

February 2, 2006

Financial Report for the Fiscal Year 2005 Ended December 31, 2005 (Consolidated)

OTSUKA CORPORATION (URL: <http://www.otsuka-shokai.co.jp/>)

Listing: The First Section of Tokyo Stock Exchange, Code 4768

Location of headquarters: Tokyo

Representative: Yuji Otsuka, President

Contact: Youichi Harada, Executive Managing Director and Executive Vice President

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Date of the Meeting of the Board of Directors to Settle Accounts: February 2, 2006

Adoption of the U.S. GAAP: No

1. Financial Results for the Fiscal Year 2005 (January 1, 2005 to December 31, 2005)

(1) Results of operations

(All amounts less than one million yen are rounded down)

	Net sales		Operating income		Recurring profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year 2005	409,413	9.9	21,911	28.8	22,210	30.4	11,747	4.4
Fiscal Year 2004	372,481	8.2	17,009	84.5	17,036	88.1	11,247	357.7

	Net income per share	Diluted net income per share	Net income to shareholders' equity	Recurring profit to total assets	Recurring profit to net sales
	yen	yen	%	%	%
Fiscal Year 2005	371.72	371.66	20.7	13.0	5.4
Fiscal Year 2004	355.88	355.81	22.8	10.3	4.6

Notes) 1. Equity in net income (loss) of subsidiaries and affiliates

Fiscal year 2005: - million yen

Fiscal year 2004: - million yen

2. Average number of shares issued during the period (consolidated)

Fiscal year 2005: 31,602,793 shares

Fiscal year 2004: 31,603,135 shares

3. Change in accounting policies: No

4. Percentages for net sales, operating income, recurring profit and net income indicate changes from the previous period.

(2) Financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	yen
December 31, 2005	173,927	58,920	33.9	1,864.42
December 31, 2004	167,228	54,667	32.7	1,729.81

Note) Number of shares issued at end of period (consolidated)

December 31, 2005: 31,602,589 shares

December 31, 2004: 31,603,030 shares

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal Year 2005	22,468	(4,986)	(11,338)	13,891
Fiscal Year 2004	23,494	(3,245)	(15,617)	7,717

(4) Scope of consolidation and application of the equity method

Number of consolidated subsidiaries: 11

Number of unconsolidated subsidiaries accounted for under the equity method: 0

Number of affiliates accounted for under the equity method: 0

(5) Changes in scope of consolidation and application of the equity method

Consolidation: (new) 0 (elimination) 0

Equity method: (new) 0 (elimination) 0

2. Financial Forecasts for the Fiscal Year 2006 (January 1, 2006 to December 31, 2006)

	Net sales	Operating income	Recurring profit	Net income
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Interim	222,800	15,130	15,260	8,410
Full-Year	430,000	23,800	24,000	13,200

Reference) Expected net income per share (full-year basis): 417.69 yen

Note) The above forecasts are based on the information available as of the date on which these materials were released.

Actual results are subject to change due to various future events and may differ from these figures.

***This financial report is an abridged translation from the Japanese "Kessan Tanshin," which has been prepared in accordance with accounting principles generally accepted in Japan, for reference purpose only.**

Consolidated Balance Sheets

(Millions of yen)

	Fiscal year 2004 (As of December 31, 2004)		Fiscal year 2005 (As of December 31, 2005)		Increase (Decrease)
	Amount	% of Total	Amount	% of Total	Amount
Assets		%		%	
Current assets					
Cash and time deposits	9,043		14,507		5,464
Notes and accounts receivable	53,432		58,563		5,131
Inventories	16,277		16,652		374
Deferred tax assets	1,794		2,151		356
Others	7,736		8,804		1,068
Allowance for doubtful accounts	(299)		(283)		15
Total current assets	87,984	52.6	100,396	57.7	12,411
Fixed assets					
Tangible fixed assets					
Buildings and structures	65,111		65,841		729
Accumulated depreciation	(32,552)		(34,315)		(1,763)
Land	17,592		17,592		-
Construction in progress	-		63		63
Others	11,218		12,242		1,023
Accumulated depreciation	(6,773)		(7,778)		(1,005)
Total tangible fixed assets	54,598	32.6	53,645	30.9	(952)
Intangible fixed assets					
Goodwill	239		113		(126)
Consolidated adjustment account	32		12		(20)
Software	5,197		4,830		(367)
Others	314		308		(5)
Total intangible fixed assets	5,783	3.5	5,264	3.0	(519)
Investments and other assets					
Investments in securities	3,323		4,976		1,653
Guarantee deposits	2,699		2,763		64
Long-term prepaid expenses	3,752		3,274		(477)
Deferred tax assets	2,437		2,579		142
Deferred tax assets due to revaluation of land	6,228		-		(6,228)
Others	1,208		1,857		648
Allowance for doubtful accounts	(786)		(830)		(44)
Total investments and other assets	18,862	11.3	14,621	8.4	(4,241)
Total fixed assets	79,244	47.4	73,530	42.3	(5,713)
Total assets	167,228	100.0	173,927	100.0	6,698

