Financial Section

Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries
Years ended December 31, 2011, 2012 and 2013

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Net sales	¥478,215	¥515,771	**¥564,595**	**$5,356,690**
System Integration business	262,508	289,840	**332,067**	**3,150,548**
Service and Support business	214,576	225,298	**231,868**	**2,199,892**
Other business	1,130	632	**658**	**6,249**
Operating income	23,095	28,251	**33,901**	**321,642**
Ordinary income	23,315	29,079	**33,505**	**317,887**
Income before income taxes and minority interests	22,350	28,399	**33,049**	**313,560**
Net income	12,744	16,277	**20,271**	**192,331**
Total assets	229,610	253,158	**279,589**	**2,652,648**
Interest-bearing debt	8,415	9,367	**9,070**	**86,056**
Equity	116,633	128,471	**144,150**	**1,367,655**
Net income per share (EPS) (Yen and U.S. dollars)	403.28	515.11	**641.49**	**6.09**
Dividends per share of common stock (Yen and U.S. dollars)	155.00	200.00	**235.00**	**2.23**
Cash flows from operating activities per share (Yen and U.S. dollars)	732.82	818.94	**594.29**	**5.64**
Operating income to Net sales ratio (%)	4.83	5.48	**6.00**	**—**
Net income to Net sales ratio (%)	2.66	3.16	**3.59**	**—**
Interest-bearing debt ratio (%)	3.67	3.70	**3.24**	**—**
Equity ratio (%)	50.80	50.75	**51.56**	**—**
Return on equity (ROE) (%)	11.33	13.28	**14.87**	**—**

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, 2013 exchange rate of ¥105.40 = US$1.

Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

	2012	**2013**	Difference to Last Year	% Change to Last Year
				Millions of yen
Net sales	¥515,771	**¥564,595**	+48,823	+9.5%
System Integration business	289,840	**332,067**	+42,227	+14.6
Service & Support business	225,298	**231,868**	+6,569	+2.9
Other business	632	**658**	+26	+4.2
Cost of sales	401,113	**440,825**	+39,712	+9.9
Gross profit	114,658	**123,769**	+9,110	+7.9
Selling, general and administrative expenses	86,407	**89,868**	+3,460	+4.0
Operating income	28,251	**33,901**	+5,650	+20.0
Ordinary income	29,079	**33,505**	+4,425	+15.2
Income before income taxes and minority interests	28,399	**33,049**	+4,650	+16.4
Income taxes				
Current	12,353	**12,767**	+413	+3.3
Deferred	-368	**-147**	+220	–
Net income	16,277	**20,271**	+3,993	+24.5

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded consolidated net sales of ¥564,595 million, an increase of ¥48,823 million (9.5%) from the previous fiscal year.

System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. We seized active corporate demand for IT investment, demand for replacement purchases in the run-up to the ending of support for Windows XP and demand for power saving countermeasures, as well as recorded brisk growth in unit sales of PCs and copiers.
Consequently, the System Integration business recorded sales growth, with net sales rising 14.6% to ¥332,067 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 rose from the previous fiscal year, 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 2.9% to ¥231,868 million.

Other Business

In the Other Business, net sales increased 4.2% from the previous fiscal year to ¥658 million.

Summary of Income and Expenses

Regarding profits, gross profit increased 7.9% to ¥123,769 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 20.0% to ¥33,901 million, ordinary income increased 15.2% to ¥33,505 million, and net income was up 24.5% to ¥20,271 million. Net income per share amounted to ¥641.49.

Financial Position

			Millions of yen	
	2012	**2013**	Difference to Last Year	% Change to Last Year
Assets:	¥253,158	**¥279,589**	+26,430	+10.4%
Current assets	188,934	**215,940**	+27,005	+14.3
Fixed assets	64,223	**63,648**	-575	-0.9
Liabilities:	123,890	**134,522**	+10,632	+8.6
Current liabilities	118,682	**128,903**	+10,221	+8.6
Fixed liabilities	5,207	**5,618**	+411	+7.9
Net assets	129,268	**145,066**	+15,797	+12.2

Assets

Total assets at fiscal year-end increased ¥26,430 million from the previous fiscal year-end to ¥279,589 million. Current assets increased ¥27,005 million from the previous fiscal year-end to ¥215,940 million due to an increase in accounts and notes receivable. Fixed assets decreased ¥575 million from the previous fiscal year-end to ¥63,648 million.

Liabilities

Total liabilities increased ¥10,632 million to ¥134,522 million. Despite a decrease in accounts and notes payable, current liabilities increased ¥10,221 million to ¥128,903 million due to an increase in electronically recorded obligations – operating. Fixed liabilities increased ¥411 million from the previous fiscal year-end to ¥5,618 million.

Net Assets

Total net assets increased ¥15,797 million from the previous fiscal year-end to ¥145,066 million owing to such factors as an increase in retained earnings. As a result, the equity ratio rose 0.9 percentage point to 51.6%.

The interest coverage ratio was 520.92 times; the interest-bearing debt ratio was 3.24%; return on equity (ROE) was 14.87%; and return on assets (ROA) was 12.75%.

