ANNUAL REPORT 2012

For the fiscal year ended December 31, 2012

Otsuka Corporation

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Mission Statement

Mission

OTSUKA CORPORATION serves a wide range of companies, providing comprehensive support for their business activities by presenting, within a concrete framework, new business opportunities and management improvement strategies brought about by innovations in information and telecommunication technology. By so doing, we continue to facilitate the growth of our client companies and contribute to the development of our country and the creation of a spiritually enriching society.

Goals

- To become a corporate group that is recognized and trusted as a valuable corporate citizen.
- To encourage employee growth and self–realization through the attainment of personal goals and professional achievement.
- To demonstrate harmonious coexistence and growth with nature and society.
- To create business models that consistently keep pace with the changing times.

Principles

- Always thinking from the customer's perspective and acting through harmonious team work.
- Maintaining the spirit of challenge inherited from our predecessors, exercising our own critical judgment, and acting on our own initiative.
- Fully complying with all prevailing laws and regulations, and maintaining high ethical standards.

Otsuka Corporation

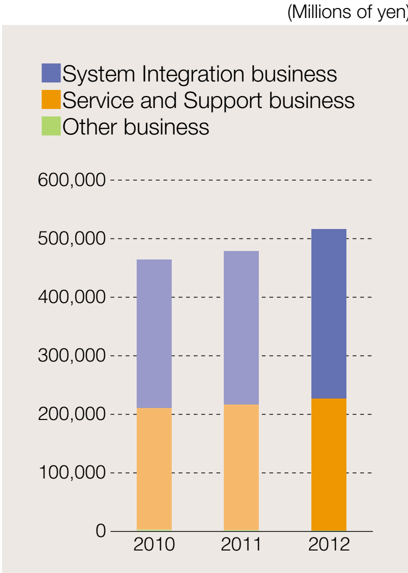
Consolidated Financial Highlights

OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2010, 2011 and 2012	2010	2011	Millions of yen 2012	Thousands of U.S. dollars 2012	% Change
Net sales	¥463,493	¥478,215	**¥515,771**	**$5,957,170**	+7.9
System Integration business	253,541	262,508	**289,840**	**3,347,663**	+10.4
Service and Support business	208,008	214,576	**225,298**	**2,602,204**	+5.0
Other business	1,942	1,130	**632**	**7,302**	-44.1
Operating income	19,013	23,095	**28,251**	**326,299**	+22.3
Ordinary income	19,508	23,315	**29,079**	**335,873**	+24.7
Income before income taxes and minority interests	18,687	22,350	**28,399**	**328,009**	+27.1
Net income	10,631	12,744	**16,277**	**188,011**	+27.7
Total assets	213,401	229,610	**253,158**	**2,923,984**	+10.3
Interest-bearing debt	7,802	8,415	**9,367**	**108,193**	+11.3
Equity	108,255	116,633	**128,471**	**1,483,849**	+10.1
Net income per share (EPS) (Yen and U.S. dollars)	336.42	403.28	**515.11**	**5.95**	+27.7
Dividends per share of common stock (Yen and U.S. dollars)	135.00	155.00	**200.00**	**2.31**	+29.0
Cash flows from operating activities per share (Yen and U.S. dollars)	564.91	732.82	**818.94**	**9.45**	+11.8
Operating income to Net sales ratio (%)	4.10	4.83	**5.48**	**—**	
Net income to Net sales ratio (%)	2.29	2.66	**3.16**	**—**	
Interest-bearing debt ratio (%)	3.66	3.67	**3.70**	**—**	
Equity ratio (%)	50.73	50.80	**50.75**	**—**	
Return on equity (ROE) (%)	10.13	11.33	**13.28**	**—**	

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, 2012 exchange rate of ¥86.58 = US$1.

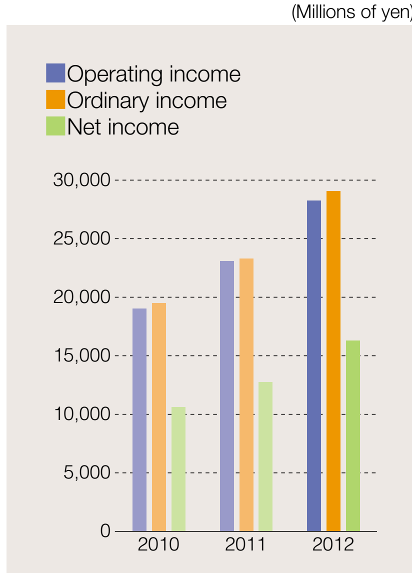
Net sales

(Millions of yen)



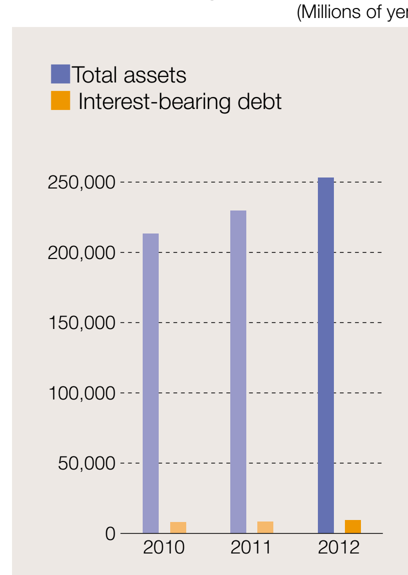
Operating income, Ordinary income, Net income

(Millions of yen)



Total assets, Interest-bearing debt

(Millions of yen)



Note:
Sums of less than a million yen are rounded down.

To Our Shareholders and Investors

I am pleased to announce the results for the fiscal year ended December 31, 2012 and to thank our shareholders and investors for their loyal support.

During the fiscal year under review, although the direction of the Japanese economy remained uncertain, corporate IT investments remained firm. The OTSUKA Group focused on strengthening customer contact and offered system proposals for achieving cost reductions, improving productivity and reducing power usage.
As a result of these measures, net sales rose 7.9% from the previous fiscal year to ¥515,771 million.

At the earnings level, the increase in gross profit due to the expansion in net sales surpassed the rise in selling, general and administrative (SG&A) expenses and operating income increased 22.3% to ¥28,251 million, ordinary income rose 24.7% to ¥29,079 million and net income jumped 27.7% to ¥16,277 million.

Management has resolved to pay year-end dividends per share of ¥200 in line with our efforts to return profits to shareholders, who have given us their support.

In the coming fiscal year, corporate IT investments are expected to remain stable. Within this environment, we will further strengthen our contact with customers and strive to identify customers' IT utilization needs and their power saving needs.

In working to realize our Mission Statement, the OTSUKA Group will continue to pursue management reforms to ensure the trust of all stakeholders. Your ongoing support is greatly appreciated as we move forward with these endeavors.

Yuji Otsuka, President & Chief Executive Officer

March 2013

Overview of Consolidated Operations

IT Investments Remain Firm

During the fiscal year, although the Japanese economy was on a modest recovery track due in part to reconstruction demand following the Great East Japan Earthquake, the future direction of the economy continued to be unclear owing to the impact of a global economic slowdown and other factors.

Under these economic conditions, although taking a cautious stance, IT investment by domestic companies was firm, supported by demand, including for the renovation of systems and power saving countermeasures, the building of business continuity plans (BCPs) and the use of tablet and other mobile terminals.

Proposals for Realizing Cost Reductions and Improving Productivity

Within this environment, based on our fiscal 2012 slogan “Live up to customers’ trust from a customer viewpoint and vitalize office,” we strengthened our contact with customers and actively proposed systems for bolstering competitiveness by reducing costs and improving productivity. Additionally, we reinforced our earnings foundation by building stable and long-term business relations with customers by upgrading and expanding package products that combine products and services and developing a lineup of appealing maintenance services in our “tayoreru” support service business as part of efforts to enhance our accumulated business.

External Environment

The domestic economy is weak, but has showed signs of bottoming out in some areas.

The environment was characterized by a slowdown in the global economy and a mild recession in Europe.

The economy in emerging countries showed signs of picking up while the U.S. economy remained on a gradual recovery path.

Exports declined and production showed signs of bottoming out.

Strong yen is being corrected, stock prices rose and power constraints continued.

Reconstruction-related demand continued and the number of corporate bankruptcies remained at the same level.

Investment in facilities and equipment was sluggish.

IT investments achieved steady growth.

OTSUKA Group’s Activities

- System proposals that lead to cost reductions, improvement of productivity and strengthening of competitiveness
- Strengthening of customer contact and frontline
- Activities “participated in by all employees”
- Strengthening of accumulated business: “tanomail” and “tayoreru”
- BCP measures and proposals for reducing power consumption

Net Sales Exceed ¥500 Billion and Profits Increase by Over 20%

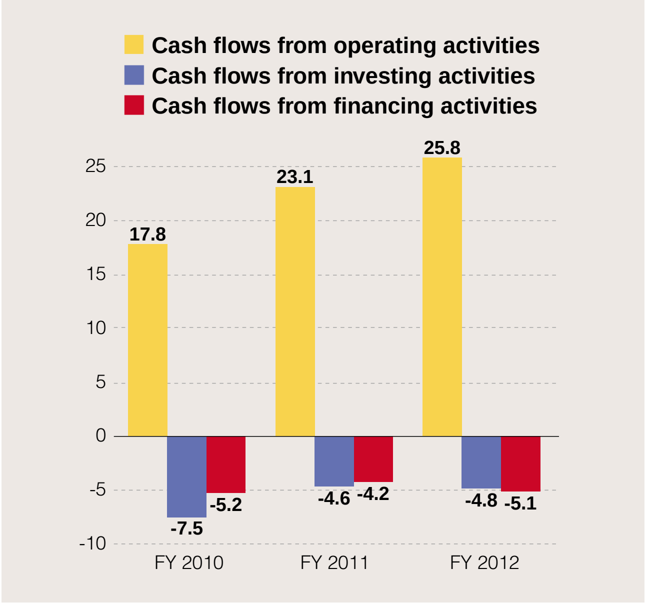
As a result of these measures, net sales rose 7.9% from the previous fiscal year to ¥515,771 million. Regarding profits, because of the increase in gross profit accompanying the rise in sales, operating income rose 22.3% to ¥28,251 million, ordinary income increased 24.7% to ¥29,079 million and net income was up 27.7% to ¥16,277 million.

(Millions of yen)

	FY 2011	FY 2012	
	Amount	**Amount**	**Change to Last Year**
Net sales	478,215	**515,771**	**+7.9%**
Operating income	23,095	**28,251**	**+22.3%**
Ordinary income	23,315	**29,079**	**+24.7%**
Net income	12,744	**16,277**	**+27.7%**

Cash Flows

(Billions of yen)



Net cash provided by operating activities amounted to ¥25,879 million, an increase of ¥2,721 million from the previous fiscal year, due to an increase in income before income taxes and minority interests.

Net cash used in investing activities increased ¥290 million from the previous fiscal year to ¥4,894 million due to an increase in payments for purchase of investments in securities.

Net cash used in financing activities increased ¥961 million to ¥5,190 million due to an increase in cash dividends paid.

Overview of Results by Quarter

Net Sales

Net sales increased in all quarters from the first quarter (January-March) of 2012 through the fourth quarter (October-December) of 2012 and we achieved record-high sales in each quarter.

Net sales in the first quarter (January-March) of 2012 amounted to ¥135,458 million, a 9.3% increase from the previous first quarter. Net sales in the second quarter (April-June) of 2012 amounted to ¥130,933 million, an increase of 4.6% over the previous second quarter.

Net sales in the third quarter (July-September) of 2012 amounted to ¥117,799 million, a 6.4% increase from the previous third quarter. Net sales in the fourth quarter (October-December) of 2012 amounted to ¥131,580 million, an increase of 11.2% over the previous fourth quarter.

Ordinary Income

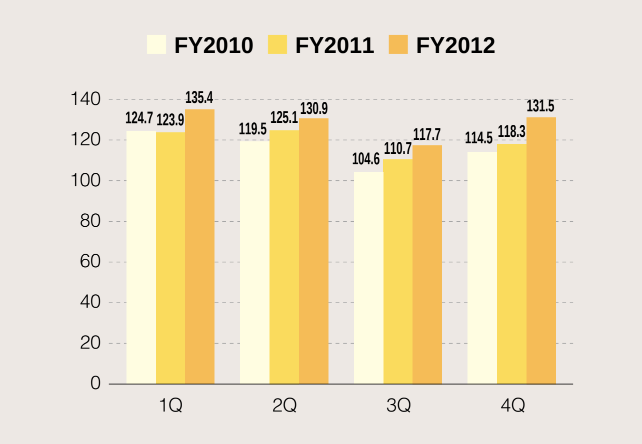
We secured an increase in ordinary income because we held the rise in SG&A expenses below the increase in gross profit, and ordinary income in each successive quarter also rose.

Ordinary income in the first quarter (January-March) of 2012 amounted to ¥7,224 million, an increase of 36.5% from the previous first quarter. Ordinary income in the second quarter (April-June) of 2012 amounted to ¥10,169 million, up 12.8% from the previous second quarter.

Ordinary income in the third quarter (July-September) of 2012 amounted to ¥4,367 million, an increase of 20.3% from the previous third quarter. Ordinary income in the fourth quarter (October-December) of 2012 amounted to ¥7,318 million, up 36.0% from the previous fourth quarter.

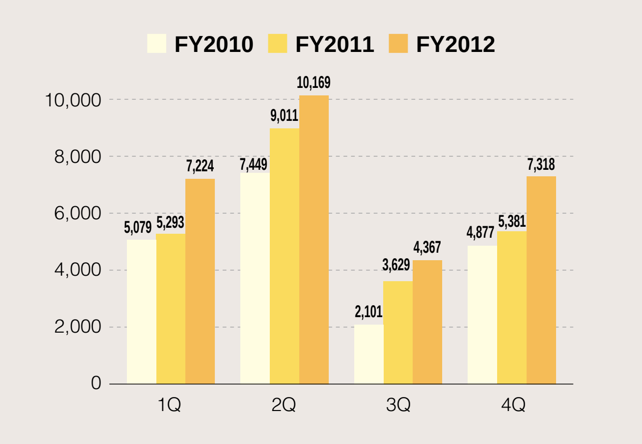
Quarterly Net Sales

(Billions of yen)



Quarterly Ordinary Income

(Millions of yen)



Overview of Business Segments

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.
We seized demand for replacement and upgrade systems as well as for power saving countermeasures at companies and active corporate demand for IT investment. Consequently, the System Integration business recorded sales growth, with net sales rising 10.4% to ¥289,840 million.

