ANNUAL REPORT 2013

For the fiscal year ended December 31, 2013

Otsuka Corporation

CONTENTS

Mission Statement

Mission

OTSUKA CORPORATION serves a wide range of companies, providing comprehensive support for their business activities by presenting, within a concrete framework, new business opportunities and management improvement strategies brought about by innovations in information and telecommunication technology. By so doing, we continue to facilitate the growth of our client companies and contribute to the development of our country and the creation of a spiritually enriching society.

Goals

- To become a corporate group that is recognized and trusted as a valuable corporate citizen.
- To encourage employee growth and self–realization through the attainment of personal goals and professional achievement.
- To demonstrate harmonious coexistence and growth with nature and society.
- To create business models that consistently keep pace with the changing times.

Principles

- Always thinking from the customer's perspective and acting through harmonious team work.
- Maintaining the spirit of challenge inherited from our predecessors, exercising our own critical judgment, and acting on our own initiative.
- Fully complying with all prevailing laws and regulations, and maintaining high ethical standards.

Otsuka Corporation

Forward-looking Statements

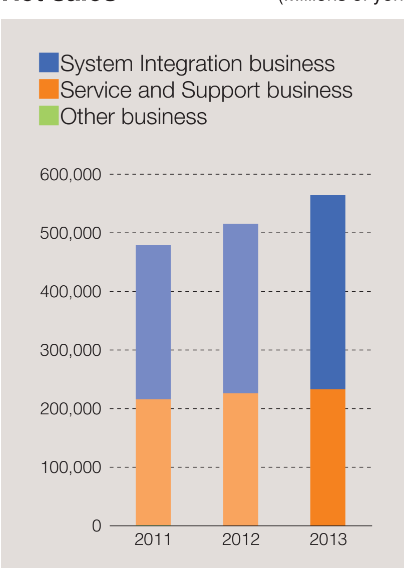
The forecasts, plans and outlooks concerning future operating results that are described in this Annual Report are judgments believed to be reasonable by the Company's management, based upon the information available to OTSUKA CORPORATION and member companies of the OTSUKA Group at the time such future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

Consolidated Financial Highlights

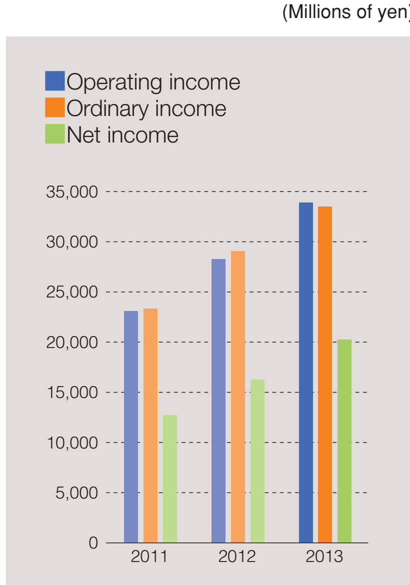
OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2011, 2012 and 2013	2011	2012	Millions of yen **2013**	Thousands of U.S. dollars **2013**	% Change
Net sales	¥478,215	¥515,771	**¥564,595**	**$5,356,690**	+9.5
System Integration business	262,508	289,840	**332,067**	**3,150,548**	+14.6
Service and Support business	214,576	225,298	**231,868**	**2,199,892**	+2.9
Other business	1,130	632	**658**	**6,249**	+4.2
Operating income	23,095	28,251	**33,901**	**321,642**	+20.0
Ordinary income	23,315	29,079	**33,505**	**317,887**	+15.2
Income before income taxes and minority interests	22,350	28,399	**33,049**	**313,560**	+16.4
Net income	12,744	16,277	**20,271**	**192,331**	+24.5
Total assets	229,610	253,158	**279,589**	**2,652,648**	+10.4
Interest-bearing debt	8,415	9,367	**9,070**	**86,056**	-3.2
Equity	116,633	128,471	**144,150**	**1,367,655**	+12.2
Net income per share (EPS) (Yen and U.S. dollars)	403.28	515.11	**641.49**	**6.09**	+24.5
Dividends per share of common stock (Yen and U.S. dollars)	155.00	200.00	**235.00**	**2.23**	+17.5
Cash flows from operating activities per share (Yen and U.S. dollars)	732.82	818.94	**594.29**	**5.64**	-27.4
Operating income to Net sales ratio (%)	4.83	5.48	**6.00**	**—**	
Net income to Net sales ratio (%)	2.66	3.16	**3.59**	**—**	
Interest-bearing debt ratio (%)	3.67	3.70	**3.24**	**—**	
Equity ratio (%)	50.80	50.75	**51.56**	**—**	
Return on equity (ROE) (%)	11.33	13.28	**14.87**	**—**	

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, 2013 exchange rate of ¥105.40 = US$1.

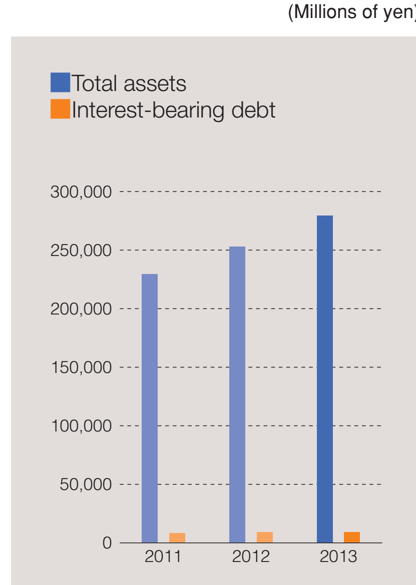
Net sales (Millions of yen)



Operating income, Ordinary income, Net income (Millions of yen)



Total assets, Interest-bearing debt (Millions of yen)



Note:
Sums of less than a million yen are rounded down.

To Our Shareholders and Investors

I am pleased to announce the results for the fiscal year ended December 31, 2013 and to thank our shareholders and investors for their loyal support.

During the fiscal year under review, the Japanese economy achieved a moderate recovery as corporate IT investments remained firm. The OTSUKA Group focused on strengthening customer contact and offered system proposals for achieving cost reductions, improving productivity and reducing power usage. As a result of these measures, net sales rose 9.5% from the previous fiscal year to ¥564,595 million.

At the earnings level, due to an increase in gross profit and the curbing of selling, general and administrative (SG&A) expenses, operating income increased 20.0% to ¥33,901 million, ordinary income rose 15.2% to ¥33,505 million and net income jumped 24.5% to ¥20,271 million. These figures represent record highs for income.

Management has resolved to pay year-end dividends per share of ¥235 in line with our efforts to return profits to shareholders, who have given us their support.

In the coming fiscal year, corporate IT investments are expected to remain stable. Within this environment, we will further strengthen our contact with customers and strive to identify customers' IT utilization needs and their power saving needs.

In working to realize our Mission Statement, the OTSUKA Group will continue to pursue management reforms to ensure the trust of all stakeholders. Your ongoing support is greatly appreciated as we move forward with these endeavors.

Yuji Otsuka, President & Chief Executive Officer

March 2014

Overview of Consolidated Operations

Japanese Economy Recovers Moderately

During the fiscal year under review (January 1, 2013 to December 31, 2013), the Japanese economy achieved a moderate recovery as the positive effects of various policies gradually emerged.

Under these economic conditions, IT investment by domestic companies was firm due to solid demand, including demand for replacement purchases toward the ending of support for Windows XP as well as demand for power saving countermeasures, the building of business continuity plans (BCPs) and the use of tablet and other mobile terminals.

Proposals for Realizing Cost Reductions and Improving Productivity

Within this environment, based on our fiscal 2013 slogan "Live up to customers' trust from a customer viewpoint and vitalize office with IT," we strengthened our contact with customers and actively proposed specific IT usage technologies and solutions, systems for bolstering competitiveness by reducing costs and improving productivity, and effective power saving countermeasures. Additionally, efforts aimed at strengthening the accumulated business included augmenting our line of appealing office supplies and developing a lineup of maintenance services that support improvements in productivity of corporate activities and reduce burdens.

Economy recovering modestly
IT investments trending firmly

Proposals for cost reductions and improvement of productivity
Proposals for power savings

Sales and Profits Increase for 4th Consecutive Year and Profits Reach All-Time High

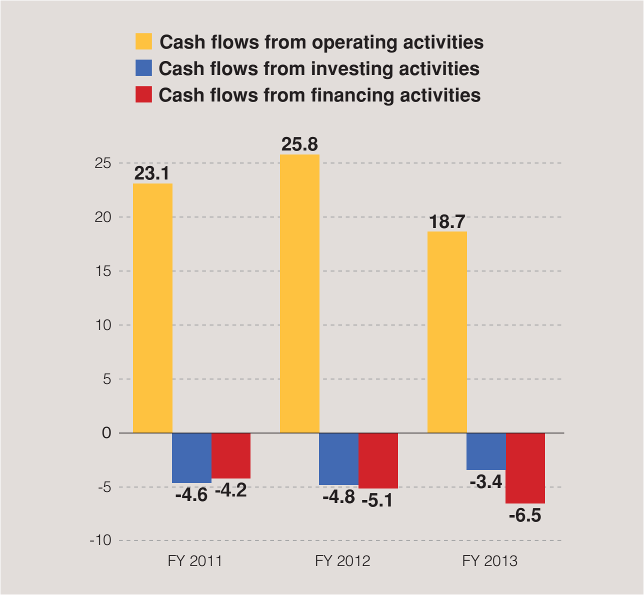
As a result of these measures, net sales rose 9.5% from the previous fiscal year to ¥564,595 million. Operating income rose 20.0% to ¥33,901 million owing to the increase in gross profit accompanying the rise in sales and the curbing of SG&A expenses. Despite posting non-operating expenses of ¥1,066 million in the first quarter due to the recording of a provision of allowance for doubtful accounts at a consolidated subsidiary, ordinary income increased 15.2% to ¥33,505 million and net income was up 24.5% to ¥20,271 million.

(Millions of yen)

	FY 2012	FY 2013	
	Amount	**Amount**	**Change to Last Year**
Net sales	515,771	**564,595**	**+9.5%**
Operating income	28,251	**33,901**	**+20.0%**
Ordinary income	29,079	**33,505**	**+15.2%**
Net income	16,277	**20,271**	**+24.5%**

Cash Flows

(Billions of yen)



Net cash provided by operating activities amounted to ¥18,780 million, a decrease of ¥7,099 million from the previous fiscal year, due to an increase in notes and accounts receivable-trade and an increase in inventories from the previous fiscal year.

Net cash used in investing activities decreased ¥1,426 million from the previous fiscal year to ¥3,468 million due to proceeds from redemption of investment securities.

Net cash used in financing activities increased ¥1,370 million to ¥6,561 million due to an increase in cash dividends paid.

Overview of Results by Quarter

Net Sales

Net sales increased in all quarters from the first quarter (January-March) of 2013 through the fourth quarter (October-December) of 2013 and we achieved record-high sales in each quarter.

Net sales in the first quarter (January-March) of 2013 amounted to ¥140,647 million, a increase of 3.8% from the previous first quarter. Net sales in the second quarter (April-June) of 2013 amounted to ¥143,975 million, an increase of 10.0% over the previous second quarter.

Net sales in the third quarter (July-September) of 2013 amounted to ¥129,282 million, a 9.7% increase from the previous third quarter. Net sales in the fourth quarter (October-December) of 2013 amounted to ¥150,689 million, an increase of 14.5% over the previous fourth quarter.

Ordinary Income

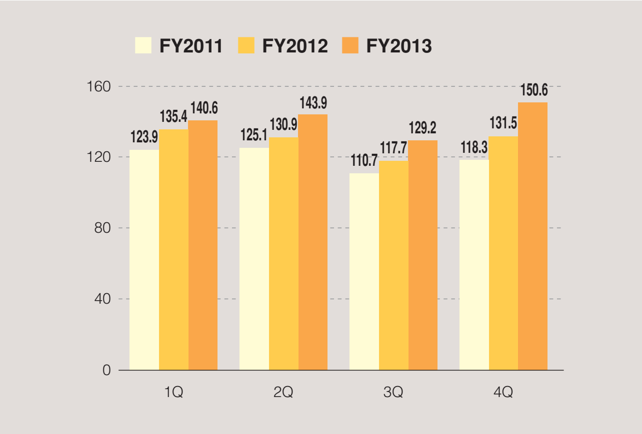
Although ordinary income in the first quarter (January-March) of 2013 declined due to the recording of a provision of allowance for doubtful accounts at a consolidated subsidiary, ordinary income increased from the second quarter (April-June) onward.

