

ANNUAL REPORT 2007

For the fiscal year ended December 31, 2007

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

Forward-Looking Statements

The forecasts, plans and outlooks concerning future operating results that are described in this Annual Report are judgments believed to be reasonable by the Company's management, based upon the information available to OTSUKA CORPORATION and member companies of the OTSUKA Group at the time such future projections were created. Various factors that form the basis of these forward-looking statements may differ from the OTSUKA Group's assumptions, and actual results may differ significantly from those presented here. Such factors include changes to the economic situation in principal markets and to product demand, and changes in various domestic and international regulations, accounting standards and customary business practices.

Consolidated Financial Highlights

OTSUKA CORPORATION and its Consolidated Subsidiaries Years ended December 31, 2005, 2006 and 2007			Millions of yen	Thousands of U.S. dollars	%
	2005	2006	2007	2007	Change
Net sales	¥409,413	¥433,617	¥469,481	\$4,112,851	+8.3
System Integration business	258,275	263,425	279,753	2,450,754	+6.2
Service and Support business	149,100	168,701	187,358	1,641,332	+11.1
Other business	2,037	1,490	2,370	20,764	+59.0
Operating income	21,911	26,158	30,051	263,265	+14.9
Recurring profit	22,210	26,494	30,520	267,368	+15.2
Income before income taxes and minority interests	20,552	26,350	33,597	294,324	+27.5
Net income	11,747	15,621	18,856	165,191	+20.7
Total assets	173,927	189,357	200,383	1,755,441	+5.8
Interest-bearing debt	11,695	10,854	10,051	88,053	-7.4
Equity	58,920	72,848	87,259	764,429	+19.8
Net income per share (EPS) (Yen and U.S. dollars)	371.72	494.30	596.69	5.23	+20.7
Dividends per share of common stock (Yen and U.S. dollars)	75.00	115.00	130.00	1.14	+13.0
Cash flows from operating activities per share (Yen and U.S. dollars)	710.97	440.14	527.02	4.62	+19.7
Operating income to Net sales ratio (%)	5.35	6.03	6.40	—	
Net income to Net sales ratio (%)	2.87	3.60	4.02	—	
Interest-bearing debt ratio (%)	6.72	5.73	5.02	—	
Equity ratio (%)	33.88	38.47	43.55	—	
Return on equity (ROE) (%)	20.68	23.71	23.55	—	

Note:

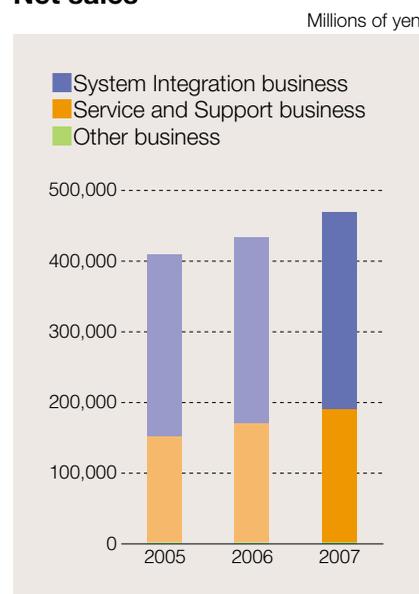
Equity = Total net assets - Share subscription rights - Minority interests

Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2007 exchange rate of ¥114.15 = US\$1.

The dividend on 2006 includes a ¥10 special dividend commemorating the 45th anniversary of the Company.

Net sales



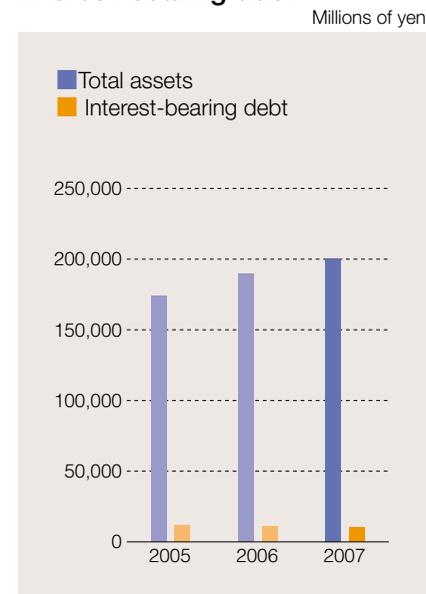
Note:

Sums of less than a million yen are rounded down.

Operating income, Recurring profit, Net income



Total assets, Interest-bearing debt



To Our Shareholders and Investors



I am pleased to announce the results for the fiscal year ended December 31, 2007.

In the fiscal year under review, the OTSUKA Group posted net sales of ¥469,481 million, which was an increase of 8.3% from the previous fiscal year. By segment, net sales in the System Integration business rose 6.2% to ¥279,753 million as a result of robust sales in the information security-related business and color copiers. In the Service and Support business, net sales increased 11.1% to ¥187,358 million on the back of a strong showing by the “tanomail” office supply mail-order service as well as the “tayoreru” IT and business support service.

Earnings reached another record high owing to the OTSUKA Group’s successful endeavors to hold down selling, general and administrative (SG&A) expenses relative to higher sales. Operating income rose 14.9% to ¥30,051 million, recurring profit increased 15.2% to ¥30,520 million, and net income jumped 20.7% to ¥18,856 million, resulting in five consecutive terms of increased sales and income.

In view of these results, management has resolved to set year-end dividends per share at ¥130.

In line with its Mission Statement, the OTSUKA Group will continue to pursue management reforms to ensure the trust of all stakeholders. In these endeavors, your continued support is greatly appreciated.

Yuji Otsuka, President & Chief Executive Officer

March 2008

Overview of Consolidated Operations

■ Sustained Mild Economic Expansion

In the fiscal year under review, despite a growing sense of uncertainty about the future fueled by the emergence of rising crude oil prices and the impact of the U.S. subprime loan issue, the Japanese economy continued to be in a phase of mild economic expansion on the back of improved corporate earnings and an increase in capital spending.

In the IT-related industrial sector in which the OTSUKA Group operates, IT investments by major corporations demonstrated significant growth and were robust for small and mid-sized companies as well. In addition to strengthening management foundations by streamlining and raising performance of information processing, IT investment needs included handling computerization of legal and official procedures, establishing internal control systems, bolstering information security countermeasures and developing information system infrastructure.

■ Proposing Information Systems that Utilize Comprehensive Strengths

Amid these conditions, the OTSUKA Group remained dedicated to its fiscal 2007 slogan “Respond to customers’ trust from their viewpoint and grow with customers” by strengthening functionality and greater use of “SPR,” a system developed by OTSUKA CORPORATION that combines the functions of customer relationship management (CRM) and sales force automation (SFA) programs. The Group utilized its comprehensive strengths to conduct aggressive proposals that integrated copiers, computers, facsimiles, telephones and communication lines.

Further, we continued to focus resources on the information security-related business, the “ODS21” knowledge management system, “SMILE” integrated mission-critical systems, as well as the “tanomail” office supply mail-order service and the “tayloreru” IT and business support service. Additionally, the Group worked to raise development quality and productivity by enhancing operating efficiency with the expansion of operations at the Sales Support Center, as well as by strengthening project management in system development projects.

- SPR:** OTSUKA CORPORATION’s proprietary Customer Relationship Management (CRM) and Sales Force Automation (SFA) system
- ODS21:** Knowledge management system that digitally captures paper-based information, bringing it under the same central management as other digital information, and in turn, facilitating the sharing and utilization of such information
- SMILE:** OTSUKA Group’s proprietary integrated mission-critical operational system
- “tanomail”:** Business brand of the office supply mail-order service
- “tayloreru”:** Business brand that supports customer information systems and customers’ overall corporate activities

■ Five Consecutive Terms of Increased Sales and Income

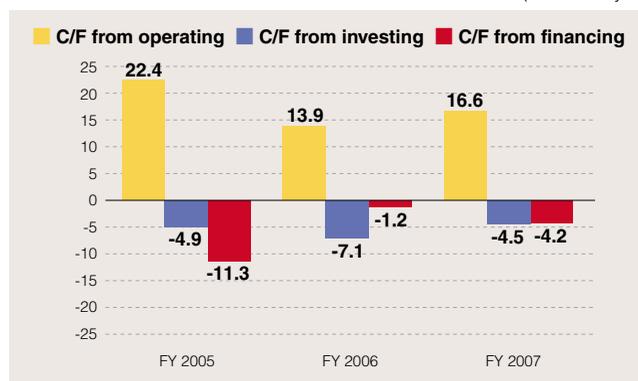
On a consolidated basis, net sales rose 8.3% to ¥469,481 million, operating income increased 14.9% to ¥30,051 million, recurring profit expanded 15.2% to ¥30,520 million and net income jumped 20.7% to ¥18,856 million, resulting from the effect of an extraordinary gain on the transition of retirement benefit plan. This was the fifth consecutive term of increased sales and income.

(Millions of yen)

	FY 2006	FY 2007	
	Amount	Amount	Change to Last Year
Net sales	433,617	469,481	+8.3%
Operating income	26,158	30,051	+14.9%
Recurring profit	26,494	30,520	+15.2%
Net income	15,621	18,856	+20.7%

■ Cash Flows

(Billions of yen)



Cash provided by operating activities amounted to ¥16,654 million as a result of such factors as an increase in income before income taxes and minority interests, compared with ¥13,909 million in the previous term.

Cash used in investing activities amounted to ¥4,555 million owing to such factors as a decrease in payments for purchase of investments in securities, compared with ¥7,161 million in the preceding term. Cash used in financing activities amounted to ¥4,271 million, compared with ¥1,250 million in the preceding term, stemming from such factors as an increase in the amount of cash dividends paid.

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. Due to favorable conditions in the information security-related business, color copiers, the “ODS21” knowledge management system and CAD systems, net sales increased 6.2% to ¥279,753 million.

■ Service and Support Business

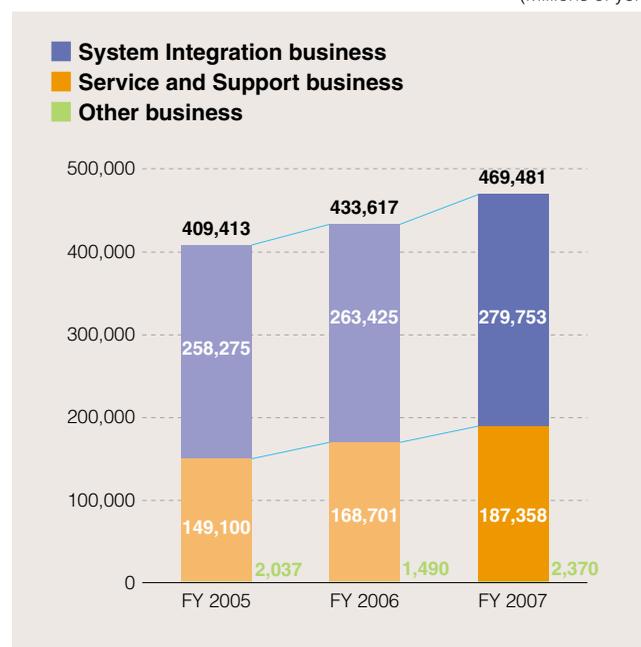
The Service and Support business provides customers with total support for installed systems encompassing supplies, hardware and software maintenance, telephone support, IT education and outsourcing. The “tanomail” office supply mail-order service via the Company’s Website and catalog channels, as well as the “tayoreru” service that offers maintenance support to customers, are collectively known as the accumulated business, which generated solid growth. As a result, net sales amounted to ¥187,358 million, 11.1% higher than the preceding fiscal year.

■ Other Business

In the Other business, net sales amounted to ¥2,370 million, representing a 59.0% increase from the previous fiscal year.

Net Sales by Segments

(Millions of yen)



Overview of Key Strategic Businesses (Non-consolidated)

(Millions of yen)

	FY 2005	FY 2006		FY 2007	
	Amount	Amount	Change to Last Year	Amount	Change to Last Year
MRO	63,618	75,306	+18.4%	86,270	+14.6%
(of which "tanomail")	59,062	71,088	+20.4%	82,493	+16.0%
SMILE (software)	6,585	7,150	+8.6%	6,938	-3.0%
ODS21	33,068	35,132	+6.2%	38,320	+9.1%
OSM	19,106	27,066	+41.7%	39,985	+47.7%
(Unit sales of copiers and computers) (Units)					
Copiers	30,026	30,235	+0.7%	30,615	+1.3%
(of which color copiers)	16,395	18,584	+13.4%	20,413	+9.8%
Servers	33,477	40,862	+22.1%	35,741	-12.5%
Personal computers	552,587	547,061	-1.0%	481,502	-12.0%

Performance was strong among key strategic businesses including the "MRO" business with its core pillar "tanomail" office supply mail-order service, the "ODS21" knowledge management system, the "OSM" information security-related business and color copiers. Servers and personal computers experienced a double-digit decline owing to deceleration in market growth and other factors.

