Financial Section

Three-Year Financial Data

OTSUKA CORPORATION and Its Consolidated Subsidiaries
Years ended December 31, 2001, 2002 and 2003

		Millions of yen		Thousands of U.S. dollars
	2001	2002	**2003**	**2003**
Net sales	¥328,151	¥324,289	**¥344,377**	**$3,213,972**
System Integration Business	230,561	219,690	**225,842**	**2,107,722**
Service and Support Business	96,338	103,380	**116,665**	**1,088,802**
Other Business	1,252	1,219	**1,869**	**17,447**
Operating income	8,178	7,990	**9,221**	**86,064**
Recurring profit	7,665	7,766	**9,055**	**84,514**
Income before income taxes and minority interests	4,859	4,706	**4,619**	**43,113**
Net income	2,531	2,405	**2,457**	**22,931**
Total assets	148,111	148,563	**162,144**	**1,513,249**
Total interest-bearing debt	36,983	29,795	**36,858**	**343,993**
Total shareholders' equity	41,131	42,351	**43,978**	**410,435**
Net income per share (EPS) (Yen and U.S. dollars)	79.94	75.96	**77.67**	**0.72**
Dividends per share of common stock (Yen and U.S. dollars)	25.00	20.00	**20.00**	**0.18**
Cash flows from operating activities per share (Yen and U.S. dollars)	496.55	468.47	**497.87**	**4.64**
Operating income to net sales ratio (%)	2.49	2.46	**2.68**	**—**
Net income to net sales ratio (%)	0.77	0.74	**0.71**	**—**
Total interest-bearing debt ratio (%)	24.97	20.06	**22.73**	**—**
Shareholders' equity ratio (%)	27.77	28.51	**27.12**	**—**
Return on equity (ROE) (%)	5.48	5.76	**5.69**	**—**

Notes:
Figures for ROE are calculated using average shareholders' equity.
U.S. dollar amounts are computed using the December 31, 2003 exchange rate of ¥107.15=US$1.
Figures in parentheses are negative figures.

Management's Analysis of Operating Results & Financial Position

Summary of Sales and Profits

Millions of yen

	2002	**2003**	Amount of change, year on year	% change, year on year
Net Sales	¥324,289	**¥344,377**	+20,088	+6.2%
System Integration Business	219,690	**225,842**	+6,152	+2.8
Service & Support Business	103,380	**116,665**	+13,285	+12.9
Other Business	1,219	**1,869**	+650	+53.3
Cost of sales	247,837	**266,651**	+18,815	+7.6
Gross profit	76,452	**77,725**	+1,273	+1.7
Selling, general and administrative expenses	68,462	**68,503**	+41	+0.1
Operating income	7,990	**9,221**	+1,231	+15.4
Recurring profit	7,766	**9,055**	+1,289	+16.6
Income before income taxes and minority interests	4,706	**4,619**	-86	-1.8
Income taxes*	2,269	**2,047**	-221	-9.8
Net income	2,405	**2,457**	+51	+2.2

*Including adjustment amount for corporate and other taxes

Sales Summary

For the term, the Service & Support Business enjoyed robust sales, while the System Integration Business also made a strong showing. In combination with decent sales growth among the majority of consolidated subsidiaries, consolidated net sales rose 6.2% to ¥344,377 million, which was the third consecutive fiscal term of record-high sales.

System Integration Business

The System Integration Business provides optimized system services ranging from consulting to system design and development, transport and installation and network construction. As a result of focusing resources on the innovative "ODS21" knowledge management system and the "SMILE" integrated mission-critical operational system, brisk sales of color copiers, computers and servers produced a 2.8% rise in net sales to ¥225,842 million.

Service & Support Business

The Service & Support Business offers total support for systems installed by customers with supplies, hardware and software maintenance, telephone support and IT education. Focused efforts on the "tanomail" office supply mail-order services via Website and catalog channels fueled continued growth in sales of supplies chiefly for OA supplies. Combined with favorable performance in maintenance and similar fields, net sales climbed 12.9% to ¥116,665 million.

Other Business

In Other Business, the construction industry, in which Fujimi Construction Co., Ltd. operates, continued to experience harsh conditions, but aggressive marketing activities resulted in brisk sales. This performance, combined with the inclusion of Otsuka Auto Service Co., LTD. (automobile maintenance, etc.) and Otsuka Business Service Co., LTD. (direct mail production and shipment outsourcing, etc.) into the scope of consolidation, contributed to a 53.3% increase in net sales to ¥1,869 million.

Summary of Income and Expenses

Gross profit rose 1.7% to ¥77,725 million, while the gross profit margin edged down 1.0 percentage point to 22.6%.

Operating income climbed 15.4% to ¥9,221 million following efforts to reduce selling, general and administrative expenses.

Recurring profit reached record levels for the third consecutive fiscal term, increasing 16.6% to ¥9,055 million, following a decrease in other expenses on the back of lower interest expenses.

Income before income taxes and minority interests declined 1.8% to ¥4,619 million. This was the effect of amortization of transition amount arising from adopting new accounting standard for retirement benefits of ¥2,135 million, loss on revaluation of investments in securities, loss on withdrawal from over-the-counter sales business activities and removal cost of head office.

In aggregate, net income edged up 2.2% to ¥2,457 million, and net income per share improved from ¥75.96 to ¥77.67.

