

Annual Report 2000
Year ended December 31, 2000

Otsuka Corporation

Profile

Since its inception, OTSUKA CORPORATION has been committed to a management philosophy of pursuing customer satisfaction and has offered various solutions in the areas of system integration as well as service and support.

The Company's scope of business encompasses OA equipment, including copiers and facsimile machines; such IT-related equipment as computers; and voice and visual communication (VC) equipment, which includes private branch exchange (PBX*) systems, business phone systems, and teleconferencing systems. In the field of IT-related equipment in particular, OTSUKA CORPORATION exploits the advantages it enjoys as an independent company, using individual software orders and customization to provide clients with the optimum combination to satisfy their needs. The Company's total services, which range from preliminary consulting and system implementation to post-implementation support and the recycling of waste after use, ensure that systems are used to their fullest potential.

OTSUKA CORPORATION aids the businesses of 250,000 clients covering a wide range of industries and continues to attract new clients every month. Furthermore, by establishing bases, including affiliated companies, across Japan and negotiating tie-ups with both Japanese and overseas companies, the Company is engaging in nationwide and global business development to construct a solid service structure that clients can use with peace of mind.

OTSUKA CORPORATION examines and implements the latest IT from an assortment of products and an array of services to select the most appropriate items to construct the optimum system considering each client's size and type of industry. We at OTSUKA CORPORATION aim to be a new solutions provider that has no equal domestically or globally.

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*Please see page 43 for a glossary of terms used in this report.

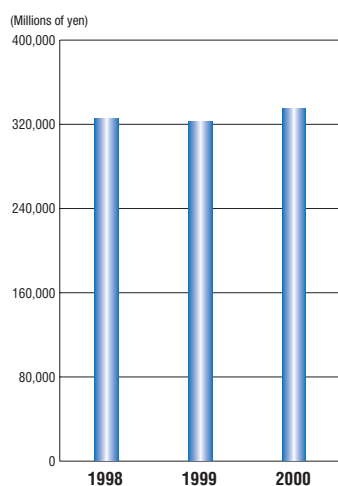
Financial Highlights

OTSUKA CORPORATION and Its Consolidated Subsidiaries
Years ended December 31, 1998, 1999 and 2000

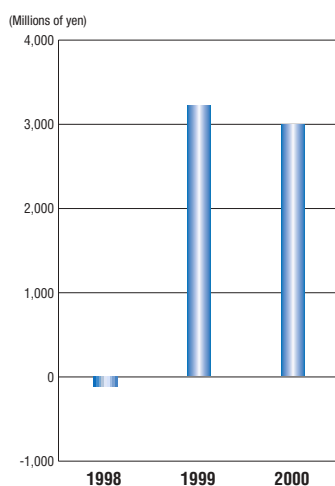
	Millions of yen			Thousand of U.S. dollars
	1998	1999	2000	2000
Net sales	¥325,304	¥322,816	¥334,911	\$2,918,614
Operating income	1,985	6,878	5,922	51,608
Recurring profit	1,249	7,081	6,207	54,092
Net income (loss)	(123)	3,219	2,997	26,117
Total assets	174,901	169,222	167,761	1,461,969
Total interest-bearing debt	81,053	67,503	46,549	405,654
Total shareholders' equity	24,549	28,074	51,196	446,153
Return on equity (ROE) (%)	(0.50)	12.23	7.56	
Shareholders' equity ratio (%)	14.04	16.59	30.52	
Net income (loss) per share (EPS) (Yen and U.S. dollars)	(4.37)	114.06	99.66	0.87
Dividends per share of common stock (Unconsolidated) (Yen and U.S. dollars)	6.00	10.00	25.00	0.22

* Profit-related ratios are calculated using the year-end value of shareholders' equity for fiscal 1998, and average shareholders' equity for fiscal 1999 and fiscal 2000.
U.S. dollar amounts are computed using the December 31, 2000 exchange rate of ¥114.75=US\$1.

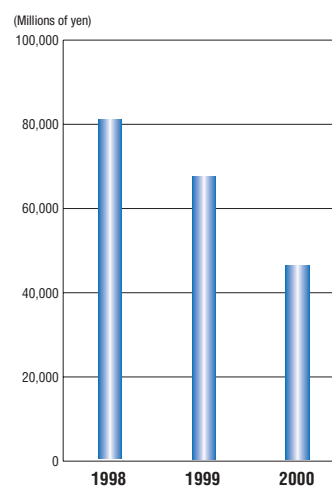
Net Sales



Net Income (Loss)



Total Interest-Bearing Debt




250,000 Clients Strong and

Since its establishment, OTSUKA CORPORATION has embraced a management philosophy of pursuing customer satisfaction. One of our biggest strengths is the ability to grasp the diverse needs and problems of our 250,000 clients.

Needs & Problems

Needs & Problems 2 Acceleration of internal accounting



Consulting

System design and implementation

Equipment installation

Network construction


Software package implementation

Consigned software development

Needs & Problems 1 Installation of an intranet



Needs & Problems 3 Easy creation of an Electronic Commerce (EC*) site



Growing



Needs
& Problems
4

Pinpointing the source of a printer problem

Provision of
supplies

Telephone support

Hardware and
software maintenance

Outsourcing

School
education

Data recovery,
recycling, etc.

Needs
& Problems
5 IT education for
employees



250,000 Clients Strong and

One of OTSUKA CORPORATION's strengths lies in its ability to offer the optimum solutions for its 250,000 clients' needs and problems through combining products and services. Based on the know-how it has cultivated through such activities, the Company is striving to become more competitive and ensure further expansion in the 21st century.

OTSUKA CORPORATION's Solutions

- With OTSUKA CORPORATION's "SMILE α" Series of Enterprise Resource Planning (ERP) software for Japanese businesses, clients can construct their optimum management system quickly and inexpensively.
- The "SMILE α" Series was developed with the Japanese business environment and Japanese business practices in mind. The series, the mainstays of which are "Sales Management," "Financial Management," "Compensation Management," and "Client Management," includes the options of modules for specific industries and the ability to incorporate cutting-edge technologies. A total of 66,000 packages have already been installed.

Solution 2 Package software introduced to establish an accounting system



Through system implementation
System integration business

Consulting

System design and implementation

Equipment installation

Network construction

Software package implementation

Consigned software development

- A sales representative with specialized knowledge carries out thorough consulting and assists the client in realizing IT-powered strategic operations.
- The existing system environment, which combines different kinds of equipment, is integrated into the optimum system. The most appropriate package software for the industry is implemented to assist in planning for operational improvements and cost reductions.
- After implementation, OTSUKA CORPORATION provides operation guidance and a thorough maintenance service system.

Solution 1 From consulting to support



Solution 3 Fast and easy construction of an EC site using "Web de Shop"



- An order-made system that fulfills the client's wishes is planned and developed.
- Package software is customized by adding or changing features.
- Using the simple EC site construction service "Web de Shop", clients can open their EC sites in a short time period. OTSUKA CORPORATION provides support for everything from construction to maintenance, allowing clients to set up their EC sites with peace of mind.

Growing



Solution 4

Immediate assistance, speedy dispatches for on-site repairs via telephone support

- Japan's largest support center uses the latest systems, including CTI*, to provide client support. The cause of the problem is pinpointed quickly and is dealt with appropriately.
- Every month, 420 support staff assist clients with 100,000 inquiries. The support center alone solves 85% of client problems. On average, more than 95% of calls are answered within 20 seconds.
- When on-site repairs are necessary, the support center directly contacts an engineer, who promptly visits the client.

Post-Implementation Service and Support Business

Provision of supplies

Telephone support

Hardware and software maintenance

Outsourcing

School education

Data recovery, recycling, etc.

Optimum training program selected from a diverse menu

Solution 5



- At 101 classrooms in schools nationwide, 250 courses, from basic operation of software to system management training, are offered.
- At the corporate school, programs can be arranged according to the client's requirements.
- "Web Learning*," a new training system that uses the Internet, enables training to take place regardless of time or location. Also, this system enhances the results of school training, offering students an effective review method.

A Message from the Management

OTSUKA CORPORATION's Management Philosophy and Corporate Strategy: Pursuing Enhanced Customer Satisfaction

In 2001, OTSUKA CORPORATION celebrates its 40th anniversary. For the more than 10 years prior to establishing the Company, I had varied experience as a businessman at several different companies. Then, when I was 38, I came to the conclusion that to work at my ideal company—one where honest people would be rewarded, one where people would be excited about working, and one that would make families happy—I would have to establish it myself. My experience as a businessman has taught me that there are no more important aspects of business than service and customer satisfaction, and I have consistently applied those principles to my business since I established the Company. Customer satisfaction (CS) and employee satisfaction (ES) always go hand in hand. In recent years, every company has come to advocate CS, but it has always been the driving force behind OTSUKA CORPORATION's growth. We continually surprise our customers by the lengths we go to satisfy them. CS is a significant and never-ending issue, and we intend to pursue it into the future. Another thing that I've always believed is that solid results are achieved with deliberate and steady progress. Honest, responsible progress is made step by step. We do not chase quick profits. We do not

Management Philosophy

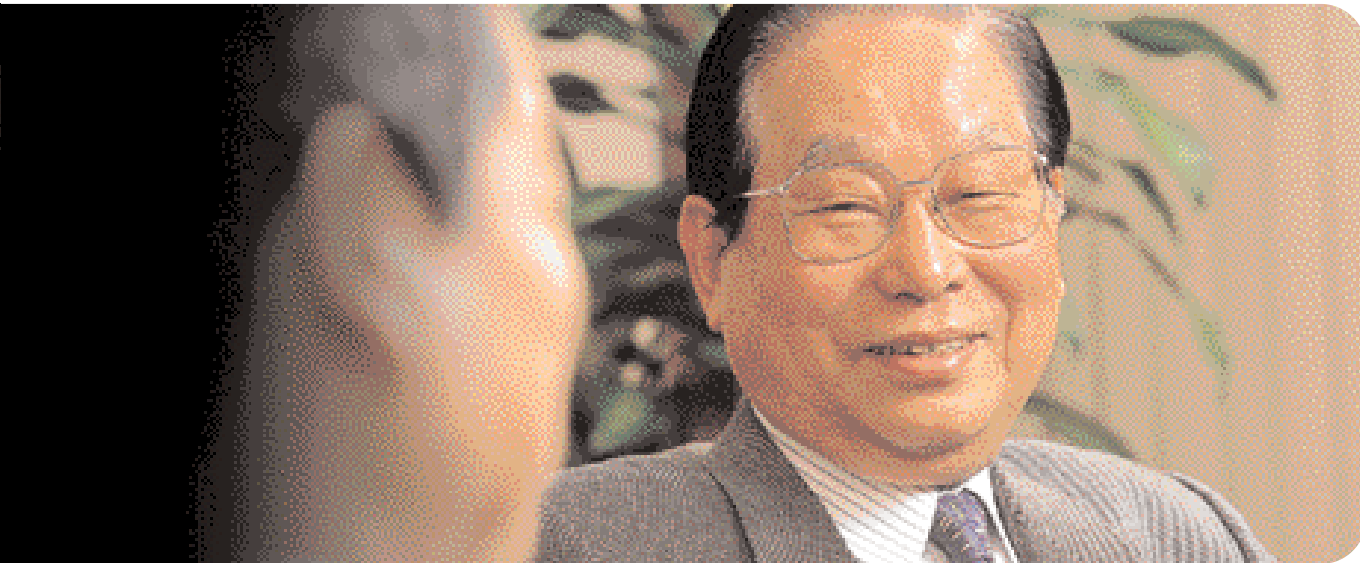
- Benefits to shareholders—First priority
- Achieving solid results with deliberate and steady progress
- Pursuit of customer satisfaction **CS**

CS

- Service is the key factor in business success.
- Providing customers with services to ensure maximum performance
- Pursuit of responsibility for effective operations
- Amassing stable and continuous business foundations

operate on luck. Our commitment to such ideas has enabled our growth. In the future, we intend to continue to honor the beliefs we have held since our inception.