Ordinary income in the first quarter (January-March) of 2013 amounted to ¥6,431 million, a decrease of 11.0% from the previous first quarter. Ordinary income in the second quarter (April-June) of 2013 amounted to ¥12,225 million, up 20.2% from the previous second quarter.

Ordinary income in the third quarter (July-September) of 2013 amounted to ¥5,221 million, an increase of 19.5% from the previous third quarter. Ordinary income in the fourth quarter (October-December) of 2013 amounted to ¥9,627 million, up 31.6% from the previous fourth quarter.

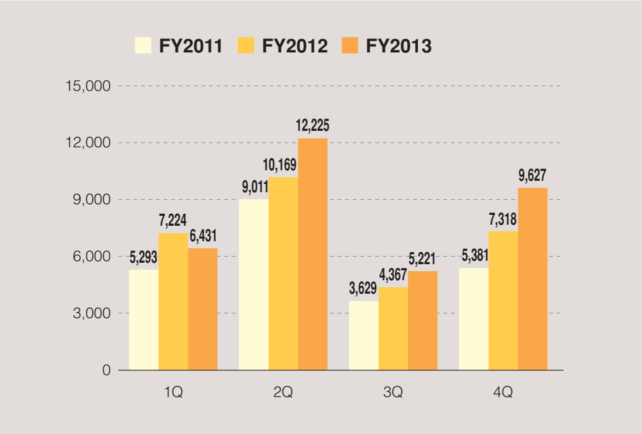
Quarterly Net Sales

(Billions of yen)



Quarterly Ordinary Income

(Millions of yen)



Overview of Business Segments

System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. We seized active corporate demand for IT investment, demand for replacement purchases in the run-up to the ending of support for Windows XP and demand for power saving countermeasures, as well as recorded brisk growth in unit sales of PCs and copiers.

Consequently, the System Integration business recorded sales growth, with net sales rising 14.6% to ¥332,067 million.

Service and Support Business

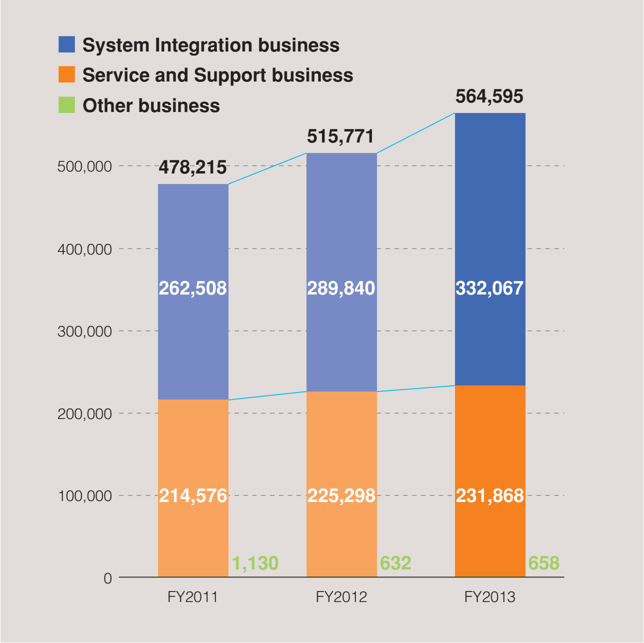
The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. Our “tanomail” office supply mail-order service business rose from the previous fiscal year, 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 2.9% to ¥231,868 million.

Other Business

In the Other Business, net sales increased 4.2% from the previous fiscal year to ¥658 million.

Net Sales by Segments

(Millions of yen)



Focusing Efforts on the Accumulated Business

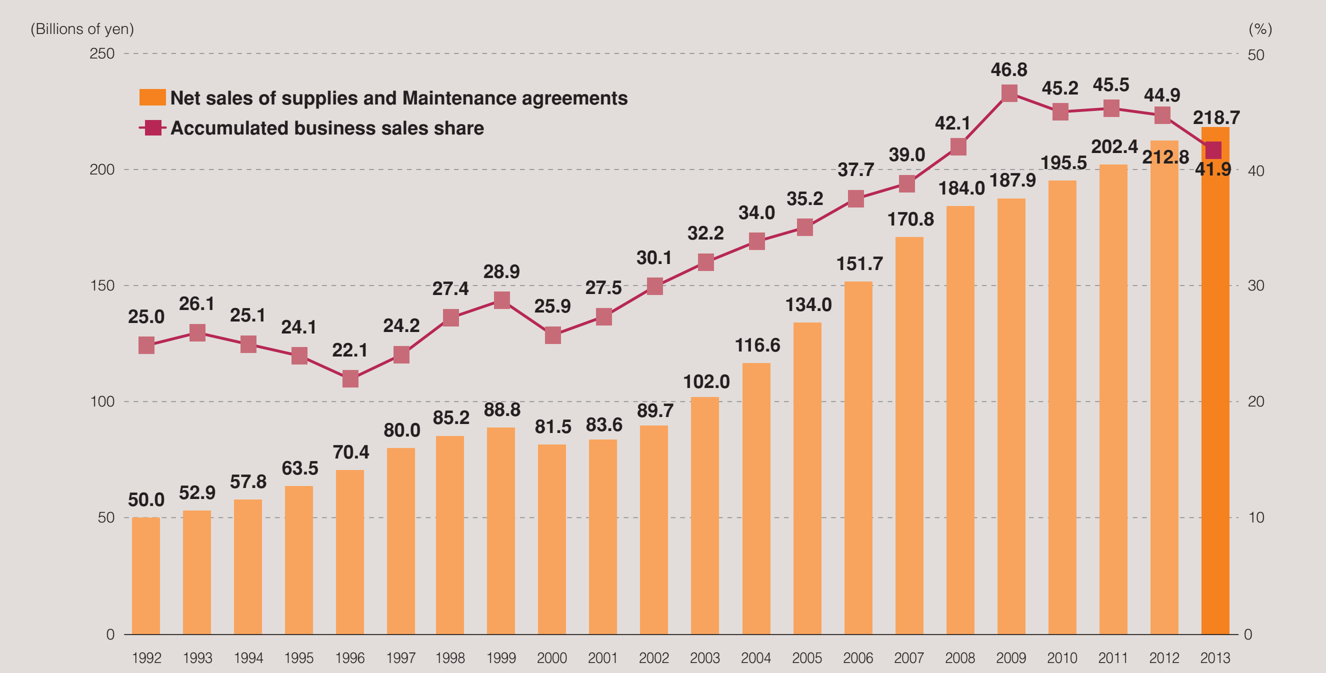
OTSUKA CORPORATION places special emphasis on office supply and maintenance agreement services as the “accumulated business” within the Service and Support business.

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

In fiscal 2013 as well, sales in the accumulated business grew steadily, increasing ¥5.9 billion, or 2.8%, to ¥218.7 billion and accounting for 41.9% of net sales, due to high growth by the System Integration business. Since our public listing in 2000, net sales have increased ¥137.2 billion, an approximately 170% increase (non-consolidated basis).

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

Accumulated Business (Non-consolidated)



Figures for 1992-1999 are provided as a reference.

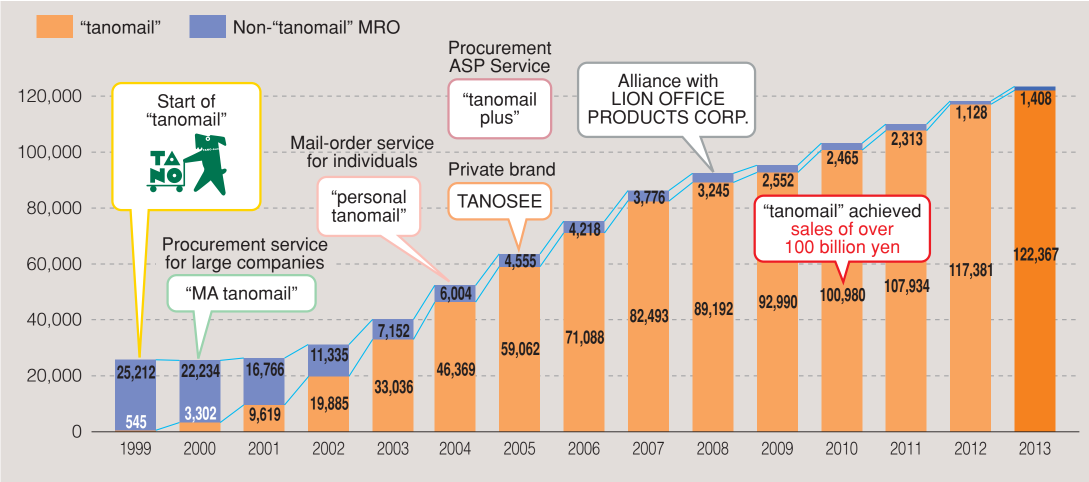
"tanomail" and "tayoreru" are the core pillars of the accumulated business.

たのめーる "tanomail"

Net sales in our "tanomail" office supply mail-order service business are expanding steadily. In fiscal 2013, net sales increased 4.2% to ¥122,367 million.

Annual Sales of "tanomail" (Non-consolidated)

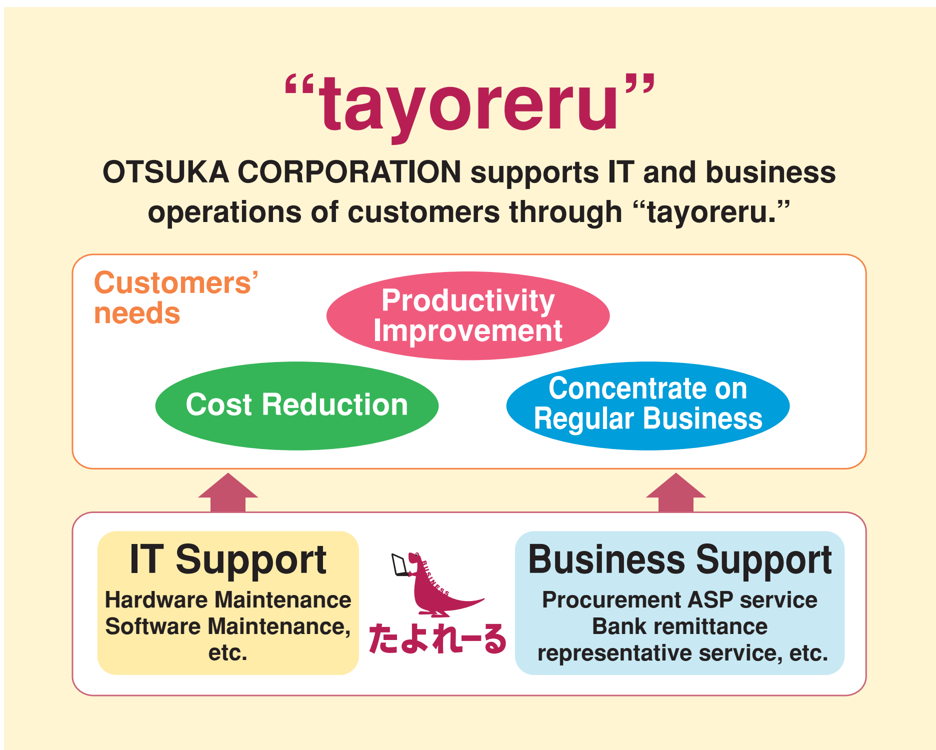
(Millions of yen)



たよれーる “tayoreru”

The “tayoreru” support service business supports customers’ IT and business operations.