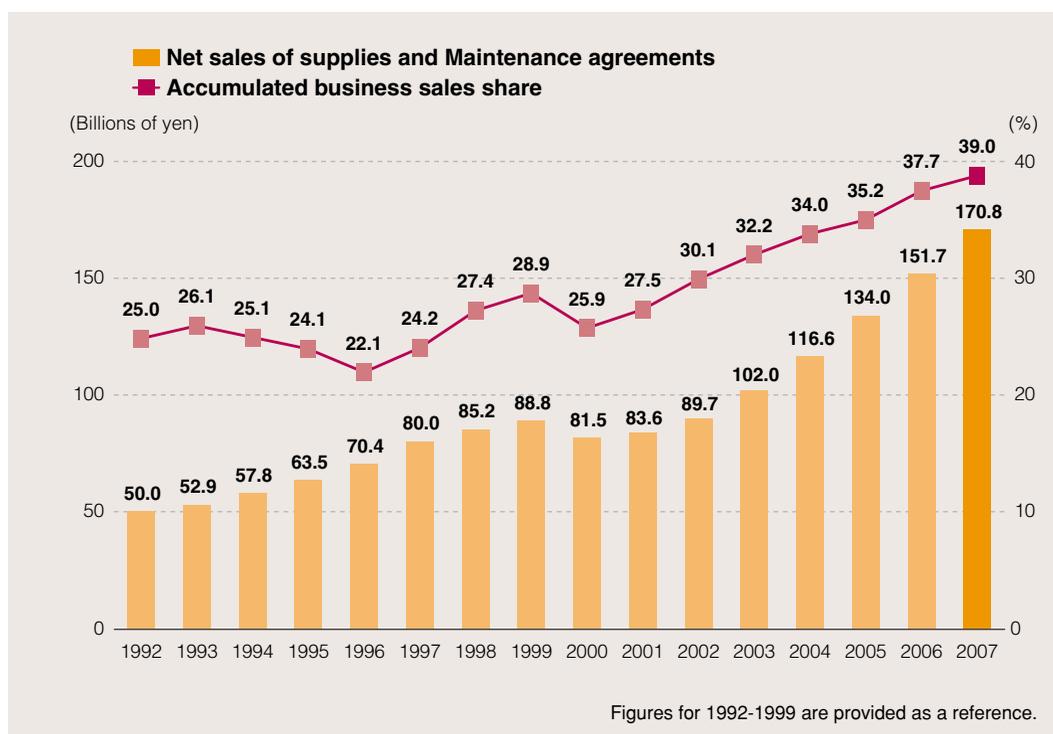
Focus More Energy on the Accumulated Business

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 shipments are increasing annually. As such it can be said to be an “addition business.”

In fiscal 2007, the accumulated business amounted to approximately 40% of net sales. OTSUKA CORPORATION will continue to pursue steady growth by focusing energies on the accumulated business.

■ Accumulated Business (Non-consolidated)



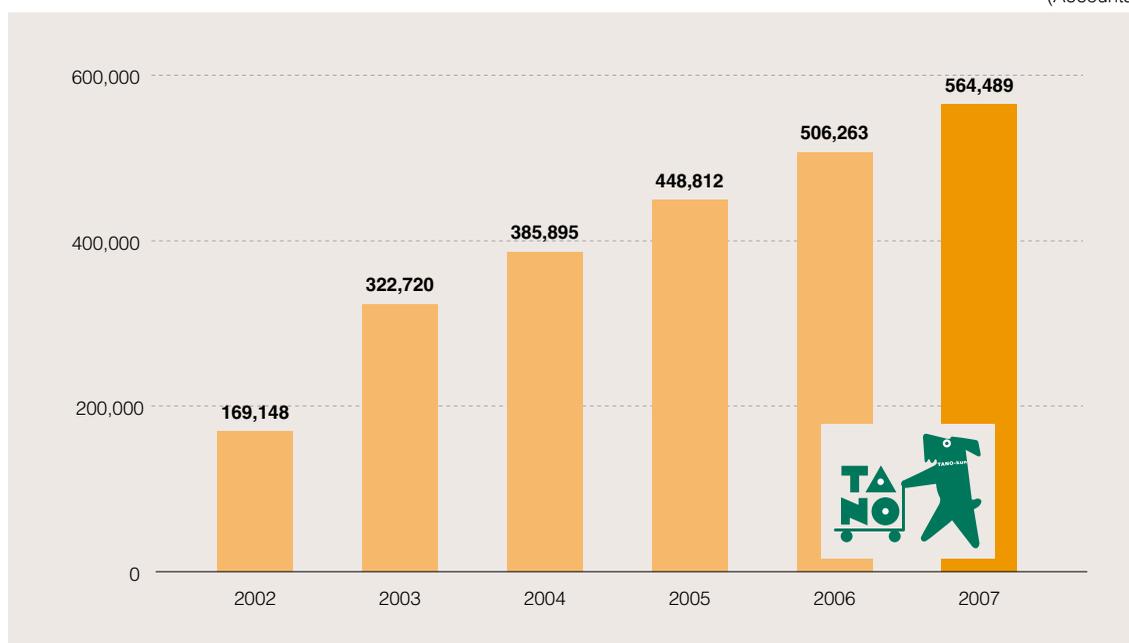
“tanomail” and “tayoreru” are the core pillars of the accumulated business.

たのめーる “tanomail”

The “tanomail” office supply mail-order service is experiencing steady growth, surpassing 560,000 accounts as of the end of December 2007.

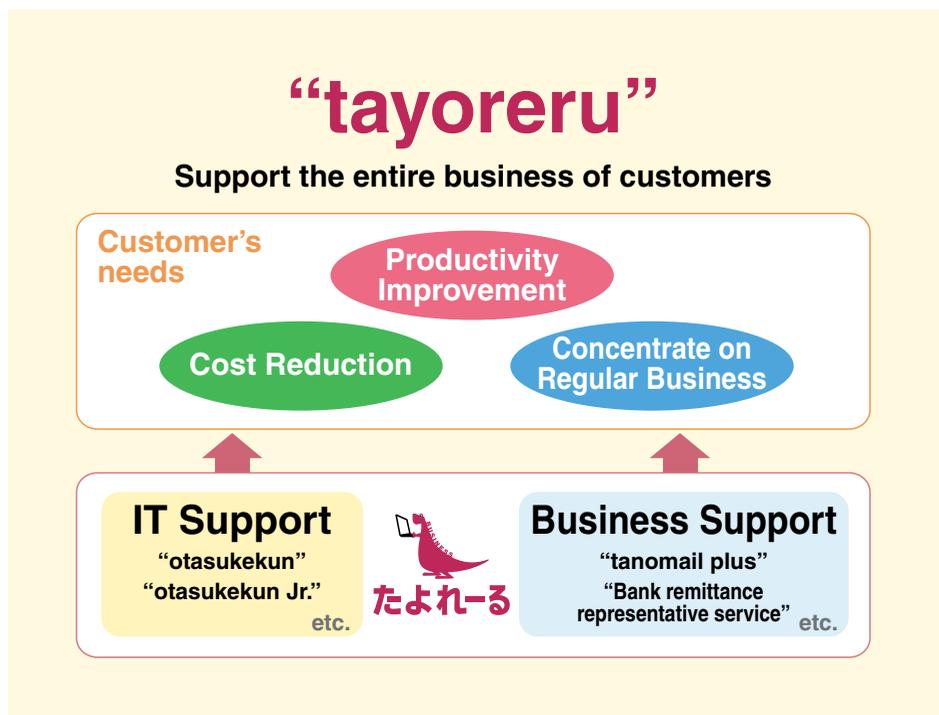
“tanomail” Accounts

(Accounts)



たよれーる “tayoreru”

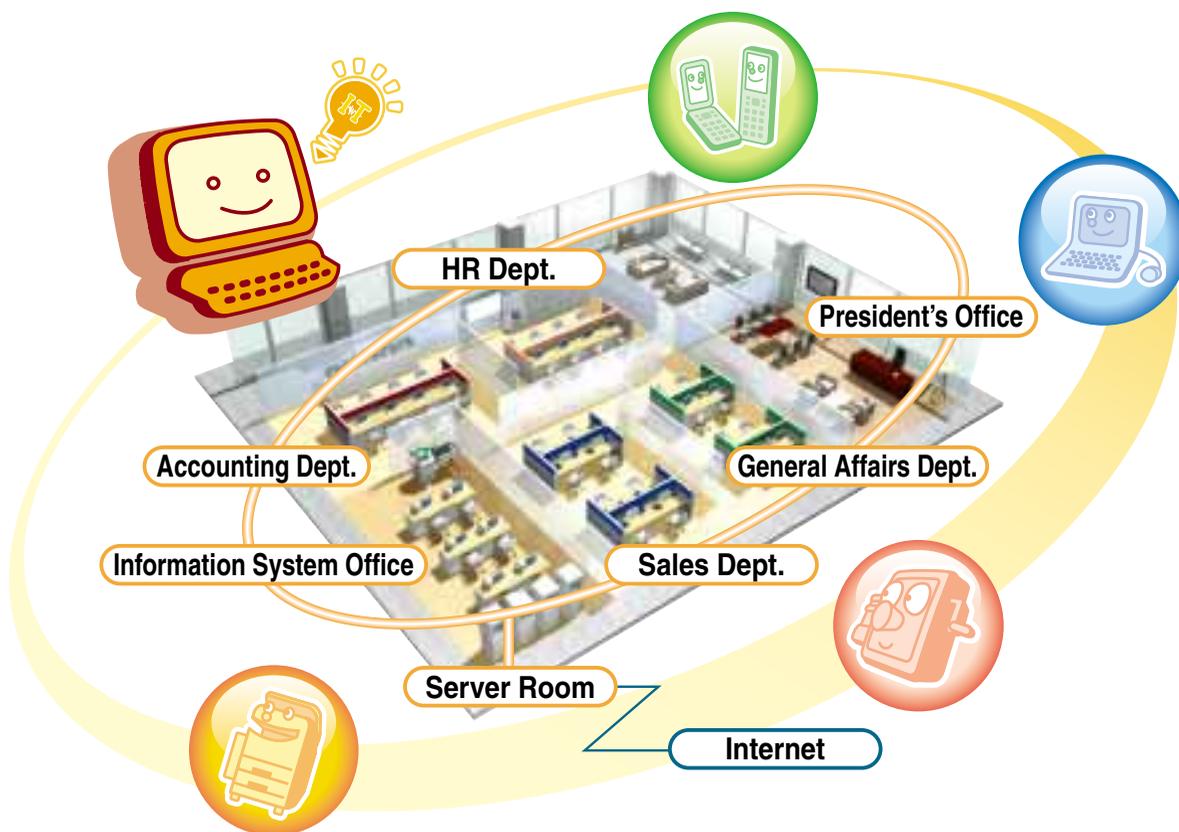
Supporting customer information systems and corporate activities, “tayoreru” service supports customers’ business across the board.
OTSUKA CORPORATION aims to be an indispensable presence in customers’ business infrastructure.



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 equipments, information and telecommunication devices essential to corporate offices.