The growth that we have achieved has been due, in large part, to the fact that our management philosophies are consistently maintained and shared by all employees. Since we are not manufacturers, we can't distinguish ourselves from other companies on products alone. This is why we have striven to provide meticulous services that other companies don't offer. For example, we give customers only what they want when they want it, and we maintain CS even after delivery by keeping our clients' equipment in excellent condition. We also assume responsibility for effective operations until the results of implementation have been realized. Our superior service and support greatly benefit small and medium-sized enterprises. We do business with companies from all kinds of industries and provide our services to 250,000 clients each month. A copier's operation can easily be ascertained simply by looking, but this is insufficient with computers. This is why we carry out careful demonstrations for our clients, in which we explain how to use the equipment for their management needs and, after delivery, provide ongoing support. This dedication has earned us the



trust of our clients and has been instrumental in our success in both copier- and computer-related businesses.

Looking at management strategies, we have led other companies with our success in adopting a strategy of focusing on highly populated, profitable areas and forgoing business in areas with little potential. Our territory strategy has made others take notice of our competitive potential. This business style has worked synergistically to allow OTSUKA CORPORATION to grow.

OTSUKA CORPORATION's foresight in adopting the new strategy of installing client server systems when its office computer business was at its height has been acclaimed from all quarters. With the Internet, as with anything, when we are developing new systems it is necessary to educate our clients and promote their abilities to competently implement such systems. I have resolutely carried out business strategies and anticipatory investment from the standpoint of the larger picture. New activities certainly require foresight about the chances of success and failure, but having the boldness to make a decision and execute it is also crucial. As an entrepreneur, I am always doing things as if my life depended on it, and if I think that something is necessary, I move toward that goal without compromising.

Right now, OTSUKA CORPORATION's specialties are its multifield*, multivendor copiers, computers, and business phone systems, which can be used with a wide range of products from different vendors; its status as Japan's only total, one-stop solutions provider offering various services—

from consulting to waste disposal—under one roof; and its rapid service system. In addition, we have the technological capabilities to back those strengths up. These efforts have resulted in our becoming an industry-leading company, which makes us very proud. However, we will not become complacent—we intend to pursue even higher CS by exploiting the know-how we have cultivated over the years. At the same time, we would like to improve our shareholders' satisfaction level.

Finally, we are working aggressively toward our goal of becoming a company that works for the coexistence and mutual benefit of the environment and society through such activities as document management for paperless operations and the recycling of waste products, increasing the use of recycled toner cartridges and paper, and engaging in various environmental activities, both internally and in the community.

This is an era in which all equipment is networked. By truly capitalizing on our specialties, and through the provision of expanded services and business activities, we hope to contribute to the IT progress of Japanese businesses.

August 2001

Minoru Otsuka

Minoru Otsuka
Chairman & Founder

The Business Environment and Future Activities: Aiming to Be a Company that Responds to Trust



Although an aura of stagnancy still hangs over the Japanese economy, the potential computerization and networking needs of businesses are high as companies search for business opportunities through the utilization of IT. For the period from January 1, 2000 to December 31, 2000, on a nonconsolidated basis, OTSUKA CORPORATION posted net sales of ¥314.2 billion, a 2.3% increase from the previous fiscal year. However, nonconsolidated recurring profit dropped 12.9%, to ¥5.8 billion. This is primarily attributable to the severe operating environments of OTSUKA CORPORATION's principal customers—which are primarily small and medium-sized enterprises—and the effect of lower maintenance fees accompanying the fall in prices of hardware. However, we made plans to bolster our financial position by making a public stock offering on the Tokyo Stock Exchange, increasing net income 9.4%, to ¥3.1 billion.

At OTSUKA CORPORATION, our system integration (SI) and service and support (S&S) businesses have experienced cooperative growth. It is impossible to separate the two. The days in which one could do business simply by selling hardware are over. From now on, our business will fundamentally be S&S-oriented. Hardware sales provide a business foundation through which to increase the number of our clients, and the SI business—including the support business it generates—enables us to focus on non-hardware businesses. Even in hardware sales, in which each type of equipment has its own function, by integrating the system

through network connections, new value can be added through various extra services. We will enter fields with this kind of cooperative relationship and, by making multilayered proposals, the provision of solutions will become one of our strategies for business expansion.

Our Web business is steadily attracting clients, and we occupy a favorable position in this field. We engage in every kind of Web site construction service and such domain services as “ α -MAIL*,” provide application service provider (ASP*) services, and operate our own Electronic Commerce (EC) site. For the construction industry, which is one of our principal areas of operation, we operate an information-sharing Web site, “Kensetsu 21.” In fiscal 2000, we established a central facility, the Internet Data Center, from which to offer these services. Furthermore, as a member of the computer industry, we are participating in Rosetta Net Japan, a collaborative project that aims to standardize EC site construction for B-to-B operations using eXtensible Markup Language (XML*), and which is promoting the creation of services that respond to specifically Japanese business practices. A true increase in actual demand is expected for Web-related business, and OTSUKA CORPORATION plans to exhibit leadership in this area.

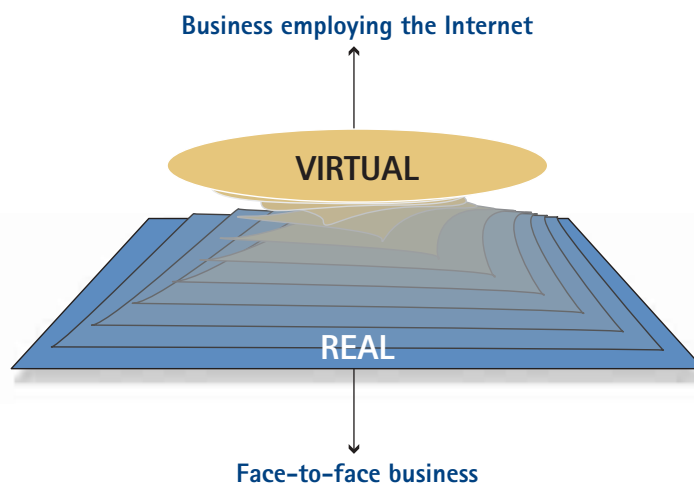
For the future, we are planning business expansion into a “total, one-stop solutions provider” by adding the new Web business to our conventional SI and S&S businesses. Our policy is to strengthen the fusion of face-to-face “real” business

and “virtual” business that employs the Internet.

From now on, it will be necessary for OTSUKA CORPORATION, which listed on the First Section of the Tokyo Stock Exchange in July 2000, to fulfill its responsibility as a public company.

Continuing the business we have constructed up to the present will please our clients and employees, the result of which will be performance that will please shareholders and garner support from society. Our objective is to create a company that can respond to the trust of a diverse cross section of people.

With our public listing, we have renewed our in-house information processing system. As the frontrunner in promoting IT in Japanese businesses, we are constructing the system with our own latest technology. Using this experience as a base, we will be able to create even better proposals for our clients. Furthermore, the system will enable us to effectively use client information, and we believe that it will deepen our ties with our clients. The system will enable total management of all client information—from an itemized list of products purchased to maintenance records and responses to inquiries—in one place, promoting client relationship



management (CRM), which responds to the most minute of client needs. This is one of the bases of OTSUKA CORPORATION’s business, and is connected to improved CS.

A company that responds to trust. A company with which people are glad to

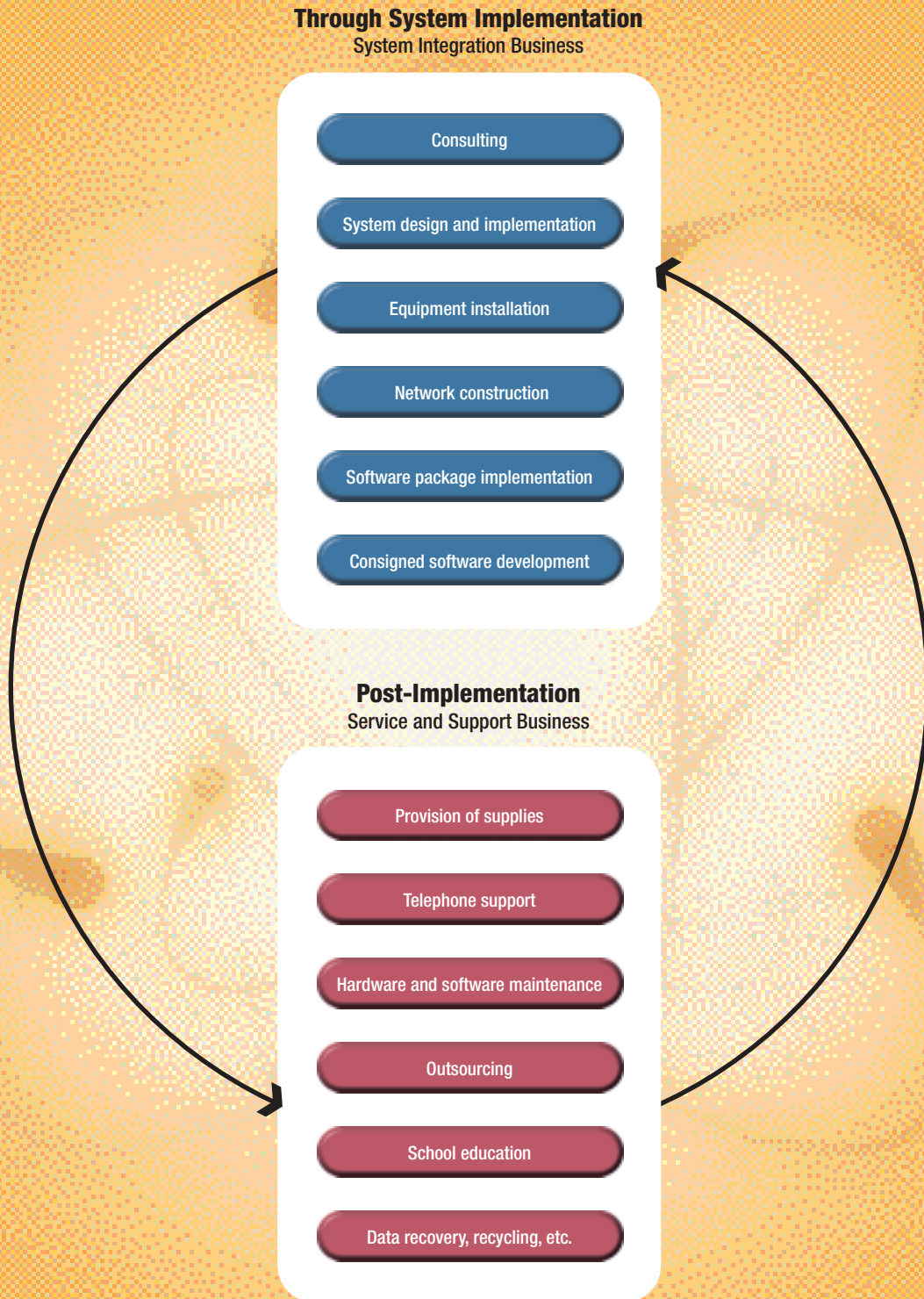
do business and have contact. We are striving to be a company that is mirrored in its clients and that, alternately, reflects its clients, continuing to move steadily forward step by step.

