Financial Section

Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries
Years ended December 31, 2010, 2011 and 2012

	Millions of yen			Thousands of U.S. dollars
	2010	2011	**2012**	**2012**
Net sales	¥463,493	¥478,215	**¥515,771**	**$5,957,170**
System Integration business	253,541	262,508	**289,840**	**3,347,663**
Service and Support business	208,008	214,576	**225,298**	**2,602,204**
Other business	1,942	1,130	**632**	**7,302**
Operating income	19,013	23,095	**28,251**	**326,299**
Ordinary income	19,508	23,315	**29,079**	**335,873**
Income before income taxes and minority interests	18,687	22,350	**28,399**	**328,009**
Net income	10,631	12,744	**16,277**	**188,011**
Total assets	213,401	229,610	**253,158**	**2,923,984**
Interest-bearing debt	7,802	8,415	**9,367**	**108,193**
Equity	108,255	116,633	**128,471**	**1,483,849**
Net income per share (EPS) (Yen and U.S. dollars)	336.42	403.28	**515.11**	**5.95**
Dividends per share of common stock (Yen and U.S. dollars)	135.00	155.00	**200.00**	**2.31**
Cash flows from operating activities per share (Yen and U.S. dollars)	564.91	732.82	**818.94**	**9.45**
Operating income to Net sales ratio (%)	4.10	4.83	**5.48**	—
Net income to Net sales ratio (%)	2.29	2.66	**3.16**	—
Interest-bearing debt ratio (%)	3.66	3.67	**3.70**	—
Equity ratio (%)	50.73	50.80	**50.75**	—
Return on equity (ROE) (%)	10.13	11.33	**13.28**	—

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, 2012 exchange rate of ¥86.58 = US$1.

Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

	2011	2012	Difference to Last Year	% Change to Last Year
				Millions of yen
Net sales	¥478,215	**¥515,771**	+37,556	+7.9%
System Integration business	262,508	**289,840**	+27,332	+10.4
Service & Support business	214,576	**225,298**	+10,722	+5.0
Other business	1,130	**632**	-498	-44.1
Cost of sales	371,828	**401,113**	+29,285	+7.9
Gross profit	106,387	**114,658**	+8,271	+7.8
Selling, general and administrative expenses	83,292	**86,407**	+3,115	+3.7
Operating income	23,095	**28,251**	+5,155	+22.3
Ordinary income	23,315	**29,079**	+5,764	+24.7
Income before income taxes and minority interests	22,350	**28,399**	+6,048	+27.1
Income taxes				
Current	9,629	**12,353**	+2,724	+28.3
Deferred	-122	**-368**	-245	—
Net income	12,744	**16,277**	+3,533	+27.7

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded consolidated net sales of ¥515,771 million, an increase of ¥37,556 million (7.9%) from the previous fiscal year.

System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. We seized demand for replacement and upgrade systems as well as for power saving countermeasures at companies and active corporate demand for IT investment. Consequently, the System Integration business recorded sales growth, with net sales rising 10.4% to ¥289,840 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 solid growth in sales, while sales from maintenance and other support rose from the previous fiscal year. As a result, net sales in the Service and Support business rose 5.0% to ¥225,298 million.

Other Business

In the Other Business, net sales declined 44.1% from the previous fiscal year to ¥632 million.

Summary of Income and Expenses

Regarding profits, gross profit increased 7.8% to ¥114,658 million due to growth in net sales. Because the rise in gross profit exceeded the increase in selling, general and administrative (SG&A) expenses, operating income increased 22.3% to ¥28,251 million, ordinary income increased 24.7% to ¥29,079 million, and net income was up 27.7% to ¥16,277 million. Net income per share amounted to ¥515.11.

Financial Position

				Millions of yen
			Difference to	% Change to
	2011	**2012**	Last Year	Last Year
Assets:	¥229,610	**¥253,158**	+23,547	+10.3%
Current assets	166,068	**188,934**	+22,866	+13.8
Fixed assets	63,542	**64,223**	+681	+1.1
Liabilities:	112,224	**123,890**	+11,665	+10.4
Current liabilities	108,180	**118,682**	+10,501	+9.7
Fixed liabilities	4,043	**5,207**	+1,163	+28.8
Net assets	117,385	**129,268**	+11,882	+10.1

Assets

Total assets at fiscal year-end increased ¥23,547 million from the previous fiscal year-end to ¥253,158 million. Current assets increased ¥22,866 million from the previous fiscal year-end to ¥188,934 million due to a rise in cash and time deposits. Fixed assets increased ¥681 million from the previous fiscal year-end to ¥64,223 million.

Liabilities

Total liabilities increased ¥11,665 million to ¥123,890 million. Current liabilities increased ¥10,501 million to ¥118,682 million due to an increase in accounts and notes payable. Fixed liabilities increased ¥1,163 million from the previous fiscal year-end to ¥5,207 million.

Net Assets

Total net assets increased ¥11,882 million from the previous fiscal year-end to ¥129,268 million owing to such factors as an increase in retained earnings. As a result, the equity ratio decline 0.1 percentage point to 50.7%.

The interest coverage ratio was 392.65 times; the interest-bearing debt ratio was 3.70%; return on equity (ROE) was 13.28%; and return on assets (ROA) was 11.90%.

	2011	**2012**
Interest coverage ratio (times)	299.28	**392.65**
Interest-bearing debt ratio (%)	3.67	**3.70**
ROE (%)	11.33	**13.28**
ROA (%)	10.33	**11.90**

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	
	2011	**2012**
Cash flows from operating activities	¥23,158	**¥25,879**
Cash flows from investing activities	-4,604	**-4,894**
Cash flows from financing activities	-4,229	**-5,190**
Cash and cash equivalents at end of year	52,320	**68,113**

Cash and cash equivalents at end of year totalled ¥68,113 million, an increase of ¥15,793 million (30.2%) from the end of the previous fiscal year. Factors relating to each cash flow category were as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥25,879 million, an increase of ¥2,721 million from the previous fiscal year, due to an increase in income before income taxes and minority interests.

