

ANNUAL REPORT 2009

For the fiscal year ended December 31, 2009

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 in the economic situation in principal markets and in product demand, and changes in various domestic and international regulations, accounting standards and customary business practices.

Consolidated Financial Highlights

OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2007, 2008 and 2009			Millions of yen	Thousands of U.S. dollars	%
	2007	2008	2009	2009	Change
Net sales	¥469,481	¥467,154	¥429,927	\$4,669,566	-8.0
System Integration business	279,753	266,476	226,688	2,462,130	-14.9
Service and Support business	187,358	198,761	200,938	2,182,449	+1.1
Other business	2,370	1,916	2,300	24,987	+20.1
Operating income	30,051	27,089	16,094	174,801	-40.6
Ordinary income	30,520	27,628	16,427	178,418	-40.5
Income before income taxes and minority interests	33,597	25,934	16,237	176,359	-37.4
Net income	18,856	14,371	8,782	95,390	-38.9
Total assets	200,383	196,946	198,076	2,151,371	+0.6
Interest-bearing debt	10,051	9,630	8,684	94,325	-9.8
Equity	87,259	96,876	101,740	1,105,029	+5.0
Net income per share (EPS) (Yen and U.S. dollars)	596.69	454.76	277.92	3.02	-38.9
Dividends per share of common stock (Yen and U.S. dollars)	130.00	130.00	130.00	1.41	—
Cash flows from operating activities per share (Yen and U.S. dollars)	527.02	422.35	505.74	5.49	+19.7
Operating income to Net sales ratio (%)	6.40	5.80	3.74	—	
Net income to Net sales ratio (%)	4.02	3.08	2.04	—	
Interest-bearing debt ratio (%)	5.02	4.89	4.38	—	
Equity ratio (%)	43.55	49.19	51.36	—	
Return on equity (ROE) (%)	23.55	15.61	8.84	—	

Notes:

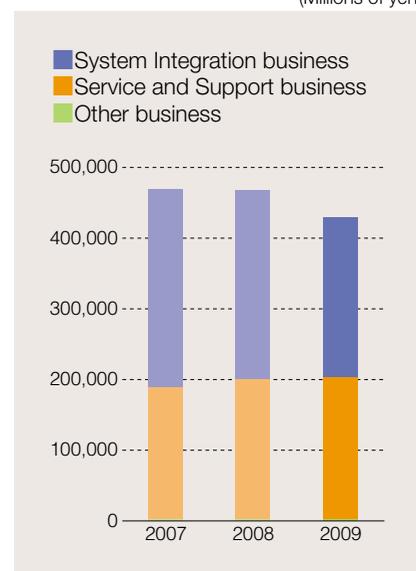
Equity = Total net assets - Share subscription rights - Minority interests

Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2009 exchange rate of ¥92.07 = US\$1.

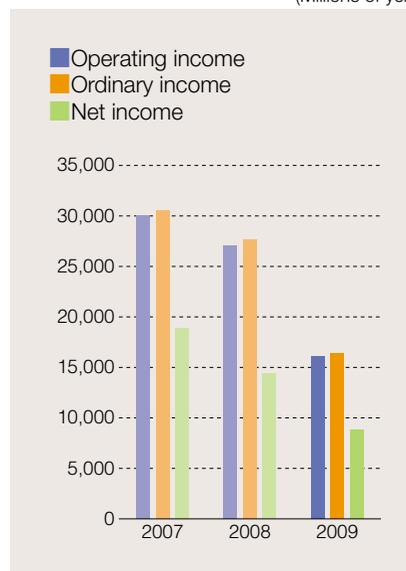
Net sales

(Millions of yen)



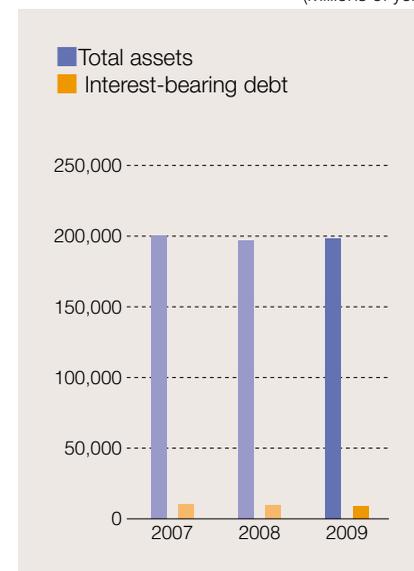
Operating income, Ordinary income, Net income

(Millions of yen)



Total assets, Interest-bearing debt

(Millions of yen)



Note:

Sums of less than a million yen are rounded down.

To Our Shareholders and Investors



I am pleased to announce the results for the fiscal year ended December 31, 2009 and to thank our shareholders and investors for their loyal support.

During the fiscal year under review, the economic slowdown continued as harsh conditions persisted. Although the OTSUKA Group made various proposals for achieving cost reductions and improving productivity, net sales declined 8.0% from the previous fiscal year to ¥429,927 million due to the trend by companies to curtail IT investments and reduce expenses.

At the earnings level, gross profit declined due to a decrease in the gross profit margin and lower net sales, and despite efforts to curb selling, general and administrative (SG&A) expenses, operating income declined 40.6% to ¥16,094 million, ordinary income decreased 40.5% to ¥16,427 million and net income was down 38.9% to ¥8,782 million.

Management has resolved to pay year-end dividends per share of ¥130 in line with our efforts to return profits to shareholders, who have given us their support.

In the coming fiscal year, despite the uncertain direction of the economy, we will further strengthen our contact with customers and strive to identify customers' IT utilization needs. In working to realize our Mission Statement, the OTSUKA Group will continue to pursue management reforms to ensure the trust of all stakeholders. Your ongoing support is greatly appreciated as we move forward with these endeavors.

Yuji Otsuka, President & Chief Executive Officer

March 2010

Overview of Consolidated Operations

■ Economy Picking Up, But Still Faces Harsh Conditions

During the fiscal year, increased exports and production spurred a pickup in the Japanese economy, as business confidence improved in certain areas and corporate bankruptcies diminished. Nevertheless, the resiliency of the recovery was weak owing to sluggish domestic demand and deflation, and harsh economic conditions persisted throughout the fiscal year. Additionally, companies continued to curb investments in facilities and equipment as well as IT investments.

■ System Proposals that Lead to Cost Reductions, Improvement of Productivity and Strengthening of Competitiveness

Amid this environment, the OTSUKA Group carried out its operations under the fiscal 2009 slogan of “Vitalize office via IT and live up to customers’ trust.” In keeping with this slogan, we worked to strengthen our community-based sales structure while firmly ascertaining the circumstances of our customers and their IT investment needs. We also actively proposed systems for helping to solve management issues facing customers, namely, achieving cost reductions, improving productivity and strengthening competitiveness. Additionally, we focused on undertaking a campaign to commemorate the 10th anniversary of our “tanomail” office supply mail-order service business as well as on offering low-priced, fixed-line telephone services, as we proactively worked to expand business with existing customers while also cultivating new customers.

External Environment

Economy is starting to pick up but is still facing harsh conditions.

Exports and production are picking up; however, the resilience is weak due to a decline in domestic demand.

Business confidence improved in certain areas and corporate bankruptcies are diminishing.

Medium- and small-sized companies still facing harsh conditions.

Companies are continuously cutting back on investment in facilities and equipment.

Despite the need for IT utilization, IT investments are continuously being curtailed.

OTSUKA Group’s Activities

- System proposals that lead to cost reductions, improvement of productivity and strengthening of competitiveness
- Enhancement of community-based sales structure
- 3 major campaigns
- Focus on “tanomail”
- New business activities

■ Sales Down 8%, Approximately 40% Decline in Respective Profit Categories

As a result of the preceding circumstances, despite an increase in the number of customers during the year, sales per customer declined from the previous fiscal year and net sales decreased 8.0% to ¥429,927 million.

