

Financial Report for the Third 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

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

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

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 Third Quarter of Fiscal Year 2006 (January 1, 2006 to September 30, 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	%
3rd Quarter FY2006	325,536	6.5	19,267	19.3	19,522	19.2	11,660	31.6
3rd Quarter FY2005	305,706	8.8	16,143	38.5	16,384	39.8	8,861	(3.3)
Fiscal Year 2005	409,413		21,911		22,210		11,747	

	Net income per share	Diluted net income per share
	yen	yen
3rd Quarter FY2006	368.97	—
3rd Quarter FY2005	280.39	280.29
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	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
September 30, 2006	185,618	71,047	37.2	2,183.21
September 30, 2005	175,990	62,179	35.3	1,967.53
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
3rd Quarter FY2006	3,914	(5,726)	(564)	11,512
3rd Quarter FY2005	9,395	(3,167)	(7,525)	6,432
Fiscal Year 2005	22,468	(4,986)	(11,338)	13,891

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

We have revised our financial forecasts announced on August 2, 2006.

	Net sales	Operating income	Recurring profit	Net income
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Full-Year	433,400	25,240	25,500	14,890

Reference) Expected net income per share (full-year basis): 471.17 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)

	Third Quarter FY2006 (As of Sep.30, 2006)		Third Quarter FY2005 (As of Sep.30, 2005)		Increase (Decrease)	Fiscal Year 2005 (As of Dec. 31, 2005)	
	Amount	% of Total	Amount	% of Total	Amount	Amount	% of Total
Assets		%		%			%
Current assets	110,284	59.4	96,856	55.0	13,428	100,396	57.7
Cash and time deposits	11,628		7,048		4,579	14,507	
Notes and accounts receivable	66,461		62,484		3,976	58,563	
Inventories	20,389		16,797		3,592	16,652	
Others	11,805		10,526		1,279	10,672	
Fixed assets	75,333	40.6	79,134	45.0	(3,800)	73,530	42.3
Tangible fixed assets	52,641		53,732		(1,091)	53,645	
Intangible fixed assets	4,708		5,193		(484)	5,264	
Investments and other assets	17,983		20,208		(2,224)	14,621	
Total assets	185,618	100.0	175,990	100.0	9,627	173,927	100.0
Liabilities							
Current liabilities	101,424	54.6	101,292	57.6	132	99,655	57.3
Notes and accounts payable	68,143		62,085		6,057	64,100	
Short-term bank loans	8,912		14,672		(5,760)	8,491	
Others	24,368		24,533		(164)	27,062	
Fixed liabilities	13,146	7.1	11,236	6.4	1,909	13,991	8.0
Long-term bank loans	3,624		897		2,727	3,204	
Reserve for employees' retirement benefits	8,584		9,765		(1,180)	9,893	
Others	936		573		363	893	
Total liabilities	114,570	61.7	112,528	64.0	2,041	113,647	65.3
Minority interests							
Minority interests	—	—	1,282	0.7	(1,282)	1,359	0.8
Shareholders' equity							
Common stock	—	—	10,374	5.9	(10,374)	10,374	6.0
Capital surplus	—	—	16,254	9.3	(16,254)	16,254	9.4
Retained earnings	—	—	44,055	25.0	(44,055)	46,941	27.0
Revaluation difference on land	—	—	(9,075)	(5.1)	9,075	(15,572)	(9.0)
Unrealized gains on investment securities	—	—	785	0.4	(785)	1,109	0.6
Foreign currency translation adjustments	—	—	(101)	(0.1)	101	(74)	(0.0)
Treasury stock	—	—	(113)	(0.1)	113	(113)	(0.1)
Total shareholders' equity	—	—	62,179	35.3	(62,179)	58,920	33.9
Total liabilities, minority interests and shareholders' equity	—	—	175,990	100.0	(175,990)	173,927	100.0

(Millions of yen)

	Third Quarter FY2006 (As of Sep.30, 2006)		Third Quarter FY2005 (As of Sep.30, 2005)		Increase (Decrease)	Fiscal Year 2005 (As of Dec. 31, 2005)	
	Amount	% of Total	Amount	% of Total	Amount	Amount	% of Total
Net assets		%		%			%
Owners' equity	82,673	44.5	—	—	82,673	—	—
Common stock	10,374	5.6	—	—	10,374	—	—
Capital surplus	16,254	8.7	—	—	16,254	—	—
Retained earnings	56,159	30.2	—	—	56,159	—	—
Treasury stock	(115)	(0.0)	—	—	(115)	—	—
Valuation and translation adjustments	(13,678)	(7.3)	—	—	(13,678)	—	—
Unrealized gains on investment securities	1,900	1.0	—	—	1,900	—	—
Deferred losses on hedges	(1)	(0.0)	—	—	(1)	—	—
Revaluation difference on land	(15,500)	(8.3)	—	—	(15,500)	—	—
Foreign currency translation adjustments	(77)	(0.0)	—	—	(77)	—	—
Minority interests	2,053	1.1	—	—	2,053	—	—
Total net assets	71,047	38.3	—	—	71,047	—	—
Total liabilities and net assets	185,618	100.0	—	—	185,618	—	—

Consolidated Statements of Income

(Millions of yen)

