



ANNUAL REPORT 2002

For the fiscal year ended December 31, 2002

Otsuka Corporation

CONTENTS

	Page
● Consolidated Financial Highlights	1
● Establishing Management That Responds to the Trust of Our Stakeholders	2
● 2002 Highlights	4
● Business Areas	6
● System Integration Business	8
● Service & Support Business	10
● Customer Base	12
● Social Contribution	14
● Board of Directors	16
● Financial Section	17
● History	38
● Business Structure	39
● Corporate Data	40
● Principal Group Companies	41
● Investor Information	42

Forward-Looking Statements

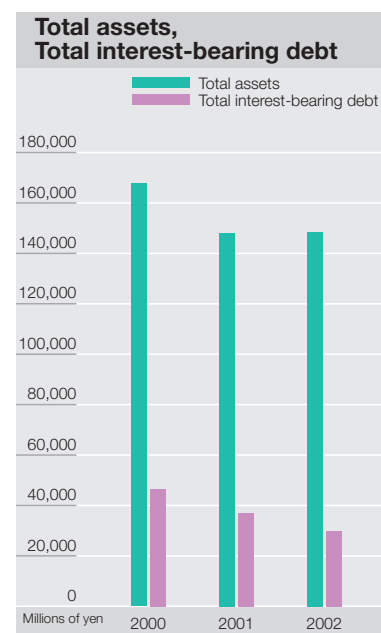
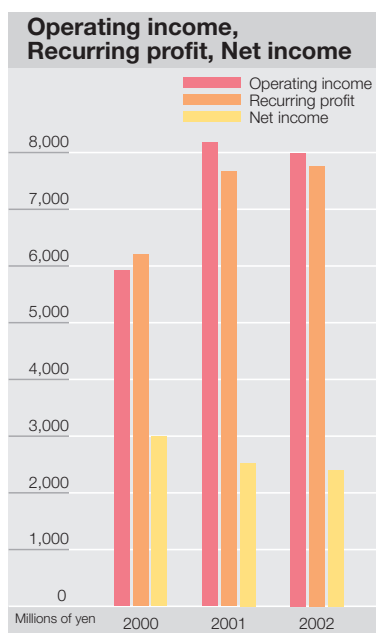
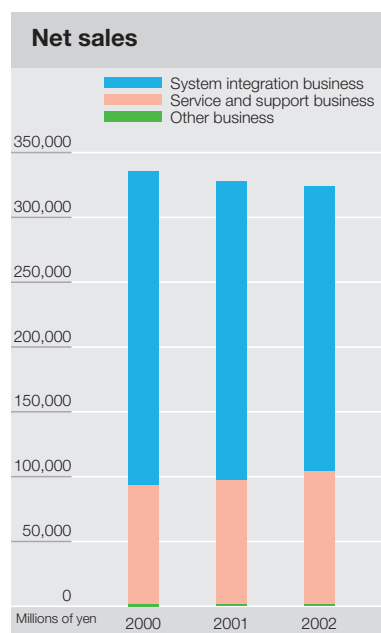
The forecasts, plans and outlooks concerning future operating results that are described in this Annual Report are judgments believed to be reasonable by the Company's management, based upon the information available to OTSUKA CORPORATION and member companies of the OTSUKA Group at the time such future 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 to the economic situation in principal markets and to product demand, and changes in various domestic and international regulations, accounting standards and customary business practices.

Consolidated Financial Highlights

OTSUKA CORPORATION and its Consolidated Subsidiaries Years ended December 31, 2000, 2001 and 2002			Millions of yen	Thousands of U.S. dollars	%
	2000	2001	2002	2002	Change
Results of Operations					
Net sales	¥334,911	¥328,151	¥324,289	\$2,703,535	-1.2
System integration business	241,904	230,561	219,690	1,831,513	-4.7
Service and support business	91,603	96,338	103,380	861,859	+7.3
Other business	1,404	1,252	1,219	10,163	-2.7
Operating income	5,922	8,178	7,990	66,611	-2.3
Recurring profit*	6,207	7,665	7,766	64,744	+1.3
Income before income taxes and minority interests	5,708	4,859	4,706	39,233	-3.2
Net income	2,997	2,531	2,405	20,050	-5.0
Financial Position					
Total assets	167,761	148,111	148,563	1,238,541	+0.3
Total interest-bearing debt	46,549	36,983	29,795	248,395	-19.4
Total shareholders' equity	51,196	41,131	42,351	353,072	+3.0
Per-share indicators					
Net income per share (EPS) (Yen and U.S. dollars)	99.67	79.94	75.96	0.63	-5.0
Dividends per share of common stock (Yen and U.S. dollars)	25.00	25.00	20.00	0.17	-20.0
Cash flow per share (Yen and U.S. dollars)	316.42	496.55	468.47	3.91	-5.7

Note:
U.S. dollar amounts are computed using the December 31, 2002 exchange rate of ¥119.95=US\$1.



Note:
The amounts shown in this Annual Report have been rounded to the nearest whole number.

Establishing Management That Responds to the Trust of Our Stakeholders



Yuji Otsuka, President

The OTSUKA Group has provided many corporate customers with information systems and related services to support informatization and operational improvement.

Building on these proven strengths, the Group's recently announced Mission Statement will serve as the engine for future growth. This guiding policy identifies the Group's societal role, responsibility, and reason for existence; our Goals for accomplishing that mission; and the Principles to be followed in our daily endeavors.

The Mission Statement defines the common standard of action and decision-making for everyone—from board members to employees—in the Group. By doing this, we will raise the corporate value of the OTSUKA Group and fully earn the deep and abiding trust of our shareholders, investors, and customers.

With the Japanese economy expected to remain under severe conditions, the Group will continue mobilize its strengths to support our customers in utilizing Information Technology, innovating and reinvigorating our corporate operations to be able to properly respond to customers trust. We hope you continue your support, and join us in looking forward to our new challenges.

Yuji Otsuka, President

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

**2002
Highlights**

Service & Support Business Sales Exceed ¥100 Billion for the First Time

In the fiscal year ended December 31, 2002, net sales in the Service & Support (S&S) Business increased 7.3% year-on-year to ¥103.38 billion, exceeding the ¥100 billion mark for the first time. This was the result of significant growth in the “tanomail” office supply catalog mail-order service that constitutes the mainstay of the MRO* business, and it was driven by bolstering the product line of “tanomail” through corporate alliances and strengthening system functionality. At the same time, we have actively pursued security-related and other marketable businesses.

The S&S Business constitutes an ongoing business, whose consistent annual growth is boosting the profitability of the Group’s overall business structure.

*MRO (Maintenance, Repair, and Operations): office supplies such as paper, toner, stationery and repair parts

An Active Member of RosettaNet Japan

RosettaNet Japan (RNJ) is a non-profit consortium established in April 2000 as the sole Japanese organization affiliated with RosettaNet, one of the world’s largest organizations promoting supply-chain standardization. Since its establishment, OTSUKA CORPORATION has been involved as a board member, along with major domestic computer-related companies, with President Yuji Otsuka serving as vice chairman of RosettaNet Japan since 2002. Thus we are actively participating in the establishment of global supply-chain construction solutions by accelerating the implementation of RosettaNet standards.

The RosettaNet logo features the word "ROSETTANET" in a blue, sans-serif font. The letter "O" is stylized with a circular graphic element that resembles a globe or a network node.

“tanomail” Office Supply Business Leaps Ahead

Sales of our “tanomail” office supply catalog mail-order services demonstrated a high year-on-year growth rate of 106.7%. This was the result of reinforcing the overall product line through expanding environment-friendly products and computer-related supplies and providing “Kaimono-Jozu” (shopping smart) products, a private brand owned by Ito-Yokado Co., Ltd. We also endeavored to maximize the benefits of self-developing systems by incorporating customer feedback on those systems in a timely manner, which contributed to high sales growth.

OTSUKA CORPORATION Wins Information Technology Award 2002

We received the Japan Institute of Office Automation’s most valuable prize of Information Technology Award 2002 in recognition of our strengths in management and technology utilizing IT as well as our accomplishments and future vision for IT applications.

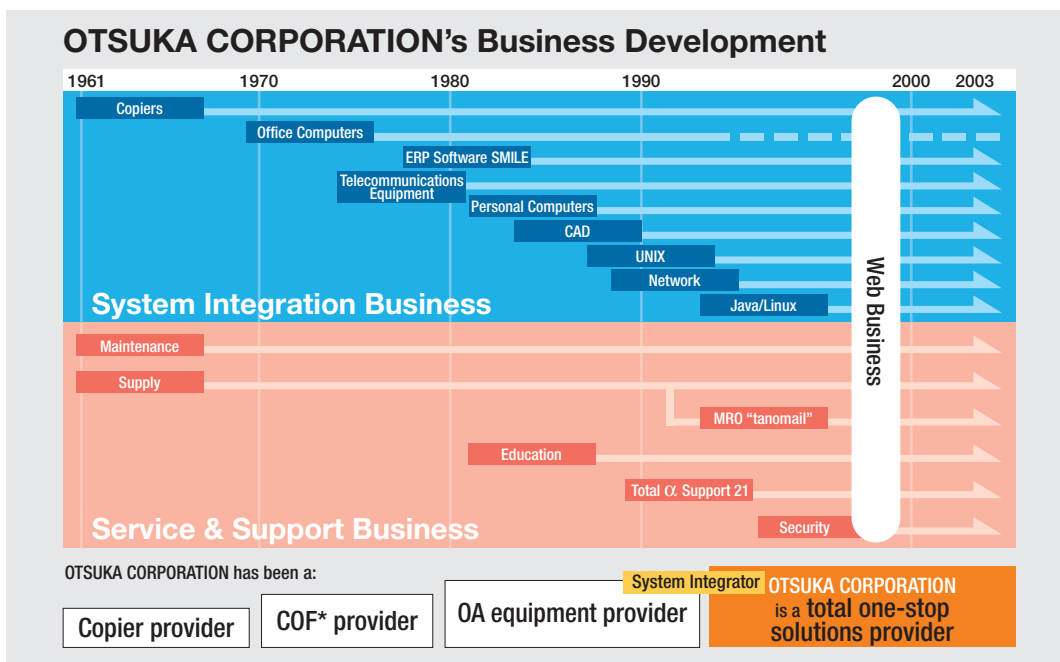


The history of OTSUKA CORPORATION is a tradition of journeying alongside our customers.

Since its foundation in 1961, OTSUKA CORPORATION has recognized the Pursuit of Customer Satisfaction as our fundamental management philosophy. In each generation, we have introduced and assessed the latest technologies and products, then applied our expertise to recommend systems and provide support for our customers. This has raised the efficiency of their operations, allowing them to solve management challenges.

We have also expanded our products and services in response to customer needs by analyzing the trends of the times and broadening the reach of our support area nationwide. As a result, we have grown into a comprehensive “one-stop provider” of systems and services.

Most notably in 1981, our efforts in the personal computer business and the subsequent network business dramatically transformed our enterprise from an OA specialist into a system integrator. Anticipating an era of personal computer-centered network systems, we have not remained content with current technologies. We carefully monitor trends in new technologies and products and quickly adopt those with the greatest promise for expanding our scope of business, thereby positioning us to design distinctive business models optimally suited for the Internet era. Today, all systems have become connected to the Internet, giving rise to new business opportunities. Consequently, OTSUKA CORPORATION aims to make a further leap through our “New-Web Strategy,” representing the collaboration and integration between the face-to-face services that have been our traditional strength and our cutting-edge Web business that fully exploits the potential of the Internet.



