# ANNUAL REPORT 2010

For the fiscal year ended December 31, 2010

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.

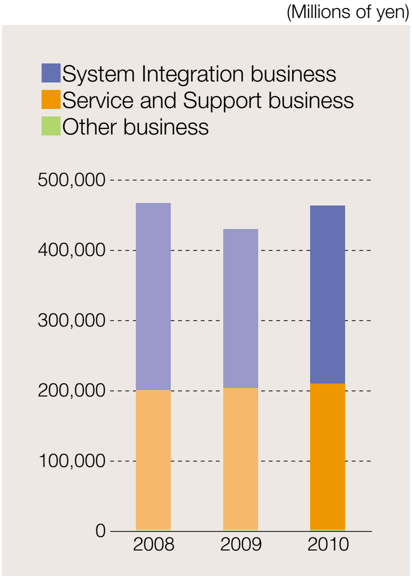
# Consolidated Financial Highlights

| OTSUKA CORPORATION and Consolidated Subsidiaries<br>Years ended December 31, 2008, 2009 and 2010 | | | Millions of yen | Thousands of U.S. dollars | % |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | Change |
| Net sales | ¥467,154 | ¥429,927 | **¥463,493** | **$5,691,223** | +7.8 |
| System Integration business | 266,476 | 226,688 | **253,541** | **3,113,228** | +11.8 |
| Service and Support business | 198,761 | 200,938 | **208,008** | **2,554,137** | +3.5 |
| Other business | 1,916 | 2,300 | **1,942** | **23,857** | -15.5 |
| Operating income | 27,089 | 16,094 | **19,013** | **233,469** | +18.1 |
| Ordinary income | 27,628 | 16,427 | **19,508** | **239,543** | +18.8 |
| Income before income taxes and minority interests | 25,934 | 16,237 | **18,687** | **229,457** | +15.1 |
| Net income | 14,371 | 8,782 | **10,631** | **130,543** | +21.1 |
| Total assets | 196,946 | 198,076 | **213,401** | **2,620,352** | +7.7 |
| Interest-bearing debt | 9,630 | 8,684 | **7,802** | **95,805** | -10.2 |
| Equity | 96,876 | 101,740 | **108,255** | **1,329,269** | +6.4 |
| Net income per share (EPS) (Yen and U.S. dollars) | 454.76 | 277.92 | **336.42** | **4.13** | +21.0 |
| Dividends per share of common stock (Yen and U.S. dollars) | 130.00 | 130.00 | **135.00** | **1.66** | +3.8 |
| Cash flows from operating activities per share (Yen and U.S. dollars) | 422.35 | 505.74 | **564.91** | **6.94** | +11.7 |
| Operating income to Net sales ratio (%) | 5.80 | 3.74 | **4.10** | **—** | |
| Net income to Net sales ratio (%) | 3.08 | 2.04 | **2.29** | **—** | |
| Interest-bearing debt ratio (%) | 4.89 | 4.38 | **3.66** | **—** | |
| Equity ratio (%) | 49.19 | 51.36 | **50.73** | **—** | |
| Return on equity (ROE) (%) | 15.61 | 8.84 | **10.13** | **—** | |

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, 2010 exchange rate of ¥81.44 = US$1.

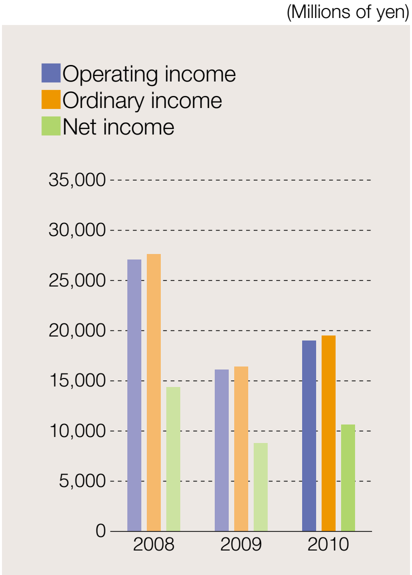
## Net sales

(Millions of yen)



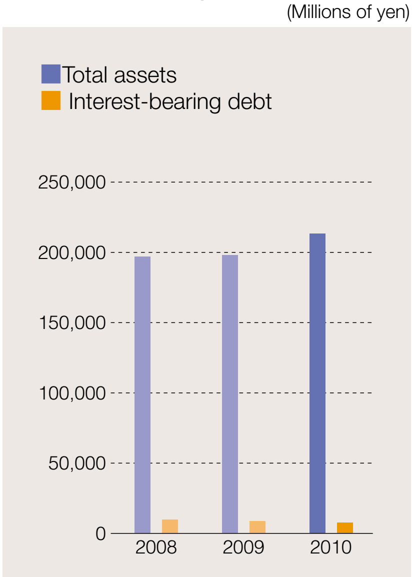

## Operating income, Ordinary income, Net income

(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, 2010 and to thank our shareholders and investors for their loyal support.

During the fiscal year under review, the Japanese economy moved onto a mild recovery track. The OTSUKA Group focused on strengthening customer contact, offered system proposals for achieving cost reductions and improving productivity, and worked to spur corporate IT investment. As a result of these measures, net sales rose 7.8% from the previous fiscal year to ¥463,493 million.

At the earnings level, the rise in gross profit due to higher net sales exceeded the increase in selling, general and administrative (SG&A) expenses, and operating income increased 18.1% to ¥19,013 million, ordinary income rose 18.8% to ¥19,508 million and net income jumped 21.1% to ¥10,631 million. This marks the first time in three years that we have achieved increases in revenues and profits.

Management has resolved to pay year-end dividends per share of ¥135 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 2011

# Overview of Consolidated Operations

## Japanese Economy on a Mild Recovery Track

During the fiscal year, the Japanese economy moved onto a mild recovery track led by external demand, while corporate earnings improved and the number of corporate bankruptcies declined, as positive signs emerged in the economy. Nevertheless, the Japanese economy remained at a standstill from summer onward due to the impact of the rapid appreciation of the yen and deflation, and such factors as instability in overseas economies.

## Stimulating Corporate IT Investment

Within this environment, based on our fiscal 2010 slogan "Live up to customers' trust via IT and vitalize office," we actively proposed support and systems for helping solve issues facing customers, such as achieving cost reductions and raising productivity, as part of efforts to spur corporate IT investment.

Additionally, under our fortified community-based sales structure, we worked to strengthen customer contact by bolstering efforts to visit customer focused on small- and medium-sized companies and raising our sales skills and customer proposal capabilities.

Among these efforts, we focused on demand for replacement and upgrade systems, centering on hardware, as well as on our "tanomail" office supply mail-order service business, and strived for an increase in sales volume. At the same time, we made efforts to strengthen our accumulated business that included securing maintenance business and upgrading and expanding packaged products and services encompassing hardware, information security, Internet services and communications lines that will immediately benefit our customers' businesses.

### External Environment

Economy is on a mild recovery track

- Global economy is on a slow recovery track.
- The yen remained at a high level and exports weakened.
- Signs of bottoming out in production.
- Decrease in the number of corporate bankruptcies.
- Gradual pick up in investment in facilities and equipment.

**IT investments are starting to pick up centering on demand for replacement and upgrade.**

### OTSUKA Group's Activities

- System proposals that lead to cost reductions, improvement of productivity and strengthening of competitiveness
- Strengthening of customer contact and frontline
- Strengthening of accumulated business
- Focus on "tanomail"
- New business activities

## Increased Revenues and Profits for the First Time in Three Fiscal Years

As a result of the preceding developments, the number of customers and sales per customer both increased over the previous fiscal year, and net sales rose 7.8% to ¥463,493 million.

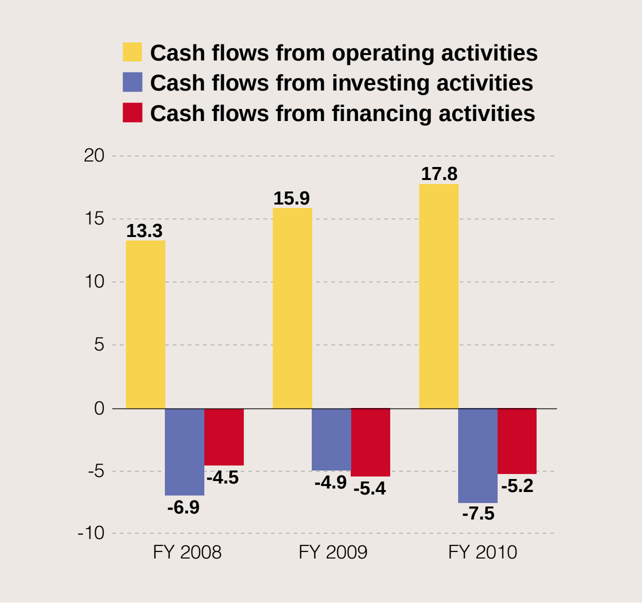
Regarding profits, the increase in gross profit resulting from growth in net sales surpassed the growth in selling, general and administrative (SG&A) expenses, and operating income rose 18.1% to ¥19,013 million, ordinary income increased 18.8% to ¥19,508 million and net income was up 21.1% to ¥10,631 million.

(Millions of yen)

| | FY 2009 | FY 2010 | |
|---|---|---|---|
| | Amount | **Amount** | **Change to Last Year** |
| Net sales | 429,927 | **463,493** | **+7.8%** |
| Operating income | 16,094 | **19,013** | **+18.1%** |
| Ordinary income | 16,427 | **19,508** | **+18.8%** |
| Net income | 8,782 | **10,631** | **+20.1%** |

## Cash flows

(Billions of yen)




Net cash provided by operating activities amounted to ¥17,851 million, an increase of ¥1,869 million from the previous fiscal year, due to such factors as a decrease in income taxes paid.

Net cash used in investing activities increased ¥2,599 million from the previous fiscal year to ¥7,527 million due to the capitalization of construction in progress along with the reconstruction of the Yokohama Building. Net cash used in financing activities decreased ¥212 million to ¥5,205 million.

## Overview of Results by Quarter

### Net Sales

After continuing to decline year on year from the third quarter (July-September) of 2008, net sales turned upward from the first quarter (January-March) of 2010 and moved onto a recovery track.

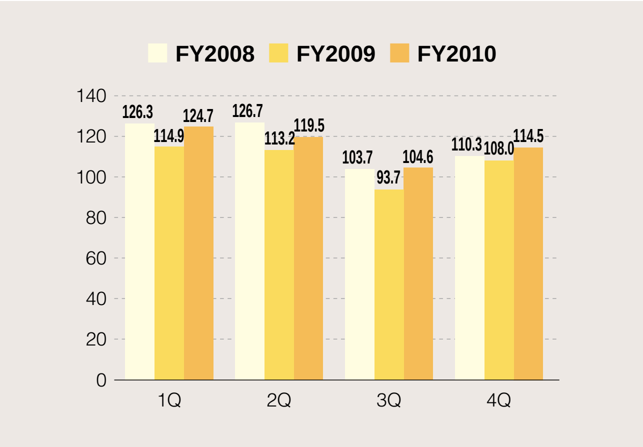
Net sales in the third quarter (July-September) of 2010 amounted to ¥104,681 million, an 11.6% increase from the previous third quarter. Net sales in the fourth quarter (October-December) of 2010 amounted to ¥114,516 million, an increase of 6.0% over the previous fourth quarter.

