

February 1, 2007

## Financial Report for the Fiscal Year 2006 Ended December 31, 2006 (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 & Chief Executive Officer

Contact: Youichi Harada, Managing Director and Senior Executive Operating Officer

(Tel: +81-3-3264-7111)

Date of the Meeting of the Board of Directors to Settle Accounts: February 1, 2007

Adoption of the U.S. GAAP: No

### 1. Financial Results for the Fiscal Year 2006 (January 1, 2006 to December 31, 2006)

#### (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 2006	433,617	5.9	26,158	19.4	26,494	19.3	15,621	33.0
Fiscal Year 2005	409,413	9.9	21,911	28.8	22,210	30.4	11,747	4.4

	Net income per share	Diluted net income per share	Net income to equity	Recurring profit to total assets	Recurring profit to net sales
	yen	yen	%	%	%
Fiscal Year 2006	494.30	-	23.7	14.6	6.1
Fiscal Year 2005	371.72	371.66	20.7	13.0	5.4

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

Fiscal year 2006: - million yen

Fiscal year 2005: - million yen

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

Fiscal year 2006: 31,602,464 shares

Fiscal year 2005: 31,602,793 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	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
December 31, 2006	189,357	73,414	38.5	2,305.15
December 31, 2005	173,927	58,920	33.9	1,864.42

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

December 31, 2006: 31,602,294 shares

December 31, 2005: 31,602,589 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 2006	13,909	(7,161)	(1,250)	18,305
Fiscal Year 2005	22,468	(4,986)	(11,338)	13,891

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

Number of consolidated subsidiaries: 10

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

Number of affiliates accounted for under the equity method: 1

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

Consolidation: (new) 0 (elimination) 1

Equity method: (new) 1 (elimination) 0

**2. Financial Forecasts for the Fiscal Year 2007 (January 1, 2007 to December 31, 2007)**

	Net sales	Operating income	Recurring profit	Net income
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Interim	235,580	17,520	17,700	9,620
Full-Year	454,000	28,200	28,500	16,000

Reference) Expected net income per share (full-year basis): 506.29 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 2005 (As of December 31, 2005)		Fiscal year 2006 (As of December 31, 2006)		Increase (Decrease)
	Amount	% of Total	Amount	% of Total	Amount
<b>Assets</b>		%		%	
<b>Current assets</b>					
Cash and time deposits	14,507		18,421		3,914
Notes and accounts receivable	58,563		69,259		10,695
Inventories	16,652		16,561		(90)
Deferred tax assets	2,151		1,984		(167)
Others	8,804		10,241		1,436
Allowance for doubtful accounts	(283)		(237)		46
Total current assets	100,396	57.7	116,232	61.4	15,836
<b>Fixed assets</b>					
<b>Tangible fixed assets</b>					
Buildings and structures	65,841		66,317		476
Accumulated depreciation	(34,315)		(35,883)		(1,567)
Land	17,592		17,425		(166)
Construction in progress	63		-		(63)
Others	12,242		12,504		261
Accumulated depreciation	(7,778)		(8,312)		(533)
Total tangible fixed assets	53,645	30.9	52,051	27.5	(1,593)
<b>Intangible fixed assets</b>					
Goodwill	113		-		(113)
Consolidated adjustment account	12		-		(12)
Software	4,830		4,306		(523)
Others	308		305		(3)
Total intangible fixed assets	5,264	3.0	4,611	2.4	(652)
<b>Investments and other assets</b>					
Investments in securities	4,976		7,669		2,692
Guarantee deposits	2,763		2,701		(62)
Long-term prepaid expenses	3,274		3,146		(127)
Deferred tax assets	2,579		1,581		(998)
Others	1,857		2,139		282
Allowance for doubtful accounts	(830)		(777)		53
Total investments and other assets	14,621	8.4	16,461	8.7	1,839
Total fixed assets	73,530	42.3	73,124	38.6	(406)
<b>Total assets</b>	173,927	100.0	189,357	100.0	15,430

(Millions of yen)