*COF stands for copiers, office computers, and facsimile machines

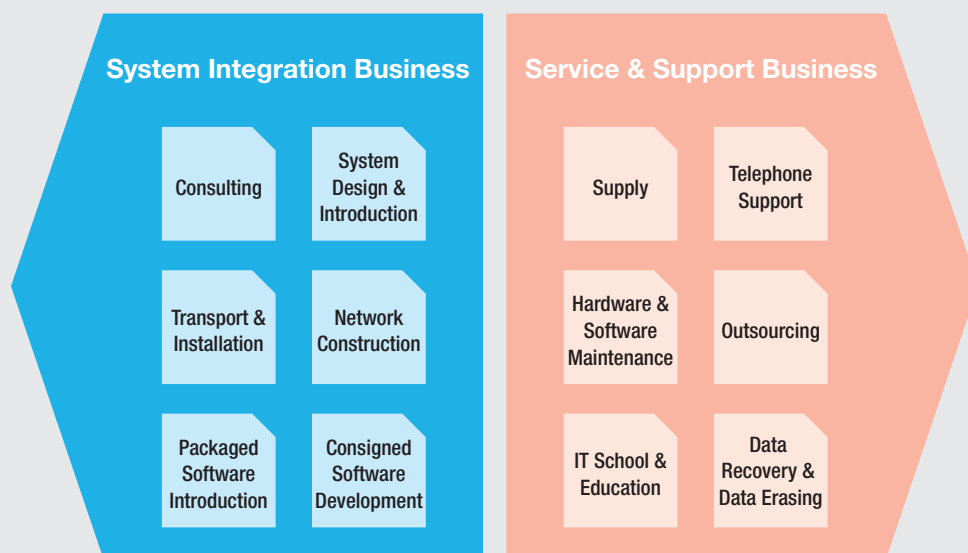
We provide one-stop solutions from consulting to recycling.

The business areas of OTSUKA CORPORATION encompass the entire life cycle of an information system, from introduction, to operation and disposal. We divide our primary businesses into System Integration (SI) for services up to the introduction of a system and Service & Support (S&S), which provides support after the introduction stage. The major characteristics of our approach are our multi-field provision of various items of equipment, including copiers, computers and business phones, and our multi-vendor selection of the best products independent of relationships with specific makers.

In pursuing these businesses, OTSUKA CORPORATION has concentrated its bases in major urban regions and has increased efficiency by conducting business with many customers. Furthermore, we developed unique business models enabling us to maintain close ties with local areas and customers and to promptly meet their needs, thereby building trust and encouraging new transactions.

In terms of business structure, the SI Business accounts for about two-thirds of net sales, while the SI Business and S&S Business are roughly equal in terms of gross profit. The S&S Business accounts for over 60% of operating income. Therefore, while the SI Business is larger in terms of size, the S&S Business represents the heart of the corporate profit base.

OTSUKA CORPORATION's Business Outline

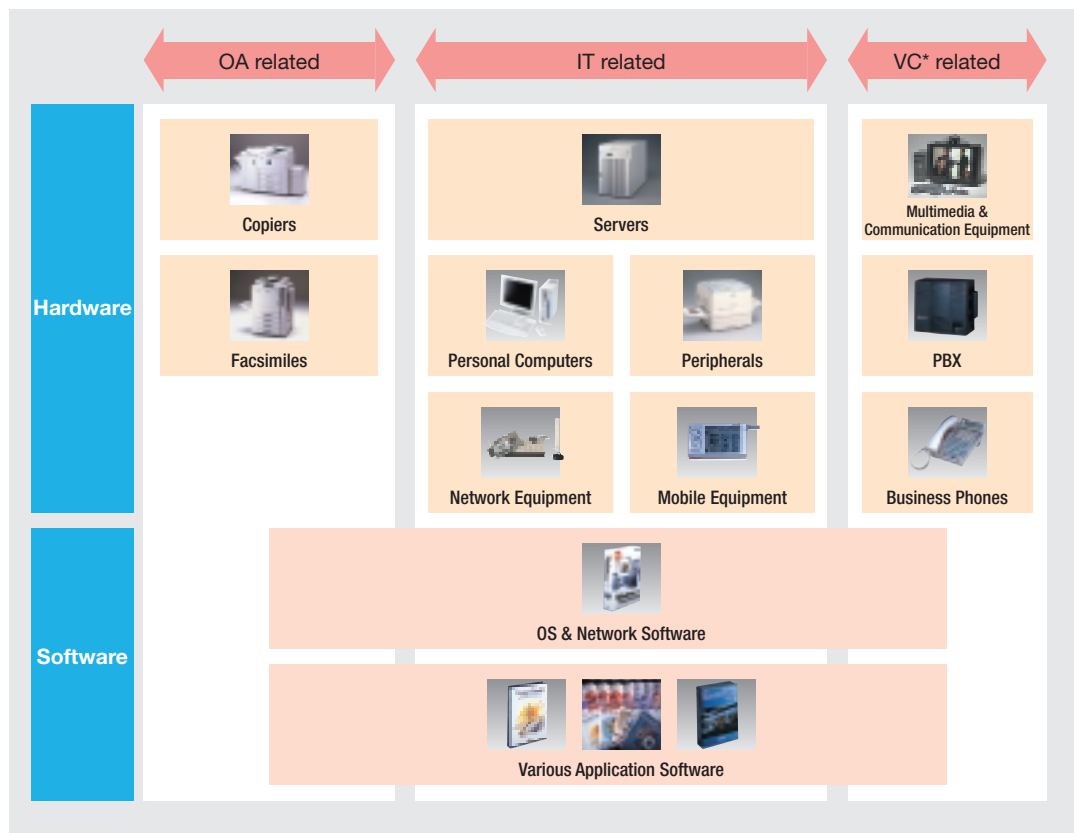


We integrate a broad array of hardware and software to create optimal systems.

The System Integration Business provides optimal systems encompassing consulting and system design, development of application programs, selection and installation of products, and the construction of networks and system operations.

We effectively deploy the knowledge of technical experts in each field to address customer problems. And we expand our business by fully leveraging our unique characteristics and strengths to provide customers with the optimal combination of diverse equipment and customized software. In addition, we rapidly adopt and evaluate the latest Information Technology into our own operations, and we recommend to customers the best system configuration based on our own experience and expertise.

*VC stands for Voice and Visual Communication

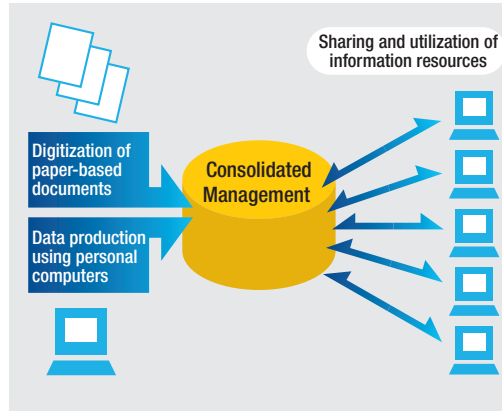


This chart shows major products.

● Knowledge Management System

ODS21 (Otsuka Document Solutions 21 for the Open Knowledge Office)

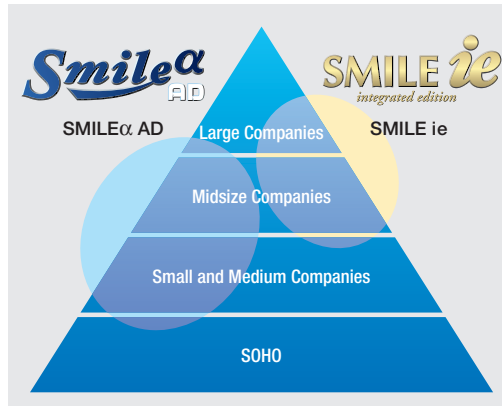
Vast amounts of information are stored in offices in the form of paper documents. This system facilitates the capturing of such paper-based information by using a copier to scan and save it in a digital format, allowing it to be stored with other data as a centrally managed knowledge bank that can be shared and utilized. It also offers an effective means for promoting the paperless office. OTSUKA Group's expertise in handling computers and copiers and developing original software is fully exploited by this system.



● Integrated Mission-Critical Operational System

SMILE Series

Our original ERP packaged software for basic operations supports the core operations of sales, finance, payroll and customer management, with a broad range of optional software for specific operations and businesses. It can be flexibly customized and is compatible with new applications such as mobile technologies. "SMILE ie" provides Web capabilities for large and midsize corporations, while "SMILE α AD" is geared to the needs of midsize companies and small/medium-sized businesses.



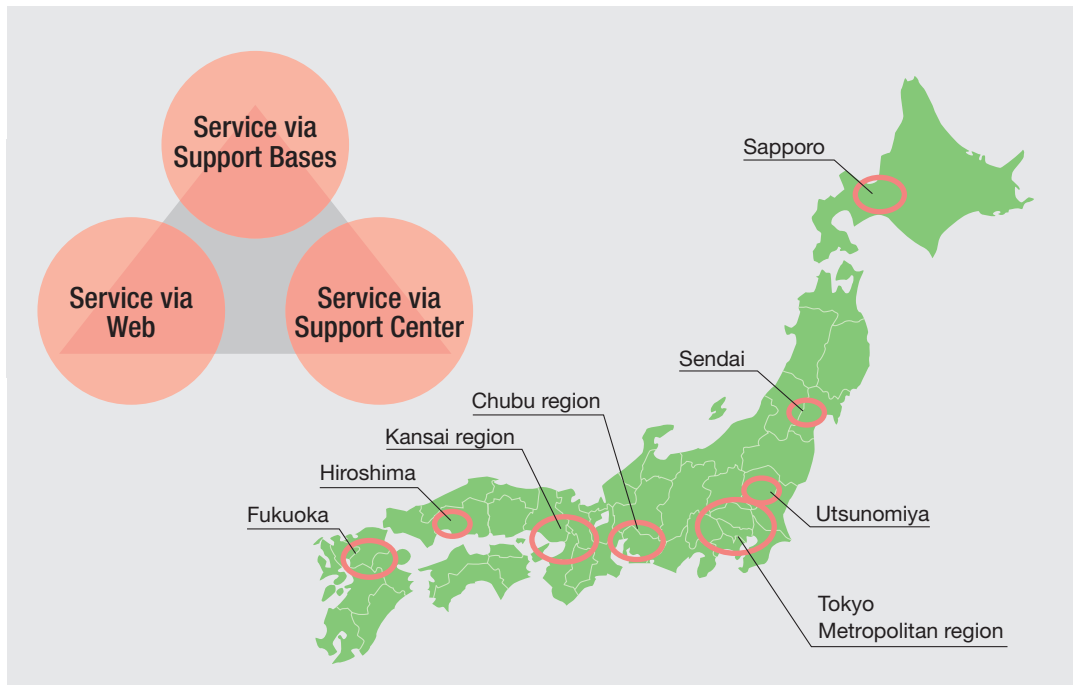
Multimedia Communication System

Corporate information networks have become increasingly IP-based and more widely used because of the spread of the Internet and broadband access. High-level systems integrated with computer networks can be realized by introducing such components as IP teleconference systems, IP-PBX, and IP telephones to digitalize voice and images to IP-data, reducing communication and management costs.