### Ordinary Income

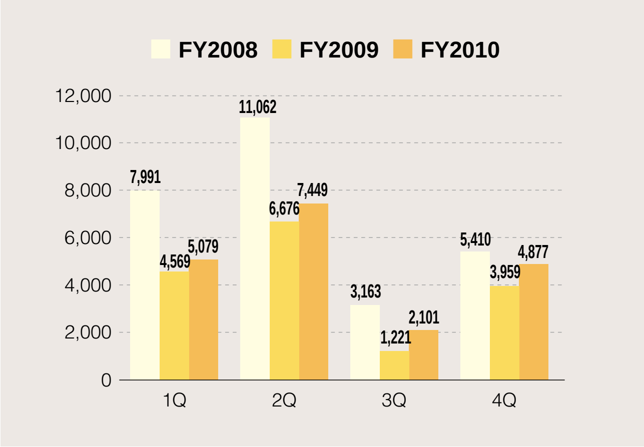
Ordinary income also continued to decline year on year from the third quarter (July-September) of 2008, but turned upward from the first quarter (January-March) of 2010 and moved onto a recovery track.

Ordinary income in the third quarter (July-September) of 2010 amounted to ¥2,101 million, an increase of 72.1% from the previous third quarter. Ordinary income in the fourth quarter (October-December) of 2010 amounted to ¥4,877 million, up 23.2% from the previous fourth quarter.

**Quarterly Net Sales** (Billions of yen)




**Quarterly Ordinary Income** (Millions of yen)



# Overview of Business Segments

## System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. We firmly seized demand for replacement and upgrade systems as well as demand for the establishment of ICT environments at schools and demand from companies posting favorable results. Accordingly, we achieved growth in unit sales, including for PCs, servers and copiers. Consequently, the System Integration business recorded double-digit sales growth, with net sales rising 11.8% to ¥253,541 million.

## Service and Support Business

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

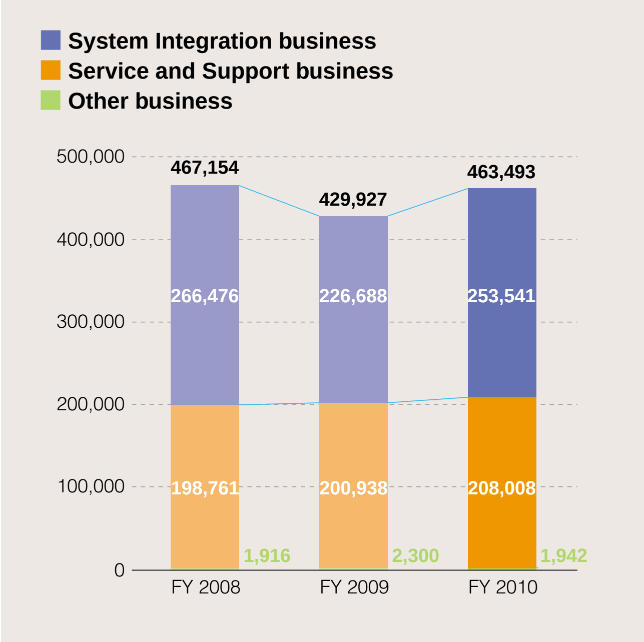
Our “tanomail” office supply mail-order service business achieved steady growth in sales while sales from maintenance and other support rose slightly. As a result, net sales in the Service and Support Business rose 3.5% to ¥208,008 million.

## Other Business

In the Other Business, net sales declined 15.5% from the previous fiscal year to ¥1,942 million.

### Net Sales by Segments

(Millions of yen)



# Focusing Efforts on the Accumulated Business

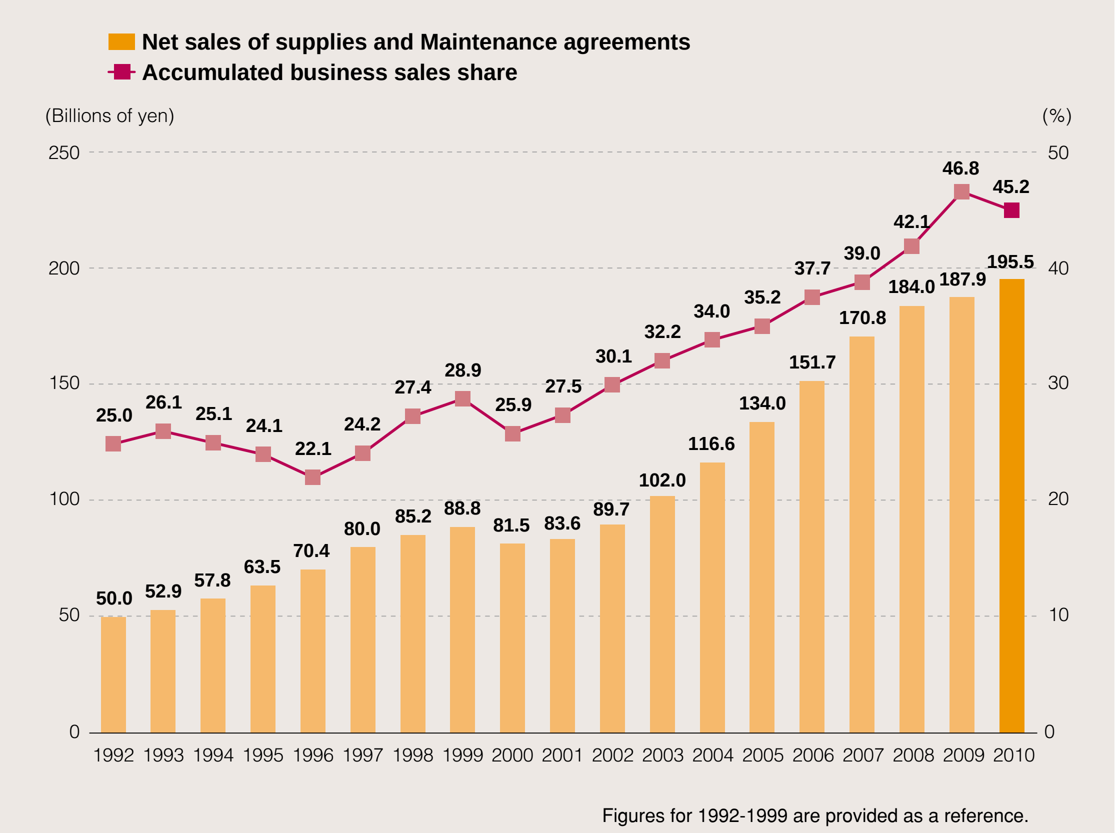
OTSUKA CORPORATION places special emphasis on office supply and maintenance agreement services as the “accumulated business” within the Service and Support business.

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 2010 as well, sales in the accumulated business grew steadily, increasing ¥7.6 billion, or 4.0% and accounting for 45.2% of net sales. Since our public listing in 2000, net sales have increased ¥114 billion, an approximately 140% increase (non-consolidated basis).

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

## Accumulated Business (Non-consolidated)




Figures for 1992-1999 are provided as a reference.

"tanomail" and "tayoreru" are the core pillars of the accumulated business.

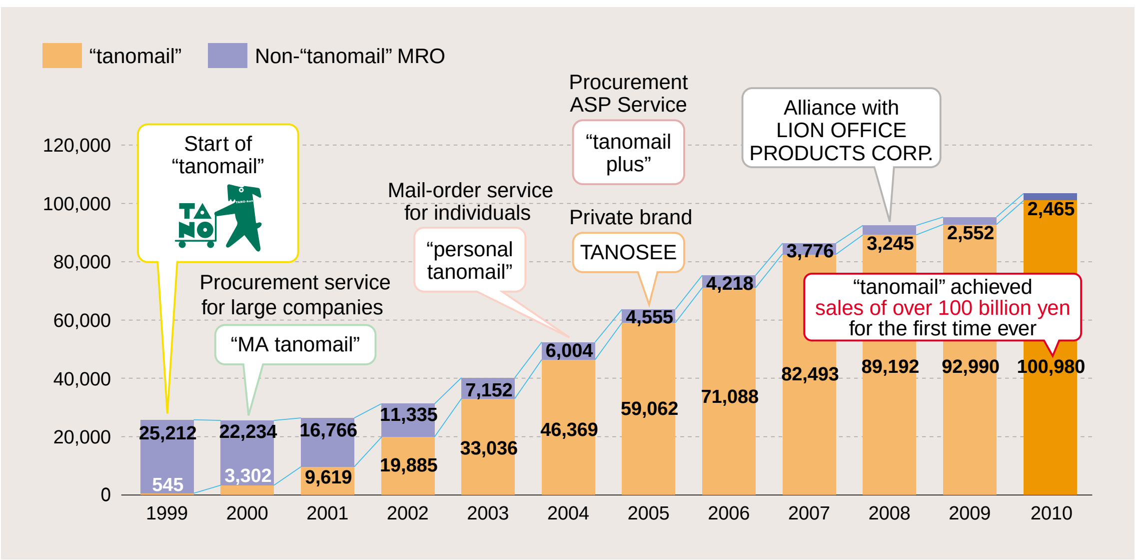
# たのめーる "tanomail"

Net sales in our "tanomail" office supply mail-order service business surpassed ¥100,000 million for the first time.

In fiscal 2010, net sales increased 8.6% to ¥100,980 million.

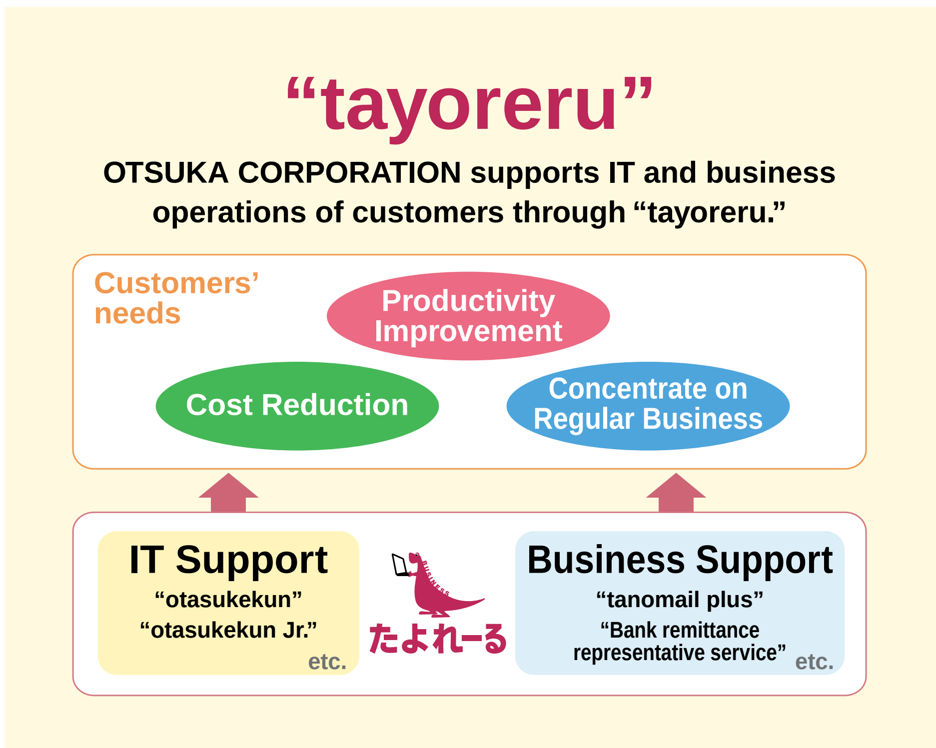
### Annual Sales of "tanomail" (Non-consolidated)

(Millions of yen)