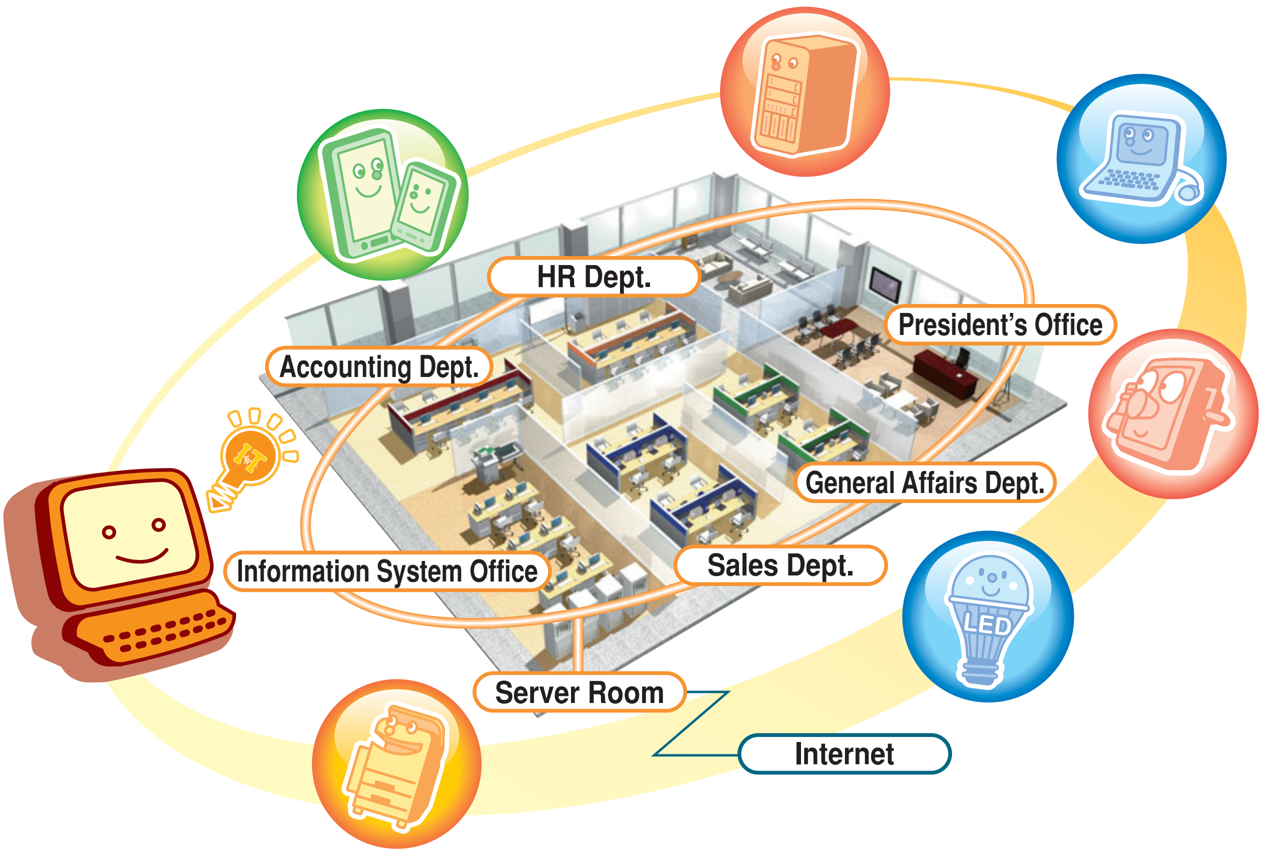
OTSUKA CORPORATION aims to be an indispensable presence in customers’ business infrastructure.



OTSUKA CORPORATION—A Partner to Our Customers

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

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

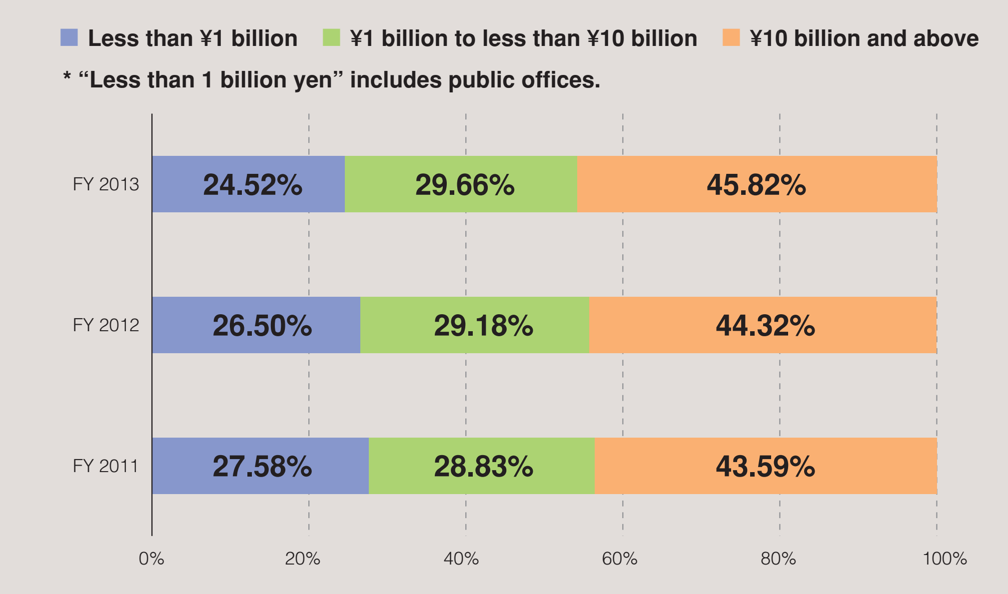


OTSUKA CORPORATION—Backed by a Diverse Range of Customers

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

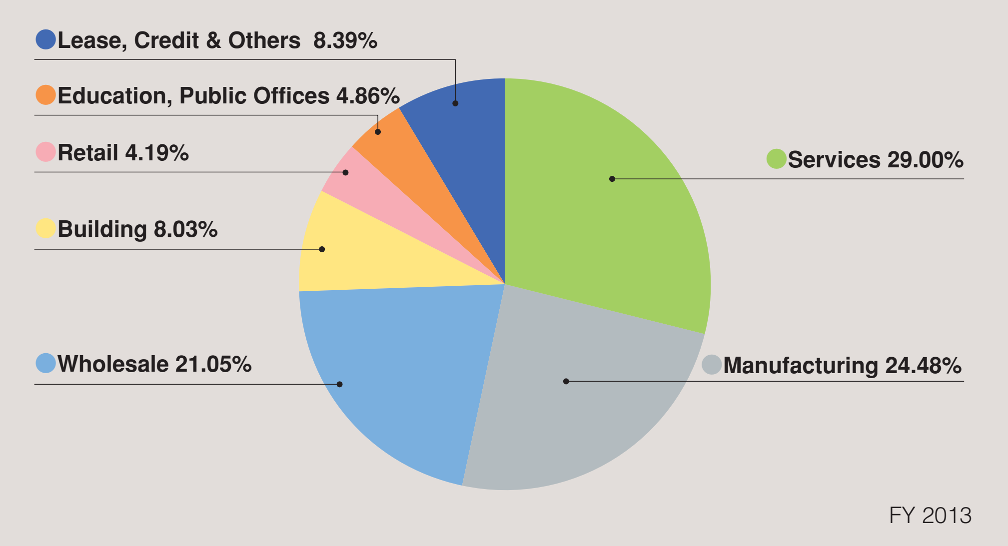
In terms of annual net sales, in fiscal 2013 the ratio of companies with annual net sales of ¥10 billion and above and companies with sales of ¥1 billion to less than ¥10 billion both increased, while the ratio of companies with sales of less than ¥1 billion decreased.

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



We also have a well-balanced customer base by customers' type of industry. In fiscal 2013, there was no major change in the sales breakdown of customers by type of industry.

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



Overview of Key Strategic Businesses (Non-consolidated)

<Amount of Sales>

(Millions of yen)

	FY 2011	FY 2012		FY 2013	
	Amount	Amount	Change to Last Year	**Amount**	**Change to Last Year**
“tanomail”	107,934	117,381	+8.8%	**122,367**	**+4.2%**
SMILE	7,774	9,006	+15.8%	**11,061**	**+22.8%**
ODS21	40,680	42,226	+3.8%	**43,525**	**+3.1%**
OSM	47,113	48,069	+2.0%	**50,453**	**+5.0%**

(ODS : Otsuka Document Solutions   OSM : Otsuka Security Management)

<Reference: Number of units sold>

(Units)

	Units	Units	Change to Last Year	**Units**	**Change to Last Year**
Copiers	29,153	32,104	+10.1%	**34,432**	**+7.3%**
(of which color copiers)	24,296	27,332	+12.5%	**30,449**	**+11.4%**
Servers	37,582	39,205	+4.3%	**37,989**	**–3.1%**
Personal computers	697,057	714,616	+2.5%	**932,607**	**+30.5%**

In 2013, sales of PCs exceeded 900,000 units for the first time, with high growth achieved due to factors such as demand for replacement purchases toward the ending of support for Windows XP.

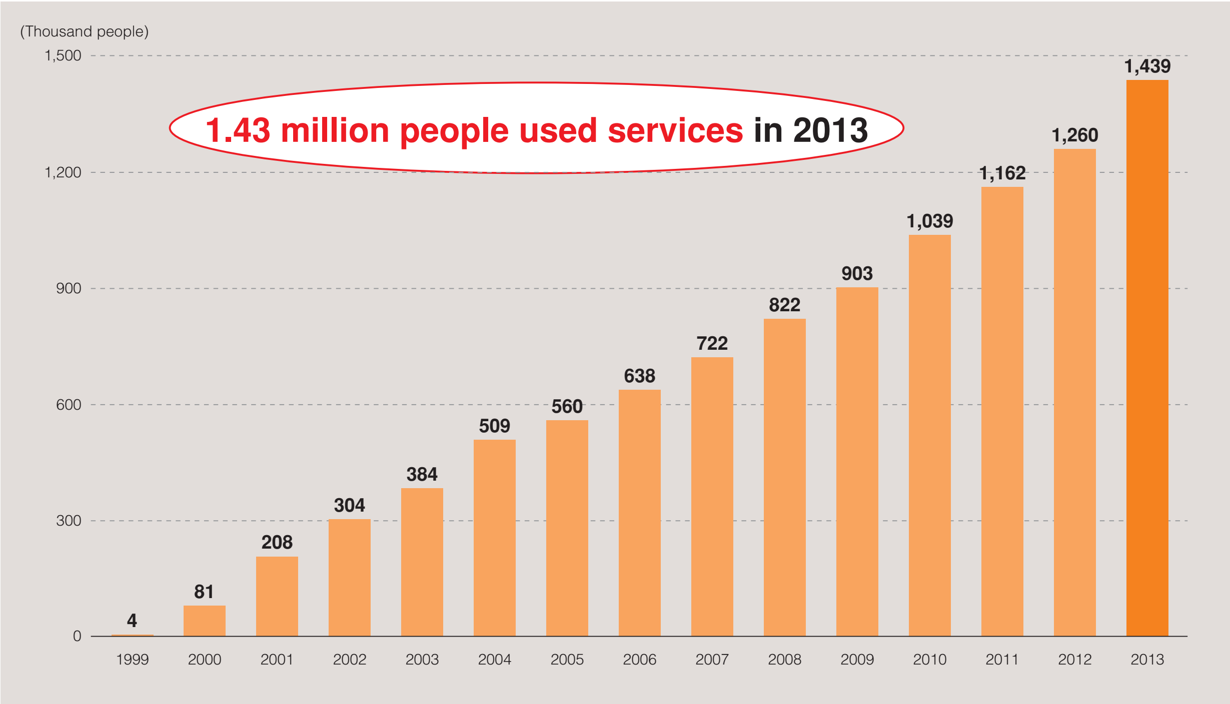
Unit sales of color copiers accounted for 88.4% of copier sales.

OTSUKA CORPORATION’s Web Services (ASP)

Provision of services commenced in 1999. The number of users exceeded 1.43 million in 2013.

OTSUKA CORPORATION has been providing its main Web services since 1999. The number of users of our main Web services has been rising steadily, and in 2013, the number reached 1.43 million.

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



Outlook for Fiscal 2014

Corporate IT Investment Is Expected to Remain Stable

Going forward, there is a risk that the increase in the consumption tax or a slowdown in overseas economies could exert downward pressure on the Japanese economy. Nevertheless, it is anticipated that the Japanese economy will continue moving toward a recovery owing to expectations of reconstruction demand, the positive effects of government economic countermeasures, a pickup in exports and an increase in investments.

Amid this economic environment, it will be necessary for domestic companies to introduce systems to raise productivity in gearing up for an economic recovery, introduce power savings measures and power saving equipment in response to increased electric power costs and make replacement purchases of PCs in the run-up to the ending of support for Windows XP in April 2014. Due to these factors, company IT investments are expected to remain stable.

Strengthening Customer Contact

Given these economic conditions and outlook for company IT investment, under a strengthened community-based sales structure, the Group will reinforce customer contact by actively proposing solutions that combine multiple products and services drawing on the Group's total strengths and respond to the needs of domestic companies for raising productivity and reducing electric power usage. We will also bolster our lineup of appealing office supplies and develop a lineup of maintenance services that support improvements in productivity of corporate activities and reduce burdens. At the same time, we will strengthen our accumulated business; build stable and long-term business relationships with customers; and strengthen our earnings foundation.

Policies and Measures in 2014

"Live up to customers trust from a customer viewpoint and vitalize office with comprehensive strengths"

- Steady response to special demand from January to March, including goods and services related to accumulated business
- Expansion of business items with customers
- Proposals to increase productivity by comprehending busy time of customers
- Proposal of upgrades toward the end of support for Windows Server 2003

As a "company that understands offices the most," make proposals from a customer viewpoint by utilizing our diversified range of products, thereby further augmenting our relationship with customers.