	2012	**2013**
Interest coverage ratio (times)	392.65	**520.92**
Interest-bearing debt ratio (%)	3.70	**3.24**
ROE (%)	13.28	**14.87**
ROA (%)	11.90	**12.75**

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	
	2012	**2013**
Cash flows from operating activities	¥25,879	**¥18,780**
Cash flows from investing activities	-4,894	**-3,468**
Cash flows from financing activities	-5,190	**-6,561**
Cash and cash equivalents at end of year	68,113	**76,863**

Cash and cash equivalents at end of year totalled ¥76,863 million, an increase of ¥8,750 million (12.8%) 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 ¥18,780 million, a decrease of ¥7,099 million from the previous fiscal year, due to an increase in notes and accounts receivable-trade and an increase in inventories from the previous fiscal year.

Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥1,426 million from the previous fiscal year to ¥3,468 million due to proceeds from redemption of investment securities.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥1,370 million to ¥6,561 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, decreased ¥5,672 million to ¥15,311 million.

Forecast for Fiscal 2014

In fiscal 2014, the Company forecasts a 4.5% increase in consolidated net sales to ¥590,000 million, a 3.2% increase in operating income to ¥35,000 million, a 6.0% increase in ordinary income to ¥35,500 million and a 2.5% increase in net income to ¥20,770 million.

By segment, we forecast a 4.9% increase in net sales to ¥348,470 million in the System Integration business, a 4.0% increase to ¥241,170 million in the Service and Support business and a 45.3% decrease to ¥360 million in the Other Business.

Consolidated Balance Sheet

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
ASSETS			
Current assets			
Cash on hands and in bank (Notes 4, 12 and 17)	¥ 61,519	**¥ 69,347**	**$ 657,943**
Trade notes and accounts receivable (Notes 4 and 18)	86,983	**99,664**	**945,580**
Securities (Notes 4, 5 and 12)	5,000	**5,700**	**54,079**
Inventories (Note 7)	16,494	**20,642**	**195,850**
Deferred tax assets (Note 10)	3,272	**3,521**	**33,408**
Other current assets (Note 12)	15,963	**17,225**	**163,434**
Less: Allowance for doubtful accounts	(300)	**(160)**	**(1,525)**
Total current assets	188,934	**215,940**	**2,048,771**
Investments and other assets			
Investments in securities (Notes 4 and 5)	3,602	**5,204**	**49,376**
Investments in unconsolidated subsidiaries and affiliates (Note 4)	2,418	**2,380**	**22,583**
Guarantee deposits	2,507	**2,437**	**23,129**
Deferred tax assets non-current (Note 10)	1,949	**1,394**	**13,231**
Other investments	5,024	**4,586**	**43,518**
Less: Allowance for doubtful accounts	(1,723)	**(1,501)**	**(14,248)**
	13,779	**14,502**	**137,591**
Property and equipment			
Land (Note 16)	17,259	**17,244**	**163,611**
Buildings and structures	65,309	**65,862**	**624,885**
Other	14,335	**13,786**	**130,802**
	96,905	**96,894**	**919,299**
Less: Accumulated depreciation	(51,441)	**(52,919)**	**(502,086)**
Net property and equipment	45,464	**43,974**	**417,213**
Intangibles and deferred charges			
Software	4,867	**5,112**	**48,504**
Other	113	**59**	**567**
	4,980	**5,172**	**49,072**
Total assets	¥253,158	**¥279,589**	**$2,652,648**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
LIABILITIES AND NET ASSETS			
Current liabilities			
Trade notes and accounts payable (Notes 4, 17, 18 and 19)	¥ 76,978	**¥ 70,509**	**$ 668,974**
Electronically recorded obligations (Note 4)	—	**14,546**	**138,015**
Short-term borrowings (Notes 4 and 8)	7,150	**6,950**	**65,939**
Lease obligations	613	**708**	**6,718**
Income tax payable (Notes 4 and 10)	7,846	**7,034**	**66,744**
Advances received	8,462	**9,990**	**94,782**
Provision for bonuses	2,858	**3,097**	**29,391**
Other current liabilities (Note 10)	14,774	**16,066**	**152,431**
Total current liabilities	118,682	**128,903**	**1,222,997**
Long-term liabilities			
Lease obligations	1,604	**1,412**	**13,398**
Reserve for retirement benefits (Note 9)	2,668	**2,824**	**26,793**
Deferred tax liabilities non-current (Note 10)	60	**499**	**4,740**
Deferred tax liabilities on revaluation of land (Note 16)	189	**189**	**1,802**
Other long-term liabilities	683	**693**	**6,575**
Total long-term liabilities	5,207	**5,618**	**53,309**
Net assets			
Shareholders' equity (Note 15)			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: 31,667,020 shares as of December 31 , 2012 and 2013	10,374	**10,374**	**98,433**
Capital surplus	16,254	**16,254**	**154,219**
Retained earnings	115,688	**129,640**	**1,229,982**
Treasury stock			
65,994 shares as of December 31, 2012 and 66,093 shares as of December 31, 2013	(126)	**(127)**	**(1,211)**
Total shareholders' equity	142,191	**156,142**	**1,481,424**
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	678	**2,314**	**21,955**
Revaluation differences on land (Note 16)	(14,304)	**(14,304)**	**(135,715)**
Foreign currency translation adjustments	(93)	**(0)**	**(8)**
Total accumulated other comprehensive income	(13,719)	**(11,991)**	**(113,768)**
Minority interests in consolidated subsidiaries	796	**915**	**8,685**
Total net assets	129,268	**145,066**	**1,376,341**
Total liabilities and net assets	¥253,158	**¥279,589**	**$2,652,648**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
Net sales (Note 21)	¥515,771	**¥564,595**	**$5,356,690**
Cost of sales (Notes 20 and 21)	401,113	**440,825**	**4,182,407**
Gross profit	114,658	**123,769**	**1,174,283**
Selling, general and administrative expenses (Notes 20 and 21)	86,407	**89,868**	**852,640**
Operating income	28,251	**33,901**	**321,642**
Other income (expenses)			
Interest and dividend income	120	**123**	**1,175**
Interest expenses	(73)	**(65)**	**(618)**
Provision for allowance for doubtful accounts	(485)	**(1,153)**	**(10,941)**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	343	**(55)**	**(523)**
Loss on disposal of fixed assets	(208)	**(166)**	**(1,583)**
Impairment losses	(177)	**(259)**	**(2,464)**
Loss on devaluation of investments in securities	(18)	**(54)**	**(514)**
Gain on sales of investments in unconsolidated subsidiaries and affiliates	37	**0**	**4**
Gain on sales of investment securities	60	**105**	**999**
Compensation income	112	**32**	**308**
Other, net	436	**640**	**6,075**
	148	**(851)**	**(8,082)**
Income before income taxes and minority interests	28,399	**33,049**	**313,560**
Income taxes (Note 10)			
Current	12,353	**12,767**	**121,132**
Deferred	(368)	**(147)**	**(1,401)**
	11,985	**12,619**	**119,730**
Income before minority interests	16,413	**20,429**	**193,829**
Minority interests	135	**157**	**1,497**
Net income	¥ 16,277	**¥ 20,271**	**$ 192,331**