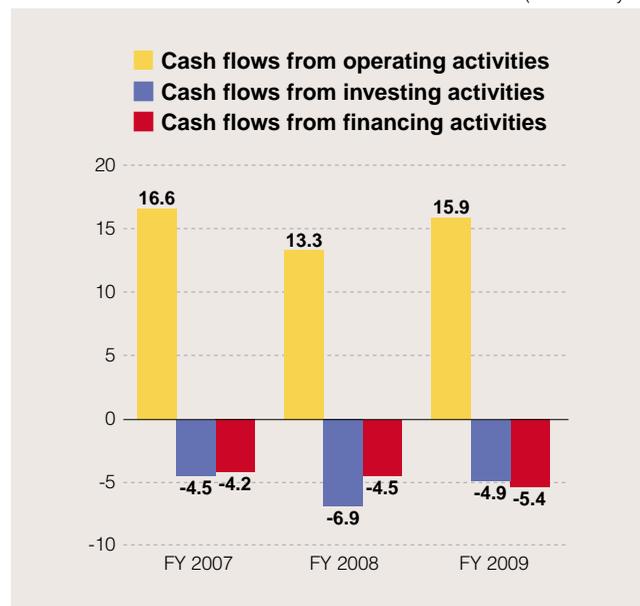
Turning to profits, gross profit declined due to lower sales and a decrease in the gross profit margin, and despite efforts to curb selling, general and administrative (SG&A) expenses, operating income declined 40.6% to ¥16,094 million, ordinary income decreased 40.5% to ¥16,427 million and net income was down 38.9% to ¥8,782 million.

(Millions of yen)

	FY 2008	FY 2009	
	Amount	Amount	Change to Last Year
Net sales	467,154	429,927	-8.0%
Operating income	27,089	16,094	-40.6%
Ordinary income	27,628	16,427	-40.5%
Net income	14,371	8,782	-38.9%

■ Cash flows

(Billions of yen)



Net cash provided by operating activities amounted to ¥15,982 million, an increase of ¥2,635 million from the previous fiscal year, due to a decrease in income taxes paid.

Net cash used in investing activities declined ¥2,033 million from the previous fiscal year to ¥4,927 million due to a decrease in payments for purchase of investments in securities.

Net cash used in financing activities increased ¥826 million to ¥5,417 million.

Overview of Results by Quarter

■ Net Sales

Net sales expanded steadily to the second quarter (April-June) of 2008, but turned downward from the third quarter (July-September).

Net sales in the third quarter (July-September) of 2009 amounted to ¥93,763 million, a 9.6% decrease from the previous third quarter. Net sales in the fourth quarter (September-December) of 2009 amounted to ¥108,003 million, 2.1% lower than in the previous fourth quarter.

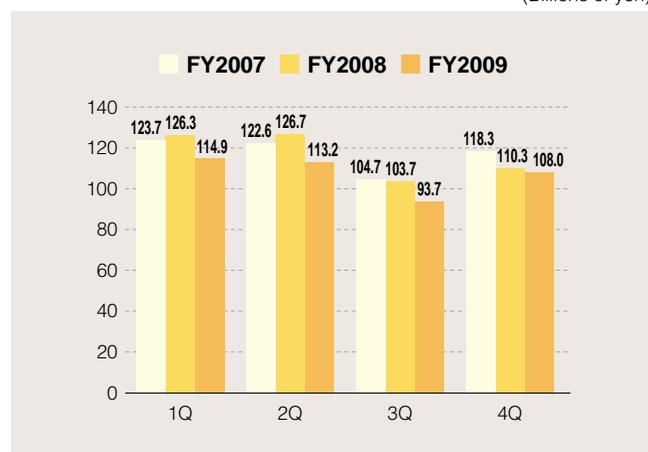
■ Ordinary Income

Ordinary income also increased steadily to the second quarter (April-June) of 2008, but began decreasing from the third quarter (July-September).

Ordinary income in the third quarter (July-September) of 2009 amounted to ¥1,221 million, down 61.4% from the previous third quarter. Ordinary income in the fourth quarter (September-December) of 2009 amounted to ¥3,959 million, down 26.8% from the previous fourth quarter.

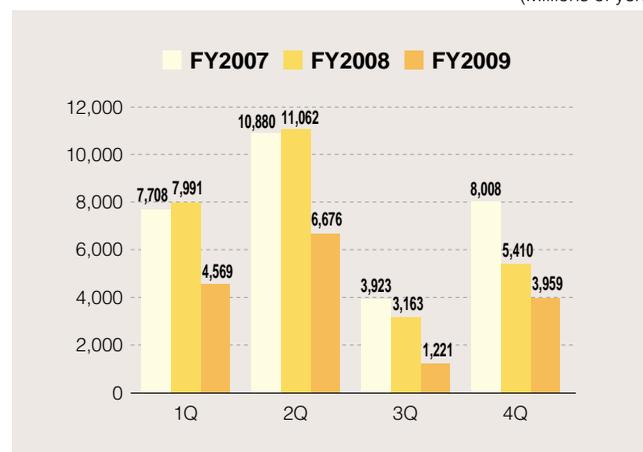
Quarterly Net Sales

(Billions of yen)



Quarterly Ordinary Income

(Millions of yen)



Overview of Business Segments

■ System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. During the fiscal year, sales of SI-related products declined sharply owing to the adverse effects of curtailments in IT investments by companies. Consequently, net sales in the System Integration business declined 14.9% to ¥226,688 million.

■ Service and Support Business

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing.

With companies continuing to reduce expenses, our “tanomail” office supply mail-order service business steadily secured an increase in sales due in part to the effects of the implementation of a sales campaign. On the other hand, our “tayoreru” support business recorded sales at a level only slightly above the amount of the previous fiscal year, as customers re-evaluated the contents of their service contracts and cut back on the use of copies.

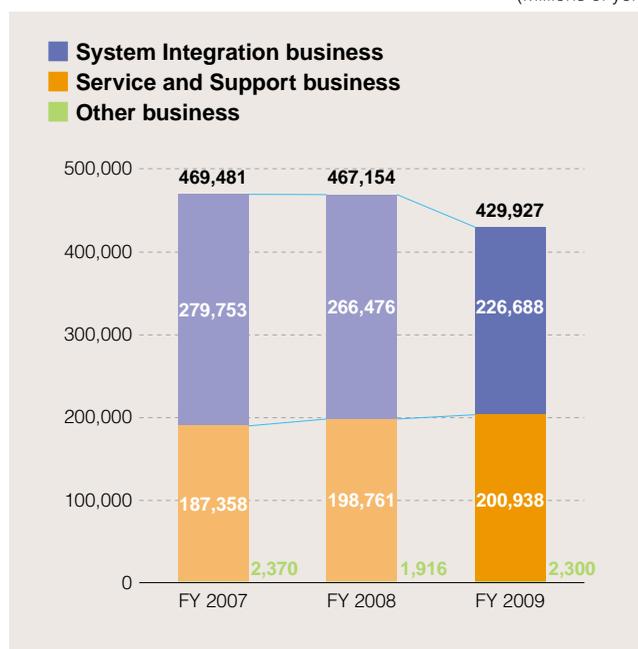
As a result, net sales in the Service and Support business rose 1.1% to ¥200,938 million.

