

Financial Report for the Fiscal Year 2008 Ended December 31, 2008 (Consolidated)

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

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

Representative: Yuji Otsuka, President & Chief Executive Officer

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

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

Scheduled date of Ordinary General Meeting of Shareholders: March 27, 2009

Scheduled date of dividend payments: From March 30, 2009

Scheduled date of filing of the Securities Report: March 27, 2009

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

1. Financial Results for the Fiscal Year 2008 (From January 1, 2008 to December 31, 2008)

(1) Results of operations

(Percentages indicate changes from the same period of the previous year)

	Net sales		Operating income		Recurring profit		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year 2008	467,154	(0.5)	27,089	(9.9)	27,628	(9.5)	14,371	(23.8)
Fiscal Year 2007	469,481	8.3	30,051	14.9	30,520	15.2	18,856	20.7

	Net income per share	Diluted net income per share	Net income to equity	Recurring profit to total assets	Operating income to net sales
	yen	yen	%	%	%
Fiscal Year 2008	454.76	454.53	15.6	13.9	5.8
Fiscal Year 2007	596.69	596.56	23.6	15.7	6.4

Reference) Equity in net income (loss) of unconsolidated subsidiaries and affiliates

Fiscal Year 2008: 18 million yen

Fiscal Year 2007: 43 million yen

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
December 31, 2008	196,946	97,790	49.2	3,065.54
December 31, 2007	200,383	88,000	43.5	2,761.20

Reference) Equity

Fiscal Year 2008: 96,876 million yen

Fiscal Year 2007: 87,259 million yen

(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 2008	13,347	(6,960)	(4,591)	27,169
Fiscal Year 2007	16,654	(4,555)	(4,271)	25,374

2. Dividends

(Record date)	Dividends per share					Total dividend payments (annual)	Dividend payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal Year 2007	-	0.00	-	130.00	130.00	4,108	21.8	5.1
Fiscal Year 2008	-	0.00	-	130.00	130.00	4,108	28.6	4.5
Fiscal Year 2009 (forecast)	-	0.00	-	130.00	130.00	—	44.4	—

3. Financial Forecasts for the Fiscal Year 2009 (From January 1, 2009 to December 31, 2009)

(Percentages indicate changes from the same period of the previous year)

	Net sales		Operating income		Recurring profit		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Interim	234,600	(7.3)	12,300	(34.4)	12,500	(34.4)	6,300	(40.9)	199.36
Full-Year	447,000	(4.3)	18,500	(31.7)	19,000	(31.2)	9,260	(35.6)	293.02

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.

4. Others

- (1) Changes in significant subsidiaries during the fiscal year (resulting in a change in scope of consolidation): No
- (2) Changes in accounting principles, procedures or presentation related to the preparation of consolidated financial statements (i.e., changes in the basis of significant accounting policies)
 - 1) Changes due to adoption of new accounting standards: No
 - 2) Changes other than those included in 1) above: No
- (3) Number of shares issued
 - 1) Number of shares issued at the end of the period (including treasury stock):

Fiscal Year 2008:	31,667,020 shares
Fiscal Year 2007:	31,667,020 shares
 - 2) Number of treasury stock at the end of the period:

Fiscal Year 2008:	65,342 shares
Fiscal Year 2007:	64,954 shares

***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 2007 (As of December 31, 2007)		Fiscal Year 2008 (As of December 31, 2008)		Increase (Decrease)
	Amount	% of Total	Amount	% of Total	Amount
Assets		%		%	
Current assets					
Cash and time deposits	24,785		21,544		(3,241)
Notes and accounts receivable	75,343		71,843		(3,500)
Securities	-		4,996		4,996
Inventories	16,923		16,526		(397)
Deferred tax assets	2,586		2,341		(245)
Others	10,961		12,198		1,236
Allowance for doubtful accounts	(247)		(271)		(23)
Total current assets	130,353	65.1	129,178	65.6	(1,174)
Fixed assets					
Tangible fixed assets					
Buildings and structures	65,318		62,244		(3,073)
Accumulated depreciation	(36,417)		(35,339)		1,078
Land	16,965		16,727		(237)
Construction in progress	-		49		49
Others	13,203		13,659		455
Accumulated depreciation	(9,106)		(9,639)		(532)
Total tangible fixed assets	49,963	24.9	47,702	24.2	(2,261)
Intangible fixed assets					
Software	4,659		4,922		262
Others	179		163		(15)
Total intangible fixed assets	4,838	2.4	5,085	2.6	247
Investments and other assets					
Investments in securities	6,573		6,355		(218)
Guarantee deposits	2,824		3,285		461
Long-term prepaid expenses	2,725		2,421		(304)
Deferred tax assets	1,613		1,360		(253)
Others	2,316		2,489		173
Allowance for doubtful accounts	(824)		(932)		(107)
Total investments and other assets	15,228	7.6	14,979	7.6	(248)
Total fixed assets	70,030	34.9	67,767	34.4	(2,262)
Total assets	200,383	100.0	196,946	100.0	(3,437)