# たよれーる "tayoreru"

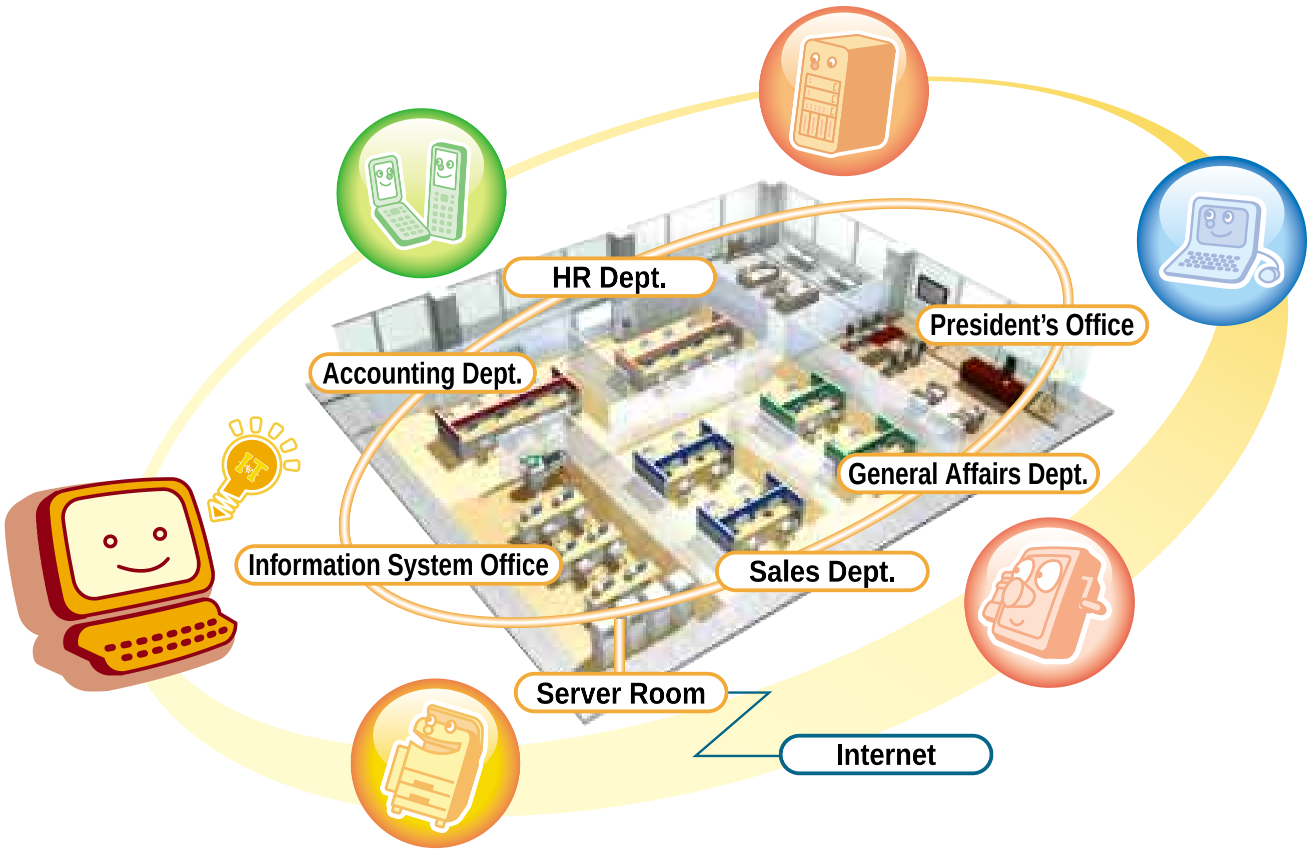
Supporting customer information systems and corporate activities, "tayoreru" service supports customers' IT and business operations. OTSUKA CORPORATION aims to be an indispensable presence in customers' business infrastructure.



# 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.

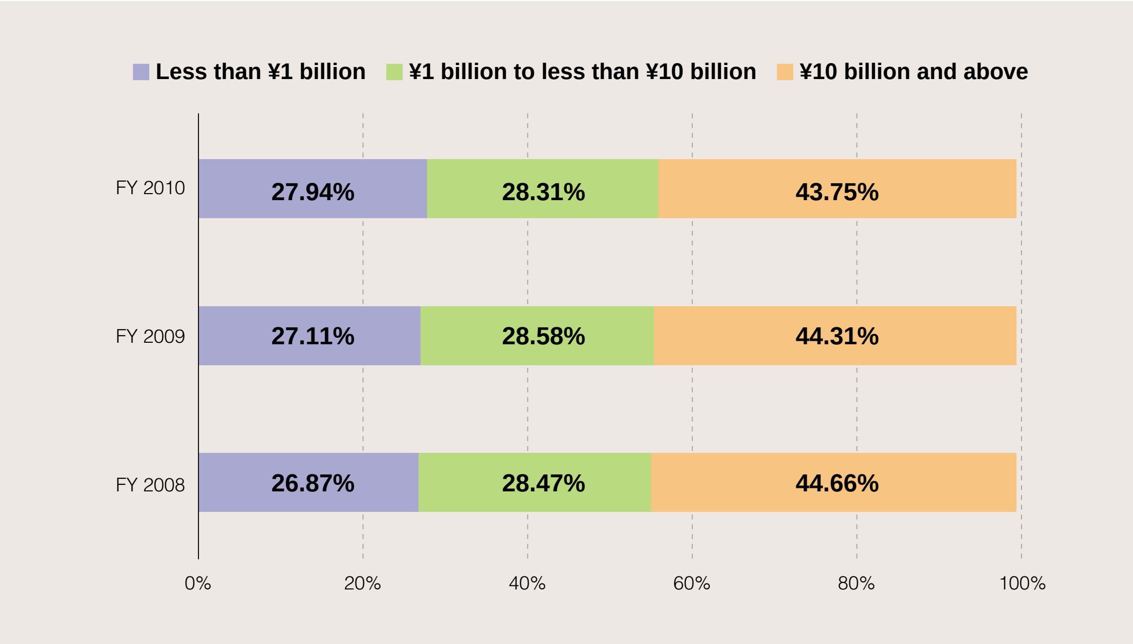


# OTSUKA CORPORATION—Backed by a Diverse Range of Customers

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.

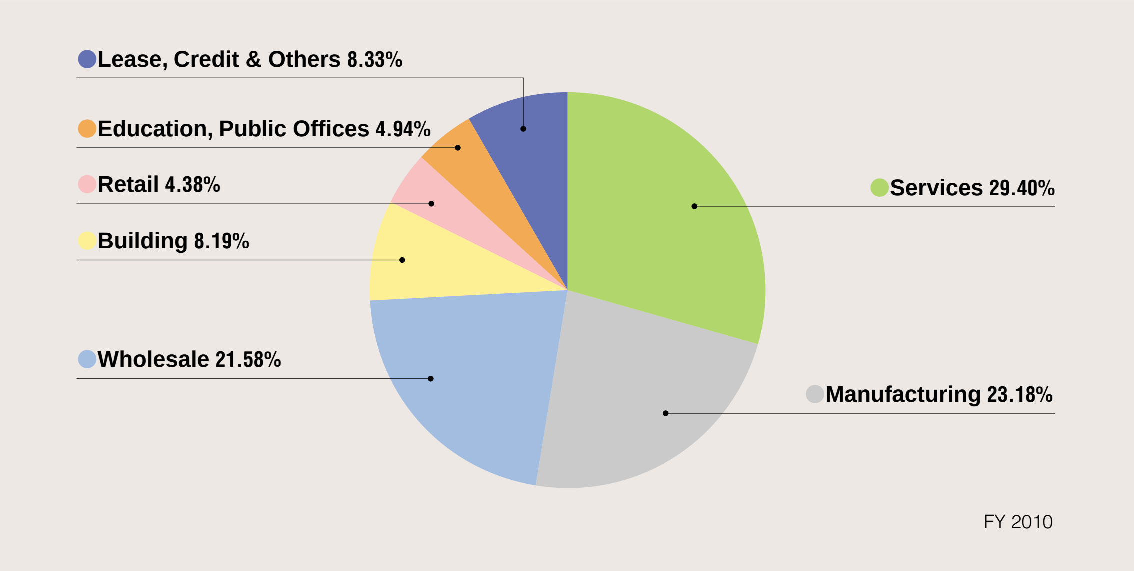
In terms of annual net sales, in fiscal 2010 the ratio of companies with annual net sales of less than ¥1 billion increased, while the ratio of companies with sales of ¥10 billion and above and companies with sales of ¥1 billion to less than ¥10 billion both decreased.

## 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 2010, 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 2008 | FY 2009 | | **FY 2010** | |
|---|---|---|---|---|---|
| | Amount | Amount | Change to Last Year | **Amount** | **Change to Last Year** |
| "tanomail" | 89,192 | 92,990 | +4.3% | **100,980** | **+8.6%** |
| SMILE | 6,858 | 6,327 | -7.7% | **6,708** | **+6.0%** |
| ODS21 | 37,650 | 33,073 | -12.2% | **38,778** | **+17.2%** |
| OSM | 43,448 | 40,826 | -6.0% | **43,887** | **+7.5%** |

**<Reference: Number of units sold>** (Units)

| | Units | Units | Change to Last Year | **Units** | **Change to Last Year** |
|---|---|---|---|---|---|
| Copiers | 28,707 | 24,240 | -15.6% | **27,003** | **+11.4%** |
| (of which color copiers) | 20,014 | 18,144 | -9.3% | **21,703** | **+19.6%** |
| Servers | 35,014 | 32,389 | -7.5% | **36,405** | **+12.4%** |
| Personal computers | 508,967 | 500,276 | -1.7% | **666,332** | **+33.2%** |

※ The scope of calculation for copiers and color copiers has partially changed from 2010. Figures for 2008 for 2009 are also indicated accordingly.

Key strategic businesses generally benefited from the overall trend toward a pickup in IT investment and moved onto a recovery track. PCs recorded high growth due in part to demand for replacement and upgrades as well as demand accompanying the establishment of school ICT environments. Color copiers accounted for 80.4% of copier sales.

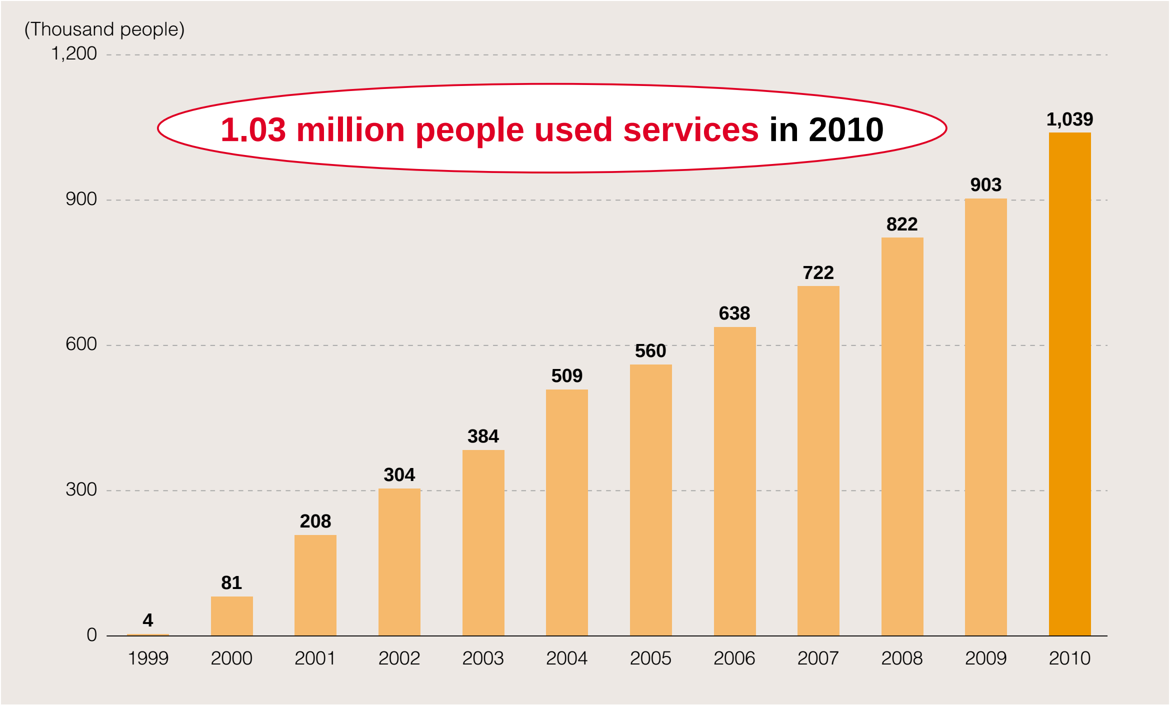
# OTSUKA CORPORATION's Web Services (ASP)

## Provision of services commenced in 1999. The number of users exceeded one million in 2010.

OTSUKA CORPORATION has been providing "Alpha Mail" services, one of its main Web services, since 1999.