	Yen		U.S. dollars (Note 3)
Net income and dividends per share (Notes 2(14), 13 and 22)			
Basic net income	¥ 515.11	**¥641.49**	**$6.09**
Diluted net income	—	**—**	**—**
Cash dividends	200.00	**235.00**	**2.23**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
Income before minority interests	¥16,413	**¥20,429**	**$193,829**
Other comprehensive income			
Unrealized gains on available-for-sale securities	383	**1,628**	**15,453**
Share of other comprehensive income of unconsolidated subsidiaries and associates accounted for using equity method	75	**99**	**946**
Total other comprehensive income (Note 11)	459	**1,728**	**16,400**
Comprehensive income	¥16,873	**¥22,158**	**$210,229**
Comprehensive income attributable to :			
Shareholders of OTSUKA CORPORATION (owners of the parent)	¥16,736	**¥22,000**	**$208,733**
Minority interests	136	**157**	**1,496**

The accompanying notes are an integral part of these statement.

Consolidated Statement of Changes in Net Assets

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

Millions of yen

		Shareholders' equity				
	Number of shares issued	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 as of 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 available-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 as of December 31, 2012	¥678	¥(14,304)	¥ (93)	¥(13,719)	¥796	¥129,268

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2013

Millions of yen

		Shareholders' equity				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2013	**31,667,020**	**¥10,374**	**¥16,254**	**¥115,688**	**¥(126)**	**¥142,191**
Dividends				**(6,320)**		**(6,320)**
Net income				**20,271**		**20,271**
Purchase of treasury stock					**(1)**	**(1)**
Items other than changes in shareholders' equity						
Balance as of December 31, 2013	**31,667,020**	**¥10,374**	**¥16,254**	**¥129,640**	**¥(127)**	**¥156,142**

Millions of yen

	Accumulated other comprehensive income					
	Unrealized gains on available-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, 2013	**¥ 678**	**¥(14,304)**	**¥(93)**	**¥(13,719)**	**¥796**	**¥129,268**
Dividends						**(6,320)**
Net income						**20,271**
Purchase of treasury stock						**(1)**
Items other than changes in shareholders' equity	**1,635**	**—**	**92**	**1,728**	**118**	**1,847**
Balance as of December 31, 2013	**¥2,314**	**¥(14,304)**	**¥ (0)**	**¥(11,991)**	**¥915**	**¥145,066**

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2013

Thousands of U.S. dollars (Note 3)

		Shareholders' equity				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2013	**31,667,020**	**$98,433**	**$154,219**	**$1,097,615**	**$(1,200)**	**$1,349,067**
Dividends				**(59,963)**		**(59,963)**
Net income				**192,331**		**192,331**
Purchase of treasury stock					**(10)**	**(10)**
Items other than changes in shareholders' equity						
Balance as of December 31, 2013	**31,667,020**	**$98,433**	**$154,219**	**$1,229,982**	**$(1,211)**	**$1,481,424**

Thousands of U.S. dollars (Note 3)

	Accumulated other comprehensive income					
	Unrealized gains on available-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, 2013	**$ 6,433**	**$(135,715)**	**$(888)**	**$(130,170)**	**$7,560**	**$1,226,456**
Dividends						**(59,963)**
Net income						**192,331**
Purchase of treasury stock						**(10)**
Items other than changes in shareholders' equity	**15,521**	**—**	**880**	**16,401**	**1,125**	**17,526**
Balance as of December 31, 2013	**$21,955**	**$(135,715)**	**$ (8)**	**$(113,768)**	**$8,685**	**$1,376,341**

The accompanying notes are an integral part of these statement.