During the year ended December 31, 2003, the Company changed the consolidated statement of income classification of the system engineering cost relating to commissioned business from selling, general and administrative expenses to cost of sales, according to man-hours. This change was made due to the growth in significance of the system engineering cost and the reconstruction of the Company's cost accounting system. This reclassification resulted in an increase in cost of sales and decrease in selling, general and administrative expenses, respectively, of ¥1,761 million for the year ended December 31, 2003, as compared with the amounts which would have been reported if the previous policy had been applied consistently. This reclassification did not have an impact on operating income and income before taxes.

Financial Position

	Millions of yen			
	2002	**2003**	Amount of change, year on year	% change, year on year
Assets:	¥148,563	**¥162,144**	+13,581	+9.1%
Current assets	77,201	**78,918**	+1,717	+2.2
Fixed assets	71,362	**83,226**	+11,864	+16.6
Liabilities:	105,765	**117,572**	+11,806	+11.2
Current liabilities	94,894	**100,683**	+5,789	+6.1
Long-term liabilities	10,871	**16,888**	+6,017	+55.4
Minority interests	447	**594**	+147	+32.9
Shareholders' equity	42,351	**43,978**	+1,627	+3.8

Assets

Current assets rose ¥1,717 million to ¥78,918 million owing to higher accounts and notes receivable. Total fixed assets expanded ¥11,864 million to ¥83,226 million as tangible fixed assets increased following acquisition of the new head office building, and investments in securities and guarantee deposits both dropped. Total assets increased ¥13,581 million to ¥162,144 million.

Liabilities

Current liabilities rose ¥5,789 million to ¥100,683 million as a result of increased short-term bank loans needed to acquire the new head office building. Fixed liabilities expanded ¥6,017 million to ¥16,888 million owing to long-term debt associated with the acquisition of the new head office building, while total liabilities increased ¥11,806 million to ¥117,572 million.

Shareholders' Equity

Shareholders' equity rose ¥1,627 million to ¥43,978 million on account of higher retained earnings.

The interest coverage ratio was 17.57 times; interest-bearing debt ratio was 22.73%; return on assets (ROA) was 5.97%; and return on equity (ROE) was 5.69%.

	2002	**2003**
Interest coverage ratio (times)	12.90	**17.57**
Interest-bearing debt ratio (%)	20.06	**22.73**
ROA* (%)	5.45	**5.97**
ROE (%)	5.76	**5.69**

* ROA = Business profit / total assets (average during the year)
Business profit = Operating income + interest received + dividends received
Figures for ROE are calculated using average shareholders' equity.

Cash Flows

Millions of yen

	2002	**2003**	Amount of change, year on year	% change, year on year
Cash flows from operating activities	¥14,835	**¥15,749**	+914	+6.2%
Cash flows from investing activities	-7,574	**-23,405**	-15,832	+209.0
Cash flows from financing activities	-7,969	**6,284**	+14,253	—
Cash and cash equivalents at end of year	4,298	**3,020**	-1,277	-29.7

Cash provided by operating activities expanded 6.2% to ¥15,749 million. Key sources included income before income taxes and minority interests of ¥4,619 million, depreciation and amortization of ¥6,704 million and reserve for retirement benefits of ¥2,742 million, as well as other sources.

Cash used in investing activities jumped 209.0% to ¥23,405 million. Key uses included payments for purchase of property, plant and equipment of ¥22,559 million and payments for software developed of ¥1,902 million.

Cash provided by financing activities was ¥6,284 million. Key sources included proceeds from long-term debts associated with acquisition of the new head office building and others of ¥16,850 million, increase in short-term bank loans, net of ¥2,560 million, repayments of long-term debts of ¥9,085 million using excess operating activity cash flows, and retirement of corporate bonds of ¥3,300 million.

As a result of the above factors, cash and cash equivalents were down 29.7% to ¥3,020 million.

Outlook

In the current fiscal year ending December 31, 2004, consolidated projections call for a 4.2% rise in net sales to ¥359,000 million, an 11.5% increase in recurring profit to ¥10,100 million and a 144.2% jump in net income to ¥6,000 million. The key factor for dramatic growth in net income will be extraordinary income associated with the proxy portion of the employee pension fund.