■ Other Business

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

Net Sales by Segments

(Millions of yen)



Focusing Efforts on the Accumulated Business

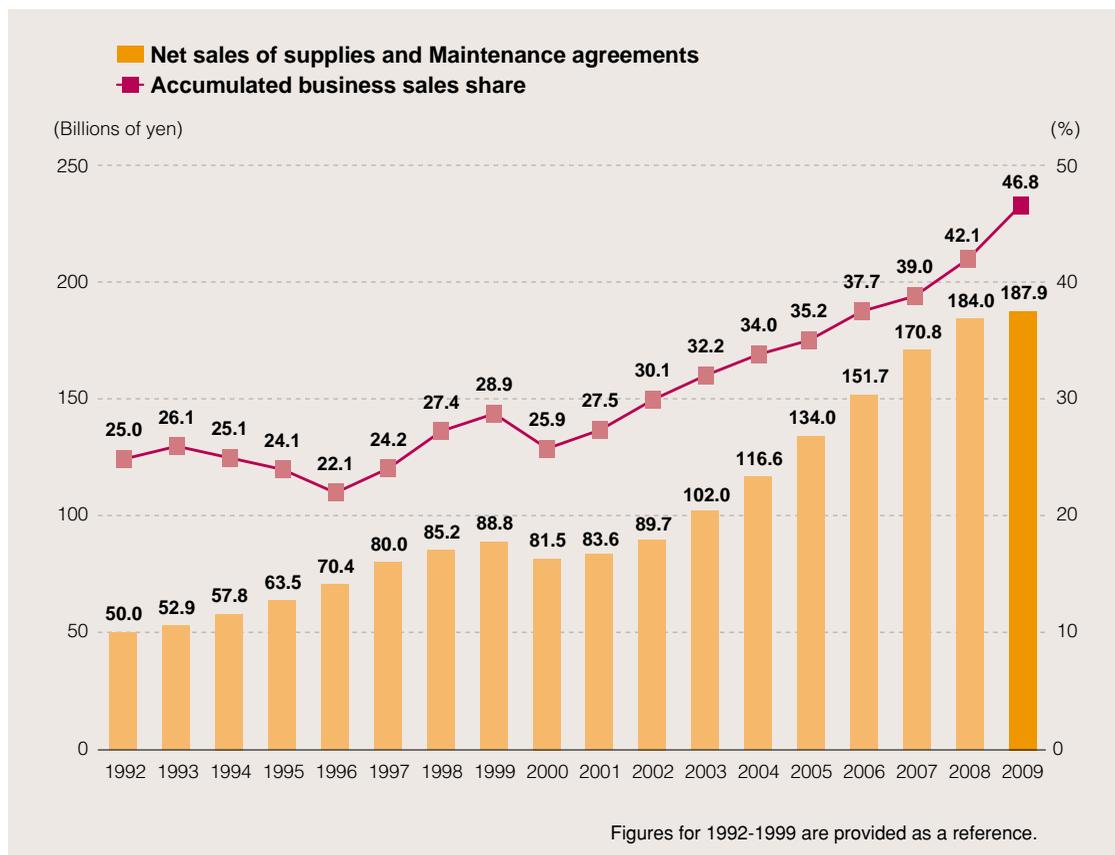
OTSUKA CORPORATION places special emphasis on office supply and maintenance agreement services as the “accumulated business” within the Service and Support business.

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

In fiscal 2009 as well, sales in the accumulated business grew steadily, increasing ¥3,900 million, or 2.1% and accounting for 46.8% of net sales (non-consolidated basis).

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

■ Accumulated Business (Non-consolidated)



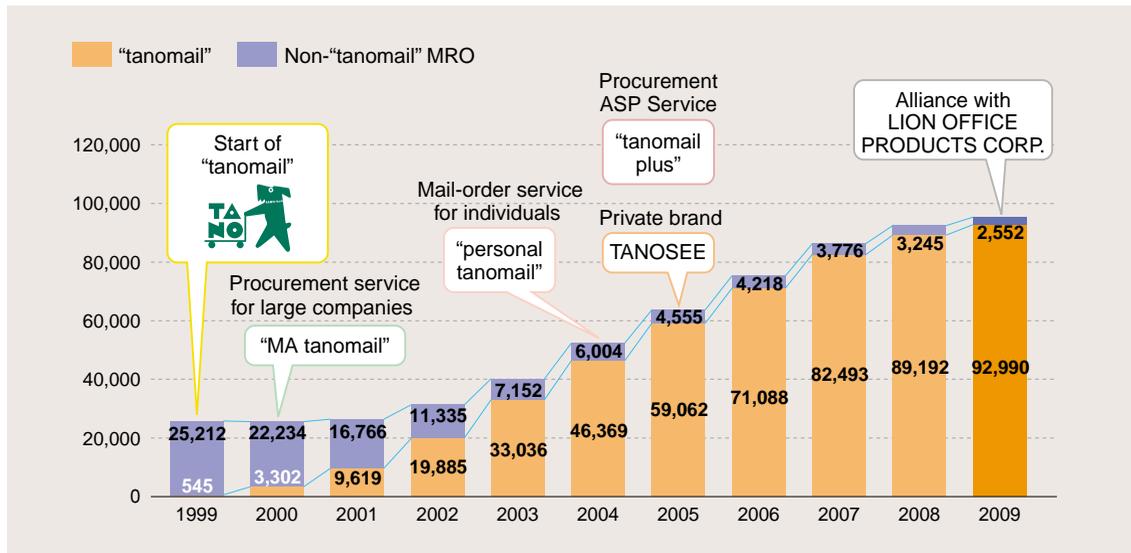
“tanomail” and “tayoreru” are the core pillars of the accumulated business.

たのめーる “tanomail”

Although growth rates have slowed, the “tanomail” office supply mail-order service business is steadily growing, and in fiscal 2009 net sales increased 4.3% to ¥92,900 million.

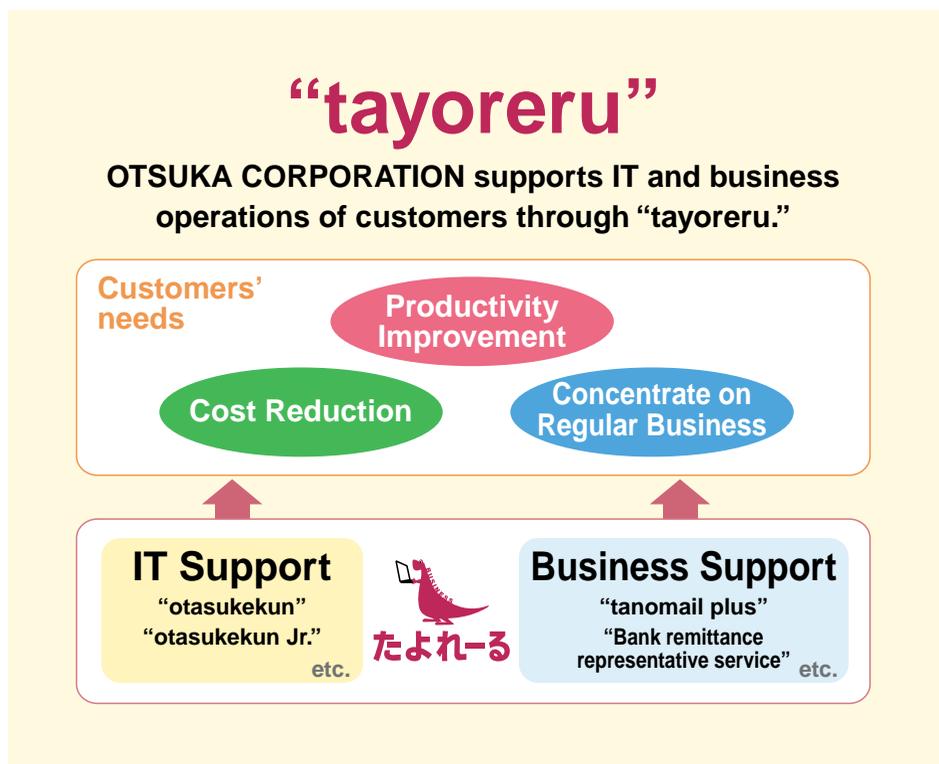
Annual Sales of “tanomail” (Non-consolidated)

(Millions of yen)



たよれーる “tayoreru”