Service and Support Business

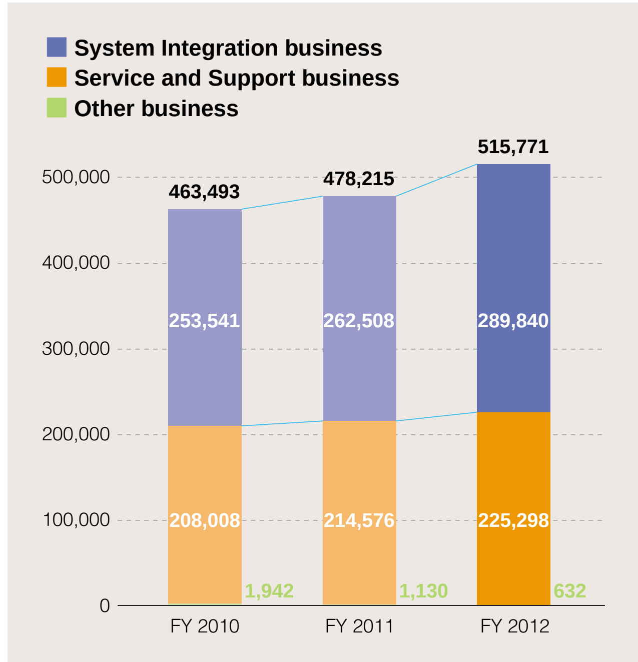
The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. Our “tanomail” office supply mail-order service business achieved solid growth in sales, while sales from maintenance and other support rose from the previous fiscal year. As a result, net sales in the Service and Support business rose 5.0% to ¥225,298 million.

Other Business

In the Other Business, net sales declined 44.1% from the previous fiscal year to ¥632 million.

Net Sales by Segments

(Millions of yen)



Focusing Efforts on the Accumulated Business

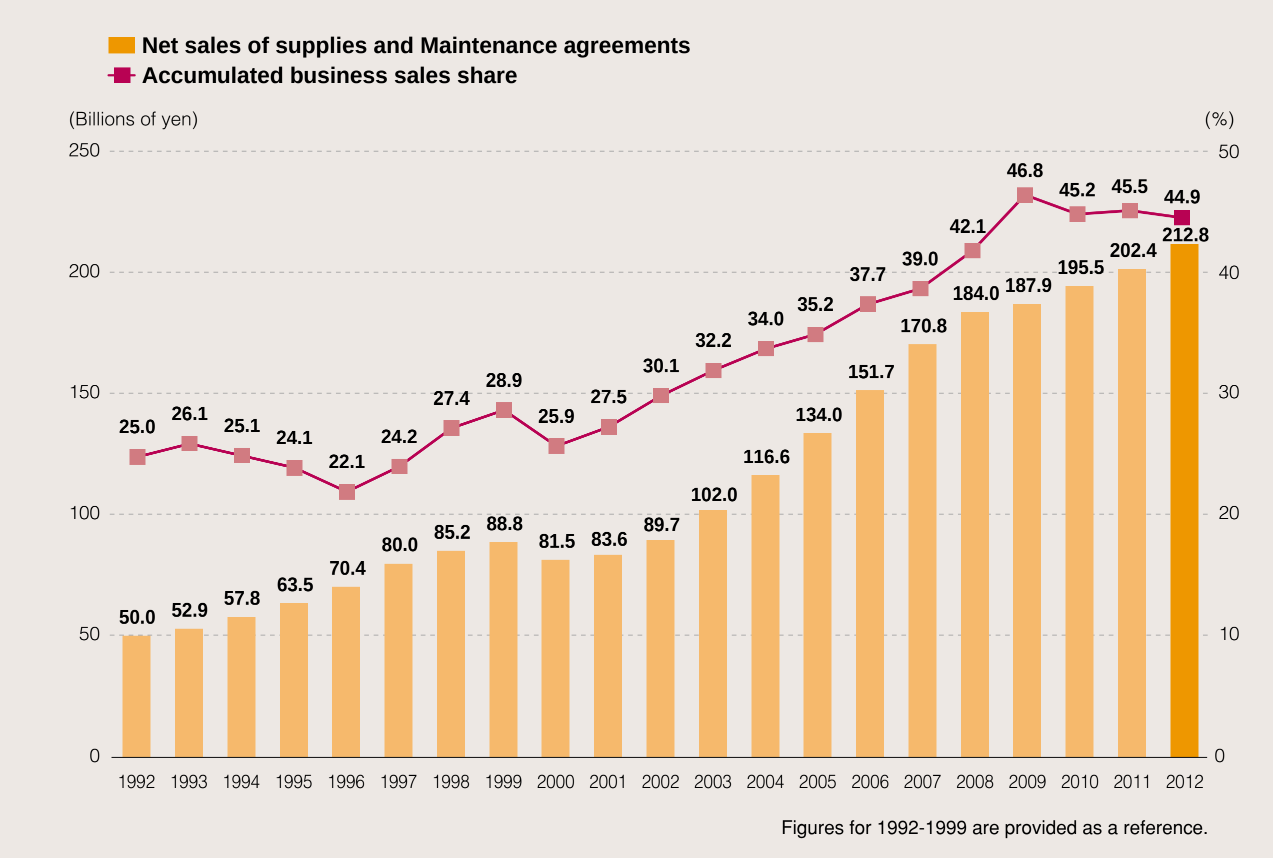
OTSUKA CORPORATION places special emphasis on office supply and maintenance agreement services as the "accumulated business" within the Service and Support business.

The accumulated business is not easily impacted by fluctuations in the economy and is steadily achieving growth annually. As such, this can be said to be a cumulative or accumulation business.

In fiscal 2012 as well, sales in the accumulated business grew steadily, increasing ¥10.4 billion, or 5.1%, to ¥212.8 billion and accounting for 44.9% of net sales. Since our public listing in 2000, net sales have increased ¥131.3 billion, an approximately 160% increase (non-consolidated basis).

OTSUKA CORPORATION will continue to focus on the accumulated business as it works to raise the stability of its operations.

Accumulated Business (Non-consolidated)



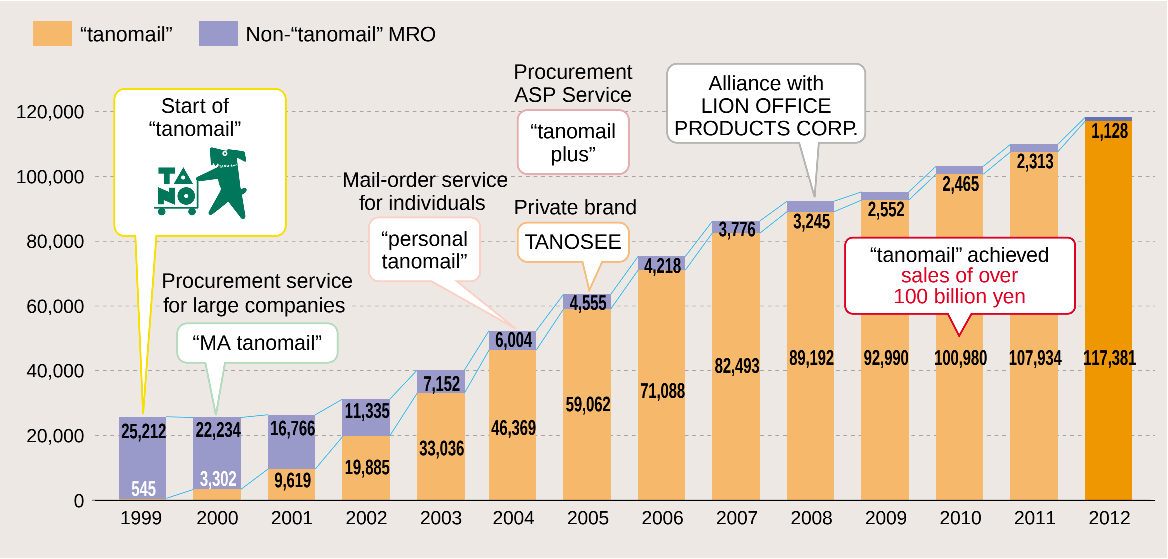
“tanomail” and “tayoreru” are the core pillars of the accumulated business.

たのめーる “tanomail”

Net sales in our “tanomail” office supply mail-order service business are expanding steadily.
In fiscal 2012, net sales increased 8.8% to ¥117,381 million.

Annual Sales of “tanomail” (Non-consolidated)

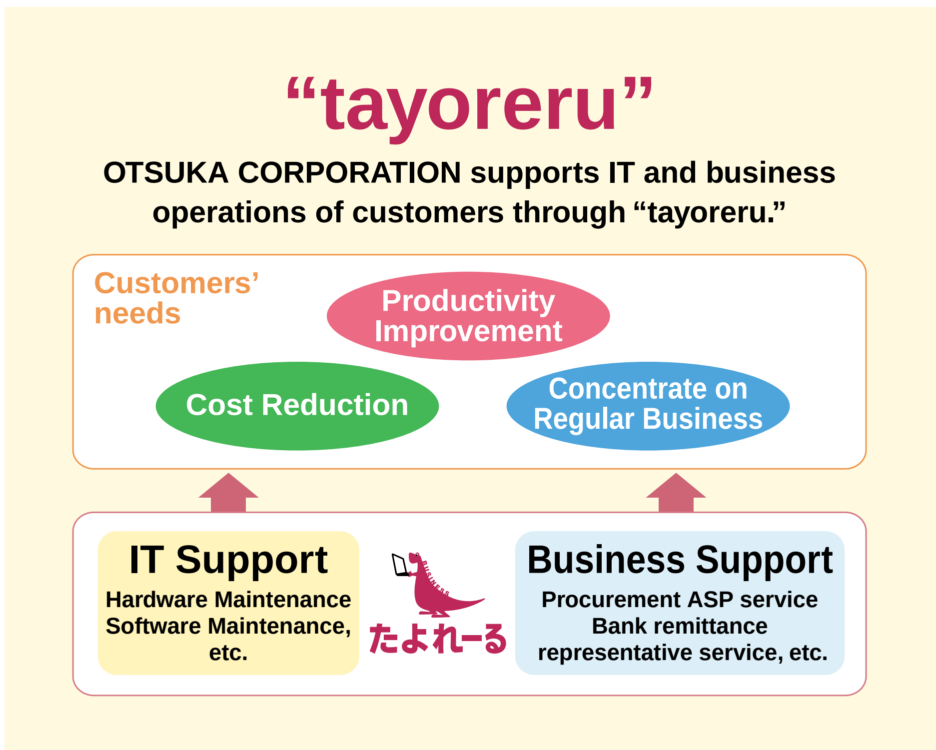
(Millions of yen)



たよれーる “tayoreru”

The “tayoreru” support service business supports customers’ IT and business operations.

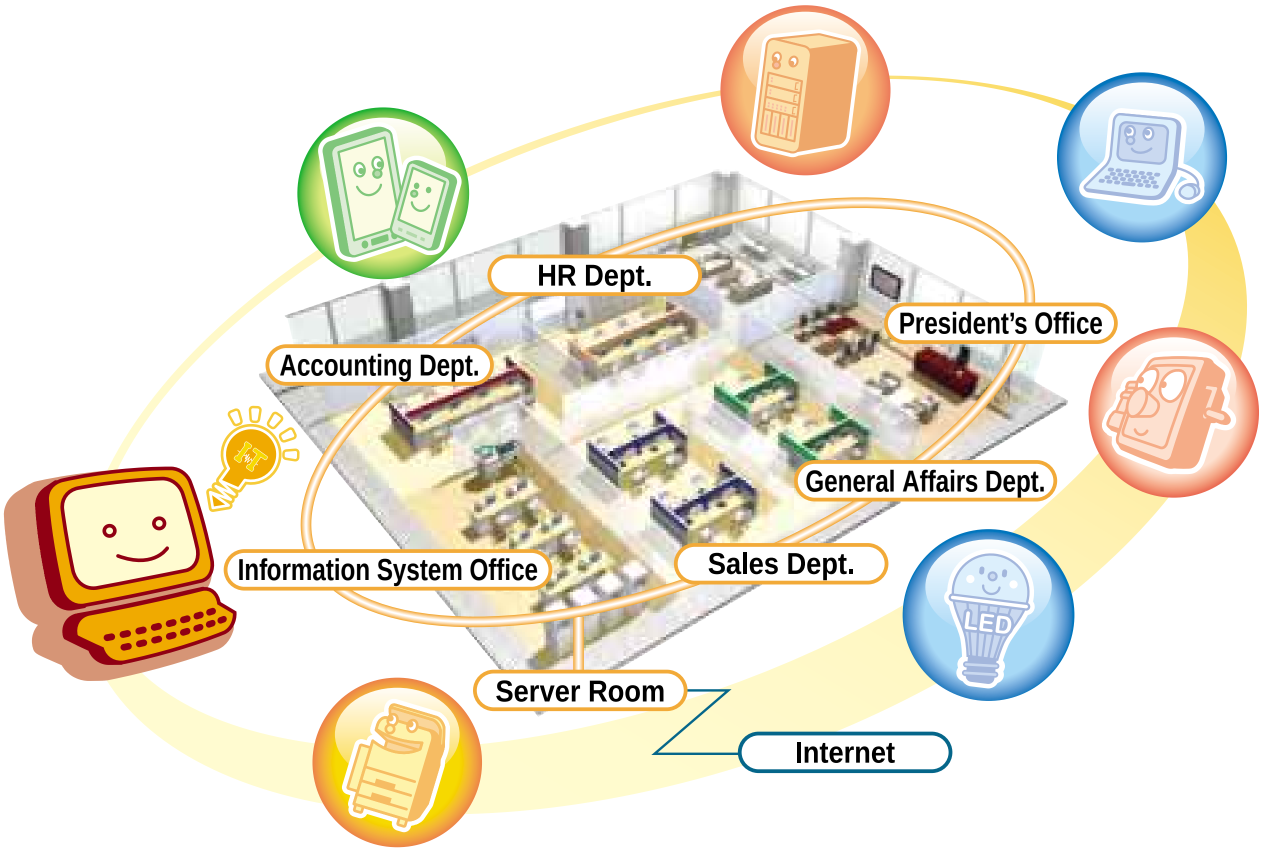
OTSUKA CORPORATION aims to be an indispensable presence in customers’ business infrastructure.



OTSUKA CORPORATION—A Partner to Our Customers

OTSUKA CORPORATION offers one-stop solutions and even one-stop support that integrates the various kinds of business equipment, information and telecommunication devices essential to corporate offices.