Cash Flows from Investing Activities

Net cash used in investing activities increased ¥290 million from the previous fiscal year to ¥4,894 million due to an increase in payments for purchase of investments in securities.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥961 million to ¥5,190 million due to an increase in cash dividends paid.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, increased ¥2,430 million to ¥20,984 million.

Forecast for Fiscal 2013

In fiscal 2013, the Company forecasts a 3.9% increase in consolidated net sales to ¥536,000 million, a 8.0% increase in operating income to ¥30,500 million, a 6.6% increase in ordinary income to ¥31,000 million and a 11.1% increase in net income to ¥18,090 million.

By segment, we forecast a 3.8% increase in net sales to ¥300,960 million in the System Integration business, a 4.0% increase to ¥234,400 million in the Service and Support business and a 1.2% increase to ¥640 million in the Other Business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	**2012**	**2012**
ASSETS			
Current assets			
Cash, time deposits and other cash equivalents (Notes 12 and 17)	¥ 45,600	**¥ 61,519**	**$ 710,556**
Accounts and notes receivable (Note 18):			
Trade	80,606	**88,105**	**1,017,622**
Unconsolidated subsidiaries and affiliates	1,146	**1,872**	**21,623**
Other	4,658	**3,669**	**42,386**
	86,412	**93,647**	**1,081,632**
Less: Allowance for doubtful accounts	(455)	**(300)**	**(3,466)**
	85,956	**93,347**	**1,078,165**
Short-term investments (Notes 5 and 12)	5,000	**5,000**	**57,750**
Inventories (Note 7)	17,613	**16,494**	**190,512**
Deferred tax assets (Note 10)	3,723	**3,272**	**37,797**
Other current assets (Note 12)	8,174	**9,300**	**107,416**
Total current assets	166,068	**188,934**	**2,182,198**
Investments and other assets			
Investments in securities (Note 5)	2,311	**3,602**	**41,610**
Investments in unconsolidated subsidiaries and affiliates	2,607	**2,418**	**27,932**
Guarantee deposits	2,555	**2,507**	**28,962**
Deferred tax assets non-current (Note 10)	1,354	**1,949**	**22,521**
Other investments	3,841	**5,024**	**58,030**
Less: Allowance for doubtful accounts	(1,099)	**(1,723)**	**(19,907)**
	11,571	**13,779**	**159,149**
Property and equipment			
Land (Note 16)	17,291	**17,259**	**199,351**
Buildings and structures	65,059	**65,309**	**754,328**
Other	14,525	**14,335**	**165,574**
	96,876	**96,905**	**1,119,254**
Less: Accumulated depreciation	(50,262)	**(51,441)**	**(594,144)**
Net property and equipment	46,614	**45,464**	**525,109**
Intangibles and deferred charges			
Software	5,197	**4,867**	**56,217**
Other	158	**113**	**1,309**
	5,355	**4,980**	**57,526**
Total assets	¥229,610	**¥253,158**	**$2,923,984**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	2012	2012
LIABILITIES AND NET ASSETS			
Current liabilities			
Short-term bank loans (Note 8)	¥ 7,400	**¥ 7,150**	**$ 82,582**
Current maturities of long-term debts (Note 8)	10	**—**	**—**
Accounts and notes payable (Notes 17 and 19):			
Trade	61,341	**67,359**	**777,997**
Unconsolidated subsidiaries and affiliates	1,044	**1,272**	**14,698**
Other	14,996	**14,641**	**169,104**
	77,381	**83,272**	**961,800**
Income taxes payable (Note 10)	5,377	**7,846**	**90,628**
Other current liabilities (Note 10)	18,011	**20,413**	**235,774**
Total current liabilities	108,180	**118,682**	**1,370,786**
Long-term liabilities			
Reserve for retirement benefits (Note 9)	2,384	**2,668**	**30,824**
Deferred tax liabilities non-current (Note 10)	83	**60**	**703**
Deferred tax liabilities on revaluation of land (Note 16)	189	**189**	**2,193**
Other long-term liabilities	1,386	**2,287**	**26,422**
Total long-term liabilities	4,043	**5,207**	**60,144**
Net assets			
Shareholders' equity (Note 15)			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: 31,667,020 shares as of December 31, 2011 and 2012	10,374	**10,374**	**119,829**
Capital surplus	16,254	**16,254**	**187,742**
Retained earnings	104,308	**115,688**	**1,336,205**
Treasury stock			
65,855 shares as of December 31, 2011 and			
65,994 shares as of December 31, 2012	(125)	**(126)**	**(1,461)**
Total shareholders' equity	130,812	**142,191**	**1,642,315**
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	291	**678**	**7,832**
Revaluation differences on land (Note 16)	(14,304)	**(14,304)**	**(165,216)**
Foreign currency translation adjustments	(165)	**(93)**	**(1,081)**
Total accumulated other comprehensive income	(14,178)	**(13,719)**	**(158,465)**
Minority interests in consolidated subsidiaries	752	**796**	**9,203**
Total net assets	117,385	**129,268**	**1,493,053**
Total liabilities and net assets	¥229,610	**¥253,158**	**$2,923,984**

