

Financial and Operational Review for the First 9 Months of the Fiscal Year Ending March 31, 2006 (Consolidated)

Okamura Corporation

Listing: Tokyo Stock Exchange, Osaka Securities Exchange

Code Number: 7994 (URL <http://www.okamura.co.jp/>)

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1. Matters concerning the preparation of quarterly financial information

- (i) Adoption of the simplified method in the accounting methods used in the recent consolidated accounting periods : No
- (ii) Change in the accounting methods used in the recent consolidated accounting periods : No
- (iii) Changes in the scope of consolidation and equity method
(Description) Consolidation (new) 1 company (Seeder Co., Ltd.) : As follows

2. Financial and Operational Review for the First 9 Months (Apr. 1, 2005 - Dec. 31, 2005) of FY March 2006 (Apr. 1, 2005 - Mar. 31, 2006)

(1) Progress in (consolidated) business results

Note: Amounts of less than one million yen have been rounded down.

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First 9 months of FY March 2006	145,030	2.0	4,641	(9.1)	5,253	(3.9)	4,827	51.0
First 9 months of FY March 2005	142,127	8.8	5,106	53.8	5,469	53.8	3,198	58.0
(Reference) FY March 2005	196,526	7.4	8,980	33.8	9,410	34.7	5,485	38.1

	Net income per share	Diluted net income per share
	Yen	Yen
First 9 months of FY March 2006	43.08	-
First 9 months of FY March 2005	28.52	-
(Reference) FY March 2005	48.93	-

(Note) The percentages alongside net sales, operating income, etc. indicate the percentage increase or decrease on a year-on-year basis.

[Qualitative information concerning the progress in (consolidated) business performance etc.]

The domestic economy of the first 9 months rebounded moderately, led by increasing capital expenditure against the backdrops of improved corporate profits and a looming sign of stronger consumption, albeit with concerns about price hikes of commodities, especially crude oil.

Under these circumstances, the Company promoted new product development and proposal-based sales and made efforts to create and explore new markets by obtaining orders for total solutions.

In the office furniture segment, the mainstay office furniture continued to show a brilliant performance amid a remaining strong demand for the chain relocation in the Tokyo metropolitan area, while demand has been in the midst of recovery in the regional markets. With small and medium sized businesses steadily accumulating across the country in this situation, we have pressed ahead with aggressive proposal-based sales and expansion in orders for total solutions.

High-grade chairs such as “Contessa” and “Baron” have also been sold well, and we have attempted to create new markets by extracting a new demand for office furniture products through new product development.

Meanwhile, sales in the security sector expanded, focusing on vault and safe deposit box facilities for financial institutions and access control systems for offices, through synergy with other office furniture products.

As a result, the sales of the segment for the first 9 months ended up at ¥84,999 million (Y-o-Y increase of 5.2%).

As for the store display segment, in line with the basic policy of leveraging the Company’s competitive advantage as the only manufacturer that offers total solutions encompassing store display panels and refrigerated showcases, the Company centered its efforts on expanding customer base and winning more orders in connection with new store openings and renovation of existing stores, while developing our original products and tapping new customers extensively with growing industries as a primary target. Nevertheless, the Company faced the severe market environment in which the store openings of large-sized retail stores slowed down, aggregate demand dwindled, and material prices soared.

As a result, the sales of the segment for the first 9 months ended up at ¥50,552 million (Y-o-Y decrease of 6.1%).

As for the material handling systems and others segment, in the distribution systems sector, the Company has aggressively made efforts to sell automated warehousing systems and storage warehousing systems to distribution facilities of pharmaceutical wholesalers, logistics industry, automobile and other sectors, as well as in the Korean and Chinese markets. Further, the Company entered into the field of transportation equipment for extraordinary environments while newly acquired Seeder Co., Ltd. into a consolidated subsidiary to drive forward solution sales by industry, increasing both sales and income.

In the fluid gear sector, its sales jumped by strong exports of forklift trucks.

As a result, the sales of the segment for the first 9 months ended up at ¥9,478 million (Y-o-Y increase of 27.2%).

The foregoing results overall led to the total sales for the quarter amounting to ¥145,030 million (Y-o-Y increase of 2.0%).

With respect to profit and loss, although the Company tried to trim production, material, and distribution costs as well as decreasing interest payments through strengthening the balance sheet, the operating income and the ordinary income resulted in ¥4,641 million (Y-o-Y decrease of 9.1%) and ¥5,253 million (Y-o-Y decrease of 3.9%), respectively, due to the increase in selling expenses. Net income for the quarter ended up at ¥4,827 million (Y-o-Y increase of 51.0%) thanks to gain on returning the substituted portion of the Employee Pension Insurance recorded as extraordinary gain.