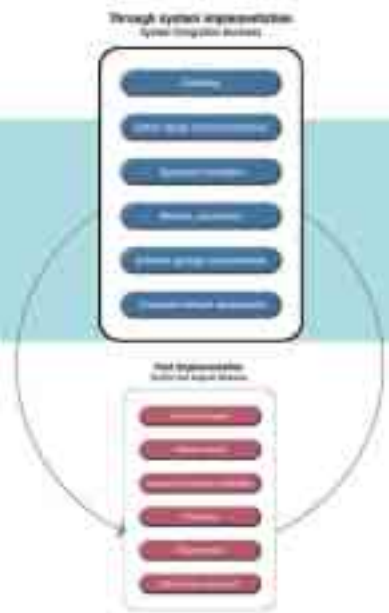
August 2001

Yuji Otsuka
President

Review of Operations

The fiscal 2000 business environment was characterized by unforeseen circumstances, including stagnant sales at the beginning of the period due to a reversion from the extraordinary demand generated by the Y2K issue of the previous year and the effects of the collapse of the net bubble in the previous fiscal year, which resulted in the failure of IT investment by small and medium-sized enterprises to achieve expected levels of growth. However, OTSUKA CORPORATION continued to pursue CS, capitalized on the the OTSUKA Group's collective strengths, offered optimum solutions for customers' needs, and strengthened its territory strategy, which involves developing a wide range of businesses in line with market trends, enabling the Company to post consolidated net sales of ¥334.9 billion, an increase of 3.7% from the previous fiscal year.

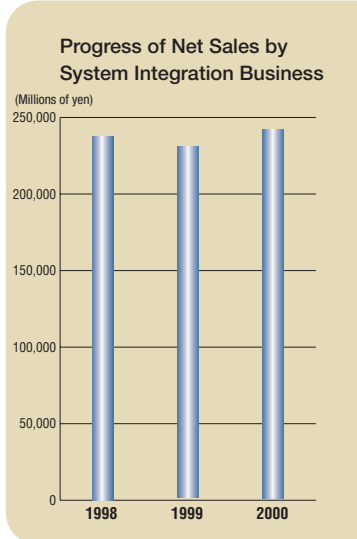




System Integration Business

Consolidated net sales increased 4.6%, to ¥241.9 billion.

Businesses' heightened desire to invest in computerization and the popularization of the Internet both contributed to healthy sales of computer-related system equipment by the System Integration Business. Although unit sales of PCs and servers exhibited strong growth, due to falling retail prices, net sales only rose slightly. However, sales activities focused on increasing sales of both OTSUKA CORPORATION's original ERP "SMILE α" Series software for Japanese businesses, which is now Web compatible, and document management solution package "ODS2000," which realizes knowledge management, resulted in a 4.6% increase in consolidated net sales, to ¥241.9 billion.



Consulting



In addition to studying a client's business and office environment and conducting system research, OTSUKA CORPORATION pinpoints business needs and problems. After selecting tasks that are necessary to utilize IT, we propose the most efficient system and/or network. Specialists well versed in every industry, from construction to manufacturing and distribution, and highly skilled engineers provide consulting for system implementation to support businesses in realizing strategic operations for survival in an era of drastic changes.

System Design and Implementation



To solve problems related to executing IT implementation, system engineers (SEs) with specialized knowledge discuss the optimum system and carry out total design. Taking full advantage of past projects and technology cultivated over the years, the SE aims to design a system that is easy to use while fulfilling the client's objectives. We offer a wide spectrum of solutions that employ the latest technologies, including Web systems and XML, which has become popular in recent years.

Equipment Installation



Specialist engineers carry out installation for office equipment, including copiers, facsimile machines, servers, printers, PBX*, and key telephones. Engineers use an installation method agreed upon in consultation with the client and limit interference with the client's business by installing software in advance at the CTO* center and unpacking and pre-assembling optional equipment at the delivery center to shorten work time at the installation site.

Network Construction



OTSUKA CORPORATION considers a multivendor environment to be a prerequisite, and constructs network infrastructure using the latest trends in technology. From wiring office networks to supplying LAN/WAN equipment and installing firewalls, we provide every service necessary for network construction. Furthermore, we place great importance on network security measures, which include responses to such problems as information leaks and outside entry into the system. By using individual authentication and virus elimination systems and establishing security policies, OTSUKA CORPORATION enables the realization of a solid and secure network.

Software Package Implementation



OTSUKA CORPORATION's original "SMILE α " Series of ERP software for Japanese businesses has sold 66,000 packages. This software is compatible with such new technologies as Java and Linux as well as mobile phones and, in addition to being a mission-critical business management system, can be used for strengthening strategic management and improving CS. With 100 different software titles, among them software for specific tasks and industries, groupware that promotes the use of networks, and original CAD software, OTSUKA CORPORATION has prepared a wealth of packages based on its vast knowledge of Japanese business.

Consigned Software Development



OTSUKA CORPORATION provides independent clients with software tailored to the needs of their particular business segment. An SE plans and develops order-made and/or customized software that accurately responds to the client's needs and enables the construction of a detailed system that is impossible to construct using packages on the market. SEs are provided with both a development environment, incorporating the latest technologies, and an education system to ensure the rapid development of high-performance software.



Installed Windows® 2000 Active Directory and Exchange 2000

Case study

Mochida Pharmaceutical Co., Ltd.

Provision of Windows® 2000 Consulting Services

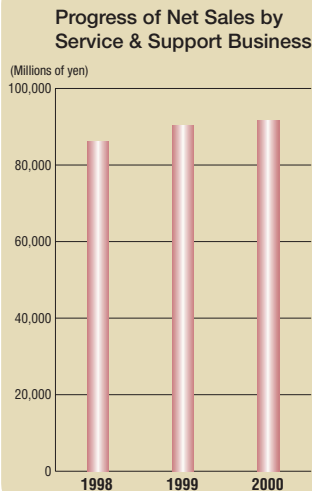
Mochida Pharmaceutical employed OTSUKA CORPORATION's consulting services for the construction of a Web-based total business support system. Using accurate and specialized knowledge and an assessment involving scrupulous pre-testing, we lessened the burden of operations management by effecting a smooth transition of the companywide network environment from Windows NT® to Windows® 2000.

In the United States and other countries, Windows® 2000, Windows NT®, and Exchange 2000 are registered trademarks or trademarks of Microsoft Corporation.

Service & Support Business

Consolidated net sales increased
1.3%, to ¥91.6 billion.

A significant decrease in sales of hardware was compensated for by concerted efforts by the Service & Support Business to increase sales of software maintenance and fee-based support services, resulting in slightly higher sales. In addition, education-related business, including PC classroom, which conducts maker-approved courses, and “Web Learning*,” an Internet correspondence course, exhibited strong growth. Web office-supply sales service “Tano Mail*” was also healthy due to restructuring of internal systems and improved distribution. Furthermore, sales from the Company’s Web-related menu, which includes “α-MAIL,” OTSUKA CORPORATION’s domain service for businesses, and security systems were also healthy, contributing to a 1.3% increase in consolidated net sales, to ¥91.6 billion.



Provision of Supplies



OTSUKA CORPORATION's office supplies consist of mainstay copier paper and toner cartridges as well as writing materials and PC accessories. OTSUKA CORPORATION's "Tano Mail" EC site is expanding Web sales of the 9,000 items it regularly carries. Benefits include quick exchanges and the ease with which users can search for products and manage their purchases. Moreover, as with conventional telephone and facsimile orders, same-day delivery can be arranged.

Telephone Support



The support center responds to inquiries relating to operations and problems with all products. Taking advantage of our multivendor capabilities, we quickly locate the source of the trouble to make an accurate response. On average, we answer more than 95% of all calls within 20 seconds and, with courtesy and respect, solve 85% of our callers' problems from the support center. When on-site visits are necessary, the support center works with engineers from one of our service bases to plan a quick solution to the problem.



Electronic bulletin board showing the results of operator responses

Advantage

Support Center

OTSUKA CORPORATION boasts Japan's largest support center, which is rapidly implementing Computer Telephony Integration (CTI). When clients call the support center, they are automatically identified by their telephone numbers, and the client's system environment as well as responses to past problems appear on the operator's computer screen. 420 response personnel provide accurate responses to 100,000 inquiries a month.

Hardware and Software Maintenance



To ensure that customers use their systems with peace of mind after installation, OTSUKA CORPORATION provides maintenance with direct visits from engineers at 280 nationwide bases, including affiliated companies. The Company provides periodic inspections to prevent problems and offers a number of other services, including business trip repair services for problems that occur away from the office. Through long-term, ongoing relationships with all makers, OTSUKA CORPORATION obtains detailed technological information, information on how to respond to problems, and replacement parts to support its maintenance services.

Outsourcing



Among OTSUKA CORPORATION's outsourcing services are a service that establishes a special, full-time help desk at the client company to carry out emergency measures and asset management and a surveillance service whereby the client's LAN is connected to OTSUKA CORPORATION's Internet Data Center, which quickly detects network problems. Internet Data Center engages in server outsourcing and operates an ASP service.



Quake-resistant server racks

Advantage

Internet Data Center

In July 2000, OTSUKA CORPORATION opened an Internet Data Center as its base for server outsourcing, at which it offers housing, hosting, and an Internet connection service. The center has resident engineers to oversee system operations and handle problems on a 24-hour-a-day, 365-day-a-year basis.

School Education



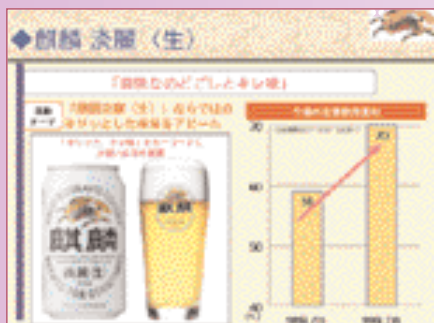
OTSUKA CORPORATION's regular schools, with 1,483 seats in 101 locations across the country, offer 250 courses covering a wide range of subjects, from basic operations to system manager training. Also, corporate schools for clients who desire training in specific areas can be arranged. Furthermore, the Company has opened "Web Learning," through which users can use the Internet to make their studies more flexible. Using multimedia materials, including voice and image, school students can use the site for review to boost the results of their courses.

Data Recovery, Recycling, etc.



Data Recovery—OTSUKA CORPORATION's data recovery service restores data saved on hard disks or magneto-optical (MO) drives that have experienced problems. Using cutting-edge technology from Ontrack Data International, Inc., and other companies, the Company is frequently able to restore vital information assets.