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, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	**2012**	**2012**
Net sales (Note 21)	¥478,215	**¥515,771**	**$5,957,170**
Cost of sales (Notes 20 and 21)	371,828	**401,113**	**4,632,861**
Gross profit	106,387	**114,658**	**1,324,309**
Selling, general and administrative expenses (Notes 20 and 21)	83,292	**86,407**	**998,009**
Operating income	23,095	**28,251**	**326,299**
Other income (expenses)			
Interest and dividend income	108	**120**	**1,388**
Interest expenses	(76)	**(73)**	**(844)**
Reversal of allowance for doubtful accounts	91	**—**	**—**
Provision for allowance for doubtful accounts	(292)	**(485)**	**(5,602)**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	(325)	**343**	**3,965**
Loss on disposal of fixed assets	(167)	**(208)**	**(2,407)**
Impairment losses	(19)	**(177)**	**(2,049)**
Loss on adjustment for changes of accounting standard for asset retirement obligations	(510)	**—**	**—**
Loss on devaluation of investments in securities	(48)	**(18)**	**(218)**
Gain on sales of investments in unconsolidated subsidiaries and affiliates	—	**37**	**431**
Gain (loss) on sales of investment securities	3	**60**	**704**
Compensation income	—	**112**	**1,300**
Other, net	491	**436**	**5,042**
	(744)	**148**	**1,710**
Income before income taxes and minority interests	22,350	**28,399**	**328,009**
Income taxes (Note 10)			
Current	9,629	**12,353**	**142,684**
Deferred	(122)	**(368)**	**(4,254)**
	9,506	**11,985**	**138,429**
Income before minority interests	12,844	**16,413**	**189,579**
Minority interests	100	**135**	**1,568**
Net income	¥ 12,744	**¥16,277**	**$ 188,011**
	yen		U.S. dollars (Note 3)
Net income and dividends per share (Note 2(17), 13 and 22)			
Basic net income	**¥403.28**	**¥515.11**	**$5.95**
Diluted net income	**403.10**	**—**	**—**
Cash dividends	**155.00**	**200.00**	**2.31**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	**2012**	**2012**
Income before minority interests	¥12,844	**¥16,413**	**$189,579**
Other comprehensive income			
Unrealized gains on available-for-sale securities	(89)	**383**	**4,431**
Revaluation difference on land	26	**—**	**—**
Share of other comprehensive income of unconsolidated subsidiaries and associates accounted for using equity method	(37)	**75**	**872**
Total other comprehensive income (Note 11)	(99)	**459**	**5,304**
Comprehensive income	¥12,745	**¥16,873**	**$194,883**
Comprehensive income attributable to:			
Shareholders of OTSUKA CORPORATION (owners of the parent)	¥12,645	**¥16,736**	**$193,304**
Minority interests	99	**136**	**1,579**

The accompanying notes are an integral part of this statement.

Consolidated Statements of Changes in Net Assets

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2011

		Shareholders' equity				Millions of yen
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2011	31,667,020	¥10,374	¥16,254	¥ 95,830	¥(124)	¥122,335
Dividends				(4,266)		(4,266)
Net income				12,744		12,744
Purchase of treasury stock					(0)	(0)
Items other than changes in shareholders' equity						
Balance at December 31, 2011	31,667,020	¥10,374	¥16,254	¥104,308	¥(125)	¥130,812

	Accumulated other comprehensive income					Millions of yen
	Unrealized gains on availabe-for-sale securities	Revaluation differences on land	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interest in consolidated subsidiaries	Total net assets
Balance at January 1, 2011	¥383	¥(14,331)	¥(131)	¥(14,079)	¥675	¥108,931
Dividends						(4,266)
Net income						12,744
Purchase of treasury stock						(0)
Items other than changes in shareholders' equity	(92)	26	(33)	(98)	76	(22)
Balance at December 31, 2011	¥291	¥(14,304)	¥(165)	¥(14,178)	¥752	¥117,385

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

Millions of yen

	Number of shares issued	Shareholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2012	**31,667,020**	**¥10,374**	**¥16,254**	**¥104,308**	**¥(125)**	**¥130,812**
Dividends				**(4,898)**		**(4,898)**
Net income				**16,277**		**16,277**
Change in the scope of consolidation				**(22)**		**(22)**
Change in the scope of equity method				**23**		**23**
Purchase of treasury stock					**(0)**	**(0)**
Items other than changes in shareholders' equity						
Balance at December 31, 2012	**31,667,020**	**¥10,374**	**¥16,254**	**¥115,688**	**¥(126)**	**¥142,191**

Millions of yen

	Accumulated other comprehensive income: Unrealized gains on availabe-for-sale securities	Revaluation differences on land	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interest in consolidated subsidiaries	Total net assets
Balance at January 1, 2012	**¥291**	**¥(14,304)**	**¥(165)**	**¥(14,178)**	**¥752**	**¥117,385**
Dividends						**(4,898)**
Net income						**16,277**
Change in the scope of consolidation						**(22)**
Change in the scope of equity method						**23**
Purchase of treasury stock						**(0)**
Items other than changes in shareholders' equity	**386**	**—**	**71**	**458**	**44**	**503**
Balance at December 31, 2012	**¥678**	**¥(14,304)**	**¥(93)**	**¥(13,719)**	**¥796**	**¥129,268**

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

Thousands of U.S. dollars (Note 3)

	Number of shares issued	Shareholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2012	**31,667,020**	**$119,829**	**$187,742**	**$1,204,760**	**$(1,450)**	**$1,510,882**
Dividends				**(56,574)**		**(56,574)**
Net income				**188,011**		**188,011**
Change in the scope of consolidation				**(262)**		**(262)**
Change in the scope of equity method				**270**		**270**
Purchase of treasury stock					**(11)**	**(11)**
Items other than changes in shareholders' equity						
Balance at December 31, 2012	**31,667,020**	**$119,829**	**$187,742**	**$1,336,205**	**$(1,461)**	**$1,642,315**

Thousands of U.S. dollars (Note 3)

	Accumulated other comprehensive income: Unrealized gains on availabe-for-sale securities	Revaluation differences on land	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interest in consolidated subsidiaries	Total net assets
Balance at January 1, 2012	**$3,363**	**$(165,216)**	**$(1,906)**	**$(163,758)**	**$8,685**	**$1,355,808**
Dividends						**(56,574)**
Net income						**188,011**
Change in the scope of consolidation						**(262)**
Change in the scope of equity method						**270**
Purchase of treasury stock						**(11)**
Items other than changes in shareholders' equity	**4,468**	**—**	**824**	**5,293**	**517**	**5,811**
Balance at December 31, 2012	**$7,832**	**$(165,216)**	**$(1,081)**	**$(158,465)**	**$9,203**	**$1,493,053**