(Millions of yen)

	Fiscal year 2004 (As of December 31, 2004)		Fiscal year 2005 (As of December 31, 2005)		Increase (Decrease)
	Amount	% of Total	Amount	% of Total	Amount
Liabilities		%		%	
Current liabilities					
Notes and accounts payable	59,912		64,100		4,187
Short-term bank loans	20,058		8,491		(11,566)
Income taxes payable	3,112		7,447		4,334
Advance received	3,909		4,636		727
Allowance for bonuses	2,397		2,550		152
Others	11,018		12,429		1,410
Total current liabilities	100,409	60.0	99,655	57.3	(753)
Fixed liabilities					
Long-term bank loans	1,279		3,204		1,925
Deferred tax liabilities	26		29		2
Deferred tax liabilities due to revaluation of land	-		267		267
Reserve for employees' retirement benefits	9,264		9,893		628
Reserve for directors' retirement benefits	307		384		76
Others	176		212		35
Total fixed liabilities	11,054	6.6	13,991	8.0	2,937
Total liabilities	111,463	66.6	113,647	65.3	2,183
Minority interests					
Minority interests	1,098	0.7	1,359	0.8	261
Shareholders' equity					
Common stock	10,374	6.2	10,374	6.0	-
Capital surplus	16,254	9.7	16,254	9.4	-
Retained earnings	36,932	22.1	46,941	27.0	10,009
Excess of land revaluation	(9,075)	(5.4)	(15,572)	(9.0)	(6,496)
Unrealized gains on investment securities	413	0.3	1,109	0.6	696
Foreign currency translation adjustments	(122)	(0.1)	(74)	(0.0)	48
Treasury stock	(109)	(0.1)	(113)	(0.1)	(3)
Total shareholders' equity	54,667	32.7	58,920	33.9	4,253
Total liabilities, minority interests and shareholders' equity	167,228	100.0	173,927	100.0	6,698

Consolidated Statements of Income

(Millions of yen)

	Fiscal year 2004 (Year ended December 31, 2004)		Fiscal year 2005 (Year ended December 31, 2005)		Increase (Decrease)
	Amount	Ratio to Net sales	Amount	Ratio to Net sales	Amount
Net sales	372,481	100.0	409,413	100.0	36,932
Cost of sales	285,655	76.7	314,142	76.7	28,486
Gross profit	86,825	23.3	95,271	23.3	8,445
Selling, general and administrative expenses	69,815	18.7	73,360	17.9	3,544
Operating income	17,009	4.6	21,911	5.4	4,901
Non-operating income					
Interest income	3		4		1
Dividend income	51		56		5
Rent income	168		246		77
Others	197		199		2
Total non-operating income	421	0.1	507	0.1	86
Non-operating expenses					
Interest expenses	348		170		(178)
Others	45		37		(7)
Total non-operating expenses	394	0.1	208	0.1	(186)
Recurring profit	17,036	4.6	22,210	5.4	5,174
Extraordinary gains					
Gain on sales of investments in securities	9		-		(9)
Gain on sales of stock of subsidiaries and affiliates	456		86		(370)
Reversal of allowance for doubtful accounts	93		16		(76)
Gain from the exemption from the obligation under the substitutional portion of social welfare pension fund	5,481		-		(5,481)
Gain on changes in equity interest	248		13		(234)
Total extraordinary gains	6,288	1.7	116	0.0	(6,172)
Extraordinary losses					
Loss on sales of fixed assets	612		-		(612)
Loss on disposal of fixed assets	195		99		(96)
Loss on impairment of fixed assets	1,491		-		(1,491)
Loss on sales of investments in securities	0		4		4
Loss on valuation of investments in securities	253		-		(253)
Loss on sales of stock of subsidiaries and affiliates	26		-		(26)
Loss on valuation of membership	23		1		(22)
Amortization of transition amount arising from adopting a new accounting standard for retirement benefits	1,724		1,668		(56)
Loss on the settlement of retirement benefits plan	448		-		(448)
Total extraordinary losses	4,777	1.3	1,774	0.4	(3,002)