Strategies by Segment

In the System Integration business, we will focus closely on company IT investment trends and IT utilization needs, while further promoting comprehensive proposals and combined system proposals that combine copiers, computers, telephones, facsimile machines and communication lines as we strengthen our one-stop solutions. We will also strive to take advantage of demand for replacement purchases toward the ending of support for Windows XP.

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

Forecast for Fiscal 2014

In fiscal 2014, the Company forecasts a 4.5% increase in consolidated net sales to ¥590,000 million, a 3.2% increase in operating income to ¥35,000 million, a 6.0% increase in ordinary income to ¥35,500 million and a 2.5% increase in net income to ¥20,770 million.

By segment, we forecast a 4.9% increase in net sales to ¥348,470 million in the System Integration business, a 4.0% increase to ¥241,170 million in the Service and Support business and a 45.3% decrease to ¥360 million in the Other Business.

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

	Fiscal 2013	Fiscal 2014 (Forecast)	
	Amount	Amount	Change to Last Year
Net sales	564,595	590,000	+4.5%
Operating income	33,901	35,000	+3.2%
Ordinary income	33,505	35,500	+6.0%
Net income	20,271	20,770	+2.5%

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

	Fiscal 2013	Fiscal 2014 (Forecast)	
	Amount	Amount	Change to Last Year
System Integration business	332,067	348,470	+4.9%
Service and Support business	231,868	241,170	+4.0%
Other business	658	360	–45.3%

Social Contribution and Environmental Preservation Activities

Starting from our immediate surroundings, OTSUKA CORPORATION is participating in activities for contributing to society and helping to preserve the environment in a diverse range of fields. Some of the highlights for fiscal 2013 are introduced herein.

■ Implementing the Third "Tohoku Reconstruction Support Volunteer Tour"

On September 14-15, 2013, we implemented the third "Tohoku Reconstruction Support Volunteer Tour" as part of our activities to assist in rebuilding in areas damaged by the Great East Japan Earthquake. A total of 72 employees from the Tokyo metropolitan area and the Sendai Branch participated and carried out agriculture- and fishery-related volunteer activities as well as shopping-related volunteer activities at rebuilt shopping districts in Kesennuma and Oshima in Miyagi Prefecture.

■ "Tanokun no Mori"

In Brazil, 170,000 Tasmanian blue gum trees planted in a forest named "Tanokun no Mori" in 2011 have been steadily growing. Plans call for expanding the initial 150-hectare reforested area to 500 hectares by 2017.

Immediately after planting: December 28, 2011

One year later: December 27, 2012

Two years later: December 29, 2013

Topics

Letter of Appreciation Received from The University of Tokyo

On September 25, 2013, OTSUKA CORPORATION received a letter of appreciation from The University of Tokyo at the completion ceremony for the university's I-REF Building. This letter was given in recognition of OTSUKA CORPORATION's delivery and installation of smart plugs and LED lighting useful for the visualization of electric power and electric power savings at the I-REF Building.

Corporate Governance

Basic Stance Regarding Corporate Governance

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

1. Corporate Structure and Implementation Status of Internal Control Systems

Corporate Governance System and Reason for Employing System

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

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

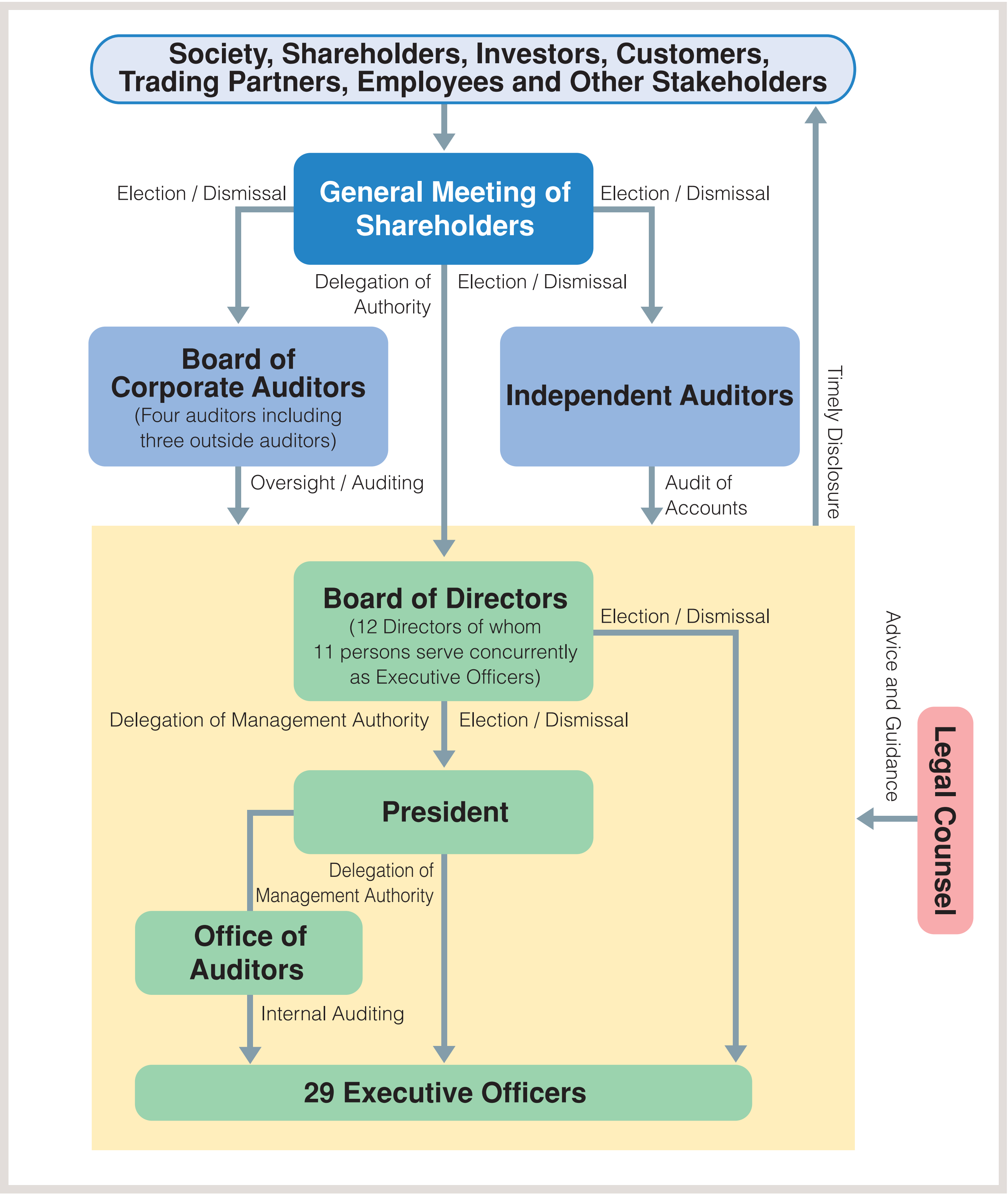
With regard to outside auditors, the Company selects and appoints individuals with a sufficient level of knowledge and experience regarding laws, financial affairs and accounting. Since outside auditors attend meetings of the Board of Directors to monitor directors' decision-making and the execution of business operations, the Company employs the current system based on the judgment that a system is in place to sufficiently realize management oversight functions from outside.

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

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

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

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



State of Internal Control Systems

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

• Basic policies for internal control systems

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

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

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

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

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

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

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

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

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

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

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

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

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

6) Matters regarding employees assisting Corporate Auditors when requested and the independence of such employees from Directors

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

7) System for reporting to Corporate Auditors by Directors and employees and other systems regarding reporting to Corporate Auditors

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

8) System for ensuring effective audits by Corporate auditors

Representative Directors shall exchange opinions with Corporate Auditors on a timely basis. An internal auditing office shall maintain close relations with the Corporate auditors and undertake inspections in accordance with the requests of Corporate Auditors.

Note: In the current fiscal year, the Company revised the above basic policies as of June 20, 2013 with the addition of "An internal auditing office shall be established within each Group company and contribute to the rationalization of management by making improvements to business operations" to Section 5.

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

1) Basic thinking

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

2) Establishment of measures

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

Status of Internal Audits and Audits by Corporate Auditors

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

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

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

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

Corporate Audits

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

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

Ernst & Young ShinNihon LLC

Ryuzo Shiraha, Designated Employee with Limited Liability and Managing Partner

Makoto Mukai, Designated Employee with Limited Liability and Managing Partner

Sei Eshita, Designated Employee with Limited Liability and Managing Partner

Number of Staff Assisting in Accounting-related Operations

CPAs	16
Other individuals	13

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

Relationship with Outside Directors and Outside Auditors

OTSUKA CORPORATION does not stipulate standards and other criteria regarding independence in terms of the selection and appointment of outside directors and outside auditors. However, the Company selects and appoints individuals who are able to ensure independence from the Company by making a decision on an individual basis according to the background and relationship with the Company based on various regulations and other relevant matters concerning independence including regulations of the Tokyo Stock Exchange (TSE).

The following three persons have been appointed as outside auditors as of March 27, 2013. They attend the Board of Directors meetings to provide insight and impart opinions based on extensive experience. This facilitates the decision-making process of the Board of Directors.

Jiro Makino has been appointed as an outside auditor because of his qualifications as a lawyer to the management of the Company. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

Mikio Sugiyama and Kazuhiko Nakai have been appointed as outside auditors because of their qualifications as certified public accountants, respectively, to the management of the Company. They make reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Nippon Antenna Co., Ltd., in which Kazuhiko Nakai concurrently has a key position.

Mr. Nakai joined Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC) as a representative employee in 2007 and resigned from the firm in 2010. Although OTSUKA CORPORATION and Ernst & Young ShinNihon LLC have concluded an agreement and OTSUKA CORPORATION receives accounting audits from the firm, there are no special interests or otherwise relationship with the Company and this firm.

Mutual Collaboration between Surveillance or Audits by Outside Auditors and Internal Audits, Corporate Auditor Audits and Independent Audits, and Relations with Internal Control Department

The outside auditors receive on a regular basis auditing reports at the Board of Corporate Auditors, reports concerning the state of establishment and operation of internal controls from the Internal Control Committee and reports on internal audits from the Office of Auditors. This enables the outside auditors to understand the current state of the Group and pertinent issues, and when the need arises they express their opinions from a specialist standpoint at the Board of Directors. Additionally, outside auditors exchange information and opinions with the Independent Auditors and internal auditing departments, beginning with the Office of Auditors, at their discretion and work to share auditing information.

2. Status of Implementation of Risk Management System

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

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

3. Remuneration of Directors and Corporate Auditors

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

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Base Pay	Bonus	Retirement Benefits	
Directors	398	255	85	57	14
Corporate Auditors(except outside auditors)	18	16	–	1	1
Outside Auditors	16	16	–	–	3

Notes:
1. The above includes two directors who retired from their positions at the conclusion of the 52nd Annual General Meeting of Shareholders convened on March 27, 2013.
2. Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
3. The amount of annual remuneration for Directors is up to ¥650 million as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include employee compensation).
4. The amount of annual remuneration for Corporate Auditors is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005.
5. The increase in allowance for retirement benefits for directors in the year under review is included in the above retirement benefits.