Recycling—OTSUKA CORPORATION has led the industry in constructing an OA Waste Equipment Recycling Processing System. The system recycles parts that can be reused, and reduces scarce metals to iron or precious metals to expand the scope of environment-friendly recycling.



Student presentation

Case study

Kirin Brewery Co., Ltd.'s Nagoya Branch Corporate School

Kirin Breweries employed OTSUKA CORPORATION to improve the computer literacy of its sales representatives, for whom presentation is a sales weapon. After conducting a preliminary assessment of students' skills, classes were organized according to skill level, and the contents of the course were selected to focus on such areas as presentation tools that would be immediately relevant to their everyday work. Busy students (sales representatives) were accommodated with schedule flexibility for more effective training.

Board of Directors



Chairman & Founder*
Minoru Otsuka



President*
Yuji Otsuka



Senior Vice President*
Masaru Mori



Senior Vice President
Akira Ishitani



Senior Vice President
Yoshiaki Nagashima



Senior Vice President
Youichi Harada



Vice President
Kazuhide Hamada



Vice President
Kazuyuki Katakura



Vice President
Katsuhiko Nakajima

Board Directors

Katsuhide Haneishi
Yuuichi Itou
Kimio Shiokawa
Masakazu Tachibana
Shinji Usami

Auditors

Yasuyuki Kosuge
Katsumi Furuhata
Reiko Nishiyama

*Directors with representation rights

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Three-Year Financial Data

OTSUKA CORPORATION and Its Consolidated Subsidiaries
Years ended December 31, 1998, 1999 and 2000

	Millions of yen			Thousands of U.S. dollars
	1998	1999	2000	2000
Net sales	¥325,304	¥322,816	¥334,911	\$2,918,614
System Integration Business	237,777	231,262	241,904	2,108,096
Service & Support Business	86,237	90,427	91,603	798,283
Other Business	1,290	1,127	1,404	12,235
Selling, general and administrative expenses	67,633	64,961	68,030	592,854
Operating income	1,985	6,878	5,922	51,608
Recurring profit	1,249	7,081	6,207	54,092
Net income (loss)	(123)	3,219	2,997	26,117
Capital investment	3,361	2,695	3,606	31,425
Depreciation	5,798	6,046	6,451	56,218
Total assets	174,901	169,222	167,761	1,461,969
Total interest-bearing debt	81,053	67,503	46,549	405,654
Total shareholders' equity	24,549	28,074	51,196	446,153
Number of employees	7,472	7,142	7,222	
Operating income to net sales (%)	0.61	2.13	1.77	
Recurring profit ratio	0.38	2.19	1.85	
Return on equity (ROE) (%)	(0.50)	12.23	7.56	
Shareholders' equity ratio (%)	14.04	16.59	30.52	
Net income (loss) per share (EPS) (Yen and U.S. dollars)	(4.37)	114.06	99.66	0.87
Net assets per share (Yen and U.S. dollars)	870.02	979.32	1,616.69	14.09
Dividends per share of common stock (Unconsolidated) (Yen and U.S. dollars)	6.00	10.00	25.00	0.22

* Profit-related ratios are calculated using the year-end value of shareholders' equity for fiscal 1998, and average shareholders' equity for fiscal 1999 and fiscal 2000. U.S. dollar amounts are computed using the December 31, 2000 exchange rate of ¥114.75=US\$1.

Consolidated Financial Review

OTSUKA CORPORATION and Its Consolidated Subsidiaries
Year ended December 31, 2000

Overview

During fiscal 2000, ended December 31, 2000, the domestic economy made a slight recovery, but domestic private demand—led by private capital investment and personal consumption—failed to exhibit signs of a true recovery and a strong sense of stagnancy remained.

The OTSUKA Group operates in the IT-related industry, which is expected to be the driving force behind Japan's economic rebirth, but expansion in IT-related investment was limited to large companies that have recovered and did not include many small and medium-sized companies, which have yet to escape severe conditions.

Against this backdrop, OTSUKA CORPORATION listed on the First Section of the Tokyo Stock Exchange on July 14, 2000, and the Company appropriated the resulting capital for the repayment of interest-bearing debt, thereby significantly improving its financial position.

In the year under review, the Company strove to develop businesses in a wide range of fields and strengthen its territory strategy to match market trends as part of its effort to provide customers with the most suitable solutions for their needs. Moreover, to strengthen its Internet-related business, which will be the core of the Company's future business, it established an Internet Data Center in July 2000 and strove to expand its Web business. Furthermore, the Company put high priority on measures to deal with environmental issues and obtained the internationally recognized ISO 14001 certification at 15 of its business sites on December 25, 2000. Also, OTSUKA CORPORATION subsidiary Net World, Inc., a distributor of network-related products, merged with Netserve Inc. in the year under review.

Income and Expenses

Net Sales

In the year under review, consolidated net sales by the OTSUKA Group increased 3.7%, to ¥334.9 billion. A reversion of the special demand generated by the Y2K issue of the previous fiscal year resulted in relatively sluggish sales in the first half of the fiscal year, but accelerated IT-related investment originating in major companies in the latter half and the popularization of the Internet contributed to an increase in sales that compensated for the stagnancy of the first half of the fiscal year.

System Integration Business

Net sales in the System Integration Business increased 4.6%, to ¥241.9 billion in the period under review, thanks to IT-related investment by businesses and increasing use of the Internet. Primarily responsible for the rise was the popularity of the Web-compatible "SMILE α" Series of ERP software for Japanese businesses and the document management solution "ODS2000," which allows businesses to carry out knowledge management. Unit sales of computer-related system equipment soared, but the value of such sales rose only slightly due to falling retail prices, particularly of computers. These factors combined to result in System Integration Business sales as a proportion of net sales increasing 0.6 percentage point, from 71.6% to 72.2%.

Service & Support Business

In the Service & Support Business, net sales increased 1.3%, to ¥91.6 billion. Although hardware maintenance service sales fell as a result of concentrating efforts on support services, including security-related services and system operation support, overall sales increased slightly. In addition,

sales from such education-related business as computer classes and Internet-compatible Web Learning as well as office supply sales using the Web shifted to a healthy tone. Sales from the Service & Support Business as a proportion of net sales fell 0.6 percentage point, from 28.0% to 27.4%.

Other Business

As its Other Business, the OTSUKA Group operates in the construction business. An increase in orders from government and other public offices resulted in a 24.6% increase in net sales, to ¥1.4 billion. Other Business contributed 0.4% of net sales, largely unchanged from the previous fiscal year.

Cost of Sales and Other Income (Expenses)

Cost of sales jumped ¥10.0 billion, to ¥261.0 billion. As a result, the gross profit margin fell 0.2 percentage point, to 22.1%.

Selling, general and administrative (SG&A) expenses rose ¥3.1 billion, to ¥68.0 billion, and SG&A expenses to net sales edged up 0.2 percentage point, to 20.3%. This rise was primarily attributable to a revision in the assumed interest rate made in anticipation of the application of new retirement benefit accounting standards to be applied from fiscal 2001, resulting in a ¥1.2 billion increase in pension premiums. R&D expenses in the period under review amounted to ¥0.8 billion, all incurred by the System Integration Business, and were recorded as selling, general and administrative expenses and manufacturing expenses. As a result, operating income fell ¥1.0 billion, to ¥5.9 billion, and the operating income to net sales ratio dropped 0.3 percentage point, to 1.8%.

Other income (expenses) plunged ¥1.5 billion, from net income of ¥1.3 billion to net expenses of ¥0.2 billion, and income before income taxes and minority interests fell ¥2.5 billion, to ¥5.7 billion.

Income taxes fell ¥2.3 billion, to ¥2.8 billion, and the percentage of income taxes to income before income taxes and minority interests fell 13.6 percentage points, from 61.9% to 48.3%. This reduction in the income tax burden is attributable to a reduction in the statutory tax rate, from approximately 47% to 42%, and the application of tax-effect accounting in the period under review, which resulted in net deferred tax assets of ¥0.3 billion. Minority interests in net losses of consolidated subsidiaries amounted to approximately half of the amount in the previous fiscal year.

As a result of the aforementioned factors, net income in the period under review decreased ¥0.2 billion, to ¥3.0 billion, and the net income margin dipped 0.1 percentage point, to 0.9%.

Financial Position

Total current assets at the end of the year under review fell ¥2.9 billion, to ¥79.3 billion. The most significant decrease was a ¥1.7 billion drop in inventories. Investments and advances fell ¥6.5 billion, to ¥16.2 billion. This was due to the transfer of software from other investments to intangibles and deferred charges at the end of the period under review. Despite a ¥3.5 billion increase in capital investment, the decrease in property, plant and equipment was limited to ¥0.2 billion, amounting to ¥63.5 billion, due to the effect of disposal of unwanted assets and depreciation. Capital investment was mainly focused on the construction of a base in Utsunomiya, Tochigi Prefecture, to strengthen the Company's marketing capabilities as well as the establishment of an Internet Data Center to expand Internet-related business.

Total current liabilities fell ¥18.9 billion, to ¥102.9 billion, while long-term liabilities declined ¥5.8 billion, to ¥13.3 billion. Total liabilities decreased ¥24.7 billion. This was mainly due to a decrease of ¥3.6 billion in income taxes payable accompanying the decrease in the statutory tax rate, a reduction in short-term bank loans of ¥16.5 billion, an increase in the current maturities of long-term debt of ¥1.9 billion, and a fall of ¥6.4 billion in long-term debt. These factors resulted in a net decrease in

debt of ¥21.0 billion, made possible by fund procurement through the public stock offering mentioned below. As a result of eliminating a large portion of interest-bearing debt, interest coverage improved from 6.0 times to 6.4 times.

Total shareholders' equity jumped ¥23.1 billion, to ¥51.2 billion. The primary reason for this increase was an increase in capital of ¥19.8 billion, which was raised in the Company's public stock offering when it listed on the First Section of the Tokyo Stock Exchange and, of which, ¥6.4 billion and ¥13.4 billion were allotted to the common stock account and additional paid-in capital, respectively. As a result, the shareholders' equity ratio increased 13.9 percentage points, from 16.6% to 30.5%, while return on equity declined 4.6 percentage points, from 12.2% to 7.6%.

Cash Flows

Cash flows from operating activities were the basic source of funds for operational fund requirements, capital investment, and the payment of dividends. Cash and cash equivalents at year-end decreased ¥1.2 billion, to ¥4.4 billion. Changes in cash and cash equivalents, excluding a ¥0.2 billion increase in cash and cash equivalents due to the aforementioned merger of a subsidiary, are outlined below.

Net cash provided by operating activities amounted to ¥9.5 billion. Inflows consisted primarily of ¥5.7 billion in income before income taxes and minority interests as well as depreciation and amortization as a noncash item of ¥6.5 billion.

Net cash used in investing activities totaled ¥8.7 billion. Principal outflows consisted of the aforementioned capital investment-related purchases of property, plant and equipment amounting to ¥3.6 billion, and software development revolving around system integration development of ¥3.1 billion, as well as purchases of investments in securities of ¥2.2 billion to strengthen the Company's business foundations.

Net cash used in financing activities came to ¥2.0 billion. Most significant were proceeds from the issuance of new shares of ¥19.8 billion resulting from the Company's public stock offering and the use of those funds for ¥21.6 billion in repayments of short-term and long-term bank loans and ¥0.3 billion in dividends paid.