	Third Quarter FY2006 (From Jan. 1 to Sep. 30, 2006)		Third Quarter FY2005 (From Jan. 1 to Sep. 30, 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
		%		%				%
Net sales	325,536	100.0	305,706	100.0	19,830	6.5	409,413	100.0
Cost of sales	248,870	76.5	234,742	76.8	14,127	6.0	314,142	76.7
Gross profit	76,666	23.5	70,963	23.2	5,702	8.0	95,271	23.3
Selling, general and administrative expenses	57,399	17.6	54,820	17.9	2,579	4.7	73,360	17.9
Operating income	19,267	5.9	16,143	5.3	3,123	19.3	21,911	5.4
Non-operating income	390	0.1	391	0.1	(1)	(0.3)	507	0.1
Non-operating expenses	135	0.0	150	0.0	(15)	(10.4)	208	0.1
Recurring profit	19,522	6.0	16,384	5.4	3,138	19.2	22,210	5.4
Extraordinary gains	405	0.1	150	0.0	254	168.7	116	0.0
Extraordinary losses	319	0.1	1,336	0.4	(1,016)	(76.1)	1,774	0.4
Income before income taxes and minority interests	19,607	6.0	15,198	5.0	4,409	29.0	20,552	5.0
Income taxes	7,875	2.4	6,134	2.0	1,741	28.4	8,575	2.1
Minority interests	71	0.0	202	0.1	(131)	(64.7)	229	0.0
Net income	11,660	3.6	8,861	2.9	2,799	31.6	11,747	2.9

Consolidated Statement of Changes in Net Assets

Third Quarter of Fiscal Year 2006 (January 1, 2006 to September 30, 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 the third quarter FY2006					
Dividends from surplus			(2,370)		(2,370)
Net income			11,660		11,660
Reversal of revaluation difference on land			(72)		(72)
Purchase of treasury stock				(2)	(2)
Net changes during the third quarter FY2006 other than owners' equity					
Total changes during the third quarter FY2006	—	—	9,217	(2)	9,215
Balance as of September 30, 2006	10,374	16,254	56,159	(115)	82,673

(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 the third quarter FY2006							
Dividends from surplus							(2,370)
Net income							11,660
Reversal of revaluation difference on land							(72)
Purchase of treasury stock							(2)
Net changes during the third quarter FY2006 other than owners' equity	790	(1)	72	(3)	858	693	1,552
Total changes during the third quarter FY2006	790	(1)	72	(3)	858	693	10,767
Balance as of September 30, 2006	1,900	(1)	(15,500)	(77)	(13,678)	2,053	71,047

Consolidated Statements of Cash Flows

(Millions of yen)

	Third Quarter FY2006	Third Quarter FY2005	Increase	Fiscal Year 2005
	(From Jan. 1 to Sep. 30. 2006)	(From Jan. 1 to Sep. 30, 2005)	(Decrease)	(From Jan. 1 to Dec. 31, 2005)
	Amount	Amount	Amount	Amount
Cash flows from operating activities				
Income before income taxes and minority Interests	19,607	15,198	4,409	20,552
Depreciation and amortization	4,311	4,362	(51)	6,066
Increase (decrease) in reserve for employees' retirement benefits	(1,242)	856	(2,099)	1,100
(Increase) decrease in notes and accounts receivable	(7,820)	(9,033)	1,212	(5,249)
(Increase) decrease in inventories	(3,737)	(516)	(3,221)	(367)
Increase (decrease) in notes and accounts payable	4,042	2,168	1,874	4,178
Others	526	2,091	(1,565)	1,927
Subtotal	15,686	15,128	557	28,209
Income taxes paid	(11,783)	(5,644)	(6,138)	(5,632)
Others	10	(88)	99	(108)
Net cash provided by operating activities	3,914	9,395	(5,481)	22,468
Cash flows from investing activities				
Payments for acquisition of tangible fixed assets	(1,795)	(1,701)	(94)	(2,561)
Payments for software development	(1,476)	(1,410)	(65)	(2,166)
Payment for acquisition of investments in securities	(2,482)	(254)	(2,227)	(357)
Others	27	199	(171)	100
Net cash used in investing activities	(5,726)	(3,167)	(2,558)	(4,986)
Cash flows from financing activities				
Increase (decrease) in short-term bank loans, net	540	(2,700)	3,240	(6,250)
Proceeds from long-term bank loans	1,000	400	600	2,900
Repayments of long-term bank loans	(698)	(3,467)	2,768	(6,291)
Cash dividends paid	(2,368)	(1,736)	(632)	(1,737)
Others	962	(22)	984	41
Net cash used in financing activities	(564)	(7,525)	6,960	(11,338)
Effect of exchange rate changes on cash and cash equivalents	(1)	12	(14)	29
Net increase (decrease) in cash and cash equivalents	(2,378)	(1,284)	(1,094)	6,174
Cash and cash equivalents at beginning of period	13,891	7,717	6,174	7,717
Cash and cash equivalents at end of period	11,512	6,432	5,079	13,891

Segment Information

Information by Business Segment

Third Quarter of Fiscal Year 2006 (January 1, 2006 to September 30, 2006) (Millions of yen)

	System Integration business	Service and Support business	Other business	Total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	200,168	124,240	1,127	325,536	—	325,536
Inter-segment sales/transfers	91	162	1,962	2,216	(2,216)	—
Total	200,259	124,403	3,089	327,753	(2,216)	325,536
Costs and expenses	184,980	115,353	3,006	303,340	2,928	306,269
Operating income	15,279	9,050	82	24,412	(5,144)	19,267

Third Quarter of Fiscal Year 2005 (January 1, 2005 to September 30, 2005) (Millions of yen)

	System Integration business	Service and Support business	Other business	Total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	194,832	109,525	1,348	305,706	—	305,706
Inter-segment sales/transfers	67	123	1,703	1,894	(1,894)	—
Total	194,899	109,649	3,051	307,600	(1,894)	305,706
Costs and expenses	181,411	102,451	2,988	286,851	2,710	289,562
Operating income	13,487	7,197	63	20,748	(4,605)	16,143

Fiscal Year 2005 (January 1, 2005 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