Consolidated Statement of Cash Flows

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥28,399	**¥33,049**	**$313,560**
Depreciation and amortization	5,766	**5,454**	**51,751**
Equity in net income of unconsolidated subsidiaries and affiliates	(343)	**55**	**523**
Increase (decrease) in reserve for retirement benefits	146	**(48)**	**(463)**
Increase in allowance for doubtful accounts	469	**756**	**7,173**
Interest and dividend income	(120)	**(123)**	**(1,175)**
Interest expenses	73	**65**	**618**
Loss on disposal of fixed asset	208	**166**	**1,583**
Impairment losses	177	**259**	**2,464**
Loss (gain) on sales of investment securities	(60)	**(105)**	**(999)**
Loss on devaluation of investments in securities	18	**54**	**514**
Loss (gain) on sales of investments in unconsolidated subsidiaries and affiliates	(36)	**(0)**	**(4)**
Compensation (income)	(112)	**(32)**	**(308)**
Decrease (increase) in accounts and notes receivable	(7,491)	**(12,377)**	**(117,430)**
Decrease (increase) in inventories	1,125	**(4,148)**	**(39,355)**
Increase (decrease) in accounts and notes payable	5,506	**8,078**	**76,646**
Other	1,848	**1,201**	**11,401**
Subtotal	35,574	**32,305**	**306,500**
Interest and dividend income received	162	**171**	**1,628**
Interest expenses paid	(73)	**(65)**	**(620)**
Proceeds from compensation	112	**32**	**308**
Income taxes paid	(9,897)	**(13,663)**	**(129,636)**
Net cash provided by operating activities	25,879	**18,780**	**178,180**
Cash flows from investing activities:			
Payments for purchase of property and equipment	(1,963)	**(1,562)**	**(14,822)**
Payments for software developed	(2,654)	**(3,014)**	**(28,601)**
Payments for purchase of investments in securities	(1,078)	**(166)**	**(1,581)**
Proceeds from sales of investments in securities	110	**120**	**1,145**
Proceeds from redemption of investments in securities	—	**1,000**	**9,487**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	50	**—**	**—**
Proceeds from sales of investments in unconsolidated subsidiaries and affiliates	615	**9**	**94**
Payments for long-term loans receivable	(279)	**(219)**	**(2,078)**
Proceeds from long-term loans receivable	44	**81**	**769**
Other	260	**281**	**2,674**
Net cash used in investing activities	(4,894)	**(3,468)**	**(32,911)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	(250)	**(200)**	**(1,897)**
Repayments for long-term debts	(10)	**—**	**—**
Cash dividends paid	(4,898)	**(6,320)**	**(59,970)**
Other	(32)	**(40)**	**(381)**
Net cash used in financing activities	(5,190)	**(6,561)**	**(62,249)**
Net increase in cash and cash equivalents	15,793	**8,750**	**83,019**
Cash and cash equivalents at beginning of year	52,320	**68,113**	**646,238**
Cash and cash equivalents at end of year (Note 12)	¥68,113	**¥76,863**	**$729,258**

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

As of December 31, 2012 and 2013 subsidiaries and consolidated subsidiaries were as follows:

	2012	2013
Subsidiaries	11	10
(Consolidated subsidiaries)	(7)	(7)

The 7 subsidiaries which were consolidated in the year ended December 31, 2013 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 unconsolidated subsidiaries consisted of insignificant amounts in terms of total assets, net sales, net income and retained earnings, and have, therefore, been excluded from consolidation.

(2) Investments in unconsolidated subsidiaries and affiliates

As of December 31, 2012 and 2013 unconsolidated subsidiaries and affiliates were as follows:

	2012	2013
Unconsolidated subsidiaries	4	3
Affiliates	11	9
(Affiliates by the equity method)	(2)	(2)

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 as of December 31, 2013 are listed below:

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

(3) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits which can be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

(4) Inventories

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

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

(5) Financial instruments

(a) Securities

Securities held by the Companies are classified into two categories:

• Held-to-maturity debt securities

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

• Available-for-sale securities

Securities with market quotations are stated at fair value, based on market prices at the balance sheet date. (Unrealized gains/losses from valuation of marketable securities are charged directly to net assets at a net-of-tax amount, while cost of sale is determined by the moving-average method.)

Securities without market quotations are stated at cost, determined by the moving-average method. Regarding investments in limited partnerships and similar investments, an amount equivalent to the Company's partnership investment gain or loss under the equity method, with such a gain or loss being based on the latest available financial statements of the corresponding limited partnerships, was recognized in the consolidated statement of income.

(b) Derivatives

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

(6) Property and equipment (excluding lease assets)

Depreciation is computed using the declining-balance method, at rates based on the estimated useful lives of assets. Depreciation of buildings newly acquired after April 1, 1998 has been provided based on the straight-line method.