We reassure customers can rely on through advanced technology and quick response.

Our Service & Support (S&S) Business offers total support to ensure the stable operation of systems that have been introduced by our customers, providing a consistent sense of confidence and security in their operation at all times. In each and every phase, during periodic inspections and regular inquiries about operational methods as well as when problems arise, we deploy the latest technology and accumulated expertise in user support to provide solutions through a collaborative effort between our telephone support center, support bases that dispatch staff to our customers, and our website. A quick response to ensure customer confidence has been a hallmark of the S&S business since the founding of our company.



● Office Supply Mail-Order Service Business **tanomail**

An office supply business for prompt delivery of such products as copier paper, toner, stationery and daily necessities. Along with a broad range of environment-friendly products, we offer a wide variety of daily supplies through an alliance with Ito-Yokado Co., Ltd. We meet the varied needs of our customers by offering the Internet-based “tanomail” for general customers and “MA tanomail” for large companies, as well as “TPS-SHOP” for purchase agents.



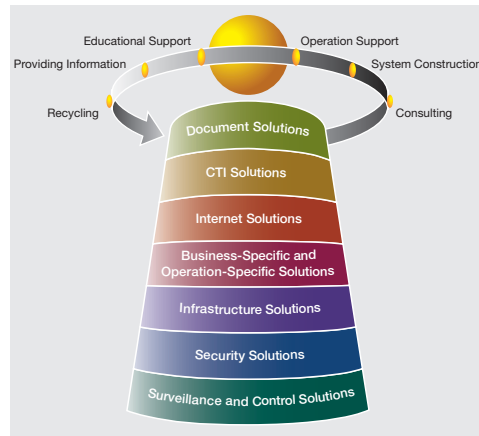
Catalog Vol. 9



Internet “tanomail”
<http://www.tanomail.com>

● **Total Serviceware**
Total α Support 21

“Total α Support 21” is a comprehensive, membership-based serviceware that we pioneered in 1990 by systemizing and further developing a paid support service for hardware and software. The service encompasses all our products and corresponds to a multi-vendor environment in which products from various makers freely co-exist. This is the major identifying feature and value of “Total α Support 21.”



● **Telephone Support Center, One of the Largest in Japan**
Total α Support Center

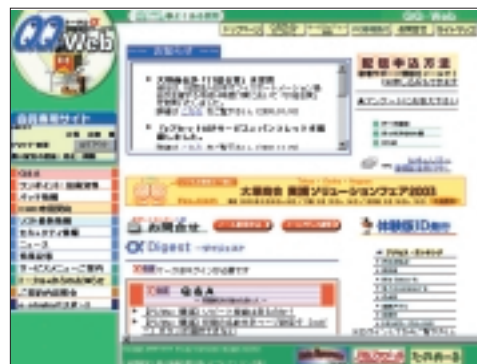
Our self-operated telephone support center ranks among the largest in Japan. Specialized technical teams and support staff covering copiers, facsimile machines, PCs, CAD systems, operational software, licensing management, asset management, and data recovery are gathered at the center to provide one-stop service for our customers. Multi-vendor response is a major characteristic of the Support Center as well. In cases where the Support Center cannot solve a problem, on-site help is provided at the customer’s office in collaboration with other support bases, ensuring fast, effective solutions.

The Support Center received the “Best Helpdesk of the Year 2002 Incentive Award” from the Japan Institute of Office Automation.



● **Round the Clock Web Support**
QQ-Web

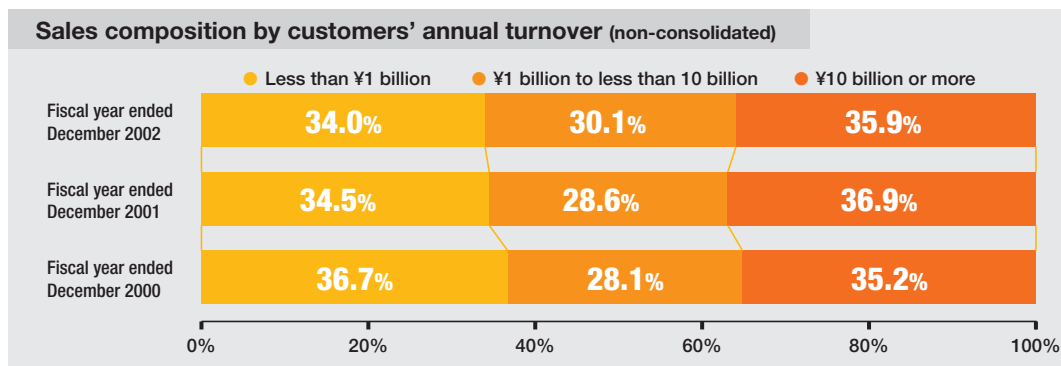
This information site for “Total α Support 21” members provides access to a general troubleshooting database gathered daily from compiled records on failures and responses, along with e-mailed responses to individual problems. The site is available 24-hours/365-days a year, and it provides quick solutions at higher efficiency.



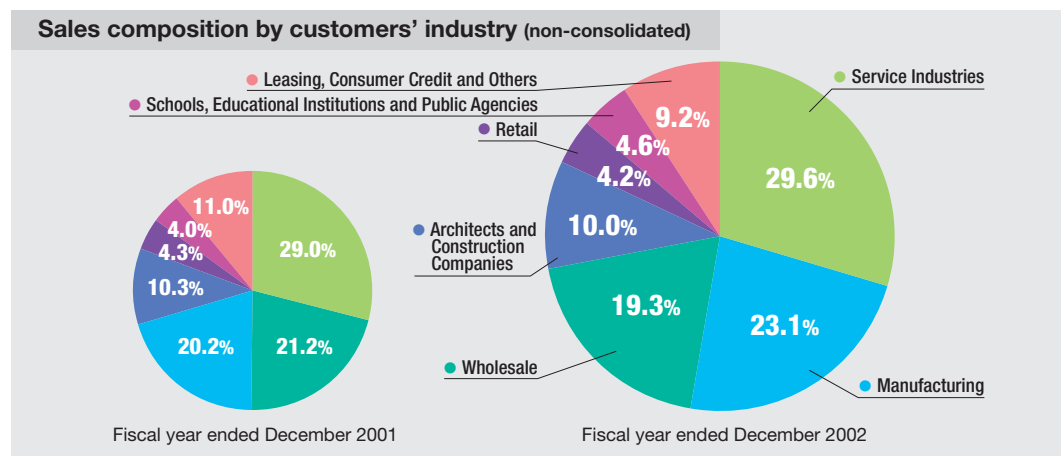
OTSUKA CORPORATION is supported by over 250 thousand corporate customers nationwide.

OTSUKA CORPORATION conducts ongoing business with a broad range of customers, approximately 250,000 companies, on a monthly basis. We maintain well-balanced sales, almost equally divided into thirds among those with less than ¥1 billion in annual turnover, ¥1 billion to less than ¥10 billion, and ¥10 billion or more.

In the fiscal year ended December 31, 2002, there was a slight decline in the composite share of sales of large corporate customers with annual revenues of ¥10 billion and above because year-end demand from major companies was not as pronounced in the year ended March 31, 2002 compared with previous fiscal years. On the other hand, we have seen a steady increase in the share of sales to midsize companies with annual turnover between ¥1 billion to less than ¥10 billion, which represent our greatest strength. While the share of sales to small and medium size companies with annual turnover below ¥1 billion remains on a downtrend, they continue to occupy the majority of our customer base in terms of the number of companies and represent a market that is difficult for competitors to enter, further distinguishing our customer base while ensuring a good balance between corporations of various sizes.



Furthermore, by type of customer industry, our transactions span the entire industrial spectrum, with the service sector accounting for about 30%, manufacturing about 23%, and wholesale about 19%, with no single sector constituting more than half of the total. This indicates not only a well-maintained balance among business sectors, but also that group performance is not easily influenced by market trends affecting any specific industry.

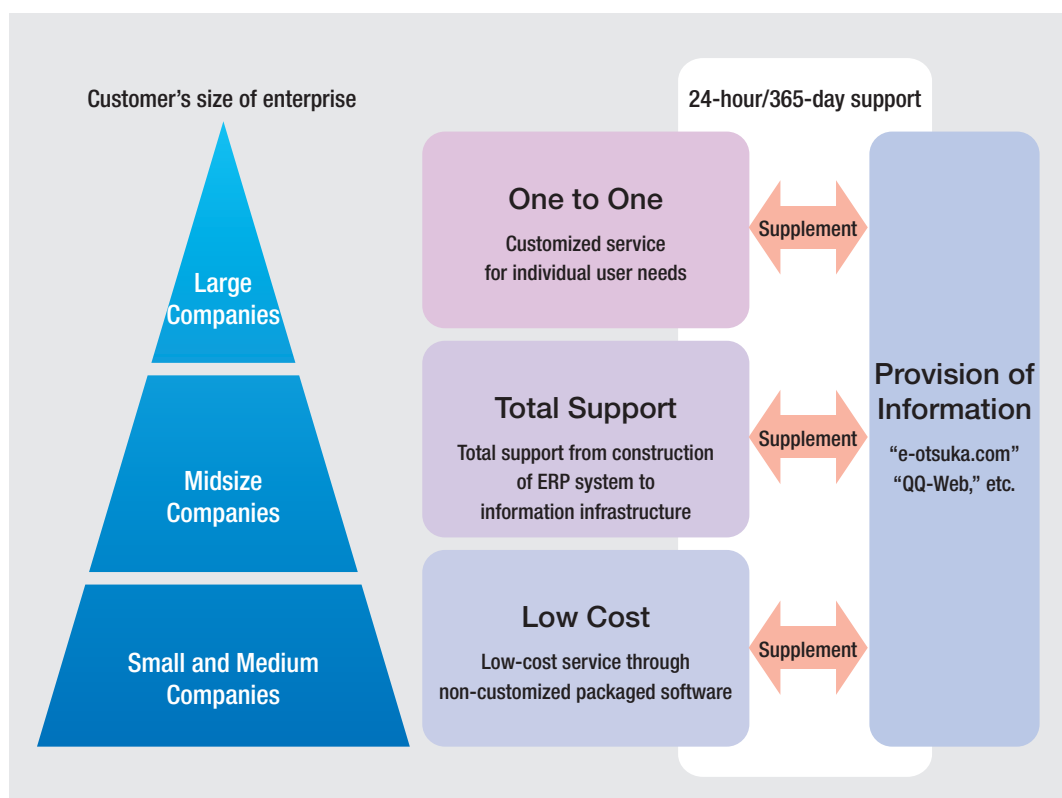


Consequently, we enjoy the support of a remarkably broad range of customers in terms of the number of companies, corporate size, and business sectors, representing a dependably solid customer base.

Growth based on our customers' success.

OTSUKA CORPORATION knows it can and will do even better, primarily through offering a greater variety and range of systems and services to meet the changing needs of our customers. In a recent analysis of customer transactions, we discovered that customers are not familiar with the full capabilities of the OTSUKA CORPORATION, and therefore do not take advantage of all we have to offer. We will work to highlight the broader ways in which we and our customers together can benefit by recommending solutions that more clearly integrate our diverse capabilities in the context of their specific requirements.

