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**
Net sales	¥334,911	¥328,151	**¥324,289**	**$2,703,535**
System Integration Business	241,904	230,561	**219,690**	**1,831,513**
Service and Support Business	91,603	96,338	**103,380**	**861,859**
Other Business	1,404	1,252	**1,219**	**10,163**
Operating income	5,922	8,178	**7,990**	**66,611**
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.

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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

	Millions of yen 2001	Millions of yen 2002	Thousands of U.S. dollars (Note 3) 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**	**86,494**
Capital surplus	16,255	**16,255**	**135,506**
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

	Number of shares of common stock	Millions of yen						
		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)**

	Number of shares of common stock	Thousands of U.S. dollars (Note 3)						
		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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	**2002**	**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.

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

	Millions of yen						Thousands of U.S. dollars		
	2001			**2002**			**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)

Millions of yen						Thousands of U.S. dollars		
2001			**2002**			**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	Millions of yen	Thousands of 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 U.S. dollars
	2001	**2002**	**2002**
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 U.S. dollars
	2001	**2002**	**2002**
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:

	System Integration	Service & Support	Other	Total	Elimination	Consolidated total
						Millions of yen
						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

	System Integration	Service & Support	Other	Total	Elimination	Consolidated total
						Millions of yen
						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**

	System Integration	Service & Support	Other	Total	Elimination	Consolidated total
						Thousands of U.S. dollars
						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