Total Consolidated Remuneration by Director and Corporate Auditor

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

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

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

4. Principal Stockholdings by the Company

Investment shares held for any purpose other than pure investment

Number of securities	60
Total amount on balance sheet	¥4,999 million

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

(Previous Fiscal Year)

Specified investment stocks

Name	Number of Shares	Amount on Balance Sheet (Millions of yen)	Purpose for Holding
Temp Holdings Co., Ltd.	1,000,000	1,068	To facilitate and maintain business relationship
Ricoh Company, Ltd.	237,803	215	Same as above
The Bank of Yokohama Ltd.	382,204	152	Same as above
Daiwa House Industry Co, Ltd.	100,000	147	Same as above
Credit Saison Co., Ltd.	50,000	107	Same as above
Daito Trust Construction Co., Ltd.	13,100	106	Same as above
Uchida Esco Co., Ltd.	180,000	91	Same as above
ThreePro Group Co., Ltd.	360,000	72	Same as above
Meiko Network Japan Co., Ltd.	60,000	57	Same as above
Billing System Corporation	500	35	Same as above
Zeon Corporation	27,608	20	Same as above
The Keiyo Bank, Ltd.	50,000	19	Same as above
Mitsubishi Tanabe Pharma Corporation	13,300	14	Same as above
Nippon Kayaku Co., Ltd.	15,097	14	Same as above
Mitsubishi UFJ Financial Group, Inc.	29,110	13	Same as above
NAMCO BANDAI Holdings Inc.	9,504	10	Same as above

J ESCOM HOLDINGS, INC.	150,000	10	Same as above
Iino Kaiun Kaisha, Ltd.	26,558	8	Same as above
Kyowa Hakko Kirin Co., Ltd.	8,000	6	Same as above
Iwabuchi Corporation	14,692	5	Same as above
The Dai-ichi Life Insurance Company, Limited	43	5	Same as above
Mizuho Financial Group, Inc.	21,520	3	Same as above
Rengo Co., Ltd.	7,600	3	Same as above
HYPER Inc.	6,000	2	Same as above
Tsuchiya Holdings Co., Ltd.	7,562	2	Same as above
Morinaga & Co., Ltd.	12,867	2	Same as above
Daikyo Incorporated	9,400	2	Same as above
Autobacs Seven Co., Ltd.	500	1	Same as above
Canon Marketing Japan Inc.	1,155	1	Same as above
Maruzen Co., Ltd.	2,000	1	Same as above

(Current Fiscal Year)

Specified investment stocks

Name	Number of Shares	Amount on Balance Sheet (Millions of yen)	Purpose for Holding
Temp Holdings Co., Ltd.	1,000,000	2,797	To facilitate and maintain business relationship
Billing System Corporation	50,000	400	Same as above
Ricoh Company, Ltd.	257,029	287	Same as above
The Bank of Yokohama Ltd.	382,204	223	Same as above
Daiwa House Industry Co, Ltd.	100,000	203	Same as above
Uchida Esco Co., Ltd.	180,000	139	Same as above
Credit Saison Co., Ltd.	50,000	138	Same as above
Daito Trust Construction Co., Ltd.	13,100	128	Same as above
ThreePro Group Co., Ltd.	360,000	82	Same as above
Meiko Network Japan Co., Ltd.	60,000	67	Same as above
Zeon Corporation	28,480	28	Same as above
The Keiyo Bank, Ltd.	50,000	25	Same as above
Nippon Kayaku Co., Ltd.	15,711	23	Same as above
NAMCO BANDAI Holdings Inc.	9,504	22	Same as above
Mitsubishi UFJ Financial Group, Inc.	29,110	20	Same as above
Mitsubishi Tanabe Pharma Corporation	13,300	19	Same as above
Iino Kaiun Kaisha, Ltd.	27,506	17	Same as above
J ESCOM HOLDINGS, INC.	150,000	12	Same as above
Kyowa Hakko Kirin Co., Ltd.	8,000	9	Same as above
The Dai-ichi Life Insurance Company, Limited	4,300	7	Same as above
Iwabuchi Corporation	16,023	6	Same as above
Mizuho Financial Group, Inc.	21,520	4	Same as above
Rengo Co., Ltd.	7,600	4	Same as above
Tsuchiya Holdings Co., Ltd.	7,929	3	Same as above
HYPER Inc.	6,000	3	Same as above
Morinaga & Co., Ltd.	13,801	2	Same as above
Daikyo Incorporated	9,400	2	Same as above
Autobacs Seven Co., Ltd.	1,500	2	Same as above
Maruzen Co., Ltd.	2,000	1	Same as above
Canon Marketing Japan Inc.	1,155	1	Same as above

Investment stocks held for the purpose of pure investment

Not applicable

5. Number of Directors

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

6. Outline of Contracts for Limitation of Liability

Not applicable.

7. Resolutions for Appointment and Dismissal of Director

The Company's Articles of Incorporation stipulate that a resolution for the appointment of a Director requires attendance by shareholders with more than one-third of the voting rights of shareholders capable of exercising such rights, and is decided by a majority of shareholders. In addition, a resolution for the appointment of a Director shall not be decided by cumulative voting.

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

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

9. Interim Dividend

The Company's Articles of Incorporation stipulate that based on a resolution of the Board of Directors, the Company can pay interim dividends with the date of record being June 30 of each year. This is in order to allow the flexible return of profits to shareholders.

10. Purchase of Own Shares

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

11. Exemption from Liability of Directors and Corporate Auditors

Not applicable.

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

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

Remuneration for Independent Auditors

1. Breakdown of Remuneration for Independent Auditors

Class	Previous Fiscal Year		Current Fiscal Year	
	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)
Otsuka Corporation	73	—	65	—
Consolidated Subsidiaries	13	—	13	—
Total	87	—	79	—

2. Other Major Remuneration

Not applicable.

3. Non-Auditing Services by Independent Auditors for Consolidated Companies

(Previous Fiscal Year)

Not applicable.

(Current Fiscal Year)

Not applicable.

4. Audit Remuneration Policy

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

Board of Directors and Corporate Auditors (As of March 27, 2014)

President & Chief Executive Officer

Yuji Otsuka

Managing Director & Senior Executive Operating Officer

Kazuyuki Katakura

Managing Director & Senior Executive Operating Officer

Toshiyasu Takahashi

Managing Director & Executive Operating Officer

Kimio Shiokawa

Managing Director & Operating Officer

Katsuhiro Yano

Managing Director & Operating Officer

Hironobu Saito

Managing Director & Operating Officer

Yasuhiro Wakamatsu

Managing Director & Operating Officer

Hironobu Tsurumi

Managing Director & Operating Officer

Minoru Sakurai

Director & Senior Managing Officers

Mitsuya Hirose
Osamu Tanaka
Norihiko Moriya

Standing Auditor

Kiyoshi Nakano

Auditors

Jiro Makino
Mikio Sugiyama
Kazuhiko Nakai

Business Risks

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

The items covered herein are possible future occurrences determined by the OTSUKA Group as of March 27, 2014.

Customer-related Risks

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

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

Supplier-related Risks

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

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

Information Leakage Risks

The OTSUKA Group possesses an abundance of individual and corporate information pertaining to operations that is handled carefully. The Group received approval to use the Privacy Mark of the Japan Institute for Promotion of Digital Economy and Community, and its Internet Data Center acquired certification for Information Security Management Systems (ISMS).

As a concrete measure to manage data, the Group has released an internal and external Personal Information Protection Policy, as well as established regulations on personal information protection, confidentiality and information system security. The Group has its employees take a pledge of confidentiality as well as works to prevent information leakage outside of the Group and raises awareness of information management through its proprietary educational "CP (Compliance Program) License System" and other measures.

Even with these measures, however, the Group's operations could be impacted by assuming liabilities for damage and loss of trust by society in the unlikely event that personal or corporate information is leaked outside the Group.

Financial Section

Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries
Years ended December 31, 2011, 2012 and 2013

	Millions of yen			Thousands of U.S. dollars
	2011	2012	**2013**	**2013**
Net sales	¥478,215	¥515,771	**¥564,595**	**$5,356,690**
System Integration business	262,508	289,840	**332,067**	**3,150,548**
Service and Support business	214,576	225,298	**231,868**	**2,199,892**
Other business	1,130	632	**658**	**6,249**
Operating income	23,095	28,251	**33,901**	**321,642**
Ordinary income	23,315	29,079	**33,505**	**317,887**
Income before income taxes and minority interests	22,350	28,399	**33,049**	**313,560**
Net income	12,744	16,277	**20,271**	**192,331**
Total assets	229,610	253,158	**279,589**	**2,652,648**
Interest-bearing debt	8,415	9,367	**9,070**	**86,056**
Equity	116,633	128,471	**144,150**	**1,367,655**
Net income per share (EPS) (Yen and U.S. dollars)	403.28	515.11	**641.49**	**6.09**
Dividends per share of common stock (Yen and U.S. dollars)	155.00	200.00	**235.00**	**2.23**
Cash flows from operating activities per share (Yen and U.S. dollars)	732.82	818.94	**594.29**	**5.64**
Operating income to Net sales ratio (%)	4.83	5.48	**6.00**	**—**
Net income to Net sales ratio (%)	2.66	3.16	**3.59**	**—**
Interest-bearing debt ratio (%)	3.67	3.70	**3.24**	**—**
Equity ratio (%)	50.80	50.75	**51.56**	**—**
Return on equity (ROE) (%)	11.33	13.28	**14.87**	**—**

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, 2013 exchange rate of ¥105.40 = US$1.

Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

			Millions of yen	
	2012	**2013**	Difference to Last Year	% Change to Last Year
Net sales	¥515,771	**¥564,595**	+48,823	+9.5%
System Integration business	289,840	**332,067**	+42,227	+14.6
Service & Support business	225,298	**231,868**	+6,569	+2.9
Other business	632	**658**	+26	+4.2
Cost of sales	401,113	**440,825**	+39,712	+9.9
Gross profit	114,658	**123,769**	+9,110	+7.9
Selling, general and administrative expenses	86,407	**89,868**	+3,460	+4.0
Operating income	28,251	**33,901**	+5,650	+20.0
Ordinary income	29,079	**33,505**	+4,425	+15.2
Income before income taxes and minority interests	28,399	**33,049**	+4,650	+16.4
Income taxes				
Current	12,353	**12,767**	+413	+3.3
Deferred	-368	**-147**	+220	–
Net income	16,277	**20,271**	+3,993	+24.5

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded consolidated net sales of ¥564,595 million, an increase of ¥48,823 million (9.5%) 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 active corporate demand for IT investment, demand for replacement purchases in the run-up to the ending of support for Windows XP and demand for power saving countermeasures, as well as recorded brisk growth in unit sales of PCs and copiers.
Consequently, the System Integration business recorded sales growth, with net sales rising 14.6% to ¥332,067 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 rose from the previous fiscal year, 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 2.9% to ¥231,868 million.

Other Business

In the Other Business, net sales increased 4.2% from the previous fiscal year to ¥658 million.

Summary of Income and Expenses

Regarding profits, gross profit increased 7.9% to ¥123,769 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 20.0% to ¥33,901 million, ordinary income increased 15.2% to ¥33,505 million, and net income was up 24.5% to ¥20,271 million. Net income per share amounted to ¥641.49.

Financial Position

			Millions of yen	
	2012	**2013**	Difference to Last Year	% Change to Last Year
Assets:	¥253,158	**¥279,589**	+26,430	+10.4%
Current assets	188,934	**215,940**	+27,005	+14.3
Fixed assets	64,223	**63,648**	-575	-0.9
Liabilities:	123,890	**134,522**	+10,632	+8.6
Current liabilities	118,682	**128,903**	+10,221	+8.6
Fixed liabilities	5,207	**5,618**	+411	+7.9
Net assets	129,268	**145,066**	+15,797	+12.2

Assets

Total assets at fiscal year-end increased ¥26,430 million from the previous fiscal year-end to ¥279,589 million. Current assets increased ¥27,005 million from the previous fiscal year-end to ¥215,940 million due to an increase in accounts and notes receivable. Fixed assets decreased ¥575 million from the previous fiscal year-end to ¥63,648 million.

Liabilities

Total liabilities increased ¥10,632 million to ¥134,522 million. Despite a decrease in accounts and notes payable, current liabilities increased ¥10,221 million to ¥128,903 million due to an increase in electronically recorded obligations – operating. Fixed liabilities increased ¥411 million from the previous fiscal year-end to ¥5,618 million.

Net Assets

Total net assets increased ¥15,797 million from the previous fiscal year-end to ¥145,066 million owing to such factors as an increase in retained earnings. As a result, the equity ratio rose 0.9 percentage point to 51.6%.

The interest coverage ratio was 520.92 times; the interest-bearing debt ratio was 3.24%; return on equity (ROE) was 14.87%; and return on assets (ROA) was 12.75%.

	2012	**2013**
Interest coverage ratio (times)	392.65	**520.92**
Interest-bearing debt ratio (%)	3.70	**3.24**
ROE (%)	13.28	**14.87**
ROA (%)	11.90	**12.75**

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	
	2012	**2013**
Cash flows from operating activities	¥25,879	**¥18,780**
Cash flows from investing activities	-4,894	**-3,468**
Cash flows from financing activities	-5,190	**-6,561**
Cash and cash equivalents at end of year	68,113	**76,863**

Cash and cash equivalents at end of year totalled ¥76,863 million, an increase of ¥8,750 million (12.8%) 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 ¥18,780 million, a decrease of ¥7,099 million from the previous fiscal year, due to an increase in notes and accounts receivable-trade and an increase in inventories from the previous fiscal year.

Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥1,426 million from the previous fiscal year to ¥3,468 million due to proceeds from redemption of investment securities.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥1,370 million to ¥6,561 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, decreased ¥5,672 million to ¥15,311 million.