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, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2011	**2012**	**2012**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥22,350	**¥28,399**	**$328,009**
Depreciation and amortization	5,944	**5,766**	**66,598**
Equity in net income of unconsolidated subsidiaries and affiliates	325	**(343)**	**(3,965)**
Increase (decrease) in reserve for retirement benefits	(20)	**146**	**1,697**
Increase in allowance for doubtful accounts	116	**469**	**5,425**
Interest and dividend income	(108)	**(120)**	**(1,388)**
Interest expenses	76	**73**	**844**
Loss on disposal of fixed asset	167	**208**	**2,407**
Impairment losses	19	**177**	**2,049**
Loss on adjustment for changes of accounting standard for asset retirement obligations	510	**—**	**—**
Loss (gain) on sales of investment securities	(3)	**(60)**	**(704)**
Loss on devaluation of investments in securities	48	**18**	**218**
Loss (gain) on sales of investments in unconsolidated subsidiaries and affiliates	—	**(36)**	**(422)**
Compensation (income)	—	**(112)**	**(1,300)**
Decrease (increase) in accounts and notes receivable	(3,884)	**(7,491)**	**(86,526)**
Decrease (increase) in inventories	1,931	**1,125**	**13,001**
Increase (decrease) in accounts and notes payable	3,992	**5,506**	**63,597**
Other	1,069	**1,848**	**21,345**
Subtotal	32,535	**35,574**	**410,886**
Interest and dividend income received	144	**162**	**1,879**
Interest expenses paid	(77)	**(73)**	**(844)**
Proceeds from compensation	—	**112**	**1,300**
Income taxes paid	(9,444)	**(9,897)**	**(114,316)**
Net cash provided by operating activities	23,158	**25,879**	**298,905**
Cash flows from investing activities:			
Payments for purchase of property and equipment	(2,459)	**(1,963)**	**(22,683)**
Proceeds from sales of property and equipment	17	**0**	**3**
Payments for software developed	(2,522)	**(2,654)**	**(30,664)**
Payments for purchase of investments in securities	(110)	**(1,078)**	**(12,455)**
Proceeds from sales of investments in securities	8	**110**	**1,280**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	**50**	**580**
Proceeds from sales of investments in unconsolidated subsidiaries and affiliates	—	**615**	**7,110**
Payments for long-term loans receivable	(291)	**(279)**	**(3,232)**
Proceeds from long-term loans receivable	63	**44**	**516**
Other	690	**260**	**3,008**
Net cash used in investing activities	(4,604)	**(4,894)**	**(56,537)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	100	**(250)**	**(2,887)**
Repayments for long-term debts	(40)	**(10)**	**(115)**
Cash dividends paid	(4,264)	**(4,898)**	**(56,575)**
Other	(24)	**(32)**	**(376)**
Net cash used in financing activities	(4,229)	**(5,190)**	**(59,954)**
Net increase in cash and cash equivalents	14,324	**15,793**	**182,413**
Cash and cash equivalents at beginning of year	37,924	**52,320**	**604,298**
Increase (decrease) in cash and cash equivalents resulting from merger of subsidiaries	71	**—**	**—**
Cash and cash equivalents at end of year (Note 12)	¥52,320	**¥68,113**	**$786,712**

The accompanying notes are an integral part of these statements.

1. Basis of Presentation of the Consolidated Financial Statements

Accounting Principles

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

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

The Company had 12 subsidiaries (majority-owned companies) and 11 subsidiaries as at December 31, 2011 and 2012, respectively. The consolidated financial statements include the accounts of the Company and 8 subsidiaries and 7 subsidiaries for the years ended December 31, 2011 and 2012, respectively.

The 7 subsidiaries which were consolidated in the year ended December 31, 2012 are listed below:

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

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

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

The accounts of the remaining 4 unconsolidated subsidiaries as at December 31, 2011 and 2012, consisted of insignificant amounts in terms of total assets, net sales, net income and retained earnings, and have, therefore, been excluded from consolidation.

Otsuka Business Service Co., LTD became an affiliate and was excluded from the scope of consolidation during fiscal year 2012, due to sales of shares.

(2) Investments in unconsolidated subsidiaries and affiliates

The Company had 4 unconsolidated subsidiaries and 10 affiliates at December 31, 2011 and 4 unconsolidated subsidiaries and 11 affiliates at December 31, 2012.

The Company had 3 investments in affiliate for the equity method and 2 investments in affiliate for the equity method at December 31, 2011 and 2012, respectively. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method were carried at cost, since they did not have a material impact on consolidated net income and retained earnings in the consolidated financial statements.

The 2 investments in affiliate by the equity method at December 31, 2012, are listed below:

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

SIOS Technology, Inc. became immaterial and was excluded from the investments in affiliate for the equity method during fiscal year 2012, due to sales of shares.

(3) Cash and cash equivalents

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

(4) Inventories

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

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

(5) Financial instruments

(a) Securities

Securities held by the Companies are classified into two categories:

• Held-to-maturity debt securities

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

• Available-for-sale securities

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

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

(b) Derivatives

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

(6) Property and equipment (excluding lease assets)

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

Estimated useful lives of assets are principally as follows:

Building and structures — 15 to 50 years

Other — 4 to 10 years

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

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

Development costs of computer software to be sold are amortized based on the estimated sales revenue with the minimum amortization amount calculated based on a useful life within 3 years.

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

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) Amortization of Long Term Prepaid Expenses

Long term prepaid expenses are amortized using the straight-line method over their useful lives.

(10) Accounting for income taxes

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

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

(11) 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.

(12) Accrued Bonuses for Employees

The Companies provide accrued bonuses for employees based on the estimated amounts to be paid in respect of the fiscal year.

(13) 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 7 consolidated subsidiaries have retirement benefits for directors.

Retirement benefits for directors at the balance sheet date are based on an estimate of the amounts to be paid as retirement allowance by the Company and certain of its consolidated subsidiaries for services rendered by directors by that date.

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

Revenues and costs of the make-to-order software contacts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

(15) Goodwill

Goodwill is determined on a case by case basis and is generally amortized using the straight-line method over it's estimated useful lives or period not exceeding 5 years.

(16) Accounting Standard for Accounting Changes and Error Corrections

Effective from the beginning of this fiscal year, the Companies adopted the “Accounting Standard for Accounting Changes and Error Corrections” (Accounting Standards Board of Japan Statement No.24 dated December 4, 2009) and the “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (Accounting Standards Board of Japan Guidance No.24 dated December 4, 2009).

(17) 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.