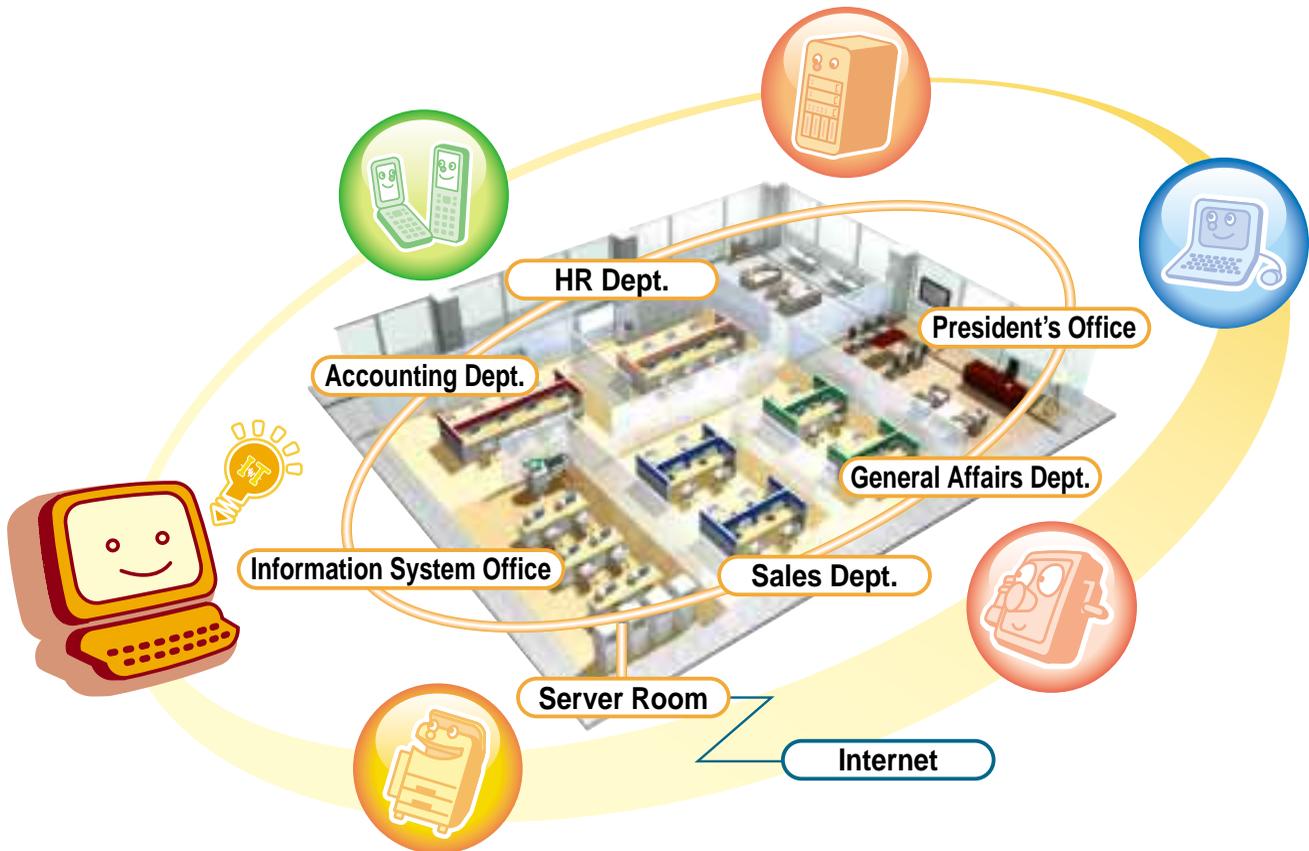
Supporting customer information systems and corporate activities, “tayoreru” service supports customers’ IT and business operations.
OTSUKA CORPORATION aims to be an indispensable presence in customers’ business infrastructure.



OTSUKA CORPORATION—A Partner to Our Customers

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

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

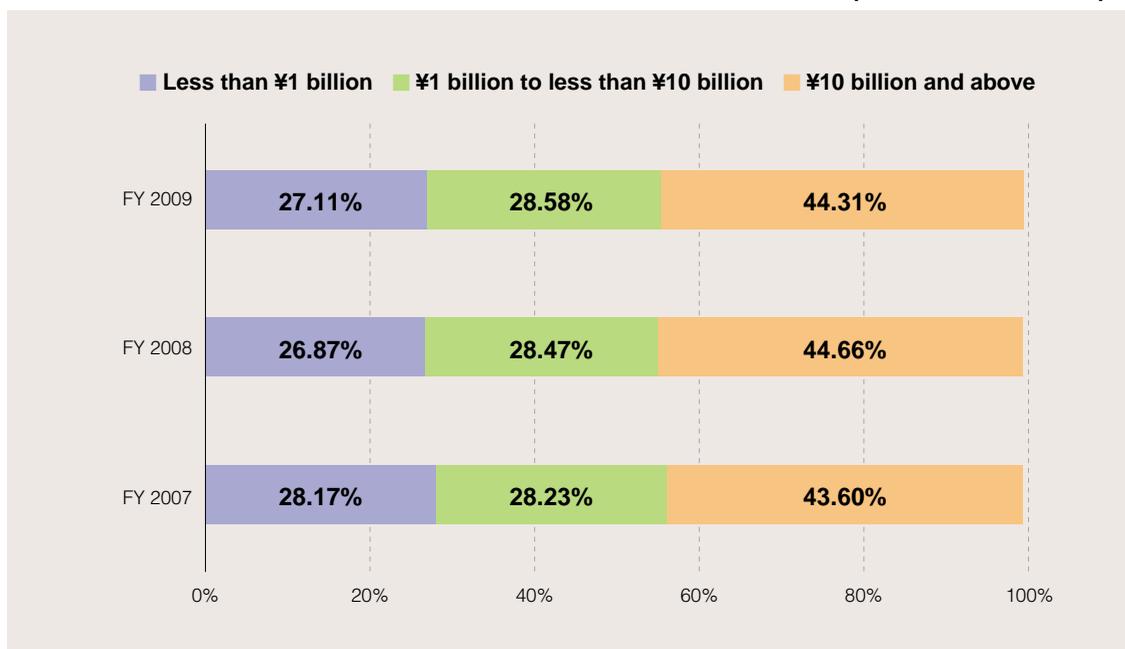


OTSUKA CORPORATION—Backed by a Diverse Range of Customers

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

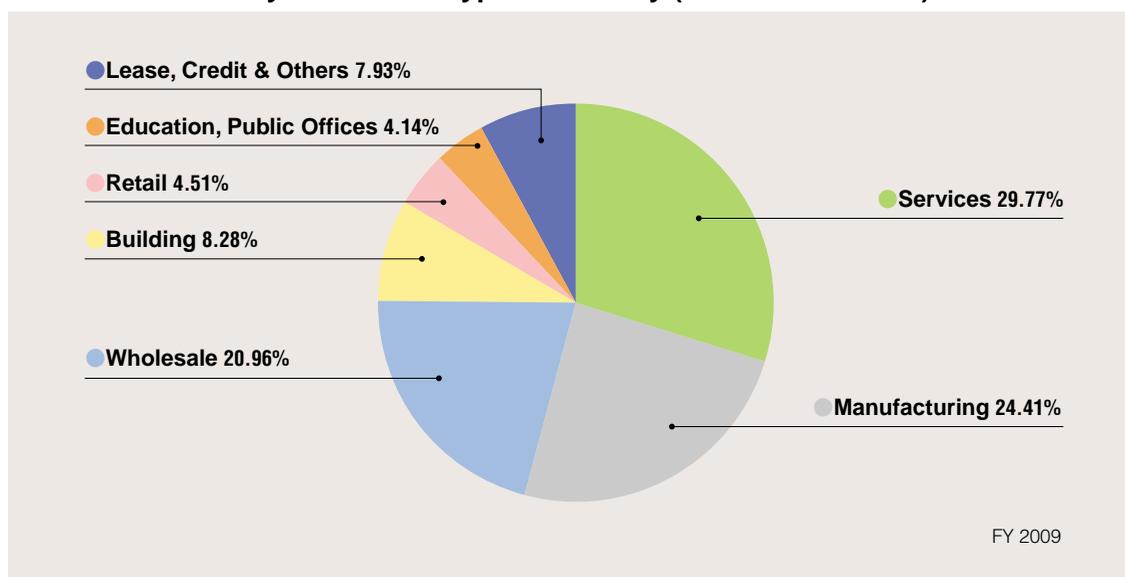
In terms of annual net sales, in fiscal 2009 the ratio of companies with annual net sales of ¥10 billion and above declined, while the ratio of companies with sales of less than ¥1 billion and companies with sales of ¥1 billion to less than ¥10 billion both increased.