Forward-Looking Statement

In fiscal 2001, although the combination of the downturn in the U.S. economy, stagnancy in domestic stock prices, and long-term sluggish personal consumption is expected to contribute to severe economic conditions, the IT-related industry in which the OTSUKA Group operates is expected to experience solid expansion in corporate demand as companies recognize that, to distinguish themselves, it is imperative that they engage in IT investment. Against this backdrop, the OTSUKA Group will strive to integrate and fuse real business, involving direct marketing, and virtual business, employing the Internet, to effect business expansion that exploits the OTSUKA Group's unique strengths. In fiscal 2001, net sales are forecast to increase 4.4%, to ¥349.6 billion, and consolidated net income is expected to rise 9.7%, to ¥3.3 billion.

Forward-looking statements are based on judgments made with the information available to the OTSUKA Group at the time of creation and are subject to potential risks or uncertain factors. 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.

Consolidated Balance Sheets

OTSUKA CORPORATION and Its Consolidated Subsidiaries
Years ended December 31, 1999 and 2000

Thousands of
U.S. dollars
(Note 3)

	Millions of yen		2000
	1999	2000	
ASSETS			
Current assets:			
Cash, time deposits and other cash equivalents (Notes 6 and 10)	¥ 6,752	¥ 5,927	\$ 51,651
Accounts and notes receivable:			
Trade	49,444	47,547	414,353
Unconsolidated subsidiaries and affiliates	260	787	6,858
Other	3,180	4,122	35,922
	52,884	52,456	457,133
Less: Allowance for bad debts	(294)	(413)	(3,599)
	52,590	52,043	453,534
Inventories (Note 5)	20,957	19,279	168,009
Deferred income taxes (Note 9)	—	477	4,157
Other current assets	1,916	1,609	14,022
Total current assets	82,215	79,335	691,373
Investments and advances:			
Investments in securities (Notes 4 and 6)	1,927	2,784	24,261
Investments in unconsolidated subsidiaries and affiliates (Note 4)	361	1,326	11,556
Guarantee deposits	8,653	8,860	77,211
Deferred income taxes (Note 9)	—	758	6,606
Other investments	11,790	2,481	21,621
	22,731	16,209	141,255
Property, plant and equipment (Notes 6 and 14):			
Land	30,122	29,676	258,614
Buildings and structures	53,644	56,084	488,749
Construction in progress	1,638	1,119	9,752
Others	9,267	9,642	84,026
	94,671	96,521	841,141
Less: Accumulated depreciation	(31,032)	(33,042)	(287,948)
Net property, plant and equipment	63,639	63,479	553,193
Intangibles and deferred charges			
Software	—	8,152	71,041
Others	524	484	4,218
	524	8,636	75,259
Foreign currency translation adjustment	113	102	889
	¥169,222	¥167,761	\$1,461,969

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	2000	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 6)	¥ 46,957	¥ 30,498	\$ 265,778
Current maturities of long-term debt (Note 6)	5,118	7,027	61,237
Accounts and notes payable:			
Trade	53,534	51,862	451,957
Unconsolidated subsidiaries and affiliates	1,145	949	8,270
Other	2,316	2,670	23,268
	56,995	55,481	483,495
Income taxes payable (Note 9)	4,381	782	6,815
Other current liabilities	8,313	9,077	79,102
Total current liabilities	121,764	102,865	896,427
Long-term debt (Note 6)	15,428	9,024	78,640
Reserve for retirement benefits (Note 7)	3,612	3,824	33,324
Deferred income taxes (Note 9)	—	307	2,675
Other long-term liabilities	61	110	959
Minority interests in consolidated subsidiaries	283	435	3,791
Contingent liabilities (Note 8)			
Shareholders' equity:			
Common stock, par value ¥50 per share:			
Authorized: 112,860,000 shares			
Issued: 28,667,020 and 31,667,020 shares at December 31, 1999 and 2000, respectively.	4,000	10,375	90,414
Additional paid-in capital	2,785	16,255	141,656
Retained earnings	21,289	24,566	214,083
Less: Treasury stock	—	(0)	(0)
Total shareholders' equity	28,074	51,196	446,153
	¥169,222	¥167,761	\$1,461,969

Consolidated Statements of Income

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 1999 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	2000	2000
Net sales (Note 16)	¥322,816	¥334,911	\$2,918,614
Cost of sales (Note 16)	250,977	260,959	2,274,152
Gross profit	71,839	73,952	644,462
Selling, general and administrative expenses (Note 16)	64,961	68,030	592,854
Operating income	6,878	5,922	51,608
Other income (expenses):			
Interest and dividend income	96	107	932
Interest expenses	(1,169)	(945)	(8,235)
Purchase discounts	941	894	7,791
Gain on sale of investments in affiliates	1,506	296	2,579
Gain on cancellation of stock transfer contract (Note 11)	—	1,500	13,072
Reversal of retirement benefits	465	—	—
Stock list expenses of OTSUKA CORPORATION	—	(118)	(1,028)
Loss on sale/disposal of property, plant and equipment	(804)	(738)	(6,431)
Loss on evaluation/sale of membership	—	(1,406)	(12,253)
Other, net	292	196	1,708
	1,327	(214)	(1,865)
Income before income taxes and minority interests	8,205	5,708	49,743
Income taxes (Note 9):			
Current	5,081	3,098	26,998
Deferred	—	(339)	(2,954)
	5,081	2,759	24,044
Minority interests in net losses of consolidated subsidiaries	95	48	418
Net income	¥ 3,219	¥ 2,997	\$ 26,117
		Yen	U.S. dollars (Note 3)
Net income and dividends per share (Note 2 (15)):			
Net income	¥114.06	¥99.66	\$0.868
Cash dividends	10.00	25.00	0.218

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 1999 and 2000

	Number of Shares of Common Stock	Millions of yen			
		Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance at December 31, 1998	28,217,020	¥ 3,786	¥ 2,571	¥18,192	¥—
Net income for the year	—	—	—	3,219	—
Cash dividends paid	—	—	—	(169)	—
Increase due to subtractive consolidation of subsidiaries	—	—	—	47	—
Issuance of stock to third party	450,000	214	214	—	—
Balance at December 31, 1999	28,667,020	4,000	2,785	21,289	—
Cumulative effect of adopting deferred tax accounting	—	—	—	562	—
Net income for the year	—	—	—	2,997	—
Cash dividends paid	—	—	—	(282)	—
New shares issued in public offering (Note12)	3,000,000	6,375	13,470	—	—
Purchase of treasury stock	—	—	—	—	(0)
Balance at December 31, 2000	31,667,020	¥10,375	¥16,255	¥24,566	¥ (0)

	Number of Shares of Common Stock	Thousands of U.S. dollars (Note 3)			
		Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance at December 31, 1999	28,667,020	\$34,858	\$ 24,270	\$185,525	\$—
Cumulative effect of adopting deferred tax accounting	—	—	—	4,898	—
Net income for the year	—	—	—	26,117	—
Cash dividends paid	—	—	—	(2,457)	—
New shares issued in public offering (Note 12)	3,000,000	55,556	117,386	—	—
Purchase of treasury stock	—	—	—	—	(0)
Balance at December 31, 2000	31,667,020	\$90,414	\$141,656	\$214,083	\$ (0)

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

OTSUKA CORPORATION and its Consolidated Subsidiaries
For the year ended December 31, 2000

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2000	2000
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 5,708	\$ 49,743
Depreciation and amortization	6,450	56,209
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	49	427
Provision for retirement benefits	210	1,830
Provision for allowance for bad debts	568	4,950
Interest and dividend income	(107)	(932)
Interest expenses	945	8,235
Loss on sale/disposal of property, plant and equipment	738	6,431
Gain on sale of investments in securities	(296)	(2,579)
Gain on cancellation of stock transfer contract	(1,500)	(13,072)
Loss on evaluation of investments in securities	157	1,368
Loss on evaluation/sale of membership	1,406	12,253
Decrease in notes and accounts receivable	1,738	15,146
Decrease in inventories	1,805	15,730
Decrease in notes and accounts payable	(1,932)	(16,837)
Other	1,146	9,987
Subtotal	17,085	148,889
Interest and dividend income received	108	941
Interest expenses paid	(982)	(8,558)
Income taxes paid	(6,697)	(58,362)
Net cash provided by operating activities	9,514	82,910
Cash flows from investing activities:		
Payments for purchase of property, plant and equipment	(3,606)	(31,425)
Payments for software developed	(3,127)	(27,250)
Payments for purchase of investments in securities	(2,177)	(18,971)
Proceeds from sale of investments in securities	426	3,712
Increase in long-term loans receivable	(498)	(4,340)
Other	283	2,466
Net cash used in investing activities	(8,699)	(75,808)
Cash flows from financing activities:		
Decrease in short-term bank loans, net	(17,059)	(148,662)
Proceeds from long-term loans	623	5,429
Repayments of long-term loans	(5,118)	(44,601)
Proceeds from issue of new shares	19,845	172,941
Cash dividends paid	(282)	(2,457)
Other	14	121
Net cash used in financing activities	(1,977)	(17,229)
Effect of exchange rate changes on cash and cash equivalents	(2)	(17)
Net decrease in cash and cash equivalents	(1,164)	(10,144)
Cash and cash equivalents at beginning of year	5,433	47,346
Increase in cash and cash equivalents due to merger	176	1,534
Cash and cash equivalents at end of year (Note 10)	¥ 4,445	\$ 38,736

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

OTSUKA CORPORATION and Its Consolidated Subsidiaries

1. Basis of Presenting Accounting Principles

the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by OTSUKA CORPORATION (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

A consolidated statement of cash flows has been required to be prepared with effect for the year ended December 31, 2000, in accordance with a new accounting standard in Japan.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The Company had 20 subsidiaries (majority-owned companies) and 22 subsidiaries as at December 31, 1999 and 2000, respectively. The consolidated financial statements include the accounts of the Company and 10 subsidiaries and 9 subsidiaries for the years ended December 31, 1999 and 2000, respectively.

The nine subsidiaries, which were consolidated in the year ended December 31, 2000, are listed below:

	Equity ownership percentage
OSK Corporation	100.0%
NETPLAN CO., LTD.	100.0%
Alfa Techno Co., LTD.	100.0%
FUJIMI CONSTRUCTION CO., LTD.	100.0%
ALFA SYSTEM CO., LTD.	100.0%
Alfa Net Inc.	100.0%
10art-ni Corporation	78.3%
Net World, INC.	68.4%
AURORA-OTSUKA CORP.	65.0%

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

Companies that are more than 50 percent owned are generally classified as subsidiaries and companies that are more than 20 percent owned are classified as affiliates. However, due to the amendments of regulations for preparation of consolidated financial statements, companies that are 40 percent to 50 percent owned may also be classified as subsidiaries and companies that are 15 percent to 20 percent owned may also be classified as affiliates, if the Company substantially controls the investees' management or has significant influence and relationship with the investees.

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

The accounts of the remaining 10 and 13 unconsolidated subsidiaries as at December 31, 1999 and 2000, respectively, had insignificant amounts in terms of total assets, net sales and, net income and, therefore, have been excluded from consolidation.