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

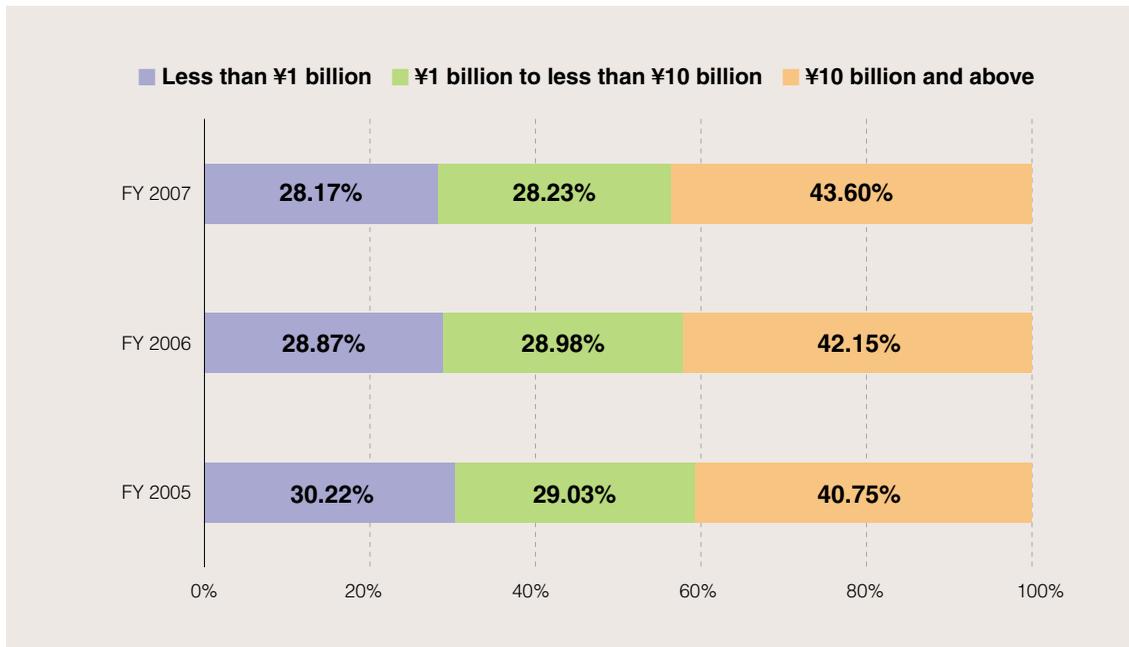


OTSUKA CORPORATION—Backed by a Diverse Range of Customers

The corporate scale of the Company's customers spans a wide range from major enterprises to small firms.

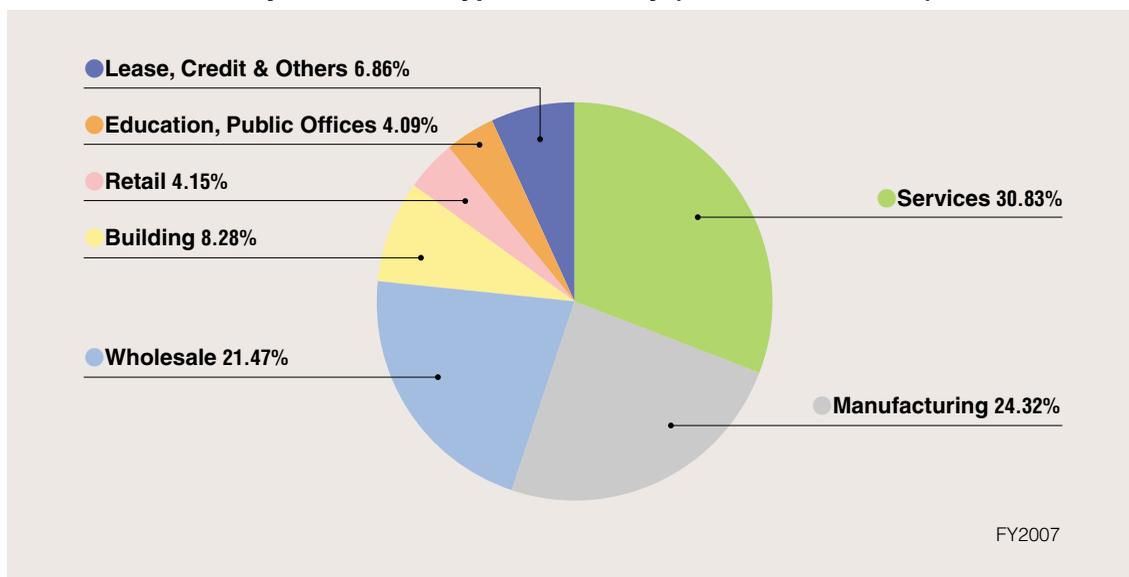
Viewed from an annual sales scale, in recent years the ratio of companies with an annual sales of ¥10 billion and above is increasing.

Net sales structure on Customers' total annual business scale



Viewed by type of industry, each category is spreading, with industry makeup similar to Japan overall.

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



Forecast for Fiscal 2008

■ Utilization of IT Essential

Looking ahead, it appears that improvements in corporate earnings and the employment situation will come to a standstill, which together with reports of worsened business confidence give rise to an increasingly prevalent cautious view of the future. Further, there is concern that the impact of the U.S. subprime loan issue and the high cost of crude oil will have a negative effect on the economy, both in Japan and worldwide.

Within this context, companies of every size and industry must increasingly employ IT in order to resolve management issues. In particular, upon the enactment of the Financial Instrument and Exchange Law, IT investment related to the implementation of internal control systems is projected to increase and demand for the upgrading of information system infrastructures is expected as well.

In accordance with such conditions, the OTSUKA Group has set as its fiscal 2008 slogan, “Respond to customers’ trust from their viewpoint and make a leap forward together with customers,” and will offer high value-added information system proposals that utilize its comprehensive strengths. The OTSUKA Group will provide optimal customer support and work to further expand its business with existing customers while cultivating new customers.

In the System Integration business, the OTSUKA Group will continue to focus resources on the key strategic businesses of the information security-related business, the “ODS21” knowledge management system, the “SMILE” integrated mission-critical operational system and CAD systems.

In the Service and Support business, the OTSUKA Group will further strengthen the office supply mail-order service “tanomail” and the support service “tayoreru,” which are collectively known as the accumulated business.

On an operational level, together with aggressive investment in internal information systems, the OTSUKA Group will further strengthen its sales support structure, reinforce product management in system development projects and raise support quality and productivity.

Medium-term Goals and Action Principles

Basic principle

- Grow with customers through realization of the Mission Statement

Mid-term plan

- Workforce basically remains flat
- Strive to expand business by increasing revenues and profits
Target operating income and recurring profit to net sales ratio of 7%
- Spur new demand with the help of customer information
- Effective use of individuals/materials/capital and increasing productivity

■ Specific Policies

The slogan for fiscal 2008 is:

“Respond to customers’ trust from their viewpoint and make a leap forward together with customers”

Specific Policies

1. Expand business with existing customers

The Company has some 730,000 customers ranging in size from very large enterprises to small firms, and accordingly, will work to strengthen its relationship with each company while expanding the range and volume of items.

2. Strengthen further promotion of the accumulated business

The Company is promoting the acquisition of new customers with “tanomail,” and by reinforcing the “tayoreru” menu will provide one-stop solutions for supporting customers’ business across the board.

3. Promote further development and utilization of “SPR”

Further development and utilization of the “SPR” customer relationship management and marketing support system will be pursued to promote optimal proposals and increased efficiency.

■ Forecast for Fiscal 2008

For fiscal 2008, the Company forecasts a 4.2% increase in net sales to ¥489,000 million; a 2.8% rise in operating income to ¥30,900 million; a 2.2% increase in recurring profit to ¥31,200 million; and a 15.0% decline in net income to ¥16,030 million owing to the effect of an extraordinary gain on the transition of retirement benefit plan recorded in fiscal 2007.

By segment, projections call for a 0.3% increase in net sales to ¥280,600 million in the System Integration business; a 10.1% rise in net sales to ¥206,200 million in the Service and Support business; and a 7.2% decline in net sales to ¥2,200 million in the Other business.

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

	Fiscal 2007	Fiscal 2008 (Forecast)	
	Amount	Amount	Change to Last Year
Net sales	469,481	489,000	+4.2%
Operating income	30,051	30,900	+2.8%
Recurring profit	30,520	31,200	+2.2%
Net income	18,856	16,030	-15.0%

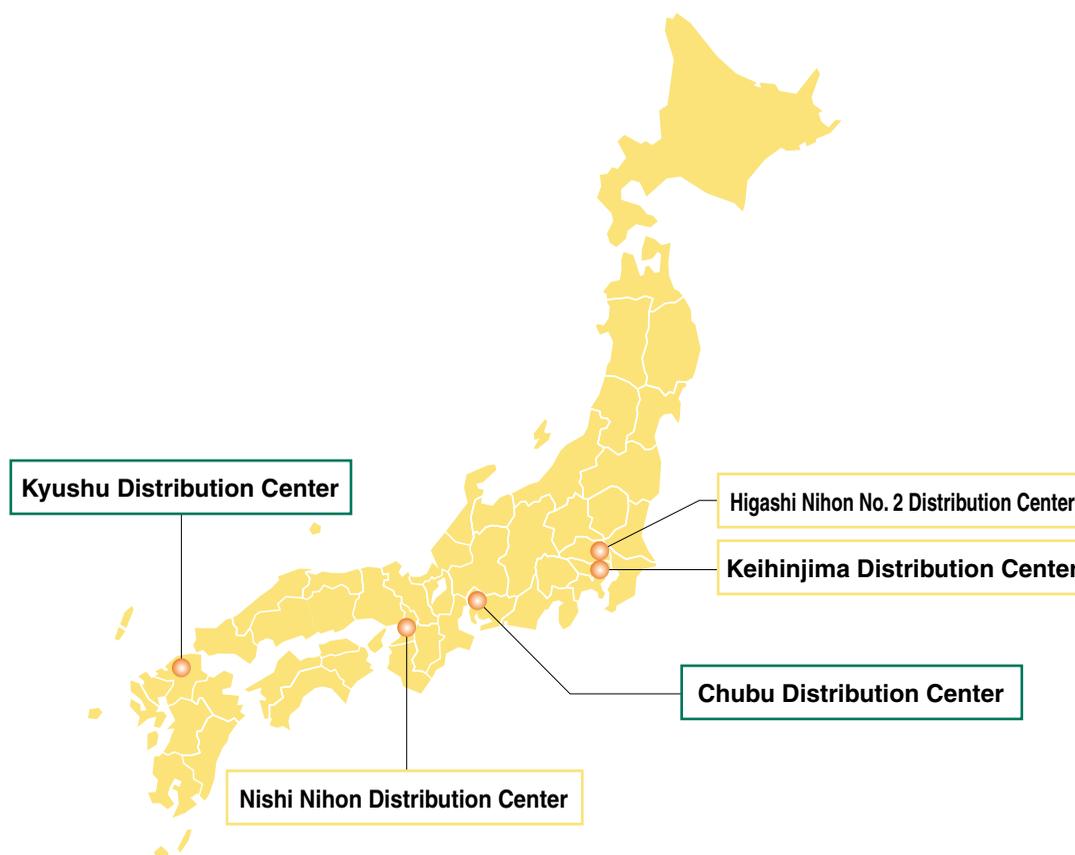
Forecast for Consolidated Net Sales by Segment (Millions of yen)

	Fiscal 2007	Fiscal 2008 (Forecast)	
	Amount	Amount	Change to Last Year
System Integration business	279,753	280,600	+0.3%
Service and Support business	187,358	206,200	+10.1%
Other business	2,370	2,200	-7.2%

Topics

■ New Distribution Centers Established in Kyushu and Chubu Regions

New “tanomail” distribution centers were established in the Kyushu and Chubu regions in May and November 2007, respectively. As a result, the Company now operates five distribution centers.



The establishment of new distribution centers in the Kyushu and Chubu regions is a significant expansion of the area where same-day shipping of “tanomail” service is available. Use of “tanomail” by customers is now even more convenient.



■ Otsuka Information Technology Corp. Removed from Scope of Consolidation

Otsuka Information Technology Corp. (Taiwan), formerly a consolidated subsidiary of OTSUKA CORPORATION, was converted from a subsidiary to an affiliate accounted for using the equity method on December 31, 2007, as a result of the dissolution of direct control by the Company. Consequently, the Company currently has eight consolidated subsidiaries.

Social Contribution and Environmental Preservation Activities

Starting from our immediate surroundings, OTSUKA CORPORATION is contributing to society and helping to preserve the environment in a diverse range of fields. Here are some highlights for fiscal 2007.

■ “A Gift from Tanokun”

In some cases, “tanomail” office supply mail-order products are returned due to accidental damage of the outer packaging during shipping. “A Gift from Tanokun” is a program that offers returned packages with undamaged contents to non-profit organizations. In fiscal 2007, goods were donated approximately 70 times.



■ Social Contribution Experience Day

On August 4, OTSUKA CORPORATION held a “Social Contribution Experience Day” to encourage a deeper understanding among employees of activities that contribute to society. Employees and family members, comprising over 500 participants, experienced a variety of events, including learning about Seeing Eye dogs and taking part in a personal computer disassembly workshop.