Consolidated Balance Sheets

OTSUKA CORPORATION and Its Consolidated Subsidiaries
December 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	**2003**	**2003**
ASSETS			
Current assets:			
Cash, time deposits and other cash equivalents (Notes 7 and 11)	¥ 5,696	**¥ 4,353**	**$ 40,626**
Accounts and notes receivable:			
Trade	45,147	**49,406**	**461,092**
Unconsolidated subsidiaries and affiliates	19	**30**	**285**
Other	7,224	**4,614**	**43,067**
	52,390	**54,051**	**504,445**
Less: Allowance for bad debts	(332)	**(336)**	**(3,143)**
	52,058	**53,714**	**501,301**
Inventories (Note 6)	15,999	**16,574**	**154,684**
Deferred tax assets (Note 10)	863	**1,499**	**13,998**
Other current assets	2,585	**2,776**	**25,912**
Total current assets	77,201	**78,918**	**736,523**
Investments and advances:			
Investments in securities (Note 4)	3,240	**2,771**	**25,867**
Investments in unconsolidated subsidiaries and affiliates	546	**473**	**4,421**
Guarantee deposits	6,138	**2,807**	**26,198**
Deferred tax assets non-current (Note 10)	1,401	**2,725**	**25,437**
Deferred tax assets on revaluation of land	8,823	**8,386**	**78,270**
Other investments	1,145	**685**	**6,395**
	21,293	**17,850**	**166,590**
Property, plant and equipment (Notes 7 and 14):			
Land	9,334	**18,926**	**176,637**
Buildings and structures	58,211	**67,224**	**627,389**
Construction in progress	1,073	**1**	**11**
Others	9,472	**9,629**	**89,865**
	78,090	**95,781**	**893,903**
Less: Accumulated depreciation	(36,877)	**(37,047)**	**(345,752)**
Net property, plant and equipment	41,213	**58,734**	**548,151**
Intangibles and deferred charges:			
Software	7,859	**5,837**	**54,477**
Others	997	**804**	**7,506**
	8,856	**6,641**	**61,983**
Total assets	¥148,563	**¥162,144**	**$1,513,249**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	**2003**	**2003**
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 7)	¥ 20,201	**¥ 22,756**	**$ 212,378**
Current maturities of long-term debts (Note 7)	6,886	**8,224**	**76,753**
Accounts and notes payable:			
Trade	34,188	**36,411**	**339,815**
Unconsolidated subsidiaries and affiliates	359	**177**	**1,660**
Other	21,941	**18,977**	**177,107**
	56,488	**55,566**	**518,584**
Income taxes payable (Note 10)	1,565	**2,418**	**22,567**
Other current liabilities	9,754	**11,718**	**109,368**
Total current liabilities	94,894	**100,683**	**939,652**
Long-term liabilities:			
Long-term debt (Note 7)	2,708	**5,878**	**54,861**
Reserve for retirement benefits (Note 8)	7,962	**10,778**	**100,596**
Deferred tax liabilities non-current (Note 10)	70	**79**	**745**
Other long-term liabilities	131	**151**	**1,412**
	10,871	**16,888**	**157,615**
Minority interests in consolidated subsidiaries	447	**594**	**5,545**
Contingent liabilities (Note 9)			
Shareholders' equity:			
Common stock: (Note 2 (17))			
Authorized: 112,860,000 shares			
Outstanding: December 31, 2002 31,667,020 shares			
December 31, 2003 31,667,020 shares	10,375	**10,374**	**96,825**
Capital surplus (Note 2 (17))	16,255	**16,254**	**151,700**
Retained earnings	27,745	**29,485**	**275,180**
Excess of land revaluation after tax-effect accounting (Note 14)	(12,134)	**(12,219)**	**(114,040)**
Unrealized gain on investment securities after tax-effect accounting	212	**325**	**3,033**
Foreign currency translation adjustment	(102)	**(133)**	**(1,250)**
Less: Treasury stock			
December 31, 2002 160 shares			
December 31, 2003 63,800 shares	(0)	**(108)**	**(1,015)**
Total shareholders' equity	42,351	**43,978**	**410,435**
Total liabilities, minority interests and shareholders' equity	¥148,563	**¥162,144**	**$1,513,249**

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, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	**2003**	**2003**
Net sales (Note 15)	¥324,289	**¥344,377**	**$3,213,972**
Cost of sales (Note 15)	247,837	**266,651**	**2,488,580**
Gross profit	76,452	**77,725**	**725,391**
Selling, general and administrative expenses (Note 15)	68,462	**68,503**	**639,326**
Operating income	7,990	**9,221**	**86,064**
Other income (expenses):			
Interest and dividend income	93	**55**	**522**
Interest expenses	(627)	**(528)**	**(4,929)**
Gain on sale of property, plant and equipment	—	**136**	**1,270**
Gain on sale of investments in securities	153	**25**	**235**
Loss on liquidation of affiliate	(57)	**—**	**—**
Loss on sale/disposal of property, plant and equipment	(338)	**(346)**	**(3,234)**
Loss on revaluation/sale of investments in securities	(657)	**(798)**	**(7,450)**
Loss on revaluation of investments in unconsolidated subsidiaries	—	**(32)**	**(298)**
Loss on revaluation of membership	(33)	**(15)**	**(147)**
Loss on withdrawal from over-the-counter sales business activities	—	**(661)**	**(6,170)**
Removal costs for head office	—	**(607)**	**(5,672)**
Amortization of transition amount arising from adopting new accounting standard for retirement benefits	(2,129)	**(2,135)**	**(19,934)**
Other, net	311	**306**	**2,856**
	(3,284)	**(4,602)**	**(42,951)**
Income before income taxes and minority interests	4,706	**4,619**	**43,113**
Income taxes (Note 10):			
Current	2,950	**3,886**	**36,272**
Deferred	(681)	**(1,839)**	**(17,162)**
	2,269	**2,047**	**19,109**
Minority interests in net gains of consolidated subsidiaries	32	**114**	**1,072**
Net income	¥ 2,405	**¥ 2,457**	**$ 22,931**

	Yen		U.S. dollars (Note 3)
Net income and dividends per share (Note 2 (14)):			
Net income	¥75.96	**¥77.67**	**$0.72**
Cash dividends	20.00	**20.00**	**0.18**

