

## Financial Report for the First Quarter of the Fiscal Year Ending December 31, 2006 (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

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#### 1. Matters related to the Preparation of Quarterly Financial Information

(1) Adoption of simplified accounting method: Yes

Income taxes are calculated using an estimated annual income tax rate based on the statutory tax rate.

(2) Change in accounting method from the most recent fiscal year: No

(3) Changes in scope of consolidation and application of the equity method: No

#### 2. Financial Results for the First Quarter of Fiscal Year 2006 (January 1 to March 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	%
1st Quarter FY2006	116,816	7.1	6,664	22.7	6,723	23.1	3,798	33.0
1st Quarter FY2005	109,054	8.7	5,433	76.6	5,463	74.2	2,854	(32.1)
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
	yen	yen
1st Quarter FY2006	120.19	120.19
1st Quarter FY2005	90.34	90.32
Fiscal Year 2005	371.72	371.66

Note) Percentages for net sales, operating income, recurring profit and net income indicate changes from the same period of the previous year.

##### (2) Financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	yen
March 31, 2006	189,600	61,109	32.2	1,933.70
March 31, 2005	187,225	55,831	29.8	1,766.65
December 31, 2005	173,927	58,920	33.9	1,864.42

**(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
1st Quarter FY2006	(6,170)	(1,795)	2,278	8,205
1st Quarter FY2005	(3,259)	(953)	3,115	6,631
Fiscal Year 2005	22,468	(4,986)	(11,338)	13,891

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

Regarding the financial forecast for the fiscal year ending December 31, 2006, there is no change from the forecast announced on February 2, 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 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 "zaimu gyoseki no gaikyo (Outline of Financial Results)," which has been prepared in accordance with accounting principles generally accepted in Japan, for reference purpose only.**

## Consolidated Balance Sheets

(Millions of yen)

	First Quarter FY2006 (As of Mar. 31, 2006)		First Quarter FY2005 (As of Mar. 31, 2005)		Increase (Decrease)	Fiscal Year 2005 (As of Dec. 31, 2005)	
	Amount	% of Total	Amount	% of Total	Amount	Amount	% of Total
<b>Assets</b>		%		%			%
<b>Current assets</b>	<b>115,052</b>	60.7	<b>108,598</b>	58.0	6,453	<b>100,396</b>	57.7
Cash and time deposits	8,821		7,957		864	14,507	
Notes and accounts receivable	78,399		74,180		4,218	58,563	
Inventories	16,375		16,656		(281)	16,652	
Others	11,455		9,804		1,651	10,672	
<b>Fixed assets</b>	<b>74,547</b>	39.3	<b>78,627</b>	42.0	(4,079)	<b>73,530</b>	42.3
Tangible fixed assets	53,595		54,295		(699)	53,645	
Intangible fixed assets	5,408		5,494		(85)	5,264	
Investments and other assets	15,543		18,837		(3,294)	14,621	
<b>Total assets</b>	<b>189,600</b>	<b>100.0</b>	<b>187,225</b>	<b>100.0</b>	<b>2,374</b>	<b>173,927</b>	<b>100.0</b>
<b>Liabilities</b>							
<b>Current liabilities</b>	<b>113,762</b>	60.0	<b>119,079</b>	63.6	(5,316)	<b>99,655</b>	57.3
Notes and accounts payable	76,115		72,540		3,575	64,100	
Short-term bank loans	13,372		25,075		(11,702)	8,491	
Others	24,274		21,463		2,810	27,062	
<b>Fixed liabilities</b>	<b>13,345</b>	7.1	<b>11,122</b>	6.0	2,223	<b>13,991</b>	8.0
Long-term bank loans	3,010		1,133		1,877	3,204	
Reserve for employees' retirement benefits	9,437		9,456		(18)	9,893	
Others	896		532		363	893	
<b>Total liabilities</b>	<b>127,108</b>	<b>67.1</b>	<b>130,201</b>	<b>69.6</b>	<b>(3,093)</b>	<b>113,647</b>	<b>65.3</b>
<b>Minority interests</b>							
Minority interests	1,382	0.7	1,192	0.6	189	1,359	0.8
<b>Shareholders' equity</b>							
Common stock	10,374	5.4	10,374	5.5	-	10,374	6.0
Capital surplus	16,254	8.6	16,254	8.7	-	16,254	9.4
Retained earnings	48,369	25.5	38,049	20.3	10,320	46,941	27.0
Excess of land revaluation	(15,572)	(8.2)	(9,075)	(4.8)	(6,496)	(15,572)	(9.0)
Unrealized gains on investment securities	1,868	1.0	444	0.2	1,424	1,109	0.6
Foreign currency translation adjustments	(70)	(0.0)	(105)	(0.0)	34	(74)	(0.0)
Treasury stock	(114)	(0.1)	(110)	(0.1)	(3)	(113)	(0.1)
<b>Total shareholders' equity</b>	<b>61,109</b>	<b>32.2</b>	<b>55,831</b>	<b>29.8</b>	<b>5,278</b>	<b>58,920</b>	<b>33.9</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>189,600</b>	<b>100.0</b>	<b>187,225</b>	<b>100.0</b>	<b>2,374</b>	<b>173,927</b>	<b>100.0</b>

## Consolidated Statements of Income

(Millions of yen)