	Fiscal year 2005 (As of December 31, 2005)		Fiscal year 2006 (As of December 31, 2006)		Increase (Decrease)
	Amount	% of Total	Amount	% of Total	Amount
<b>Liabilities</b>		%		%	
<b>Current liabilities</b>					
Notes and accounts payable	64,100		70,036		5,935
Short-term bank loans	8,491		8,272		(219)
Income taxes payable	7,447		5,446		(2,000)
Advance received	4,636		5,364		727
Allowance for bonuses	2,550		2,670		120
Others	12,429		12,488		59
Total current liabilities	99,655	57.3	104,279	55.1	4,624
<b>Fixed liabilities</b>					
Long-term bank loans	3,204		2,581		(622)
Deferred tax liabilities	29		42		13
Deferred tax liabilities due to revaluation of land	267		267		-
Reserve for employees' retirement benefits	9,893		8,107		(1,785)
Reserve for directors' retirement benefits	384		441		57
Negative goodwill	-		7		7
Others	212		214		2
Total fixed liabilities	13,991	8.0	11,663	6.1	(2,328)
<b>Total liabilities</b>	<b>113,647</b>	<b>65.3</b>	<b>115,942</b>	<b>61.2</b>	<b>2,295</b>

(Millions of yen)

	Fiscal year 2005 (As of December 31, 2005)		Fiscal year 2006 (As of December 31, 2006)		Increase (Decrease)
	Amount	% of Total	Amount	% of Total	Amount
<b>Minority interests</b>		%		%	
Minority interests	1,359	0.8	-	-	(1,359)
<b>Shareholders' equity</b>					
Common stock	10,374	6.0	-	-	(10,374)
Capital surplus	16,254	9.4	-	-	(16,254)
Retained earnings	46,941	27.0	-	-	(46,941)
Revaluation difference on land	(15,572)	(9.0)	-	-	15,572
Unrealized gains on investment securities	1,109	0.6	-	-	(1,109)
Foreign currency translation adjustments	(74)	(0.0)	-	-	74
Treasury stock	(113)	(0.1)	-	-	113
Total shareholders' equity	58,920	33.9	-	-	(58,920)
<b>Total liabilities, minority interests and shareholders' equity</b>	173,927	100.0	-	-	(173,927)
<b>Net assets</b>					
<b>Owners' equity</b>					
Common stock	-	-	10,374	5.5	10,374
Capital surplus	-	-	16,254	8.6	16,254
Retained earnings	-	-	60,120	31.8	60,120
Treasury stock	-	-	(117)	(0.1)	(117)
Total owners' equity	-	-	86,632	45.8	86,632
<b>Valuation and translation adjustments</b>					
Unrealized gains on investment securities	-	-	1,779	0.9	1,779
Deferred losses on hedges	-	-	(0)	(0.0)	(0)
Revaluation difference on land	-	-	(15,500)	(8.2)	(15,500)
Foreign currency translation adjustments	-	-	(63)	(0.0)	(63)
Total valuation and translation adjustments	-	-	(13,784)	(7.3)	(13,784)
<b>Minority interests</b>	-	-	566	0.3	566
<b>Total net assets</b>	-	-	73,414	38.8	73,414
<b>Total liabilities and net assets</b>	-	-	189,357	100.0	189,357

## Consolidated Statements of Income

(Millions of yen)