(Millions of yen)

	Fiscal Year 2007 (As of December 31, 2007)		Fiscal Year 2008 (As of December 31, 2008)		Increase (Decrease)
	Amount	% of Total	Amount	% of Total	Amount
Liabilities		%		%	
Current liabilities					
Notes and accounts payable	69,925		62,626		(7,298)
Short-term bank loans	9,921		9,540		(381)
Income taxes payable	8,429		5,297		(3,132)
Advance received	4,819		5,053		233
Allowance for bonuses	2,727		2,498		(229)
Others	12,728		10,864		(1,863)
Total current liabilities	108,551	54.2	95,880	48.7	(12,671)
Fixed liabilities					
Long-term bank loans	130		90		(40)
Deferred tax liabilities	1,442		671		(771)
Deferred tax liabilities due to revaluation of land	216		216		-
Reserve for employees' retirement benefits	1,316		1,514		197
Reserve for directors' retirement benefits	504		530		26
Others	221		253		32
Total fixed liabilities	3,831	1.9	3,275	1.6	(555)
Total liabilities	112,382	56.1	99,155	50.3	(13,227)
Net assets					
Shareholders' equity					
Common stock	10,374	5.2	10,374	5.3	-
Capital surplus	16,254	8.1	16,254	8.3	-
Retained earnings	75,389	37.6	85,652	43.5	10,263
Treasury stock	(120)	(0.1)	(122)	(0.1)	(2)
Total shareholders' equity	101,899	50.8	112,159	57.0	10,260
Valuation and translation adjustments					
Unrealized gains on investment securities	982	0.5	429	0.2	(553)
Revaluation difference on land	(15,574)	(7.8)	(15,574)	(7.9)	-
Foreign currency translation adjustments	(47)	(0.0)	(137)	(0.1)	(90)
Total valuation and translation adjustments	(14,639)	(7.3)	(15,282)	(7.8)	(643)
Minority interests	741	0.4	913	0.5	172
Total net assets	88,000	43.9	97,790	49.7	9,789
Total liabilities and net assets	200,383	100.0	196,946	100.0	(3,437)

Consolidated Statements of Income

(Millions of yen)

	Fiscal Year 2007 (Year ended December 31, 2007)		Fiscal Year 2008 (Year ended December 31, 2008)		Increase (Decrease)
	Amount	Ratio to Net sales	Amount	Ratio to Net sales	Amount
Net sales	469,481	100.0	467,154	100.0	(2,327)
Cost of sales	360,435	76.8	359,754	77.0	(681)
Gross profit	109,046	23.2	107,399	23.0	(1,646)
Selling, general and administrative expenses	78,994	16.8	80,310	17.2	1,315
Operating income	30,051	6.4	27,089	5.8	(2,961)
Non-operating income					
Interest income	49		62		13
Interest on securities	-		23		23
Dividend income	88		87		(1)
Rent income	241		219		(22)
Equity in net income (loss) of unconsolidated subsidiaries and affiliates	43		18		(24)
Amortization of negative goodwill	5		-		(5)
Foreign exchange gains	-		103		103
Others	225		208		(17)
Total non-operating income	654	0.1	723	0.1	69
Non-operating expenses					
Interest expenses	138		148		9
Loss on investments in partnership	26		34		8
Others	20		1		(18)
Total non-operating expenses	185	0.0	184	0.0	(1)
Recurring profit	30,520	6.5	27,628	5.9	(2,891)
Extraordinary gains					
Gain on sales of fixed assets	28		7		(20)
Gain on sales of investments in securities	-		12		12
Gain on sales of stock of subsidiaries and affiliates	72		-		(72)
Reversal of allowance for doubtful accounts	-		22		22
Gain on transition of retirement benefit plan	4,298		-		(4,298)
Gain on changes in equity interest	23		-		(23)
Total extraordinary gains	4,423	0.9	42	0.0	(4,381)

(Millions of yen)