(2) Elimination of Intercompany Accounts

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been entirely eliminated, and the portion attributable to minority interests is charged/credited to minority interests.

For the elimination of investments in common stock of consolidated subsidiaries, together with the equity in net assets of such subsidiaries, any difference between such investment costs and the amount of underlying equity in net assets of the subsidiary is deferred and amortized to income over five years on a straight-line basis.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 10 unconsolidated subsidiaries and 10 affiliates at December 31, 1999 and 13 unconsolidated subsidiaries and 17 affiliates at December 31, 2000. The equity method was not applied since the investments in the unconsolidated subsidiaries and affiliates did not have a material effect on consolidated net income in the consolidated financial statements. The investments in the remaining unconsolidated subsidiaries and affiliates are carried at cost or less.

(4) Translation of Foreign Currency Financial Statements (Accounts of Overseas Subsidiaries)

The translations of accounts in the foreign currency financial statements of the consolidated overseas subsidiaries into yen for consolidation purposes are made principally by applying the current exchange rate prevailing at the balance sheet date, while capital stock and retained earnings are translated at historical exchange rates. All revenue and expense items for the year are translated at average exchange rates.

The net difference arising from the translation of the foreign currency financial statements is shown as "Foreign currency translation adjustment" in the accompanying consolidated balance sheets.

(5) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on 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.

(6) Inventories

Inventories are valued by the methods according to the category of inventories as follows:

Merchandise and maintenance parts:	Cost mainly determined by the moving-average method
Work-in-process:	Cost determined by the individual cost method
Supplies:	Cost determined by the last purchase prices

(7) Valuation of Securities

Investments in securities, which are listed on stock exchanges, are mainly valued at the lower of cost or market, cost being determined by the moving-average method. Other unlisted securities are valued at cost determined by the moving-average method.

(8) Property, Plant and Equipment

Depreciation is mainly computed using the declining-balance method, at rates based on the estimated useful lives of assets which are prescribed by the Japanese income tax laws. Depreciation of buildings newly acquired after April 1, 1998 has been provided based on the straight-line method in conformity with Japanese tax laws. The range of useful lives is principally from 8 to 50 years for buildings and structures.

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

(9) Accounting for Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

(10) Amortization

The amortization of costs of software developed for external sales are computed at an amount based on sales quantity during the year to the total estimated sales quantity. However, these costs should not be lower than the amount computed on the straight-line basis over the remaining period, which is three years.

Software developed for internal use is amortized on the straight-line basis over the estimated useful life, which is five years.

The Companies adopted the new Japanese accounting standard “Accounting for Research and Development Cost” for package software for external sales and software for internal use from this consolidated fiscal year. However, the prior year’s software cost was accounted for using a transitional standard that is described in JICPA’s “Practical Guidance to Accounting for Research and Development Cost.” As a result, operating income and income before income taxes were decreased by ¥247 million compared to the previous method.

(11) Deferred Charges

New share issue expenses are charged to expenses as incurred.

(12) Accounting for Income Taxes

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

In the year ended December 31, 2000, the Companies adopted deferred tax accounting in accordance with the amended regulation for preparation of consolidated financial statements. Deferred 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 financial statements. The cumulative effect of adopting deferred tax accounting at January 1, 2000 was charged to retained earnings.

The effect of this accounting method change was that deferred income taxes—current assets, deferred income taxes—non-current assets, deferred income taxes—non-current liabilities, retained earnings at December 31, 2000 and net income for the year then ended increased by ¥477 million, ¥758 million, ¥307 million, ¥900 million and ¥339 million, respectively.

(13) Allowance for Bad Debts**(a) Parent company**

The allowance for bad debts is provided at an amount calculated using the prior actual uncollectable rate, plus the amount of possible losses from uncollectable receivables.

(b) Domestic consolidated subsidiaries

The allowance for bad debts is provided at an amount equivalent to the maximum limit allowed for deduction under the Japanese Income Tax Law, plus the amount of possible losses from uncollectable receivables.

(14) Reserve for Retirement Benefits**(a) Retirement benefits for employees**

The Company and its domestic subsidiaries have provided for accrued retirement benefits for its employees, except for qualified pension plan beneficiaries. Its amounts are equivalent to 40% of the liability the Company would be required to pay if employees had retired voluntarily at the balance sheet date.

(b) Retirement benefits for directors

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

(15) 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.

(16) Accounting for the Consumption Tax

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

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥114.75=US\$1, the rate of exchange on December 31, 2000, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

4. Investments in Securities and Investments in Unconsolidated Subsidiaries and Affiliates

At December 31, 2000, investments in securities and investments in unconsolidated subsidiaries and affiliates were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2000			2000		
	Carrying amounts	Market value	Unrealized gain (loss)	Carrying amounts	Market value	Unrealized gain (loss)
Investments in securities and investments in unconsolidated subsidiaries and affiliates:						
Market value available:						
Equity securities	¥ 811	¥2,182	¥1,371	\$ 7,068	\$19,015	\$11,948
Other securities	90	59	(31)	784	514	(270)
	901			7,852		
Market value not available	3,209			27,965		
Total	¥4,110	¥2,241	¥1,340	\$35,817	\$19,529	\$11,678

Disclosure of investments in securities and investments in unconsolidated subsidiaries and affiliates was not required for the year ended December 31, 1999.

5. Inventories

Inventories at December 31, 1999 and 2000 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Merchandise and maintenance parts	¥20,043	¥18,458	\$160,854
Work-in-process	686	647	5,639
Supplies	228	174	1,516
	¥20,957	¥19,279	\$168,009

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

The annual average interest rates applicable to short-term bank loans at December 31, 1999 and 2000 were 1.30% and 1.18%, respectively.

Long-term debt at December 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Long-term borrowings from banks with annual interest rates from 1.49% to 3.00%	¥14,746	¥10,251	\$89,333
2.66% secured Japanese yen bonds due November 2003	2,300	2,300	20,043
2.45% secured Japanese yen bonds due December 2001	1,400	1,400	12,200
2.75% secured Japanese yen bonds due December 2002	1,100	1,100	9,586
3.04% secured Japanese yen bonds due February 2003	1,000	1,000	8,715
	20,546	16,051	139,877
Less: Current maturities of long-term debts	(5,118)	(7,027)	(61,237)
	¥15,428	¥ 9,024	\$78,640

Aggregate annual maturities of long-term debt subsequent to December 31, 2000 are as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 7,027	\$ 61,237
2002	2,921	25,455
2003	5,934	51,712
2004	9	79
2005 and thereafter	160	1,394
	¥16,051	\$139,877

At December 31, 2000, assets pledged as collateral for short-term loans and long-term debt, including the current portion of long-term debt, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Land	¥22,298	\$194,318
Buildings	15,347	133,743
Investments in securities	86	749
Time deposits	11	96
	¥37,742	\$328,906

7. Reserve for Retirement Benefits

The Company has unfunded retirement benefit plans for its employees. "Reserve for retirement benefits" has been provided for the accrued cost of the plans. The balance of the reserve in the accompanying consolidated balance sheets represents 40 percent of the liability the Company would be required to pay (reduced by the benefits payable under the pension plans described below) if all eligible employees voluntarily terminated employment at the respective balance sheet dates.

The Company and three subsidiaries also have a funded employees' pension plan. The annual contributions to the plan, which include normal costs and amortization of past service costs, are charged to income when paid. This plan covers the termination of long-service employees. The net assets of the plan aggregated ¥12,795 million and ¥10,853 million at September 30, 2000 and 1999, respectively. The amortization ratio of past service costs is 10 percent per annum. In addition, the Company and five subsidiaries adopted a welfare pension fund plan from October 1, 1985. The net assets of the plan aggregated ¥14,804 million and ¥12,111 million at March 31, 2000 and 1999, respectively. Past service costs are to be amortized over 15 years.

With respect to directors and statutory auditors, the Company and domestic subsidiaries provide for lump-sum severance benefits on a basis which is similar to that used for employees. While the Company and domestic subsidiaries have no legal obligation, it is a customary practice in Japan to make lump-sum payments to a director or statutory auditor upon retirement with the approval of the general meeting of shareholders. Annual provisions are made in the accounts for the estimated costs of this termination plan, which are not funded. The balance of reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2000 included such provisions relative to directors and statutory auditors in an amount of ¥668 million.

8. Contingent Liabilities

The Companies were contingently liable for guarantees of loans at December 31, 2000 as follows:

	Millions of yen	Thousands of U.S. dollars
Loans borrowed by:		
NACOS COMPUTER SYSTEMS CORP.	¥120	\$1,046
EMT Software, Inc.	34	296
Sofix Inc.	60	523
	¥214	\$1,865

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2000 was 42.1 percent.

At December 31, 2000, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

Statutory tax rate	42.1%
Entertainment expenses	1.9
Inhabitants' tax per capita	2.2
Valuation allowance	2.3
Others	(0.2)
Effective tax rate	48.3%

At December 31, 2000, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Deferred tax assets:		
Allowance for bad debts	¥ 252	\$ 2,196
Enterprise taxes	137	1,194
Accrued bonuses	230	2,004
Reserve for retirement benefits	534	4,654
Membership	508	4,427
Software cost	226	1,969
Operating loss carryforwards	583	5,081
Eliminated unrealized profits	558	4,863
Other	139	1,211
Total gross deferred tax assets	3,167	27,599
Less: Valuation allowance	(372)	(3,242)
Net deferred tax assets	2,795	24,357
Deferred tax liabilities:		
Reserve for computer program	1,842	16,052
Other	25	218
Total gross deferred tax liabilities	1,867	16,270
Net deferred tax assets	¥ 928	\$ 8,087

10. Supplementary Cash Flow Information

Cash and cash equivalents consisted of:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Cash, time deposits and other cash equivalents	¥5,927	\$51,651
Time deposits with deposit terms of more than three months	(1,482)	(12,915)
Cash and cash equivalents at end of year	¥4,445	\$38,736

11. Gain on Cancellation of Stock Transfer Contract

This is profit due to a special contract change regarding DATACRAFT Japan's stock transfer contract between the Company and DATACRAFT Asia Ltd., which was concluded in July 1999. This special contract change was fixed in October 2000.

12. Shareholders' Equity

On July 14, 2000, the Company issued 3,000,000 shares of its common stock in a public offering for ¥19,845 million in net cash proceeds, after deducting underwriting commissions, and credited ¥6,375 million to common stock and ¥13,470 million to additional paid-in capital. All of the net proceeds were used to pay back short-term bank loans.

13. Subsequent Event

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2000 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 29, 2001:

	Millions of yen	Thousands of U.S. dollars
Appropriation		
Cash dividends (¥25.0 per share)	¥792	\$6,902

14. Lease Transactions

Acquisition cost, accumulated depreciation and net book value at December 31, 1999 and 2000 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Acquisition cost	¥13,465	¥12,360	\$107,712
Accumulated depreciation	(10,548)	(8,839)	(77,028)
Net book value	¥ 2,917	¥ 3,521	\$ 30,684

Future minimum lease payments under finance leases at December 31, 1999 and 2000 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Due within one year	¥1,712	¥1,301	\$11,338
Due after one year	1,286	2,276	19,834
	¥2,988	¥3,577	\$31,172

Lease rental expenses, depreciation and interest expenses for the year ended December 31, 1999 and 2000 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Lease rental expenses	¥3,716	¥2,054	\$17,900
Depreciation	3,433	1,916	16,697
Interest expenses	164	114	993

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

The amounts of future lease payments on operating leases at December 31, 1999 and 2000 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Due within one year	¥128	¥103	\$ 897
Due after one year	332	236	2,057
	¥460	¥339	\$2,954

15. Derivatives

The Companies use interest rate swap transactions to hedge the risk of fluctuations in interest rates on borrowings. The Companies do not hold or issue derivative financial instruments for trading purposes.