(18) Accounting for the consumption tax

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

(19) 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 ¥86.58=US$1, the rate of exchange on December 31, 2012, 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 of settled in U.S. dollars at this rate.

4. Financial Instruments

1 Financial Instruments

(1) Policy for financial instruments

The Companies manage surplus funds through low-risk financial instruments, and raise short-term operating funds through bank loans.

(2) Types of financial instruments, related risk and risk management

Trade receivables -trade notes and accounts receivable- are exposed to customers' credit risk.

The Companies try to reduce credit risk by monitoring and analyzing the creditworthiness of each customer, as well as managing due dates and balances.

Investment securities are comprised of mainly held-to-maturity debt securities and the securities of the companies with which the Companies have operational relationships.

Although debt securities and listed securities are exposed to the risk arising from fluctuations in the market, the Companies monitor and analyze market value and the issuers' financial status periodically to reduce these risks.

Trade payables -trade notes and accounts payable- have payment due date within three months.

Bank loans are raised mainly in connection with business activities.

The Companies reduce liquidity risk relating to these payables by developing a cash flow plan.

Derivative transactions are foreign exchange contracts, entered into by the consolidated subsidiary.

Conducting and managing derivative transactions are in accordance with the internal policies, which set forth delegation of authority.

2 Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheet as of December 31, 2011 and 2012 and estimated fair value were as follows.

As of December 31, 2011	Millions of yen		
	Carrying value	Fair value	Difference
Assets			
1) Cash on hands and in bank	¥ 45,600	¥ 45,600	¥ —
2) Trade notes and accounts receivable	79,558	79,558	—
3) Investment securities			—
Held-to-maturity debt securities	5,000	5,000	—
Other securities	1,635	1,635	—
Investment in affiliates	1,319	1,319	(0)
Total assets	¥133,114	¥133,114	¥ (0)
Liabilities			
4) Trade notes and accounts payable	¥ 71,514	¥ 71,514	¥ —
5) Short-term borrowings (* 1)	7,400	7,400	—
6) Income tax payable	5,377	5,377	—
Total liabilities	¥ 84,291	¥ 84,291	—
Derivative transaction (* 2)	¥ (0)	¥ (0)	¥ —

*1 Short-term borrowings do not include the current portion of long-term loans payable.

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

As of December 31, 2012			Millions of yen
	Carrying value	Fair value	Difference
Assets			
1) Cash on hands and in bank	¥ 61,519	¥ 61,519	¥ —
2) Trade notes and accounts receivable	86,983	86,983	—
3) Investment securities			
Held-to-maturity debt securities	5,000	5,000	—
Other securities	3,272	3,272	—
Investment in affiliates	909	1,204	294
Total assets	¥157,686	¥157,980	¥294
Liabilities			
4) Trade notes and accounts payable	¥ 76,978	¥ 76,978	—
5) Short-term borrowings	7,150	7,150	—
6) Income tax payable	7,846	7,846	—
Total liabilities	¥ 91,974	¥ 91,974	¥ —
Derivative transaction (*)	¥ 18	¥ 18	¥ —

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

As of December 31, 2012			(Thousands of U.S. dollars)
	Carrying value	Fair value	Difference
Assets			
1) Cash on hands and in bank	$ 710,557	$ 710,557	$ —
2) Trade notes and accounts receivable	1,004,666	1,004,666	—
3) Investment securities			
Held-to-maturity debt securities	57,750	57,750	—
Other securities	37,796	37,796	—
Investment in affiliates	10,508	13,910	3,401
Total assets	$1,821,277	$1,824,678	$ 3,401
Liabilities			
4) Trade notes and accounts payable	$ 889,100	$ 889,100	$ —
5) Short-term borrowings	82,583	82,583	—
6) Income tax payable	90,629	90,629	—
Total liabilities	$1,062,311	$1,062,311	$ —
Derivative transaction (*)	$ 208	$ 208	$ —

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

Notes:

1 Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions.

Assets

(1) Cash on hands and in bank (2) Trade notes and accounts receivable

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

(3) Investment securities

The fair value of stocks is based on quoted market prices. Since debt securities are settled in a short period of time, the carrying value of debt securities approximates fair value.

Liabilities

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

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

Derivative transaction

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

2 Financial instruments for which it is extremely difficult to determine the fair value.

As of	December 31 2011 (Millions of yen)	December 31 2012 (Millions of yen)	December 31 2012 (Thousands of U.S. dollar)
Unlisted stocks	¥1,881	**¥1,760**	**$20,339**
Investments in investment business limited partnerships	81	**77**	**899**

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

3 Redemption schedule for receivables and marketable securities with maturities at December 31, 2011 and 2012 are as follows:

As of December 31, 2011	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hands and in bank	¥ 45,600	¥ —	¥ —	¥ —
Trade notes and accounts receivable	79,558	—	—	—
Investment securities				
Held-to-maturity debt securities	5,000	—	—	—
Total	¥ 130,158	¥ —	¥ —	¥ —

As of December 31, 2012	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hands and in bank	**¥ 61,519**	**¥ —**	**¥ —**	**¥ —**
Trade notes and accounts receivable	**86,983**	**—**	**—**	**—**
Investment securities				
Held-to-maturity debt securities	**5,000**	**—**	**—**	**—**
Total	**¥153,503**	**¥ —**	**¥ —**	**¥ —**

As of December 31, 2012	(Thousands of U.S. dollars)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hands and in bank	**$ 710,557**	**$ —**	**$ —**	**$ —**
Trade notes and accounts receivable	**1,004,666**	**—**	**—**	**—**
Investment securities				
Held-to-maturity debt securities	**57,750**	**—**	**—**	**—**
Total	**$1,772,972**	**$ —**	**$ —**	**$ —**

5. Investments in Securities

As of December 31, 2011 and 2012 investments in securities were as follows:

(1) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2011			**2012**			**2012**		
	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									
Negotiable certificates of deposit	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Securities whose carrying value does not exceed their acquisition costs									
Negotiable certificates of deposit	¥5,000	¥5,000	—	**¥5,000**	**¥5,000**	**—**	**$57,750**	**$57,750**	**—**
	¥5,000	¥5,000	—	**¥5,000**	**¥5,000**	**—**	**$57,750**	**$57,750**	**—**
Total	¥5,000	¥5,000	—	**¥5,000**	**¥5,000**	**—**	**$57,750**	**$57,750**	**—**