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



We also have a well-balanced customer base that is not skewed toward any particular industry. In fiscal 2009, there was no major change in the sales breakdown of customers by type of industry.

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



Overview of Key Strategic Businesses (Non-consolidated)

<Amount>

(Millions of yen)

	FY 2007	FY 2008		FY 2009	
	Amount	Amount	Change to Last Year	Amount	Change to Last Year
“tanomail”	82,493	89,192	+8.1%	92,990	+4.3%
SMILE	6,938	6,858	-1.1%	6,327	-7.7%
ODS21	38,320	37,650	-1.7%	33,073	-12.2%
OSM	39,985	43,448	+8.7%	40,826	-6.0%

<Reference: Number of units sold>

(Units)

	Units	Units	Change to Last Year	Units	Change to Last Year
	Copiers	30,615	29,288	-4.3%	25,367
(of which color copiers)	20,413	20,595	+0.9%	19,195	-6.8%
Servers	35,741	35,014	-2.0%	32,389	-7.5%
Personal computers	481,502	508,967	+5.7%	500,276	-1.7%

Key strategic businesses were generally impacted by overall curtailments in IT investments and reductions in expenses, and growth rates slackened or fell below the levels recorded in the previous fiscal year.

Among key strategic businesses, the “tanomail” office supply mail-order service business recorded steady growth. Color copiers accounted for 75.7% of copier sales.

Topics

■ LED Advertising Billboard Installed in Tokyo's Shinjuku District

An OTSUKA CORPORATION advertising billboard, one of Japan's largest LED advertising billboards, was installed on the roof of the Shinjuku Kaleido Building alongside the large railway bridge west intersection in the Shinjuku district of Tokyo. Illumination of the billboard began on February 1, 2010. Although this large billboard stands about 12 meters high with a total length of around 74 meters (the front and left sides), it reduces CO₂ emissions by approximately 40% compared with similar billboards illuminated with fluorescent lights. This reduction corresponds to the amount of CO₂ absorbed by 2,005 50-year-old Japanese cedar trees annually.

OTSUKA CORPORATION supports companies' environmental initiatives, including solutions that utilize LEDs. Applying an array of know-how, including that gained from the recent installation of the billboard in Shinjuku, we will also provide environmental solutions for offices and households. We aim to use our recently installed billboard to promote a wide awareness of the benefits and practicality of LEDs, while also raising recognition levels of our "tanomail" office supply mail-order service business advertised on the sign.



Outlook for Fiscal 2010

■ Strong Needs for IT Utilization

The direction of the Japanese economy is uncertain. On one hand, there are expectations of a mild recovery driven by external demand, while conversely, the economy appears to be approaching a standstill due to the weak self-resilience of the recovery, sluggish domestic demand and the waning effects of economic stimulus measures. Companies are still maintaining a prudent approach toward capital investment and there are concerns that a recovery will lag.

At the same time, however, there are also strong needs by companies for utilizing IT to reduce costs and enhance productivity. Besides demand for replacing and upgrading IT, including for updating systems introduced in response to the Y2K problem, making environmental responses by introducing power-saving products and responding to the implementation of

IPv6 (preparations for IPv4 address exhaustion), there are expectations that the IT market will be stimulated by Windows 7, Windows 2008 Server R2, server virtualization technologies and WiMAX and other high-speed wireless communication services.

Under these conditions, in keeping with its fiscal 2010 slogan of “Live up to customers’ trust via IT and Vitalize office,” the Group will strengthen customer contact by placing greater emphasis on one-stop solutions and one-stop service and propose highly effective systems that utilize the Group’s total strengths. These include comprehensive proposals and combined system proposals that link mission critical systems with information systems, as well as proposals for making network improvements.

Basic Principle and Mid-term Plans

Basic principle

- Grow with customers by realizing the Mission Statement

Mid-term plans

- Workforce basically remains flat
- Strive to expand business by increasing revenues and profits
 - Aim to achieve 7% in operating income to net sales ratio and ordinary income to net sales ratio
- Cultivate new demand by utilizing customer information
- Effective use of people/materials/money to improve per head productivity

IT Market Forecast in 2010

- Economy is starting to pick up but there are uncertainties about the future.
- Corporations are prudently investing in equipment.
- Nonetheless, company needs for IT utilization, replacement and upgrades are brisk.
- Weak growth is expected in the first half of the term and the market is anticipated to recover after the second half of the term.

Strategies by Segment

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

In the Service and Support business, the OTSUKA Group will strive to further expand sales volume in our “tanomail” office supply mail-order service business, which will include upgrading our line of new products as well as enhancing our lineup of “TANOSEE” private brand products. In our “tayoreru” support service business, we will offer a new menu of services that are not reliant on hardware.

Policies and Measures in 2010

Slogan

“Live up to customers' trust via IT and Vitalize office”

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

Forecast for Fiscal 2010

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

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

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

	Fiscal 2009	Fiscal 2010 (Forecast)	
	Amount	Amount	Change to Last Year
Net sales	429,927	451,000	+4.9%
Operating income	16,094	16,700	+3.8%
Ordinary income	16,427	17,000	+3.5%
Net income	8,782	9,160	+4.3%

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

	Fiscal 2009	Fiscal 2010 (Forecast)	
	Amount	Amount	Change to Last Year
System Integration business	226,688	240,330	+6.0%
Service and Support business	200,938	208,340	+3.7%
Other business	2,300	2,330	+1.3%

Social Contribution and Environmental Preservation Activities

Starting from our immediate surroundings, OTSUKA CORPORATION is participating in activities for contributing to society and helping to preserve the environment in a diverse range of fields. Some of the highlights for fiscal 2009 are introduced herein.

■ Supporting the Training of Seeing-Eye Dogs and Other Activities through “tanomail”

OTSUKA CORPORATION is donating a portion of its profits to organizations that train seeing-eye dogs and assist persons with disabilities under a campaign to commemorate the 10th anniversary of “tanomail.” Through this campaign, which features the canine mascot character “Tano-kun,” we donated to three organizations that train seeing-eye dogs, including The Eye mate Inc. We also plan to donate to one organization that assists persons with disabilities.



■ OTSUKA CORPORATION CSR Report 2009

We have published our CSR Report 2009. Besides introducing our social contribution and environmental preservation activities, this report explains our relationship with various stakeholders including customers, shareholders, investors, business partners, local communities and employees. In creating our CSR Report, we make every effort to conserve paper resources by posting this report on our Website rather than printing copies.



<http://www.otsuka-shokai.co.jp/corporate/csr/report/2009/>

■ Hosting of “Social Contribution Experience Day”

On August 1, 2009, we held our second “Social Contribution Experience Day.” This event provides employees and their families with close-up experience of various social contribution activities. In addition to participation-based events that included a corner that provides experience with seeing-eye dogs as well as a personal computer disassembly course, the event also featured booths by nonprofit organizations and other groups.



■ Environmental Solutions

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

We offer customers “offices that are friendly to the global environment and beneficial for business.”

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

8 Benefits of Green IT

Reduction in materials consumption

Reduction in consumption of electric power and energy

Reduction in movements of people

Reduction in movements of materials

Enhanced efficiency of office space

Reduction in materials storage

Enhanced efficiency of business operations

Reduction in waste materials

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, 2009, the Board of Directors consisted of 12 Directors, of which 11 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 once 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 make progress in achieving profitability in addition to working to strengthen corporate governance.

As of March 26, 2010, there were 13 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, 2009, there were 32 Executive Officers, (11 of whom are Directors).