Forecast for Fiscal 2014

In fiscal 2014, the Company forecasts a 4.5% increase in consolidated net sales to ¥590,000 million, a 3.2% increase in operating income to ¥35,000 million, a 6.0% increase in ordinary income to ¥35,500 million and a 2.5% increase in net income to ¥20,770 million.

By segment, we forecast a 4.9% increase in net sales to ¥348,470 million in the System Integration business, a 4.0% increase to ¥241,170 million in the Service and Support business and a 45.3% decrease to ¥360 million in the Other Business.

Consolidated Balance Sheet

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
ASSETS			
Current assets			
Cash on hands and in bank (Notes 4, 12 and 17)	¥ 61,519	**¥ 69,347**	**$ 657,943**
Trade notes and accounts receivable (Notes 4 and 18)	86,983	**99,664**	**945,580**
Securities (Notes 4, 5 and 12)	5,000	**5,700**	**54,079**
Inventories (Note 7)	16,494	**20,642**	**195,850**
Deferred tax assets (Note 10)	3,272	**3,521**	**33,408**
Other current assets (Note 12)	15,963	**17,225**	**163,434**
Less: Allowance for doubtful accounts	(300)	**(160)**	**(1,525)**
Total current assets	188,934	**215,940**	**2,048,771**
Investments and other assets			
Investments in securities (Notes 4 and 5)	3,602	**5,204**	**49,376**
Investments in unconsolidated subsidiaries and affiliates (Note 4)	2,418	**2,380**	**22,583**
Guarantee deposits	2,507	**2,437**	**23,129**
Deferred tax assets non-current (Note 10)	1,949	**1,394**	**13,231**
Other investments	5,024	**4,586**	**43,518**
Less: Allowance for doubtful accounts	(1,723)	**(1,501)**	**(14,248)**
	13,779	**14,502**	**137,591**
Property and equipment			
Land (Note 16)	17,259	**17,244**	**163,611**
Buildings and structures	65,309	**65,862**	**624,885**
Other	14,335	**13,786**	**130,802**
	96,905	**96,894**	**919,299**
Less: Accumulated depreciation	(51,441)	**(52,919)**	**(502,086)**
Net property and equipment	45,464	**43,974**	**417,213**
Intangibles and deferred charges			
Software	4,867	**5,112**	**48,504**
Other	113	**59**	**567**
	4,980	**5,172**	**49,072**
Total assets	¥253,158	**¥279,589**	**$2,652,648**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
LIABILITIES AND NET ASSETS			
Current liabilities			
Trade notes and accounts payable (Notes 4, 17, 18 and 19)	¥ 76,978	**¥ 70,509**	**$ 668,974**
Electronically recorded obligations (Note 4)	—	**14,546**	**138,015**
Short-term borrowings (Notes 4 and 8)	7,150	**6,950**	**65,939**
Lease obligations	613	**708**	**6,718**
Income tax payable (Notes 4 and 10)	7,846	**7,034**	**66,744**
Advances received	8,462	**9,990**	**94,782**
Provision for bonuses	2,858	**3,097**	**29,391**
Other current liabilities (Note 10)	14,774	**16,066**	**152,431**
Total current liabilities	118,682	**128,903**	**1,222,997**
Long-term liabilities			
Lease obligations	1,604	**1,412**	**13,398**
Reserve for retirement benefits (Note 9)	2,668	**2,824**	**26,793**
Deferred tax liabilities non-current (Note 10)	60	**499**	**4,740**
Deferred tax liabilities on revaluation of land (Note 16)	189	**189**	**1,802**
Other long-term liabilities	683	**693**	**6,575**
Total long-term liabilities	5,207	**5,618**	**53,309**
Net assets			
Shareholders' equity (Note 15)			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: 31,667,020 shares as of December 31 , 2012 and 2013	10,374	**10,374**	**98,433**
Capital surplus	16,254	**16,254**	**154,219**
Retained earnings	115,688	**129,640**	**1,229,982**
Treasury stock			
65,994 shares as of December 31, 2012 and			
66,093 shares as of December 31, 2013	(126)	**(127)**	**(1,211)**
Total shareholders' equity	142,191	**156,142**	**1,481,424**
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	678	**2,314**	**21,955**
Revaluation differences on land (Note 16)	(14,304)	**(14,304)**	**(135,715)**
Foreign currency translation adjustments	(93)	**(0)**	**(8)**
Total accumulated other comprehensive income	(13,719)	**(11,991)**	**(113,768)**
Minority interests in consolidated subsidiaries	796	**915**	**8,685**
Total net assets	129,268	**145,066**	**1,376,341**
Total liabilities and net assets	¥253,158	**¥279,589**	**$2,652,648**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
Net sales (Note 21)	¥515,771	**¥564,595**	**$5,356,690**
Cost of sales (Notes 20 and 21)	401,113	**440,825**	**4,182,407**
Gross profit	114,658	**123,769**	**1,174,283**
Selling, general and administrative expenses (Notes 20 and 21)	86,407	**89,868**	**852,640**
Operating income	28,251	**33,901**	**321,642**
Other income (expenses)			
Interest and dividend income	120	**123**	**1,175**
Interest expenses	(73)	**(65)**	**(618)**
Provision for allowance for doubtful accounts	(485)	**(1,153)**	**(10,941)**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	343	**(55)**	**(523)**
Loss on disposal of fixed assets	(208)	**(166)**	**(1,583)**
Impairment losses	(177)	**(259)**	**(2,464)**
Loss on devaluation of investments in securities	(18)	**(54)**	**(514)**
Gain on sales of investments in unconsolidated subsidiaries and affiliates	37	**0**	**4**
Gain on sales of investment securities	60	**105**	**999**
Compensation income	112	**32**	**308**
Other, net	436	**640**	**6,075**
	148	**(851)**	**(8,082)**
Income before income taxes and minority interests	28,399	**33,049**	**313,560**
Income taxes (Note 10)			
Current	12,353	**12,767**	**121,132**
Deferred	(368)	**(147)**	**(1,401)**
	11,985	**12,619**	**119,730**
Income before minority interests	16,413	**20,429**	**193,829**
Minority interests	135	**157**	**1,497**
Net income	¥ 16,277	**¥ 20,271**	**$ 192,331**

	Yen		U.S. dollars (Note 3)
Net income and dividends per share (Notes 2(14), 13 and 22)			
Basic net income	¥ 515.11	**¥641.49**	**$6.09**
Diluted net income	—	**—**	**—**
Cash dividends	200.00	**235.00**	**2.23**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
Income before minority interests	¥16,413	**¥20,429**	**$193,829**
Other comprehensive income			
Unrealized gains on available-for-sale securities	383	**1,628**	**15,453**
Share of other comprehensive income of unconsolidated subsidiaries and associates accounted for using equity method	75	**99**	**946**
Total other comprehensive income (Note 11)	459	**1,728**	**16,400**
Comprehensive income	¥16,873	**¥22,158**	**$210,229**
Comprehensive income attributable to :			
Shareholders of OTSUKA CORPORATION (owners of the parent)	¥16,736	**¥22,000**	**$208,733**
Minority interests	136	**157**	**1,496**

The accompanying notes are an integral part of these statement.

Consolidated Statement of Changes in Net Assets

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

Millions of yen

		Shareholders' equity				
	Number of shares issued	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 as of 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 available-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 as of December 31, 2012	¥678	¥(14,304)	¥ (93)	¥(13,719)	¥796	¥129,268

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2013

		Shareholders' equity				Millions of yen
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2013	**31,667,020**	**¥10,374**	**¥16,254**	**¥115,688**	**¥(126)**	**¥142,191**
Dividends				**(6,320)**		**(6,320)**
Net income				**20,271**		**20,271**
Purchase of treasury stock					**(1)**	**(1)**
Items other than changes in shareholders' equity						
Balance as of December 31, 2013	**31,667,020**	**¥10,374**	**¥16,254**	**¥129,640**	**¥(127)**	**¥156,142**

	Accumulated other comprehensive income					Millions of yen
	Unrealized gains on available-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, 2013	**¥ 678**	**¥(14,304)**	**¥(93)**	**¥(13,719)**	**¥796**	**¥129,268**
Dividends						**(6,320)**
Net income						**20,271**
Purchase of treasury stock						**(1)**
Items other than changes in shareholders' equity	**1,635**	**—**	**92**	**1,728**	**118**	**1,847**
Balance as of December 31, 2013	**¥2,314**	**¥(14,304)**	**¥ (0)**	**¥(11,991)**	**¥915**	**¥145,066**

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2013

		Shareholders' equity				Thousands of U.S. dollars (Note 3)
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2013	**31,667,020**	**$98,433**	**$154,219**	**$1,097,615**	**$(1,200)**	**$1,349,067**
Dividends				**(59,963)**		**(59,963)**
Net income				**192,331**		**192,331**
Purchase of treasury stock					**(10)**	**(10)**
Items other than changes in shareholders' equity						
Balance as of December 31, 2013	**31,667,020**	**$98,433**	**$154,219**	**$1,229,982**	**$(1,211)**	**$1,481,424**

	Accumulated other comprehensive income					Thousands of U.S. dollars (Note 3)
	Unrealized gains on available-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, 2013	**$ 6,433**	**$(135,715)**	**$(888)**	**$(130,170)**	**$7,560**	**$1,226,456**
Dividends						**(59,963)**
Net income						**192,331**
Purchase of treasury stock						**(10)**
Items other than changes in shareholders' equity	**15,521**	**—**	**880**	**16,401**	**1,125**	**17,526**
Balance as of December 31, 2013	**$21,955**	**$(135,715)**	**$ (8)**	**$(113,768)**	**$8,685**	**$1,376,341**

The accompanying notes are an integral part of these statement.

Consolidated Statement of Cash Flows

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	**2013**	**2013**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥28,399	**¥33,049**	**$313,560**
Depreciation and amortization	5,766	**5,454**	**51,751**
Equity in net income of unconsolidated subsidiaries and affiliates	(343)	**55**	**523**
Increase (decrease) in reserve for retirement benefits	146	**(48)**	**(463)**
Increase in allowance for doubtful accounts	469	**756**	**7,173**
Interest and dividend income	(120)	**(123)**	**(1,175)**
Interest expenses	73	**65**	**618**
Loss on disposal of fixed asset	208	**166**	**1,583**
Impairment losses	177	**259**	**2,464**
Loss (gain) on sales of investment securities	(60)	**(105)**	**(999)**
Loss on devaluation of investments in securities	18	**54**	**514**
Loss (gain) on sales of investments in unconsolidated subsidiaries and affiliates	(36)	**(0)**	**(4)**
Compensation (income)	(112)	**(32)**	**(308)**
Decrease (increase) in accounts and notes receivable	(7,491)	**(12,377)**	**(117,430)**
Decrease (increase) in inventories	1,125	**(4,148)**	**(39,355)**
Increase (decrease) in accounts and notes payable	5,506	**8,078**	**76,646**
Other	1,848	**1,201**	**11,401**
Subtotal	35,574	**32,305**	**306,500**
Interest and dividend income received	162	**171**	**1,628**
Interest expenses paid	(73)	**(65)**	**(620)**
Proceeds from compensation	112	**32**	**308**
Income taxes paid	(9,897)	**(13,663)**	**(129,636)**
Net cash provided by operating activities	25,879	**18,780**	**178,180**
Cash flows from investing activities:			
Payments for purchase of property and equipment	(1,963)	**(1,562)**	**(14,822)**
Payments for software developed	(2,654)	**(3,014)**	**(28,601)**
Payments for purchase of investments in securities	(1,078)	**(166)**	**(1,581)**
Proceeds from sales of investments in securities	110	**120**	**1,145**
Proceeds from redemption of investments in securities	—	**1,000**	**9,487**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	50	**—**	**—**
Proceeds from sales of investments in unconsolidated subsidiaries and affiliates	615	**9**	**94**
Payments for long-term loans receivable	(279)	**(219)**	**(2,078)**
Proceeds from long-term loans receivable	44	**81**	**769**
Other	260	**281**	**2,674**
Net cash used in investing activities	(4,894)	**(3,468)**	**(32,911)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	(250)	**(200)**	**(1,897)**
Repayments for long-term debts	(10)	**—**	**—**
Cash dividends paid	(4,898)	**(6,320)**	**(59,970)**
Other	(32)	**(40)**	**(381)**
Net cash used in financing activities	(5,190)	**(6,561)**	**(62,249)**
Net increase in cash and cash equivalents	15,793	**8,750**	**83,019**
Cash and cash equivalents at beginning of year	52,320	**68,113**	**646,238**
Cash and cash equivalents at end of year (Note 12)	¥68,113	**¥76,863**	**$729,258**

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

As of December 31, 2012 and 2013 subsidiaries and consolidated subsidiaries were as follows:

	2012	2013
Subsidiaries	11	10
(Consolidated subsidiaries)	(7)	(7)

The 7 subsidiaries which were consolidated in the year ended December 31, 2013 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 unconsolidated subsidiaries 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

As of December 31, 2012 and 2013 unconsolidated subsidiaries and affiliates were as follows:

	2012	2013
Unconsolidated subsidiaries	4	3
Affiliates	11	9
(Affiliates by the equity method)	(2)	(2)

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 as of December 31, 2013 are listed below:

	A ratio of voting rights held by the Company
Otsuka Information Technology Corp.	37.8%
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 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:

Buildings 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.