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

	Millions of yen						Thousands of U.S. dollars		
	2011			**2012**			**2012**		
	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	¥ 694	¥ 1,297	¥ 603	**¥ 763**	**¥ 1,855**	**¥ 1,092**	**$ 8,817**	**$21,436**	**$12,619**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 694	¥ 1,297	¥ 603	**¥ 763**	**¥ 1,855**	**¥ 1,092**	**$ 8,817**	**$21,436**	**$12,619**
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥ 372	¥ 277	¥ (95)	**¥ 381**	**¥ 351**	**¥ (29)**	**$ 4,405**	**$ 4,064**	**$ (340)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	92	60	(31)	**1,073**	**1,064**	**(8)**	**12,397**	**12,295**	**(102)**
	¥ 464	¥ 338	¥ (126)	**¥1,454**	**¥ 1,416**	**¥ (38)**	**$16,802**	**$16,359**	**$ (442)**
Total	¥1,159	¥ 1,635	¥ 476	**¥2,218**	**¥ 3,272**	**¥ 1,054**	**$25,620**	**$37,796**	**$12,176**

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

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
	Carrying value	Carrying value	Carrying value
Available-for-sale securities			
Unlisted stocks	¥593	**¥252**	**$2,915**
Investment in limited liability partnerships	81	**77**	**898**

(3) Available-for-sale securities sold in 2011 and 2012 (for the years ended December 31, 2011 and 2012)

	Millions of yen						Thousands of U.S. dollars		
	2011			2012			2012		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
	¥8	¥3	—	**¥110**	**¥61**	**¥0**	**$1,280**	**$704**	**$0**

(4) Impairment for securities

Impairment for securities was recognized in the amounts of 48 million yen and 18 million yen (218 thousand U.S. dollars) for the years ended December 31, 2011 and 2012, respectively.

As for securities whose fair value at the year end are less than 50% of the acquisition costs, or are more than 50% but less than 70% and deemed to be unrecoverable, the impairment losses are recognized.

6. Derivative Information

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

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

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

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

As of December 31, 2011 and 2012, derivatives for which hedge accounting have not been applied, were as follows:

Currency-related transactions

	Millions of yen			
	2011			
	Contractual value or notional principal amount			Valuation gain
	Total	Over one year	Fair value	(loss)
Forward foreign exchange contracts purchasing U.S.dollar	¥46	—	¥(0)	¥(0)

	Millions of yen			
	2012			
	Contractual value or notional principal amount			Valuation gain
	Total	Over one year	Fair value	(loss)
Forward foreign exchange contracts purchasing U.S.dollar	**¥570**	**—**	**¥18**	**¥18**

	Thousands of U.S. dollars			
	2012			
	Contractual value or notional principal amount			Valuation gain
	Total	Over one year	Fair value	(loss)
Forward foreign exchange contracts purchasing U.S.dollar	**$6,590**	**—**	**$208**	**$208**

7. Inventories

Inventories at December 31, 2011 and 2012 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Merchandise	¥15,833	**¥14,298**	**$165,145**
Work in process	818	**1,271**	**14,686**
Raw materials and supplies	961	**924**	**10,681**
	¥17,613	**¥16,494**	**$190,512**

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

The annual average interest rates applicable to short-term bank loans at December 31, 2011 and 2012 were 0.99% and 0.94%, respectively.

Long-term debt at December 31, 2011 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Long-term loans from banks with annual interest rates:			
1.63% (excluding lease obligations)	¥10	**—**	**—**
	10	**—**	**—**
Less : Current portion of long-term debts	(10)	**—**	**—**
	—	**—**	**—**

9. Reserve for Retirement Benefits

(1) Retirement benefit plan

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

(2) The reserve for retirement benefits as of December 31, 2011 and 2012 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Retirement benefit obligations	¥ (33,944)	**¥ (35,672)**	**$ (412,019)**
Plan assets	33,305	**36,567**	**422,354**
	(639)	**894**	**10,334**
Unrecognized actuarial gain or loss	4,231	**1,748**	**20,198**
Unrecognized prior service cost	(4,122)	**(3,320)**	**(38,355)**
	(530)	**(677)**	**(7,821)**
Prepaid pension cost	1,371	**1,469**	**16,967**
Reserve for retirement benefits	¥ (1,902)	**¥ (2,146)**	**$ (24,789)**

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2011 and 2012 included retirement benefits for directors in the amounts of 482 million yen and 522 million yen (6,035 thousand U.S. dollars), respectively.

(3) Retirement benefit expense related to the retirement benefits for the year ended December 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Service cost	¥ 2,213	**¥ 2,324**	**$ 26,851**
Interest cost	476	**498**	**5,753**
Expected return on plan assets	(162)	**(166)**	**(1,923)**
Amortization of the unrecognized prior service cost	(793)	**(801)**	**(9,256)**
Amortization of the unrecognized actuarial gain or loss	553	**604**	**6,981**
Payments for defined contribution pension plan	798	**804**	**9,292**
Additional benefits for employees' early retirement	234	**212**	**2,459**
Net periodic retirement benefit expense	¥ 3,319	**¥ 3,476**	**$ 40,158**

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

(4) Computation basis of reserve for retirement benefits

As of December 31, 2011 and 2012

	2011	**2012**
Discount rate	1.5%	**1.5%**
Expected rate of return on plan assets	0.5%	**0.5%**
Periodic allocation principle for retirement benefit obligation	Straight line basis	**Straight line basis**
Amortization of unrecognized prior service cost	12 years	**12 years**
Amortization of unrecognized actuarial gain or loss	mainly12 years from the following fiscal year of occurrence	**mainly 12 years from the following fiscal year of occurrence**

10. Income Taxes

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2011 and 2012 were 40.7%.

Since the difference between the statutory tax rates and the effective tax rates for the fiscal year ended December 31, 2011(42.5%) and 2012(42.2%) are less than 5%, respectively, a reconciliation of two rates is not presented.