The number of users of Web services has been rising steadily, and in 2010, the number of persons using our main Web services reached 1.03 million.

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




※ Total number of persons using the three services of "Alpha Mail", "Alpha Office" and "Payroll Operations Support Service"

# Outlook for Fiscal 2011

## Corporate IT Investment Expected to be Brisk

The outlook for the Japanese economy is uncertain. On one hand there are perceptions that following a temporary lull, the Japanese economy will achieve a mild recovery led by external demand due to a pickup in overseas economies. On the other hand, conditions in the employment and income environments remain severe and the self-resilience of the recovery is weak. Although capital investment by companies is recovering moderately, companies are still maintaining a cautious approach toward investment and there are concerns that more time will be needed before a full-fledged recovery is realized.

Amid this economic environment, despite the cautious investment stance, IT investment by companies, starting with investment by large companies, is expected to recover moderately and become brisk. Besides demand for replacing and upgrading IT, including a second round of demand 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 (responses to IPv4 address exhaustion), there are expectations that the IT market will be stimulated by server virtualization and integration, tablet PCs and other multifunctional terminal businesses and the spread of high-speed wireless communications and that new markets will be created.

Additionally, there is also expected to be a widening use of external services, including cloud computing services and BPO (business process outsourcing).

## Strengthening Customer Contact

Given these economic conditions and outlook for company IT investment, in keeping with its fiscal 2011 slogan of "Live up to customers' trust and vitalize office via IT," under a strengthened community-based sales structure, the Group will strengthen customer contact by improving one-stop solutions and one-stop support, actively propose systems that raise productivity and that are highly cost effective, and deploy the Group's overall strengths more than ever before.

At the same time, we will strengthen our product lineup by upgrading and expanding package products that combine multiple products and services; fortify our accumulated business, including developing appealing maintenance services; build stable and long-term business relationships with customers; and strengthen our earnings foundation.

In 2011, as we mark the milestone of the 50th anniversary of our founding, we will strive to become a corporate Group that is trusted and supported by society by strengthening our social contribution activities and environmental response businesses.

### Policies and Measures in 2011

**Slogan**

**"Live up to customers' trust and vitalize office via IT"**

- **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.**

## Strategies by Segment

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

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

## Forecast for Fiscal 2011

In fiscal 2011, the Company forecasts a 4.9% increase in consolidated net sales to ¥486,000 million, a 10.4% increase in operating income to ¥21,000 million, a 10.2% increase in ordinary income to ¥21,500 million and a 0.8 % increase in net income to ¥10,720 million.

By segment, we forecast a 5.7% increase in net sales to ¥268,100 million in the System Integration business, a 4.1% increase to ¥216,500 million in the Service and Support business and a 27.9% decrease to ¥1,400 million in the Other business.

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

| | Fiscal 2010 | **Fiscal 2011 (Forecast)** | |
|---|---|---|---|
| | Amount | **Amount** | **Change to Last Year** |
| Net sales | 463,493 | **486,000** | **+4.9%** |
| Operating income | 19,013 | **21,000** | **+10.4%** |
| Ordinary income | 19,508 | **21,500** | **+10.2%** |
| Net income | 10,631 | **10,720** | **+0.8%** |

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

| | Fiscal 2010 | **Fiscal 2011 (Forecast)** | |
|---|---|---|---|
| | Amount | **Amount** | **Change to Last Year** |
| System Integration business | 253,541 | **268,100** | **+5.7%** |
| Service and Support business | 208,008 | **216,500** | **+4.1%** |
| Other business | 1,942 | **1,400** | **-27.9%** |

# 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 2010 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,” in 2010, we donated to the Japan Guide Dog Association and to the Nippon Charity Kyokai Foundation as an organization that assists persons with disabilities.

## Implementing “Volunteer Week”

We implemented the second “Volunteer Week” activities subsequent to being introduced in 2009. Through this initiative, we promote employee participation in volunteer activities during a two-week period. In addition to cleanup activities and blood drives at each of our bases, we held seminars on dementia in the Tokyo metropolitan area and Kansai region.

## ■ OTSUKA CORPORATION redesigned the “CSR and Environmental Activity Site”

Every year up to the present, we published a CSR Report on our Website and reported on OTSUKA CORPORATION’s CSR and environmental activities.

In 2010, we redesigned our site and now continually update the details of our activities on the “CSR and Environmental Activity Site.” We also newly posted CSR Factual Data 2010 that reports on numerical aspects of our operations. In creating this publication, we made 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/

# Corporate Governance

## Basic Stance Regarding Corporate Governance

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

### 1. Corporate Structure and Implementation Status of Internal Control Systems

**Corporate Governance System and Reason for Employing System**

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

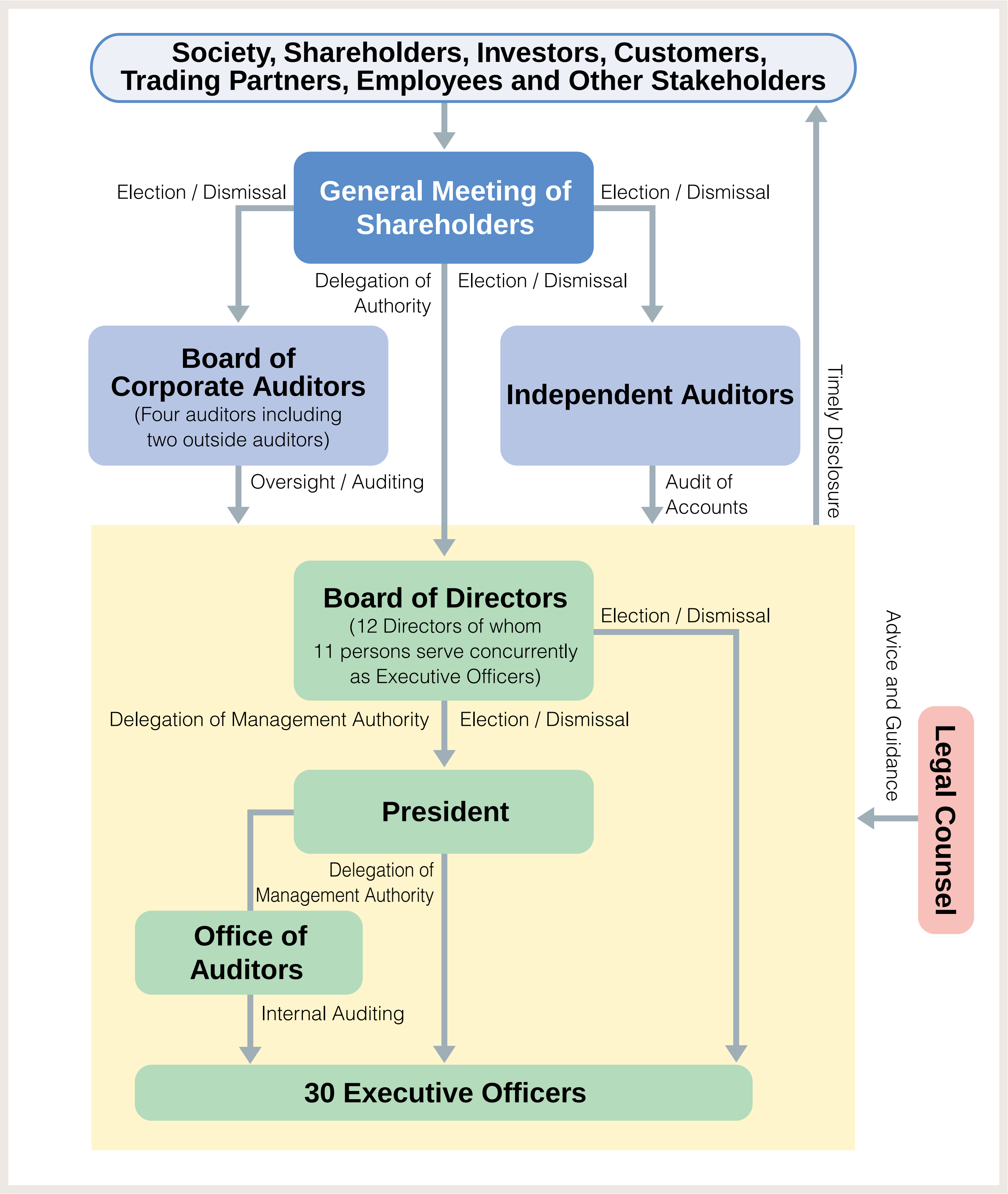
It has been deemed that a governance system led by outside directors would not be suitable due to the wide range of business domains of the Company and the importance of understanding these domains and being familiar with the IT industry. A Corporate Auditor System has therefore been adopted.

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

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

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

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



**State of Internal Control Systems**

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

• Basic policies for internal control systems

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

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

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

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

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

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

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

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

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

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

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

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

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

6) Matters regarding employees assisting corporate auditors when requested and the independence of such employees from directors

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

7) System for reporting to corporate auditors by directors and employees and other systems regarding reporting to corporate auditors

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

8) System for ensuring effective audits by corporate auditors

Representative directors shall exchange opinions with corporate auditors on a timely basis. The internal auditors office shall maintain close relations with the corporate auditors and undertake inspections in accordance with the requests of corporate auditors.

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

1) Basic thinking

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

2) Establishment of measures

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

**Status of Internal Audits and Audits by Corporate Auditors**

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

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

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

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

**Corporate Audits**

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

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

Ernst & Young ShinNihon LLC

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 | 12 |
| Other individuals | 17 |

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

**Relationship with Outside Directors and Outside Auditors**

OTSUKA CORPORATION views outside directors as important for strengthening management oversight from an objective and independent perspective. However, it has not appointed any outside directors at this time due to the wide range of business domains of the Company and the importance of understanding these domains and being familiar with the IT industry. The Company will continue seeking appropriate candidates going forward.

The following two people have been appointed as outside auditors. Both attend the Board of Directors meetings to provide insight and impart opinions based on extensive experience. This facilitates the decision-making process of the Board of Directors.

Jiro Makino and Mikio Sugiyama have been appointed outside auditors to reflect their legal and accounting knowledge, respectively, to the management of the Company. They make reports to the Tokyo Stock Exchange (TSE) as the independent Directors or Auditors, as provided by the TSE.

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

## 2. Status of Implementation of Risk Management System

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

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

## 3. Remuneration of Directors and Corporate Auditors

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

| Class | Total Remuneration (Millions of yen) | Breakdown of Remuneration (Millions of yen) | | | Number of Officers (Persons) |
|---|---|---|---|---|---|
| | | Base Pay | Bonus | Retirement Benefits | |
| Directors | 339 | 254 | 41 | 43 | 13 |
| Corporate Auditors(except outside auditors) | 21 | 20 | — | 1 | 2 |
| Outside Auditors | 10 | 10 | — | — | 2 |

Notes:
1. The above includes one director who retired on April 30, 2010.
2. Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
3. The amount of annual remuneration for Directors is up to ¥650 million as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include employee compensation).
4. The amount of annual remuneration for Corporate Auditors is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005.
5. Retirement Benefits above is the amount of increase of Provision for retirement benefits for Directors and Corporate Auditors in the current fiscal year.