(2) Changes in (consolidated) financial position

	Total Assets	Shareholders' Equity	Equity Ratio	Shareholders' Equity per Share
	Millions of yen	Millions of yen	%	Yen
As of Dec. 31, 2005	175,909	72,693	41.3	648.75
As of Dec. 31, 2004	164,843	61,468	37.3	548.31
(Reference) As of March 2005	173,622	63,964	36.8	570.68

[Consolidated cash flow]

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at Term-End
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
First 9 months of FY March 2006	5,780	(3,399)	(957)	21,861
First 9 months of FY March 2005	4,379	(2,331)	(4,829)	20,767
(Reference) FY March 2005	7,009	(3,868)	(6,248)	20,426

[Qualitative information concerning the changes in (consolidated) financial position, etc.]

The financial position of the current 9-month period is as follows:

Total assets amounted to ¥175,909 million, up ¥2,286 million from the end of the previous fiscal year. Current assets decreased by ¥6,560 million, mainly due to the reduction of accounts receivable by ¥10,465 million, while fixed assets increased by ¥8,847 million, partly due to the increase of investment securities by ¥8,726 million, mostly driven by rising stock prices.

Total liabilities amounted to ¥99,881 million, down ¥6,526 million from the end of the previous fiscal year, partly due to the decrease of accounts payable of ¥3,476 million.

Shareholders' equity amounted to ¥72,693 million, up ¥8,729 million from the end of the previous fiscal year, owing to the increase of retained earnings by addition of the quarterly income and the increase of the evaluation difference of other marketable securities. Consequently, the equity ratio went up 4.5 percentage points from the end of the previous fiscal year to 41.3%.

With respect to cash flows, cash flows from operating activities amounted to ¥5,780 million, the amount of the increases of cash flows due to items including net income before income taxes for the 9 months totaling ¥8,528 million, depreciation and amortization of ¥3,507 million, and the decrease of ¥10,791 million in notes and accounts receivable over the decreases of cash flows due to items including the decrease of ¥3,633 million in notes and accounts payable, the increase of inventories of ¥1,888 million, payments of corporation tax of ¥4,220 million, and gain on returning the substituted portion of the Employee Pension Insurance of ¥3,319 million.

Net cash used in investing activities was ¥3,399 million, which was mainly comprised of investments for addressing environmental issues and IT investments totaling ¥3,729 million.

Net cash used in financing activities was ¥957 million, which was mainly comprised of dividends payment of ¥1,262 million.

Consequently, consolidated cash and cash equivalents at the end of the current first 9 months increased by ¥1,435 million from the end of the previous fiscal year to ¥21,861 million.

3. Forecast of consolidated performance for the fiscal year ending March 2006 (from April 1, 2005 to March 31, 2006)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
FY March 2006	206,000	11,000	7,800

(Reference) Estimated net income per share (fiscal year): 69.61 yen

[Qualitative information concerning the performance forecast etc.]

As regards the performance forecast for the full fiscal year, the figures announced on May 13, 2005 were used without changes for net sales, ordinary income and net income.

(Note) The performance forecast has been prepared using the estimation as of the date of announcement. Actual results may differ from the forecasted figures due to uncertain factors that may arise in the future.

First 9 months' Consolidated Balance Sheet

(Millions of yen)

Accounts	Term	First 9 months of FY March 2006 (As of Dec. 31, 2005)		First 9 months of FY March 2005 (As of Dec. 31, 2004)		Increase/ Decrease	FY March 2005 (As of March 31, 2005)	
		Amount	Ratio	Amount	Ratio	Amount	Amount	Ratio
(Assets)			(%)		(%)			(%)
I. Current assets:								
	Cash and time deposits	24,389		23,696		692	23,095	
	Trade notes and accounts receivable	45,287		47,239		(1,951)	55,753	
	Marketable securities	554		464		90	614	
	Inventories	15,667		13,971		1,696	13,677	
	Deferred income taxes	779		745		33	1,660	
	Other current assets	3,366		2,467		898	1,966	
	Allowance for doubtful accounts	(197)		(329)		131	(360)	
	Total current assets	89,846	51.1	88,255	53.5	1,591	96,406	55.5
II. Fixed assets:								
1. Tangible fixed assets:								
	Buildings and structures	14,045		15,066		(1,020)	14,799	
	Machinery, equipment and vehicles	9,501		8,982		518	9,200	
	Land	21,471		21,495		(23)	21,470	
	Construction in progress	88		110		(21)	77	
	Others	2,670		2,550		119	2,781	
	Total tangible fixed assets	47,778	27.1	48,205	29.3	(427)	48,328	27.8
2. Intangible fixed assets:		2,453	1.4	1,700	1.0	753	1,889	1.1
3. Investments and other assets:								
	Investment securities	28,017		18,962		9,054	19,290	
	Guarantee deposits	3,985		4,102		(117)	4,095	
	Deferred income taxes	1,993		2,396		(402)	2,406	
	Others	1,998		1,440		557	1,377	
	Allowance for doubtful accounts	(164)		(221)		56	(171)	
	Total investment and other assets	35,831	20.4	26,682	16.2	9,149	26,997	15.6
	Total fixed assets	86,063	48.9	76,587	46.5	9,475	77,216	44.5
Total assets		175,909	100.0	164,843	100.0	11,066	173,622	100.0