As of March 26, 2010, there were 32 Executive Officers (12 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

Ernst & Young ShinNihon LLC

There are no interests among Ernst & Young ShinNihon LLC, 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 LLC

Kenichi Akiyama, Designated Employee with Limited Liability and Managing Partner

Juntaka Sakata, Designated Employee with Limited Liability and Managing Partner

Makoto Mukai, Designated Employee with Limited Liability and Managing Partner

Number of Staff Assisting in Accounting-related Operations

CPAs 8

Other individuals 20

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

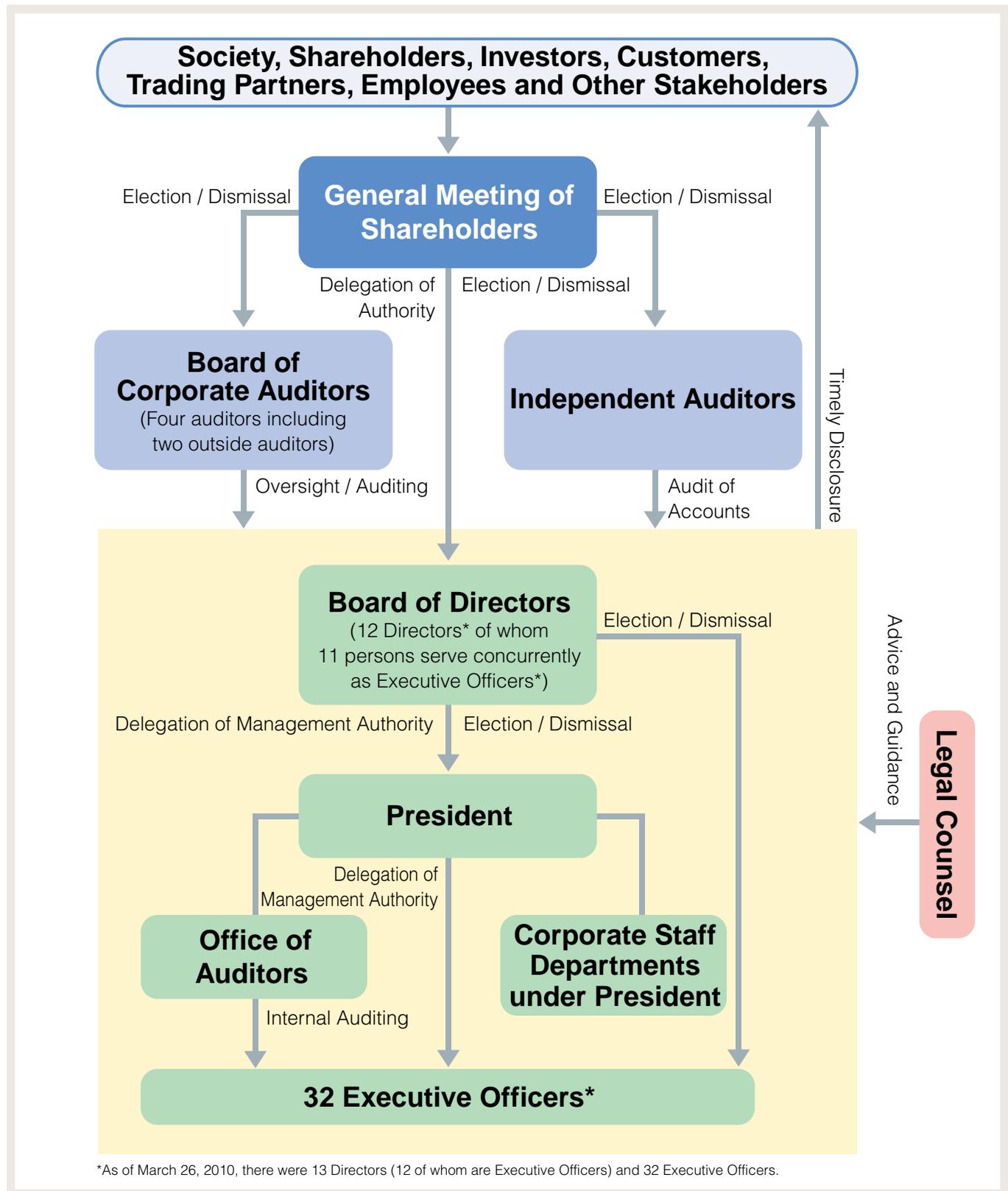
6. Status of Monitoring Operations

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, 2009.

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, 2009, 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 2009)

1. Participation in Electronic Voting Platform for institutional investors

Beginning from the Annual General Meeting of Shareholders convened in March 2009, OTSUKA CORPORATION is participating in the Electronic Voting Platform for institutional investors operated by Investor Communications Japan (ICJ), Inc. By participating in this platform, we have progressed with the creation of an environment that makes it easy for institutional investors, including foreign investors, to exercise their voting rights.

■ Remuneration for Board Members

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

Directors 15 ¥354 million

Auditors 4 ¥31 million (two of whom are outside auditors, ¥9 million)

Notes:

1. The above includes three directors who retired at the conclusion of the 48th Annual General Meeting of Shareholders convened on March 27, 2009.
2. Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
3. The amount of annual remuneration for Directors is up to ¥650 million as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include employee compensation).
4. The amount of annual remuneration for auditors is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005.
5. The above remuneration includes the increased amount of retirement benefits for Directors in the current fiscal year.
6. In addition to the above, based on a resolution at the 48th Annual General Meeting of Shareholders convened on March 27, 2009, the Board paid ¥94 million as directors' retirement benefits to three directors who retired at the conclusion of the aforementioned General Meeting of Shareholders (excludes provision for directors' retirement benefits that were listed in previous business reports, including the business report for the fiscal year under review).

■ Number of Directors

The Company's Articles of Incorporation as of December 31, 2009 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 shareholders. In addition, a resolution for appointment of Director shall not be decided by cumulative voting.

■ Requirements for Special Resolution of the General Meeting of Shareholders

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

■ Purchase of Own Shares

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

■ Interim Dividends

The Company's Articles of Incorporation stipulate that based on a resolution of the Board of Directors, the Company can pay interim dividends with the date of record being June 30 of each year.

■ Remuneration for Independent Auditors

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

Independent Auditor	Ernst & Young ShinNihon LLC
Remuneration for Auditing & Attestation	¥99 million
Remuneration for Other Services	¥1 million

Board of Directors and Corporate Auditors (As of March 26, 2010)



President & Chief Executive Officer
Yuji Otsuka



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 & Executive Operating Officer
Toshiyasu Takahashi



Managing Director & Executive Operating Officer
Kimio Shiokawa

Director & Executive Managing Officer
Katsuhiro Yano

Standing Auditor
Tatsuzo Yoshida

Director & Senior Managing Officers
Koji Yama
Hironobu Saito
Yasuhiro Wakamatsu
Hironobu Tsurumi

Auditors
Jiro Makino
Yuuichi Ito
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 the OTSUKA Group as of March 26, 2010.

■ Customer-related Risks

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

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

■ Supplier-related Risks

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

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

■ Information Leakage Risks

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

The Group received approval to use the Privacy Mark of the Japan 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 Consolidated Subsidiaries
Years ended December 31, 2007, 2008 and 2009

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

Notes:

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

Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2009 exchange rate of ¥92.07 = US\$1.

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Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

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

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded consolidated net sales of ¥429,927 million, a decrease of ¥37,227 million (8.0%) from the previous fiscal year.

System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. During the fiscal year, sales of SI-related products declined sharply owing to the adverse effects of curtailments in IT investments by companies. Consequently, net sales in the System Integration business declined 14.9% to ¥226,688 million.

Service and Support Business

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

Other Business

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

Summary of Income and Expenses

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

Financial Position

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

Assets

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

Liabilities

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

Net Assets

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

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

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

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

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

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

Cash flows

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

Cash Flows

Cash and cash equivalents at end of year totaled ¥32,806 million, an increase of ¥5,636 million (20.7%) from the end of the previous fiscal year. Factors relating to each cash flow category were as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥2,635 million (19.7%) to ¥15,982 million. This was due mainly to a decrease in income taxes paid.