**Total Consolidated Remuneration by Director and Corporate Auditor**

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

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

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

## 4. Principal Stockholdings by the Company

**Investment shares held for any purpose other than pure investment**

Number of securities 67

Total amount on balance sheet ¥2,275 million

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

| Name | Number of Shares | Amount on Balance Sheet (Millions of yen) | Purpose for Holding |
|---|---|---|---|
| Temp Holdings Co., Ltd. | 1,000,000 | 753 | To facilitate and maintain business relationship |
| Ricoh Company, Ltd. | 192,916 | 229 | As above |
| The Bank of Yokohama Ltd. | 382,204 | 160 | As above |
| Daiwa House Industry Co, Ltd. | 100,000 | 99 | As above |
| ThreePro Group Inc. | 1,200 | 85 | As above |
| Uchida Esco Co., Ltd. | 180,000 | 73 | As above |
| Credit Saison Co., Ltd. | 50,000 | 66 | As above |
| Billing System Corporation | 500 | 57 | As above |
| Meiko Network Japan Co., Ltd. | 60,000 | 40 | As above |
| The Keiyo Bank, Ltd. | 50,000 | 20 | As above |

## 5. Number of Directors

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

## 6. Outline of Contracts for Limitation of Liability

Not applicable.

## 7. Resolutions for Appointment and Dismissal of Director

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

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

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

## 9. Interim Dividend

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

10. Purchase of Own Shares

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

11. Exemption from Liability of Directors and Corporate Auditors

Not applicable.

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

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

## Remuneration for Independent Auditors

1. Breakdown of Remuneration for Independent Auditors

| Class | Previous Fiscal Year | | Current Fiscal Year | |
|---|---|---|---|---|
| | For auditing and certification services (Millions of yen) | Non-auditing services (Millions of yen) | For auditing and certification services (Millions of yen) | Non-auditing services (Millions of yen) |
| OTSUKA CORPORATION | 83 | 1 | 77 | — |
| Consolidated Subsidiaries | 16 | — | 14 | — |
| Total | 99 | 1 | 91 | — |

2. Other Major Remuneration

Not applicable.

3. Non-Auditing Services by the Independent Auditors for OTSUKA CORPORATION

(Previous Fiscal Year)

OTSUKA CORPORATION pays compensation to the Independent Auditors for non-auditing services that include guidance and advice regarding internal control systems for financial reporting.

(Current Fiscal Year)

Not applicable.

4. Audit Remuneration Policy

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

# Board of Directors and Corporate Auditors (As of March 29, 2011)

President & Chief Executive Officer

Yuji Otsuka

Managing Director & Senior Executive Operating Officer

Kazuhide Hamada

Managing Director & Senior Executive Operating Officer

Kazuyuki Katakura

Managing Director & Senior Executive Operating Officer

Toshiyasu Takahashi

Managing Director & Executive Operating Officer

Kimio Shiokawa

Managing Director & Operating Officer

Katsuhiro Yano

Managing Director & Operating Officer

Hironobu Saito

Managing Director & Operating Officer

Yasuhiro Wakamatsu

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Director & Senior Managing Officers

Koji Yama
Hironobu Tsurumi
Mitsuya Hirose
Minoru Sakurai

Standing Auditor

Kiyoshi Nakano

Auditors

Tatsuzo Yoshida
Jiro Makino
Mikio Sugiyama

# Business Risks

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

The items covered herein are possible future occurrences determined by the OTSUKA Group as of March 29, 2011.

## 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, 2008, 2009 and 2010

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2008 | 2009 | **2010** | **2010** |
| Net sales | ¥467,154 | ¥429,927 | **¥463,493** | **$5,691,223** |
| System Integration business | 266,476 | 226,688 | **253,541** | **3,113,228** |
| Service and Support business | 198,761 | 200,938 | **208,008** | **2,554,137** |
| Other business | 1,916 | 2,300 | **1,942** | **23,857** |
| Operating income | 27,089 | 16,094 | **19,013** | **233,469** |
| Ordinary income | 27,628 | 16,427 | **19,508** | **239,543** |
| Income before income taxes and minority interests | 25,934 | 16,237 | **18,687** | **229,457** |
| Net income | 14,371 | 8,782 | **10,631** | **130,543** |
| Total assets | 196,946 | 198,076 | **213,401** | **2,620,352** |
| Interest-bearing debt | 9,630 | 8,684 | **7,802** | **95,805** |
| Equity | 96,876 | 101,740 | **108,255** | **1,329,269** |
| Net income per share (EPS) (Yen and U.S. dollars) | 454.76 | 277.92 | **336.42** | **4.13** |
| Dividends per share of common stock (Yen and U.S. dollars) | 130.00 | 130.00 | **135.00** | **1.66** |
| Cash flows from operating activities per share (Yen and U.S. dollars) | 422.35 | 505.74 | **564.91** | **6.94** |
| Operating income to Net sales ratio (%) | 5.80 | 3.74 | **4.10** | **—** |
| Net income to Net sales ratio (%) | 3.08 | 2.04 | **2.29** | **—** |
| Interest-bearing debt ratio (%) | 4.89 | 4.38 | **3.66** | **—** |
| Equity ratio (%) | 49.19 | 51.36 | **50.73** | **—** |
| Return on equity (ROE) (%) | 15.61 | 8.84 | **10.13** | **—** |

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, 2010 exchange rate of ¥81.44 = US$1.

# Management's Analysis of Operating Results and Financial Position

## Summary of Sales and Profits

| | | | | Millions of yen |
|---|---|---|---|---|
| | 2009 | **2010** | Difference to Last Year | % Change to Last Year |
| Net sales | ¥429,927 | **¥463,493** | +33,566 | +7.8% |
| System Integration business | 226,688 | **253,541** | +26,853 | +11.8 |
| Service & Support business | 200,938 | **208,008** | +7,070 | +3.5 |
| Other business | 2,300 | **1,942** | -357 | -15.5 |
| Cost of sales | 335,436 | **363,094** | +27,657 | +8.2 |
| Gross profit | 94,490 | **100,398** | +5,908 | +6.3 |
| Selling, general and administrative expenses | 78,396 | **81,385** | +2,988 | +3.8 |
| Operating income | 16,094 | **19,013** | +2,919 | +18.1 |
| Ordinary income | 16,427 | **19,508** | +3,081 | +18.8 |
| Income before income taxes and minority interests | 16,237 | **18,687** | +2,449 | +15.1 |
| Income taxes | | | | |
| Current | 7,861 | **8,865** | +1,004 | +12.8 |
| Deferred | -602 | **-896** | -294 | — |
| Net income | 8,782 | **10,631** | +1,848 | +21.1 |

### Sales Summary

In the fiscal year under review, the OTSUKA Group recorded consolidated net sales of ¥463,493 million, an increase of ¥33,566 million (7.8%) from the previous fiscal year.

### System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. We firmly seized demand for replacement and upgrade systems as well as demand for the establishment of ICT environments at schools and demand from companies posting favorable results. Accordingly, we achieved growth in unit sales, including for PCs, servers and copiers. Consequently, the System Integration business recorded double-digit sales growth, with net sales rising 11.8% to ¥253,541 million.

### Service and Support Business

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. Our "tanomail" office supply mail-order service business achieved steady growth in sales while sales from maintenance and other support rose slightly. As a result, net sales in the Service and Support Business rose 3.5% to ¥208,008 million.

### Other Business

In the Other Business, net sales declined 15.5% from the previous fiscal year to ¥1,942 million.

### Summary of Income and Expenses

Regarding profits, gross profit increased 6.3% to ¥100,398 million due to the growth in net sales. Because the increase in gross profit exceeded the rise in selling, general and administrative (SG&A) expenses, operating income rose 18.1% to ¥19,013 million, ordinary income increased 18.8% to ¥19,508 million and net income was up 21.1% to ¥10,631 million. Net income per share amounted to ¥336.42.

## Financial Position

| | | | | Millions of yen |
|---|---|---|---|---|
| | 2009 | **2010** | Difference to Last Year | % Change to Last Year |
| Assets: | ¥198,076 | **¥213,401** | +15,324 | +7.7% |
| Current assets | 133,729 | **148,251** | +14,522 | +10.9 |
| Fixed assets | 64,347 | **65,150** | +802 | +1.2 |
| Liabilities: | 95,297 | **104,469** | +9,172 | +9.6 |
| Current liabilities | 92,293 | **101,111** | +8,817 | +9.6 |
| Fixed liabilities | 3,004 | **3,358** | +354 | +11.8 |
| Net assets | 102,779 | **108,931** | +6,152 | +6.0 |

**Assets**

Total assets at fiscal year-end increased ¥15,324 million from the previous fiscal year-end to ¥213,401 million. Current assets increased ¥14,522 million from the previous fiscal year-end to ¥148,251 million due to a rise in cash and time deposits. Fixed assets decreased ¥802 million from the previous fiscal year-end to ¥65,150 million.

**Liabilities**

Total liabilities increased ¥9,172 million to ¥104,469 million. Current liabilities increased ¥8,817 million to ¥101,111 million due to an increase in accounts and notes payable. Fixed liabilities increased ¥354 million from the previous fiscal year-end to ¥3,358 million.

**Net Assets**

Total net assets rose ¥6,152 million from the previous fiscal year-end to ¥108,931 million owing to such factors as an increase in retained earnings. As a result, the equity ratio decreased 0.7 percentage points to 50.7%.

The interest coverage ratio was 207.26 times; the interest-bearing debt ratio was 3.66%; return on equity (ROE) was 10.13%; and return on assets (ROA) was 9.29%.

| | 2009 | **2010** |
|---|---|---|
| Interest coverage ratio (times) | 135.08 | **207.26** |
| Interest-bearing debt ratio (%) | 4.38 | **3.66** |
| ROE (%) | 8.84 | **10.13** |
| ROA (%) | 8.23 | **9.29** |

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 |
|---|---|---|
| | 2009 | **2010** |
| Cash flows from operating activities | ¥15,982 | **¥17,851** |
| Cash flows from investing activities | -4,927 | **-7,527** |
| Cash flows from financing activities | -5,417 | **-5,205** |
| Cash and cash equivalents at end of year | 32,806 | **37,924** |

**Cash Flows**

Cash and cash equivalents at end of year totaled ¥37,924 million, an increase of ¥5,118 million (15.6%) 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 ¥1,869 million to ¥17,851 million. This was due mainly to a decrease in income taxes paid.

**Cash Flows from Investing Activities**

Net cash used in investing activities increased ¥2,599 million to ¥7,527 million. This was due mainly to an increase in payments for purchase of property and equipment.

**Cash Flows from Financing Activities**

Net cash used in financing activities decreased ¥212 million to ¥5,205 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, decreased ¥730 million to ¥10,324 million.

## Forecast for Fiscal 2011

In fiscal 2011, the Company forecasts a 4.9% increase in consolidated net sales to ¥486,000 million, a 10.4% increase in operating income to ¥21,000 million, a 10.2% increase in ordinary income to ¥21,500 million and a 0.8% increase in net income to ¥10,720 million.

By segment, we forecast a 5.7% increase in net sales to ¥268,100 million in the System Integration business, a 4.1% increase to ¥216,500 million in the Service and Support business and a 27.9% decrease to ¥1,400 million in the Other business.

# Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2009 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash, time deposits and other cash equivalents (Notes 10 and 15) | ¥ 27,716 | **¥ 32,669** | **$ 401,153** |
| Accounts and notes receivable: | | | |
| Trade | 71,347 | **75,574** | **927,974** |
| Unconsolidated subsidiaries and affiliates | 1,005 | **1,350** | **16,582** |
| Other | 4,149 | **5,225** | **64,159** |
| | 76,501 | **82,149** | **1,008,716** |
| Less: Allowance for doubtful accounts | (459) | **(608)** | **(7,470)** |
| | 76,041 | **81,541** | **1,001,246** |
| Short-term investments (Notes 4 and 10) | 4,998 | **5,000** | **61,394** |
| Inventories (Note 6) | 16,436 | **19,537** | **239,896** |
| Deferred tax assets (Note 9) | 2,740 | **3,505** | **43,041** |
| Other current assets (Note 10) | 5,796 | **5,997** | **73,638** |
| Total current assets | 133,729 | **148,251** | **1,820,372** |
| **Investments and other assets** | | | |
| Investments in securities (Note 4) | 2,465 | **2,460** | **30,214** |
| Investments in unconsolidated subsidiaries and affiliates | 3,358 | **2,992** | **36,748** |
| Guarantee deposits | 3,281 | **3,049** | **37,448** |
| Deferred tax assets non-current (Note 9) | 1,227 | **1,358** | **16,679** |
| Other investments | 3,217 | **3,326** | **40,851** |
| Less: Allowance for doubtful accounts | (1,037) | **(997)** | **(12,245)** |
| Less:Allowance for investment loss | (34) | **—** | **—** |
| | 12,478 | **12,191** | **149,697** |
| **Property and equipment** (Note 14) | | | |
| Land | 17,193 | **17,179** | **210,952** |
| Buildings and structures | 62,121 | **61,939** | **760,550** |
| Other | 14,287 | **16,671** | **204,714** |
| | 93,602 | **95,791** | **1,176,217** |
| Less: Accumulated depreciation | (47,337) | **(48,562)** | **(596,295)** |
| Net property and equipment | 46,264 | **47,228** | **579,921** |
| **Intangibles and deferred charges** | | | |
| Software | 5,486 | **5,544** | **68,078** |
| Other | 118 | **185** | **2,282** |
| | 5,604 | **5,730** | **70,360** |
| Total assets | ¥198,076 | **¥213,401** | **$2,620,352** |

The accompanying notes are an integral part of these statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| **LIABILITIES AND NET ASSETS** | | | |
| **Current liabilities** | | | |
| Short-term bank loans (Note 7) | ¥ 8,300 | **¥ 7,300** | **$ 89,636** |
| Current maturities of long-term debts (Note 7) | 40 | **40** | **491** |
| Accounts and notes payable (Note 15): | | | |
| Trade | 55,000 | **59,028** | **724,812** |
| Unconsolidated subsidiaries and affiliates | 831 | **1,010** | **12,405** |
| Other | 12,897 | **12,973** | **159,303** |
| | 68,729 | **73,012** | **896,521** |
| Income taxes payable (Note 9) | 2,516 | **5,182** | **63,632** |
| Other current liabilities (Note 9) | 12,707 | **15,576** | **191,262** |
| Total current liabilities | 92,293 | **101,111** | **1,241,544** |
| **Long-term liabilities** | | | |
| Long-term debt (Note 7) | 50 | **10** | **122** |
| Reserve for retirement benefits (Note 8) | 2,125 | **2,343** | **28,774** |
| Deferred tax liabilities non-current (Note 9) | 93 | **93** | **1,150** |
| Deferred tax liabilities on revaluation of land (Note 14) | 216 | **216** | **2,663** |
| Other long-term liabilities | 518 | **694** | **8,528** |
| Total fixed liabilities | 3,004 | **3,358** | **41,239** |
| **Net assets** | | | |
| **Shareholders' equity** (Note 13) | | | |
| Common stock: | | | |
| Authorized: 112,860,000 shares | | | |
| Outstanding: 31,667,020 shares as of December 31, 2009 and 2010 | 10,374 | **10,374** | **127,392** |
| Capital surplus | 16,254 | **16,254** | **199,591** |
| Retained earnings | 89,307 | **95,830** | **1,176,698** |
| Treasury stock | | | |
| 65,425 shares as of December 31, 2009 and | | | |
| 65,718 shares as of December 31, 2010 | (123) | **(124)** | **(1,532)** |
| Total shareholders' equity | 115,813 | **122,335** | **1,502,150** |
| **Valuation and translation adjustments** | | | |
| Unrealized gains on available-for-sale securities | 380 | **383** | **4,709** |
| Revaluation differences on land (Note 14) | (14,331) | **(14,331)** | **(175,974)** |
| Foreign currency translation adjustments | (122) | **(131)** | **(1,615)** |
| Total valuation and translation adjustments | (14,073) | **(14,079)** | **(172,881)** |
| **Minority interests in consolidated subsidiaries** | 1,039 | **675** | **8,298** |
| Total net assets | 102,779 | **108,931** | **1,337,567** |
| Total liabilities and net assets | ¥198,076 | **¥213,401** | **$2,620,352** |

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, 2009 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| **Net sales** (Note 17) | ¥429,927 | **¥463,493** | **$5,691,223** |
| **Cost of sales** (Notes 16 and 17) | 335,436 | **363,094** | **4,458,428** |
| Gross profit | 94,490 | **100,398** | **1,232,795** |
| **Selling, general and administrative expenses** (Notes 16 and 17) | 78,396 | **81,385** | **999,325** |
| Operating income | 16,094 | **19,013** | **233,469** |
| **Other income (expenses)** | | | |
| Interest and dividend income | 151 | **109** | **1,341** |
| Interest expenses | (120) | **(92)** | **(1,132)** |
| Reversal of allowance for doubtful accounts | 0 | **2** | **34** |
| Provision for allowance for doubtful accounts | (152) | **(202)** | **(2,481)** |
| Gain on change in equity interest | 5 | **—** | **—** |
| Equity in earnings (losses) of unconsolidated subsidiaries and affiliates | 1 | **(4)** | **(50)** |
| Loss on sales / disposal of fixed assets | (131) | **(330)** | **(4,059)** |
| Impairment losses | (292) | **(127)** | **(1,562)** |
| Loss on devaluation of investments in securities | (81) | **(4)** | **(54)** |
| Loss on devaluation of stocks of subsidiaries and affiliates | (0) | **(113)** | **(1,399)** |
| Loss on liquidation of subsidiaries and affiliates | — | **(37)** | **(460)** |
| Gain (loss) on sales of investment securities | 415 | **(8)** | **(101)** |
| Provision of allowance for investment loss | (34) | **—** | **—** |
| Other, net | 382 | **481** | **5,915** |
| | 143 | **(326)** | **(4,012)** |
| Income before income taxes and minority interests | 16,237 | **18,687** | **229,457** |
| **Income taxes** (Note 9) | | | |
| Current | 7,861 | **8,865** | **108,864** |
| Deferred | (602) | **(896)** | **(11,013)** |
| | 7,259 | **7,968** | **97,850** |
| **Minority interests** | 195 | **86** | **1,064** |
| Net income | ¥ 8,782 | **¥ 10,631** | **$ 130,543** |

| | yen | | U.S. dollars (Note 3) |
|---|---|---|---|
| **Net income and dividends per share** (Note 2(13)) | | | |
| Basic net income | ¥277.92 | **¥336.42** | **$4.13** |
| Diluted net income | 277.82 | **336.28** | **4.13** |
| Cash dividends | 130.00 | **135.00** | **1.66** |

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, 2009 and 2010

Millions of yen

| | Number of shares issued | Shareholders' equity: Common stock | Capital surplus | Retained earnings | Treasury stock | Total 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 |
| Dividends | | | | (4,108) | | (4,108) |
| Net income | | | | 10,631 | | 10,631 |
| Purchase of treasury stock | | | | | (1) | (1) |
| Items other than changes in shareholders' equity | | | | | | |
| **Balance at December 31, 2010** | 31,667,020 | ¥10,374 | ¥16,254 | ¥95,830 | ¥(124) | ¥122,335 |

Millions of yen

| | Valuation and translation adjustments: Unrealized gains on availabe-for-sale securities | Revaluation differences on land | Foreign currency translation adjustments | Total valuation and translation adjustments | Minority interest in consolidated subsidiaries | Total net assets |
|---|---|---|---|---|---|---|
| **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 |
| Dividends | | | | | | (4,108) |
| Net income | | | | | | 10,631 |
| Purchase of treasury stock | | | | | | (1) |
| Items other than changes in shareholders' equity | 3 | — | (9) | (6) | (363) | (369) |
| **Balance at December 31, 2010** | ¥383 | ¥(14,331) | ¥(131) | ¥(14,079) | ¥675 | ¥108,931 |

The accompanying notes are an integral part of these statements.

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2009 and 2010

| | Thousands of U.S. dollars (Note 3) | | | | | |
|---|---|---|---|---|---|---|
| | | Shareholders' equity | | | | |
| | Number of shares issued | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| **Balance at December 31, 2009** | 31,667,020 | $127,392 | $199,591 | $1,096,600 | $(1,513) | $1,422,071 |
| Dividends | | | | (50,444) | | (50,444) |
| Net income | | | | 130,543 | | 130,543 |
| Purchase of treasury stock | | | | | (19) | (19) |
| Items other than changes in shareholders' equity | | | | | | |
| **Balance at December 31, 2010** | 31,667,020 | $127,392 | $199,591 | $1,176,698 | $(1,532) | $1,502,150 |

| | Thousands of U.S. dollars (Note 3) | | | | | |
|---|---|---|---|---|---|---|
| | Valuation and translation adjustments | | | | | |
| | Unrealized gains on availabe-for-sale securities | Revaluation differences on land | Foreign currency translation adjustments | Total valuation and translation adjustments | Minority interest in consolidated subsidiaries | Total net assets |
| **Balance at December 31, 2009** | $4,667 | $(175,974) | $(1,500) | $(172,807) | $12,761 | $1,262,025 |
| Dividends | | | | | | (50,444) |
| Net income | | | | | | 130,543 |
| Purchase of treasury stock | | | | | | (19) |
| Items other than changes in shareholders' equity | 41 | — | (115) | (73) | (4,462) | (4,536) |
| **Balance at December 31, 2010** | $4,709 | $(175,974) | $(1,615) | $(172,881) | $ 8,298 | $1,337,567 |

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, 2009 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | ¥16,237 | **¥18,687** | **$229,457** |
| Depreciation and amortization | 5,939 | **6,089** | **74,777** |
| Equity in net income of unconsolidated subsidiaries and affiliates | (1) | **4** | **50** |
| Increase (decrease) in reserve for retirement benefits | 1,235 | **202** | **2,483** |
| Increase in allowance for doubtful accounts | 293 | **108** | **1,330** |
| Interest and dividend income | (123) | **(95)** | **(1,171)** |
| Interest income on securities | (27) | **(13)** | **(169)** |
| Interest expenses | 120 | **92** | **1,132** |
| Loss (gain) on sales of noncurrent assets | 43 | **—** | **—** |
| Loss on retirement of noncurrent assets | 84 | **210** | **2,580** |
| Impairment losses | 292 | **127** | **1,562** |
| Loss (gain) on sales of investment securities | (415) | **(0)** | **(1)** |
| Loss on devaluation of investments in securities | 81 | **4** | **54** |
| Loss on devaluation of stocks of subsidiaries and affiliates | 0 | **113** | **1,399** |
| Loss on liquidation of subsidiaries and affiliates | — | **37** | **460** |
| Increase (decrease) in allowance for investment loss | 34 | **—** | **—** |
| Loss (gain) from change in equity interest | (5) | **—** | **—** |
| Decrease (increase) in accounts and notes receivable | 1,247 | **(4,803)** | **(58,986)** |
| Decrease (increase) in inventories | 73 | **(3,083)** | **(37,865)** |
| Increase (decrease) in accounts and notes payable | 944 | **4,077** | **50,072** |
| Other | 437 | **2,150** | **26,400** |
| Subtotal | 26,492 | **23,908** | **293,569** |
| Interest and dividend income received | 179 | **133** | **1,635** |
| Interest expenses paid | (122) | **(93)** | **(1,145)** |
| Income taxes paid | (10,567) | **(6,096)** | **(74,856)** |
| Net cash provided by operating activities | 15,982 | **17,851** | **219,202** |
| **Cash flows from investing activities:** | | | |
| Payments for purchase of property and equipment | (2,278) | **(4,421)** | **(54,289)** |
| Proceeds from sales of property and equipment | 11 | **—** | **—** |
| Payments for software developed | (3,167) | **(3,029)** | **(37,196)** |
| Payments for purchase of investments in securities | (104) | **(62)** | **(766)** |
| Proceeds from sales of investments in securities | 841 | **157** | **1,931** |
| Purchase of investments in subsidiaries | — | **(490)** | **(6,023)** |
| Payments for long-term loans receivable | (124) | **(308)** | **(3,791)** |
| Proceeds from long-term loans receivable | 166 | **149** | **1,839** |
| Other | (271) | **477** | **5,864** |
| Net cash used in investing activities | (4,927) | **(7,527)** | **(92,430)** |
| **Cash flows from financing activities:** | | | |
| Increase (decrease) in short-term bank loans, net | (1,200) | **(1,000)** | **(12,278)** |
| Repayments for long-term debts | (40) | **(40)** | **(491)** |
| Cash dividends paid | (4,107) | **(4,105)** | **(50,408)** |
| Other | (70) | **(60)** | **(742)** |
| Net cash used in financing activities | (5,417) | **(5,205)** | **(63,920)** |
| **Effect of exchange rate changes on cash and cash equivalents** | 0 | **—** | **—** |
| **Net increase in cash and cash equivalents** | 5,636 | **5,118** | **62,851** |
| **Cash and cash equivalents at beginning of year** | 27,169 | **32,806** | **402,827** |
| **Cash and cash equivalents at end of year** (Note 10) | ¥32,806 | **¥37,924** | **$465,678** |

The accompanying notes are an integral part of these statements.