The Companies have established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments.

Outstanding interest rate swap transactions at December 31, 2000 were as follows:

	Millions of yen				Thousands of U.S. dollars
	Notional Amount	Of Which Due after One Year	Market Value	Unrealized Loss	Unrealized Loss
Interest rate swap agreements:					
Variable-rate into fixed-rate	¥5,000	¥5,000	¥(114)	¥(114)	\$(993)

16. Segment Information

(1) Business segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended December 31, 1999 and 2000 is summarized as follows:

	Millions of yen					
	System Integration	Service & Support	Other	Total	Elimination	Consolidated Total
1999						
Net sales to:						
Outside customers	¥231,262	¥90,427	¥1,127	¥322,816	¥ —	¥322,816
Intersegment sales/transfers	11	23	991	1,025	(1,025)	—
	231,273	90,450	2,118	323,841	(1,025)	322,816
Operating expenses	229,339	81,799	2,069	313,207	2,731	315,938
Operating income	¥ 1,934	¥ 8,651	¥ 49	¥ 10,634	¥ (3,756)	¥ 6,878
Assets, depreciation and capital expenditures:						
Assets	¥101,906	¥52,223	¥2,022	¥156,151	¥13,071	¥169,222
Depreciation and amortization	3,063	2,796	14	5,873	173	6,046
Capital expenditures	4,362	2,239	105	6,706	(43)	6,663

	Millions of yen					
	System Integration	Service & Support	Other	Total	Elimination	Consolidated Total
2000						
Net sales to:						
Outside customers	¥241,904	¥ 91,603	¥1,404	¥334,911	¥ —	¥334,911
Intersegment sales/transfers	8	18	990	1,016	(1,016)	—
	241,912	91,621	2,394	335,927	(1,016)	334,911
Operating expenses	238,120	84,966	2,299	325,385	3,604	328,989
Operating income	¥ 3,792	¥ 6,655	¥ 95	¥ 10,542	¥ (4,620)	¥ 5,922
Assets, depreciation and capital expenditures:						
Assets	¥ 97,305	¥ 58,880	¥1,347	¥157,532	¥10,229	¥167,761
Depreciation and amortization	3,486	2,728	13	6,227	223	6,450
Capital expenditures	4,615	2,016	29	6,660	156	6,816

	Thousands of U.S. dollars					
	System Integration	Service & Support	Other	Total	Elimination	Consolidated Total
2000						
Net sales to:						
Outside customers	\$2,108,096	\$798,283	\$12,235	\$2,918,614	\$ —	\$2,918,614
Intersegment sales/transfers	70	157	8,627	8,854	(8,854)	—
	2,108,166	798,440	20,862	2,927,468	(8,854)	2,918,614
Operating expenses	2,075,120	740,444	20,035	2,835,599	31,407	2,867,006
Operating income	\$ 33,046	\$ 57,996	\$ 827	\$ 91,869	\$(40,261)	\$ 51,608
Assets, depreciation and capital expenditures:						
Assets	\$ 847,974	\$513,115	\$11,739	\$1,372,828	\$ 89,141	\$1,461,969
Depreciation and amortization	30,379	23,774	113	54,266	1,943	56,209
Capital expenditures	40,218	17,568	253	58,039	1,360	59,399

Report of Independent Certified Public Accountants

The Board of Directors

OTSUKA CORPORATION

We have audited the accompanying consolidated balance sheets of OTSUKA CORPORATION and its consolidated subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of income and shareholders' equity for each of the two years ended December 31, 2000 and the consolidated statement of cash flows for the year ended December 31, 2000, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of OTSUKA CORPORATION and its consolidated subsidiaries as of December 31, 1999 and 2000, and the consolidated results of their operations for each of the two years ended December 31, 2000 and their cash flows for the year ended December 31, 2000, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2, effective for the year ended December 31, 2000, OTSUKA CORPORATION and its consolidated subsidiaries have adopted new Japanese accounting standards for preparation of consolidated financial statements, accounting for research and development costs and income taxes.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

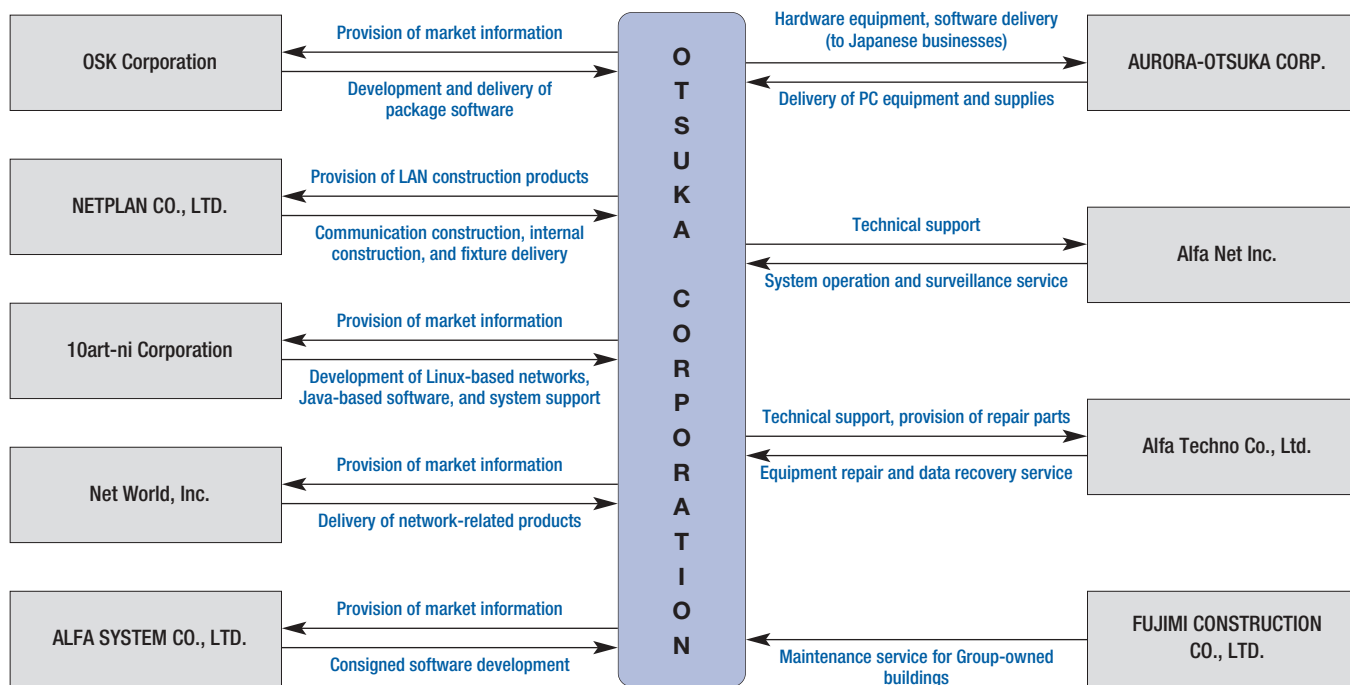
Tokyo, Japan

March 29, 2001

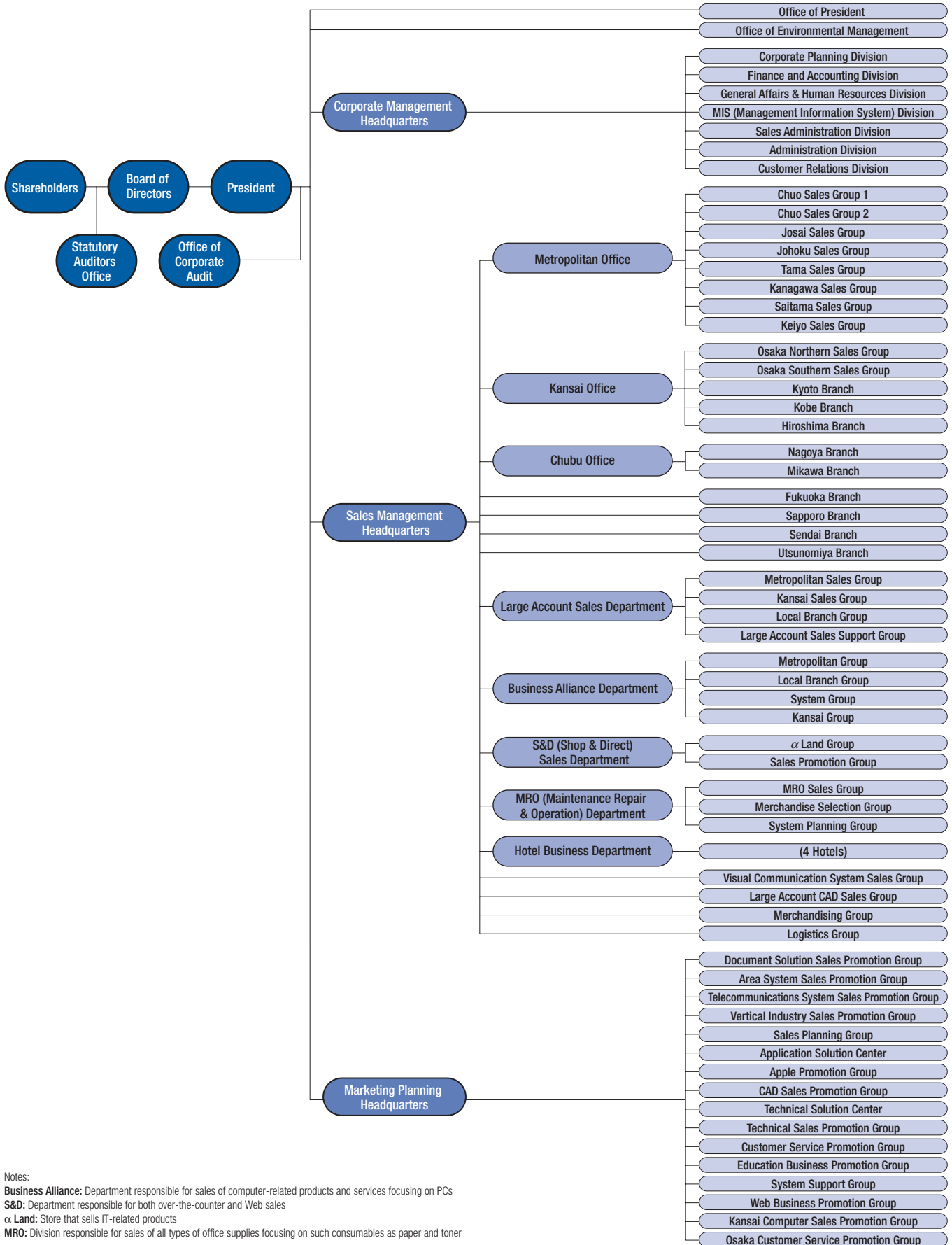
Principal Group Companies

The OTSUKA Group consists of 22 subsidiaries, including 9 consolidated subsidiaries as well as 17 affiliated companies that carry out System Integration, Service and Support, and Other business (construction, etc.). The 9 consolidated subsidiaries are listed below.