For such occasions, we have always sought to provide the best solutions in response to the individual needs of all our customers, no matter how large or small. For example, for major corporations that request one-to-one support, we offer high added-value services, including consulting and customization. For midsize corporations, we provide comprehensive system solutions to support overall management, including the construction of information infrastructures, and the establishment of and operational support for mission-critical information systems. For medium and small companies businesses that depend on low overhead, we offer systems and services such as “off-the-shelf” packaged software with high cost-performance. Equally important for all customers, we provide information on customers' transactions with OTSUKA CORPORATION and troubleshooting solutions as well as a wide range of other valuable business information through “e-otsuka.com,” our corporate portal site, and “QQ-Web,” a membership-based information site available 24 hours a day, every day of the year. We spare no effort to enhance both customer convenience and the efficiency of support.



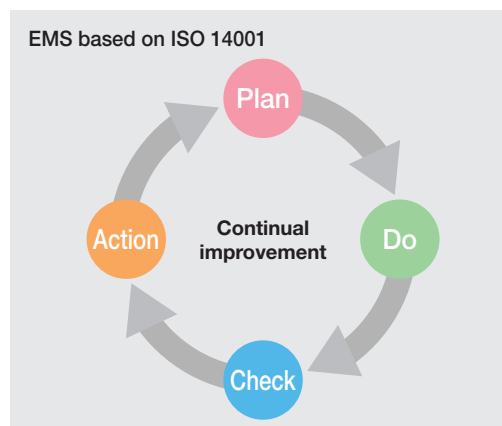
Towards an environmentally advanced company.

With the growing public concern for environmental issues, we have entered an era that calls for bold corporate action, and national agencies, local governments, and major companies require environmental responsibility as a primary criterion for selecting business partners. Therefore, three years ago the OTSUKA Group released to employees and the public its environmental protection activities as a priority management goal and began taking action based on this plan throughout the Group. In concrete terms, we have aggressively addressed such issues as energy and resource conservation and waste reduction; we also acquired ISO 14001 certification, the international standard for environmental management, at our 30 business sites nationwide, in our effort to maintain and to raise the level of our activities for improving the environment. We also work with our customers by supporting their environmental activities through our businesses, such as promoting paperless systems, recycling waste products, and expanding the use of recycled toner and recycled paper.

Action Taken by OTSUKA CORPORATION

OTSUKA CORPORATION's Environmental Management System

Based on our environmental principles and guidelines and according to the Environmental Management System (EMS) as defined by ISO 14001, we actively implement such concrete measures as appropriate waste disposal, recycling of waste paper, and reduction of electric power use to accomplish our annual environmental targets. We have also established mid to long-term environmental actions under our "OTSUKA Eco-Action Plan," to consistently promote and improve the effectiveness of our environmental actions.



Obtaining ISO 14001 Certification System

We began working towards ISO 14001 certification in February 2000, while promoting environmental protection activities under the Environmental Management System. We obtained ISO 14001 certification at a total of 30 business sites, 14 in 2000 and an additional 16 in 2001.

Providing Environmental Solutions for Our Customers

Sales of Environment-Friendly Products

With regard to our “tanomail” office supply catalog purchasing business, we are expanding our environment-friendly product lines and displaying the “α GREEN mark” on highly recommended products, indicating environmental benefits across the entire product life cycle, from manufacturing and use to final disposal. We have also developed a system to monitor the procurement ratio of ECO products to encourage our customers’ green purchasing activities.



Providing Environment-friendly Responsive Systems

The OTSUKA Group has significantly reduced its use of paper by adopting the “ODS21” knowledge management system to digitizing environment-related manuals and order documents and sharing them on our Web-based system. The results included significantly improved environmental awareness and knowledge as well as improved employee compliance with environmental regulations. Based on our own experience, we recommend and provide similar programs to our customers.

Promoting Our Recycling Business

OTSUKA CORPORATION promotes the recycling of various items of OA equipment by establishing our own recycling process system. Disassembly and sorting are done by hand, resulting in almost no landfill waste. We handle recycling procedures from collection and recycling of PCs to even the painstaking work of issuing certified disposal manifests, as well as promoting the recycling of printer toner cartridges.



Other Social Contribution Activities

Encouraging the Donation and Support Programs of PCs for Reuse

Since April 2001, OTSUKA CORPORATION has been involved in the “Donation and Support Programs of PCs for Reuse” in a joint effort with I-O DATA DEVICE, INC., and Microsoft Corporation. Under this program, used PCs are refurbished and donated to non-profit organizations (NPOs) nationwide through the specified non-profit organization “eparts.”

Community Activities

At each of our business sites, we actively engage in such local activities as cleanups and collecting aluminum cans in neighboring communities. In December 2002, we have established a social contribution project and started development of the practical program to encourage our employees’ community involvement.



Board of Directors (as of March 29, 2003)



Chairman & Founder*
Minoru Otsuka



President*
Yuji Otsuka



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

Directors

Yuuichi Ito
Kimio Shiokawa
Masakazu Tachibana
Shinji Usami
Toshiyasu Takahashi
Katsuhiro Yano

Standing Auditor

Yasuyuki Kosuge

Auditors

Katsuhide Haneishi
Katsumi Furuhata
Reiko Nishiyama

* Directors with representation rights

Financial Section

Three-Year Financial Data

OTSUKA CORPORATION and Its Consolidated Subsidiaries
Years ended December 31, 2000, 2001 and 2002

	Millions of yen			Thousands of U.S. dollars
	2000	2001	2002	2002
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Recurring profit	6,207	7,665	7,766	64,744
Income before income taxes and minority interests	5,708	4,859	4,706	39,233
Net income	2,997	2,531	2,405	20,050
Total assets	167,761	148,111	148,563	1,238,541
Total interest-bearing debt	46,549	36,983	29,795	248,395
Total shareholders' equity	51,196	41,131	42,351	353,072
Net income per share (EPS) (Yen and U.S. dollars)	99.67	79.94	75.96	0.63
Dividends per share of common stock (Yen and U.S. dollars)	25.00	25.00	20.00	0.17
Cash flows from operating activities per share (Yen and U.S. dollars)	316.42	496.55	468.47	3.91
Operating income to net sales ratio (%)	1.77	2.49	2.46	—
Net income to net sales ratio (%)	0.89	0.77	0.74	—
Total interest-bearing debt ratio (%)	27.75	24.97	20.06	—
Shareholders' equity ratio (%)	30.52	27.77	28.51	—
Return on equity (ROE) (%)	7.56	5.48	5.76	—

* Figures for ROE are calculated using average shareholders' equity.
U.S. dollar amounts are computed using the December 31, 2002 exchange rate of ¥119.95=US\$1.
Figures in parentheses are negative figures.

Management's Analysis of Operating Results and Financial Position	18
Consolidated Balance Sheets	22
Consolidated Statements of Income	24
Consolidated Statements of Shareholders' Equity	25
Consolidated Statements of Cash Flows	26
Notes to Consolidated Financial Statements	27
Report of Independent Certified Public Accountants	37

Management's Analysis of Operating Results and Financial Position

Summary

In fiscal 2002, ended December 31, 2002, the Japanese economy still showed no signs of a recovery. Amid the ongoing slide in stock prices that accompanied the global economic slowdown, the nation experienced a worsening unemployment rate and continued deflation.

In the IT industry, the OTSUKA Group's business domain, although companies recognize that investment in IT systems is necessary to increase productivity and reduce costs, there was a more pronounced trend of reassessing or postponing capital expenditure plans because of the worsening economy.

Amid these conditions, the OTSUKA Group, under its New-Web Strategy initiated in fiscal 2002, worked to implement business strategies that increase enterprise value by (1) integrating "Real Business" (directly interacting with each customer) and "Virtual Business" (utilizing the Internet or "Web") and (2) offering customer-driven products and services based on the Group's fundamental policy of leveraging its comprehensive capabilities to deliver solutions tailored to customer needs. Specifically, the OTSUKA Group focused on its office supply catalog mail-order service business "tanomail," original knowledge-management system ("ODS21": OTSUKA Document Solutions 21), original ERP software ("SMILE series"), and its security-related business. The "tanomail" registered significant growth, thanks to the Group's strategic alliance with Ito-Yokado Co., Ltd., and its efforts to win new customers. In its security business, the Group was also proactive in forging intra-industry alliances.

Summary of Sales and Profits

	Millions of yen			
	2001	2002	Amount of change, year on year	% change, year on year
Net sales	¥328,151	¥324,289	-3,862	-1.2%
System Integration Business	230,561	219,690	-10,871	-4.7
Service and Support Business	96,338	103,380	+7,042	+7.3
Other Business	1,252	1,219	-33	-2.7
Cost of sales	251,483	247,837	-3,646	-1.5
Gross profit	76,668	76,452	-216	-0.3
Selling, general and administrative expenses	68,490	68,462	-28	-0.0
Operating income	8,178	7,990	-188	-2.3
Recurring profit	7,665	7,766	+101	+1.3
Income before income taxes and minority interests	4,859	4,706	-153	-3.2
Income taxes*	2,344	2,269	-75	-3.2
Net income	2,531	2,405	-126	-5.0

* Including adjustment amount for corporate and other taxes

Sales Summary

The Service and Support Business, which enjoys high margins, registered firm sales, while consolidated subsidiaries also achieved revenue growth. However, PC sales volume decreased and unit prices declined. In addition, the Group's retail business ("α Land") reduced the number of shops from five to three. Consequently, consolidated sales amounted to ¥324,289 million, down 1.2% from the previous fiscal year.

System Integration Business

The System Integration Business, which provides optimum system introduction services—ranging from consulting to system design, development, installation, and network construction—focused on the knowledge-management system “ODS21” and original ERP software “SMILE α” and “SMILE ie”. “SMILE ie” is a Web-based version for medium-to-large companies. Although orders for software and network construction were firm, companies continued to restrain IT-related investment. As a result, segment sales totaled ¥219,690 million, down 4.7% from the previous fiscal year, owing to a shortage of hardware sales.

Service and Support Business

The Service and Support Business provides total system support, including the provision of supplies, maintenance of hardware and software, telephone support, and training that follows system installation. In the office supply segment, the Company turned in a solid showing, thanks to moves to expand the lineup of environment-friendly and other products in the “tanomail” office supply catalog mail-order service business as well as efforts to upgrade the capabilities of associated information systems. In addition, the Group focused on OTSUKA Security Management (“OSM”). Consequently, the Service and Support Business achieved sales of ¥103,380 million, up 7.3% from the previous fiscal year and exceeding ¥100 billion.

Other Business

Although the construction industry continued to face harsh conditions as a whole, segment sales totaled ¥1,219 million, down only 2.7% from the previous fiscal year, owing to the Group’s efforts to win new customers.

Income and Expenses

Gross profit was ¥76,452 million, down 0.3% from the previous fiscal year, owing to a decrease in System Integration Business sales. However, the gross profit margin improved 0.2 percentage point, to 23.6%. Due to the effect of the decline in the operating margin that accompanied lower sales in the System Integration Business, operating income was ¥7,990 million, down 2.3% from the previous fiscal year.

Thanks to lower interest payments due to a reduction in interest-bearing debt, recurring profit was ¥7,766 million, up 1.3% from the previous fiscal year, marking the second consecutive year of record profit.

Income before income taxes and minority interests decreased 3.2%, to ¥4,706 million, owing to (1) a loss of ¥2,129 million due to amortization of transition amount arising from adopting a new accounting standard for retirement benefits associated with the adoption of retirement benefit accounting in the previous fiscal year and (2) write-downs of the value of investment securities.