OTSUKA CORPORATION aims to be a partner that grows together with our customers

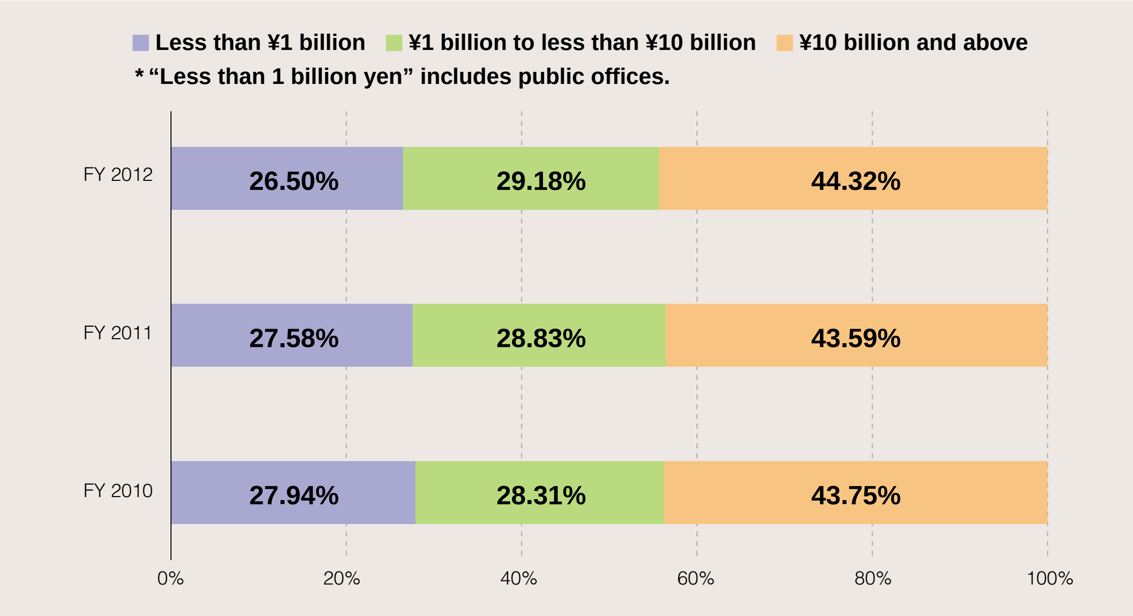


OTSUKA CORPORATION—Backed by a Diverse Range of Customers

OTSUKA CORPORATION maintains a well-balanced composition of customers, with the corporate scale of the Company's customers ranging from major enterprises to small- and medium-sized firms.

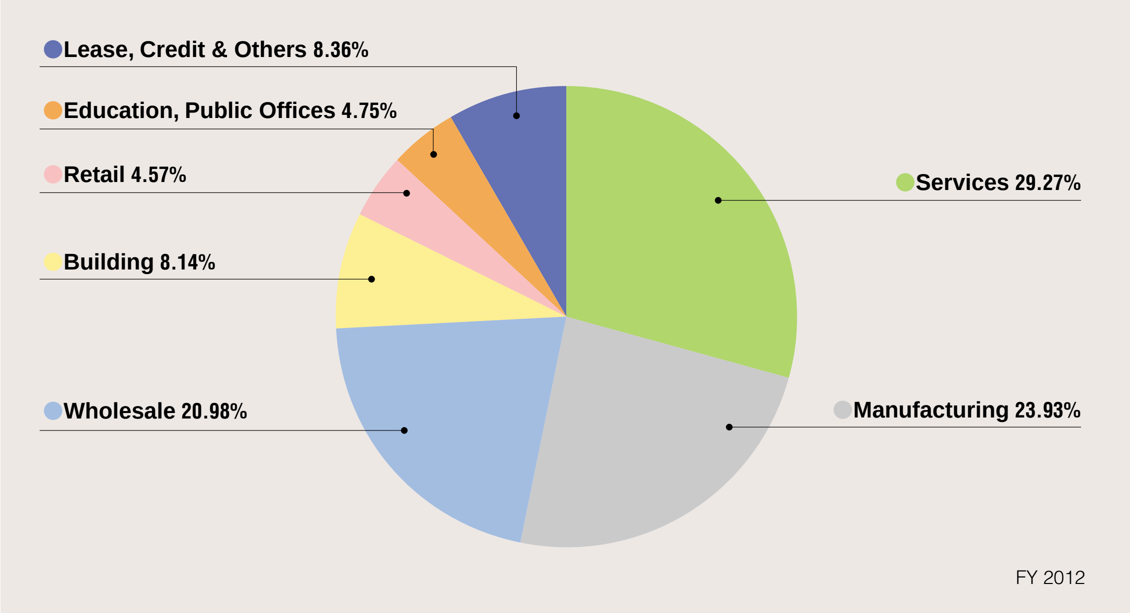
In terms of annual net sales, in fiscal 2012 the ratio of companies with annual net sales of ¥10 billion and above and companies with sales of ¥1 billion to less than ¥10 billion both increased, while the ratio of companies with sales of less than ¥1 billion decreased.

Net sales structure on Customers' total annual business scale (Non-consolidated)



We also have a well-balanced customer base by customers' type of industry. In fiscal 2012, there was no major change in the sales breakdown of customers by type of industry.

Sales Breakdown by Customers' type of Industry (Non-consolidated)



Overview of Key Strategic Businesses (Non-consolidated)

<Amount> (Millions of yen)

	FY 2010	FY 2011		FY 2012	
	Amount	Amount	Change to Last Year	**Amount**	**Change to Last Year**
"tanomail"	100,980	107,934	+6.9%	**117,381**	**+8.8%**
SMILE	6,708	7,774	+15.9%	**9,006**	**+15.8%**
ODS21	38,778	40,680	+4.9%	**42,226**	**+3.8%**
OSM	43,887	47,113	+7.4%	**48,069**	**+2.0%**

<Reference: Number of units sold> (Units)

	Units	Units	Change to Last Year	**Units**	**Change to Last Year**
Copiers	27,003	29,153	+8.0%	**32,104**	**+10.1%**
(of which color copiers)	21,703	24,296	+11.9%	**27,332**	**+12.5%**
Servers	36,405	37,582	+3.2%	**39,205**	**+4.3%**
Personal computers	666,332	697,057	+4.6%	**714,616**	**+2.5%**

Key strategic businesses were generally supported by the overall trend of firm IT investment and recorded steady growth. In 2012, sales of PCs exceeded 700,000 units for the first time.

Unit sales of color copiers accounted for 85.1% of copier sales.

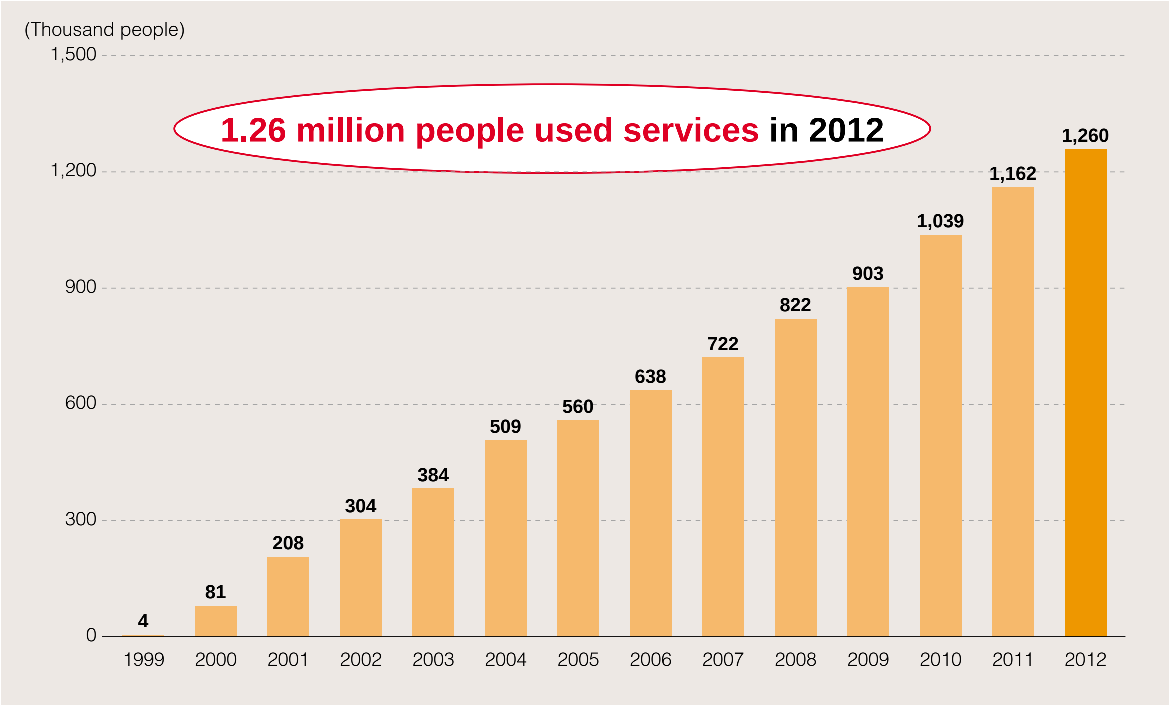
OTSUKA CORPORATION’s Web Services (ASP)

Provision of services commenced in 1999. The number of users exceeded 1.26 million in 2012

OTSUKA CORPORATION has been providing its main Web services, since 1999.

The number of users of our main Web services has been rising steadily, and in 2012, the number reached 1.26 million.

Number of Users of OTSUKA CORPORATION’s Main Web Services (ASP)



Outlook for Fiscal 2013

Corporate IT Investment Is Expected to Remain Stable

Looking ahead, in Japan the economy is expected to move toward recovery owing to reconstruction demand and economic stimulus measures of the new administration, a correction in the yen exchange rate, high stock prices and an anticipated recovery in exports along with a pickup in overseas economies. Nevertheless, there are still risks of downward pressures on the economy resulting from such factors as sluggishness in the world economy and delays in domestic policy responses, and the future direction of the Japanese economy remains unclear.

Under these economic conditions, it will be necessary for domestic companies to reduce costs and raise productivity through measures such as renovating systems, making replacement purchases for responding to IPv6, utilizing tablet and other mobile terminals, introducing power saving response measures and electricity-saving equipment, and utilizing data centers. Due to these factors, despite taking a cautious stance, company IT investments are expected to remain firm.

Strengthening Customer Contact

Given these economic conditions and outlook for company IT investment, under a strengthened community-based sales structure, the Group will reinforce customer contact by improving one-stop solutions and one-stop support, actively propose systems that help enhance the competitiveness of customers, including by reducing costs and raising productivity, and deploy the Group's overall strengths more than ever before.

At the same time, we will enhance package products that combine products and services and develop a lineup of appealing maintenance services in our "tayoreru" support service business to strengthen our accumulated business; build stable and long-term business relationships with customers; and strengthen our earnings foundation.

Policies and Measures in 2013

Slogan

Live up to customers' trust from a customer viewpoint and vitalize office with IT.

- **Strengthen customer contact by placing greater emphasis on one-stop solutions and one-stop support.**
- **Identify IT needs and needs for saving energy.**
- **Deepen ties with existing customers while cultivating new customers.**
- **Promote comprehensive proposals and combined system proposals.**
- **Strengthen accumulated business.**

Strategies by Segment

In the System Integration business, we will focus closely on company IT investment trends and IT utilization needs, while further promoting comprehensive proposals and combined system proposals that combine copiers, computers, telephones, facsimile machines and communication lines.

In the Service and Support business, the OTSUKA Group will strive to upgrade and expand our line of products and enhance our lineup of "TANOSEE" private-brand products in our "tanomail" office supply mail-order service business. In our "tayoreru" support service business, we will work to take utilize our achievement in the System Integration business to generate an increase in maintenance and other service contracts, and in conjunction with these efforts, we will increase our services that are not reliant on hardware.

Forecast for Fiscal 2013

In fiscal 2013, the Company forecasts a 3.9% increase in consolidated net sales to ¥536,000 million, a 8.0% increase in operating income to ¥30,500 million, a 6.6% increase in ordinary income to ¥31,000 million and a 11.1% increase in net income to ¥18,090 million.

By segment, we forecast a 3.8% increase in net sales to ¥300,960 million in the System Integration business, a 4.0% increase to ¥234,400 million in the Service and Support business and a 1.2% increase to ¥640 million in the Other Business.

Forecast for Consolidated Net Sales and Income (Millions of yen)

	Fiscal 2012	Fiscal 2013 (Forecast)	
	Amount	Amount	Change to Last Year
Net sales	515,771	536,000	+3.9%
Operating income	28,251	30,500	+8.0%
Ordinary income	29,079	31,000	+6.6%
Net income	16,277	18,090	+11.1%

Forecast for Consolidated Net Sales by Segment (Millions of yen)

	Fiscal 2012	Fiscal 2013 (Forecast)	
	Amount	Amount	Change to Last Year
System Integration business	289,840	300,960	+3.8%
Service and Support business	225,298	234,400	+4.0%
Other business	632	640	+1.2%

Social Contribution and Environmental Preservation Activities

Starting from our immediate surroundings, OTSUKA CORPORATION is participating in activities for contributing to society and helping to preserve the environment in a diverse range of fields. Some of the highlights for fiscal 2012 are introduced herein.

Overseas Reforestation Activities

We undertake overseas reforestation activities as one of the projects commemorating the 50th anniversary of our founding. In the Brazilian state of Amapa, we planted 170,000 Tasmanian blue gum trees in the Macapa savanna on the equator over a 150-hectare area.

These Tasmanian blue gum trees will grow for six years and then be harvested and used as a raw material for paper. We plan to commercialize our “Tanokun no Mori” brand of copier paper that uses this raw material.

Holding “Products Fairs that Support Rebuilding in Areas Devastated by the Great East Japan Earthquake”

We implemented “products fairs to support disaster-stricken areas” as part of our activities to assist with rebuilding in areas damaged by the Great East Japan Earthquake. This activity involves “providing as much reconstruction support as possible from within the Company for disaster-stricken areas” and resulted from employee proposals. Since July, we have been holding products fairs of Iwate, Miyagi and Fukushima prefectures at our head office and continue to hold these events once a month.

Topics

OTSUKA CORPORATION Wins IR Special Award

OTSUKA CORPORATION won an IR Special Award at the 2012 IR Grand Prix of the Japan Investor Relations Association. The Company was selected in recognition of its top management that stands at the forefront of investor relations (IR) and proactively promotes dialogue with investors. OTSUKA CORPORATION was also recognized for its IR Department’s quick response to requests for interviews and other matters and also for providing easy-to-understand explanations. The selection was also based on the high evaluation of OTSUKA CORPORATION’s approach that provides the straightforward disclosure of results and forecasts even when the business environment changes.