Business segment	Company name	Date of establishment	Controlling share	Scope of business
System Integration (SI)	OSK Corporation	July 1984	100.0%	<ul style="list-style-type: none"> Development, design, sale, and consulting for software Education, guidance for IT-related systems
	NETPLAN CO., LTD.	January 1987	100.0%	<ul style="list-style-type: none"> Electronic communications construction and internal construction, sales of fixtures, etc.
	ALFA SYSTEM CO., LTD.	December 1967	100.0%	<ul style="list-style-type: none"> Business and industry software development
	10art-ni Corporation	May 1997	78.3%	<ul style="list-style-type: none"> Integration using Linux-based systems Java-based software development
	Net World, INC.	August 1990	68.4%	<ul style="list-style-type: none"> Sales and consulting for network peripheral equipment
	AURORA-OTSUKA CORP.	August 1997	100.0%	<ul style="list-style-type: none"> Sales and support of computer software, hardware, and network equipment
Service & Support (S&S)	Alfa Net Inc.	October 1977	100.0%	<ul style="list-style-type: none"> Total service and support for network systems System engineering outsourcing
	Alfa Techno Co., Ltd.	February 1996	100.0%	<ul style="list-style-type: none"> Emergency repair of PCs and peripheral equipment, data recovery, and elimination services
Other	FUJIMI CONSTRUCTION CO., LTD.	April 1964	100.0%	<ul style="list-style-type: none"> Construction planning, execution, and oversight; maintenance of buildings and condominiums



Business Structure



Notes:

Business Alliance: Department responsible for sales of computer-related products and services focusing on PCs

S&D: Department responsible for both over-the-counter and Web sales

α Land: Store that sells IT-related products

MRO: Division responsible for sales of all types of office supplies focusing on such consumables as paper and toner

(As of July, 1, 2001)

Directory

Head Office and Branches (As of March 31, 2001)

Head Office

12-1, Misaki-cho 2-chome, Chiyoda-ku, Tokyo 101-8373, Japan
Phone: +81-3-3264-7111

Branches

Metropolitan Office

12-1, Misaki-cho 2-chome, Chiyoda-ku, Tokyo 101-8373, Japan
Phone: +81-3-3264-7111

Chubu Office

Chugai Tokyo Kaijiyo Bldg. 3 Floor 20-17, Marunouchi 3-chome,
Naka-ku, Nagoya 460-0002, Japan
Phone: +81-52-954-8011

Kansai Office

General Building 14-1, Fukushima 6-chome, Fukushima-ku,
Osaka 553-8558, Japan
Phone: +81-6-6456-2711

Metropolitan Area Offices

Chuo Sales Group 1

7 branches

Chuo Sales Group 2

8 branches

Josai Sales Group

7 branches

Johoku Sales Group

7 branches

Tama Sales Group

5 branches

Kanagawa Sales Group

9 branches

Saitama Sales Group

7 branches

Keiyo Sales Group

6 branches

Kansai Offices

Osaka Northern Sales Group

5 branches

Osaka Southern Sales Group

7 branches

Kyoto Branch

Kobe Branch

Local Branch Group

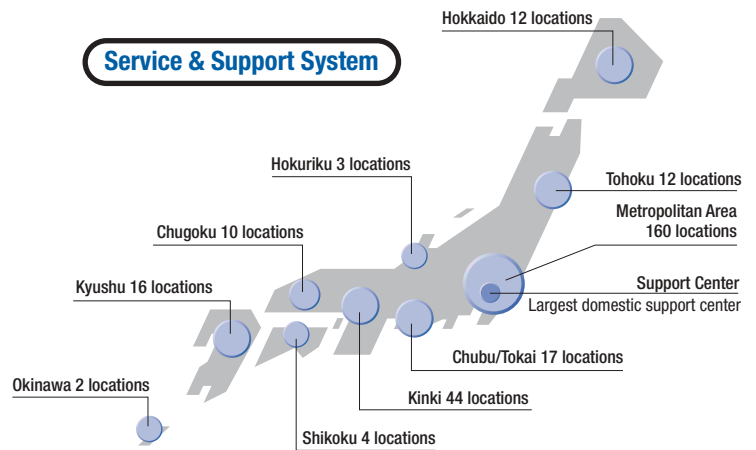
Sapporo/Sendai/Utsunomiya/Nagoya/Mikawa/Hiroshima/Fukuoka

α Land

α Land Yaesu/α Land Utsunomiya/α Land Midousuji
α Land Kyoto/α Land Fukuoka/Tenjin/α Land Sapporo

Overseas Base

Otsuka U.S.A. Inc.



Service locations include Group companies.

Global Support Services

OTSUKA CORPORATION's overseas support system is one of the largest in the world. This system of mutual cooperation links 300 bases in 35 countries and has been established in conjunction with OTSUKA CORPORATION-affiliated overseas support companies and Japanese SI vendors. At present, OTSUKA CORPORATION offers support for Japanese operating environments to overseas branches of client companies. OTSUKA CORPORATION also offers support for operating environments using the national language of the country in which the company is located.



History

1961	Establishment and incorporation
1965	Establishment of Osaka Branch, penetration of Kansai region
1968	Relocation to new head office in Chiyoda Ward, Tokyo Commencement of trade with Ricoh Co., Ltd.
1970	Commencement of computer business
1976	Commencement of trade with NEC Corporation
1978	Sponsorship of Business System Fair (now Practical Solutions Fair)
1979	Launch of original business & industry package software, SMILE
1981	Commencement of PC business
1982	Commencement of education business
1983	Commencement of CAD business Establishment of subsidiary OTSUKA System Engineering (now OSK)
1987	Commencement of network business
1988	Opening of Ichikawa distribution center in Ichikawa City, Chiba Prefecture
1989	Certification as system integrator by Ministry of International Trade and Industry Commencement of Total α service and opening of Telephone Support Center Establishment of Nagoya branch (now Chubu regional office)
1993	Commencement of trade with IBM Japan
1995	Commencement of catalog sales of OA supplies Commencement of Web business with business Internet connection service α -Web
1997	Opening of Keihinjima Distribution Center and Tokyo CTO Center
1998	Commencement of security business Attainment of ISO 19002 certification by Tokyo CTO Center
1999	Rapid expansion of Web business Opening of Solution Garden with demonstrations of latest products and proposal equipment in Chiyoda Ward, Tokyo
2000	Listing on the First Section of the Tokyo Stock Exchange Opening of Internet Data Center (iDC) Attainment of ISO 14001 certification at 15 business sites

Glossary of Terms

Term	Formal Name/Origin	Definition
α -MAIL*	Alpha Mail	Hosting service of OTSUKA CORPORATION's ASP business; low start-up expenses and usage fees, enables registration of independent domain names, 50 basic mail addresses, 10MB server disk capacity, special support center responses
α -Web*	Alpha Web	Registered name for OTSUKA CORPORATION's ISP, which uses Internet connection service to offer dial-up connection services and virtual domain services to create homepages without having a server
Tano Mail*	Tano Mail	One of OTSUKA CORPORATION's Internet mail-order services, offers approximately 9,000 products centering on OA supplies and including stationery, office supplies, lifestyle products; customers can accrue points that correspond to purchase amounts for which they can obtain various goods; targeted business users in the past, but individual clients are increasing.
Total α Service*	Total Alpha Service	First service of its kind in the industry, service menu of service & support (S&S) for businesses; 210 services focused on consulting, system construction, operation support, education support, and the provision of information; choice of yearly or "spot" contract
Multifield	Multifield	Term to describe the wide range of OA equipment, which includes not only such IT-related equipment as computers and CAD systems, but copiers, facsimiles, PBX, and business phones; combined with its multivendor solutions, OTSUKA CORPORATION's multifield solutions differentiate it from other companies
ASP	Application Service Provider	Server business that offers applications and corresponding services through contract-based rental system; OTSUKA CORPORATION's ASP business carries out Web hosting service α -MAIL and other services.
CTI	Computer Telephony Integration	Realization of high-performance processing by combining a computer's data-processing function with a PBX or business phone's transmission function; also such a system
CTO	Configuration to Order	Production, sales that respond to customer specification requirements; differs from built to order (BTO) in that BTO results in products built to meet specified standards or products to which only simple changes can be made, compared with CTO's ability to incorporate a range of client demands
EC	Electronic Commerce	Commerce conducted from terminals connected to communications lines or that uses some kind of electronic method; transactions may include orders only or extend to payment; business between companies is called B-to-B, and business between companies and individuals is called B-to-C.
ERP	Enterprise Resource Planning	System that provides integrated management of information regarding accounting, sales management, purchasing management, inventory management, and other mission critical tasks; integrated mission critical business system
ODS2000*	OTSUKA Document Solutions 2000 for open knowledge office	System package software or a system that incorporates such software, that enables use and management of knowledge database of business documents; by combining PCs, servers, copiers, scanners, printers, and networks, it provides solutions revolving around documents relating to such areas as product registration, history management, security management, etc.
PBX	Private Branch Exchange	Independent equipment for businesses that converts sound signals into a corresponding digital signal when analog and digital lines coexist
SMILE α *	SMILE α	OTSUKA CORPORATION's original ERP package software for Japanese businesses; released in September 1979 as package software for office computers; has achieved sales of 66,000 packages over more than 20 years; basic packages include financial management, compensation management, sales management, and client management; can be customized to individual users' needs; modules for industries ranging from distribution, retail/food service, and service to construction and manufacturing
Web Learning*	Web Learning	Internet education system, one part of OTSUKA CORPORATION's education business; regardless of time or place, if users have Internet access, they can study; Web Learning has an advantage over group lessons in that it responds to the user's level, and can be used for both class preparation and review.
XML	eXtensible Markup Language	Next-generation Web page description language that enables users to employ tags to improve searches and usability

Items marked with an asterisk (*) are registered trademarks or trademarks of OTSUKA CORPORATION.

Corporate Data

Date of Foundation.....	July 17, 1961
Date of Establishment	December 13, 1961
Paid-in Capital	¥10,374,851 thousand (As of December 31, 2000)
Head Office	12-1, Misaki-cho 2-chome, Chiyoda-ku, Tokyo 101-8373, Japan
Phone	+81-3264-7111
Listing.....	First Section of the Tokyo Stock Exchange
Transfer Agent	The Chuo Mitsui Trust and Banking Co., Ltd.

Major Shareholders

	Number of Shares Held (thousands)	Equity Ownership (%)
Otsuka Sobi Co., Ltd.	8,112	25.61
OTSUKA CORPORATION Employee Stock-Sharing Plan	3,071	9.69
Minoru Otsuka	2,765	8.73
Yuji Otsuka	2,622	8.28
The Bank of Yokohama, Ltd.	720	2.27
Terue Otsuka	645	2.03
Atsushi Otsuka	485	1.53
The Bank of Tokyo-Mitsubishi, Ltd.	410	1.29
Yoko Wasaka	322	1.01
The Fuji Bank, Limited	300	0.94
Total	19,456	61.44

Printed in Japan

Otsuka Corporation