Estimated useful lives of assets are principally as follows:

Buildings 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.

Changes to Accounting Policies (Change in Accounting Policy for Situations Which Are Difficult to Distinguish from a Change in Accounting Estimate)

Pursuant to an amendment to the Corporation Tax Act, effective the fiscal year ended December 31, 2013, the Company and its domestic consolidated subsidiaries have changed the depreciation method for property and equipment purchased on/after January 1, 2013 to reflect the methods prescribed in amended Act. The aforementioned changes had a minimal effect on income for the fiscal year ended December 31, 2013.

(7) Software (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.

(8) Leases

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

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

(9) Accounting for income taxes

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

The Companies have adopted the deferred tax accounting method. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(10) Allowance for doubtful accounts

An allowance for doubtful accounts is provided at an amount of potential losses from uncollectable receivables based on the historical rate of losses from bad debts for ordinary receivables, and on the estimated collectability of receivables from companies in financial difficulty.

(11)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.

(12) Reserve for retirement benefits

(a) Retirement benefits for employees

The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, the unrecognized actuarial differences are amortized on a straight-line basis over a period of 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 Companies 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.

(13) 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.

(14) Net income and dividends per share

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

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

(15) 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.

(16) Accounting standards issued but not yet adopted

Accounting standards about retirement benefits

- “Accounting standard for retirement benefits” (ASBJ Statement No.26, May 17, 2012)
- “Guidance on accounting standard for retirement benefits” (ASBJ Guidance No.25, May 17, 2012)

(a) Overview

This accounting standard and related guidance were revised with a focus on the treatment of unrecognized actuarial gains and losses and unrecognized prior service cost, calculation method for projected benefit obligations and current service cost, and enhancement of disclosure.

(b) Expected application date

The Company plans to apply this accounting standard and related guidance from the end of the fiscal year beginning January 1, 2014.

However, the Company plans to apply the accounting standard regarding the revision of the determination of projected benefit obligations and current service cost from the fiscal year beginning January 1, 2015.

(c) Effect of applying the accounting standard

The Company is currently assessing the effect of applying the accounting standard and related guidance in preparing the financial statements for the fiscal year ending December 31, 2013.

(17) Rounding of amounts

Amounts of less than a million yen have been omitted.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.40=US$1, the rate of exchange on December 31, 2013, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this 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 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, electronically recorded obligations- 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, 2012 and 2013 and estimated fair value were as follows.

	Millions of yen		
	2012		
	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.

	Millions of yen		
	2013		
	Carrying value	Fair value	Difference
Assets			
1) Cash on hands and in bank	¥ 69,347	¥ 69,347	¥ —
2) Trade notes and accounts receivable	99,664	99,664	—
3) Investment securities			
Held-to-maturity debt securities	5,700	5,700	—
Other securities	4,818	4,818	—
Investment in affiliates	1,017	4,585	3,568
Total assets	¥180,547	¥184,115	¥ 3,568
Liabilities			
4) Trade notes and accounts payable	¥ 70,509	¥ 70,509	¥ —
5) Electronically recorded obligations	14,546	14,546	—
6) Short-term borrowings	6,950	6,950	—
7) Income tax payable	7,034	7,034	—
Total liabilities	¥ 99,041	¥ 99,041	¥ —
Derivative transaction (*)	¥ 45	¥ 45	¥ —

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

	Thousands of U.S. dollars		
	2013		
	Carrying value	Fair value	Difference
Assets			
1) Cash on hands and in bank	$ 657,943	$ 657,943	$ —
2) Trade notes and accounts receivable	945,580	945,580	—
3) Investment securities			
Held-to-maturity debt securities	54,079	54,079	—
Other securities	45,713	45,713	—
Investment in affiliates	9,654	43,510	33,855
Total assets	$1,712,971	$1,746,826	$ 33,855
Liabilities			
4) Trade notes and accounts payable	$ 668,974	$ 668,974	$ —
5) Electronically recorded obligations	138,015	138,015	—
6) Short-term borrowings	65,939	65,939	—
7) Income tax payable	66,744	66,744	—
Total liabilities	$ 939,674	$ 939,674	$ —
Derivative transaction (*)	$ 431	$ 431	$ —

* 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.

Assets

(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.

Liabilities

(4)Trade notes and accounts payable (5)Electronically recorded obligations (6)Short-term borrowings (7)Income tax payable

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

Derivative transaction

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

2 As of December 31, 2012 and 2013 financial instruments for which it is extremely difficult to determine the fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Unlisted stocks	¥ 1,760	**¥ 1,690**	**$16,042**
Investments in investment business limited partnerships	77	**57**	**549**

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 as of December 31, 2012 and 2013 are as follows:

	Millions of yen			
	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	¥ 61,519	¥ —	¥ —	¥ —
Trade notes and accounts receivable	86,983	—	—	—
Investment securities				
Held-to-maturity debt securities	5,000	—	—	—
Total	¥153,503	¥ —	¥ —	¥ —