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, 2002 and 2003

	Number of shares of common stock	Millions of yen						
		Common stock	Capital surplus	Retained earnings	Excess of land revaluation	Unrealized gain on investment securities	Foreign currency translation adjustment	Treasury stock
Balance at December 31, 2001	31,667,020	¥10,375	¥16,255	¥26,122	¥(12,134)	¥558	¥ (45)	¥ (0)
Increase due to exclusion of an affiliate for the 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 (Note 2 (17))	31,667,020	¥10,375	¥16,255	¥27,745	¥(12,134)	¥212	¥(102)	¥ (0)
Increase due to inclusion of subsidiaries in the consolidation	**—**	**—**	**—**	**119**	**—**	**—**	**—**	**—**
Sale of land	**—**	**—**	**—**	**(203)**	**203**	**—**	**—**	**—**
Decrease due to changes in tax rates	**—**	**—**	**—**	**—**	**(288)**	**—**	**—**	**—**
Unrealized gain on investment securities	**—**	**—**	**—**	**—**	**—**	**113**	**—**	**—**
Foreign currency translation adjustment	**—**	**—**	**—**	**—**	**—**	**—**	**(32)**	**—**
Net income for the year	**—**	**—**	**—**	**2,457**	**—**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(633)**	**—**	**—**	**—**	**—**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(108)**
Balance at December 31, 2003 (Note 2 (17))	**31,667,020**	**¥10,374**	**¥16,254**	**¥29,485**	**¥(12,219)**	**¥325**	**¥(133)**	**¥(108)**

	Number of shares of common stock	Thousands of U.S. dollars (Note 3)						
		Common stock	Capital surplus	Retained earnings	Excess of land revaluation	Unrealized gain on investment securities	Foreign currency translation adjustment	Treasury stock
Balance at December 31, 2002	31,667,020	$96,825	$151,700	$258,937	$(113,243)	$1,978	$ (945)	$ (3)
Increase due to inclusion of subsidiaries in the consolidation	**—**	**—**	**—**	**1,119**	**—**	**—**	**—**	**—**
Sale of land	**—**	**—**	**—**	**(1,896)**	**1,896**	**—**	**—**	**—**
Decrease due to changes in tax rates	**—**	**—**	**—**	**—**	**(2,692)**	**—**	**—**	**—**
Unrealized gain on investment securities	**—**	**—**	**—**	**—**	**—**	**1,055**	**—**	**—**
Foreign currency translation adjustment	**—**	**—**	**—**	**—**	**—**	**—**	**(304)**	**—**
Net income for the year	**—**	**—**	**—**	**22,931**	**—**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(5,910)**	**—**	**—**	**—**	**—**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,012)**
Balance at December 31, 2003	**31,667,020**	**$96,825**	**$151,700**	**$275,180**	**$(114,040)**	**$3,033**	**$(1,250)**	**$(1,015)**

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, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	**2003**	**2003**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 4,706	**¥ 4,619**	**$ 43,113**
Depreciation and amortization	6,388	**6,704**	**62,569**
Amortization of difference between cost of investment and equity in net assets of consolidated subsidiaries	80	**63**	**590**
Reserve for retirement benefits	2,400	**2,742**	**25,599**
Allowance for bad debts	141	**148**	**1,385**
Interest and dividend income	(93)	**(55)**	**(522)**
Interest expenses	627	**528**	**4,929**
Loss on sale/disposal of property, plant and equipment	338	**346**	**3,234**
Loss on revaluation of investments in securities	602	**798**	**7,450**
Loss on revaluation of investments in securities in unconsolidated subsidiaries	—	**32**	**298**
Loss on revaluation of membership	33	**15**	**147**
Loss on withdrawal from over-the-counter business activities and removal costs for head office	—	**980**	**9,148**
Increase in accounts and notes receivable	(3,118)	**(1,292)**	**(12,063)**
Decrease (increase) in inventories	156	**(556)**	**(5,196)**
Increase (decrease) in accounts and notes payable	3,730	**(1,253)**	**(11,698)**
Other	2,514	**5,353**	**49,965**
Subtotal	18,504	**19,174**	**178,950**
Interest and dividend income received	94	**58**	**541**
Interest expenses paid	(622)	**(540)**	**(5,042)**
Income taxes paid	(3,141)	**(2,943)**	**(27,467)**
Net cash provided by operating activities	14,835	**15,749**	**146,982**
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(3,515)	**(22,559)**	**(210,538)**
Proceeds from sale of property, plant and equipment	—	**1,116**	**10,424**
Payments for software developed	(3,571)	**(1,902)**	**(17,756)**
Payments for purchase of investments in securities	(469)	**(228)**	**(2,135)**
Proceeds from sale of investments in securities	414	**57**	**535**
Payments for purchase of investments in consolidated subsidiaries	(128)	**—**	**—**
Increase in long-term loans receivable	(38)	**(16)**	**(153)**
Decrease in long-term loans payable	152	**36**	**339**
Other	(419)	**90**	**844**
Net cash used in investing activities	(7,574)	**(23,405)**	**(218,439)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	(3,743)	**2,560**	**23,891**
Proceeds from long-term debts	452	**16,850**	**157,256**
Repayments of long-term debts	(3,888)	**(12,385)**	**(115,591)**
Cash dividends paid	(790)	**(631)**	**(5,896)**
Other	(0)	**(108)**	**(1,012)**
Net cash provided by (used in) financing activities	(7,969)	**6,284**	**58,647**
Effect of exchange rate changes on cash and cash equivalents	(6)	**(9)**	**(85)**
Net decrease in cash and cash equivalents	(714)	**(1,381)**	**(12,896)**
Cash and cash equivalents at beginning of year (Note 2 (17))	4,963	**4,297**	**40,107**
Increase in cash and cash equivalents for newly consolidated subsidiaries	—	**104**	**975**
Increase in cash and cash equivalents due to merger	49	**—**	**—**
Cash and cash equivalents at end of year (Notes 2 (17) and 11)	¥ 4,298	**¥ 3,020**	**$ 28,187**

The accompanying notes are an integral part of these statements.