At an award ceremony held on December 17 at the IR Conference 2012, OTSUKA CORPORATION was presented with a commemorative trophy by Japan Investor Relations Association Chairman Shuzo Sumi.

Corporate Governance

Basic Stance Regarding Corporate Governance

Based on a corporate ethic and spirit of compliance spelled out in its Mission Statement, the OTSUKA Group aims to adapt nimbly to changes in the environment and augment its competitiveness by ensuring thorough compliance and raising both operational transparency and fairness.

1. Corporate Structure and Implementation Status of Internal Control Systems

Corporate Governance System and Reason for Employing System

OTSUKA CORPORATION consists of various statutory bodies such as the General Meeting of Shareholders, Directors and Board of Directors, Corporate Auditors and Board of Corporate Auditors and Independent Auditors.

It has been deemed that a governance system led by outside directors would not be suitable due to the wide range of business domains of the Company and the importance of understanding these domains and being familiar with the IT industry. A Corporate Auditor System has therefore been adopted.

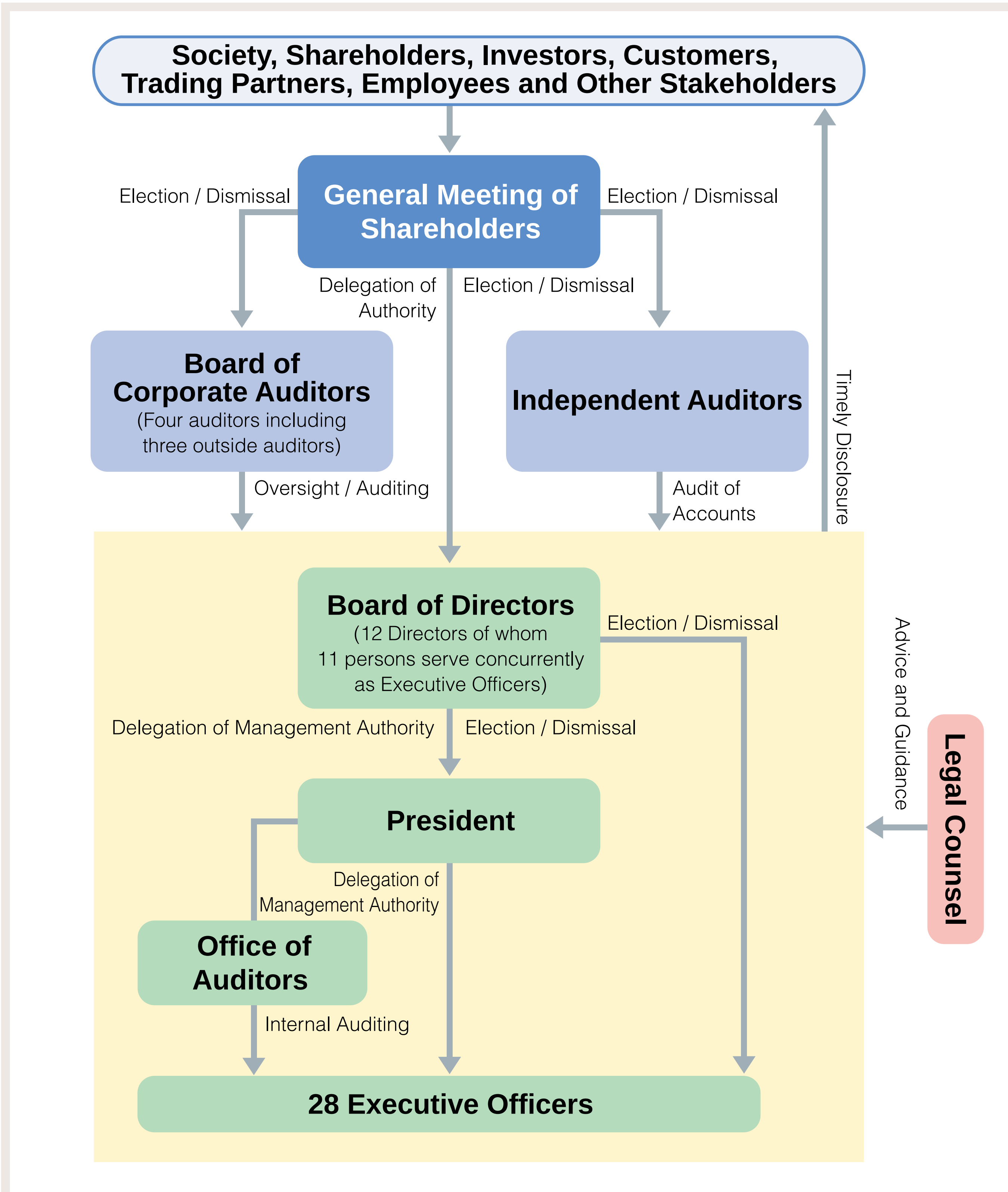
With regard to outside auditors, the Company selects and appoints individuals with a sufficient level of knowledge and experience regarding laws, financial affairs and accounting. Since outside auditors attend meetings of the Board of Directors to monitor directors' decision-making and the execution of business operations, the Company employs the current system based on the judgment that a system is in place to sufficiently realize management oversight functions from outside.

The Board of Directors meets regularly once a month to discuss and make decisions on critical management issues requiring resolution based on relevant laws and the Articles of Incorporation, and monitors the execution of duties by directors. The introduction of the Executive Officer System aims to separate the functions of business execution and supervision in order to realize more rapid decision-making on operational matters and strengthen the oversight of the Board of Directors. To this end, Executive Officers elected by the Board of Directors are responsible for the execution of business operations while the Board of Directors and Corporate Auditors handle the oversight of business execution.

The Board of Corporate Auditors is comprised of four auditors, including three outside auditors. The Corporate Auditors attend such important meetings as the Board of Directors meetings to provide appropriate recommendations and advice, monitor that suitable management is being carried out and closely audit the execution of duties by Directors.

Group Management Meetings comprising top management of all Group companies (Special Executive Officers) are also held to clarify operational conditions at each company and make progress in achieving profit targets in addition to working to strengthen corporate governance.

The structure for corporate management decision-making, business operations and oversight is as follows:



State of Internal Control Systems

Pursuant to Paragraph 5, Article 362 of the Companies Act, the Company has determined the following basic policies at a meeting of the Board of Directors for systems that ensure the proper execution of business operations.

• Basic policies for internal control systems

1) System for ensuring compliance with laws and the Articles of Incorporation in the execution of duties by directors and employees

Directors shall take the lead and set an example in complying with and promoting the Mission Statement as the basis of our compliance structure.

Directors and employees shall strive to enhance the compliance system by taking such measures as improving awareness through continuous compliance education, improving business operations through internal audits, and properly applying the internal reporting system in working to ensure compliance with laws and the Articles of Incorporation in the execution of their duties.

2) System for storing and managing information concerning the execution of duties by directors

Information concerning the execution of duties by Directors (paper or electronically recorded) as well as other important information shall be properly stored and managed in accordance with laws and internal regulations.

3) Regulations and other systems concerning management of risk of losses

Based on internal regulations, we shall establish a risk management system, identify, analyze and evaluate any risk that could affect business results, financial condition, or other areas and respond appropriately.

In the event of unexpected contingencies, we shall set up a task force, collect risk information and devise quick and appropriate countermeasures.

4) System for ensuring the efficient execution of duties by directors

The Board of Directors shall in principle convene once per month to discuss and decide important matters concerning management and supervise the state of execution of business duties.

Also, the Board of Directors shall clarify criteria for convening and bringing up matters for debate at council bodies set up to raise the suitability of decision-making, while specific details shall be stipulated in Duty Authority Regulations and Separation of Duty Regulations and efficiency shall be raised.

5) System for ensuring proper operations of the Group consisting of the Company and its subsidiaries

Group companies shall ensure the proper execution of business operations by the functioning of self-cleansing mechanisms through the execution of business operations that are in accordance with the Mission Statement. By convening the Group Management Meeting, we shall ascertain the state of management and the progress of profit plans at each Group company. Concurrently, we shall work to strengthen corporate governance at each Group company through the Special Executive Officer System.

6) Matters regarding employees assisting Corporate Auditors when requested and the independence of such employees from Directors

In the event that an auditor requests the assistance of an employee, a proper system shall be established upon consultation with the Corporate Auditor. Concerning the Determination of matters related to the delegation of authority over personnel matters to the relevant employee, the independence of such employees from directors shall be ensured by obtaining the prior consent of the Corporate Auditor

7) System for reporting to Corporate Auditors by Directors and employees and other systems regarding reporting to Corporate Auditors

A system shall be established that enables Corporate Auditors to receive reports from Directors and employees on the state of execution of duties. At the same time collaboration and coordination with internal departments carrying out audits shall be strengthened.

8) System for ensuring effective audits by Corporate auditors

Representative Directors shall exchange opinions with Corporate Auditors on a timely basis. The internal auditors Office of Auditors shall maintain close relations with the Corporate auditors and undertake inspections in accordance with the requests of Corporate Auditors.

• Basic thinking on the elimination of antisocial forces and establishment of measures

1) Basic thinking

The Mission Statement and Compliance Regulations stipulate that the Company shall take a firm stance against and maintain no relations with antisocial forces that threaten the order and safety of society.

2) Establishment of measures

The Company shall express its Action Guidelines against antisocial forces in its Mission Statement and Compliance Manual while designating its Compliance Office and Human Resources and General Affairs Department as the department and office responsible for responding to antisocial forces. The Company shall collaborate with legal counsel and external organizations that include police departments and the Metropolitan Police Department Joint Association for the Prevention of Particular Violence.At the same time, employees shall be thoroughly familiarized with the Action Guidelines.

Status of Internal Audits and Audits by Corporate Auditors

The Office of Auditors under the direction of the President has been established to conduct periodic and on-demand internal audits of all operations across the Group and assess the adequacy of policies, plans and procedures, the effectiveness of their implementation and compliance with laws, as well as to offer concrete advice and recommendations for improving operations and raising awareness.

The Board of Corporate Auditors formulates auditing policies and assigns relevant duties regarding audits. Each Corporate Auditor complies with the standards set by the Board of Corporate Auditors when conducting audits and works to gather information and ensure smooth lines of communication with Directors and the Office of Auditors in order to create an effective environment for auditing. Corporate Auditors attend the Board of Directors meetings and other important meetings to hear reports from Directors and others on the status of execution of duties and to examine the condition of business operations and assets at the Head Office and key business locations. Other functions include oversight and inspection of the status of internal control systems.

Corporate Auditors and staff from the Office of Auditors meet regularly once a month to exchange information regarding such matters as auditing plans as well as the condition of audit implementation and business execution, and take appropriate steps as required.

Corporate Auditors and the Independent Auditors meet on a timely basis to confirm auditing plans and the condition of audit implementation and progress on improvements to recommended areas, exchange information confirming the legality of actions taken by Directors, and take appropriate steps as required.

Corporate Audits

OTSUKA CORPORATION contracts Ernst & Young ShinNihon LLC to handle its accounting auditing.

The names of CPAs involved in auditing-related operations and composition of staff assisting in auditing-related operations for the fiscal year under review are as follows.

Ernst & Young ShinNihon LLC

Juntaka Sakata, Designated Employee with Limited Liability and Managing Partner

Makoto Mukai, Designated Employee with Limited Liability and Managing Partner

Sei Eshita, Designated Employee with Limited Liability and Managing Partner

Number of Staff Assisting in Accounting-related Operations

CPAs	10
Other individuals	9

* Summarized, as all members have less than seven years of continuous auditing experience

Relationship with Outside Directors and Outside Auditors

OTSUKA CORPORATION does not stipulate standards and other criteria regarding independence in terms of the selection and appointment of outside directors and outside auditors. However, the Company selects and appoints individuals who are able to ensure independence from the Company by making a decision on an individual basis according to the background and relationship with the

Company based on various regulations and other relevant matters concerning independence including regulations of the Tokyo Stock Exchange (TSE).

The following three persons have been appointed as outside auditors as of March 27, 2013. They attend the Board of Directors meetings to provide insight and impart opinions based on extensive experience. This facilitates the decision-making process of the Board of Directors.

Jiro Makino has been appointed as an outside auditor because of his qualifications as a lawyer to the management of the Company. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

Mikio Sugiyama and Kazuhiko Nakai have been appointed as outside auditors because of their qualifications as certified public accountants, respectively, to the management of the Company. They make reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Nippon Antenna Co., Ltd., in which Kazuhiko Nakai concurrently has a key position.

Mr. Nakai joined Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC) as a representative employee in 2007 and resigned from the firm in 2010. Although OTSUKA CORPORATION and Ernst & Young ShinNihon LLC have concluded an agreement and OTSUKA CORPORATION receives accounting audits from the firm, there are no special interests or otherwise relationship with the Company and this firm.

Mutual Collaboration between Surveillance or Audits by Outside Auditors and Internal Audits, Corporate Auditor Audits and Independent Audits, and Relations with Internal Control Department

The outside auditors receive on a regular basis auditing reports at the Board of Corporate Auditors, reports concerning the state of establishment and operation of internal controls from the Internal Control Committee and reports on internal audits from the Office of Auditors. This enables the outside auditors to understand the current state of the Group and pertinent issues, and when the need arises they express their opinions from a specialist standpoint at the Board of Directors. Additionally, outside auditors exchange information and opinions with the Independent Auditors and internal auditing departments, beginning with the Office of Auditors, at their discretion and work to share auditing information.

2. Status of Implementation of Risk Management System

OTSUKA CORPORATION has established a Risk Management Committee as the body to promote and control business risk management as part of a risk management system.

The Risk Management Committee identifies and assesses all risk related to the Company and investigates respective measures for key risks. The Committee provides direction on the creation of a risk management system to ensure the ongoing and stable maintenance and management of risk in each division and department within its scope. At the same time, efforts are made to enhance crisis management by (1) preparing for such emergencies during ordinary times, (2) taking appropriate steps during a crisis and (3) formulating and managing a business continuity plan.

3. Remuneration of Directors and Corporate Auditors

Total Remuneration, Breakdown of Remuneration and Number of Applicable Officers by Classification

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Base Pay	Bonus	Retirement Benefits	
Directors	364	245	74	43	12
Corporate Auditors(except outside auditors)	22	17	—	4	2
Outside Auditors	14	14	—	—	3

Notes:
1. The above includes one Corporate Auditor who retired from his position due to the expiration of his term of office at the conclusion of the 51th Annual General Meeting of Shareholders convened on March 28, 2012.
2. Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
3. The amount of annual remuneration for Directors is up to ¥650 million as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include employee compensation).
4. The amount of annual remuneration for Corporate Auditors is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005.
5. The increase in allowance for retirement benefits for directors in the year under review is included in the above retirement benefits.