Getting to know a Seeing Eye dog



Personal computer disassembly workshop

■ Otsuka Umeda Building Recognized for Waste Reduction Efforts

For its many years of efforts to promote the reduction and proper treatment of waste from businesses, OTSUKA CORPORATION's Otsuka Umeda Building was recognized in a letter of appreciation received from the Osaka City Environment Bureau.



Otsuka Umeda Building's "Eco Corner"

■ OTSUKA CORPORATION *CSR Report 2007*

OTSUKA CORPORATION has published *CSR Report 2007*. The report broadly communicates the Company's social contributions, environmental preservation activities and other initiatives to such stakeholders as customers, shareholders and investors, business partners, local communities and employees. To reduce the use of paper resources, the report is posted on the Company's Website instead of being printed.



<http://www.otsuka-shokai.co.jp/eco/2007/>

Environmental Solutions

OTSUKA CORPORATION develops and offers customers a broad selection of environmental solutions based on its track record and expertise in applying them to its in-house environmental improvement efforts.

- Helped to reduce the amount of paper consumed by using "ODS21" to shift to a paperless environment
- Used "tanomail" to promote green procurement
- Used "Web Learning" to help improve education about the environment
- Contributed to reduced use of resources by promoting the recycling of PCs and toner cartridges

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.

■ Current Status of Implementation of Corporate Governance Measures

As a company with a Corporate Auditors system, OTSUKA CORPORATION aims to augment corporate governance by further enhancing the General Shareholders Meeting, augmenting the auditing capabilities of Corporate Auditors, reforming the Board of Directors and making an active and ongoing commitment to disclosure and investor relations (IR) activities.

1. Enhancement of the General Shareholders Meeting

The OTSUKA Group believes that enhancement of the General Shareholders Meeting is crucial to improving corporate governance, and is working to ensure that as many shareholders as possible attend meetings, while concurrently introducing an electronic voting system that will allow shareholders to exercise their voting rights via the Internet.

2. Board of Directors

As of December 31, 2007, the Board of Directors consisted of 14 Directors, of which 12 board members concurrently serve as Executive Officers responsible for making decisions and overseeing business operations based on actual on-site conditions. There are no outside directors at present.

The Board of Directors meets regularly twice a month to discuss critical management issues as well as to deliberate on progress regarding businesses performance and make swift decisions toward resolving relevant issues. Group Management Meetings comprising top management of all Group companies are also held to clarify operational conditions at each company and progress in achieving profitability in addition to working to strengthen corporate governance.

As of March 27, 2008, there were 15 Directors.

3. Executive Officer System

OTSUKA CORPORATION introduced the Executive Officer System on July 1, 2003, and has since been working to realize more rapid decision-making in regard to management policies and execution of business operations as well as to strengthen the oversight structure for more efficient business operations. Consequently, the Board of Directors handles overall decision-making for important management matters as well as supervisory functions pertaining to business operations. Executive Officers elected by the Board of Directors are responsible for execution of business operations as decided by the Board of Directors and under the direction of the President. As of December 31, 2007, there were 34 Executive Officers, (12 of whom are Directors).

As of March 27, 2008, there were 31 Executive Officers (13 of whom are Directors).

4. Corporate Auditors System

OTSUKA CORPORATION uses a Corporate Auditors system. The Board of Corporate Auditors is comprised of four auditors that include two outside auditors, all of whom attend such important meetings as Board of Directors meetings and management meetings to monitor that the management of operations is being properly carried out. The Corporate Auditors reinforce auditing at the operational level through such means as identifying potential problems at an early stage by regularly engaging in dialogue with management via the Board of Corporate Auditors along with independent auditors, as well as by collaborating and coordinating with internal departments conducting auditing of subsidiaries and affiliates.

No personal, capital or business interests exist between outside auditors and OTSUKA CORPORATION.

5. Corporate Audits

- Independent Auditor
MISUZU Audit Corporation
- Temporary Independent Auditor
Ernst & Young ShinNihon

On July 31, 2007, MISUZU Audit Corporation, the Company's independent auditor at that time, was disbanded and ceased independent auditing services. Consequently, the Company appointed Ernst & Young ShinNihon on August 1, 2007 as a temporary independent auditor.

Furthermore, Ernst & Young ShinNihon, the Company's temporary independent auditor, was selected and subsequently approved to assume the position as the Company's independent auditor at the General Meeting of Shareholders on March 27, 2008.

There are no interests among MISUZU Audit Corporation or Ernst & Young ShinNihon, Managing Partners responsible for auditing the Company and OTSUKA CORPORATION.

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

Kenichi Akiyama, Designated Employee and Managing Partner

Makoto Mukai, Designated Employee and Managing Partner

Number of Staff Assisting in Accounting-related Operations

CPAs	6
Assistant CPAs	4
Other individuals	9

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

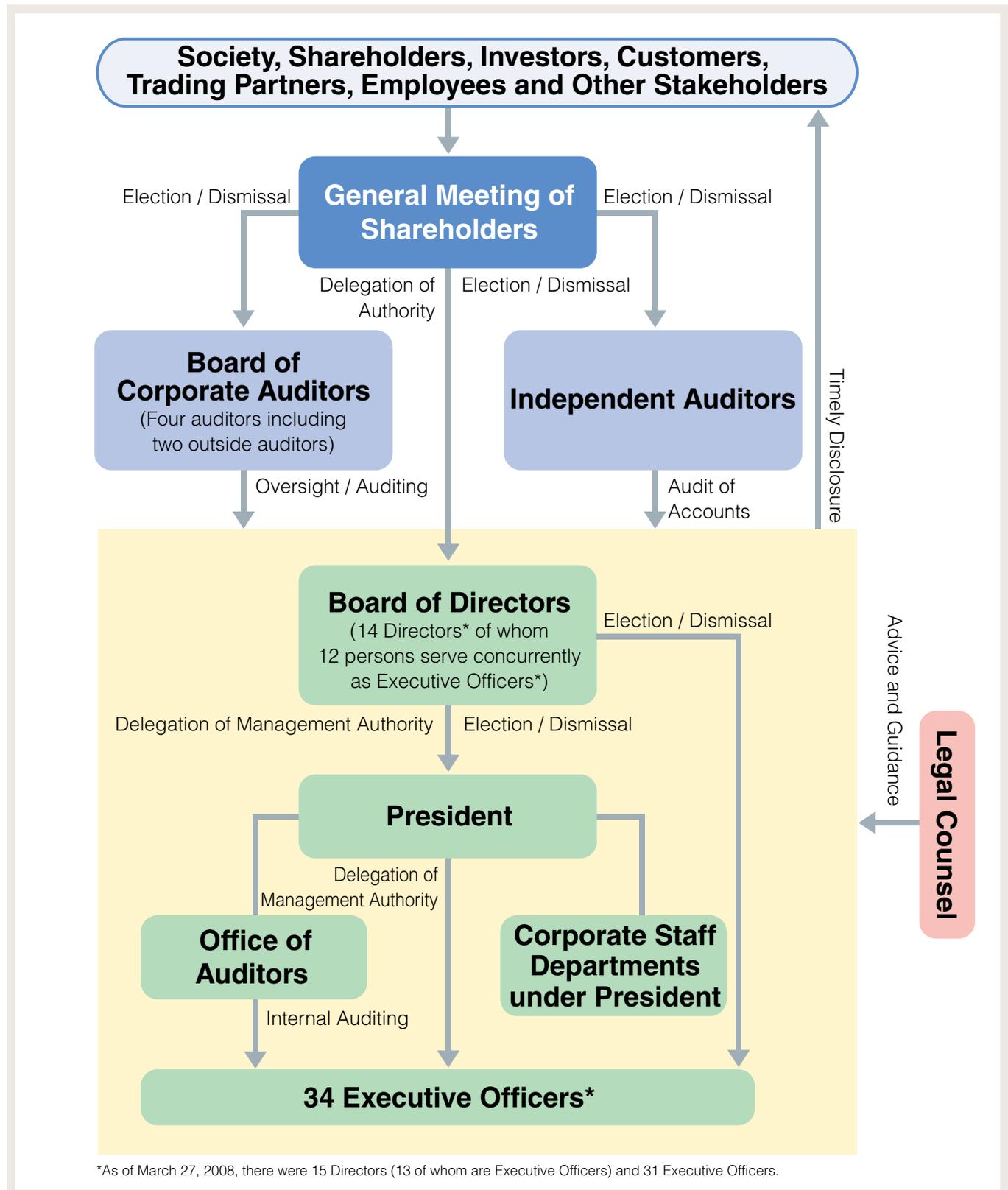
6. Status of Monitoring Operations

Critical items that impact operations and performance are reported immediately to the Board of Directors and the Board of Corporate Auditors as they arise. Moreover, the Office of Auditors under the direction of the President has been established to conduct periodic and on-demand internal audits of all operations and assess the adequacy of policies, plans and procedures, the effectiveness of their implementation in operations and progress in compliance, as well as to offer concrete advice and recommendations for improving operations and raising awareness. The Office of Auditors has 15 staff as of December 31, 2007.

OTSUKA CORPORATION has established and operates an Internal Reporting and Improvement Proposal System that allows employees to directly report and propose improvements to the President. The purpose of the system is as follows:

- To quickly identify, address and prevent occurrences pertaining to dishonesty and misconduct in relation to corporate ethics and fair trade
- To assess, suitably handle and prevent such incidences as abuse of authority and sexual harassment
- To receive proposals and consultation, as well as to individually address issues related to business operations and work flows

As of December 31, 2007, the structure for corporate management decision-making, business operations and oversight is as follows:



■ The following measures were implemented recently to strengthen corporate governance.

(As of March 30, 2006)

In order to promote the separation of the execution of business operations by Executive Officers and oversight by Directors, OTSUKA CORPORATION has separated the positions of Executive Officers to include Senior Executive Operating Officers and Operating Officers. Respective Directors' positions, except the Chief Executive Officer and Executive Managing Director, will remain the same.

(As of April 1, 2006)

In response to the Whistleblower Protection Act, which came into effect from April 1 2006, OTSUKA CORPORATION has strengthened its conventional Internal Reporting and Improvement Proposal System by establishing a "Compliance Hotline" as a means of improving the convenience of reporting procedures and explicitly further protecting the confidentiality of informants. In doing so, the Company seeks to take action early on through effective and swift response by rapidly gathering risk-related information from inside and outside the Company.

(As of May 16, 2006)

In order to realize a fundamental stance related to corporate governance, a resolution of the Company's "Basic Policy Regarding Improvement of the Internal Control System" was passed at the Board of Directors meeting on May 16, 2006. As the basic policy of carrying out business operations, the Company aims to respond quickly to environmental changes and enhance its competitiveness by pursuing thorough compliance and greater management transparency and fairness, thereby pursuing agile and continuous improvement and augmentation of its internal control system.

■ Remuneration for Board Members and Auditors

1) Remuneration for Directors and Corporate Auditors in the current fiscal year is as follows.

Directors 14 ¥400 million

Auditors 4 ¥27 million (two of which are outside auditors, ¥6 million)

Notes:

1. Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
2. 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).
3. The amount of annual remuneration for auditors is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005.
4. The above remuneration includes the increased amount of retirement benefits for Directors in the current fiscal year.

2) Remuneration for Independent Auditors in the current fiscal year is as follows.

Independent Auditor MISUZU Audit Corporation

Remuneration for Auditing & Attestation ¥17 million

Remuneration for Other Services —

Temporary Independent Auditor Ernst & Young ShinNihon

Remuneration for Auditing & Attestation ¥26 million

Remuneration for Other Services ¥2 million

■ Number of Directors

The Company's Articles of Incorporation as of December 31, 2007 stipulate that the number of Company Directors shall be 19 or fewer.

■ Requirements for Resolution of Director Appointments

The Company's Articles of Incorporation stipulate that a resolution for appointment of 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 voting rights.

■ 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 Company Law, 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 of the total shareholders capable of exercising such rights. This aims to facilitate efficient operation of the General Meeting of Shareholders through the moderation of special resolutions at the General Meeting of Shareholders.