	Fiscal Year 2007 (Year ended December 31, 2007)		Fiscal Year 2008 (Year ended December 31, 2008)		Increase (Decrease)
	Amount	Ratio to Net sales %	Amount	Ratio to Net sales %	Amount
Extraordinary losses					
Loss on sales of fixed assets	106		18		(87)
Loss on disposal of fixed assets	319		1,090		771
Loss on impairment of fixed assets	446		275		(170)
Loss on valuation of investments in securities	93		284		190
Loss on valuation of stock of subsidiaries and affiliates	238		-		(238)
Provision of allowance for doubtful accounts	142		50		(92)
Loss on changes in equity interest	-		17		17
Total extraordinary losses	1,346	0.3	1,736	0.4	389
Income before income taxes and minority interests	33,597	7.1	25,934	5.5	(7,662)
Income taxes					
Current	13,239		11,212		(2,027)
Deferred	1,253		117		(1,135)
Total income taxes	14,492	3.1	11,329	2.4	(3,162)
Minority interests	247	0.0	233	0.0	(14)
Net income	18,856	4.0	14,371	3.1	(4,485)

Consolidated Statements of Changes in Net Assets

Fiscal Year 2007 (Year ended December 31, 2007)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of December 31, 2006	10,374	16,254	60,120	(117)	86,632
Changes during FY2007					
Dividends from surplus			(3,634)		(3,634)
Net income			18,856		18,856
Reversal of revaluation difference on land			74		74
Purchase of treasury stock				(2)	(2)
Others			(27)		(27)
Net changes during FY2007 other than shareholders' equity					
Total changes during FY2007	-	-	15,269	(2)	15,266
Balance as of December 31, 2007	10,374	16,254	75,389	(120)	101,899

(Millions of yen)

	Valuation and translation adjustments					Share subscription rights	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, 2006	1,779	(0)	(15,500)	(63)	(13,784)	-	566	73,414
Changes during FY2007								
Dividends from surplus								(3,634)
Net income								18,856
Reversal of revaluation difference on land								74
Purchase of treasury stock								(2)
Others								(27)
Net changes during FY2007 other than shareholders' equity	(797)	0	(74)	16	(854)	-	175	(679)
Total changes during FY2007	(797)	0	(74)	16	(854)	-	175	14,586
Balance as of December 31, 2007	982	-	(15,574)	(47)	(14,639)	-	741	88,000

Fiscal Year 2008 (Year ended December 31, 2008)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of December 31, 2007	10,374	16,254	75,389	(120)	101,899
Changes during FY2008					
Dividends from surplus			(4,108)		(4,108)
Net income			14,371		14,371
Purchase of treasury stock				(2)	(2)
Net changes during FY2008 other than shareholders' equity					
Total changes during FY2008	-	-	10,263	(2)	10,260
Balance as of December 31, 2008	10,374	16,254	85,652	(122)	112,159

(Millions of yen)

	Valuation and translation adjustments				Minority interests	Total net assets
	Unrealized gains on investment securities	Revaluation difference on land	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2007	982	(15,574)	(47)	(14,639)	741	88,000
Changes during FY2008						
Dividends from surplus						(4,108)
Net income						14,371
Purchase of treasury stock						(2)
Net changes during FY2008 other than shareholders' equity	(553)	-	(90)	(643)	172	(470)
Total changes during FY2008	(553)	-	(90)	(643)	172	9,789
Balance as of December 31, 2008	429	(15,574)	(137)	(15,282)	913	97,790

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal Year 2007 (Year ended December 31, 2007)	Fiscal Year 2008 (Year ended December 31, 2008)	Increase (Decrease)
	Amount	Amount	Amount
Cash flows from operating activities			
Income before income taxes and minority Interests	33,597	25,934	(7,662)
Depreciation and amortization	5,388	6,012	623
Amortization of (negative) goodwill	(4)	-	4
Equity in net income (loss) of unconsolidated subsidiaries and affiliates	(43)	(18)	24
Increase (decrease) in reserve for employees' retirement benefits	(6,331)	486	6,817
Increase (decrease) in allowance for doubtful accounts	60	131	71
Interest and dividend income	(137)	(173)	(35)
Interest expenses	138	148	9
Gain on sales of fixed assets	(28)	(7)	20
Loss on sales/disposal of fixed assets	425	961	536
Loss on impairment of fixed assets	446	275	(170)
Gain on sales of investments in securities	-	(12)	(12)
Loss on valuation of investments in securities	93	284	190
Gain on sales of stock of subsidiaries and affiliates	(72)	-	72
Loss on valuation of stock of subsidiaries and affiliates	238	-	(238)
Loss (gain) on changes in equity interest	(23)	17	41
(Increase) decrease in notes and accounts receivable	(6,324)	3,511	9,835
(Increase) decrease in inventories	(465)	397	862
Increase (decrease) in notes and accounts payable	21	(7,298)	(7,319)
Others	(32)	(2,876)	(2,844)
Subtotal	26,946	27,773	827
Interest and dividend income received	157	202	44
Interest expenses paid	(137)	(148)	(11)
Income taxes paid	(10,311)	(14,479)	(4,168)
Net cash provided by operating activities	16,654	13,347	(3,307)