Total Consolidated Remuneration by Director and Corporate Auditor

Not disclosed since there are no Directors or Corporate Auditors that receive consolidated remuneration of ¥100 million or more.

Policy for Determination of Remuneration Policy and its Calculation Method for Directors and Corporate Auditors

Remuneration for Directors comprises basic pay, bonus and retirement benefits.The method of calculation for each is as follows. Basic pay refers to fixed remuneration determined based on the maximum annual income of the employee and the importance of their role in each position. It is set within the limit determined by a resolution passed at the General Meeting of Shareholders. In order to link contribution to business performance, bonuses are determined based on target achievement for operating income and the degree of contribution of each Director. Remuneration for Corporate Auditors is determined based on deliberation by the Board of Corporate Auditors and set within the limit determined by a resolution passed at the General Meeting of Shareholders. In principle, the Company sets an annual basic total amount for retirement benefits for each class of Standing Officer. Retirement benefits are paid at the time of retirement in an amount adjusted for company and individual performance. The Company does not employ a stock option system.

4. Principal Stockholdings by the Company

Investment shares held for any purpose other than pure investment

Number of securities	65
Total amount on balance sheet	¥2,404 million

Name, number, amount on balance sheet of investment shares held for any purpose other than pure investment and purpose for holding them

(Previous Fiscal Year)

Specified investment stocks

Name	Number of Shares	Amount on Balance Sheet (Millions of yen)	Purpose for Holding
Temp Holdings Co., Ltd.	1,000,000	695	To facilitate and maintain business relationship
Ricoh Company, Ltd.	213,192	143	As above
The Bank of Yokohama Ltd.	382,204	139	As above
ThreePro Group Inc.	1,200	93	As above
Daiwa House Industry Co, Ltd.	100,000	91	As above
Credit Saison Co., Ltd.	50,000	77	As above
Uchida Esco Co., Ltd.	180,000	70	As above
Billing System Corporation	500	52	As above
Meiko Network Japan Co., Ltd.	60,000	41	As above
Daito Trust Construction Co., Ltd.	4,600	30	As above
The Keiyo Bank, Ltd.	50,000	19	As above
Zeon Corporation	26,230	17	As above
Mitsubishi Tanabe Pharma Corporation	13,300	16	As above
J ESCOM Holding, Inc.	150,000	13	As above
Nippon Kayaku Co., Ltd.	14,317	10	As above
NAMCO BANDAI Holdings Inc.	9,504	10	As above
Mitsubishi UFJ Financial Group, Inc.	29,110	9	As above

Iino Kaiun Kaisha, Ltd.	25,289	8	As above
Kyowa Hakko Kirin Co., Ltd.	8,000	7	As above
Iwabuchi Corporation	13,229	5	As above
Rengo Co., Ltd.	7,600	4	As above
The Dai-ichi Life Insurance Company, Limited	43	3	As above
HYPER Inc.	6,000	3	As above
Mizuho Financial Group, Inc.	21,520	2	As above
Morinaga & Co., Ltd.	11,860	2	As above
Autobacs Seven Co., Ltd.	500	1	As above
Daikyo Incorporated	9,400	1	As above
Maruzen Co., Ltd.	2,000	1	As above
Canon Marketing Japan Inc.	1,155	1	As above
Tsuchiya Holdings Co., Ltd.	6,906	0	As above

(Current Fiscal Year)

Specified investment stocks

Name	Number of Shares	Amount on Balance Sheet (Millions of yen)	Purpose for Holding
Temp Holdings Co., Ltd.	1,000,000	1,068	To facilitate and maintain business relationship
Ricoh Company, Ltd.	237,803	215	As above
The Bank of Yokohama Ltd.	382,204	152	As above
Daiwa House Industry Co, Ltd.	100,000	147	As above
Credit Saison Co., Ltd.	50,000	107	As above
Daito Trust Construction Co., Ltd.	13,100	106	As above
Uchida Esco Co., Ltd.	180,000	91	As above
ThreePro Group Co., Ltd.	360,000	72	As above
Meiko Network Japan Co., Ltd.	60,000	57	As above
Billing System Corporation	500	35	As above
Zeon Corporation	27,608	20	As above
The Keiyo Bank, Ltd.	50,000	19	As above
Mitsubishi Tanabe Pharma Corporation	13,300	14	As above
Nippon Kayaku Co., Ltd.	15,097	14	As above
Mitsubishi UFJ Financial Group, Inc.	29,110	13	As above
NAMCO BANDAI Holdings Inc.	9,504	10	As above
J ESCOM Holding, Inc.	150,000	10	As above
Iino Kaiun Kaisha, Ltd.	26,558	8	As above
Kyowa Hakko Kirin Co., Ltd.	8,000	6	As above
Iwabuchi Corporation	14,692	5	As above
The Dai-ichi Life Insurance Company, Limited	43	5	As above
Mizuho Financial Group, Inc.	21,520	3	As above
Rengo Co., Ltd.	7,600	3	As above
HYPER Inc.	6,000	2	As above
Tsuchiya Holdings Co., Ltd.	7,562	2	As above
Morinaga & Co., Ltd.	12,867	2	As above
Daikyo Incorporated	9,400	2	As above
Autobacs Seven Co., Ltd.	500	1	As above
Canon Marketing Japan Inc.	1,155	1	As above
Maruzen Co., Ltd.	2,000	1	As above

Investment stocks held for the purpose of pure investment

Not applicable.

5. Number of Directors

The Company's Articles of Incorporation stipulate that the number of Company Directors shall be 19 or fewer.

6. Outline of Contracts for Limitation of Liability

Not applicable.

7. Resolutions for Appointment and Dismissal of Director

The Company's Articles of Incorporation stipulate that a resolution for the appointment of a Director requires attendance by shareholders with more than one-third of the voting rights of shareholders capable of exercising such rights, and is decided by a majority of shareholders. In addition, a resolution for the appointment of a Director shall not be decided by cumulative voting.

8. Decision-Making Body for the Distribution of Retained Earnings

The regular General Meeting of Shareholders shall serve as the decision-making body for the distribution of retained earnings at year-end.

9. Interim Dividend

The Company's Articles of Incorporation stipulate that based on a resolution of the Board of Directors, the Company can pay interim dividends with the date of record being June 30 of each year. This is in order to allow the flexible return of profits to shareholders.

10. Purchase of Own Shares

The Company's Articles of Incorporation stipulate that the Company shall be able to purchase its own shares through market transactions based on a resolution of the Board of Directors as prescribed under Article 165, Paragraph 2 of the Companies Act to enable the execution of a flexible capital policy that responds to changes in economic conditions.

11. Exemption from Liability of Directors and Corporate Auditors

Not applicable.

12. Requirements for Special Resolution of the General Meeting of Shareholders

The Company's Articles of Incorporation stipulate that a special resolution of the General Meeting of Shareholders, pursuant to Article 309, Paragraph 2 of the Companies Act, shall be adopted when it is approved by a vote of two-thirds or more of the voting rights present at a General Meeting of Shareholders, a quorum for which shall be the presence of shareholders of one-third of the aggregate voting rights if the total shareholders capable of exercising such rights. This aim to facilitate efficient operation of the General Meeting of Shareholders through the moderation of special resolutions at the General Meeting of Shareholders.

Remuneration for Independent Auditors

1. Breakdown of Remuneration for Independent Auditors

Class	Previous Fiscal Year		Current Fiscal Year	
	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)
Otsuka Corporation	74	3	73	—
Consolidated Subsidiaries	13	—	13	—
Total	87	3	87	—

2. Other Major Remuneration

Not applicable.

3. Non-Auditing Services by Independent Auditors for Consolidated Companies

(Previous Fiscal Year)

The Company has commissioned consulting related to International Financial Reporting Standards (IFRS) to an auditing certified public accountant and others and pays compensation to these parties.

(Current Fiscal Year)

Not applicable.

4. Audit Remuneration Policy

The Company determines an appropriate amount of audit remuneration based on a number of factors, including the number of days of auditing work, the nature of auditing duties and scale of work to ensure the Accounting Auditor can conduct auditing and certification services fairly and in good faith from an independent standpoint.

Board of Directors and Corporate Auditors (As of March 27, 2013)

President & Chief Executive Officer

Yuji Otsuka

Managing Director & Senior Executive Operating Officer

Kazuyuki Katakura

Managing Director & Senior Executive Operating Officer

Toshiyasu Takahashi

Managing Director & Executive Operating Officer

Kimio Shiokawa

Managing Director & Operating Officer

Katsuhiro Yano

Managing Director & Operating Officer

Hironobu Saito

Managing Director & Operating Officer

Yasuhiro Wakamatsu

Managing Director & Operating Officer

Hironobu Tsurumi

Managing Director & Operating Officer

Minoru Sakurai

Director & Senior Managing Officers

Mitsuya Hirose

Osamu Tanaka

Norihiko Moriya

Standing Auditor

Kiyoshi Nakano

Auditors

Jiro Makino

Mikio Sugiyama

Kazuhiko Nakai

Business Risks

The most common risks that could potentially impact the Group's business performance results and financial condition are outlined below. While these are the most common risks, they do not represent all potential risks.

The items covered herein are possible future occurrences determined by the OTSUKA Group as of March 27, 2013.

Customer-related Risks

The OTSUKA Group's customers range from large enterprises to small firms that span a broad range in terms of company scale and industries. Consequently, its level of dependency on any specific customer is low.

However, the Group's operations could be impacted by convergent changes in IT investment trends by a large number of companies as a result of unexpected changes in the economic environment.

Supplier-related Risks

The OTSUKA Group is supplied with high-quality products, services and technologies (hereafter called "products") by numerous suppliers for respective segments in order to optimally resolve the problems of each customer. While working to deepen its relationship with suppliers to ensure stable supply of these "products," the Group is constantly working to acquire information on newer "products" as well.

However, the Group's operations could be impacted by the inability to supply "products" in the quantity demanded by customers because of insufficient supply of "products" due to issues at supplier sites, as well as by the Group's inability to obtain substitutes.

Information Leakage Risks

The OTSUKA Group possesses an abundance of individual and corporate information pertaining to operations that is handled carefully.

The Group received approval to use the Privacy Mark of the Japan Institute for Promotion of Digital Economy and Community, and its Internet Data Center acquired certification for Information Security Management Systems (ISMS).

As a concrete measure to manage data, the Group has released an internal and external Personal Information Protection Policy, as well as established regulations on personal information protection, confidentiality and information system security. The Group has its employees take a pledge of confidentiality as well as works to prevent information leakage outside of the Group and raises awareness of information management through its proprietary educational "CP (Compliance Program) License System" and other measures. Even with these measures, however, the Group's operations could be impacted by assuming liabilities for damage and loss of trust by society in the unlikely event that personal or corporate information is leaked outside the Group.

Financial Section

Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries
Years ended December 31, 2010, 2011 and 2012

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Net sales	¥463,493	¥478,215	**¥515,771**	**$5,957,170**
System Integration business	253,541	262,508	**289,840**	**3,347,663**
Service and Support business	208,008	214,576	**225,298**	**2,602,204**
Other business	1,942	1,130	**632**	**7,302**
Operating income	19,013	23,095	**28,251**	**326,299**
Ordinary income	19,508	23,315	**29,079**	**335,873**
Income before income taxes and minority interests	18,687	22,350	**28,399**	**328,009**
Net income	10,631	12,744	**16,277**	**188,011**
Total assets	213,401	229,610	**253,158**	**2,923,984**
Interest-bearing debt	7,802	8,415	**9,367**	**108,193**
Equity	108,255	116,633	**128,471**	**1,483,849**
Net income per share (EPS) (Yen and U.S. dollars)	336.42	403.28	**515.11**	**5.95**
Dividends per share of common stock (Yen and U.S. dollars)	135.00	155.00	**200.00**	**2.31**
Cash flows from operating activities per share (Yen and U.S. dollars)	564.91	732.82	**818.94**	**9.45**
Operating income to Net sales ratio (%)	4.10	4.83	**5.48**	—
Net income to Net sales ratio (%)	2.29	2.66	**3.16**	—
Interest-bearing debt ratio (%)	3.66	3.67	**3.70**	—
Equity ratio (%)	50.73	50.80	**50.75**	—
Return on equity (ROE) (%)	10.13	11.33	**13.28**	—

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, 2012 exchange rate of ¥86.58 = US$1.

Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

				Millions of yen
	2011	**2012**	Difference to Last Year	% Change to Last Year
Net sales	¥478,215	**¥515,771**	+37,556	+7.9%
System Integration business	262,508	**289,840**	+27,332	+10.4
Service & Support business	214,576	**225,298**	+10,722	+5.0
Other business	1,130	**632**	-498	-44.1
Cost of sales	371,828	**401,113**	+29,285	+7.9
Gross profit	106,387	**114,658**	+8,271	+7.8
Selling, general and administrative expenses	83,292	**86,407**	+3,115	+3.7
Operating income	23,095	**28,251**	+5,155	+22.3
Ordinary income	23,315	**29,079**	+5,764	+24.7
Income before income taxes and minority interests	22,350	**28,399**	+6,048	+27.1
Income taxes				
Current	9,629	**12,353**	+2,724	+28.3
Deferred	-122	**-368**	-245	—
Net income	12,744	**16,277**	+3,533	+27.7

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded consolidated net sales of ¥515,771 million, an increase of ¥37,556 million (7.9%) 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. We seized demand for replacement and upgrade systems as well as for power saving countermeasures at companies and active corporate demand for IT investment. Consequently, the System Integration business recorded sales growth, with net sales rising 10.4% to ¥289,840 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. Our “tanomail” office supply mail-order service business achieved solid growth in sales, while sales from maintenance and other support rose from the previous fiscal year. As a result, net sales in the Service and Support business rose 5.0% to ¥225,298 million.

Other Business

In the Other Business, net sales declined 44.1% from the previous fiscal year to ¥632 million.

Summary of Income and Expenses

Regarding profits, gross profit increased 7.8% to ¥114,658 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 22.3% to ¥28,251 million, ordinary income increased 24.7% to ¥29,079 million, and net income was up 27.7% to ¥16,277 million. Net income per share amounted to ¥515.11.

Financial Position

			Millions of yen	
	2011	**2012**	Difference to Last Year	% Change to Last Year
Assets:	¥229,610	**¥253,158**	+23,547	+10.3%
Current assets	166,068	**188,934**	+22,866	+13.8
Fixed assets	63,542	**64,223**	+681	+1.1
Liabilities:	112,224	**123,890**	+11,665	+10.4
Current liabilities	108,180	**118,682**	+10,501	+9.7
Fixed liabilities	4,043	**5,207**	+1,163	+28.8
Net assets	117,385	**129,268**	+11,882	+10.1

Assets

Total assets at fiscal year-end increased ¥23,547 million from the previous fiscal year-end to ¥253,158 million. Current assets increased ¥22,866 million from the previous fiscal year-end to ¥188,934 million due to a rise in cash and time deposits. Fixed assets increased ¥681 million from the previous fiscal year-end to ¥64,223 million.