As a result of the aforementioned factors, net income totaled ¥2,405 million, down 5.0% from the previous fiscal year, and earnings per share slipped to ¥75.96, from ¥79.94 in the previous fiscal year.

Financial Position

			Millions of yen	
	2001	2002	Amount of change, year on year	% change, year on year
Assets:	¥148,111	¥148,563	+452	+0.3%
Current assets	75,286	77,201	+1,915	+2.5
Fixed assets	72,825	71,362	-1,463	-2.0
Liabilities:	106,559	105,765	-794	-0.7
Current liabilities	91,221	94,894	+3,673	+4.0
Long-term liabilities	15,338	10,871	-4,467	-29.1
Minority interests	421	447	+26	+6.0
Shareholders' equity	41,131	42,351	+1,220	+3.0

Assets

Current assets rose ¥1,915 million to ¥77,201 million, owing to an increase in accounts receivable from the previous fiscal year-end. Property, plant and equipment increased; however, because of declines in guarantee money paid and investment securities, total fixed assets fell ¥1,463 million to ¥71,362 million. Total assets rose ¥452 million to ¥148,563 million from the previous fiscal year-end.

Liabilities

Current liabilities rose ¥3,673 million to ¥94,894 million, owing to an increase in accounts payable. On the other hand, fixed liabilities fell ¥4,467 million to ¥10,871 million. As a result, total liabilities slipped ¥794 million to ¥105,765 million from the previous fiscal year-end.

Shareholders' Equity

Shareholders' equity grew ¥1,220 million to ¥42,351 million, owing to an increase in retained earnings.

The interest coverage was 12.9 times. The interest-bearing debt ratio was 20.06%, return on assets (ROA)* was 5.45%, and return on equity (ROE) was 5.76%, all improvements over the previous fiscal year-end.

	2001	2002
Interest coverage ratio (times)	11.04	12.90
Interest-bearing debt ratio (%)	24.97	20.06
ROA* (%)	5.24	5.45
ROE (%)	5.48	5.76

*ROA: Business profit/total assets (average during the period)

Business profit: Operating income + interest received + dividends received

Figures for ROE are calculated using average shareholders' equity.

Cash Flows

			Millions of yen	
	2001	2002	Amount of change, year on year	% change, year on year
Cash flows from operating activities	¥15,724	¥14,835	-889	-5.7%
Cash flows from investing activities	-4,837	-7,574	-2,737	+56.6
Cash flows from financing activities	-10,442	-7,969	+2,473	-23.7
Cash and cash equivalents at end of year	4,963	4,298	-665	-13.4

Cash provided by operating activities totaled ¥14,835 million, down ¥889 million, or 5.7%, from the previous fiscal year. Inflows came mainly from income before income taxes and minority interests of ¥4,706 million, depreciation and amortization of ¥6,388 million, and an increase in reserve for retirement benefits of ¥2,400 million.

Cash used in investing activities totaled ¥7,574 million, up ¥2,737 million, or 56.6%, from the previous fiscal year. This primarily consisted of ¥3,515 million for the purchase of property, plant and equipment and ¥3,571 million for the development of software.

Cash used in financing activities totaled ¥7,969 million, down ¥2,473 million, or 23.7%, from the previous fiscal year. The primary financing activities were a ¥6,079 million net decrease in loans and ¥790 million for dividend payments.

As a result of the above factors, cash and equivalents were ¥4,298 million, down ¥665 million, or 13.4%, from the previous fiscal year.

Outlook

Regarding economic conditions going forward, although the U.S. economy is expected to stage a modest recovery, there are uncertainties including the response to the Iraq situation and the effectiveness of the government's economic stimulus package. Consequently, the economic environment in Japan in fiscal 2003 is expected to remain harsh under the effects of deflation.

Even so, companies have to carry out a certain amount of IT investment if they are to improve productivity and reduce costs. Furthermore, given concrete progress in the government's e-Japan plan and preferential tax treatment to promote corporate IT investment, such investment is expected to remain firm.

The OTSUKA Group aims to improve the quality of its management and increase its earnings capabilities, thereby enabling it to flexibly maneuver in this kind of business environment and deal with the issues that need addressing. Specifically, the Group will work to increase its sales and earnings capabilities by (1) continually maintaining and expanding its customer base, (2) upgrading its "Total α Support 21" service, (3) pushing ahead with its "New-Web Strategy", and (3) focusing on its "tanomail", "ODS21", and "SMILE series" products, while improving its ability to evaluate projects. The Group also plans to devote additional management resources to business areas with significant growth potential and enhance Group management.

Based on the aforementioned plan, the OTSUKA Group has set the following consolidated earnings targets for fiscal 2003: sales of ¥338,500 million (up 4.4%), operating income of ¥8,800 million (up 10.1%), recurring profit of ¥8,550 million (up 10.1%), and net income of ¥2,200 million (down 8.5%).

Consolidated Balance Sheets

OTSUKA CORPORATION and Its Consolidated Subsidiaries
December 31, 2001 and 2002

Thousands of
U.S. dollars
(Note 3)

	Millions of yen		2002
	2001	2002	
ASSETS			
Current assets:			
Cash, time deposits and other cash equivalents (Notes 6 and 10)	¥ 6,431	¥ 5,696	\$ 47,486
Accounts and notes receivable:			
Trade	45,935	45,147	376,382
Unconsolidated subsidiaries and affiliates	25	19	158
Other	3,802	7,224	60,225
	49,762	52,390	436,765
Less: Allowance for bad debts	(337)	(332)	(2,768)
	49,425	52,058	433,997
Inventories (Note 5)	16,120	15,999	133,381
Deferred taxes assets (Note 9)	861	863	7,195
Other current assets	2,449	2,585	21,551
Total current assets	75,286	77,201	643,610
Investments and advances:			
Investments in securities (Note 4)	4,086	3,240	27,011
Investments in unconsolidated subsidiaries and affiliates	955	546	4,552
Guarantee deposits	7,629	6,138	51,171
Deferred taxes assets non-current (Note 9)	756	1,401	11,680
Deferred taxes assets revaluation for land	8,823	8,823	73,556
Other investments	1,441	1,145	9,545
	23,690	21,293	177,515
Property, plant and equipment (Notes 6 and 13):			
Land	8,654	9,334	77,816
Buildings and structures	56,254	58,211	485,294
Construction in progress	1,057	1,073	8,945
Others	9,573	9,472	78,966
	75,538	78,090	651,021
Less: Accumulated depreciation	(34,933)	(36,877)	(307,436)
Net property, plant and equipment	40,605	41,213	343,585
Intangibles and deferred charges:			
Software	7,940	7,859	65,519
Others	590	997	8,312
	8,530	8,856	73,831
Total assets	¥148,111	¥148,563	\$1,238,541

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 6)	¥ 23,952	¥ 20,201	\$ 168,412
Current maturities of long-term debts (Note 6)	3,728	6,886	57,407
Accounts and notes payable:			
Trade	49,664	34,188	285,019
Unconsolidated subsidiaries and affiliates	414	359	2,993
Other	2,885	21,941	182,918
	52,963	56,488	470,930
Income taxes payable (Note 9)	1,648	1,565	13,047
Other current liabilities	8,930	9,754	81,317
Total current liabilities	91,221	94,894	791,113
Long-term debt (Note 6)	9,303	2,708	22,576
Reserve for retirement benefits (Note 7)	5,575	7,962	66,378
Deferred tax liabilities non-current (Note 9)	359	70	583
Other long-term liabilities	101	131	1,092
Minority interests in consolidated subsidiaries	421	447	3,727
Contingent liabilities (Note 8)			
Shareholders' equity			
Common stock:			
Authorized: 112,860,000 shares			
Outstanding: December 31, 2001	31,667,020 shares		
December 31, 2002	31,667,020 shares	10,375	10,375
Capital surplus		16,255	16,255
Excess of land revaluation after tax-effect accounting	(12,134)	(12,134)	(101,159)
Retained earnings	26,122	27,745	231,305
Unrealized gain on investment securities after tax-effect accounting	558	212	1,767
Foreign currency translation adjustment	(45)	(102)	(841)
Less: Treasury stock	(0)	(0)	(0)
Total shareholders' equity	41,131	42,351	353,072
Total liabilities and shareholders' equity	¥148,111	¥148,563	\$1,238,541

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Net sales (Note 14)	¥328,151	¥324,289	\$2,703,535
Cost of sales (Note 14)	251,483	247,837	2,066,169
Gross profit	76,668	76,452	637,366
Selling, general and administrative expenses (Note 14)	68,490	68,462	570,755
Operating income	8,178	7,990	66,611
Other income (expenses):			
Interest and dividend income	104	93	775
Interest expenses	(749)	(627)	(5,227)
Gain on sale of investments in securities	—	153	1,275
Loss on liquidation of affiliate	—	(57)	(475)
Loss on sale/disposal of property, plant and equipment	(409)	(338)	(2,818)
Loss on evaluation/sale of investments in securities	(189)	(657)	(5,477)
Loss on evaluation/sale of membership	(73)	(33)	(275)
Equity in earnings of the affiliates	(149)	—	—
Amortization of transition amount arising from adopting new accounting standard for retirement benefit	(2,135)	(2,129)	(17,749)
Other, net	281	311	2,593
	(3,319)	(3,284)	(27,378)
Income before income taxes and minority interests	4,859	4,706	39,233
Income taxes (Note 9):			
Current	3,072	2,950	24,594
Deferred	(728)	(681)	(5,678)
	2,344	2,269	18,916
Minority interests in net gains (losses) of consolidated subsidiaries	(16)	32	267
Net income	¥ 2,531	¥ 2,405	\$ 20,050
		Yen	U.S. dollars (Note 3)
Net income and dividends per share (Note 2 (15)):			
Net income	¥79.94	¥75.96	\$0.63
Cash dividends	25.00	20.00	0.17

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, 2001 and 2002

Millions of yen

	Number of shares of common stock	Common stock	Capital surplus	Excess of land revaluation	Retained earnings	Unrealized gain on investment securities	Foreign currency translation adjustment	Treasury stock
Balance at December 31, 2000	31,667,020	¥10,375	¥16,255	¥ —	¥24,566	¥ —	¥ —	¥(0)
Increase due to inclusion of an affiliate for equity method	—	—	—	—	8	—	—	—
Decrease due to inclusion of subsidiaries in the consolidation	—	—	—	—	(192)	—	—	—
Land revaluation	—	—	—	(12,134)	—	—	—	—
Unrealized gain on investment securities	—	—	—	—	—	558	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	(45)	—
Net income for the year	—	—	—	—	2,531	—	—	—
Cash dividends paid	—	—	—	—	(791)	—	—	—
Balance at December 31, 2001	31,667,020	¥10,375	¥16,255	¥(12,134)	¥26,122	¥558	¥ (45)	¥(0)
Increase due to exclusion of an affiliate for equity method	—	—	—	—	10	—	—	—
Unrealized gain on investment securities	—	—	—	—	—	(346)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	(57)	—
Net income for the year	—	—	—	—	2,405	—	—	—
Cash dividends paid	—	—	—	—	(792)	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	—	(0)
Balance at December 31, 2002	31,667,020	¥10,375	¥16,255	¥(12,134)	¥27,745	¥212	¥(102)	¥(0)