As of December 31, 2011 and 2012, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2012	2012
Deferred tax assets:			
Allowance for doubtful accounts	¥ 351	¥ 538	$ 6,223
Enterprise taxes	537	665	7,692
Accrued bonuses	1,152	1,104	12,757
Retirement benefits for employees	688	774	8,941
Retirement benefits for directors	173	187	2,162
Impairment losses	950	961	11,104
Software development cost	1,444	1,454	16,794
Eliminated unrealized profits	280	303	3,506
Other	1,768	1,807	20,879
Total deferred tax assets	7,347	7,797	90,060
Less: Valuation allowance	(1,624)	(1,667)	(19,264)
Net deferred tax assets	5,723	6,129	70,796
Deferred tax liabilities:			
Prepaid pension cost	495	525	6,065
Unrealized gains on available-for-sale securities	164	363	4,203
Other	71	80	931
Total deferred tax liabilities	731	969	11,201
Net deferred tax assets	¥ 4,991	¥ 5,159	$ 59,594

11. Other comprehensive income

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

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized gains on available-for-sale securities		
Amount arising during the year	¥ 566	$ 6,544
Reclassification adjustments	18	218
Amount before tax effects	585	6,762
Tax effects	(201)	(2,331)
Unrealized gains on available-for-sale securities	383	4,431
Share of other comprehensive income of associates accounted for using equity method		
Amount arising during the year	75	872
Reclassification adjustments	(0)	(0)
Share of other comprehensive income of associates accounted for using equity method	75	872
Total other comprehensive income	¥ 459	$ 5,304

12. Supplementary Cash Flow Information

Cash and cash equivalents as of December 31, 2011 and 2012 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Cash, time deposits and other cash equivalents	¥45,600	**¥61,519**	**$710,556**
Time deposits with deposit terms of more than three months	(55)	**(55)**	**(635)**
Short-term investments with maturity or redemption dates within three months from acquisition date	5,000	**5,000**	**57,750**
Trust beneficiary interests included in other current assets with investment terms with three months or less	1,774	**1,648**	**19,041**
Cash and cash equivalents	¥52,320	**¥68,113**	**$786,712**

13. Dividends

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2012 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 27, 2013:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥200.00 per share)	¥6,320	$72,998

14. Lease Transactions

The amounts of future lease payments on operating leases at December 31, 2011 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Due within one year	¥ 692	**¥ 563**	**$ 6,507**
Due after one year	1,782	**1,332**	**15,386**
	¥2,474	**¥1,895**	**$21,893**

15. Shareholders' Equity

The Companies Act of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock 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.

16. Land Revaluation

Pursuant to the Law Concerning Land Revaluation, the Company revalued land used for business activities on December 31, 2001. The excess of the revalued carrying amount over the book value before revaluation was recorded as "Revaluation difference on land", net assets in the accompanying consolidated balance sheets. The land prices used for the revaluation were determined based on the prices in the official notice published by the Commissioner of the National Tax Agency in accordance with Article 2, Paragraphs 3 and 4 of the Enforcement Ordinance Concerning Land Revaluation, after making reasonable adjustments. Revaluation is permitted for one time only. The excess of the book value after revaluation over the fair value are 734 million yen and 797 million yen (9,206 thousand U.S. dollars) at December 31, 2011 and 2012, respectively.

17. Pledged Assets

At December 31, 2011 and 2012, assets pledged as collateral for accounts and notes payable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Time deposits	¥5	**¥5**	**$57**
	¥5	**¥5**	**$57**

18. Notes maturing on December 31

December 31, 2011 and 2012 were a bank holiday, and notes matured on December 31, 2011 and 2012, amounted to 428 million yen and 448 million yen (5,175 thousand U.S. dollars), respectively, are accounted for as if they were settled on the maturity dates.

19. Factoring notes

Accounts and notes payable include balances under factoring contracts with creditors amounting to 14,888 million yen and 14,480 million yen (167,254 thousand U.S. dollars), respectively.

20. 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, 2011 and 2012 amounted to 217 million yen and 377 million yen (4,362 thousand U.S. dollars), respectively.

21. Segment Information

(1) Overview of reportable segments

The reportable segments of the Companies are periodically examined by the Board of Directors for the purpose of deciding the allocation of business resources and evaluating the operating results.

The Companies' main businesses are "System Integration business", whose business fields encompass the construction of information systems and their cutover, and "Service and Support business", which has support following the cutover of systems as its business field.

Therefore, the Companies are composed of two reportable segments, "System Integration business" and "Service and Support business."

The details of the two segments are as follows. The "System Integration business" provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. The "Service and Support business" provides customers with total support for their business operations and installed systems encompassing supply provision, hardware and software maintenance, telephone support and outsourcing.

(2) Basis of measurement for reportable segment net sales, segment profit or loss, segment assets and other items

The accounting method for the Companies' reported business segments is substantially the same as "2. Summary of Significant Accounting Policies". Also, segment profit or loss is evaluated based on operating income. The prices of inter-segment transactions is determined by price after taking market conditions into account.

(3) Information about reportable segment sales, segment profit or loss, segment assets and other items

Segment information as of and for the fiscal years ended December 31, 2011 and 2012 were as follows:

Millions of yen

	Reportable segments						2011
	System Integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to third parties	¥262,508	¥214,576	¥477,084	¥1,130	¥478,215	¥ —	¥478,215
Inter-segment sales/transfers	104	488	593	2,048	2,641	(2,641)	—
Total	¥262,612	¥215,065	¥477,678	¥3,178	¥480,857	¥ (2,641)	¥478,215
Segment profit or loss	¥ 22,717	¥ 7,485	¥ 30,202	¥ 97	¥ 30,299	¥ (7,204)	¥ 23,095
Segment assets	¥ 89,240	¥ 79,120	¥168,360	¥1,853	¥170,214	¥59,396	¥229,610
Other items							
Depreciation and amortization	¥ 3,157	¥ 2,198	¥ 5,356	¥ 47	¥ 5,404	¥ 540	¥ 5,944
Investments in associates accounted for using equity method	1,319	943	2,262	—	2,262	—	2,262
Capital expenditure in property and equipment and intangible assets	2,936	2,168	5,104	26	5,131	191	5,322