Liabilities

Total liabilities increased ¥11,665 million to ¥123,890 million. Current liabilities increased ¥10,501 million to ¥118,682 million due to an increase in accounts and notes payable. Fixed liabilities increased ¥1,163 million from the previous fiscal year-end to ¥5,207 million.

Net Assets

Total net assets increased ¥11,882 million from the previous fiscal year-end to ¥129,268 million owing to such factors as an increase in retained earnings. As a result, the equity ratio decline 0.1 percentage point to 50.7%.

The interest coverage ratio was 392.65 times; the interest-bearing debt ratio was 3.70%; return on equity (ROE) was 13.28%; and return on assets (ROA) was 11.90%.

	2011	**2012**
Interest coverage ratio (times)	299.28	**392.65**
Interest-bearing debt ratio (%)	3.67	**3.70**
ROE (%)	11.33	**13.28**
ROA (%)	10.33	**11.90**

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	
	2011	**2012**
Cash flows from operating activities	¥23,158	**¥25,879**
Cash flows from investing activities	-4,604	**-4,894**
Cash flows from financing activities	-4,229	**-5,190**
Cash and cash equivalents at end of year	52,320	**68,113**

Cash and cash equivalents at end of year totalled ¥68,113 million, an increase of ¥15,793 million (30.2%) 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 ¥25,879 million, an increase of ¥2,721 million from the previous fiscal year, due to an increase in income before income taxes and minority interests.

Cash Flows from Investing Activities

Net cash used in investing activities increased ¥290 million from the previous fiscal year to ¥4,894 million due to an increase in payments for purchase of investments in securities.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥961 million to ¥5,190 million due to an increase in cash dividends paid.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, increased ¥2,430 million to ¥20,984 million.

Forecast for Fiscal 2013

In fiscal 2013, the Company forecasts a 3.9% increase in consolidated net sales to ¥536,000 million, a 8.0% increase in operating income to ¥30,500 million, a 6.6% increase in ordinary income to ¥31,000 million and a 11.1% increase in net income to ¥18,090 million.

By segment, we forecast a 3.8% increase in net sales to ¥300,960 million in the System Integration business, a 4.0% increase to ¥234,400 million in the Service and Support business and a 1.2% increase to ¥640 million in the Other Business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	**2012**	**2012**
ASSETS			
Current assets			
Cash, time deposits and other cash equivalents (Notes 12 and 17)	¥ 45,600	**¥ 61,519**	**$ 710,556**
Accounts and notes receivable (Note 18):			
Trade	80,606	**88,105**	**1,017,622**
Unconsolidated subsidiaries and affiliates	1,146	**1,872**	**21,623**
Other	4,658	**3,669**	**42,386**
	86,412	**93,647**	**1,081,632**
Less: Allowance for doubtful accounts	(455)	**(300)**	**(3,466)**
	85,956	**93,347**	**1,078,165**
Short-term investments (Notes 5 and 12)	5,000	**5,000**	**57,750**
Inventories (Note 7)	17,613	**16,494**	**190,512**
Deferred tax assets (Note 10)	3,723	**3,272**	**37,797**
Other current assets (Note 12)	8,174	**9,300**	**107,416**
Total current assets	166,068	**188,934**	**2,182,198**
Investments and other assets			
Investments in securities (Note 5)	2,311	**3,602**	**41,610**
Investments in unconsolidated subsidiaries and affiliates	2,607	**2,418**	**27,932**
Guarantee deposits	2,555	**2,507**	**28,962**
Deferred tax assets non-current (Note 10)	1,354	**1,949**	**22,521**
Other investments	3,841	**5,024**	**58,030**
Less: Allowance for doubtful accounts	(1,099)	**(1,723)**	**(19,907)**
	11,571	**13,779**	**159,149**
Property and equipment			
Land (Note 16)	17,291	**17,259**	**199,351**
Buildings and structures	65,059	**65,309**	**754,328**
Other	14,525	**14,335**	**165,574**
	96,876	**96,905**	**1,119,254**
Less: Accumulated depreciation	(50,262)	**(51,441)**	**(594,144)**
Net property and equipment	46,614	**45,464**	**525,109**
Intangibles and deferred charges			
Software	5,197	**4,867**	**56,217**
Other	158	**113**	**1,309**
	5,355	**4,980**	**57,526**
Total assets	¥229,610	**¥253,158**	**$2,923,984**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	**2012**	**2012**
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term bank loans (Note 8)	¥ 7,400	**¥ 7,150**	**$ 82,582**
Current maturities of long-term debts (Note 8)	10	**—**	**—**
Accounts and notes payable (Notes 17 and 19):			
Trade	61,341	**67,359**	**777,997**
Unconsolidated subsidiaries and affiliates	1,044	**1,272**	**14,698**
Other	14,996	**14,641**	**169,104**
	77,381	**83,272**	**961,800**
Income taxes payable (Note 10)	5,377	**7,846**	**90,628**
Other current liabilities (Note 10)	18,011	**20,413**	**235,774**
Total current liabilities	108,180	**118,682**	**1,370,786**
Long-term liabilities			
Reserve for retirement benefits (Note 9)	2,384	**2,668**	**30,824**
Deferred tax liabilities non-current (Note 10)	83	**60**	**703**
Deferred tax liabilities on revaluation of land (Note 16)	189	**189**	**2,193**
Other long-term liabilities	1,386	**2,287**	**26,422**
Total long-term liabilities	4,043	**5,207**	**60,144**
Net assets			
Shareholders' equity (Note 15)			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: 31,667,020 shares as of December 31, 2011 and 2012	10,374	**10,374**	**119,829**
Capital surplus	16,254	**16,254**	**187,742**
Retained earnings	104,308	**115,688**	**1,336,205**
Treasury stock			
65,855 shares as of December 31, 2011 and			
65,994 shares as of December 31, 2012	(125)	**(126)**	**(1,461)**
Total shareholders' equity	130,812	**142,191**	**1,642,315**
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	291	**678**	**7,832**
Revaluation differences on land (Note 16)	(14,304)	**(14,304)**	**(165,216)**
Foreign currency translation adjustments	(165)	**(93)**	**(1,081)**
Total accumulated other comprehensive income	(14,178)	**(13,719)**	**(158,465)**
Minority interests in consolidated subsidiaries	752	**796**	**9,203**
Total net assets	117,385	**129,268**	**1,493,053**
Total liabilities and net assets	¥229,610	**¥253,158**	**$2,923,984**

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, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2012	2012
Net sales (Note 21)	¥478,215	**¥515,771**	**$5,957,170**
Cost of sales (Notes 20 and 21)	371,828	**401,113**	**4,632,861**
Gross profit	106,387	**114,658**	**1,324,309**
Selling, general and administrative expenses (Notes 20 and 21)	83,292	**86,407**	**998,009**
Operating income	23,095	**28,251**	**326,299**
Other income (expenses)			
Interest and dividend income	108	**120**	**1,388**
Interest expenses	(76)	**(73)**	**(844)**
Reversal of allowance for doubtful accounts	91	**—**	**—**
Provision for allowance for doubtful accounts	(292)	**(485)**	**(5,602)**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	(325)	**343**	**3,965**
Loss on disposal of fixed assets	(167)	**(208)**	**(2,407)**
Impairment losses	(19)	**(177)**	**(2,049)**
Loss on adjustment for changes of accounting standard for asset retirement obligations	(510)	**—**	**—**
Loss on devaluation of investments in securities	(48)	**(18)**	**(218)**
Gain on sales of investments in unconsolidated subsidiaries and affiliates	—	**37**	**431**
Gain (loss) on sales of investment securities	3	**60**	**704**
Compensation income	—	**112**	**1,300**
Other, net	491	**436**	**5,042**
	(744)	**148**	**1,710**
Income before income taxes and minority interests	22,350	**28,399**	**328,009**
Income taxes (Note 10)			
Current	9,629	**12,353**	**142,684**
Deferred	(122)	**(368)**	**(4,254)**
	9,506	**11,985**	**138,429**
Income before minority interests	12,844	**16,413**	**189,579**
Minority interests	100	**135**	**1,568**
Net income	¥ 12,744	**¥16,277**	**$ 188,011**

	yen		U.S. dollars (Note 3)
Net income and dividends per share (Note 2(17), 13 and 22)			
Basic net income	**¥403.28**	**¥515.11**	**$5.95**
Diluted net income	**403.10**	**—**	**—**
Cash dividends	**155.00**	**200.00**	**2.31**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	**2012**	**2012**
Income before minority interests	¥12,844	**¥16,413**	**$189,579**
Other comprehensive income			
Unrealized gains on available-for-sale securities	(89)	**383**	**4,431**
Revaluation difference on land	26	**—**	**—**
Share of other comprehensive income of unconsolidated subsidiaries and associates accounted for using equity method	(37)	**75**	**872**
Total other comprehensive income (Note 11)	(99)	**459**	**5,304**
Comprehensive income	¥12,745	**¥16,873**	**$194,883**
Comprehensive income attributable to:			
Shareholders of OTSUKA CORPORATION (owners of the parent)	¥12,645	**¥16,736**	**$193,304**
Minority interests	99	**136**	**1,579**

The accompanying notes are an integral part of this statement.

Consolidated Statements of Changes in Net Assets

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

		Shareholders' equity (Millions of yen)				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2011	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 January 1, 2011	¥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

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2012

Millions of yen

	Number of shares issued	Shareholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2012	**31,667,020**	**¥10,374**	**¥16,254**	**¥104,308**	**¥(125)**	**¥130,812**
Dividends				**(4,898)**		**(4,898)**
Net income				**16,277**		**16,277**
Change in the scope of consolidation				**(22)**		**(22)**
Change in the scope of equity method				**23**		**23**
Purchase of treasury stock					**(0)**	**(0)**
Items other than changes in shareholders' equity						
Balance at December 31, 2012	**31,667,020**	**¥10,374**	**¥16,254**	**¥115,688**	**¥(126)**	**¥142,191**

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 January 1, 2012	**¥291**	**¥(14,304)**	**¥(165)**	**¥(14,178)**	**¥752**	**¥117,385**
Dividends						**(4,898)**
Net income						**16,277**
Change in the scope of consolidation						**(22)**
Change in the scope of equity method						**23**
Purchase of treasury stock						**(0)**
Items other than changes in shareholders' equity	**386**	**—**	**71**	**458**	**44**	**503**
Balance at December 31, 2012	**¥678**	**¥(14,304)**	**¥(93)**	**¥(13,719)**	**¥796**	**¥129,268**

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2012

Thousands of U.S. dollars (Note 3)

	Number of shares issued	Shareholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2012	**31,667,020**	**$119,829**	**$187,742**	**$1,204,760**	**$(1,450)**	**$1,510,882**
Dividends				**(56,574)**		**(56,574)**
Net income				**188,011**		**188,011**
Change in the scope of consolidation				**(262)**		**(262)**
Change in the scope of equity method				**270**		**270**
Purchase of treasury stock					**(11)**	**(11)**
Items other than changes in shareholders' equity						
Balance at December 31, 2012	**31,667,020**	**$119,829**	**$187,742**	**$1,336,205**	**$(1,461)**	**$1,642,315**

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 January 1, 2012	**$3,363**	**$(165,216)**	**$(1,906)**	**$(163,758)**	**$8,685**	**$1,355,808**
Dividends						**(56,574)**
Net income						**188,011**
Change in the scope of consolidation						**(262)**
Change in the scope of equity method						**270**
Purchase of treasury stock						**(11)**
Items other than changes in shareholders' equity	**4,468**	**—**	**824**	**5,293**	**517**	**5,811**
Balance at December 31, 2012	**$7,832**	**$(165,216)**	**$(1,081)**	**$(158,465)**	**$9,203**	**$1,493,053**

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, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	**2012**	**2012**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥22,350	**¥28,399**	**$328,009**
Depreciation and amortization	5,944	**5,766**	**66,598**
Equity in net income of unconsolidated subsidiaries and affiliates	325	**(343)**	**(3,965)**
Increase (decrease) in reserve for retirement benefits	(20)	**146**	**1,697**
Increase in allowance for doubtful accounts	116	**469**	**5,425**
Interest and dividend income	(108)	**(120)**	**(1,388)**
Interest expenses	76	**73**	**844**
Loss on disposal of fixed asset	167	**208**	**2,407**
Impairment losses	19	**177**	**2,049**
Loss on adjustment for changes of accounting standard for asset retirement obligations	510	**—**	**—**
Loss (gain) on sales of investment securities	(3)	**(60)**	**(704)**
Loss on devaluation of investments in securities	48	**18**	**218**
Loss (gain) on sales of investments in unconsolidated subsidiaries and affiliates	—	**(36)**	**(422)**
Compensation (income)	—	**(112)**	**(1,300)**
Decrease (increase) in accounts and notes receivable	(3,884)	**(7,491)**	**(86,526)**
Decrease (increase) in inventories	1,931	**1,125**	**13,001**
Increase (decrease) in accounts and notes payable	3,992	**5,506**	**63,597**
Other	1,069	**1,848**	**21,345**
Subtotal	32,535	**35,574**	**410,886**
Interest and dividend income received	144	**162**	**1,879**
Interest expenses paid	(77)	**(73)**	**(844)**
Proceeds from compensation	—	**112**	**1,300**
Income taxes paid	(9,444)	**(9,897)**	**(114,316)**
Net cash provided by operating activities	23,158	**25,879**	**298,905**
Cash flows from investing activities:			
Payments for purchase of property and equipment	(2,459)	**(1,963)**	**(22,683)**
Proceeds from sales of property and equipment	17	**0**	**3**
Payments for software developed	(2,522)	**(2,654)**	**(30,664)**
Payments for purchase of investments in securities	(110)	**(1,078)**	**(12,455)**
Proceeds from sales of investments in securities	8	**110**	**1,280**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	**50**	**580**
Proceeds from sales of investments in unconsolidated subsidiaries and affiliates	—	**615**	**7,110**
Payments for long-term loans receivable	(291)	**(279)**	**(3,232)**
Proceeds from long-term loans receivable	63	**44**	**516**
Other	690	**260**	**3,008**
Net cash used in investing activities	(4,604)	**(4,894)**	**(56,537)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	100	**(250)**	**(2,887)**
Repayments for long-term debts	(40)	**(10)**	**(115)**
Cash dividends paid	(4,264)	**(4,898)**	**(56,575)**
Other	(24)	**(32)**	**(376)**
Net cash used in financing activities	(4,229)	**(5,190)**	**(59,954)**
Net increase in cash and cash equivalents	14,324	**15,793**	**182,413**
Cash and cash equivalents at beginning of year	37,924	**52,320**	**604,298**
Increase (decrease) in cash and cash equivalents resulting from merger of subsidiaries	71	**—**	**—**
Cash and cash equivalents at end of year (Note 12)	¥52,320	**¥68,113**	**$786,712**

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 Financial Instruments and Exchange Act of Japan.