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 Financial Reporting 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) and 20 subsidiaries as at December 31, 2002 and 2003, respectively. The consolidated financial statements include the accounts of the Company and 10 subsidiaries and 12 subsidiaries for the years ended December 31, 2002 and 2003, respectively.

The 12 subsidiaries, which were consolidated in the year ended December 31, 2003, 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%
Otsuka Auto Service Co., LTD.*	100.0%
JPSS Co., LTD.	98.0%
Net World, INC.	68.4%
Otsuka Business Service Co., LTD.*	65.0%
10art-ni Corporation	59.7%

* Newly-consolidated with effect from the year ended December 31, 2003.

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 between 40% and 50% may also be classified as subsidiaries and companies that are owned between 15% and 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 consolidated subsidiaries listed above apply a fiscal year ending on December 31 of each year, which is the same as that of the Company.

The accounts of the remaining 12 and 8 unconsolidated subsidiaries as at December 31, 2002 and 2003, respectively, consisted of insignificant amounts in terms of total assets, net sales, net income and retained earnings, and have, therefore, been excluded from consolidation.

(2) 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 eliminated in full, 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 6 affiliates at December 31, 2002 and 8 unconsolidated subsidiaries and 5 affiliates at December 31, 2003.

No investments in affiliates for the years ended December 31, 2002 and 2003, 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 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 latest 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. In exceptional cases, investments in certain unconsolidated subsidiaries and affiliates are stated at cost, mainly determined 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.

Also, if interest rate swap contracts are used as a hedge and meet certain hedging criteria, the amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

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

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 the 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 computed using the reducing-balance method, at rates based on the estimated useful lives of assets, which are prescribed by 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 to lessees 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 is 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 based 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 a 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 have adopted the deferred tax accounting method. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(12) Allowance for bad debts

An allowance for bad debts is provided at an amount of potential losses from uncollectable receivables based on the actual historical rate of losses from bad debts for ordinary receivables, and on the 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 accounting standard is amortized on a straight-line basis over 5 years, the unrecognized actuarial differences are amortized on a straight-line basis over a period of 12 years from year following the year in which they arise, and the unrecognized prior service cost is amortized on a straight-line basis over a period of 12 years.

(Fiscal year 2002)

• Termination of substitute portion employee pension fund

The employees' pension fund of the OTSUKA Group was permitted immunity of future payments by 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 8 (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) 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.

Effective from the fiscal year 2003, the Company adopted the Statement of Accounting Standard No.2 "Accounting Standard for Earnings per Share" and of Accounting Standard Implementation Guideline No.4 "Implementation Guidance on Accounting Standard for Earnings per Share" issued by the Accounting Standard Board of Japan for the computation of net income per share of common stock. The adoption of these statements did not have any material impact on the financial statements.

(15) 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, but is offset against the balance withheld, and the net balance is included in “Other current liabilities” in the consolidated balance sheets.

(16) Change of accounting policy

During the year ended December 31, 2003, the Company changed the consolidated statement of income classification of the system engineering cost relating to commissioned business from selling, general and administrative expenses to cost of sales, according to man-hours. This change was made due to the growth in significance of the system engineering cost and the reconstruction of the Company’s cost accounting system. This reclassification resulted in an increase in cost of sales and decrease in selling, general and administrative expenses, respectively, of 1,761 million yen (16,439 thousand U.S. dollars) for the year ended December 31,2003, as compared with the amounts which would have been reported if the previous policy had been applied consistently. This reclassification did not have an impact on operating income and income before taxes.

(17) Rounding of amounts

During the fiscal year 2003, the Company changed its policy from rounding off sums of less than a million yen to rounding down.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥107.15=US$1, the rate of exchange on December 31, 2003, 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, 2002 and 2003 investments in securities were as follows:

(1) Other securities with fair value

	Millions of yen						Thousands of U.S. dollars		
	2002			**2003**			**2003**		
	Cost	Carrying amount	Differences	Cost	Carrying amount	Differences	Cost	Carrying amount	Differences
Fair value greater than cost:									
Stocks	¥572	¥ 972	¥400	**¥667**	**¥1,214**	**¥546**	**$6,231**	**$11,330**	**$5,099**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**96**	**114**	**17**	**899**	**1,067**	**167**
	¥572	¥ 972	¥400	**¥764**	**¥1,328**	**¥564**	**$7,131**	**$12,398**	**$5,266**
Fair value less than or equal to cost:									
Stocks	¥183	¥ 157	¥ (26)	**¥127**	**¥ 111**	**¥ (16)**	**$1,193**	**$ 1,042**	**$ (150)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	89	81	(8)	**—**	**—**	**—**	**—**	**—**	**—**
	¥272	¥ 238	¥ (34)	**¥127**	**¥ 111**	**¥ (16)**	**$1,193**	**$ 1,042**	**$ (150)**
Total	¥844	¥1,210	¥366	**¥892**	**¥1,440**	**¥548**	**$8,324**	**$13,440**	**$5,116**