Board of Directors and Corporate Auditors (As of March 27, 2008)



President & Chief Executive Officer
Yuji Otsuka



Executive Managing Director
Akira Ishitani



Managing Director & Senior Executive Operating Officer
Yoshiaki Nagashima



Managing Director & Senior Executive Operating Officer
Youichi Harada



Managing Director & Senior Executive Operating Officer
Kazuhide Hamada



Managing Director & Senior Executive Operating Officer
Kazuyuki Katakura



Managing Director & Executive Operating Officer
Katsuhiko Nakajima



Managing Director & Operating Officer
Toshiyasu Takahashi



Managing Director & Operating Officer
Kimio Shiokawa

Director & Senior Managing Officers

Masakazu Tachibana

Shinji Usami

Katsuhiro Yano

Koji Yama

Hironobu Saito

Yasuhiro Wakamatsu

Standing Auditor

Tatsuzo Yoshida

Auditors

Yuuichi Itou

Jiro Makino

Mikio Sugiyama

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 OTSUKA CORPORATION as of March 27, 2008.

■ Customer-Related Risks

OTSUKA CORPORATION customers range from large enterprises to small firms across a wide range of 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 Information Processing Development Corporation, 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 Its Consolidated Subsidiaries
Years ended December 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars
	2005	2006	2007	2007
Net sales	¥409,413	¥433,617	¥469,481	\$4,112,851
System Integration business	258,275	263,425	279,753	2,450,754
Service and Support business	149,100	168,701	187,358	1,641,332
Other business	2,037	1,490	2,370	20,764
Operating income	21,911	26,158	30,051	263,265
Recurring profit	22,210	26,494	30,520	267,368
Income before income taxes and minority interests	20,552	26,350	33,597	294,324
Net income	11,747	15,621	18,856	165,191
Total assets	173,927	189,357	200,383	1,755,441
Interest-bearing debt	11,695	10,854	10,051	88,053
Equity	58,920	72,848	87,259	764,429
Net income per share (EPS) (Yen and U.S. dollars)	371.72	494.30	596.69	5.23
Dividends per share of common stock (Yen and U.S. dollars)	75.00	115.00	130.00	1.14
Cash flows from operating activities per share (Yen and U.S. dollars)	710.97	440.14	527.02	4.62
Operating income to Net sales ratio (%)	5.35	6.03	6.40	—
Net income to Net sales ratio (%)	2.87	3.60	4.02	—
Interest-bearing debt ratio (%)	6.72	5.73	5.02	—
Equity ratio (%)	33.88	38.47	43.55	—
Return on equity (ROE) (%)	20.68	23.71	23.55	—

Note:

Equity = Total net assets - Share subscription rights - Minority interests

Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2007 exchange rate of ¥114.15 = US\$1.

The dividend on 2006 includes a ¥10 special dividend commemorating the 45th anniversary of the Company.

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Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

	2006	2007	Millions of yen	
			Difference to Last Year	% Change to Last Year
Net sales	¥433,617	¥469,481	+35,864	+8.3%
System Integration business	263,425	279,753	+16,328	+6.2
Service & Support business	168,701	187,358	+18,656	+11.1
Other business	1,490	2,370	+879	+59.0
Cost of sales	330,173	360,435	+30,262	+9.2
Gross profit	103,444	109,046	+5,601	+5.4
Selling, general and administrative expenses	77,286	78,994	+1,708	+2.2
Operating income	26,158	30,051	+3,893	+14.9
Recurring profit	26,494	30,520	+4,025	+15.2
Income before income taxes and minority interests	26,350	33,597	+7,246	+27.5
Income taxes				
Current	9,972	13,239	+3,266	+32.8
Deferred	693	1,253	+559	+80.8
Net income	15,621	18,856	+3,235	+20.7

Sales Summary

In the fiscal year under review, the System Integration business and Service and Support business both recorded robust sales, and consolidated subsidiaries also did well as a whole. As a result, consolidated net sales reached a record high for the fifth consecutive fiscal year, increasing 8.3% to ¥469,481 million.

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. Due to favorable conditions in the information security-related business, color copiers, the "ODS21" knowledge management system and CAD systems, net sales increased 6.2% to ¥279,753 million.

Service and Support Business

The Service and Support business provides customers with total support for installed systems encompassing supplies, hardware and software maintenance, telephone support, IT education and outsourcing. The "tanomail" office supply mail-order service via the Company's Website and catalog channels, as well as the "tayoreru" service that offers maintenance support to customers, are collectively known as the accumulated business, which generated solid growth. As a result, net sales amounted to ¥187,358 million, 11.1% higher than the preceding fiscal year.

Other Business

In the Other business, net sales amounted to ¥2,370 million, representing a 59.0% increase from the previous fiscal year.

Summary of Income and Expenses

Gross profit increased 5.4% to ¥109,046 million, and the gross profit margin was 23.2%.

As a result of efforts to reduce selling, general and administrative (SG&A) expenses, operating income rose 14.9% to ¥30,051 million.

Recurring profit reached a record high for the seventh straight fiscal year, increasing 15.2%, to ¥30,520 million, as a result of an increase in non-operating income stemming from equity in net income of unconsolidated subsidiaries and affiliates.

As a result of posting a gain on the transition of retirement benefit plan of ¥4,298 million, income before income taxes and minority interests increased 27.5% to ¥33,597 million.

In aggregate, net income increased 20.7% to ¥18,856 million, and net income per share was ¥596.69.

Financial Position

	2006	2007	Millions of yen	
			Difference to Last Year	% Change to Last Year
Assets:	¥189,357	¥200,383	+11,026	+5.8%
Current assets	116,232	130,353	+14,121	+12.1
Fixed assets	73,124	70,030	-3,094	-4.2
Liabilities:	115,942	112,382	-3,559	-3.1
Current liabilities	104,279	108,551	+4,271	+4.1
Long-term liabilities	11,663	3,831	-7,831	-67.2
Net assets	73,414	88,000	+14,586	+19.9

Assets

Total assets increased ¥11,026 million to ¥200,383 million. Current assets rose ¥14,121 million, to ¥130,353 million, as the favorable results achieved by the Company were reflected by increases in cash and time deposits and other cash equivalents and accounts and notes receivable. Fixed assets decreased ¥3,094 million to ¥70,030 million.

Liabilities

Total liabilities declined ¥3,559 million to ¥112,382 million. Current liabilities increased ¥4,271 million, to ¥108,551 million, attributable to an increase in income taxes payable. Long-term liabilities declined ¥7,831 million, to ¥3,831 million, owing to a decline in the reserve for retirement benefits.

Net Assets

Total net assets rose ¥14,586 million, to ¥88,000 million, owing to such factors as an increase in retained earnings. As a result, the equity ratio rose 5.0 percentage points to 43.5%.

The interest coverage ratio was 217.30 times; the interest-bearing debt ratio was 5.02%; return on equity (ROE) was 23.55%; and return on assets (ROA) was 15.51%.

	2006	2007
Interest coverage ratio (times)	199.91	217.30
Interest-bearing debt ratio (%)	5.73	5.02
ROE (%)	23.71	23.55
ROA (%)	14.46	15.51

Interest coverage ratio = Business profit / (Interest expenses + Interest payable on bonds)

ROA = Business profit / Total assets (average during the fiscal year)

Business profit = Operating income + Interest and dividend income + Equity in net income (loss) of unconsolidated subsidiaries and affiliates

Cash flows

	Millions of yen	
	2006	2007
Cash flows from operating activities	¥13,909	¥16,654
Cash flows from investing activities	-7,161	-4,555
Cash flows from financing activities	-1,250	-4,271
Cash and cash equivalents at end of year	18,305	25,374

Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥2,745 million (19.7%) to ¥16,654 million. This is mainly due to an increase in income before income taxes and minority interests, as well as decreases in income taxes paid and the reserve for retirement benefits.

Cash Flows from Investing Activities

Net cash used in investing activities declined ¥2,606 million (36.4%) to ¥4,555 million, mainly due to payments for purchase of investments in securities in the previous fiscal term.

Free cash flows, which are the sum of cash provided by operating activities and cash used in investing activities, increased ¥5,351 million to ¥12,099 million.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥3,021 million (241.7%) to ¥4,271 million. This is chiefly attributable to an increase in cash dividends paid.

As a result of the above factors, cash and cash equivalents at end of year increased ¥7,069 million (38.6%) to ¥25,374 million.

Outlook

For fiscal 2008, the Company forecasts a 4.2% increase in net sales to ¥489,000 million; a 2.8% rise in operating income to ¥30,900 million; a 2.2% increase in recurring profit to ¥31,200 million; and a 15.0% decline in net income to ¥16,030 million owing to the effect of an extraordinary gain on the transition of retirement benefit plan recorded in fiscal 2007.

By segment, projections call for a 0.3% increase in net sales to ¥280,600 million in the System Integration business; a 10.1% rise in net sales to ¥206,200 million in the Service and Support business; and a 7.2% decline in net sales to ¥2,200 million in the Other business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Its Consolidated Subsidiaries
As of December 31, 2006 and 2007

Thousands of
U.S. dollars
(Note 3)

	Millions of yen		2007
	2006	2007	
ASSETS			
Current assets			
Cash, time deposits and other cash equivalents (Notes 10 and 14)	¥ 18,421	¥ 24,785	\$ 217,131
Accounts and notes receivable:			
Trade	71,726	75,773	663,805
Unconsolidated subsidiaries and affiliates	21	43	377
Other	3,074	5,130	44,946
	74,823	80,947	709,130
Less: Allowance for doubtful accounts	(237)	(247)	(2,170)
	74,586	80,699	706,960
Inventories (Note 6)	16,561	16,923	148,260
Deferred tax assets (Note 9)	1,984	2,586	22,656
Other current assets	4,678	5,357	46,937
Total current assets	116,232	130,353	1,141,946
Investments and advances			
Investments in securities (Note 4)	5,699	4,435	38,853
Investments in unconsolidated subsidiaries and affiliates	1,969	2,138	18,736
Guarantee deposits	2,701	2,824	24,741
Deferred tax assets non-current (Note 9)	1,581	1,613	14,136
Other investments	5,286	5,041	44,163
Less: Allowance for doubtful accounts	(777)	(824)	(7,225)
	16,461	15,228	133,406
Property, plant and equipment (Notes 13 and 14)			
Land	17,425	16,965	148,622
Buildings and structures	66,317	65,318	572,217
Other	12,504	13,203	115,672
	96,247	95,487	836,511
Less: Accumulated depreciation	(44,195)	(45,523)	(398,808)
Net property, plant and equipment	52,051	49,963	437,703
Intangibles and deferred charges			
Software	4,306	4,659	40,816
Other	305	179	1,568
	4,611	4,838	42,385
Total assets	¥189,357	¥200,383	\$1,755,441

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term bank loans (Note 7)	¥ 7,650	¥ 7,300	\$ 63,950
Current maturities of long-term debts (Note 7)	622	2,621	22,963
Accounts and notes payable:			
Trade	51,241	59,425	520,590
Unconsolidated subsidiaries and affiliates	366	522	4,576
Other	23,889	15,178	132,967
	75,497	75,126	658,134
Income taxes payable (Note 9)	5,446	8,429	73,845
Other current liabilities	15,062	15,074	132,060
Total current liabilities	104,279	108,551	950,956
Long-term liabilities			
Long-term debt (Note 7)	2,581	130	1,138
Reserve for retirement benefits (Note 8)	8,549	1,820	15,946
Deferred tax liabilities non-current (Note 9)	42	1,442	12,637
Deferred tax liabilities on revaluation of land	267	216	1,900
Other long-term liabilities	221	221	1,940
	11,663	3,831	33,563
Net assets			
Shareholders' equity			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: 31,667,020 shares as of December 31, 2006 and 2007	10,374	10,374	90,887
Capital surplus	16,254	16,254	142,398
Retained earnings	60,120	75,389	660,441
Treasury stock			
64,726 shares as of December 31, 2006 and			
64,954 shares as of December 31, 2007	(117)	(120)	(1,051)
Total shareholders' equity	86,632	101,899	892,676
Valuation and translation adjustments			
Unrealized gain on investment securities	1,779	982	8,608
Deferred losses on hedges	(0)	—	—
Revaluation differences on land (Note 13)	(15,500)	(15,574)	(136,439)
Foreign currency translation adjustments	(63)	(47)	(415)
Total revaluation and translation adjustments	(13,784)	(14,639)	(128,246)
Minority interests in consolidated subsidiaries	566	741	6,492
Total net assets	73,414	88,000	770,922
Total liabilities and net assets	¥189,357	¥200,383	\$1,755,441

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 2006 and 2007

Thousands of
U.S. dollars
(Note 3)