Thousands of U.S. dollars (Note 3)

	Number of shares of common stock	Common stock	Capital surplus	Excess of land revaluation	Retained earnings	Unrealized gain on investment securities	Foreign currency translation adjustment	Treasury stock
Balance at December 31, 2001	31,667,020	\$86,494	\$135,506	\$(101,159)	\$217,774	\$4,652	\$(357)	\$(0)
Increase due to exclusion of an affiliate for equity method	—	—	—	—	83	—	—	—
Unrealized gain on investment securities	—	—	—	—	—	(2,885)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	(466)	—
Net income for the year	—	—	—	—	20,050	—	—	—
Cash dividends paid	—	—	—	—	(6,603)	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	—	(0)
Balance at December 31, 2002	31,667,020	\$86,494	\$135,506	\$(101,159)	\$231,305	\$1,767	\$(841)	\$(0)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

OTSUKA CORPORATION and Its Consolidated Subsidiaries
For the years ended December 31, 2001 and 2002

Thousands of
U.S. dollars
(Note 3)

	Millions of yen		2002
	2001	2002	
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 4,859	¥ 4,706	\$ 39,233
Depreciation and amortization	6,266	6,388	53,256
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	51	80	665
Reserve for retirement benefits	1,714	2,400	20,008
Provision for allowance for bad debts	218	141	1,180
Interest and dividend income	(104)	(93)	(776)
Interest expenses	749	627	5,226
Equity in earnings of the affiliates	149	—	—
Loss on sale/disposal of property, plant and equipment	409	338	2,817
Loss on evaluation of investments in securities	189	602	5,017
Loss on evaluation/sale of membership	73	33	272
Decrease (increase) in notes and accounts receivable	2,260	(3,118)	(25,993)
Decrease in inventories	3,166	156	1,298
Increase (decrease) in notes and accounts payable	(2,759)	3,730	31,100
Other	1,356	2,514	20,963
Subtotal	18,596	18,504	154,266
Interest and dividend income received	101	94	787
Interest expenses paid	(795)	(622)	(5,188)
Income taxes paid	(2,178)	(3,141)	(26,189)
Net cash provided by operating activities	15,724	14,835	123,676
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(1,291)	(3,515)	(29,308)
Payments for software developed	(3,159)	(3,571)	(29,769)
Payments for purchase of investments in securities	(686)	(469)	(3,906)
Proceeds from sale of investments in securities	61	414	3,453
Payments for purchase of investments in consolidated subsidiaries	—	(128)	(1,070)
Increase in long-term loans receivable	(89)	(38)	(318)
Decrease in long-term loans payable	—	152	1,271
Other	327	(419)	(3,492)
Net cash used in investing activities	(4,837)	(7,574)	(63,139)
Cash flows from financing activities:			
Decrease in short-term bank loans, net	(6,545)	(3,743)	(31,200)
Proceeds from long-term debts	4,520	452	3,767
Repayments of long-term debts	(7,627)	(3,888)	(32,417)
Cash dividends paid	(791)	(790)	(6,583)
Other	1	(0)	(3)
Net cash used in financing activities	(10,442)	(7,969)	(66,436)
Effect of exchange rate changes on cash and cash equivalents	7	(6)	(50)
Net increase (decrease) in cash and cash equivalents	452	(714)	(5,949)
Cash and cash equivalents at beginning of year	4,445	4,963	41,376
Increase in cash and cash equivalents for newly consolidated subsidiaries	66	—	—
Increase in cash and cash equivalents due to merger	—	49	401
Cash and cash equivalents at end of year (Note 10)	¥ 4,963	¥ 4,298	\$ 35,828

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

OTSUKA CORPORATION and Its Consolidated Subsidiaries

1. Basis of Presenting the Consolidated Financial Statements

Accounting principles

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.

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 22 subsidiaries (majority-owned companies) as at December 31, 2001 and 2002, respectively. The consolidated financial statements include the accounts of the Company and 10 subsidiaries for the years ended December 31, 2001 and 2002, respectively.

The 10 subsidiaries, which were consolidated in the year ended December 31, 2002, are listed below:

	Equity ownership percentage
OSK Co., LTD.	100.0%
Netplan Co., LTD.	100.0%
Alpha Techno Co., LTD.	100.0%
Fujimi Construction Co., LTD.	100.0%
Alpha System Co., LTD.	100.0%
Alpha Net Inc.	100.0%
Otsuka Information Technology Corp.*	100.0%
JPSS Co., LTD.	92.4%
Net World, INC.	68.4%
10art-ni Corporation	59.7%

* AURORA-OTSUKA CORP. changed the company name to Otsuka Information Technology Corp.

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

Generally, companies that are owned more than 50% are classified as subsidiaries and companies that are owned more than 20% are classified as affiliates. However, companies that are owned more than 40% to 50% may also be classified as subsidiaries and companies that are owned 15% to 20% may also be classified as affiliates, if the Company substantially controls the investees' management or has significant influence and relationships with the investees, respectively.

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 12 unconsolidated subsidiaries as at December 31, 2001 and 2002, respectively, had insignificant amounts in terms of total assets, net sales, net income and retained earnings, 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 12 unconsolidated subsidiaries and 13 affiliates at December 31, 2001 and 12 unconsolidated subsidiaries and 6 affiliates at December 31, 2002.

The investments in 2 major affiliates for the year ended December 31, 2001, were accounted for by the equity method. Because one company was not an affiliate and the other was liquidated as a result of a merger of a subsidiary, no investments in affiliates for the year ended December 31, 2002, were accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method were carried at cost or less, since they did not have a material impact on consolidated net income and retained earnings in the consolidated financial statements.

(4) Translation of foreign currency

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The shareholders' equity at the beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year. Differences in yen amounts arising from the use of different rates are presented as "Foreign currency translation adjustment" in the shareholders' equity.

(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) Financial instruments

(a) Securities

Securities held by the Company and its subsidiaries are classified into two categories:

- **Equity investment in subsidiaries and affiliates**

Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost, mainly by the moving-average method, because the effect of application of the equity method would be immaterial.

- **Other securities**

Securities with a market quotation 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 shareholders' equity at a net-of-tax amount, while cost of sale is determined mainly by the moving-average method.)

Securities without a market quotation are stated at cost; this is calculated mainly by the moving-average method.

(b) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments".

(c) Hedge accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Companies are principally interest swaps and forward exchange contracts. The related hedged items are trade bank loans and accounts payable, respectively.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Companies' exposure to the risks of interest and foreign exchange rate fluctuation. Thus, the Companies' purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Company evaluates effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(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.

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

(9) Accounting for leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(10) Software

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

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

(11) Accounting for income taxes

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

The Company and its subsidiaries 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.

(12) Allowance for bad debts

Allowance for bad debts is provided at an amount of possible losses from uncollectable receivables based on the actual rate of losses from bad debts for ordinary receivables, and on estimated recoverability for specific doubtful receivables.

(13) Reserve for retirement benefits

(a) Retirement benefits for employees

The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that the unrecognized transition amount arising from adopting the new standard is amortized on a straight-line basis over 5 years, the unrecognized actuarial differences are amortized on a straight-line basis over the period of 12 years from the next year in which they arise, and the unrecognized prior service cost is amortized on a straight-line basis over the period of 12 years.

• Termination of substitute portion employee pension fund

The employees' pension fund of the OTSUKA Group was permitted immunity of future payments from the Minister of Health, Labour and Welfare.

In accordance with the JICPA's revised Accounting for Retirement Benefits, the Company and its consolidated subsidiaries did not record a gain on termination of the requirement to make pension contributions to the government assuming the obligation for the government portion of the Company's employment pension scheme and related assets have been transferred to the government. The unrecognized prior service cost generated in this period is calculated in accordance with Note 7 (4) "Computation basis of pension liabilities."

(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.

(14) Presentation of balance sheets

Effective from the year ended December 31, 2002, the Company and its subsidiaries adopted the new Japanese regulation for the presentation of Shareholders' equity. As a result of adoption of the new regulation, the Company and its domestic consolidated subsidiaries represented the accounting terms as Common stock, Capital surplus, Excess of land revaluation after tax-effect accounting, and other capital accounts in Shareholders' equity

(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 ¥119.95=US\$1, the rate of exchange on December 31, 2002, 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

At December 31, 2001 and 2002, investments in securities were as follows:

(1) Other securities with fair value

	2001			Millions of yen 2002			Thousands of U.S. dollars 2002		
	Cost	Carrying amount	Differences	Cost	Carrying amount	Differences	Cost	Carrying amount	Differences
Fair value greater than carrying amount:									
Stocks	¥679	¥1,737	¥1,058	¥572	¥ 972	¥400	\$4,770	\$ 8,103	\$3,333
Bonds	—	—	—	—	—	—	—	—	—
Other securities	—	—	—	—	—	—	—	—	—
	¥679	¥1,737	¥1,058	¥572	¥ 972	¥400	\$4,770	\$ 8,103	\$3,333
Fair value less than or equal to carrying amount:									
Stocks	¥180	¥ 123	¥ (57)	¥183	¥ 157	¥ (26)	\$1,522	\$ 1,308	\$ (214)
Bonds	—	—	—	—	—	—	—	—	—
Other securities	90	50	(40)	89	81	(8)	746	679	(67)
	¥270	¥ 173	¥ (97)	¥272	¥ 238	¥ (34)	\$2,268	\$ 1,987	\$ (281)
Total	¥949	¥1,910	¥ 961	¥844	¥1,210	¥366	\$7,038	\$10,090	\$3,052

(2) Other securities sold in 2001 and 2002 (for the year ended December 31, 2001 and 2002)

	2001			Millions of yen 2002			Thousands of U.S. dollars 2002		
	Amount for sale	Total gains on sale	Total losses on sale	Amount for sale	Total gains on sale	Total losses on sale	Amount for sale	Total gains on sale	Total losses on sale
	¥62	¥0	¥1	¥175	¥152	¥55	\$1,459	\$1,267	\$459

(3) Securities not stated at fair value

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
	Stated amount on consolidated balance sheets	Stated amount on consolidated balance sheets	Stated amount on consolidated balance sheets
Other securities:			
Unlisted stocks (excluding stocks traded over the counter)	¥2,137	¥1,711	\$14,268
Non-public issue convertible bonds	30	—	—
Discount bonds (IBJ)	5	6	50
Mid-term government bonds fund	2	2	18
Preferred subscription certification	—	311	2,585

(4) Prospected amount for redemption of other securities with maturity date subsequent to the consolidated balance sheet date

	Millions of yen				Thousands of U.S. dollars	
	2001		2002		2002	
	Within one year	More than one year	Within one year	More than one year	Within one year	More than one year
Bonds:						
Government bonds and municipal bonds	¥—	¥—	¥—	¥ —	\$ —	\$ —
Corporate bonds	30	—	—	—	—	—
Others	5	—	6	310	50	2,584
Others	—	—	—	—	—	—
Total	¥35	¥—	¥ 6	¥310	\$50	\$2,584

5. Inventories

Inventories at December 31, 2001 and 2002 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Merchandise and maintenance parts	¥15,465	¥15,180	\$126,553
Work-in-process	496	680	5,669
Supplies	159	139	1,159
	¥16,120	¥15,999	\$133,381

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

The annual average interest rates applicable to short-term bank loans at December 31, 2001 and 2002 were 0.92% and 0.90%, respectively.

