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 Transport and installation Network construction Introduction for packaged software Customized development of make-to-order software Other related services
Service and Support business	Supplies for comprehensive information system Telephone support Maintenance Consigned system operation Data recovery IT education Guidance for operation of packaged software Hotel business
Other business	Construction Repair, sale of automobiles Insurance Printing

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

	Millions of yen		Thousands of U.S. dollars
	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