Cash Flows from Investing Activities

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

Cash Flows from Financing Activities

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

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

Forecast

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

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

Consolidated Balance Sheets

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

Thousands of
U.S. dollars
(Note 3)

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

The accompanying notes are an integral part of these statements.

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

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

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

Thousands of
U.S. dollars
(Note 3)

	Millions of yen		2009
	2008	2009	
Net sales (Note 17)	¥467,154	¥429,927	\$4,669,566
Cost of sales (Notes 16 and 17)	359,754	335,436	3,643,279
Gross profit	107,399	94,490	1,026,286
Selling, general and administrative expenses (Notes 16 and 17)	80,310	78,396	851,484
Operating income	27,089	16,094	174,801
Other income (expenses)			
Interest and dividend income	173	151	1,643
Interest expenses	(148)	(120)	(1,306)
Reversal of allowance for doubtful accounts	22	0	1
Provision for allowance for doubtful accounts	(50)	(152)	(1,661)
Gain (loss) on change in equity interest	(17)	5	64
Equity in net income of unconsolidated subsidiaries and affiliates	18	1	13
Gain on sales of fixed assets	7	—	—
Loss on disposal of fixed assets	(1,108)	(131)	(1,428)
Impairment losses	(275)	(292)	(3,173)
Loss on devaluation of investments in securities	(284)	(81)	(881)
Gain on sales of investment securities	12	415	4,516
Provision of allowance for investment loss	—	(34)	(375)
Other, net	494	381	4,146
	(1,155)	143	1,557
Income before income taxes and minority interests	25,934	16,237	176,359
Income taxes (Note 9)			
Current	11,212	7,861	85,386
Deferred	117	(602)	(6,542)
	11,329	7,259	78,843
Minority interests	233	195	2,125
Net income	¥ 14,371	¥ 8,782	\$ 95,390
		yen	U.S. dollars (Note 3)
Net income and dividends per share (Note 2(13))			
Basic net income	¥454.76	¥277.92	\$3.02
Diluted net income	454.53	277.82	3.02
Cash dividends	130.00	130.00	1.41

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

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

Millions of yen

	Number of shares issued	Shareholders' equity				Total shareholders' equity
		Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance at December 31, 2007	31,667,020	¥10,374	¥16,254	¥75,389	¥(120)	¥101,899
Dividends				(4,108)		(4,108)
Net income				14,371		14,371
Purchase of treasury stock					(2)	(2)
Items other than changes in shareholders' equity						
Balance at December 31, 2008	31,667,020	10,374	16,254	85,652	(122)	112,159
Dividends				(4,108)		(4,108)
Net income				8,782		8,782
Reversal of revaluation differences on land				(1,019)		(1,019)
Purchase of treasury stock					(0)	(0)
Items other than changes in shareholders' equity						
Balance at December 31, 2009	31,667,020	¥10,374	¥16,254	¥89,307	¥(123)	¥115,813

Millions of yen

	Valuation and translation adjustments					Total net assets
	Unrealized gains on available-for- sale securities	Revaluation differences on land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interest in consolidated subsidiaries	
Balance at December 31, 2007	¥982	¥(15,574)	¥ (47)	¥(14,639)	¥ 741	¥ 88,000
Dividends						(4,108)
Net income						14,371
Purchase of treasury stock						(2)
Items other than changes in shareholders' equity	(553)	—	(90)	(643)	172	(470)
Balance at December 31, 2008	429	(15,574)	(137)	(15,282)	913	97,790
Dividends						(4,108)
Net income						8,782
Reversal of revaluation differences on land						(1,019)
Purchase of treasury stock						(0)
Items other than changes in shareholders' equity	(48)	1,243	15	1,209	125	1,334
Balance at December 31, 2009	¥380	¥(14,331)	¥(122)	¥(14,073)	¥1,039	¥102,779

The accompanying notes are an integral part of these statements.

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

Thousands of U.S. dollars (Note 3)

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

Thousands of U.S. dollars (Note 3)

	Valuation and translation adjustments					Total net assets
	Unrealized gains on available-for- sale securities	Revaluation differences on land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interest in consolidated subsidiaries	
Balance at December 31, 2008	\$4,660	\$(169,160)	\$(1,492)	\$(165,992)	\$ 9,927	\$1,062,130
Dividends						(44,620)
Net income						95,390
Reversal of revaluation differences on land						(11,076)
Purchase of treasury stock						(3)
Items other than changes in shareholders' equity	(531)	13,502	165	13,136	1,360	14,497
Balance at December 31, 2009	\$4,128	\$(155,657)	\$(1,327)	\$(152,855)	\$11,287	\$1,116,317

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

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

Thousands of
U.S. dollars
(Note 3)

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

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

OTSUKA CORPORATION and Consolidated Subsidiaries

1. Basis of Presentation of the Consolidated Financial Statements

Accounting Principles

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

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

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

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

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

The 8 subsidiaries which were consolidated in the year ended December 31, 2009 are listed below:

	A ratio of voting rights held by the Company
OSK Co., LTD.	100.0%
Netplan Co., Ltd.	100.0%
Alpha Techno Co., LTD.	100.0%
Alpha System Co., LTD.	100.0%
Alpha Net Co., LTD.	100.0%
Otsuka Auto Service Co., LTD.	100.0%
Networld Corporation	68.3%
Otsuka Business Service Co., LTD.	65.0%

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

The consolidated subsidiaries listed above apply a fiscal year ending on December 31 of each year, which is the same as that of the Company.

The accounts of the remaining 4 unconsolidated subsidiaries and 5 unconsolidated subsidiaries as at December 31, 2008 and 2009, respectively, consisted of insignificant amounts in terms of total assets, net sales, net income and retained earnings, and have, therefore, been excluded from consolidation.

(2) Investments in unconsolidated subsidiaries and affiliates

The Company had 4 unconsolidated subsidiaries and 9 affiliates at December 31, 2008 and 5 unconsolidated subsidiaries and 9 affiliates at December 31, 2009.

The Company had 3 investments in affiliate for the equity method at December 31, 2008 and 2009. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method were carried at cost or less, since they did not have a material impact on consolidated net income and retained earnings in the consolidated financial statements.

The 3 investments in affiliate by the equity method at December 31, 2009, are listed below:

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

(3) Cash and cash equivalents

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

(4) Inventories

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

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

(Fiscal year 2009)

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

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

(5) Financial instruments

(a) Securities

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

- **Held-to-maturity debt securities**

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

- **Equity investment in subsidiaries and affiliates**

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

- **Available-for-sale securities**

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

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

(b) Derivatives

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

(c) Hedge accounting

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

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

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

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

(6) Property and equipment (excluding lease assets)

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

Estimated useful lives of assets are principally as follows:

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

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

(7) Accounting for leases

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

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

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

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

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

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

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

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

(9) Accounting for income taxes

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

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

(10) Allowance for doubtful accounts

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

(11) Allowance for investment loss

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

(Fiscal year 2009)

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

(12) Reserve for retirement benefits

(a) Retirement benefits for employees

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

(b) Retirement benefits for directors

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

(13) Net income and dividends per share

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

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

(14) Accounting for the consumption tax

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

(15) Rounding of amounts

Amounts of less than a million yen have been omitted.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥92.07=US\$1, the rate of exchange on December 31, 2009, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

4. Investments in Securities

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

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

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

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

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

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

	Millions of yen		Thousands of U.S. dollars	
	2008	2009	2009	2009
	Carrying value on consolidated balance sheets			
Held-to-maturity debt securities				
Negotiable certificates of deposit	¥3,000	¥3,000	\$32,583	
Commercial paper	1,996	1,998	21,701	
Available-for-sale securities				
Unlisted stocks	655	574	6,244	
Investment in limited liability partnerships	200	118	1,285	

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

	Millions of yen				Thousands of U.S. dollars	
	2008		2009		2009	
	Within one year	More than one year	Within one year	More than one year	Within one year	More than one year
Held-to-maturity debt securities						
Negotiable certificates of deposit	¥3,000	—	¥3,000	—	\$32,583	—
Commercial paper	1,996	—	1,998	—	21,701	—
Total	¥4,996	—	¥4,998	—	\$54,285	—

5. Derivative Information

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

The derivatives designated as hedging instruments by the Companies are forward foreign exchange contracts.

