assets	$1,148,083	$1,017,886	$2,165,970	$23,849	$2,189,819	$764,132	$2,953,951
Other items							
Depreciation and amortization	$ 40,626	$ 28,288	$ 68,915	$ 609	$ 69,524	$ 6,954	$ 76,479
Investments in associates accounted for using equity method	16,979	12,134	29,113	—	29,113	—	29,113
Capital expenditure in property and equipment and intangible assets	37,773	27,895	65,668	342	66,010	2,462	68,473

Notes:1. "Other" includes businesses not included in the reportable segments. These include Administrative of buildings, Repair of automobiles, Insurance, Direct mail, Management of information , etc.

Notes:2. Below is a description of adjustment.

(1) The companywide expenses (not allocated to the reportable segments) included in the "Segment profit" adjustment line as of December 31, 2010 and 2011 were 7,171 million yen and 7,234 million yen and (93,075 thousand U.S. dollars), consisting mainly of expenses related to administrative operations.

(2) The companywide assets (not allocated to the reportable segments) included in the "Segment assets" adjustment line as of December 31, 2010 and 2011were 49,139 million yen and 61,024 million yen and (785,087 thousand U.S. dollars), consisting mainly of assets not belonging to the reportable segments (cash and time deposits, investments in securities, etc.) and assets related to administrative operations.

(3) The "Depreciation and amortization" adjustment refers to depreciation expenses related to companywide assets. The "Capital expenditure in property and equipment and intangible assets refers to capital expenditure related to companywide assets.

Notes:3. The "Segment profit or loss" is adjusted for "Operating income" in Consolidated Statements of Income.

18. Subsequent Event

Not Applicable.

Report of Independent Auditors

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, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended December 31, 2011, 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, 2011 and 2010, 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, 2011 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 28, 2012