(Millions of yen)

	Fiscal year 2004 (Year ended December 31, 2004)		Fiscal year 2005 (Year ended December 31, 2005)		Increase (Decrease)
	Amount	Ratio to Net sales	Amount	Ratio to Net sales	Amount
Income before income taxes and minority interests	18,548	5.0	20,552	5.0	2,004
Income taxes					
Current	5,040		9,569		4,529
Deferred	2,036		(994)		(3,030)
Total income taxes	7,077	1.9	8,575	2.1	1,498
Minority interests	224	0.1	229	0.0	5
Net income	11,247	3.0	11,747	2.9	500

Consolidated Statements of Retained Earnings

(Millions of yen)

	Fiscal year 2004 (Year ended December 31, 2004)	Fiscal year 2005 (Year ended December 31, 2005)
	Amount	Amount
Capital surplus		
Beginning balance	16,254	16,254
Ending balance	16,254	16,254
Retained earnings		
Beginning balance	29,485	36,932
Increase		
Net income	11,247	11,747
Total increase	11,247	11,747
Decrease		
Cash dividends	632	1,738
Decrease due to reversal of excess of land revaluation	3,143	-
Decrease due to retirement of treasury stock by merger	24	-
Total decrease	3,800	1,738
Ending balance	36,932	46,941

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year 2004 (Year ended December 31, 2004)	Fiscal year 2005 (Year ended December 31, 2005)	Increase (Decrease)
	Amount	Amount	Amount
Cash flows from operating activities			
Income before income taxes and minority Interests	18,548	20,552	2,004
Depreciation and amortization	6,162	6,066	(96)
Amortization of consolidated adjustment account	37	20	(17)
Increase (decrease) in reserve for employees' retirement benefits	(4,531)	1,100	5,632
Increase (decrease) in allowance for doubtful accounts	(179)	28	208
Interest and dividend income	(54)	(61)	(6)
Interest expenses	348	170	(178)
Loss on sales/disposal of fixed assets	808	99	(708)
Loss on impairment of fixed assets	1,491	-	(1,491)
Loss on sales of investments in securities	-	4	4
Loss on valuation of investments in securities	253	-	(253)
Gain on sales of stock of subsidiaries and affiliates	(456)	(86)	370
Loss on valuation of membership	23	1	(22)
Gain on changes in equity interest	(248)	(13)	234
Increase in accounts and notes receivable	(2,995)	(5,249)	(2,253)
Decrease (increase) in inventories	292	(367)	(659)
Increase in accounts and notes payable	7,544	4,178	(3,366)
Others	1,087	1,764	676
Subtotal	28,132	28,209	76
Interest and dividend income received	55	61	6
Interest expenses paid	(351)	(169)	181
Income taxes paid	(4,341)	(5,632)	(1,291)
Net cash provided by operating activities	23,494	22,468	(1,026)
Cash flows from investing activities			
Payments for acquisition of tangible fixed assets	(3,081)	(2,561)	520
Proceeds from sales of tangible fixed assets	1,482	11	(1,471)
Payments for software development	(1,877)	(2,166)	(289)
Payments for purchase of investments in securities	(367)	(357)	9
Proceeds from sales of investments in securities	79	144	64
Proceeds from sales of stock of consolidated subsidiaries	449	-	(449)
Payments for long-term loans receivable	(5)	(6)	(1)
Proceeds from collection of long-term loans receivable	28	4	(24)
Others	45	(53)	(98)
Net cash used in investing activities	(3,245)	(4,986)	(1,740)

(Millions of yen)