	Millions of yen		2007
	2006	2007	
Net sales (Note 16)	¥433,617	¥469,481	\$4,112,851
Cost of sales (Notes 15 and 16)	330,173	360,435	3,157,563
Gross profit	103,444	109,046	955,287
Selling, general and administrative expenses (Notes 15 and 16)	77,286	78,994	692,022
Operating income	26,158	30,051	263,265
Other income (expenses)			
Interest and dividend income	105	137	1,206
Interest expenses	(131)	(138)	(1,217)
Gain on sales of stock in subsidiaries and affiliates	—	72	634
Reversal of allowance for doubtful accounts	49	—	—
Provision of allowance for doubtful accounts	—	(142)	(1,250)
Dilution gain from change in equity interest	344	23	209
Equity in net income of unconsolidated subsidiaries and affiliates	—	43	382
Gain on sales of fixed assets	—	28	251
Loss on disposal of fixed assets	(267)	(425)	(3,726)
Impairment losses	(102)	(446)	(3,907)
Loss on devaluation of investments in securities	(34)	(93)	(820)
Loss on devaluation of investments in subsidiaries and affiliates	(132)	(238)	(2,092)
Gain on transition of retirement benefit plan	—	4,298	37,658
Other, net	362	425	3,730
	192	3,545	31,058
Income before income taxes and minority interests	26,350	33,597	294,324
Income taxes (Note 9)			
Current	9,972	13,239	115,983
Deferred	693	1,253	10,978
	10,665	14,492	126,961
Minority interests	63	247	2,172
Net income	¥ 15,621	¥ 18,856	\$ 165,191
		yen	U.S. dollars (Note 3)
Net income and dividends per share (Note 2(13))			
Basic net income	¥494.30	¥596.69	\$5.23
Diluted net income	—	596.56	5.23
Cash dividends	115.00	130.00	1.14

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

OTSUKA CORPORATION and Its Consolidated Subsidiaries							Millions of yen
For the years ended December 31, 2006 and 2007							
	Number of shares issued	Shareholders' equity				Total shareholders' equity	
		Common stock	Capital surplus	Retained earnings	Treasury stock		
Balance at December 31, 2005	31,667,020	¥10,374	¥16,254	¥46,941	¥(113)	¥73,457	
Dividends				(2,370)		(2,370)	
Net income				15,621		15,621	
Reversal of revaluation differences on land				(72)		(72)	
Acquisition of treasury stock					(3)	(3)	
Items other than changes in shareholders' equity							
Balance at December 31, 2006	31,667,020	10,374	16,254	60,120	(117)	86,632	
Dividends				(3,634)		(3,634)	
Net income				18,856		18,856	
Reversal of revaluation differences on land				74		74	
Acquisition of treasury stock					(2)	(2)	
Other				(27)		(27)	
Items other than changes in shareholders' equity							
Balance at December 31, 2007	31,667,020	¥10,374	¥16,254	¥75,389	¥(120)	¥101,899	

Millions of yen									
	Valuation and translation adjustments						Share subscription rights	Minority interest in consolidated subsidiaries	Total net assets
	Unrealized gain on investment securities	Deferred losses on hedges	Revaluation differences on land	Foreign currency translation adjustments	Total revaluation and translation adjustments				
Balance at December 31, 2005	¥1,109	—	¥(15,572)	¥(74)	¥(14,537)	—	¥1,359	¥60,279	
Dividends								(2,370)	
Net income								15,621	
Reversal of revaluation differences on land								(72)	
Acquisition of treasury stock								(3)	
Items other than changes in shareholders' equity	670	(0)	72	10	752	—	(793)	(40)	
Balance at December 31, 2006	1,779	(0)	(15,500)	(63)	(13,784)	—	566	73,414	
Dividends								(3,634)	
Net income								18,856	
Reversal of revaluation differences on land								74	
Acquisition of treasury stock								(2)	
Other								(27)	
Items other than changes in shareholders' equity	(797)	0	(74)	16	(854)	—	(175)	(679)	
Balance at December 31, 2007	¥982	—	¥(15,574)	¥(47)	¥(14,639)	—	¥741	¥88,000	

The accompanying notes are an integral part of these statements.

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 2006 and 2007

Thousands of U.S. dollars (Note 3)

	Shareholders' equity					
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2006	31,667,020	\$90,887	\$142,398	\$526,678	\$(1,028)	\$758,935
Dividends				(31,837)		(31,837)
Net income				165,191		165,191
Reversal of revaluation differences on land				651		651
Acquisition of treasury stock					(22)	(22)
Other				(241)		(241)
Items other than changes in shareholders' equity						
Balance at December 31, 2007	31,667,020	\$90,887	\$142,398	\$660,441	\$(1,051)	\$892,676

Thousands of U.S. dollars (Note 3)

	Valuation and translation adjustments						Share subscription rights	Minority interest in consolidated subsidiaries	Total net assets
	Unrealized gain on investment securities	Deferred losses on hedges	Revaluation differences on land	Foreign currency translation adjustments	Total revaluation and translation adjustments				
Balance at December 31, 2006	\$15,592	(3)	\$(135,787)	\$(558)	\$(120,756)	—	\$4,958	\$643,137	
Dividends								(31,837)	
Net income								165,191	
Reversal of revaluation differences on land								651	
Acquisition of treasury stock								(22)	
Other								(241)	
Items other than changes in shareholders' equity	(6,984)	3	(651)	142	(7,489)	—	1,533	(5,956)	
Balance at December 31, 2007	\$8,608	—	\$(136,439)	\$(415)	\$(128,246)	—	\$6,492	\$770,922	

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 2006 and 2007

Thousands of
U.S. dollars
(Note 3)

	Millions of yen		2007
	2006	2007	
Cash flows from operating activities:			
Income before income taxes and minority interests	¥26,350	¥33,597	\$294,324
Depreciation and amortization	5,883	5,388	47,209
Amortization of (negative) goodwill	132	(4)	(43)
Equity in net income of unconsolidated subsidiaries and affiliates	—	(43)	(382)
Decrease in reserve for retirement benefits	(1,666)	(6,331)	(55,462)
Increase(decrease) in allowance for doubtful accounts	(81)	60	528
Interest and dividend income	(105)	(137)	(1,206)
Interest expenses	131	138	1,217
Gain on sales of fixed assets	—	(28)	(251)
Loss on disposal of fixed assets	267	425	3,726
Impairment losses	102	446	3,907
Loss on devaluation of investments in securities	34	93	820
Gain on sales of stock of subsidiaries and affiliates	—	(72)	(634)
Loss on devaluation of investments in subsidiaries and affiliates	132	238	2,092
Dilution gain from change in equity interest	(344)	(23)	(209)
Increase in accounts and notes receivable	(11,090)	(6,324)	(55,400)
Increase in inventories	(113)	(465)	(4,076)
Increase in accounts and notes payable	5,961	21	185
Other	123	(32)	(283)
Subtotal	25,719	26,946	236,061
Interest and dividend income received	102	157	1,379
Interest expenses paid	(124)	(137)	(1,205)
Income taxes paid	(11,787)	(10,311)	(90,330)
Net cash provided by operating activities	13,909	16,654	145,904
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(2,253)	(2,528)	(22,152)
Proceeds from sales of property, plant and equipment	206	546	4,789
Payments for software developed	(2,146)	(2,567)	(22,489)
Payments for purchase of investments in securities	(2,486)	(279)	(2,450)
Proceeds from sales of investments in securities	39	—	—
Proceeds from sales of consolidated subsidiaries' stock	—	470	4,122
Payments for long-term loans receivable	(6)	(428)	(3,755)
Proceeds from long-term loans receivable	5	16	146
Other	(520)	214	1,879
Net cash used in investing activities	(7,161)	(4,555)	(39,908)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	50	(350)	(3,066)
Proceeds from long-term debts	1,000	200	1,752
Repayments for long-term debts	(891)	(652)	(5,718)
Proceeds from issuance of new shares	1,008	192	1,681
Cash dividends paid	(2,370)	(3,632)	(31,822)
Other	(46)	(28)	(249)
Net cash used in financing activities	(1,250)	(4,271)	(37,422)
Effect of exchange rate changes on cash and cash equivalents	7	(25)	(220)
Net increase in cash and cash equivalents	5,504	7,802	68,352
Cash and cash equivalents at beginning of year	13,891	18,305	160,363
Decrease in cash and cash equivalents due to exclusion of subsidiaries from scope of consolidation (Note 10(2))	(1,090)	(732)	(6,421)
Cash and cash equivalents at end of year (Note 10(1))	¥18,305	¥25,374	\$222,294

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

OTSUKA CORPORATION and Its Consolidated Subsidiaries

1. Basis of Presenting the Consolidated Financial Statements

Accounting Principles

The accompanying consolidated financial statements of OTSUKA CORPORATION (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Company Law and the Financial Instruments and Exchange Law of Japan.

Certain items presented in the consolidated financial statements have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The Company had 15 subsidiaries (majority-owned companies) and 13 subsidiaries as at December 31, 2006 and 2007, respectively. The consolidated financial statements include the accounts of the Company and ten subsidiaries and eight subsidiaries for the years ended December 31, 2006 and 2007, respectively.

The eight subsidiaries which were consolidated in the year ended December 31, 2007 are listed below:

	Equity ownership percentage
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%
Net World Corporation	68.3%
Otsuka Business Service Co., LTD.	65.0%

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

Generally, Companies that are owned more than 50 % are classified as subsidiaries and companies that are owned more than 20 % are classified as affiliates. However, companies that are owned between 40 % and 50 % may also be classified as subsidiaries and companies that are owned between 15 % and 20 % may also be classified as affiliates, if the Company substantially controls the investees' management or has significant influence and relationships with the investees, respectively.

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 five unconsolidated subsidiaries as at December 31, 2006 and 2007, consisted of insignificant amounts in terms of total assets, net sales, net income and retained earnings, and have, therefore, been excluded from consolidation.

(Fiscal year 2007)

Fujimi Construction Co.,LTD, a consolidated subsidiary, and Netplan Co.,Ltd , a consolidated subsidiary,have merged in April 2007, and been operating as Netplan Co.,Ltd.

Otsuka Information Technology Corp. was changed from a consolidated subsidiary to an affiliate which was accounted for the equity method effective fiscal year 2007, due to a decrease in the interest ratio and decrease in the number of the directors who were dispatched from the Company. The Consolidated Statements of Income for the year ended December 31, 2007 included the Statements of Income of Otsuka Information Technology Corp.

(2) Elimination of intercompany accounts

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated in full, and the portion attributable to minority interests is charged/credited to minority interests.

For the elimination of investments in common stock of consolidated subsidiaries, together with the equity in the net assets of such subsidiaries, any difference between such investment costs and the amount of underlying equity in the net assets of the subsidiary is deferred and amortized to income over five years on a straight-line basis.

(3) Investments in unconsolidated subsidiaries and affiliates

The Company had five unconsolidated subsidiaries and nine affiliates at December 31, 2006 and 2007.

The Company had one investment in affiliate for the equity method and two investment in affiliate for the equity method at December 31, 2006 and 2007, respectively. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method were carried at cost or less, since they did not have a material impact on consolidated net income and retained earnings in the consolidated financial statements.

The two investment in affiliate by the equity method at December 31, 2007, are listed below:

	Equity ownership percentage
SIOS Technology, Inc.	45.9%
Otsuka Information Technology Corp	44.1%

(Fiscal year 2007)

Otsuka Information Technology Corp was changed from a consolidated subsidiary to an affiliate for the equity method from fiscal year 2007, due to a decrease in the share ratio and decrease in the number of the directors from the Company.

(4) 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.

(5) Inventories

Inventories are valued by the methods according to the category of inventories as follows:

Merchandise and maintenance parts:	Merchandise and maintenance parts are stated at cost mainly determined by the moving-average method
Work-in-process:	Work-in-process is stated at cost determined by the individual cost method
Supplies:	Supplies are stated at cost determined by the latest purchase price

(6) Financial instruments

(a) Securities

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

• Equity investment in subsidiaries and affiliates

Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. In exceptional cases, investments in certain unconsolidated subsidiaries and affiliates are stated at cost, determined by the moving-average method, because the effect of application of the equity method would be immaterial.

• Other securities

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

Securities without market quotations are stated at cost, determined by the moving-average method.