	Millions of yen			
	2013			
	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	**¥ 69,347**	**¥ —**	**¥ —**	**¥ —**
Trade notes and accounts receivable	**99,664**	**—**	**—**	**—**
Investment securities				
Held-to-maturity debt securities	**5,700**	**—**	**—**	**—**
Total	**¥174,711**	**¥ —**	**¥ —**	**¥ —**

	Thousands of U.S. dollars			
	2013			
	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	**$ 657,943**	**$ —**	**$ —**	**$ —**
Trade notes and accounts receivable	**945,580**	**—**	**—**	**—**
Investment securities				
Held-to-maturity debt securities	**54,079**	**—**	**—**	**—**
Total	**$1,657,603**	**$ —**	**$ —**	**$ —**

4 Repayment schedule for bonds, long-term loans payable and lease obligations as of December 31, 2012 and 2013 are as follows:

	Millions of yen			
	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
Short-term borrowings	¥7,150	¥ —	¥ —	¥ —

	Millions of yen			
	2013			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term borrowings	**¥6,950**	**¥ —**	**¥ —**	**¥ —**

	Thousands of U.S. dollars			
	2013			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term borrowings	**$65,939**	**$ —**	**$ —**	**$ —**

5. Investments in securities

As of December 31, 2012 and 2013 investments in securities were as follows:

(1) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2012			**2013**			**2013**		
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair 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	—	**¥5,700**	**¥5,700**	**—**	**$54,079**	**$54,079**	**—**
	¥5,000	¥5,000	—	**¥5,700**	**¥5,700**	**—**	**$54,079**	**$54,079**	**—**
Total	¥5,000	¥5,000	—	**¥5,700**	**¥5,700**	**—**	**$54,079**	**$54,079**	**—**

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

	Millions of yen						Thousands of U.S. dollars		
	2012			2013			2013		
	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	¥ 763	¥1,855	¥1,092	**¥1,147**	**¥4,673**	**¥3,525**	**$10,889**	**$44,336**	**$33,447**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**73**	**126**	**52**	**696**	**1,197**	**501**
	¥ 763	¥1,855	¥1,092	**¥1,221**	**¥4,799**	**¥3,578**	**$11,585**	**$45,534**	**$33,948**
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥ 381	¥ 351	¥ (29)	**¥ 21**	**¥ 18**	**¥ (2)**	**$ 203**	**$ 178**	**$ (24)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	1,073	1,064	(8)	**—**	**—**	**—**	**—**	**—**	**—**
	¥1,454	¥1,416	¥ (38)	**¥ 21**	**¥ 18**	**¥ (2)**	**$ 203**	**$ 178**	**$ (24)**
Total	¥2,218	¥3,272	¥1,054	**¥1,242**	**¥4,818**	**¥3,575**	**$11,789**	**$45,713**	**$33,923**

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

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
	Carrying value	Carrying value	Carrying value
Available-for-sale securities			
Unlisted stocks	¥252	**¥328**	**$3,114**
Investment in limited liability partnerships	77	**57**	**549**

(3) Available-for-sale securities sold in 2012 and 2013 (for the years ended December 31, 2012 and 2013)

Millions of yen						Thousands of U.S. dollars		
2012			2013			2013		
Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
¥110	¥61	¥0	**¥120**	**¥105**	**—**	**$1,145**	**$999**	**—**

(4) Securities impairment losses are recognized in 2012 and 2013 (for the years ended December 31, 2012 and 2013)

Millions of yen		Thousands of U.S. dollars
2012	2013	2013
¥18	**¥54**	**$514**

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 tresury department with an appropriate approval.

As of December 31, 2012 and 2013, derivatives for which hedge accounting have not been applied, were as follows:
Currency-related transactions

	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

	Millions of yen			
	2013			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts purchasing U.S. dollar	**¥1,213**	**—**	**¥45**	**¥45**

	Thousands of U.S. dollars			
	2013			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts purchasing U.S. dollar	**$11,509**	**—**	**$431**	**$431**

Note. Calculation of fair value is based on prices provided by the financial institutions.

7. Inventories

Inventories as of December 31, 2012 and 2013 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Merchandise	¥14,298	**¥18,864**	**$178,983**
Work in process	1,271	**934**	**8,864**
Raw materials and supplies	924	**843**	**8,002**
	¥16,494	**¥20,642**	**$195,850**

8. Short-term borrowings

The annual average interest rates applicable to short-term bank loans at December 31, 2012 and 2013 were 0.94% and 0.85%, respectively.

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, 2012 and 2013 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Retirement benefit obligations	¥(35,672)	**¥(36,011)**	**$(341,664)**
Plan assets	36,567	**39,372**	**373,548**
	894	**3,360**	**31,884**
Unrecognized actuarial gain or loss	1,748	**(1,480)**	**(14,044)**
Unrecognized prior service cost	(3,320)	**(2,508)**	**(23,802)**
	(677)	**(628)**	**(5,961)**
Prepaid pension cost	1,469	**1,660**	**15,752**
Reserve for retirement benefits	¥ (2,146)	**¥ (2,288)**	**$ (21,714)**

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2012 and 2013 included retirement benefits for directors in the amounts of 522 million yen and 535 million yen (5,079 thousand U.S. dollars), respectively.