	Fiscal year 2004 (Year ended December 31, 2004)	Fiscal year 2005 (Year ended December 31, 2005)	Increase (Decrease)
	Amount	Amount	Amount
Cash flows from financing activities			
Decrease in short-term bank loans, net	(8,910)	(6,250)	2,660
Proceeds from long-term bank loans	1,800	2,900	1,100
Repayments of long-term bank loans	(6,378)	(6,291)	87
Redemption of corporate bonds	(2,000)	-	2,000
Proceeds from issuance of common stock	520	63	(457)
Cash dividends paid	(633)	(1,737)	(1,104)
Others	(15)	(22)	(6)
Net cash used in financing activities	(15,617)	(11,338)	4,279
Effect of exchange rate changes on cash and cash equivalents	3	29	26
Net increase in cash and cash equivalents	4,635	6,174	1,538
Cash and cash equivalents at beginning of period	3,020	7,717	4,696
Increase in cash and cash equivalents due to merger	60	-	(60)
Cash and cash equivalents at end of period	7,717	13,891	6,174

Segment Information

1. Information by Business Segment

Fiscal year 2004 (Year ended December 31, 2004)

(Millions of yen)

	System integration business	Service and support business	Other business	Total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	238,729	130,959	2,792	372,481	-	372,481
Inter-segment sales/transfers	78	151	2,152	2,382	(2,382)	-
Total	238,807	131,111	4,945	374,863	(2,382)	372,481
Costs and expenses	225,160	122,664	4,858	352,683	2,788	355,471
Operating income (loss)	13,647	8,446	86	22,180	(5,170)	17,009
Assets	85,641	55,667	1,959	143,268	23,960	167,228
Depreciation and amortization	3,053	2,461	37	5,552	610	6,162
Loss on impairment of fixed assets	-	1,370	-	1,370	120	1,491
Capital expenditure	2,558	2,125	21	4,705	414	5,120

Fiscal year 2005 (Year ended December 31, 2005)

(Millions of yen)

	System integration business	Service and support business	Other business	Total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	258,275	149,100	2,037	409,413	-	409,413
Inter-segment sales/transfers	96	203	2,331	2,631	(2,631)	-
Total	258,372	149,304	4,368	412,045	(2,631)	409,413
Costs and expenses	239,706	140,040	4,262	384,008	3,494	387,502
Operating income (loss)	18,665	9,263	106	28,036	(6,125)	21,911
Assets	87,140	60,411	1,954	149,506	24,421	173,927
Depreciation and amortization	3,237	2,211	33	5,482	583	6,066
Capital expenditure	2,512	1,940	4	4,456	273	4,730

Notes) 1. Business segments are defined in consideration of the operations of the Group.

2. The Group operates principally in three segments: system integration business, service and support business, and other business.

Segment	Major products and services
System integration business	Research, analysis, design, and introduction for comprehensive information system Transport and installation Network construction Introduction for packaged software Development of consigned software Other related services
Service and support business	Supplies for comprehensive information system Telephone support Maintenance Consigned system operation Data recovery IT education Guidance for operation of packaged software Hotel business
Other business	Construction Sale, repair of automobiles Insurance Printing

3. Significant amounts and contents of “elimination or corporate” column are as described below.

(Millions of yen)

	Fiscal year 2004	Fiscal year 2005	Major contents
Amount of unallocated operating costs and expenses included in “elimination or corporate” column	5,239	6,165	Expenses relating to administrative departments of parent company
Amount of corporate assets included in “elimination or corporate” column	25,615	26,126	Cash and time deposits and investment in securities of parent company, and assets relating to administrative departments of parent company

*“Amount of corporate assets included in *elimination or corporate* column” in fiscal year 2004 includes deferred tax assets due to revaluation of land.

4. “Depreciation and amortization” and “capital expenditure” include amortization and increase of long-term prepaid expenses.

5. Additional information and changes in accounting standards

Fiscal year 2004 (Year ended December 31, 2004)

<Major changes in the rules for the preparation of consolidated financial statements>

The Group adopted “Accounting Standard for Impairment of Fixed Assets” with effect from the year ended December 31, 2004. The effect of this adoption was to recognize impairment losses in the service & support business segment and the corporate segment, amounting to 1,370 million yen and 120 million yen respectively. Operating assets of these business segments decreased by 1,370 million yen and 120 million yen respectively.

2. Segment information for geographic locations

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.

3. Overseas sales

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