The related hedged items are accounts payable denominated in foreign currencies.

That remains the risk of foreign currency exchange fluctuations on currency transactions. As the Companies enter into derivative transactions only with financial institutions which have high credit ratings, we believe that a credit risk is insignificant.

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

At December 31, 2008 and 2009, derivatives were as follows:

Currency-related transactions

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

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

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

6. Inventories

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

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

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

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

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

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

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

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

8. Reserve for Retirement Benefits

(1) Retirement benefit plan

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

(2) The reserve for retirement benefits as of December 31, 2008 and 2009 is summarized as follows:

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

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

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

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

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

(4) Computation basis of pension liabilities

As of December 31, 2008 and 2009

	2008	2009
Discount rate	1.5%	1.5%
Expected rate of return on plan assets	3.0%	0.5%
Periodic allocation principle		
for projected benefit obligation	Straight line basis	Straight line basis
Amortization of unrecognized prior service cost	12 years	12 years
Amortization of unrecognized actuarial gain or loss	12 years from the fiscal year following occurrence	12 years from the fiscal year following occurrence

9. Income Taxes

A reconciliation between the statutory tax rates and the effective tax rates reflected in the accompanying consolidated statements of income for the years ended December 31, 2008 and 2009 was as follows:

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

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

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

10. Supplementary Cash Flow Information

Cash and cash equivalents consisted of:

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

11. Dividends

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

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

12. Lease Transactions

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

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

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

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

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

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

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

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

The amounts of future lease payments on operating leases at December 31, 2008 and 2009 are summarized as follows:

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

13. Shareholders' Equity

The Companies Act of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

14. Land Revaluation

Pursuant to the Law Concerning Land Revaluation, the Company revalued land used for business activities on December 31, 2001. The excess of the revalued carrying amount over the book value before revaluation was recorded as "Revaluation difference on land" net assets in the accompanying consolidated balance sheets. The land prices used for the revaluation were determined based on the prices in the official notice published by the Commissioner of the National Tax Agency in accordance with Article 2, Paragraphs 3 and 4 of the Enforcement Ordinance Concerning Land Revaluation, after making reasonable adjustments. Revaluation is permitted for one time only. The excess of the book value after revaluation over the fair value are 672 million yen and 539 million yen (5,860 thousand U.S. dollars) at December 31, 2008 and 2009, respectively.

15. Pledged Assets

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

	Millions of yen		Thousands of
	2008	2009	U.S. dollars
Time deposits	¥5	¥5	\$54
	¥5	¥5	\$54

16. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended December 31, 2008 and 2009 amounted to 757 million yen and 348 million yen (3,780 thousand U.S. dollars), respectively.

17. Segment Information

The business segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2008 and 2009 is summarized as follows:

(1) Business segment information

	Millions of yen					
	System Integration	Service & Support	Other	Total	Elimination or corporate	Consolidated total
2008						
Net sales to:						
Third parties	¥266,476	¥198,761	¥1,916	¥467,154	¥ —	¥467,154
Inter-segment sales/transfers	191	296	2,142	2,630	(2,630)	—
	266,668	199,057	4,058	469,785	(2,630)	467,154
Operating expenses	243,679	187,517	3,911	435,108	4,956	440,064
Operating income	¥ 22,989	¥ 11,539	¥ 146	¥ 34,676	¥ (7,586)	¥ 27,089
Assets, depreciation, impairment losses and capital expenditure:						
Assets	¥ 82,639	¥ 75,758	¥1,618	¥160,017	¥36,928	¥196,946
Depreciation and amortization	2,898	2,215	22	5,136	875	6,012
Impairment losses	14	291	—	305	(30)	275
Capital expenditure	2,915	1,790	8	4,715	819	5,535

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

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

Notes ;

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Non-allocable operating expenses	¥ 7,654	¥ 7,170	\$ 77,884
Corporate assets	38,304	44,293	481,086

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

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

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

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

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

Report of Independent Auditors

The Board of Directors

OTSUKA CORPORATION

We have audited the accompanying consolidated balance sheets of OTSUKA CORPORATION and consolidated subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OTSUKA CORPORATION and consolidated subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young Shin Nihon LLC

March 26, 2010

Principal Group Companies (As of December 31, 2009)

The OTSUKA Group (OTSUKA CORPORATION and its subsidiaries) consists of 13 subsidiaries, including 8 consolidated subsidiaries as well as 12 affiliated companies, including 3 affiliates accounted for by the equity method that carry out the System Integration business, Service and Support business and Other business. The 8 consolidated subsidiaries are listed below.

Company Name	Established	Capital (¥ million)	A ratio of voting rights	Scope of Business
■ System Integration business				
OSK Co., LTD.	1984	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
Networld 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, 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 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, 2009)

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	6,778 (with consolidated subsidiaries: 8,278)
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, 2009)

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>3-23-20 Marunouchi, Naka-ku, Nagoya-shi, Aichi 460-0002 TEL 052-955-3611</p>		
Local Area Sales Groups	Chuo Sales Group 1 Josai Sales Group Northern Kanto Sales Group Osaka Southern Sales Group	Chuo Sales Group 2 Tama Sales Group Keiyo Sales Group	Kanagawa Sales Group Johoku 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

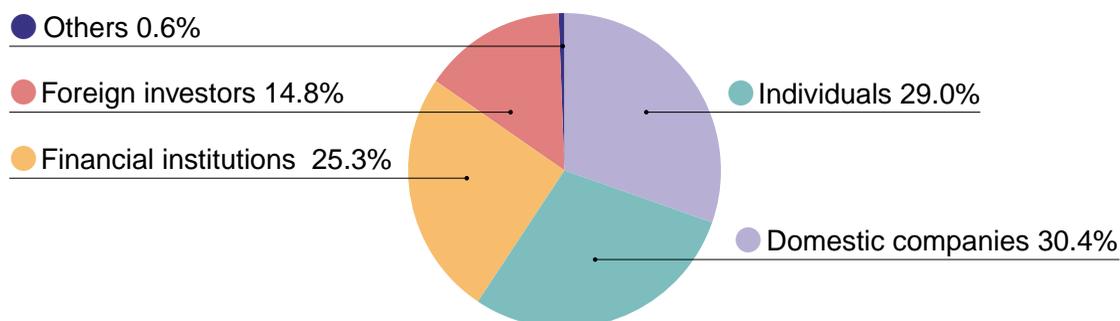
Stock Information (As of December 31, 2009)

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	5,068

Major Shareholders

Name	Investment in OTSUKA CORPORATION		Investment in Major Shareholders by OTSUKA CORPORATION	
	Number of Shares Held	Equity Ownership (%)	Number of Shares Held	Equity Ownership (%)
Otsuka Sobi Co., Ltd.	9,277,530	29.29	—	—
Japan Trustee Services Bank, Ltd. (Trust Account)	1,782,900	5.63	—	—
Minoru Otsuka	1,525,490	4.81	—	—
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,502,500	4.74	—	—
Yuji Otsuka	1,457,780	4.60	—	—
OTSUKA CORPORATION Employee Stock-Sharing Plan	1,080,220	3.41	—	—
Atsushi Otsuka	1,075,950	3.39	—	—
Terue Otsuka	645,500	2.03	—	—
Japan Trustee Services Bank, Ltd. (Trust Account 9)	467,200	1.47	—	—
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	435,800	1.37	—	—

Breakdown of Shareholders (Based on total shares)



OTSUKA CORPORATION WEBSITE

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

Otsuka Corporation

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