(3) Retirement benefit expense related to the retirement benefits for the year ended December 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Service cost	¥2,324	**¥2,287**	**$21,698**
Interest cost	498	**522**	**4,953**
Expected return on plan assets	(166)	**(182)**	**(1,734)**
Amortization of the unrecognized prior service cost	(801)	**(812)**	**(7,704)**
Amortization of the unrecognized actuarial gain or loss	604	**444**	**4,220**
Payments for defined contribution pension plan	804	**800**	**7,590**
Additional benefits for employees' early retirement	212	**239**	**2,267**
Net periodic retirement benefit expense	¥3,476	**¥3,298**	**$31,291**

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

(4) Computation basis of reserve for retirement benefits as of December 31, 2012 and 2013.

	2012	**2013**
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 the unrecognized prior service cost	12years	**12years**
Amortization of the unrecognized actuarial gain or loss	mainly 12 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 as of December 31, 2012 and 2013 were 40.7% and 38.0%, respectively.

Since the difference between the statutory tax rates and the effective tax rates for the fiscal year ended December 31, 2012 (42.2%) and 2013 (38.2%) are less than 5%, respectively, a reconciliation of two rates is not presented.

As of December 31, 2012 and 2013, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Deferred tax assets:			
Allowance for doubtful accounts	¥ 538	**¥ 362**	**$ 3,440**
Enterprise taxes	665	**704**	**6,684**
Accrued bonuses	1,104	**1,178**	**11,183**
Retirement benefits for employees	774	**824**	**7,820**
Retirement benefits for directors	187	**191**	**1,821**
Impairment losses	961	**1,028**	**9,762**
Software development cost	1,454	**1,407**	**13,352**
Eliminated unrealized profits	303	**299**	**2,840**
Other	1,807	**1,960**	**18,601**
Total deferred tax assets	7,797	**7,958**	**75,508**
Less:Valuation allowance	(1,667)	**(1,604)**	**(15,221)**
Net deferred tax assets	6,129	**6,354**	**60,287**
Deferred tax liabilities:			
Prepaid pension cost	525	**592**	**5,617**
Unrealized gains on available-for-sale securities	363	**1,255**	**11,911**
Other	80	**91**	**869**
Total deferred tax liabilities	969	**1,939**	**18,398**
Net deferred tax assets	¥5,159	**¥4,415**	**$41,888**

11. Other comprehensive income

For the years ended December 31, 2012 and 2013, reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Unrealized gains on available-for-sale securities			
Amount arising during the year	¥566	**¥2,466**	**$23,396**
Reclassification adjustments	18	**54**	**514**
Amount before tax effects	585	**2,520**	**23,911**
Tax effects	(201)	**(891)**	**(8,458)**
Unrealized gains on available-for-sale securities	383	**1,628**	**15,453**
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	75	**99**	**946**
Reclassification adjustments	(0)	**—**	**—**
Share of other comprehensive income of associates accounted for using equity method	75	**99**	**946**
Total other comprehensive income	¥459	**¥1,728**	**$16,400**

12. Supplementary Cash Flow Information

Cash and cash equivalents as of December 31, 2012 and 2013 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Cash, time deposits and other cash equivalents	¥61,519	**¥69,347**	**$657,943**
Time deposits with deposit terms of more than three months	(55)	**(55)**	**(524)**
Short-term investments with maturity or redemption dates within three months from acquisition date	5,000	**5,700**	**54,079**
Trust beneficiary interests included in other current assets with investment terms with three months or less	1,648	**1,871**	**17,760**
Cash and cash equivalents	¥68,113	**¥76,863**	**$729,258**

13. Dividends

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2013 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 27, 2014:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥235.00 per share)	¥7,426	$70,457

14. Lease Transactions

The amounts of future lease payments on operating leases at December 31, 2012 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Due within one year	¥ 563	**¥ 547**	**$ 5,198**
Due after one year	1,332	**815**	**7,733**
	¥1,895	**¥1,363**	**$12,932**

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 accout. 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.
As of December 31, 2012 and 2013, the excess of the book value after revaluation over the fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
	¥797	**¥738**	**$7,001**

17. Pledged Assets

As of December 31, 2012 and 2013, assets pledged as collateral for accounts and notes payable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Time deposits	¥5	**¥5**	**$47**

18. Notes maturing on December 31

December 31, 2012 and 2013 were a bank holiday, and notes matured on December 31 are accounted for as if they were settled on the maturity dates.
As of December 31, 2012 and 2013, notes matured on December 31 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Notes receivable	¥448	**¥356**	**$3,379**
Notes payable	—	**1**	**10**

19. Factoring notes

The balance of the trade notes and accounts payable in the accompanying consolidated balance sheet as of December 31, 2012 included balances under factoring contracts with creditors amounting to 14,480 million yen.