## 1. Basis of Presentation of the Consolidated Financial Statements

**Accounting Principles**

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

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

Certain reclassifications have been made in the consolidated financial statements for the year ended December 31, 2009 to conform to the presentation for the year ended December 31, 2010.

## 2. Summary of Significant Accounting Policies

**(1) Scope of consolidation**

The Company had 13 subsidiaries (majority-owned companies) and 14 subsidiaries as at December 31, 2009 and 2010, respectively. The consolidated financial statements include the accounts of the Company and 8 subsidiaries for the years ended December 31, 2009 and 2010.

The 8 subsidiaries which were consolidated in the year ended December 31, 2010 are listed below:

| | A ratio of voting rights held by the Company |
|---|---|
| OSK Co., LTD. | 100.0% |
| Netplan Co., LTD. | 100.0% |
| Alpha Techno Co., LTD. | 100.0% |
| Alpha System Co., LTD. | 100.0% |
| Alpha Net Co., LTD. | 100.0% |
| Otsuka Auto Service Co., LTD. | 100.0% |
| Networld Corporation | 81.5% |
| Otsuka Business Service Co., LTD. | 65.0% |

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

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

The accounts of the remaining 5 unconsolidated subsidiaries and 6 unconsolidated subsidiaries as at December 31, 2009 and 2010, 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 5 unconsolidated subsidiaries and 9 affiliates at December 31, 2009 and 6 unconsolidated subsidiaries and 6 affiliates at December 31,2010.

The Company had 3 investments in affiliate for the equity method at December 31, 2009 and 2010. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method were carried at cost, since they did not have a material impact on consolidated net income and retained earnings in the consolidated financial statements.

The 3 investments in affiliate by the equity method at December 31, 2010, are listed below:

| | A ratio of voting rights held by the Company |
|---|---|
| SIOS Technology, Inc. | 47.0% |
| Otsuka Information Technology Corp. | 38.7% |
| LION OFFICE PRODUCTS CORP. | 40.4% |

**(3) Cash and cash equivalents**

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

**(4) Inventories**

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

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

**(5) Financial instruments**

(a) Securities

Securities held by the 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.

**(6) Property and equipment (excluding lease assets)**

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

Estimated useful lives of assets are principally as follows:

Building and structures — 15 to 50 years

Other — 4 to 6 years

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

**(7) Software and other intangible assets (excluding lease assets)**

Development costs of computer software to be sold are amortized based on the estimated 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.

**(8) Leases**

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

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

**(9) Accounting for income taxes**

Income taxes of the 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) Reserve for retirement benefits**

(a) Retirement benefits for employees

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

(b) Retirement benefits for directors

The Company and 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.

(Fiscal year 2010)

Effective the year ended December 31, 2010, the “Partial Amendments to Accounting Standard for Retirement Benefits (Part3)” (ASBJ Statement No.19, July 31, 2008) is applied. There are no effects of adopting the new standard.

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

Until the year ended December 31, 2009, revenues and costs of the make-to-order software contracts were recognized by the completed-contract method. Effective January 1, 2010, the Company and its consolidated subsidiaries have applied “Accounting Standard for Construction Contracts” (ASBJ Statement No. 15, December 27, 2007) and “Guidance on Accounting Standard for Construction Contracts” (ASBJ Guidance No. 18, December 27, 2007).

Under the new accounting standard and guidance, revenues and costs of the make-to-order software contacts that commenced on or after January 1, 2010, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

The effect of this change was immaterial to the consolidated financial statements for the year ended December 31, 2010.

**(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 ¥81.44=US$1, the rate of exchange on December 31, 2010, 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.

## 4. Investments in Securities

At December 31, 2009 and 2010 investments in securities were as follows:

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

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2010 | | | 2010 | | |
| | 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 | ¥ 762 | ¥1,483 | ¥721 | **¥ 855** | **¥1,581** | **¥725** | **$10,507** | **$19,414** | **$8,907** |
| Bonds | — | — | — | **—** | **—** | **—** | **—** | **—** | **—** |
| Other securities | — | — | — | **—** | **—** | **—** | **—** | **—** | **—** |
| | ¥ 762 | ¥1,483 | ¥721 | **¥ 855** | **¥1,581** | **¥725** | **$10,507** | **$19,414** | **$8,907** |
| Securities whose carrying value does not exceed their acquisition costs | | | | | | | | | |
| Stocks | ¥ 254 | ¥ 216 | ¥ (37) | **¥ 183** | **¥ 148** | **¥ (34)** | **$ 2,253** | **$ 1,824** | **$ (428)** |
| Bonds | — | — | — | **—** | **—** | **—** | **—** | **—** | **—** |
| Other securities | 92 | 71 | (20) | **92** | **70** | **(21)** | **1,132** | **868** | **(264)** |
| | ¥ 346 | ¥ 288 | ¥ (58) | **¥ 275** | **¥ 219** | **¥ (56)** | **$ 3,386** | **$ 2,692** | **$ (693)** |
| Total | ¥1,109 | ¥1,772 | ¥662 | **¥1,131** | **¥1,800** | **¥668** | **$13,893** | **$22,106** | **$8,213** |

**(2) Available-for-sale securities sold in 2009 and 2010 (for the years ended December 31, 2009 and 2010)**

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2010 | | | 2010 | | |
| | Sales proceeds | Aggregate gains | Aggregate losses | Sales proceeds | Aggregate gains | Aggregate losses | Sales proceeds | Aggregate gains | Aggregate losses |
| | ¥841 | ¥415 | — | **¥157** | **¥0** | **¥8** | **$1,931** | **$1** | **$103** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2010 | 2010 |
| | Carrying value | Carrying value | Carrying value |
| Held-to-maturity debt securities | | | |
| Negotiable certificates of deposit | ¥3,000 | **¥5,000** | **$61,394** |
| Commercial paper | 1,998 | **—** | **—** |
| Available-for-sale securities | | | |
| Unlisted stocks | 574 | **576** | **7,075** |
| Investment in limited liability partnerships | 118 | **84** | **1,032** |

**(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 | |
|---|---|---|---|---|---|---|
| | 2009 | | **2010** | | **2010** | |
| | 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 | — | **¥5,000** | **—** | **$61,394** | **—** |
| Commercial paper | 1,998 | — | **—** | **—** | **—** | **—** |
| Total | ¥4,998 | — | **¥5,000** | **—** | **$61,394** | **—** |

## 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, 2009 and 2010, derivatives were as follows:

Currency-related transactions

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

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

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2010** | | | |
| | Contractual value or notional principal amount | | | |
| | Total | Over one year | Fair value | Valuation gain (loss) |
| Forward foreign exchange contracts purchased in U.S.dollar | **$712** | **—** | **$699** | **$(12)** |

## 6. Inventories

Inventories at December 31, 2009 and 2010 comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Merchandise | ¥14,191 | **¥17,858** | **$219,278** |
| Work in process | 1,179 | **625** | **7,684** |
| Raw materials and supplies | 1,065 | **1,053** | **12,934** |
| | ¥16,436 | **¥19,537** | **$239,896** |

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

The annual average interest rates applicable to short-term bank loans at December 31, 2009 and 2010 were 1.11% and 1.02%, respectively.

Long-term debt at December 31, 2009 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Long-term loans from banks with annual interest rates: | | | |
| 1.63% | ¥90 | **¥50** | **$613** |
| | 90 | **50** | **613** |
| Less : Current maturities of long-term debts | (40) | **(40)** | **(491)** |
| | ¥ 50 | **¥10** | **$122** |

Aggregate annual maturities of long-term debt subsequent to December 31, 2010 are as follows:

| Year ending December 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2011 | ¥40 | $491 |
| 2012 | 10 | 122 |
| 2013 | — | — |
| 2014 | — | — |
| | ¥50 | $613 |

## 8. Reserve for Retirement Benefits

**(1) Retirement benefit plan**

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

**(2) The reserve for retirement benefits as of December 31, 2009 and 2010 were summarized as follows:**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Projected benefit obligations | ¥(32,691) | **¥(33,687)** | **$(413,645)** |
| Plan assets | 31,061 | **32,586** | **400,126** |
| | (1,630) | **(1,100)** | **(13,519)** |
| Unrecognized prior service cost | (4,316) | **4,176** | **51,289** |
| Unrecognized actuarial gain or loss | 5,599 | **(3,626)** | **(44,526)** |
| | (348) | **(550)** | **(6,756)** |
| Prepaid pension cost | 1,293 | **1,233** | **15,143** |
| Reserve for retirement benefits | ¥ (1,641) | **¥ (1,783)** | **$ (21,899)** |

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2009 and 2010 included retirement benefits for directors in the amounts of 483 million yen and 559 million yen (6,875 thousand U.S. dollars), respectively.