	First Quarter FY2006 (From Jan. 1 to Mar. 31, 2006)		First Quarter FY2005 (From Jan. 1 to Mar. 31, 2005)		Increase (Decrease)		Fiscal Year 2005 (From Jan. 1 to Dec. 31, 2005)	
	Amount	Ratio to Net Sales	Amount	Ratio to Net Sales	Amount	Change	Amount	Ratio to Net Sales
		%		%		%		%
<b>Net sales</b>	116,816	100.0	109,054	100.0	7,762	7.1	409,413	100.0
<b>Cost of sales</b>	91,108	78.0	85,356	78.3	5,752	6.7	314,142	76.7
Gross profit	25,708	22.0	23,697	21.7	2,010	8.5	95,271	23.3
<b>Selling, general and administrative expenses</b>	19,043	16.3	18,263	16.7	779	4.3	73,360	17.9
Operating income	6,664	5.7	5,433	5.0	1,231	22.7	21,911	5.4
<b>Non-operating income</b>	102	0.1	109	0.1	(7)	(6.6)	507	0.1
<b>Non-operating expenses</b>	44	0.0	80	0.1	(35)	(44.9)	208	0.1
Recurring profit	6,723	5.8	5,463	5.0	1,259	23.1	22,210	5.4
<b>Extraordinary gains</b>	1	0.0	-	-	1	-	116	0.0
<b>Extraordinary losses</b>	65	0.1	446	0.4	(380)	(85.3)	1,774	0.4
Income before income taxes and minority interests	6,658	5.7	5,016	4.6	1,642	32.7	20,552	5.0
Income taxes	2,798	2.4	2,048	1.9	749	36.6	8,575	2.1
Minority interests	61	0.0	112	0.1	(51)	(45.4)	229	0.0
Net income	3,798	3.3	2,854	2.6	943	33.0	11,747	2.9

## Consolidated Statements of Cash Flows

(Millions of yen)

	First Quarter FY2006 (From Jan. 1 to Mar. 31, 2006)	First Quarter FY2005 (From Jan. 1 to Mar. 31, 2005)	Increase (Decrease)	Fiscal Year 2005 (From Jan. 1 to Dec. 31, 2005)
	Amount	Amount	Amount	Amount
<b>Cash flows from operating activities</b>				
Income before income taxes and minority interests	6,658	5,016	1,642	20,552
Depreciation and amortization	1,418	1,422	(4)	6,066
Increase (decrease) in reserve for employees' retirement benefits	(429)	313	(743)	1,100
Increase in accounts and notes receivable	(19,804)	(20,753)	948	(5,249)
Decrease (increase) in inventories	277	(376)	653	(367)
Increase in accounts and notes payable	12,014	12,624	(610)	4,178
Others	700	1,611	(911)	1,927
Subtotal	834	(140)	974	28,209
Income taxes paid	(7,001)	(3,101)	(3,900)	(5,632)
Others	(3)	(18)	15	(108)
Net cash provided by (used in) operating activities	(6,170)	(3,259)	(2,910)	22,468
<b>Cash flows from investing activities</b>				
Payments for acquisition of tangible fixed assets	(787)	(561)	(226)	(2,561)
Payments for software development	(805)	(347)	(458)	(2,166)
Others	(202)	(44)	(157)	(257)
Net cash used in investing activities	(1,795)	(953)	(842)	(4,986)
<b>Cash flows from financing activities</b>				
Increase (decrease) in short-term bank loans, net	5,000	5,000	-	(6,250)
Proceeds from long-term bank loans	-	200	(200)	2,900
Repayments of long-term bank loans	(312)	(328)	16	(6,291)
Cash dividends paid	(2,370)	(1,738)	(632)	(1,737)
Others	(38)	(17)	(21)	41
Net cash provided by (used in) financing activities	2,278	3,115	(836)	(11,338)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	1	11	(9)	29
<b>Net increase (decrease) in cash and cash equivalents</b>	(5,685)	(1,085)	(4,599)	6,174
<b>Cash and cash equivalents at beginning of period</b>	13,891	7,717	6,174	7,717
<b>Cash and cash equivalents at end of period</b>	8,205	6,631	1,574	13,891

## **Segment Information**

### **Information by Business Segment**

First Quarter of Fiscal Year 2006 (January 1 to March 31, 2006)

(Millions of yen)

	System Integration business	Service and Support business	Other business	Total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	75,571	40,882	362	116,816	-	116,816
Inter-segment sales/transfers	57	56	623	738	(738)	-
Total	75,629	40,939	986	117,554	(738)	116,816
Costs and expenses	70,150	38,053	962	109,166	985	110,151
Operating income	5,478	2,886	24	8,388	(1,723)	6,664

First Quarter of Fiscal Year 2005 (January 1 to March 31, 2005)

(Millions of yen)

	System Integration business	Service and Support business	Other business	Total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	72,732	35,882	439	109,054	-	109,054
Inter-segment sales/transfers	32	44	566	643	(643)	-
Total	72,764	35,927	1,006	109,698	(643)	109,054
Costs and expenses	68,118	33,569	996	102,684	936	103,620
Operating income	4,646	2,358	9	7,013	(1,580)	5,433

Fiscal Year 2005 (January 1 to 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	18,665	9,263	106	28,036	(6,125)	21,911