(2) Other securities sold in 2002 and 2003 (for the years ended December 31, 2002 and 2003)

Millions of yen						Thousands of U.S. dollars		
2002			**2003**			**2003**		
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
¥175	¥152	¥55	**¥18**	**¥25**	**¥—**	**$170**	**$235**	**$—**

(3) Securities not stated at fair value

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
	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)	¥2,011	**¥1,319**	**$12,313**
Discount bonds (IBJ)	6	**—**	**—**
Mid-term government bonds fund	2	**2**	**20**
Preferred subscription certification	11	**10**	**93**

(4) Prospected amounts of redemption of other securities with maturity dates subsequent to the consolidated balance sheet dates

	Millions of yen				Thousands of U.S. dollars	
	2002		**2003**		**2003**	
	Within one year	More than one year	Within one year	More than one year	Within one year	More than one year
Bonds:						
Government bond and municipal bond	¥—	¥—	**¥—**	**¥—**	**$—**	**$—**
Corporate bonds	—	—	**—**	**—**	**—**	**—**
Others	6	—	**—**	**—**	**—**	**—**
Others	—	10	**—**	**10**	**—**	**93**
Total	¥ 6	¥10	**—**	**¥10**	**—**	**$93**

5. Derivative information

At December 31, 2002 and 2003 derivatives were as follows:

Currency

	Millions of yen			
	2002			
	Contractual value or notional principal amount		Fair value	Valuation gain(loss)
	Total	Over one year		
Currency swap Purchased U.S.dollar	—	—	—	—

	Millions of yen			
	2003			
	Contractual value or notional principal amount		Fair value	Valuation gain(loss)
	Total	Over one year		
Currency swap Purchased U.S.dollar	**¥377**	**¥377**	**¥336**	**¥(41)**

	Thousands of U.S. dollars			
	2003			
	Contractual value or notional principal amount		Fair value	Valuation gain(loss)
	Total	Over one year		
Currency swap Purchased U.S.dollar	**$3,521**	**$3,521**	**$3,135**	**$(385)**

(Note)

Except for derivatives that are designed as hedging instruments

6. Inventories

Inventories at December 31, 2002 and 2003 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Merchandise and maintenance parts	¥15,180	**¥14,820**	**$138,312**
Work-in-process	680	**1,587**	**14,817**
Supplies	139	**166**	**1,554**
	¥15,999	**¥16,574**	**$154,684**

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

The annual average interest rates applicable to short-term bank loans at December 31, 2002 and 2003 were 0.90% and 0.77%, respectively.

Long-term debt at December 31, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Long-term borrowings from banks with annual interest rates from 0.60% to 3.50%	¥4,294	**¥12,102**	**$112,949**
2.66% secured Japanese yen bonds due November 2003	2,300	**—**	**—**
3.04% secured Japanese yen bonds due February 2003	1,000	**—**	**—**
0.75% secured Japanese yen bonds due March 2004	2,000	**2,000**	**18,665**
	9,594	**14,102**	**131,615**
Less: Current maturities of long-term debts	(6,886)	**(8,224)**	**(76,753)**
	¥2,708	**¥ 5,878**	**$ 54,861**

Aggregate annual maturities of long-term debt subsequent to December 31, 2003 are as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 8,224	$ 76,753
2005	5,635	52,596
2006	172	1,611
2007	40	373
2008 and thereafter	30	279
	¥14,102	$131,615

At December 31, 2002 and 2003, 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
	2002	**2003**	**2003**
Land	¥2,786	**¥1,117**	**$10,433**
Buildings	5,142	**835**	**7,793**
Time deposits	11	**11**	**102**
	¥7,939	**¥1,964**	**$18,330**

8. Reserve for Retirement Benefits

(1) Retirement benefit plan

The Company and certain of its subsidiaries operate a qualified pension plan, a welfare pension plan and a termination allowance plan as defined-benefit pension plans.

(2) The reserve for retirement benefits as of December 31, 2002 and 2003 is analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Projected benefit obligations	¥(50,157)	**¥(58,148)**	**$(542,679)**
Plan assets	28,278	**34,325**	**320,349**
	(21,879)	**(23,822)**	**(222,330)**
Unrecognized transition amount	6,382	**4,271**	**39,868**
Unrecognized prior service cost	(2,960)	**(2,714)**	**(25,335)**
Unrecognized actuarial differences	11,187	**12,212**	**113,979**
	(7,270)	**(10,052)**	**(93,817)**
Prepaid pension cost	—	**—**	**—**
Reserve for retirement benefits	¥ (7,270)	**¥(10,052)**	**$ (93,817)**

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 and 2003 included retirement benefits for directors in the amounts of 692 million yen and 726 million yen (6,779 thousand U.S. dollars), respectively.