	Fiscal year 2005 (Year ended December 31, 2005)		Fiscal year 2006 (Year ended December 31, 2006)		Increase (Decrease)
	Amount	Ratio to Net sales	Amount	Ratio to Net sales	Amount
		%		%	
<b>Net sales</b>	409,413	100.0	433,617	100.0	24,203
Cost of sales	314,142	76.7	330,173	76.2	16,030
Gross profit	95,271	23.3	103,444	23.8	8,173
<b>Selling, general and administrative expenses</b>	73,360	17.9	77,286	17.8	3,925
Operating income	21,911	5.4	26,158	6.0	4,247
<b>Non-operating income</b>					
Interest income	4		11		7
Dividend income	56		93		36
Rent income	246		264		17
Others	199		142		(57)
Total non-operating income	507	0.1	511	0.1	4
<b>Non-operating expenses</b>					
Interest expenses	170		131		(38)
Others	37		44		6
Total non-operating expenses	208	0.1	175	0.0	(33)
Recurring profit	22,210	5.4	26,494	6.1	4,283
<b>Extraordinary gains</b>					
Gain on sales of stock of subsidiaries and affiliates	86		-		(86)
Reversal of allowance for doubtful accounts	16		49		32
Gain on changes in equity interest	13		344		331
Total extraordinary gains	116	0.0	393	0.1	277
<b>Extraordinary losses</b>					
Loss on sales of fixed assets	-		43		43
Loss on disposal of fixed assets	99		223		124
Loss on impairment of fixed assets	-		102		102
Loss on sales of investments in securities	4		-		(4)
Loss on valuation of investments in securities	-		34		34
Loss on valuation of stock of subsidiaries and affiliates	-		132		132
Loss on valuation of membership	1		-		(1)
Amortization of transition amount arising from adopting a new accounting standard for retirement benefits	1,668		-		(1,668)
Total extraordinary losses	1,774	0.4	537	0.1	(1,237)
Income before income taxes and minority interests	20,552	5.0	26,350	6.1	5,797
Income taxes					
Current	9,569		9,972		402
Deferred	(994)		693		1,687
Total income taxes	8,575	2.1	10,665	2.5	2,090
Minority interests	229	0.0	63	0.0	(166)
Net income	11,747	2.9	15,621	3.6	3,873

## Consolidated Statements of Retained Earnings

(Millions of yen)

	Fiscal year 2005 (Year ended December 31, 2005)
	Amount
<b>Capital surplus</b>	
Beginning balance	16,254
Ending balance	16,254
<b>Retained earnings</b>	
Beginning balance	36,932
Increase	
Net income	11,747
Total increase	11,747
Decrease	
Cash dividends	1,738
Total decrease	1,738
Ending balance	46,941

## **Consolidated Statement of Changes in Net Assets**

Fiscal Year 2006 (January 1, 2006 to December 31, 2006)

(Millions of yen)

	Owners' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total owners' equity
Balance as of December 31, 2005	10,374	16,254	46,941	(113)	73,457
Changes during FY2006					
Dividends from surplus			(2,370)		(2,370)
Net income			15,621		15,621
Reversal of revaluation difference on land			(72)		(72)
Purchase of treasury stock				(3)	(3)
Net changes during FY2006 other than owners' equity					
Total changes during FY2006	-	-	13,178	(3)	13,174
Balance as of December 31, 2006	10,374	16,254	60,120	(117)	86,632

(Millions of yen)

	Valuation and translation adjustments					Minority interests	Total net assets
	Unrealized gains on investment securities	Deferred losses on hedges	Revaluation difference on land	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2005	1,109	-	(15,572)	(74)	(14,537)	1,359	60,279
Changes during FY2006							
Dividends from surplus							(2,370)
Net income							15,621
Reversal of revaluation difference on land							(72)
Purchase of treasury stock							(3)
Net changes during FY2006 other than owners' equity	670	(0)	72	10	752	(793)	(40)
Total changes during FY2006	670	(0)	72	10	752	(793)	13,134
Balance as of December 31, 2006	1,779	(0)	(15,500)	(63)	(13,784)	566	73,414



## Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year 2005 (Year ended December 31, 2005)	Fiscal year 2006 (Year ended December 31, 2006)	Increase (Decrease)
	Amount	Amount	Amount
<b>Cash flows from operating activities</b>			
Income before income taxes and minority Interests	20,552	26,350	5,797
Depreciation and amortization	6,066	5,883	(183)
Amortization of consolidated adjustment account	20	-	(20)
Amortization of goodwill	-	132	132
Increase (decrease) in reserve for employees' retirement benefits	1,100	(1,666)	(2,766)
Increase (decrease) in allowance for doubtful accounts	28	(81)	(109)
Interest and dividend income	(61)	(105)	(43)
Interest expenses	170	131	(38)
Loss on sales/disposal of fixed assets	99	267	167
Loss on impairment of fixed assets	-	102	102
Loss on sales of investments in securities	4	-	(4)
Loss on valuation of investments in securities	-	34	34
Gain on sales of stock of subsidiaries and affiliates	(86)	-	86
Loss on valuation of stock of subsidiaries and affiliates	-	132	132
Loss on valuation of membership	1	-	(1)
Gain on changes in equity interest	(13)	(344)	(331)
(Increase) decrease in notes and accounts receivable	(5,249)	(11,090)	(5,841)
(Increase) decrease in inventories	(367)	(113)	254
Increase (decrease) in notes and accounts payable	4,178	5,961	1,783
Others	1,764	123	(1,640)
Subtotal	28,209	25,719	(2,490)
Interest and dividend income received	61	102	41
Interest expenses paid	(169)	(124)	44
Income taxes paid	(5,632)	(11,787)	(6,154)
Net cash provided by operating activities	22,468	13,909	(8,558)
<b>Cash flows from investing activities</b>			
Payments for acquisition of tangible fixed assets	(2,561)	(2,253)	308
Proceeds from sales of tangible fixed assets	11	206	195
Payments for software development	(2,166)	(2,146)	20
Payments for purchase of investments in securities	(357)	(2,486)	(2,128)
Proceeds from sales of investments in securities	144	39	(104)
Payments for long-term loans receivable	(6)	(6)	0
Proceeds from collection of long-term loans receivable	4	5	0
Others	(53)	(520)	(467)
Net cash used in investing activities	(4,986)	(7,161)	(2,175)

(Millions of yen)

	Fiscal year 2005 (Year ended December 31, 2005)	Fiscal year 2006 (Year ended December 31, 2006)	Increase (Decrease)
	Amount	Amount	Amount
<b>Cash flows from financing activities</b>			
Increase (decrease) in short-term bank loans, net	(6,250)	50	6,300
Proceeds from long-term bank loans	2,900	1,000	(1,900)
Repayments of long-term bank loans	(6,291)	(891)	5,399
Proceeds from issuance of common stock	63	1,008	944
Cash dividends paid	(1,737)	(2,370)	(632)
Others	(22)	(46)	(24)
Net cash used in financing activities	(11,338)	(1,250)	10,087
<b>Effect of exchange rate changes on cash and cash equivalents</b>	29	7	(22)
<b>Net increase in cash and cash equivalents</b>	6,174	5,504	(669)
<b>Cash and cash equivalents at beginning of period</b>	7,717	13,891	6,174
<b>Decrease in cash and cash equivalents due to exclusion of subsidiaries from scope of consolidation</b>	-	(1,090)	(1,090)
<b>Cash and cash equivalents at end of period</b>	13,891	18,305	4,414

## Segment Information

### 1. Information by Business Segment

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

Fiscal year 2006 (Year ended December 31, 2006)

(Millions of yen)

	System Integration business	Service and Support business	Other business	Total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	263,425	168,701	1,490	433,617	-	433,617
Inter-segment sales/transfers	106	234	2,505	2,845	(2,845)	-
Total	263,531	168,935	3,996	436,463	(2,845)	433,617
Costs and expenses	242,772	156,731	3,915	403,419	4,039	407,459
Operating income (loss)	20,758	12,204	80	33,044	(6,885)	26,158
Assets	90,523	69,290	2,029	161,843	27,513	189,357
Depreciation and amortization	2,938	2,187	29	5,155	727	5,883
Impairment loss	68	34	-	102	(0)	102
Capital expenditure	2,171	2,115	7	4,294	210	4,504

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 2005	Fiscal year 2006	Major contents
Amount of unallocated operating costs and expenses included in “elimination or corporate” column	6,165	6,923	Expenses relating to administrative departments of parent company
Amount of corporate assets included in “elimination or corporate” column	26,126	29,214	Cash and time deposits and investment in securities of parent company, and assets relating to administrative departments of parent company

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

## 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.