**(3) Pension expense related to the retirement benefits for the years ended December 31, 2009 and 2010 were as follows:**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Service cost | ¥2,315 | **¥2,304** | **$28,295** |
| Interest cost | 456 | **480** | **5,897** |
| Expected return on plan assets | (133) | **(155)** | **(1,911)** |
| Amortization of the unrecognized prior service cost | (690) | **(690)** | **(8,481)** |
| Amortization of the unrecognized actuarial gain or loss | 928 | **621** | **7,625** |
| Payments for defined contribution pension plan | 781 | **788** | **9,681** |
| Additional benefits for employees' early retirement | 145 | **239** | **2,940** |
| Net periodic pension cost | ¥3,802 | **¥3,587** | **$44,048** |

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

**(4) Computation basis of pension liabilities**

As of December 31, 2009 and 2010

| | 2009 | **2010** |
|---|---|---|
| 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 | **mainly 12 years from the fiscal year following occurrence** |

## 9. Income Taxes

(Fiscal year 2009)

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, 2009 was as follows:

| | 2009 |
|---|---|
| Statutory tax rate | 40.7% |
| Expenses not deductible for tax purposes | 0.8% |
| Per capita inhabitant tax | 0.8% |
| Valuation allowance | 2.2% |
| Deduction for tax incentive to help strengthen information infrastructure for business | (0.1%) |
| Other | 0.3% |
| Effective tax rate | 44.7% |

(Fiscal year 2010)

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

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

At December 31, 2009 and 2010, significant components of the deferred tax assets and liabilities were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Deferred tax assets: | | | |
| Allowance for doubtful accounts | ¥ 384 | **¥ 421** | **$ 5,180** |
| Enterprise taxes | 290 | **520** | **6,397** |
| Accrued bonuses | 977 | **1,087** | **13,355** |
| Retirement benefits for employees | 671 | **727** | **8,930** |
| Retirement benefits for directors | 197 | **228** | **2,807** |
| Impairment losses | 1,109 | **1,110** | **13,637** |
| Software cost | 1,611 | **1,529** | **18,784** |
| Eliminated unrealized profits | 355 | **320** | **3,940** |
| Other | 1,503 | **1,945** | **23,890** |
| Total deferred tax assets | 7,100 | **7,893** | **96,924** |
| Less: Valuation allowance | (2,045) | **(2,181)** | **(26,789)** |
| Net deferred tax assets | 5,054 | **5,711** | **70,134** |
| Deferred tax liabilities: | | | |
| Reserve for computer program | 333 | **112** | **1,376** |
| Prepaid pension cost | 527 | **503** | **6,177** |
| Unrealized gains on available-for-sale securities | 269 | **271** | **3,338** |
| Other | 59 | **65** | **805** |
| Total deferred tax liabilities | 1,190 | **952** | **11,698** |
| Net deferred tax assets | ¥3,864 | **¥4,759** | **$58,436** |

## 10. Supplementary Cash Flow Information

**Cash and cash equivalents consisted of:**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Cash, time deposits and other cash equivalents | ¥27,716 | **¥32,669** | **$401,153** |
| Time deposits with deposit terms of more than three months | (755) | **(555)** | **(6,814)** |
| Short-term investments with maturity or redemption dates within three months from acquisition date | 4,998 | **5,000** | **61,394** |
| Trust beneficiary interests included in other current assets with investment terms with three months or less | 846 | **809** | **9,945** |
| Cash and cash equivalents at end of year | ¥32,806 | **¥37,924** | **$465,678** |

## 11. Dividends

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2010 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 29, 2011:

| Appropriation | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends (¥135.00 per share) | ¥4,266 | $52,384 |

## 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, 2009 and 2010 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Acquisition cost | ¥3,320 | **¥2,147** | **$26,370** |
| Accumulated depreciation | (2,114) | **(1,557)** | **(19,126)** |
| Net book value | ¥1,205 | **¥ 589** | **$ 7,243** |

Future minimum lease payments under finance leases at December 31, 2009 and 2010 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Due within one year | ¥ 621 | **¥366** | **$4,499** |
| Due after one year | 621 | **248** | **3,047** |
| | ¥1,243 | **¥614** | **$7,546** |

Lease expenses, depreciation and interest expenses for the years ended December 31, 2009 and 2010 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Lease expenses | ¥837 | **¥638** | **$7,837** |
| Depreciation | 788 | **604** | **7,424** |
| Interest expenses | 37 | **21** | **265** |

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, 2009 and 2010 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Due within one year | ¥ 297 | **¥ 256** | **$ 3,155** |
| Due after one year | 1,332 | **1,162** | **14,274** |
| | ¥1,629 | **¥1,419** | **$17,429** |

## 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 539 million yen and 748 million yen (9,195 thousand U.S. dollars) at December 31, 2009 and 2010, respectively.

## 15. Pledged Assets

At December 31, 2009 and 2010, assets pledged as collateral for accounts and notes payable were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Time deposits | ¥5 | **¥5** | **$61** |
| | ¥5 | **¥5** | **$61** |

## 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, 2009 and 2010 amounted to 348 million yen and 187 million yen (2,305 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, 2009 and 2010 were summarized as follows:

**(1) Business segment information**

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | | | |
| | System Integration | Service & Support | Other | Total | Elimination or corporate | Consolidated total |
| 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 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | | | |
| | System Integration | Service & Support | Other | Total | Elimination or corporate | Consolidated total |
| Net sales to: | | | | | | |
| Third parties | **¥253,541** | **¥208,008** | **¥1,942** | **¥463,493** | **¥ —** | **¥463,493** |
| Inter-segment sales/transfers | **254** | **317** | **2,047** | **2,618** | **(2,618)** | **—** |
| | **253,795** | **208,326** | **3,990** | **466,112** | **(2,618)** | **463,493** |
| Operating expenses | **234,977** | **201,143** | **3,834** | **439,954** | **4,524** | **444,479** |
| Operating income | **¥ 18,818** | **¥ 7,182** | **¥ 155** | **¥ 26,157** | **¥(7,143)** | **¥ 19,013** |
| Assets, depreciation, impairment losses and capital expenditure: | | | | | | |
| Assets | **¥ 86,202** | **¥ 77,591** | **¥2,218** | **¥166,012** | **¥47,388** | **¥213,401** |
| Depreciation and amortization | **3,037** | **2,238** | **35** | **5,310** | **779** | **6,089** |
| Impairment losses | **21** | **105** | **—** | **127** | **—** | **127** |
| Capital expenditure | **4,059** | **3,085** | **71** | **7,216** | **233** | **7,450** |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | | | |
| | System Integration | Service & Support | Other | Total | Elimination or corporate | Consolidated total |
| Net sales to: | | | | | | |
| Third parties | **$3,113,228** | **$2,554,137** | **$23,857** | **$5,691,223** | **$ —** | **$5,691,223** |
| Inter-segment sales/transfers | **3,124** | **3,895** | **25,136** | **32,156** | **(32,156)** | **—** |
| | **3,116,353** | **2,558,032** | **48,993** | **5,723,379** | **(32,156)** | **5,691,223** |
| Operating expenses | **2,885,282** | **2,469,833** | **47,079** | **5,402,195** | **55,558** | **5,457,753** |
| Operating income | **$ 231,071** | **$ 88,198** | **$ 1,914** | **$ 321,184** | **$(87,714)** | **$ 233,469** |
| Assets, depreciation, impairment losses and capital expenditure: | | | | | | |
| Assets | **$1,058,481** | **$ 952,747** | **$27,236** | **$2,038,465** | **$581,886** | **$2,620,352** |
| Depreciation and amortization | **37,292** | **27,480** | **436** | **65,210** | **9,567** | **74,777** |
| Impairment losses | **263** | **1,299** | **—** | **1,562** | **—** | **1,562** |
| Capital expenditure | **49,845** | **37,889** | **879** | **88,615** | **2,870** | **91,485** |

Notes ;

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

| Segment | Major product and services |
|---|---|
| System Integration business | Research, analysis, design, and introduction for comprehensive information system<br>Transport and installation<br>Network construction<br>Introduction for packaged software<br>Customized development of make-to-order software<br>Other related services |
| Service and Support business | Supplies for comprehensive information system<br>Telephone support<br>Maintenance<br>Consigned system operation<br>Data recovery<br>IT education<br>Guidance for operation of packaged software<br>Hotel business |
| Other business | Construction<br>Repair, sale of automobiles<br>Insurance<br>Printing |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | **2010** | **2010** |
| Non-allocable operating expenses | ¥ 7,170 | **¥ 7,171** | **$ 88,064** |
| Corporate assets | 44,293 | **49,139** | **603,381** |

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 (12), effective the year ended December 31, 2010, the Company and its consolidated subsidiaries have applied “Accounting Standard for Construction Contracts” (ASBJ Statement No. 15, December 27, 2007) and “Guidance on Accounting Standard for Construction Contracts” (ASBJ Guidance No. 18, December 27, 2007).
The effect of this change was immaterial to the consolidated financial statements for the year ended December 31, 2010.

**(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 subsidiary, were less than 10% of consolidated net sales.**

## 18. Subsequent Event

Not Applicable.

# 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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

March 29, 2011

# Principal Group Companies (As of December 31, 2010)

The OTSUKA Group (OTSUKA CORPORATION and its subsidiaries) consists of 14 subsidiaries, including 8 consolidated subsidiaries as well as 9 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 | 81.5% | • Sales and technical support for network related equipment |
| **Service and Support business** | | | | |
| Alpha Techno Co., LTD. | 1996 | 50 | 100.0% | • Emergency repair of PCs and peripheral equipment, and data recovery service |
| Alpha Net Co., LTD. | 1997 | 400 | 100.0% | • Comprehensive service and support for network systems |
| **Other business** | | | | |
| Otsuka Auto Service Co., LTD. | 1987 | 50 | 100.0% | • Maintenance, 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, 2010)

| | |
|---|---|
| **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** | 6,760 (with consolidated subsidiaries: 8,240) |
| **Business** | **System Integration Business:**<br>Sales of computers, copiers, communication equipment and software,<br>and software development of consigned software, other activities<br>**Service and Support Business:**<br>Supplies, maintenance, and educational support, other activities |
| **Main Banks** | The Bank of Yokohama, Ltd.<br>The Bank of Tokyo-Mitsubishi UFJ, Ltd.<br>Mizuho Bank, Ltd. |

## Base (As of December 31, 2010)

| | | | |
|---|---|---|---|
| **Head Office** | 2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573<br>TEL 03-3264-7111 | | |
| **Branch Offices** | Metropolitan Office<br>2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573<br>TEL 03-3264-7111<br>Kansai Office<br>6-14-1 Fukushima, Fukushima-ku, Osaka-shi, Osaka 553-8558<br>TEL 06-6456-2711<br>Chubu Office<br>3-23-20 Marunouchi, Naka-ku, Nagoya-shi, Aichi 460-0002<br>TEL 052-955-3611 | | |
| **Local Area Sales Groups** | Chuo Sales Group 1 | Chuo Sales Group 2 | Kanagawa Sales Group |
| | Josai Sales Group | Tama Sales Group | Johoku Sales Group |
| | Northern Kanto Sales Group | Keiyo Sales Group | Osaka Northern Sales Group |
| | Osaka Southern Sales Group | | |
| **Regional Offices** | Sapporo Branch | Sendai Branch | Utsunomiya Branch |
| | Kyoto Branch | Kobe Branch | Hiroshima Branch |
| | Kyushu Branch | | |

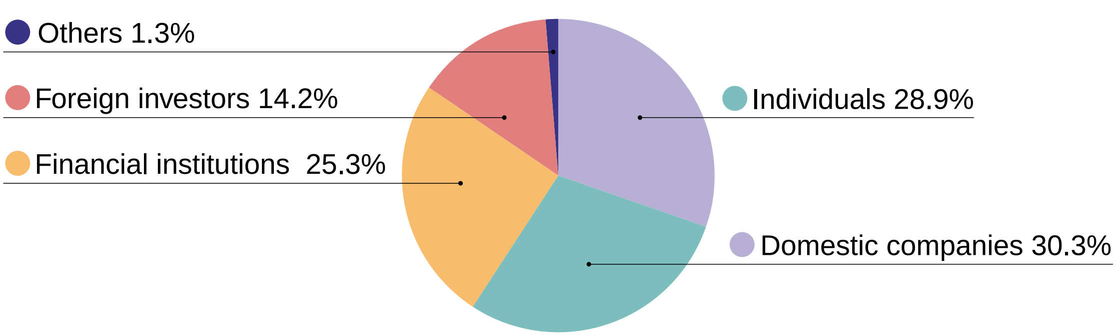
# Stock Information (As of December 31, 2010)

| | |
|---|---|
| **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** | **5,114** |

## 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)** | 2,282,600 | 7.20 | — | — |
| **The Master Trust Bank of Japan, Ltd. (Trust Account)** | 1,847,900 | 5.83 | — | — |
| **Minoru Otsuka** | 1,525,490 | 4.81 | — | — |
| **Yuji Otsuka** | 1,457,780 | 4.60 | — | — |
| **OTSUKA CORPORATION Employee Stock-Sharing Plan** | 1,090,920 | 3.44 | — | — |
| **Atsushi Otsuka** | 1,075,950 | 3.39 | — | — |
| **Terue Otsuka** | 645,500 | 2.03 | — | — |
| **The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)** | 542,200 | 1.71 | — | — |
| **Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)** | 313,700 | 0.99 | — | — |

## Breakdown of Shareholders (Based on total shares)



OTSUKA CORPORATION WEBSITE

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

Otsuka Corporation

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