Long-term debt at December 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Long-term borrowings from banks with annual interest rates from 0.60% to 3.39%	¥ 6,631	¥4,294	\$35,798
2.66% secured Japanese yen bonds due November 2003	2,300	2,300	19,175
2.75% secured Japanese yen bonds due December 2002	1,100	—	—
3.04% secured Japanese yen bonds due February 2003	1,000	1,000	8,337
0.75% secured Japanese yen bonds due March 2004	2,000	2,000	16,673
	13,031	9,594	79,983
Less: Current maturities of long-term debts	(3,728)	(6,886)	(57,407)
	¥ 9,303	¥2,708	\$22,576

Aggregate annual maturities of long-term debt subsequent to December 31, 2002 are as follows:

Year ending December 31	Thousands of	
	Millions of yen	U.S. dollars
2003	¥6,886	\$57,407
2004	2,631	21,934
2005	69	575
2006	7	59
2007 and thereafter	1	8
	¥9,594	\$79,983

At December 31, 2001 and 2002, 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
	2001	2002	U.S. dollars
Land	¥3,417	¥2,786	\$23,226
Buildings	6,264	5,142	42,868
Time deposits	11	11	92
	¥9,692	¥7,939	\$66,186

7. Reserve for Retirement Benefits

(1) Retirement benefit plan

The Company and its subsidiaries, except some companies, adopt a qualified pension plan, a welfare pension plan and termination allowance plan as defined-benefit pension plans.

(2) The reserve for retirement benefits as of December 31, 2001 and 2002 is analyzed as follows:

	Millions of yen		Thousands of
	2001	2002	U.S. dollars
Projected benefit obligations	¥(48,263)	¥(50,157)	\$(418,149)
Plan assets	28,688	28,278	235,748
	(19,575)	(21,879)	(182,401)
Unrecognized transition amount	8,512	6,382	53,205
Unrecognized prior service cost	—	(2,960)	(24,677)
Unrecognized actuarial differences	6,192	11,187	93,264
	(4,871)	(7,270)	(60,609)
Prepaid pension cost	—	—	—
Reserve for retirement benefits	¥ (4,871)	¥ (7,270)	\$ (60,609)

The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.

The balance of the reserve for retirement benefits in the accompanying consolidated balance sheets at December 31, 2002 included retirement benefits for directors in an amount of ¥692 million (\$5,769 thousand).

(3) Pension expense related to the retirement benefits for the year ended December 31, 2001 and for the year ended December 31, 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Service cost*	¥3,363	¥3,618	\$30,163
Interest cost	1,214	1,188	9,904
Expected return on plan assets	(1,489)	(1,294)	(10,788)
Amortization of transition amount	2,135	2,129	17,799
Amortization of the unrecognized prior service cost	—	(63)	(525)
Amortization of the unrecognized actuarial differences	—	518	4,318
Additional benefits for employees' early retirement	41	55	459
Expense of changing accounting method	—	54	450
Net pension expense	¥5,264	¥6,205	\$51,713

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

(4) Computation basis of pension liabilities

As of December 31, 2001 and 2002	2001	2002
Discount rate	2.5% (beginning of period: 3.0%)	2.5%
Expected rate of return on plan assets	4.5% (beginning of period: 5.5%)	4.5%
Periodic allocation principle for projected benefit obligation	Standard of fixed-amount-for-period	Standard of fixed-amount-for-period
Amortization of unrecognized prior service cost	—	12 years
Amortization of transition amount	5 years	5 years
Amortization of unrecognized actuarial differences	12 years from the next fiscal year of occurrence	12 years from the next fiscal year of occurrence

8. Contingent Liabilities

The Company was contingently liable for guarantees of loans at December 31, 2001 and 2002 as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Loans borrowed by:			
NACOS COMPUTER SYSTEMS CORP.	¥ 87	¥ 78	\$650
EMT Software, Inc.	32	22	184
Sofix Inc.	47	—	—
	¥166	¥100	\$834

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2002 was 42.1%.

At December 31, 2002, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

Statutory tax rate	42.1%
Entertainment expenses	2.0
Inhabitants' tax per capital	2.6
Valuation allowance	0.9
Consolidated adjustment account	0.7
Others	(0.1)
Effective tax rate	48.2%

At December 31, 2001 and 2002, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Deferred tax assets:			
Allowance for bad debts	¥ 191	¥ 199	\$ 1,659
Enterprise taxes	201	193	1,609
Accrued bonuses	326	547	4,560
Retirement benefits for employees	1,040	2,067	17,232
Retirement benefits for directors	304	304	2,534
Memberships	306	300	2,501
Software cost	309	252	2,101
Operating loss carryforwards	659	424	3,535
Eliminated unrealized profits	540	453	3,777
Other	283	269	2,243
Total deferred tax assets	4,159	5,008	41,751
Less: Valuation allowance	(472)	(399)	(3,327)
Net deferred tax assets	3,687	4,609	38,424
Deferred tax liabilities:			
Reserve for computer programs	2,001	2,244	18,708
Unrealized gain on investment securities	407	154	1,284
Other	21	20	166
Total deferred tax liabilities	2,429	2,418	20,158
Net deferred tax assets	¥1,258	¥2,191	\$18,266

10. Supplementary Cash Flow Information

Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Cash, time deposits and other cash equivalents	¥6,431	¥5,696	\$47,488
Time deposits with deposit terms of more than three months	(1,468)	(1,398)	(11,660)
Cash and cash equivalents at end of year	¥4,963	¥4,298	\$35,828

The property and the debt that were taken over from Northern Lights Computer Inc. (affiliate), which merged with the 10art-ni Corporation (consolidated subsidiary), are as follows:

Common stock and capital surplus increased by merger are ¥150 million and ¥43 million, respectively.

	Millions of yen		Thousands of U.S. dollars
Current assets	¥257		\$2,143
Non-current assets	34		283
Total current assets	¥291		\$2,426
Current liabilities	¥ 98		\$ 817
Total liabilities	¥ 98		\$ 817

11. Subsequent Event

The following appropriation of the Company's retained earnings in respect of the year ended December 31, 2002 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 28, 2003:

Appropriation	Millions of yen		Thousands of U.S. dollars
Cash dividends (¥20.00 per share)	¥633		\$5,277

12. Lease Transactions

Acquisition cost, accumulated depreciation and net book value at December 31, 2001 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Acquisition cost	¥7,117	¥6,958	\$58,008
Accumulated depreciation	(3,683)	(3,824)	(31,880)
Net book value	¥3,434	¥3,134	\$26,128

Future minimum lease payments under finance leases at December 31, 2001 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Due within one year	¥1,379	¥1,492	\$12,438
Due after one year	2,124	1,712	14,273
	¥3,503	¥3,204	\$26,711

Lease rental expenses, depreciation and interest expenses for the years ended December 31, 2001 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Lease rental expenses	¥1,603	¥1,621	\$13,514
Depreciation	1,505	1,526	12,722
Interest expenses	118	101	842

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

The amounts of future lease payments on operating leases at December 31, 2001 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Due within one year	¥179	¥ 70	\$ 583
Due after one year	172	109	909
	¥351	¥179	\$1,492

13. 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 valuation was recorded as "Excess of land revaluation after tax-effect accounting" in shareholders' equity 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 only one time. The excess of the book value after valuation over the fair value is ¥830 million (\$6,290 thousand).

14. Segment Information

Business segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2001 and 2002 is summarized as follows:

	Millions of yen					Consolidated total
	System Integration	Service & Support	Other	Total	Elimination	
2001						
Net sales to:						
Outside customers	¥230,561	¥96,338	¥1,252	¥328,151	¥ —	¥328,151
Inter-segment sales/transfers	12	24	951	987	(987)	—
	230,573	96,362	2,203	329,138	(987)	328,151
Operating expenses	225,510	88,721	2,148	316,379	3,594	319,973
Operating income	¥ 5,063	¥ 7,641	¥ 55	¥ 12,759	¥ (4,581)	¥ 8,178
Assets, depreciation and capital expenditures:						
Assets	¥ 79,633	¥48,854	¥1,340	¥129,827	¥18,284	¥148,111
Depreciation and amortization	3,417	2,619	9	6,045	221	6,266
Capital expenditures	2,453	1,784	82	4,319	209	4,528

	Millions of yen					Consolidated total
	System Integration	Service & Support	Other	Total	Elimination	
2002						
Net sales to:						
Outside customers	¥219,690	¥103,380	¥1,219	¥324,289	¥ —	¥324,289
Inter-segment sales/transfers	20	60	985	1,065	(1,065)	—
	219,710	103,440	2,204	325,354	(1,065)	324,289
Operating expenses	214,492	95,724	2,160	312,376	3,923	316,299
Operating income	¥ 5,218	¥ 7,716	¥ 44	¥ 12,978	¥ (4,988)	¥ 7,990
Assets, depreciation and capital expenditures:						
Assets	¥ 78,811	¥ 49,391	¥1,493	¥129,695	¥18,868	¥148,563
Depreciation and amortization	3,294	2,792	19	6,105	283	6,388
Capital expenditures	4,268	2,245	—	6,513	1,137	7,650

	Thousands of U.S. dollars					Consolidated total
	System Integration	Service & Support	Other	Total	Elimination	
2002						
Net sales to:						
Outside customers	\$1,831,513	\$861,859	\$10,163	\$2,703,535	\$ —	\$2,703,535
Inter-segment sales/transfers	167	500	8,211	8,878	(8,878)	—
	1,831,680	862,359	18,374	2,712,413	(8,878)	2,703,535
Operating expenses	1,788,179	798,032	18,007	2,604,218	32,706	2,636,924
Operating income	\$ 43,501	\$ 64,327	\$ 367	\$ 108,195	\$ (41,584)	\$ 66,611
Assets, depreciation and capital expenditures:						
Assets	\$ 657,032	\$411,763	\$12,447	\$1,081,242	\$157,299	\$1,238,541
Depreciation and amortization	27,461	23,276	158	50,896	2,359	53,256
Capital expenditures	35,590	18,716	—	54,306	9,479	63,785

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, 2001 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, 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, 2001 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