Changes to Accounting Policies (Change in Accounting Policy for Situations Which Are Difficult to Distinguish from a Change in Accounting Estimate)

Pursuant to an amendment to the Corporation Tax Act, effective the fiscal year ended December 31, 2013, the Company and its domestic consolidated subsidiaries have changed the depreciation method for property and equipment purchased on/after January 1, 2013 to reflect the methods prescribed in amended Act. The aforementioned changes had a minimal effect on income for the fiscal year ended December 31, 2013.

(7) Software (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.

(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 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.

(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)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.

(12) Reserve for retirement benefits
(a) Retirement benefits for employees
The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, the unrecognized actuarial differences are amortized on a straight-line basis over a period of 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 Companies 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.

(13) 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.

(14) 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.

(15) 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.

(16) Accounting standards issued but not yet adopted
Accounting standards about retirement benefits
- “Accounting standard for retirement benefits” (ASBJ Statement No.26, May 17, 2012)
- “Guidance on accounting standard for retirement benefits” (ASBJ Guidance No.25, May 17, 2012)

(a) Overview
This accounting standard and related guidance were revised with a focus on the treatment of unrecognized actuarial gains and losses and unrecognized prior service cost, calculation method for projected benefit obligations and current service cost, and enhancement of disclosure.
(b) Expected application date
The Company plans to apply this accounting standard and related guidance from the end of the fiscal year beginning January 1, 2014.
However, the Company plans to apply the accounting standard regarding the revision of the determination of projected benefit obligations and current service cost from the fiscal year beginning January 1, 2015.
(c) Effect of applying the accounting standard
The Company is currently assessing the effect of applying the accounting standard and related guidance in preparing the financial statements for the fiscal year ending December 31, 2013.

(17) 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 ¥105.40=US$1, the rate of exchange on December 31, 2013, 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 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 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, electronically recorded obligations- 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, 2012 and 2013 and estimated fair value were as follows.

	Millions of yen		
	2012		
	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.

	Millions of yen		
	2013		
	Carrying value	Fair value	Difference
Assets			
1) Cash on hands and in bank	¥ 69,347	¥ 69,347	¥ —
2) Trade notes and accounts receivable	99,664	99,664	—
3) Investment securities			
Held-to-maturity debt securities	5,700	5,700	—
Other securities	4,818	4,818	—
Investment in affiliates	1,017	4,585	3,568
Total assets	¥180,547	¥184,115	¥ 3,568
Liabilities			
4) Trade notes and accounts payable	¥ 70,509	¥ 70,509	¥ —
5) Electronically recorded obligations	14,546	14,546	—
6) Short-term borrowings	6,950	6,950	—
7) Income tax payable	7,034	7,034	—
Total liabilities	¥ 99,041	¥ 99,041	¥ —
Derivative transaction (*)	¥ 45	¥ 45	¥ —

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

	Thousands of U.S. dollars		
	2013		
	Carrying value	Fair value	Difference
Assets			
1) Cash on hands and in bank	$ 657,943	$ 657,943	$ —
2) Trade notes and accounts receivable	945,580	945,580	—
3) Investment securities			
Held-to-maturity debt securities	54,079	54,079	—
Other securities	45,713	45,713	—
Investment in affiliates	9,654	43,510	33,855
Total assets	$1,712,971	$1,746,826	$ 33,855
Liabilities			
4) Trade notes and accounts payable	$ 668,974	$ 668,974	$ —
5) Electronically recorded obligations	138,015	138,015	—
6) Short-term borrowings	65,939	65,939	—
7) Income tax payable	66,744	66,744	—
Total liabilities	$ 939,674	$ 939,674	$ —
Derivative transaction (*)	$ 431	$ 431	$ —

* 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)Electronically recorded obligations (6)Short-term borrowings (7)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 As of December 31, 2012 and 2013 financial instruments for which it is extremely difficult to determine the fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Unlisted stocks	¥ 1,760	**¥ 1,690**	**$16,042**
Investments in investment business limited partnerships	77	**57**	**549**

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 as of December 31, 2012 and 2013 are as follows:

	Millions of yen 2012			
	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	¥ —	¥ —	¥ —

	Millions of yen **2013**			
	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	**¥ 69,347**	**¥ —**	**¥ —**	**¥ —**
Trade notes and accounts receivable	**99,664**	**—**	**—**	**—**
Investment securities				
Held-to-maturity debt securities	**5,700**	**—**	**—**	**—**
Total	**¥174,711**	**¥ —**	**¥ —**	**¥ —**

	Thousands of U.S. dollars **2013**			
	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	**$ 657,943**	**$ —**	**$ —**	**$ —**
Trade notes and accounts receivable	**945,580**	**—**	**—**	**—**
Investment securities				
Held-to-maturity debt securities	**54,079**	**—**	**—**	**—**
Total	**$1,657,603**	**$ —**	**$ —**	**$ —**

4 Repayment schedule for bonds, long-term loans payable and lease obligations as of December 31, 2012 and 2013 are as follows:

	Millions of yen			
	2012			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term borrowings	¥7,150	¥ —	¥ —	¥ —

	Millions of yen			
	2013			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term borrowings	**¥6,950**	**¥ —**	**¥ —**	**¥ —**

	Thousands of U.S. dollars			
	2013			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term borrowings	**$65,939**	**$ —**	**$ —**	**$ —**

5. Investments in securities

As of December 31, 2012 and 2013 investments in securities were as follows:

(1) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2012			**2013**			**2013**		
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair 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	—	**¥5,700**	**¥5,700**	**—**	**$54,079**	**$54,079**	**—**
	¥5,000	¥5,000	—	**¥5,700**	**¥5,700**	**—**	**$54,079**	**$54,079**	**—**
Total	¥5,000	¥5,000	—	**¥5,700**	**¥5,700**	**—**	**$54,079**	**$54,079**	**—**

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

	Millions of yen						Thousands of U.S. dollars		
	2012			**2013**			**2013**		
	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	¥ 763	¥1,855	¥1,092	**¥1,147**	**¥4,673**	**¥3,525**	**$10,889**	**$44,336**	**$33,447**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**73**	**126**	**52**	**696**	**1,197**	**501**
	¥ 763	¥1,855	¥1,092	**¥1,221**	**¥4,799**	**¥3,578**	**$11,585**	**$45,534**	**$33,948**
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥ 381	¥ 351	¥ (29)	**¥ 21**	**¥ 18**	**¥ (2)**	**$ 203**	**$ 178**	**$ (24)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	1,073	1,064	(8)	**—**	**—**	**—**	**—**	**—**	**—**
	¥1,454	¥1,416	¥ (38)	**¥ 21**	**¥ 18**	**¥ (2)**	**$ 203**	**$ 178**	**$ (24)**
Total	¥2,218	¥3,272	¥1,054	**¥1,242**	**¥4,818**	**¥3,575**	**$11,789**	**$45,713**	**$33,923**

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

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
	Carrying value	Carrying value	Carrying value
Available-for-sale securities			
Unlisted stocks	¥252	**¥328**	**$3,114**
Investment in limited liability partnerships	77	**57**	**549**

(3) Available-for-sale securities sold in 2012 and 2013 (for the years ended December 31, 2012 and 2013)

	Millions of yen						Thousands of U.S. dollars		
	2012			**2013**			**2013**		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
	¥110	¥61	¥0	**¥120**	**¥105**	**—**	**$1,145**	**$999**	**—**

(4) Securities impairment losses are recognized in 2012 and 2013 (for the years ended December 31, 2012 and 2013)

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
	¥18	**¥54**	**$514**

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 tresury department with an appropriate approval.

As of December 31, 2012 and 2013, derivatives for which hedge accounting have not been applied, were as follows:
Currency-related transactions

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

	Millions of yen			
	2013			
	Contractual value or notional principal amount			Valuation gain (loss)
	Total	Over one year	Fair value	
Forward foreign exchange contracts purchasing U.S. dollar	**¥1,213**	**—**	**¥45**	**¥45**

	Thousands of U.S. dollars			
	2013			
	Contractual value or notional principal amount			Valuation gain (loss)
	Total	Over one year	Fair value	
Forward foreign exchange contracts purchasing U.S. dollar	**$11,509**	**—**	**$431**	**$431**

Note. Calculation of fair value is based on prices provided by the financial institutions.

7. Inventories

Inventories as of December 31, 2012 and 2013 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Merchandise	¥14,298	**¥18,864**	**$178,983**
Work in process	1,271	**934**	**8,864**
Raw materials and supplies	924	**843**	**8,002**
	¥16,494	**¥20,642**	**$195,850**

8. Short-term borrowings

The annual average interest rates applicable to short-term bank loans at December 31, 2012 and 2013 were 0.94% and 0.85%, respectively.

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, 2012 and 2013 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Retirement benefit obligations	¥(35,672)	**¥(36,011)**	**$(341,664)**
Plan assets	36,567	**39,372**	**373,548**
	894	**3,360**	**31,884**
Unrecognized actuarial gain or loss	1,748	**(1,480)**	**(14,044)**
Unrecognized prior service cost	(3,320)	**(2,508)**	**(23,802)**
	(677)	**(628)**	**(5,961)**
Prepaid pension cost	1,469	**1,660**	**15,752**
Reserve for retirement benefits	¥ (2,146)	**¥ (2,288)**	**$ (21,714)**

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2012 and 2013 included retirement benefits for directors in the amounts of 522 million yen and 535 million yen (5,079 thousand U.S. dollars), respectively.

(3) Retirement benefit expense related to the retirement benefits for the year ended December 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Service cost	¥2,324	**¥2,287**	**$21,698**
Interest cost	498	**522**	**4,953**
Expected return on plan assets	(166)	**(182)**	**(1,734)**
Amortization of the unrecognized prior service cost	(801)	**(812)**	**(7,704)**
Amortization of the unrecognized actuarial gain or loss	604	**444**	**4,220**
Payments for defined contribution pension plan	804	**800**	**7,590**
Additional benefits for employees' early retirement	212	**239**	**2,267**
Net periodic retirement benefit expense	¥3,476	**¥3,298**	**$31,291**

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

(4) Computation basis of reserve for retirement benefits as of December 31, 2012 and 2013.

	2012	**2013**
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 the unrecognized prior service cost	12years	**12years**
Amortization of the unrecognized actuarial gain or loss	mainly 12 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 as of December 31, 2012 and 2013 were 40.7% and 38.0%, respectively.

Since the difference between the statutory tax rates and the effective tax rates for the fiscal year ended December 31, 2012 (42.2%) and 2013 (38.2%) are less than 5%, respectively, a reconciliation of two rates is not presented.