(Millions of yen)

	Fiscal Year 2007 (Year ended December 31, 2007)	Fiscal Year 2008 (Year ended December 31, 2008)	Increase (Decrease)
	Amount	Amount	Amount
Cash flows from investing activities			
Payments for purchase of tangible fixed assets	(2,528)	(2,812)	(283)
Proceeds from sales of tangible fixed assets	546	292	(254)
Payments for software development	(2,567)	(2,702)	(135)
Payments for purchase of investments in securities	(279)	(1,293)	(1,013)
Proceeds from sales of investments in securities	-	112	112
Proceeds from sales of consolidated subsidiaries' stock	470	-	(470)
Payments for long-term loans receivable	(428)	(355)	73
Proceeds from collection of long-term loans receivable	16	92	75
Others	214	(294)	(508)
Net cash used in investing activities	(4,555)	(6,960)	(2,405)
Cash flows from financing activities			
Increase (decrease) in short-term bank loans, net	(350)	2,200	2,550
Proceeds from long-term bank loans	200	-	(200)
Repayments of long-term bank loans	(652)	(2,621)	(1,968)
Proceeds from issuance of common stock	192	-	(192)
Cash dividends paid	(3,632)	(4,107)	(474)
Others	(28)	(63)	(34)
Net cash used in financing activities	(4,271)	(4,591)	(319)
Effect of exchange rate changes on cash and cash equivalents	(25)	-	25
Net increase (decrease) in cash and cash equivalents	7,802	1,794	(6,007)
Cash and cash equivalents at beginning of period	18,305	25,374	7,069
Decrease in cash and cash equivalents due to exclusion of subsidiaries from scope of consolidation	(732)	-	732
Cash and cash equivalents at end of period	25,374	27,169	1,794

Segment Information

1. Information by Business Segment

Fiscal Year 2007 (Year ended December 31, 2007)

(Millions of yen)

	System Integration business	Service and Support business	Other business	Total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	279,753	187,358	2,370	469,481	-	469,481
Inter-segment sales/transfers	96	284	2,358	2,738	(2,738)	-
Total	279,850	187,642	4,728	472,220	(2,738)	469,481
Costs and expenses	255,445	174,873	4,587	434,906	4,523	439,430
Operating income (loss)	24,404	12,769	140	37,314	(7,262)	30,051
Assets	88,233	74,147	2,036	164,417	35,966	200,383
Depreciation and amortization	2,529	2,098	24	4,651	737	5,388
Impairment loss	4	5	304	314	131	446
Capital expenditure	2,215	1,712	14	3,942	1,153	5,095

Fiscal Year 2008 (Year ended December 31, 2008)

(Millions of yen)

	System Integration business	Service and Support business	Other business	Total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	266,476	198,761	1,916	467,154	-	467,154
Inter-segment sales/transfers	191	296	2,142	2,630	(2,630)	-
Total	266,668	199,057	4,058	469,785	(2,630)	467,154
Costs and expenses	243,679	187,517	3,911	435,108	4,956	440,064
Operating income (loss)	22,989	11,539	146	34,676	(7,586)	27,089
Assets	82,639	75,758	1,618	160,017	36,928	196,946
Depreciation and amortization	2,898	2,215	22	5,136	875	6,012
Impairment loss	14	291	-	305	(30)	275
Capital expenditure	2,915	1,790	8	4,715	819	5,535

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 Repair, sale of automobiles Insurance Printing

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

(Millions of yen)

	Fiscal Year 2007	Fiscal Year 2008	Major contents
Amount of unallocated operating costs and expenses included in “Elimination or corporate” column	7,326	7,654	Expenses relating to administrative departments of parent company
Amount of corporate assets included in “Elimination or corporate” column	37,262	38,304	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.