(3) Pension expense related to the retirement benefits for the year ended December 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Service cost	¥3,618	**¥2,905**	**$27,120**
Interest cost	1,188	**1,248**	**11,653**
Expected return on plan assets	(1,294)	**(1,107)**	**(10,337)**
Amortization of transition amount	2,129	**2,135**	**19,934**
Amortization of the unrecognized prior service cost	(63)	**(252)**	**(2,356)**
Amortization of the unrecognized actuarial differences	518	**974**	**9,098**
Additional benefits for employees' early retirement	55	**3**	**34**
Expense of changing accounting method	54	**—**	**—**
Net pension expense	¥6,205	**¥5,908**	**$55,145**

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

(4) Computation basis of pension liabilities

As of December 31, 2002 and 2003	2002	**2003**
Discount rate	2.5%	**2.0%**
Expected rate of return on plan assets	4.5%	**3.9%**
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	**12 years**
Amortization of transition amount	5 years	**5 years**
Amortization of unrecognized actuarial differences	12 years from the fiscal year following occurrence	**12 years from the fiscal year following occurrence**

9. Contingent Liabilities

The Company was contingently liable for guarantees of loans at December 31, 2002 and 2003 as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Loans taken out by:			
NACOS COMPUTER SYSTEMS CORP.	¥ 78	**¥48**	**$453**
EMT Software, Inc.	22	**—**	**—**
	¥100	**¥48**	**$453**

10. Income Taxes

The statutory tax rate used for calculating deferred tax assets and liabilities at December 31, 2003 was 42.1%.

At December 31, 2003, the reconciliation of the statutory tax rate to the effective income tax rate was as follows:

Statutory tax rate	42.1%
Entertainment expenses	2.5
Inhabitants' tax per capital	2.6
Valuation allowance	0.9
Consolidated adjustment account	0.6
Effect on deferred tax assets and deferred tax liabilities from a change in the tax regulations	1.6
Deduction for investment in information technologies	(5.5)
Others	(0.5)
Effective tax rate	44.3%

At December 31, 2002 and 2003, significant components of the deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Deferred tax assets:			
Allowance for bad debts	¥ 199	**¥ 254**	**$ 2,375**
Enterprise taxes	193	**304**	**2,845**
Accrued bonuses	547	**737**	**6,878**
Retirement benefits for employees	2,067	**3,412**	**31,852**
Retirement benefits for directors	304	**327**	**3,053**
Membership	300	**303**	**2,833**
Software cost	252	**157**	**1,466**
Operating loss carryforwards	424	**884**	**8,254**
Eliminated unrealized profits	453	**461**	**4,304**
Other	269	**652**	**6,093**
Total deferred tax assets	5,008	**7,495**	**69,956**
Less: Valuation allowance	(399)	**(714)**	**(6,669)**
Net deferred tax assets	4,609	**6,781**	**63,286**
Deferred tax liabilities:			
Reserve for computer program	2,244	**2,397**	**22,375**
Unrealized gain on investment securities	154	**223**	**2,083**
Other	20	**19**	**180**
Total deferred tax liabilities	2,418	**2,640**	**24,639**
Net deferred tax assets	¥2,191	**¥4,141**	**$38,647**

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of 100 million yen, effective April 1, 2004.

This resulted in a reduction in deferred taxes assets of 67 million yen (627 thousand U.S. dollars) and a deferred tax assets revaluation of 288 million yen (2,692 thousand U.S. dollars), and an increase in excess of land revaluation after tax-effect accounting of 288 million yen (2,692 thousand U.S. dollars) and unrealized gain on investment securities after tax-effect accounting by 7 million yen (71 thousand U.S. dollars) as compared with the amounts that would have been reported if the previous tax rate had been fully applied consistently for the fiscal year 2003. Deferred income tax also reduced by 74 million yen (699 thousand U.S. dollars) as a result of these changes in statutory local enterprise tax regulations.

11. Supplementary Cash Flow Information

Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Cash, time deposits and other cash equivalents	¥5,696	**¥4,353**	**$40,626**
Time deposits with deposit terms of more than three months	(1,398)	**(1,332)**	**(12,439)**
Cash and cash equivalents at end of year	¥4,298	**¥3,020**	**$28,187**

(Fiscal year 2002)

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

Common stock and Capital surplus increases by the merger were 150 and 43 million yen, 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**

12. Subsequent Events

(1) Appropriation

The following appropriation of the Company’s retained earnings in respect of the year ended December 31, 2003 was as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on March 30, 2004:

Appropriation	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥20.00 per share)	¥632	$5,898

(2) Termination of substitute portion employee pension fund

On February 1, 2004, the Company and its seven consolidated subsidiaries obtained governmental approval of the separation of the substitute portion employee pension fund service under the substitutional portion (second approval) from the Ministry of Health, Labour and Welfare. In accordance with Article 44-2 of Practical Guidelines on Accounting for Postretirement Benefits (Interim Report) issued by the JICPA, the Company and its seven consolidated subsidiaries recognized a one-off profit resulting from the separation of the substitutional portion of the EPF amounting to 5,481 million yen (51,159 thousand U.S. dollars) at the date of the approval.