As of December 31, 2012 and 2013, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Deferred tax assets:			
Allowance for doubtful accounts	¥ 538	**¥ 362**	**$ 3,440**
Enterprise taxes	665	**704**	**6,684**
Accrued bonuses	1,104	**1,178**	**11,183**
Retirement benefits for employees	774	**824**	**7,820**
Retirement benefits for directors	187	**191**	**1,821**
Impairment losses	961	**1,028**	**9,762**
Software development cost	1,454	**1,407**	**13,352**
Eliminated unrealized profits	303	**299**	**2,840**
Other	1,807	**1,960**	**18,601**
Total deferred tax assets	7,797	**7,958**	**75,508**
Less:Valuation allowance	(1,667)	**(1,604)**	**(15,221)**
Net deferred tax assets	6,129	**6,354**	**60,287**
Deferred tax liabilities:			
Prepaid pension cost	525	**592**	**5,617**
Unrealized gains on available-for-sale securities	363	**1,255**	**11,911**
Other	80	**91**	**869**
Total deferred tax liabilities	969	**1,939**	**18,398**
Net deferred tax assets	¥5,159	**¥4,415**	**$41,888**

11. Other comprehensive income

For the years ended December 31, 2012 and 2013, reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Unrealized gains on available-for-sale securities			
Amount arising during the year	¥566	**¥2,466**	**$23,396**
Reclassification adjustments	18	**54**	**514**
Amount before tax effects	585	**2,520**	**23,911**
Tax effects	(201)	**(891)**	**(8,458)**
Unrealized gains on available-for-sale securities	383	**1,628**	**15,453**
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	75	**99**	**946**
Reclassification adjustments	(0)	**—**	**—**
Share of other comprehensive income of associates accounted for using equity method	75	**99**	**946**
Total other comprehensive income	¥459	**¥1,728**	**$16,400**

12. Supplementary Cash Flow Information

Cash and cash equivalents as of December 31, 2012 and 2013 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Cash, time deposits and other cash equivalents	¥61,519	**¥69,347**	**$657,943**
Time deposits with deposit terms of more than three months	(55)	**(55)**	**(524)**
Short-term investments with maturity or redemption dates within three months from acquisition date	5,000	**5,700**	**54,079**
Trust beneficiary interests included in other current assets with investment terms with three months or less	1,648	**1,871**	**17,760**
Cash and cash equivalents	¥68,113	**¥76,863**	**$729,258**

13. Dividends

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2013 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 27, 2014:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥235.00 per share)	¥7,426	$70,457

14. Lease Transactions

The amounts of future lease payments on operating leases at December 31, 2012 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Due within one year	¥ 563	**¥ 547**	**$ 5,198**
Due after one year	1,332	**815**	**7,733**
	¥1,895	**¥1,363**	**$12,932**

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 accout. 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.
As of December 31, 2012 and 2013, the excess of the book value after revaluation over the fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
	¥797	**¥738**	**$7,001**

17. Pledged Assets

As of December 31, 2012 and 2013, assets pledged as collateral for accounts and notes payable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Time deposits	¥5	**¥5**	**$47**

18. Notes maturing on December 31

December 31, 2012 and 2013 were a bank holiday, and notes matured on December 31 are accounted for as if they were settled on the maturity dates.

As of December 31, 2012 and 2013, notes matured on December 31 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Notes receivable	¥448	**¥356**	**$3,379**
Notes payable	—	**1**	**10**

19. Factoring notes

The balance of the trade notes and accounts payable in the accompanying consolidated balance sheet as of December 31, 2012 included balances under factoring contracts with creditors amounting to 14,480 million yen.

20. Research and Development Costs

For the years ended December 31, 2012 and 2013, research and development costs included in cost of sales and selling, general and administrative expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
	¥377	**¥335**	**$3,186**

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 netsales, 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, 2012 and 2013 were as follows:

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

Millions of yen

	Reportable segments						**2013**
	System integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to third parties	**¥332,067**	**¥231,868**	**¥563,936**	**¥ 658**	**¥564,595**	**—**	**¥564,595**
Inter-segment sales/transfers	**69**	**478**	**547**	**1,555**	**2,103**	**(2,103)**	**—**
Total	**¥332,137**	**¥232,347**	**¥564,484**	**¥2,214**	**¥566,698**	**¥ (2,103)**	**¥564,595**
Segment profit or loss	**¥ 31,599**	**¥ 10,000**	**¥ 41,599**	**¥ 59**	**¥ 41,659**	**¥ (7,758)**	**¥ 33,901**
Segment assets	**¥111,802**	**¥ 82,063**	**¥193,866**	**¥1,402**	**¥195,268**	**¥84,320**	**¥279,589**
Other items							
Depreciation and amortization	**¥ 2,937**	**¥ 1,898**	**¥ 4,836**	**¥ 14**	**¥ 4,850**	**¥ 603**	**¥ 5,454**
Investments in associates accounted for using equity method	**623**	**1,037**	**1,661**	**—**	**1,661**	**—**	**1,661**
Capital expenditure in property and equipment and intangible assets	**2,427**	**1,441**	**3,869**	**—**	**3,869**	**707**	**4,576**

	Reportable segments						Thousands of U.S. dollars
							2013
	System integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Net sales to third parties	$3,150,548	$2,199,892	$5,350,441	$ 6,249	$5,356,690	—	$5,356,690
Inter-segment sales/transfers	659	4,539	5,198	14,760	19,959	(19,959)	—
Total	$3,151,207	$2,204,432	$5,355,639	$21,010	$5,376,650	$ (19,959)	$5,356,690
Segment profit or loss	$ 299,801	$ 94,880	$ 394,682	$ 569	$ 395,251	$ (73,609)	$ 321,642
Segment assets	$1,060,745	$ 778,590	$1,839,336	$13,305	$1,852,642	$800,006	$2,652,648
Other items							
Depreciation and amortization	$ 27,874	$ 18,015	$ 45,890	$ 134	$ 46,024	$ 5,726	$ 51,751
Investments in associates accounted for using equity method	5,914	9,845	15,760	—	15,760	—	15,760
Capital expenditure in property and equipment and intangible assets	23,031	13,680	36,711	—	36,711	6,712	43,424

Notes: 1 “Other” includes businesses not included in the reportable segments. These include Administrative of buildings, repair of automobiles, insurance, 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, 2012 and 2013 were 7,450 million yen and 7,783 million yen and (73,846 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, 2012 and 2013 were 79,052 million yen and 85,570 million yen and (811,866 thousand U.S. dollars), consisting mainly of assets not belonging to the reportable segments (cash on hands and in bank, 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 assets per share as of December 31, 2012 and 2013 and net income per share for the years ended December 31, 2012 and 2013 were summarized as follows:

	Yen		U.S. dollars
	2012	2013	2013
Net assets per share	¥4,065.43	¥4,561.60	$43.28
Net income per share	515.11	641.49	6.09

Diluted net income per share for the years ended December 31, 2012 and 2013 are omitted because the Companies have no dilutive shares.

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

Basis for calculation of net assets per share as of December 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Numerator:			
Net assets	¥129,268	**¥145,066**	**$1,376,341**
Minority interests in consolidated subsidiaries	(796)	**(915)**	**(8,685)**
Net assets attributable to common stock	¥128,471	**¥144,150**	**$1,367,655**

	Thousands of shares		
Denominator			
Number of shares of common stock outstanding	31,601	**31,600**	**31,600**

Basis for caluculation of net income per share for the years ended December 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2013**	**2013**
Numerator:			
Net income	¥16,277	**¥20,271**	**$192,331**
Net income not attributable to common shareholders	—	**—**	**—**
Net income attributable to common shareholders	¥16,277	**¥20,271**	**$192,331**

	Thousands of shares		
Denominator			
Weighted-average number of shares of common stock outstanding	31,601	**31,600**	**31,600**

23. Subsequent Event

The Company resolved to conduct a stock split of common stock at the Board of Directors meeting held on March 13, 2014.
Outline of the stock split is as follows:

1. Purpose of the stock split
   The Company resolved to conduct a stock split for the purpose of increasing the liquidity of shares of the Company by reducing the investment price per share.
   This stock split is aimed at improving the investment environment for a variety of investors to facilitate their investments in the Company's stock.

2. Method of stock split: On July 1, 2014, as the effective date, shares of common stock held by shareholders recorded in the final shareholders' register on June 30, 2014 will be split at a ratio of 3 shares per common stock.

3. Number of shares to be increased through the stock split: Common stock 63,334,040 shares

4.Per share information based on the assumption that the stock split was conducted on January 1, 2012, is as follows:

	Yen		U.S. dollars
	2012	**2013**	**2013**
Net assets per share	¥1,355.14	**¥1,520.53**	**$14.43**
Net income per share	171.70	**213.83**	**2.03**

Diluted net income per share for the years ended December 31, 2012 and 2013 are omitted because the Companies have no dilutive shares.

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, 2013, 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, 2013, 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.

Ernst & Young ShinNihon LLC

March 27, 2014
Tokyo, Japan

Principal Group Companies (As of December 31, 2013)

The OTSUKA Group (OTSUKA CORPORATION and its subsidiaries) consists of 10 subsidiaries, including 7 consolidated subsidiaries as well as 9 affiliated companies, including 2 affiliates accounted for by the equity method that carry out the System Integration business, Service and Support business and Other business. The 7 consolidated subsidiaries are listed below.

Company Name	Established	Capital (¥ million)	A ratio of voting rights	Scope of Business
System Integration business				
OSK Co., LTD.	1984	400	100.0%	• Development and sale of packaged software
Netplan Co., Ltd.	1964	499	100.0%	• Electronic communications construction and interior construction
Alpha System Co., LTD.	1967	80	100.0%	• Consigned software development and ERP consulting business
Networld Corporation	1990	585	81.5%	• Sales and technical support for network related equipment
Service and Support business				
Alpha Techno Co., LTD.	1996	50	100.0%	• Emergency repair of PCs and peripheral equipment, and data recovery service
Alpha Net Co., LTD.	1997	400	100.0%	• Comprehensive service and support for network systems
Other business				
Otsuka Auto Service Co., LTD.	1987	50	100.0%	• Maintenance and body work for automobiles, and commissioned sales of insurance

Corporate Data (As of December 31, 2013)

Name	OTSUKA CORPORATION
Founded	July 17, 1961 (registered as joint-stock company on December 13, 1961)
Capital Stock	¥10,374,851,000
Number of Employees	6,634 (with consolidated subsidiaries: 8,108)
Business	**System Integration Business:** Sales of computers, copiers, communication equipment and software, and software development of consigned software, other activities **Service and Support Business:** Supplies, maintenance, and educational support, other activities
Main Banks	The Bank of Yokohama, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Bank, Ltd.

Base (As of December 31, 2013)

Head Office	2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573 TEL 03-3264-7111		
Kansai Office	6-14-1 Fukushima, Fukushima-ku, Osaka-shi, Osaka 553-8558 TEL 06-6456-2711		
Local Area Sales Groups	Chuo Sales Group 1	Chuo Sales Group 2	Kanagawa Sales Group
	Josai Sales Group	Tama Sales Group	Johoku Sales Group
	Northern Kanto Sales Group	Keiyo Sales Group	Osaka Northern Sales Group
	Osaka Southern Sales Group		
Regional Offices	Sapporo Branch	Sendai Branch	Utsunomiya Branch
	Chubu Branch	Kyoto Branch	Kobe Branch
	Hiroshima Branch	Kyushu Branch	

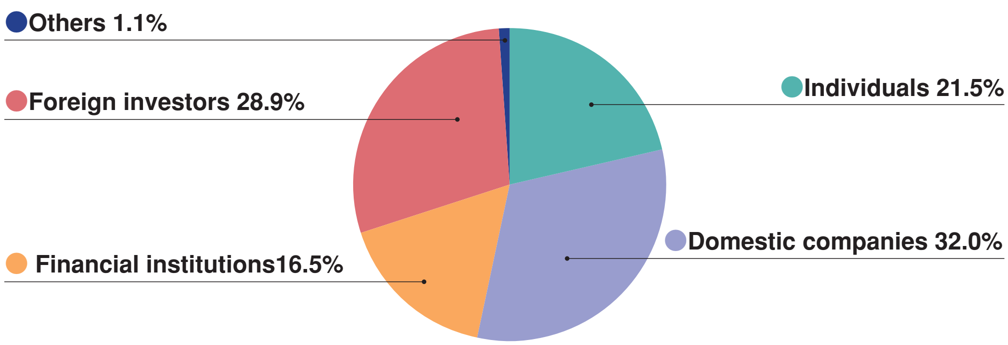
Stock Information (As of December 31, 2013)

Authorized Common Stock	**112,860,000 shares**
Issued Common Stock	**31,667,020 shares**
Number of Shares of Unit Stock	**100 shares**
Number of Shareholders	**4,130**

Major Shareholders

Name	Investment in OTSUKA CORPORATION		Investment in Major Shareholders by OTSUKA CORPORATION	
	Number of Shares held	Equity Ownership (%)	Number of Shares held	Equity Ownership (%)
Otsuka Sobi Co., Ltd.	9,788,330	30.91	—	—
Japan Trustee Services Bank, Ltd. (Trust Account)	1,305,700	4.12	—	—
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,027,100	3.24	—	—
OTSUKA CORPORATION Employee Stock-Sharing Plan	1,023,720	3.23	—	—
Yuji Otsuka	946,980	2.99	—	—
Atsushi Otsuka	945,950	2.98	—	—
Minoru Otsuka	945,490	2.98	—	—
Terue Otsuka	645,500	2.03	—	—
SAJAP	626,300	1.97	—	—
STATE STREET BANK AND TRUST COMPANY	402,468	1.27	—	—

Breakdown of Shareholders (Based on total shares)



OTSUKA CORPORATION WEBSITE

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

Otsuka Corporation

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