(Millions of yen)

Accounts	Term	First 9 months of FY March 2006 (As of Dec. 31, 2005)		First 9 months of FY March 2005 (As of Dec. 31, 2004)		Increase/ Decrease	FY March 2005 (As of March 31, 2005)	
		Amount	Ratio	Amount	Ratio	Amount	Amount	Ratio
(Liabilities)								
I. Current liabilities:								
Trade notes and accounts payable		45,821		45,470		351	49,298	
Short-term bank loans		10,800		14,630		(3,830)	16,900	
Long-term debts due within one year		4,610		1,020		3,590	3,940	
Bonds redeemed within one year		-		5,000		(5,000)	-	
Income taxes payable		34		65		(30)	2,233	
Consumption taxes payable		315		377		(62)	350	
Deferred tax liabilities		-		0		(0)	-	
Allowance for bonus payable		1,408		1,402		5	2,828	
Others		2,684		2,779		(95)	2,716	
Total current liabilities		65,674	37.3	70,746	42.9	(5,071)	78,266	45.1
II. Long-term liabilities:								
Bonds		10,000		5,000		5,000	5,000	
Long-term loans payable		4,920		5,730		(810)	4,140	
Deferred tax liabilities		5,408		424		4,983	367	
Severance and employee retirement benefits		11,322		15,744		(4,422)	16,086	
Reserve for directors' retirement benefits		519		502		17	519	
Consolidated adjustment account		148		246		(97)	226	
Other liabilities		1,887		1,773		114	1,799	
Total long-term liabilities		34,206	19.5	29,420	17.9	4,786	28,140	16.2
Total liabilities		99,881	56.8	100,166	60.8	(285)	106,407	61.3
Minority interests		3,335	1.9	3,208	1.9	127	3,251	1.9
(Shareholders' equity)								
I. Capital stock		18,670	10.6	18,670	11.3	-	18,670	10.8
II. Capital surplus		16,759	9.5	16,759	10.2	-	16,759	9.6
III. Retained earnings		28,654	16.3	22,801	13.8	5,852	25,089	14.4
IV. Unrealized holding gains (losses) on securities		8,986	5.1	3,575	2.2	5,411	3,818	2.2
V. Foreign currency translation adjustment		(182)	(0.1)	(194)	(0.1)	12	(208)	(0.1)
VI. Treasury stock, at cost		(196)	(0.1)	(145)	(0.1)	(51)	(165)	(0.1)
Total shareholders' equity		72,693	41.3	61,468	37.3	11,224	63,964	36.8
Total liabilities, minority interests and shareholders' equity		175,909	100.0	164,843	100.0	11,066	173,622	100.0

First 9 months' Consolidated Income Statement

(Millions of yen)