Millions of yen

	Reportable segments						**2012**
	System Integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to third parties	**¥289,840**	**¥225,298**	**¥515,139**	**¥ 632**	**¥515,771**	**¥ —**	**¥515,771**
Inter-segment sales/transfers	**131**	**497**	**629**	**2,066**	**2,695**	**(2,695)**	**—**
Total	**¥289,972**	**¥225,796**	**¥515,768**	**¥ 2,699**	**¥518,467**	**¥ (2,695)**	**¥515,771**
Segment profit or loss	**¥ 27,062**	**¥ 8,528**	**¥ 35,590**	**¥ 91**	**¥ 35,682**	**¥ (7,431)**	**¥ 28,251**
Segment assets	**¥ 94,254**	**¥ 79,815**	**¥174,070**	**¥ 1,457**	**¥175,527**	**¥ 77,630**	**¥253,158**
Other items							
Depreciation and amortization	**¥ 3,093**	**¥ 2,113**	**¥ 5,206**	**¥ 36**	**¥ 5,243**	**¥ 522**	**¥ 5,766**
Investments in associates accounted for using equity method	**515**	**1,149**	**1,665**	**—**	**1,665**	**—**	**1,665**
Capital expenditure in property and equipment and intangible assets	**2,484**	**1,643**	**4,128**	**9**	**4,137**	**481**	**4,618**

	Reportable segments						Thousands of U.S. dollars 2012
	System Integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to third parties	**$3,347,663**	**$2,602,204**	**$5,949,867**	**$ 7,302**	**$5,957,170**	**$ —**	**$5,957,170**
Inter-segment sales/transfers	**1,523**	**5,742**	**7,265**	**23,870**	**31,136**	**(31,136)**	**—**
Total	**$3,349,186**	**$2,607,946**	**$5,957,133**	**$31,173**	**$5,988,306**	**$ (31,136)**	**$5,957,170**
Segment profit or loss	**$ 312,572**	**$ 98,502**	**$ 411,074**	**$ 1,059**	**$ 412,133**	**$ (85,833)**	**$ 326,299**
Segment assets	**$1,088,641**	**$ 921,872**	**$2,010,513**	**$16,835**	**$2,027,349**	**$ 896,635**	**$2,923,984**
Other items							
Depreciation and amortization	**$ 35,731**	**$ 24,408**	**$ 60,140**	**$ 425**	**$ 60,566**	**$ 6,032**	**$ 66,598**
Investments in associates accounted for using equity method	**5,954**	**13,278**	**19,232**	**—**	**19,232**	**—**	**19,232**
Capital expenditure in property and equipment and intangible assets	**28,701**	**18,977**	**47,678**	**113**	**47,792**	**5,555**	**53,348**

Notes:1. “Other” includes businesses not included in the reportable segments. These include Administrative of buildings, repair of automobiles, etc.
2. Below is a description of adjustment.
(1) The companywide expenses (not allocated to the reportable segments) included in the “Segment profit” adjustment line as of December 31, 2011 and 2012 were 7,234 million yen and 7,450 million yen and (86,057 thousand U.S. dollars), consisting mainly of expenses related to administrative operations.
(2) The companywide assets (not allocated to the reportable segments) included in the “Segment assets” adjustment line as of December 31, 2011 and 2012 were 61,024 million yen and 79,052 million yen and (913,058 thousand U.S. dollars), consisting mainly of assets not belonging to the reportable segments (cash and time deposits, investments in securities, etc.) and assets related to administrative operations.
(3) The “Depreciation and amortization” adjustment refers to depreciation expenses related to companywide assets. The “Capital expenditure in property and equipment and intangible assets” refers to capital expenditure related to companywide assets.
3. The “Segment profit or loss” is reconciled with “Operating income” in Consolidated Statements of Income.

22. Amounts Per Share

Net income per share for the years ended December 31, 2011 and 2012 and net assets per share as of December 31, 2011 and 2012 were summarized as follows:

	Yen		U.S. dollars
	2011	**2012**	**2012**
Net income per share	¥403.28	**¥515.11**	**$5.95**
Diluted net income per share	403.10	**—**	**—**

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

	Yen		U.S. dollars
	2011	**2012**	**2012**
Net assets per share	¥3,690.81	**¥4,065.43**	**$46.96**

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

Basis for calculation of diluted net income per share for the years ended December 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Numerator:			
Net income	¥12,744	**¥16,277**	**$188,011**
Net income not attributable to common shareholders	—	**—**	**—**
Net income attributable to common shareholders	¥12,744	**¥16,277**	**$188,011**
Net income adjustments	(5)	**—**	**—**
Diluted net income	¥12,738	**¥16,277**	**$188,011**
	Thousands of shares		
Denominator			
Weighted-average number of shares of common stock outstanding	31,601	**31,601**	**31,601**

The following securities were excluded from the computation of diluted net income per share because they do not have dilutive effects:

For the years ended December 31,2011

1st share subscription rights base on the extraordinary general meeting of shareholders held on October 14th, 2003 issued by SIOS Technology that is an affiliate by the equity method	768shares
3rd share subscription rights base on the ordinary general meeting of shareholders held on Marth 28th, 2006 issued by SIOS Technology that is an affiliate by the equity method	680shares

*SIOS Technology made a 2 for 1 share split on September 20th, 2005.

Basis for calculation of net assets per share as of December 31, 2011 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	**2012**	**2012**
Numerator:			
Net assets	¥117,385	**¥129,268**	**$1,493,053**
Minority interests in consolidated subsidiaries	(752)	**(796)**	**(9,203)**
Net assets attributable to common stock	¥116,633	**¥128,471**	**$1,483,849**
	Thousands of shares		
Denominator			
Number of shares of common stock outstanding	31,601	**31,601**	**31,601**

23. Subsequent Event

None.

Independent Auditor's Report

The Board of Directors
OTSUKA CORPORATION

We have audited the accompanying consolidated financial statements of OTSUKA CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OTSUKA CORPORATION and its consolidated subsidiaries as at December 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

March 27, 2013

Ernst & Young Shinnihon LLC