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

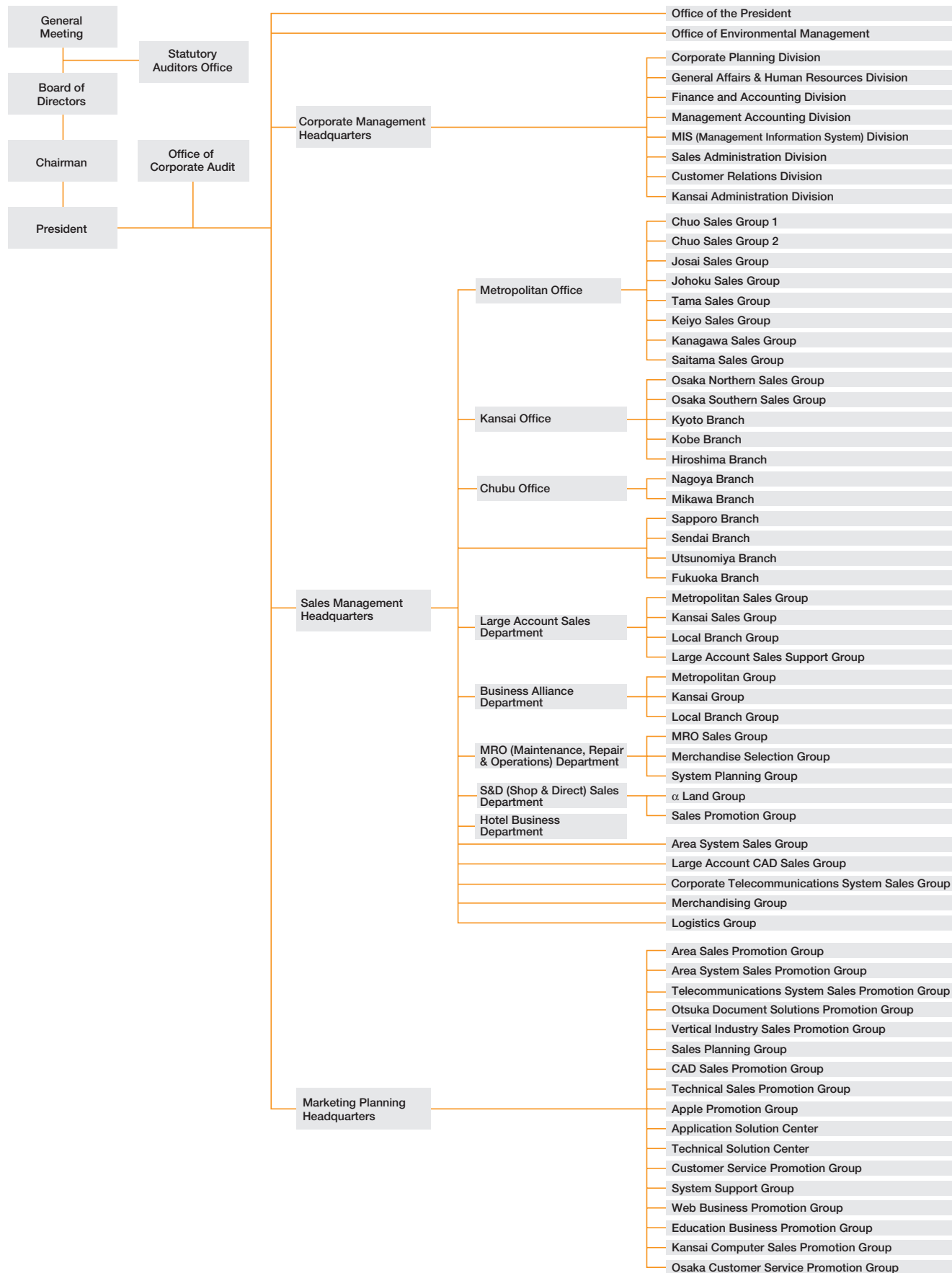
ChuoAoyama Audit Corporation

Tokyo, Japan
March 28, 2003

History

Year	Topics	Operational Development
1961	Establishment and incorporation	
1962	Establishment of Omori Branch	
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	Launch of "Business System Fair" (currently "Practical Solutions Fair")	
1979		Launch of original business & industry package software, "SMILE"
1981		Commencement of PC business
1982		Commencement of education business
1984	Establishment of subsidiary OTSUKA System Engineering (currently OSK Co., LTD.)	Commencement of CAD business
1987		Commencement of network business
1988	Opening of Ichikawa Distribution Center in Ichikawa City, Chiba Prefecture	
1990	Certification as a system integrator by the Ministry of International Trade and Industry (currently the Ministry of Economy, Trade and Industry)	Commencement of "Total α Service" (the current "Total α Support 21")
	Establishment of Nagoya Branch (currently Chubu regional office)	
	Opening of Telephone Support Center	
1993	Establishment of Utsunomiya Branch	Commencement of over-the-counter sales (" α Land") development
		Commencement of trade with IBM Japan, Ltd.
		Commencement of trade with Compaq Computer K.K. (currently Hewlett-Packard Japan, Ltd.)
1995	Opening of α Learning Center	Commencement of catalogue mail-order service 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	Attainment of ISO 9002 certification by Tokyo CTO center	Commencement of security business
1999		Rapid expansion of Web business
2000	Listing on the First Section of the Tokyo Stock Exchange	Reinforcement of Web business including ASP, housing, and hosting
	Opening of Internet Data Center (IDC)	
	Attainment of ISO 14001 certification at 15 business sites	
2001	40th anniversary	Rapid expansion of "tanomail" through strengthening MRO business
	New president appointed	
2002	Establishment of first software development base in Shanghai, China	Renewal of "Total α Service," renamed as "Total α Support 21"

Business Structure (as of December 31, 2002)



Corporate Data (as of December 31, 2002)

Name:	OTSUKA CORPORATION	
Founded:	July 17, 1961 (Established: December 13, 1961)	
Paid-in Capital:	¥10,374,851,000	
Number of Employees:	6,236	
Business:	<p>System Integration Business: Sales of computers, copiers, communication equipment, and software, and software development of consigned software; other activities.</p> <p>Service and Support Business: Supplies, maintenance, and educational support; other activities.</p>	
Main Banks:	<p>The Bank of Yokohama, Ltd. The Bank of Tokyo-Mitsubishi, Ltd. Mizuho Bank, Ltd. UFJ Bank Limited</p>	
Head Office:	<p>2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573, Japan Phone: +81-3-3264-7111</p>	
Branches:	<p>Metropolitan Office 2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573, Japan Phone: +81-3-3264-7111</p> <p>Kansai Office 6-14-1 Fukushima, Fukushima-ku, Osaka 553-8558, Japan Phone: +81-6-6456-2711</p> <p>Chubu Office 3-20-17 Marunouchi, Naka-ku, Nagoya, Aichi 460-0002, Japan Phone: +81-52-954-8011</p>	
Local Area Sales Groups:	<p>Chuo Sales Group 1 Josai Sales Group Tama Sales Group Kanagawa Sales Group Osaka Northern Sales Group</p>	<p>Chuo Sales Group 2 Johoku Sales Group Keiyo Sales Group Saitama Sales Group Osaka Southern Sales Group</p>
Regional Offices:	<p>Sapporo Branch Utsunomiya Branch Mikawa Branch Kobe Branch Fukuoka Branch</p>	<p>Sendai Branch Nagoya Branch Kyoto Branch Hiroshima Branch</p>

Our Head Office and Metropolitan Office moved on February 19, 2003. Accordingly, the new addresses are listed above.

Principal Group Companies (as of December 31, 2002)

The OTSUKA Group (OTSUKA CORPORATION and its subsidiaries) consists of 22 subsidiaries, including 10 consolidated subsidiaries as well as 6 affiliated companies that carry out System Integration, Service and Support, and Other Business (construction, etc.). The 10 consolidated subsidiaries are listed below.

Company Name	Establishment	Capital (¥ million)	Controlling Share	Scope of Business
■ System Integration (SI)				
OSK Co., LTD.	1984	300	100.0%	<ul style="list-style-type: none"> • Development, design, sale, and consulting for software • Education, guidance for IT-related systems
Netplan Co., LTD.	1987	400	100.0%	<ul style="list-style-type: none"> • Electronic communications construction and internal construction, sales of fixtures, etc.
Alpha System Co., LTD.	1967	80	100.0%	<ul style="list-style-type: none"> • Business and industry software development
Otsuka Information Tehcnology Corp. (Taiwan)*	1997	NT\$116 million	100.0%	<ul style="list-style-type: none"> • Sales and support of computer software, hardware, and network equipment
Net World, INC.	1990	585	68.4%	<ul style="list-style-type: none"> • Sales and consulting for network peripheral equipment
10art-ni Corporation	1997	750	59.7%	<ul style="list-style-type: none"> • Integration using Linux-based systems • Java-based software development
■ Service and Support (S&S)				
Alpha Net Inc.	1977	400	100.0%	<ul style="list-style-type: none"> • Comprehensive service and support for network systems • System engineering outsourcing
Alpha Techno Co., LTD.	1996	50	100.0%	<ul style="list-style-type: none"> • Emergency repair of PCs and peripheral equipment, disposal, recycling, data recovery, and erasing services
JPSS Co., LTD.	1996	330	92.4%	<ul style="list-style-type: none"> • Support business for consumers and SOHO users
■ Other				
Fujimi Construction Co., LTD.	1964	99	100.0%	<ul style="list-style-type: none"> • Construction planning, execution, and oversight; maintenance of buildings and condominiums

* The company changed its name from AURORA-OTSUKA CORP. to Otsuka Information Technology Corp. on December 31, 2002.

Investor Information (as of December 31, 2002)

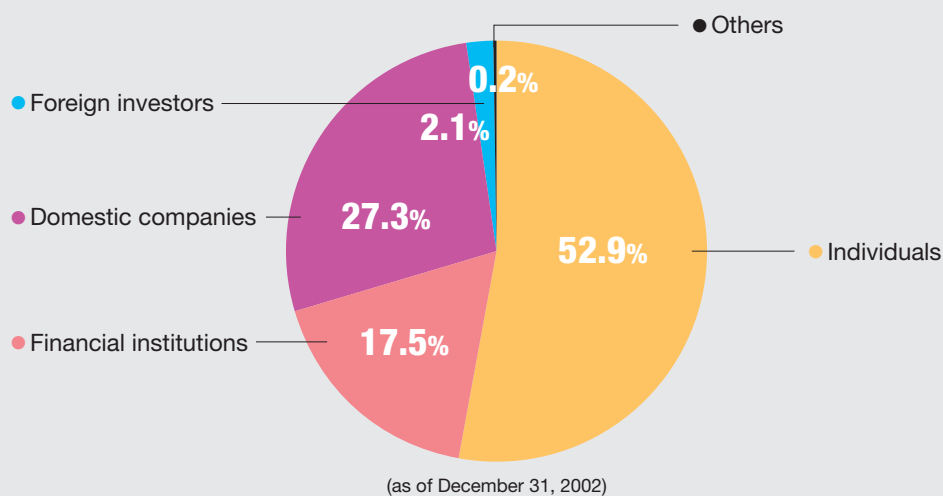
Authorized Common Stock	112,860,000 shares
Issued Common Stock	31,667,020 shares
Number of Shares of Unit Stock	100 shares
Number of Shareholders	12,731

(An increase of 615 from the end of previous fiscal year)

Major Shareholders

Name	Investment in OTSUKA CORPORATION		Investment in Major Shareholders OTSUKA CORPORATION	
	Number of Shares Held	Equity Ownership (%)	Number of Shares Held	Equity Ownership (%)
Otsuka Sobi Co., Ltd.	8,112,730	25.61	—	—
Minoru Otsuka	2,765,490	8.73	—	—
Yuji Otsuka	2,622,580	8.28	—	—
OTSUKA CORPORATION Employee Stock-Sharing Plan	2,396,920	7.56	—	—
The Master Trust Bank of Japan, Ltd. (Trust Account)	961,800	3.03	—	—
UFJ Trust Bank Limited (“A” Trust Account)	850,100	2.68	—	—
Terue Otsuka	645,500	2.03	—	—
Atsushi Otsuka	485,550	1.53	—	—
The Bank of Yokohama, Ltd.	400,840	1.26	382,204	0.03
Pensions and Corporate Investment Fund— Mitsui Asset Trust and Banking Company, Limited (Account 2)	384,700	1.21	—	—

Breakdown of Shareholders



OTSUKA SHOKAI WEB SITE

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

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