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The Company had 12 subsidiaries (majority-owned companies) and 11 subsidiaries as at December 31, 2011 and 2012, respectively. The consolidated financial statements include the accounts of the Company and 8 subsidiaries and 7 subsidiaries for the years ended December 31, 2011 and 2012, respectively.

The 7 subsidiaries which were consolidated in the year ended December 31, 2012 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%

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 as at December 31, 2011 and 2012, consisted of insignificant amounts in terms of total assets, net sales, net income and retained earnings, and have, therefore, been excluded from consolidation.

Otsuka Business Service Co., LTD became an affiliate and was excluded from the scope of consolidation during fiscal year 2012, due to sales of shares.

(2) Investments in unconsolidated subsidiaries and affiliates

The Company had 4 unconsolidated subsidiaries and 10 affiliates at December 31, 2011 and 4 unconsolidated subsidiaries and 11 affiliates at December 31, 2012.

The Company had 3 investments in affiliate for the equity method and 2 investments in affiliate for the equity method at December 31, 2011 and 2012, respectively. 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 2 investments in affiliate by the equity method at December 31, 2012, are listed below:

	A ratio of voting rights held by the Company
Otsuka Information Technology Corp.	37.8%
LION OFFICE PRODUCTS CORP.	40.4%

SIOS Technology, Inc. became immaterial and was excluded from the investments in affiliate for the equity method during fiscal year 2012, due to sales of shares.

(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 10 years

Normal repairs and maintenance, including minor renewals and improvements, are charged to the consolidated statement of 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 within 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) Amortization of Long Term Prepaid Expenses

Long term prepaid expenses are amortized using the straight-line method over their useful lives.

(10) 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.

(11) 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.

(12) Accrued Bonuses for Employees

The Companies provide accrued bonuses for employees based on the estimated amounts to be paid in respect of the fiscal year.

(13) Reserve for retirement benefits

(a) Retirement benefits for employees

The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, 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.

(14) 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.

(15) Goodwill

Goodwill is determined on a case by case basis and is generally amortized using the straight-line method over it's estimated useful lives or period not exceeding 5 years.

(16) Accounting Standard for Accounting Changes and Error Corrections

Effective from the beginning of this fiscal year, the Companies adopted the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan Statement No.24 dated December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan Guidance No.24 dated December 4, 2009).

(17) 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.

(18) 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.

(19) 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 ¥86.58=US$1, the rate of exchange on December 31, 2012, 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 rate.

4. Financial Instruments

1 Financial Instruments

(1) Policy for financial instruments

The Companies manage surplus funds through low-risk financial instruments, and raise short-term operating funds through bank loans.

(2) Types of financial instruments, related risk and risk management

Trade receivables -trade notes and accounts receivable- are exposed to customers' credit risk.

The Companies try to reduce credit risk by monitoring and analyzing the creditworthiness of each customer, as well as managing due dates and balances.

Investment securities are comprised of mainly held-to-maturity debt securities and the securities of the companies with which the Companies have operational relationships.

Although debt securities and listed securities are exposed to the risk arising from fluctuations in the market, the Companies monitor and analyze market value and the issuers' financial status periodically to reduce these risks.

Trade payables -trade notes and accounts payable- have payment due date within three months.

Bank loans are raised mainly in connection with business activities.

The Companies reduce liquidity risk relating to these payables by developing a cash flow plan.

Derivative transactions are foreign exchange contracts, entered into by the consolidated subsidiary.

Conducting and managing derivative transactions are in accordance with the internal policies, which set forth delegation of authority.

2 Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheet as of December 31, 2011 and 2012 and estimated fair value were as follows.

As of December 31, 2011	Millions of yen		
	Carrying value	Fair value	Difference
Assets			
1) Cash on hands and in bank	¥ 45,600	¥ 45,600	¥ —
2) Trade notes and accounts receivable	79,558	79,558	—
3) Investment securities			—
Held-to-maturity debt securities	5,000	5,000	—
Other securities	1,635	1,635	—
Investment in affiliates	1,319	1,319	(0)
Total assets	¥133,114	¥133,114	¥ (0)
Liabilities			
4) Trade notes and accounts payable	¥ 71,514	¥ 71,514	¥ —
5) Short-term borrowings (* 1)	7,400	7,400	—
6) Income tax payable	5,377	5,377	—
Total liabilities	¥ 84,291	¥ 84,291	—
Derivative transaction (* 2)	¥ (0)	¥ (0)	¥ —

*1 Short-term borrowings do not include the current portion of long-term loans payable.

*2 The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

As of December 31, 2012	Millions of yen		
	Carrying value	Fair value	Difference
Assets			
1) Cash on hands and in bank	¥ 61,519	¥ 61,519	¥ —
2) Trade notes and accounts receivable	86,983	86,983	—
3) Investment securities			
Held-to-maturity debt securities	5,000	5,000	—
Other securities	3,272	3,272	—
Investment in affiliates	909	1,204	294
Total assets	¥157,686	¥157,980	¥294
Liabilities			
4) Trade notes and accounts payable	¥ 76,978	¥ 76,978	—
5) Short-term borrowings	7,150	7,150	—
6) Income tax payable	7,846	7,846	—
Total liabilities	¥ 91,974	¥ 91,974	¥ —
Derivative transaction (*)	¥ 18	¥ 18	¥ —

* The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

As of December 31, 2012	(Thousands of U.S. dollars)		
	Carrying value	Fair value	Difference
Assets			
1) Cash on hands and in bank	$ 710,557	$ 710,557	$ —
2) Trade notes and accounts receivable	1,004,666	1,004,666	—
3) Investment securities			
Held-to-maturity debt securities	57,750	57,750	—
Other securities	37,796	37,796	—
Investment in affiliates	10,508	13,910	3,401
Total assets	$1,821,277	$1,824,678	$ 3,401
Liabilities			
4) Trade notes and accounts payable	$ 889,100	$ 889,100	$ —
5) Short-term borrowings	82,583	82,583	—
6) Income tax payable	90,629	90,629	—
Total liabilities	$1,062,311	$1,062,311	$ —
Derivative transaction (*)	$ 208	$ 208	$ —

* The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

Notes:

1 Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions.

<u>Assets</u>

(1) Cash on hands and in bank (2) Trade notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximates fair value.

(3) Investment securities

The fair value of stocks is based on quoted market prices. Since debt securities are settled in a short period of time, the carrying value of debt securities approximates fair value.

<u>Liabilities</u>

(4) Trade notes and accounts payable (5) Short-term borrowings (6) Income tax payable

Since these items are settled in a short period of time, their carrying value approximates fair value.

<u>Derivative transaction</u>

Please refer to Note.6, *Derivative Information*, of the notes the consolidated financial statements.

2 Financial instruments for which it is extremely difficult to determine the fair value.

As of	December 31 2011 (Millions of yen)	December 31 2012 (Millions of yen)	December 31 2012 (Thousands of U.S. dollar)
Unlisted stocks	¥1,881	**¥1,760**	**$20,339**
Investments in investment business limited partnerships	81	**77**	**899**

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

3 Redemption schedule for receivables and marketable securities with maturities at December 31, 2011 and 2012 are as follows:

As of December 31, 2011				Millions of yen
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hands and in bank	¥ 45,600	¥ —	¥ —	¥ —
Trade notes and accounts receivable	79,558	—	—	—
Investment securities				
Held-to-maturity debt securities	5,000	—	—	—
Total	¥ 130,158	¥ —	¥ —	¥ —

As of December 31, 2012				Millions of yen
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hands and in bank	**¥ 61,519**	**¥ —**	**¥ —**	**¥ —**
Trade notes and accounts receivable	**86,983**	**—**	**—**	**—**
Investment securities				
Held-to-maturity debt securities	**5,000**	**—**	**—**	**—**
Total	**¥153,503**	**¥ —**	**¥ —**	**¥ —**

				(Thousands of U.S. dollars)
As of December 31, 2012	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hands and in bank	**$ 710,557**	**$ —**	**$ —**	**$ —**
Trade notes and accounts receivable	**1,004,666**	**—**	**—**	**—**
Investment securities				
Held-to-maturity debt securities	**57,750**	**—**	**—**	**—**
Total	**$1,772,972**	**$ —**	**$ —**	**$ —**

5. Investments in Securities

As of December 31, 2011 and 2012 investments in securities were as follows:

(1) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2011			**2012**			**2012**		
	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									
Negotiable certificates of deposit	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Securities whose carrying value does not exceed their acquisition costs									
Negotiable certificates of deposit	¥5,000	¥5,000	—	**¥5,000**	**¥5,000**	**—**	**$57,750**	**$57,750**	**—**
	¥5,000	¥5,000	—	**¥5,000**	**¥5,000**	**—**	**$57,750**	**$57,750**	**—**
Total	¥5,000	¥5,000	—	**¥5,000**	**¥5,000**	**—**	**$57,750**	**$57,750**	**—**

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

	Millions of yen						Thousands of U.S. dollars		
	2011			**2012**			**2012**		
	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	¥ 694	¥ 1,297	¥ 603	**¥ 763**	**¥ 1,855**	**¥ 1,092**	**$ 8,817**	**$21,436**	**$12,619**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 694	¥ 1,297	¥ 603	**¥ 763**	**¥ 1,855**	**¥ 1,092**	**$ 8,817**	**$21,436**	**$12,619**
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥ 372	¥ 277	¥ (95)	**¥ 381**	**¥ 351**	**¥ (29)**	**$ 4,405**	**$ 4,064**	**$ (340)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	92	60	(31)	**1,073**	**1,064**	**(8)**	**12,397**	**12,295**	**(102)**
	¥ 464	¥ 338	¥ (126)	**¥1,454**	**¥ 1,416**	**¥ (38)**	**$16,802**	**$16,359**	**$ (442)**
Total	¥1,159	¥ 1,635	¥ 476	**¥2,218**	**¥ 3,272**	**¥ 1,054**	**$25,620**	**$37,796**	**$12,176**

Note: The following other securities are not included in the above table because these were no quated market price available and they are extremely difficult to determine the fair value:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
	Carrying value	Carrying value	Carrying value
Available-for-sale securities			
Unlisted stocks	¥593	**¥252**	**$2,915**
Investment in limited liability partnerships	81	**77**	**898**

(3) Available-for-sale securities sold in 2011 and 2012 (for the years ended December 31, 2011 and 2012)

	Millions of yen						Thousands of U.S. dollars		
	2011			**2012**			**2012**		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
	¥8	¥3	—	**¥110**	**¥61**	**¥0**	**$1,280**	**$704**	**$0**

(4) Impairment for securities

Impairment for securities was recognized in the amounts of 48 million yen and 18 million yen (218 thousand U.S. dollars) for the years ended December 31, 2011 and 2012, respectively.

As for securities whose fair value at the year end are less than 50% of the acquisition costs, or are more than 50% but less than 70% and deemed to be unrecoverable, the impairment losses are recognized.

6. 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.

As of December 31, 2011 and 2012, derivatives for which hedge accounting have not been applied, were as follows:
Currency-related transactions

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

	Millions of yen			
	2012			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts purchasing U.S.dollar	**¥570**	**—**	**¥18**	**¥18**

	Thousands of U.S. dollars			
	2012			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts purchasing U.S.dollar	**$6,590**	**—**	**$208**	**$208**

7. Inventories

Inventories at December 31, 2011 and 2012 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Merchandise	¥15,833	**¥14,298**	**$165,145**
Work in process	818	**1,271**	**14,686**
Raw materials and supplies	961	**924**	**10,681**
	¥17,613	**¥16,494**	**$190,512**

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

The annual average interest rates applicable to short-term bank loans at December 31, 2011 and 2012 were 0.99% and 0.94%, respectively.

Long-term debt at December 31, 2011 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Long-term loans from banks with annual interest rates:			
1.63% (excluding lease obligations)	¥10	**—**	**—**
	10	**—**	**—**
Less : Current portion of long-term debts	(10)	**—**	**—**
	—	**—**	**—**

9. Reserve for Retirement Benefits

(1) Retirement benefit plan

The Company and certain its subsidiaries have defined contribution pension plans, agreement type corporate pension plans and termination allowance plans as defined-benefit pension plans.

(2) The reserve for retirement benefits as of December 31, 2011 and 2012 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Retirement benefit obligations	¥ (33,944)	**¥ (35,672)**	**$ (412,019)**
Plan assets	33,305	**36,567**	**422,354**
	(639)	**894**	**10,334**
Unrecognized actuarial gain or loss	4,231	**1,748**	**20,198**
Unrecognized prior service cost	(4,122)	**(3,320)**	**(38,355)**
	(530)	**(677)**	**(7,821)**
Prepaid pension cost	1,371	**1,469**	**16,967**
Reserve for retirement benefits	¥ (1,902)	**¥ (2,146)**	**$ (24,789)**

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2011 and 2012 included retirement benefits for directors in the amounts of 482 million yen and 522 million yen (6,035 thousand U.S. dollars), respectively.

(3) Retirement benefit expense related to the retirement benefits for the year ended December 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Service cost	¥ 2,213	**¥ 2,324**	**$ 26,851**
Interest cost	476	**498**	**5,753**
Expected return on plan assets	(162)	**(166)**	**(1,923)**
Amortization of the unrecognized prior service cost	(793)	**(801)**	**(9,256)**
Amortization of the unrecognized actuarial gain or loss	553	**604**	**6,981**
Payments for defined contribution pension plan	798	**804**	**9,292**
Additional benefits for employees' early retirement	234	**212**	**2,459**
Net periodic retirement benefit expense	¥ 3,319	**¥ 3,476**	**$ 40,158**

Service cost includes the retirement benefit of subsidiaries under the simplified method.

(4) Computation basis of reserve for retirement benefits

As of December 31, 2011 and 2012

	2011	**2012**
Discount rate	1.5%	**1.5%**
Expected rate of return on plan assets	0.5%	**0.5%**
Periodic allocation principle for retirement 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 following fiscal year of occurrence	**mainly 12 years from the following fiscal year of occurrence**

10. Income Taxes

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2011 and 2012 were 40.7%.