Regarding investments in limited partnerships and similar investments, an amount equivalent to the Company's partnership investment gain or loss under the equity method, with such a gain or loss being based on the latest available financial statements of the corresponding limited partnerships, was recognized in the consolidated financial statements.

(b) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments."

(c) Hedge accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

Also, if interest rate swap contracts are used as a hedge and meet certain hedging criteria, the amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The derivatives designated as hedging instruments by the Companies are principally interest swaps, forward exchange contracts and currency swaps. The related hedged items are trade bank loans and accounts payable.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Companies' exposure to the risks of interest and foreign exchange rate fluctuation. Thus, the Companies' purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(7) Property, plant and equipment

Depreciation is computed using the declining-balance method, at rates based on the estimated useful lives of assets, which are prescribed by Japanese income tax laws. Depreciation of buildings newly acquired after April 1, 1998 has been provided based on the straight-line method in conformity with Japanese tax laws.

Estimated useful lives of assets are principally as follows:

- Building and structures — 15 to 50 years
- Other — 4 to 6 years

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(Accounting change in 2007)

Effective as of the consolidated accounting period ended December 31, 2007, the Company and its domestic subsidiaries have changed their depreciation procedure based on an amendment in corporation tax law for the tangible assets acquired on and after April 1, 2007. The effect of this change on the financial result is immaterial.

(8) Accounting for leases

Leases that transfer substantially all the risks and rewards of ownership of the assets to lessees are accounted for as capital leases, except that leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases.

(9) Software and other intangible assets

The amortization of costs of software developed for external sales is computed at an amount based on the ratio of actual sales during the year to total estimated sales for the estimated salable period. However, the amortization costs should not be lower than the amount computed based on asset purchase value on a straight-line basis over the estimated remaining useful life of the asset, which is 3 years.

Software developed for internal use is amortized on a straight-line basis over the estimated useful life of the asset, which is mainly 5 years.

Other intangible assets with finite useful lives are amortized using the straight-line method over the estimated useful lives.

(10) Accounting for income taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

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

(11) Allowance for doubtful accounts

An allowance for doubtful accounts is provided at an amount of potential losses from uncollectable receivables based on the actual historical rate of losses from bad debts for ordinary receivables, and on the estimated recoverability of specific doubtful receivables.

(12) Reserve for retirement benefits**(a) Retirement benefits for employees**

The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, the unrecognized actuarial differences are amortized on a straight-line basis over a period of 12 years from year following the year in which they arise, and the unrecognized prior service cost is amortized on a straight-line basis over a period of 12 years.

(b) Retirement benefits for directors

The Company and six consolidated subsidiaries have provided for accrued retirement benefits to directors at an amount equivalent to 100% of the benefits the Company would be required to pay, had all eligible directors retired at the balance sheet date.

(13) Net income and dividends per share

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

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

Diluted net income per common share for the year ended December 31, 2006, is not disclosed because there were no potentially dilutive securities outstanding.

(14) Accounting for the consumption tax

The Japanese Consumption Tax Law generally imposes consumption tax at a flat rate on all domestic consumption of goods and services. The consumption tax withheld upon sale is not included in the amount of "Net sales" in the accompanying consolidated statements of income but is recorded as a liability. Consumption tax, which is paid by the Company and domestic subsidiaries on purchases of goods and services, is not included in the amounts of costs/expenses in the consolidated statements of income, but is offset against the balance withheld, and the net balance is included in "Other current liabilities" in the consolidated balance sheets.

(15) Rounding of amounts

Rounding down sums of less than a million yen.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥114.15=US\$1, the rate of exchange on December 31, 2007, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

4. Investments in Securities

At December 31, 2006 and 2007 investments in securities were as follows:

(1) Other securities with fair value

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	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 cost									
Stocks	¥1,311	¥4,304	¥2,992	¥1,075	¥2,790	¥1,714	\$ 9,423	\$24,446	\$15,022
Bonds	—	—	—	—	—	—	—	—	—
Other securities	92	151	59	92	119	26	808	1,042	234
	¥1,403	¥4,455	¥3,052	¥1,167	¥2,909	¥1,741	\$10,231	\$25,489	\$15,257
Securities whose carrying value does not exceed their acquisition cost									
Stocks	¥ 266	¥ 216	¥ (50)	¥ 468	¥ 383	¥ (84)	\$ 4,100	\$ 3,359	\$ (740)
Bonds	—	—	—	—	—	—	—	—	—
Other securities	—	—	—	—	—	—	—	—	—
	¥ 266	¥ 216	¥ (50)	¥ 468	¥ 383	¥ (84)	\$ 4,100	\$ 3,359	\$ (740)
Total	¥1,670	¥4,672	¥3,001	¥1,635	¥3,293	¥1,657	\$14,331	\$28,848	\$14,516

(2) Other securities sold in 2006 and 2007 (for the years ended December 31, 2006 and 2007)

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss	Sales proceeds	Aggregate gain	Aggregate loss
	¥38	¥1	—	—	—	—	—	—	—

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

	2006		2007		2007	
	Carrying value on consolidated balance sheets		Carrying value on consolidated balance sheets		Carrying value on consolidated balance sheets	
Other securities						
Unlisted stocks		¥713		¥866		\$7,586
Preferred subscription certification		10		—		—
Investment limited liability partnerships		303		276		2,418

(4) Prospected amounts of redemption of other securities with maturity dates subsequent to the consolidated balance sheet dates

	Millions of yen				Thousands of U.S. dollars	
	2006		2007		2007	
	Within one year	More than one year	Within one year	More than one year	Within one year	More than one year
Others	¥10	—	—	—	—	—
Total	¥10	—	—	—	—	—

5. Derivative Information

The Companies utilize derivative transactions for the purpose of hedging their exposure to fluctuation in foreign exchange rates on payables denominated in foreign currencies and interest rates on interest-bearing debt, however, do not enter into transactions involving derivatives for speculative purposes.

The relevant derivative transactions are used for hedging are summarizing as follows:

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

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

There remain the risk of foreign currency exchange fluctuations on currency transactions and the risk of interest rate fluctuations on interest rate transactions. As the Companies enter into derivative transactions only with financial institutions which have a sound credit profile, we believe that a credit risk is insignificant.

All risk hedge operations and management are carried out pursuant to the Companies rules which stipulate management policies of derivative transactions, limitation of a hedging position and so forth by treasury department with an appropriate approval.

At December 31, 2006 and 2007 derivatives were as follows:

Currency-related transactions

	Millions of yen			
	2006			
	Contractual value or notional principal amount		Fair value	Valuation gain(loss)
Total	Over one year			
Currency swap Purchased U.S.dollar	¥266	—	¥279	¥13

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

	Thousands of U.S. dollars			
	2007			
	Contractual value or notional principal amount		Fair value	Valuation gain(loss)
Total	Over one year			
Currency swap Purchased U.S.dollar	—	—	—	—

(Note)

Except for derivatives that are designed as hedging instruments

6. Inventories

Inventories at December 31, 2006 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Merchandise and maintenance parts	¥15,797	¥16,072	\$140,804
Work-in-process	655	737	6,456
Supplies	108	114	998
	¥16,561	¥16,923	\$148,260

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

The annual average interest rates applicable to short-term bank loans at December 31, 2006 and 2007 were 1.14% and 1.45%, respectively.

Long-term debt at December 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Long-term loans from banks with annual interest rates from 0.83% to 1.87%	¥3,204	¥2,751	\$24,102
	3,204	2,751	24,102
Less : Current maturities of long-term debts	(622)	(2,621)	(22,963)
	¥2,581	¥ 130	\$ 1,138

Aggregate annual maturities of long-term debt subsequent to December 31, 2007 are as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2008	¥2,621	\$22,963
2009	40	350
2010	40	350
2011	40	350
2012	10	87
	¥2,751	\$24,102

8. Reserve for Retirement Benefits

(1) Retirement benefit plan

The Company and certain its subsidiaries operated a fund type corporate pension plan, an agreement type corporate pension plan and a termination allowance plan as defined-benefit pension plans, but they have changed its fund type corporate pension plan in to a new defined contribution pension plan and an agreement type corporate pension plan. As a result of these changes, a settlement profit of ¥4,298 million (\$37,658 thousand) was recognized as income for the year ended December 31, 2007.

(2) The reserve for retirement benefits as of December 31, 2006 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Projected benefit obligations	¥(40,623)	¥ (29,317)	\$(256,834)
Plan assets	42,723	39,741	348,151
	2,099	10,423	91,317
Unrecognized prior service cost	(6,389)	(5,698)	(49,920)
Unrecognized actuarial gain or loss	(683)	(3,351)	(29,357)
	(4,973)	1,374	12,040
Prepaid pension cost	3,134	2,690	23,571
Reserve for retirement benefits	¥ (8,107)	¥ (1,316)	\$ (11,531)

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2006 and 2007 included retirement benefits for directors in the amounts of 441 million yen and 504 million yen (4,415 thousand U.S. dollars), respectively.

(3) Pension expense related to the retirement benefits for the year ended December 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Service cost	¥3,028	¥ 2,731	\$ 23,926
Interest cost	563	525	4,606
Expected return on plan assets	(1,108)	(1,240)	(10,866)
Amortization of the unrecognized Prior service cost	(690)	(690)	(6,050)
Amortization of the unrecognized actuarial gain or loss	328	11	103
Payments for defined contribution pension plan	—	377	3,309
Additional benefits for employees' early retirement	126	188	1,649
Net periodic pension cost	¥2,246	¥ 1,903	\$ 16,677
Gain on transition of retirement benefit plan	—	¥(4,298)	\$(37,658)

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

(4) Computation Basis of Pension Liabilities

As of December 31, 2006 and 2007

	2006	2007
Discount rate	1.5%	1.5%
Expected rate of return on plan assets	3.0%	3.0%
Periodic allocation principle	Standard of fixed-amount	Standard of fixed-amount
for projected benefit obligation	-for-period	-for-period
Amortization of unrecognized prior service cost	12 years	12 years
Amortization of unrecognized actuarial gain or loss	12 years from the fiscal year following occurrence	12 years from the fiscal year following occurrence

9. Income Taxes

(Fiscal year 2006)

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2006 was 40.7%.

Since the difference between the statutory tax rate and the effective tax rate (40.5%) for the fiscal year ended December 31, 2006 is less than 5%, a reconciliation of these two rates is not presented.

(Fiscal year 2007)

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2007 was 40.7%.

At December 31, 2007, the reconciliation of the statutory tax rate to the effective income tax rate was as follows.

Statutory tax rate	40.7%
Expenses not deductible for tax purposes	0.6%
Per capita inhabitant tax	0.4%
Valuation allowance	1.7%
Deduction for tax incentive to help strengthen information infrastructure for business	△0.4%
Other	0.1%
Effective tax rate	43.1%

At December 31, 2006 and 2007, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Allowance for doubtful accounts	¥ 244	¥ 299	\$ 2,626
Enterprise taxes	537	753	6,605
Accrued bonuses	1,076	1,111	9,736
Retirement benefits for employees	3,271	537	4,706
Retirement benefits for directors	192	205	1,802
Impairment losses	653	781	6,846
Software cost	347	1,240	10,870
Eliminated unrealized profits	460	420	3,683
Other	921	1,050	9,203
Total deferred tax assets	7,704	6,401	56,081
Less: Valuation allowance	(231)	(823)	(7,213)
Net deferred tax assets	7,473	5,578	48,867
Deferred tax liabilities:			
Reserve for computer program	1,432	1,035	9,072
Prepaid pension cost	1,284	1,097	9,616
Unrealized gain on investment securities	1,221	674	5,908
Other	16	19	167
Total deferred tax liabilities	3,955	2,826	24,764
Net deferred tax assets	¥3,518	¥2,751	\$24,103

10. Supplementary Cash Flow Information

(1) Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cash, time deposits and other cash equivalents	¥18,421	¥24,785	\$217,131
Time deposits with deposit terms of more than three months	(116)	(105)	(919)
Trust beneficiary interests included in other current assets with investment terms with three months or less	—	694	6,082
Cash and cash equivalents at end of year	¥18,305	¥25,374	\$222,294

(2) The summary of assets and liabilities of SIOS technology, Inc and Otsuka Information Technology Corp which were changed from a consolidated subsidiary to an affiliate for the equity method are as follows:

(Fiscal year 2006)

The summary of assets and liabilities of SIOS technology, Inc

	Millions of yen		Thousands of U.S. dollars
			2006
Current assets	¥2,825		\$24,756
(Cash and cash equivalents)	(1,090)		(9,544)
Non-current assets	2,437		21,350
Total assets	5,263		46,107

	Millions of yen	Thousands of U.S. dollars
Current liabilities	1,454	12,738
Non-current liabilities	1,055	9,249
Total liabilities	¥2,509	\$21,987

(Fiscal year 2007)

The summary of assets and liabilities of Otsuka Information Technology Corp.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,179	\$10,332
(Cash and cash equivalents)	(732)	(6,421)
Non-current assets	145	1,277
Total assets	1,325	11,610
Current liabilities	256	2,246
Non-current liabilities	16	140
Total liabilities	¥ 272	\$ 2,386

11. Subsequent Events

(1) Appropriation

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2007 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 29, 2008:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥130.00 per share)	¥4,108	\$35,990

12. Lease Transactions

The *proforma* information of acquisition costs, accumulated depreciation and net book values of leased assets at December 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Acquisition cost	¥6,586	¥6,152	\$53,895
Accumulated depreciation	(3,630)	(3,543)	(31,043)
Net book value	¥2,955	¥2,608	\$22,852

Future minimum lease payments under finance leases at December 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥1,127	¥ 998	\$ 8,746
Due after one year	1,871	1,652	14,474
	¥2,999	¥2,650	\$23,220

Lease rental expenses, depreciation and interest expenses for the years ended December 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Lease rental expenses	¥1,317	¥1,311	\$11,490
Depreciation	1,246	1,254	10,989
Release of accumulated impairment loss on leaseholds	0	—	—
Interest expenses	65	59	523

Depreciation expense is calculated using the straight-line method, with the lease period as the useful life and a residual value of zero.