13. Lease Transactions

Acquisition costs, accumulated depreciation and net book values of leased assets at December 31, 2002 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Acquisition cost	¥6,958	**¥6,465**	**$60,343**
Accumulated depreciation	(3,824)	**(4,298)**	**(40,118)**
Net book value	¥3,134	**¥2,167**	**$20,225**

Future minimum lease payments under finance leases at December 31, 2002 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Due within one year	¥1,492	**¥1,141**	**$10,656**
Due after one year	1,712	**1,063**	**9,926**
	¥3,204	**¥2,205**	**$20,583**

Lease rental expenses, depreciation and interest expenses for the years ended December 31, 2002 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Lease rental expenses	¥1,621	**¥1,650**	**$15,404**
Depreciation	1,526	**1,506**	**14,061**
Interest expenses	101	**73**	**686**

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

The amounts of future lease payments on operating leases at December 31, 2002 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	**2003**	**2003**
Due within one year	¥ 70	**¥204**	**$1,911**
Due after one year	109	**150**	**1,408**
	¥179	**¥355**	**$3,319**

14. Land Revaluation

Pursuant to the Law Concerning Land Revaluation, the Company revalued land used for business activities on December 31, 2001. The excess of the revalued carrying amount over the book value before revaluation was recorded as “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 for one time only. The excess of the book value after revaluation over the fair value is 1,344 million yen (12,548 thousand U.S. dollars).

15. Segment Information

Business segment information

The business segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2002 and 2003 is summarized as follows:

	Millions of yen					
	2002					
	System Integration	Service & Support	Other	Total	Elimination	Consolidated total
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 expenditure:						
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 expenditure	4,268	2,245	—	6,513	1,137	7,650

	Millions of yen					
	2003					
	System Integration	Service & Support	Other	Total	Elimination	Consolidated total
Net sales to:						
Outside customers	**¥225,842**	**¥116,665**	**¥1,869**	**¥344,377**	**¥ —**	**¥344,377**
Inter-segment sales/transfers	**115**	**131**	**1,982**	**2,229**	**(2,229)**	**—**
	225,958	**116,796**	**3,851**	**346,606**	**(2,229)**	**344,377**
Operating expenses	**218,793**	**109,700**	**3,765**	**332,258**	**2,896**	**335,155**
Operating income	**¥ 7,165**	**¥ 7,096**	**¥ 86**	**¥ 14,347**	**¥ (5,126)**	**¥ 9,221**
Assets, depreciation and capital expenditure:						
Assets	**¥ 84,943**	**¥ 54,440**	**¥2,703**	**¥142,088**	**¥20,055**	**¥162,144**
Depreciation and amortization	**3,444**	**2,629**	**42**	**6,115**	**588**	**6,704**
Capital expenditure	**13,599**	**7,570**	**2**	**21,172**	**3,324**	**24,496**

	Thousands of U.S. dollars					
	2003					
	System Integration	Service & Support	Other	Total	Elimination	Consolidated total
Net sales to:						
Outside customers	**$2,107,722**	**$1,088,802**	**$17,447**	**$3,213,972**	**$ —**	**$3,213,972**
Inter-segment sales/transfers	**1,082**	**1,225**	**18,501**	**20,809**	**(20,809)**	**—**
	2,108,804	**1,090,027**	**35,949**	**3,234,781**	**(20,809)**	**3,213,972**
Operating expenses	**2,041,933**	**1,023,801**	**35,141**	**3,100,877**	**27,029**	**3,127,907**
Operating income	**$ 66,870**	**$ 66,226**	**$ 807**	**$ 133,904**	**$ (47,839)**	**$ 86,064**
Assets, depreciation and capital expenditure:						
Assets	**$ 792,757**	**$ 508,081**	**$25,235**	**$1,326,074**	**$187,174**	**$1,513,249**
Depreciation and amortization	**32,143**	**24,536**	**399**	**57,078**	**5,490**	**62,569**
Capital expenditure	**126,916**	**70,657**	**20**	**197,595**	**31,024**	**228,619**

Segment information by geographic area is not disclosed pursuant to regulations on consolidated financial statements in Japan, since both net sales and assets of the Company and its domestic consolidated subsidiaries, taken as a whole, were more than 90% of consolidated net sales and assets.

Information for overseas sales is not disclosed pursuant to regulations on consolidated financial statements in Japan, since aggregate of overseas sales of the Company and its domestic consolidated subsidiaries and overseas consolidated subsidiaries, were less than 10% of consolidated net sales.

(Change of accounting policy)

During the year ended December 31, 2003, the Company changed the consolidated statement of income classification of the system engineering cost relating to commissioned business from selling, general and administrative expenses to cost of sales, according to man-hours. This reclassification resulted in an decrease in operating expenses of System Integration of 217 million yen (2,029 thousand U.S. dollars) and an increase in operating income of System Integration of the same amount, and an increase in operating cost of Service & Support of 217 million yen (2,029 thousand U.S. dollars) and increase in operating income of Service & Support of the same amount, for the year ended December 31, 2003, as compared with the amounts which would have been reported if the previous policy had been applied consistently.

Report of Independent Auditors

To the Board of Directors and Shareholders of
OTSUKA CORPORATION

We have audited the accompanying consolidated balance sheets of OTSUKA CORPORATION and its subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OTSUKA CORPORATION and its subsidiaries as of December 31, 2002 and 2003, 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).

In Note

1. As described note 2(16), during the year ended December 31, 2003, the Company changed the consolidated statement of income classification of the system engineering cost relating to commissioned business from selling, general and administrative expenses to cost of sales, according to man-hours.

2. As described note 12(2), On February 1, 2004, the Company and its seven consolidated subsidiaries obtained the governmental approval of the separation of the substitute portion employee pension fund service under the substitutional portion (second approval) from the Ministry of Health, Labour and Welfare.

The amounts expressed in U.S. dollars, which are 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 30, 2004