20. Research and Development Costs

For the years ended December 31, 2012 and 2013, research and development costs included in cost of sales and selling, general and administrative expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
	¥377	**¥335**	**$3,186**

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 netsales, 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, 2012 and 2013 were as follows:

Millions of yen

	Reportable segments						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	¥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

Millions of yen

	Reportable segments						**2013**
	System integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to third parties	**¥332,067**	**¥231,868**	**¥563,936**	**¥ 658**	**¥564,595**	**—**	**¥564,595**
Inter-segment sales/transfers	**69**	**478**	**547**	**1,555**	**2,103**	**(2,103)**	**—**
Total	**¥332,137**	**¥232,347**	**¥564,484**	**¥2,214**	**¥566,698**	**¥ (2,103)**	**¥564,595**
Segment profit or loss	**¥ 31,599**	**¥ 10,000**	**¥ 41,599**	**¥ 59**	**¥ 41,659**	**¥ (7,758)**	**¥ 33,901**
Segment assets	**¥111,802**	**¥ 82,063**	**¥193,866**	**¥1,402**	**¥195,268**	**¥84,320**	**¥279,589**
Other items							
Depreciation and amortization	**¥ 2,937**	**¥ 1,898**	**¥ 4,836**	**¥ 14**	**¥ 4,850**	**¥ 603**	**¥ 5,454**
Investments in associates accounted for using equity method	**623**	**1,037**	**1,661**	**—**	**1,661**	**—**	**1,661**
Capital expenditure in property and equipment and intangible assets	**2,427**	**1,441**	**3,869**	**—**	**3,869**	**707**	**4,576**

	Reportable segments						Thousands of U.S. dollars
							2013
	System integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to third parties	$3,150,548	$2,199,892	$5,350,441	$ 6,249	$5,356,690	—	$5,356,690
Inter-segment sales/transfers	659	4,539	5,198	14,760	19,959	(19,959)	—
Total	$3,151,207	$2,204,432	$5,355,639	$21,010	$5,376,650	$ (19,959)	$5,356,690
Segment profit or loss	$ 299,801	$ 94,880	$ 394,682	$ 569	$ 395,251	$ (73,609)	$ 321,642
Segment assets	$1,060,745	$ 778,590	$1,839,336	$13,305	$1,852,642	$800,006	$2,652,648
Other items							
Depreciation and amortization	$ 27,874	$ 18,015	$ 45,890	$ 134	$ 46,024	$ 5,726	$ 51,751
Investments in associates accounted for using equity method	5,914	9,845	15,760	—	15,760	—	15,760
Capital expenditure in property and equipment and intangible assets	23,031	13,680	36,711	—	36,711	6,712	43,424

Notes: 1 “Other” includes businesses not included in the reportable segments. These include Administrative of buildings, repair of automobiles, insurance, 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, 2012 and 2013 were 7,450 million yen and 7,783 million yen and (73,846 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, 2012 and 2013 were 79,052 million yen and 85,570 million yen and (811,866 thousand U.S. dollars), consisting mainly of assets not belonging to the reportable segments (cash on hands and in bank, 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 assets per share as of December 31, 2012 and 2013 and net income per share for the years ended December 31, 2012 and 2013 were summarized as follows:

	Yen		U.S. dollars
	2012	2013	2013
Net assets per share	¥4,065.43	¥4,561.60	$43.28
Net income per share	515.11	641.49	6.09

Diluted net income per share for the years ended December 31, 2012 and 2013 are omitted because the Companies have no dilutive shares.

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

Basis for calculation of net assets per share as of December 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Numerator:			
Net assets	¥129,268	**¥145,066**	**$1,376,341**
Minority interests in consolidated subsidiaries	(796)	**(915)**	**(8,685)**
Net assets attributable to common stock	¥128,471	**¥144,150**	**$1,367,655**

	Thousands of shares		
Denominator			
Number of shares of common stock outstanding	31,601	**31,600**	**31,600**

Basis for caluculation of net income per share for the years ended December 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Numerator:			
Net income	¥16,277	**¥20,271**	**$192,331**
Net income not attributable to common shareholders	—	**—**	**—**
Net income attributable to common shareholders	¥16,277	**¥20,271**	**$192,331**

	Thousands of shares		
Denominator			
Weighted-average number of shares of common stock outstanding	31,601	**31,600**	**31,600**

23. Subsequent Event

The Company resolved to conduct a stock split of common stock at the Board of Directors meeting held on March 13, 2014.
Outline of the stock split is as follows:

1. Purpose of the stock split
   The Company resolved to conduct a stock split for the purpose of increasing the liquidity of shares of the Company by reducing the investment price per share.
   This stock split is aimed at improving the investment environment for a variety of investors to facilitate their investments in the Company's stock.

2. Method of stock split: On July 1, 2014, as the effective date, shares of common stock held by shareholders recorded in the final shareholders' register on June 30, 2014 will be split at a ratio of 3 shares per common stock.

3. Number of shares to be increased through the stock split: Common stock 63,334,040 shares

4.Per share information based on the assumption that the stock split was conducted on January 1, 2012, is as follows:

	Yen		U.S. dollars
	2012	**2013**	**2013**
Net assets per share	¥1,355.14	**¥1,520.53**	**$14.43**
Net income per share	171.70	**213.83**	**2.03**

Diluted net income per share for the years ended December 31, 2012 and 2013 are omitted because the Companies have no dilutive shares.

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, 2013, 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, 2013, 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.

Ernst & Young ShinNihon LLC

March 27, 2014
Tokyo, Japan