The amounts of future lease payments on operating leases at December 31, 2006 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥ 475	¥ 761	\$ 6,675
Due after one year	711	2,088	18,292
	¥1,187	¥2,850	\$24,967

13. Land Revaluation

Pursuant to the Law Concerning Land Revaluation, the Company revalued land used for business activities on December 31, 2001. The excess of the revalued carrying amount over the book value before revaluation was recorded as "Revaluation difference on land" net assets in the accompanying consolidated balance sheets. The land prices used for the revaluation were determined based on the prices in the official notice published by the Commissioner of the National Tax Agency in accordance with Article 2, Paragraphs 3 and 4 of the Enforcement Ordinance Concerning Land Revaluation, after making reasonable adjustments. Revaluation is permitted for one time only. The excess of the book value after revaluation over the fair value are 1,509 million yen and 1,212 million yen (10,626 thousand U.S. dollars) at December 31, 2006 and 2007, respectively.

14. Pledged Assets

At December 31, 2006 and 2007, assets pledged as collateral for accounts and notes payable and loan from banks were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Time deposits	¥ 11	¥5	\$43
Land	535	—	—
Buildings	653	—	—
	¥1,199	¥5	\$43

15. 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, 2006 and 2007 amounted to 839 million yen and 829 million yen (7,263 thousand U.S. dollars), respectively.

16. Segment Information

The business segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2006 and 2007 is summarized as follows:

(1) Business segment information

	Millions of yen					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
2006						
Net sales to:						
Third parties	¥263,425	¥168,701	¥1,490	¥433,617	¥ —	¥433,617
Inter-segment sales/transfers	106	234	2,505	2,845	(2,845)	—
	263,531	168,935	3,996	436,463	(2,845)	433,617
Operating expenses	242,772	156,731	3,915	403,419	4,039	407,459
Operating income	¥ 20,758	¥ 12,204	¥ 80	¥ 33,044	¥ (6,885)	¥ 26,158
Assets, depreciation, impairment losses and capital expenditure:						
Assets	¥ 90,523	¥ 69,290	¥2,029	¥161,843	¥27,513	¥189,357
Depreciation and amortization	2,938	2,187	29	5,155	727	5,883
Impairment losses	68	34	—	102	(0)	102
Capital expenditure	2,171	2,115	7	4,294	210	4,504

	Millions of yen					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
2007						
Net sales to:						
Third parties	¥279,753	¥187,358	¥2,370	¥469,481	¥ —	¥469,481
Inter-segment sales/transfers	96	284	2,358	2,738	(2,738)	—
	279,850	187,642	4,728	472,220	(2,738)	469,481
Operating expenses	255,445	174,873	4,587	434,906	4,523	439,430
Operating income	¥ 24,404	¥ 12,769	¥ 140	¥ 37,314	¥ (7,262)	¥ 30,051
Assets, depreciation, impairment losses and capital expenditure:						
Assets	¥ 88,233	¥ 74,147	¥2,036	¥164,417	¥35,966	¥200,383
Depreciation and amortization	2,529	2,098	24	4,651	737	5,388
Impairment losses	4	5	304	314	131	446
Capital expenditure	2,215	1,712	14	3,942	1,153	5,095

	Thousands of U.S. dollars					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
2007						
Net sales to:						
Third parties	\$2,450,754	\$1,641,332	\$20,764	\$4,112,851	\$ —	\$4,112,851
Inter-segment sales/transfers	844	2,491	20,657	23,993	(23,993)	—
	2,451,599	1,643,824	41,421	4,136,844	(23,993)	4,112,851
Operating expenses	2,237,805	1,531,960	40,191	3,809,957	39,628	3,849,585
Operating income	\$ 213,793	\$ 111,864	\$ 1,229	\$ 326,887	\$(63,621)	\$ 263,265
Assets, depreciation, impairment losses and capital expenditure:						
Assets	\$ 772,959	\$ 649,559	\$17,843	\$1,440,362	\$315,079	\$1,755,441
Depreciation and amortization	22,155	18,383	213	40,752	6,456	47,209
Impairment losses	38	49	2,663	2,752	1,155	3,907
Capital expenditure	19,404	15,000	128	34,533	10,108	44,641

Notes ;

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

Segment	Major product and services
System Integration business	Research, analysis, design, and introduction for comprehensive information system Transport and installation Network construction Introduction for packaged software Development of consigned software Other related services
Service and Support business	Supplies for comprehensive information system Telephone support Maintenance Consigned system operation Data recovery IT education Guidance for operation of packaged software Hotel business
Other business	Construction Repair, sale of automobiles Insurance Printing

3. Significant components of "Eliminations or corporate" are as follows;

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Non-allocable operating expenses	¥ 6,923	¥ 7,326	\$ 64,184
Corporate assets	29,214	37,262	326,437

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

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

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

(2) Segment information by geographic area is not disclosed pursuant to regulations on consolidated financial statements in Japan, since both net sales and assets of the Company and its domestic consolidated subsidiaries, taken as a whole, were more than 90% of consolidated net sales and assets.

(3) Information for overseas sales is not disclosed pursuant to regulations on consolidated financial statements in Japan, since aggregate of overseas sales of the Company and its domestic consolidated subsidiaries and overseas consolidated subsidiaries, were less than 10% of consolidated net sales.

Report of Independent Auditors

The Board of Directors

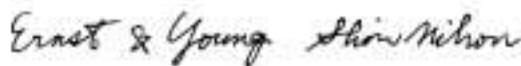
OTSUKA CORPORATION

We have audited the accompanying consolidated balance sheets of OTSUKA CORPORATION and consolidated subsidiaries as of December 31, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company and consolidated subsidiaries as of December 31, 2006 and for the year then ended were audited by other auditors whose report dated March 29, 2007 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OTSUKA CORPORATION and consolidated subsidiaries at December 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.



March 27, 2008

Principal Group Companies (As of December 31, 2007)

The OTSUKA Group (OTSUKA CORPORATION and its subsidiaries) consists of 13 subsidiaries, including 8 consolidated subsidiaries as well as 11 affiliated companies, including 2 affiliate for the equity method that carry out System Integration business, Service and Support business, and Other business. The 8 consolidated subsidiaries are listed below.

Company Name	Established	Capital (¥ million)	Voting right ratio	Scope of Business
■ System Integration business				
OSK Co., LTD.	1984	300	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, packaged software development and ERP consulting business
Net World Corporation	1990	585	68.3%	• 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, disposal 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, body work and sale, maintenance and body work for automobiles, and commissioned sales of insurance
Otsuka Business Service Co., LTD.	1992	50	65.0%	• Creation and commissioned shipment of direct mail materials, data management and processing as well as commissioned creation of Websites

Corporate Data (As of December 31, 2007)

Name	OTSUKA CORPORATION
Founded	July 17, 1961 (registered as joint-stock company on December 13, 1961)
Paid-in Capital	¥10,374,851,000
Number of Employees	6,585 (with consolidated subsidiaries: 7,995)
Business	<p>System Integration Business :</p> <p>Sales of computers, copiers, communication equipment and software, and software development of consigned software, other activities</p> <p>Service and Support Business :</p> <p>Supplies, maintenance, and educational support, other activities</p>
Main Banks	<p>The Bank of Yokohama, Ltd.</p> <p>The Bank of Tokyo-Mitsubishi UFJ, Ltd.</p> <p>Mizuho Bank, Ltd.</p>

Base (As of December 31, 2007)

Head Office	2-18-4 Iidabashi, Chiyoda-ku, Tokyo, 102-8573 TEL 03-3264-7111		
Branch Offices	<p>Metropolitan Office</p> <p>2-18-4 Iidabashi, Chiyoda-ku, Tokyo, 102-8573 TEL 03-3264-7111</p> <p>Kansai Office</p> <p>6-14-1 Fukushima, Fukushima-ku, Osaka-shi, Osaka, 553-8558 TEL 06-6456-2711</p> <p>Chubu Office</p> <p>3-5-33 Masaki, Naka-ku, Nagoya-shi, Aichi, 460-0024 TEL 052-350-4811</p>		
Local Area Sales Groups	Chuo Sales Group 1 Johoku Sales Group Kanagawa Sales Group Osaka Southern Sales Group	Chuo Sales Group 2 Tama Sales Group Saitama Sales Group	Josai Sales Group Keiyo Sales Group Osaka Northern Sales Group
Regional Offices	Sapporo Branch Nagoya Branch Kobe Branch	Sendai Branch Mikawa Branch Hiroshima Branch	Utsunomiya Branch Kyoto Branch Kyushu Branch

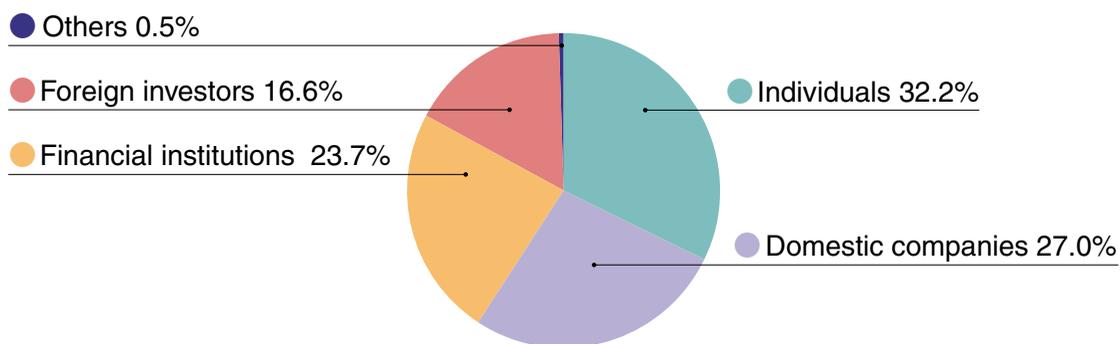
Stock Information (As of December 31, 2007)

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	4,808

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.	8,227,530	25.98	—	—
Yuji Otsuka	2,507,780	7.91	—	—
Japan Trustee Services Bank, Ltd. (Trust Account)	2,382,100	7.52	—	—
Minoru Otsuka	1,525,490	4.81	—	—
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,409,000	4.44	—	—
Atsushi Otsuka	1,075,750	3.39	—	—
OTSUKA CORPORATION Employee Stock-Sharing Plan	998,520	3.15	—	—
Terue Otsuka	645,500	2.03	—	—
Trustee of Individually Operated Designated Money Trusts (Shiteitan) Chuo Mitsui Asset Trust and Banking Company, Limited (Account 1)	556,500	1.75	—	—
Japan Trustee Services Bank, Ltd. (Trust Account 4)	353,200	1.11	—	—

Breakdown of Shareholders (Based on total shares)



OTSUKA CORPORATION WEBSITE

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

Otsuka Corporation

2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573, Tokyo TEL: +81-3-3264-7111