Since the difference between the statutory tax rates and the effective tax rates for the fiscal year ended December 31, 2011(42.5%) and 2012(42.2%) are less than 5%, respectively, a reconciliation of two rates is not presented.

As of December 31, 2011 and 2012, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Deferred tax assets:			
Allowance for doubtful accounts	¥ 351	¥ 538	$ 6,223
Enterprise taxes	537	665	7,692
Accrued bonuses	1,152	1,104	12,757
Retirement benefits for employees	688	774	8,941
Retirement benefits for directors	173	187	2,162
Impairment losses	950	961	11,104
Software development cost	1,444	1,454	16,794
Eliminated unrealized profits	280	303	3,506
Other	1,768	1,807	20,879
Total deferred tax assets	7,347	7,797	90,060
Less: Valuation allowance	(1,624)	(1,667)	(19,264)
Net deferred tax assets	5,723	6,129	70,796
Deferred tax liabilities:			
Prepaid pension cost	495	525	6,065
Unrealized gains on available-for-sale securities	164	363	4,203
Other	71	80	931
Total deferred tax liabilities	731	969	11,201
Net deferred tax assets	¥ 4,991	¥ 5,159	$ 59,594

11. Other comprehensive income

For the year ended December 31, 2012, reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized gains on available-for-sale securities		
Amount arising during the year	¥ 566	$ 6,544
Reclassification adjustments	18	218
Amount before tax effects	585	6,762
Tax effects	(201)	(2,331)
Unrealized gains on available-for-sale securities	383	4,431
Share of other comprehensive income of associates accounted for using equity method		
Amount arising during the year	75	872
Reclassification adjustments	(0)	(0)
Share of other comprehensive income of associates accounted for using equity method	75	872
Total other comprehensive income	¥ 459	$ 5,304

12. Supplementary Cash Flow Information

Cash and cash equivalents as of December 31, 2011 and 2012 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Cash, time deposits and other cash equivalents	¥45,600	**¥61,519**	**$710,556**
Time deposits with deposit terms of more than three months	(55)	**(55)**	**(635)**
Short-term investments with maturity or redemption dates within three months from acquisition date	5,000	**5,000**	**57,750**
Trust beneficiary interests included in other current assets with investment terms with three months or less	1,774	**1,648**	**19,041**
Cash and cash equivalents	¥52,320	**¥68,113**	**$786,712**

13. Dividends

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2012 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 27, 2013:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥200.00 per share)	¥6,320	$72,998

14. Lease Transactions

The amounts of future lease payments on operating leases at December 31, 2011 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Due within one year	¥ 692	**¥ 563**	**$ 6,507**
Due after one year	1,782	**1,332**	**15,386**
	¥2,474	**¥1,895**	**$21,893**

15. 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.

16. 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 734 million yen and 797 million yen (9,206 thousand U.S. dollars) at December 31, 2011 and 2012, respectively.

17. Pledged Assets

At December 31, 2011 and 2012, assets pledged as collateral for accounts and notes payable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Time deposits	¥5	**¥5**	**$57**
	¥5	**¥5**	**$57**

18. Notes maturing on December 31

December 31, 2011 and 2012 were a bank holiday, and notes matured on December 31, 2011 and 2012, amounted to 428 million yen and 448 million yen (5,175 thousand U.S. dollars), respectively, are accounted for as if they were settled on the maturity dates.

19. Factoring notes

Accounts and notes payable include balances under factoring contracts with creditors amounting to 14,888 million yen and 14,480 million yen (167,254 thousand U.S. dollars), respectively.

20. 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, 2011 and 2012 amounted to 217 million yen and 377 million yen (4,362 thousand U.S. dollars), respectively.

21. Segment Information

(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 net sales, segment profit or loss, segment assets and other items

The accounting method for the Companies' reported business segments is substantially the same as "2. Summary of Significant Accounting Policies". Also, segment profit or loss is evaluated 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 sales, segment profit or loss, segment assets and other items

Segment information as of and for the fiscal years ended December 31, 2011 and 2012 were as follows:

Millions of yen

2011

	Reportable segments						
	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

Millions of yen

2012

	Reportable segments						
	System Integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to third parties	**¥289,840**	**¥225,298**	**¥515,139**	**¥ 632**	**¥515,771**	**¥ —**	**¥515,771**
Inter-segment sales/transfers	**131**	**497**	**629**	**2,066**	**2,695**	**(2,695)**	**—**
Total	**¥289,972**	**¥225,796**	**¥515,768**	**¥ 2,699**	**¥518,467**	**¥ (2,695)**	**¥515,771**
Segment profit or loss	**¥ 27,062**	**¥ 8,528**	**¥ 35,590**	**¥ 91**	**¥ 35,682**	**¥ (7,431)**	**¥ 28,251**
Segment assets	**¥ 94,254**	**¥ 79,815**	**¥174,070**	**¥ 1,457**	**¥175,527**	**¥ 77,630**	**¥253,158**
Other items							
Depreciation and amortization	**¥ 3,093**	**¥ 2,113**	**¥ 5,206**	**¥ 36**	**¥ 5,243**	**¥ 522**	**¥ 5,766**
Investments in associates accounted for using equity method	**515**	**1,149**	**1,665**	**—**	**1,665**	**—**	**1,665**
Capital expenditure in property and equipment and intangible assets	**2,484**	**1,643**	**4,128**	**9**	**4,137**	**481**	**4,618**

	Reportable segments						Thousands of U.S. dollars 2012
	System Integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to third parties	**$3,347,663**	**$2,602,204**	**$5,949,867**	**$ 7,302**	**$5,957,170**	**$ —**	**$5,957,170**
Inter-segment sales/transfers	**1,523**	**5,742**	**7,265**	**23,870**	**31,136**	**(31,136)**	**—**
Total	**$3,349,186**	**$2,607,946**	**$5,957,133**	**$31,173**	**$5,988,306**	**$ (31,136)**	**$5,957,170**
Segment profit or loss	**$ 312,572**	**$ 98,502**	**$ 411,074**	**$ 1,059**	**$ 412,133**	**$ (85,833)**	**$ 326,299**
Segment assets	**$1,088,641**	**$ 921,872**	**$2,010,513**	**$16,835**	**$2,027,349**	**$ 896,635**	**$2,923,984**
Other items							
Depreciation and amortization	**$ 35,731**	**$ 24,408**	**$ 60,140**	**$ 425**	**$ 60,566**	**$ 6,032**	**$ 66,598**
Investments in associates accounted for using equity method	**5,954**	**13,278**	**19,232**	**—**	**19,232**	**—**	**19,232**
Capital expenditure in property and equipment and intangible assets	**28,701**	**18,977**	**47,678**	**113**	**47,792**	**5,555**	**53,348**

Notes:1. “Other” includes businesses not included in the reportable segments. These include Administrative of buildings, repair of automobiles, etc.
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, 2011 and 2012 were 7,234 million yen and 7,450 million yen and (86,057 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, 2011 and 2012 were 61,024 million yen and 79,052 million yen and (913,058 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.
3. The “Segment profit or loss” is reconciled with “Operating income” in Consolidated Statements of Income.

22. Amounts Per Share

Net income per share for the years ended December 31, 2011 and 2012 and net assets per share as of December 31, 2011 and 2012 were summarized as follows:

	Yen 2011	Yen 2012	U.S. dollars 2012
Net income per share	¥403.28	**¥515.11**	**$5.95**
Diluted net income per share	403.10	**—**	**—**

Diluted net income per share for the years ended December 31, 2012 is omitted because the Companies have no dilutive shares.

	Yen 2011	Yen 2012	U.S. dollars 2012
Net assets per share	¥3,690.81	**¥4,065.43**	**$46.96**

The computation of earnings and net assets per share is based on the weighted-average number of shares of common stock outstanding during each year and the number of shares of common stock outstanding at each balance sheet date, respectively.

Basis for calculation of diluted net income per share for the years ended December 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Numerator:			
Net income	¥12,744	**¥16,277**	**$188,011**
Net income not attributable to common shareholders	—	**—**	**—**
Net income attributable to common shareholders	¥12,744	**¥16,277**	**$188,011**
Net income adjustments	(5)	**—**	**—**
Diluted net income	¥12,738	**¥16,277**	**$188,011**
	Thousands of shares		
Denominator			
Weighted-average number of shares of common stock outstanding	31,601	**31,601**	**31,601**

The following securities were excluded from the computation of diluted net income per share because they do not have dilutive effects:

For the years ended December 31,2011

1st share subscription rights base on the extraordinary general meeting of shareholders held on October 14th, 2003 issued by SIOS Technology that is an affiliate by the equity method	768shares
3rd share subscription rights base on the ordinary general meeting of shareholders held on Marth 28th, 2006 issued by SIOS Technology that is an affiliate by the equity method	680shares

*SIOS Technology made a 2 for 1 share split on September 20th, 2005.

Basis for calculation of net assets per share as of December 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Numerator:			
Net assets	¥117,385	**¥129,268**	**$1,493,053**
Minority interests in consolidated subsidiaries	(752)	**(796)**	**(9,203)**
Net assets attributable to common stock	¥116,633	**¥128,471**	**$1,483,849**
	Thousands of shares		
Denominator			
Number of shares of common stock outstanding	31,601	**31,601**	**31,601**

23. Subsequent Event

None.

Independent Auditor's Report

The Board of Directors
OTSUKA CORPORATION

We have audited the accompanying consolidated financial statements of OTSUKA CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OTSUKA CORPORATION and its consolidated subsidiaries as at December 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

March 27, 2013

Ernst & Young Shinnihon LLC

Principal Group Companies (As of December 31, 2012)

The OTSUKA Group (OTSUKA CORPORATION and its subsidiaries) consists of 11 subsidiaries, including 7 consolidated subsidiaries as well as 11 affiliated companies, including 2 affiliates accounted for by the equity method that carry out the System Integration business, Service and Support business and Other business. The 7 consolidated subsidiaries are listed below.

Company Name	Established	Capital (¥ million)	A ratio of voting rights	Scope of Business
System Integration business				
OSK Co., LTD.	1984	400	100.0%	• Development and sale of packaged software
Netplan Co., Ltd.	1964	499	100.0%	• Electronic communications construction and interior construction
Alpha System Co., LTD.	1967	80	100.0%	• Consigned software development and ERP consulting business
Networld Corporation	1990	585	81.5%	• Sales and technical support for network related equipment
Service and Support business				
Alpha Techno Co., LTD.	1996	50	100.0%	• Emergency repair of PCs and peripheral equipment, and data recovery service
Alpha Net Co., LTD.	1997	400	100.0%	• Comprehensive service and support for network systems
Other business				
Otsuka Auto Service Co., LTD.	1987	50	100.0%	• Maintenance and body work for automobiles, and commissioned sales of insurance

Corporate Data (As of December 31, 2012)

Name	OTSUKA CORPORATION
Founded	July 17, 1961 (registered as joint-stock company on December 13, 1961)
Capital Stock	¥10,374,851,000
Number of Employees	6,638 (with consolidated subsidiaries: 8,103)
Business	**System Integration Business:** Sales of computers, copiers, communication equipment and software, and software development of consigned software, other activities **Service and Support Business:** Supplies, maintenance, and educational support, other activities
Main Banks	The Bank of Yokohama, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Bank, Ltd.

Base (As of December 31, 2012)

Head Office	2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573 TEL 03-3264-7111		
Kansai Office	6-14-1 Fukushima, Fukushima-ku, Osaka-shi, Osaka 553-8558 TEL 06-6456-2711		
Local Area Sales Groups	Chuo Sales Group 1	Chuo Sales Group 2	Kanagawa Sales Group
	Josai Sales Group	Tama Sales Group	Johoku Sales Group
	Northern Kanto Sales Group	Keiyo Sales Group	Osaka Northern Sales Group
	Osaka Southern Sales Group		
Regional Offices	Sapporo Branch	Sendai Branch	Utsunomiya Branch
	Chubu Branch	Kyoto Branch	Kobe Branch
	Hiroshima Branch	Kyushu Branch	

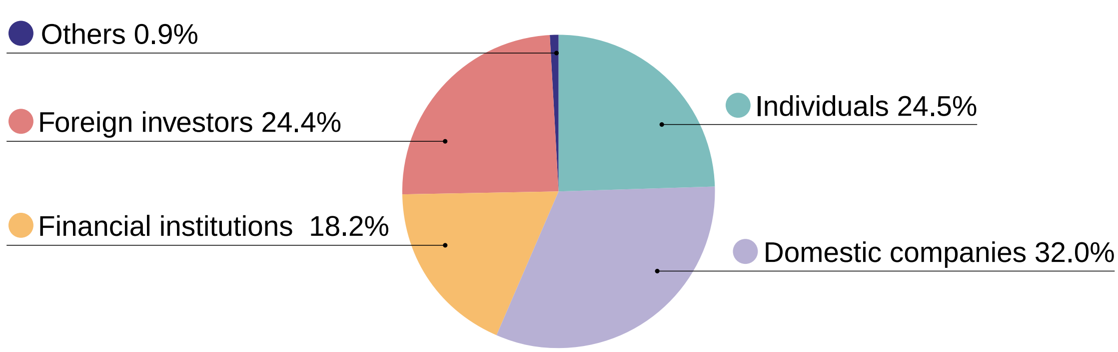
Stock Information (As of December 31, 2012)

Authorized Common Stock	**112,860,000 shares**
Issued Common Stock	**31,667,020 shares**
Number of Shares of Unit Stock	**100 shares**
Number of Shareholders	**4,661**

Major Shareholders

Name	Investment in OTSUKA CORPORATION		Investment in Major Shareholders by OTSUKA CORPORATION	
	Number of Shares Held	Equity Ownership (%)	Number of Shares Held	Equity Ownership (%)
Otsuka Sobi Co., Ltd.	9,788,330	30.91	—	—
Japan Trustee Services Bank, Ltd. (Trust Account)	1,429,000	4.51	—	—
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,210,700	3.82	—	—
OTSUKA CORPORATION Employee Stock-Sharing Plan	1,160,720	3.66	—	—
Yuji Otsuka	946,980	2.99	—	—
Atsushi Otsuka	945,950	2.98	—	—
Minoru Otsuka	945,490	2.98	—	—
Terue Otsuka	645,500	2.03	—	—
SAJAP	533,000	1.68	—	—
GOLDMAN SACHS INTERNATIONAL	513,200	1.62	—	—

Breakdown of Shareholders (Based on total shares)



OTSUKA CORPORATION WEBSITE

http://www.otsuka-shokai.co.jp

Otsuka Corporation

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