Accounts	Term	First 9 months of FY March 2006 (From Apr. 1, 2005 to Dec. 31, 2005)		First 9 months of FY March 2005 (From Apr. 1, 2004 to Dec. 31, 2004)		Increase/ Decrease Amount	FY March 2005 (From Apr. 1, 2004 to Mar. 31, 2005)	
		Amount	Ratio	Amount	Ratio		Amount	Ratio
I. Net sales		145,030	100.0	142,127	100.0	2,902	196,526	100.0
II. Cost of sales		101,201	69.8	99,520	70.0	1,680	135,975	69.2
Gross profit		43,828	30.2	42,606	30.0	1,222	60,551	30.8
III. Selling, general and administrative expenses		39,187	27.0	37,500	26.4	1,687	51,570	26.2
Operating income		4,641	3.2	5,106	3.6	(465)	8,980	4.6
IV. Other income:		1,038	0.7	865	0.6	172	1,067	0.5
Interest and dividends income		267		206		61	212	
Amortization of consolidated adjustment account		54		57		(3)	76	
Equity in earnings of affiliated companies		115		111		3	91	
Others		601		490		111	687	
V. Other expenses:		426	0.3	503	0.3	(76)	638	0.3
Interest expenses		277		346		(69)	448	
Others		149		156		(7)	189	
Ordinary income		5,253	3.6	5,469	3.9	(216)	9,410	4.8
VI. Extraordinary income:		3,563	2.5	154	0.1	3,409	269	0.2
Gain on sale of property, plant and equipment		-		-		-	32	
Gain on sale of investment securities		82		154		(72)	236	
Reversal of allowance for doubtful accounts		162		-		162	-	
Gain on returning the substituted portion of the Employee Pension Insurance		3,319		-		3,319	-	
VII. Extraordinary losses:		288	0.2	226	0.2	62	332	0.2
Loss on disposal of property, plant and equipment		209		191		17	264	
Loss on devaluation of investment securities		5		-		5	0	
Loss on sale of investment securities		51		-		51	33	
Impairment loss		-		18		(18)	18	
Evaluation losses of golf memberships		11		16		(5)	16	
Others		10		-		10	-	
Income before income taxes for the quarter term (fiscal year)		8,528	5.9	5,396	3.8	3,131	9,347	4.8
Income taxes		814	0.6	1,541	1.1	(727)	4,287	2.2
Adjustments on income taxes		2,786	1.9	637	0.4	2,148	(510)	(0.2)
Minority interests in earnings		100	0.1	19	0.0	81	84	0.0
Net income for the quarter term (fiscal year)		4,827	3.3	3,198	2.3	1,629	5,485	2.8

First 9 months' Consolidated Cash Flow Statement

(Millions of yen)

Term	First 9 months of FY March 2006 (From Apr. 1, 2005 to Dec. 31, 2005)	First 9 months of FY March 2005 (From Apr. 1, 2004 to Dec. 31, 2004)	FY March 2005 (From Apr. 1, 2004 to Mar. 31, 2005)
Accounts			
I. Cash flows from operating activities			
Income before income taxes for the quarter term (fiscal year)	8,528	5,396	9,347
Depreciation expense	3,507	3,210	4,485
Loss on disposal of property, plant and equipment	209	191	264
Equity in earnings of affiliated companies	(115)	(111)	(91)
Amortization of consolidated adjustment account	(54)	(57)	(76)
Increase/decrease in allowance for doubtful accounts	(173)	83	65
Allowance for bonuses payable	(1,446)	(1,125)	299
Increase/decrease in allowance for employee retirement benefits	(1,464)	66	408
Gain on returning the substituted portion of the Employee Pension Insurance	(3,319)	-	-
Increase/decrease in allowance for directors' retirement benefits	0	12	30
Interest and dividends income	(267)	(206)	(212)
Interest expense	277	346	448
Gain/loss on sale of property, plant and equipment	-	-	(32)
Gain/loss on sale of investment securities	(76)	(154)	(236)
Loss on devaluation of investment securities	51	-	33
Increase/decrease in notes and accounts receivable	10,791	7,122	(1,391)
Increase/decrease in inventories	(1,888)	(2,240)	(1,953)
Increase/decrease in notes and accounts payable	(3,633)	(970)	2,788
Others	(995)	(108)	314
Sub-total	9,931	11,456	14,490
Interest and dividends received	305	209	225
Interest expenses paid	(235)	(302)	(460)
Income taxes paid	(4,220)	(6,984)	(7,245)
Net Cash provided by operating activities	5,780	4,379	7,009
II. Cash flows from investing activities			
Term deposits paid	(4,044)	(4,456)	(5,466)
Term deposits withdrawn	4,246	4,406	5,526
Payment for purchase of property, plant and equipment	(2,764)	(2,473)	(3,858)
Proceeds from sale of property, plant and equipment	9	34	94
Payment for purchase of intangible fixed assets	(964)	(391)	(681)
Payment for purchase of investment securities	(344)	(71)	(87)
Proceeds from sale of investment securities	444	270	483
Increase due to the acquisition of subsidiaries' stocks accompanied by changes in the scope of consolidation	-	41	61
Payment for acquisition of stocks issued by a newly consolidated subsidiary	(74)	-	-
Others	93	309	59
Net cash used in investing activities	(3,399)	(2,331)	(3,868)
III. Cash flows from financing activities			
Increase/decrease in short-term bank loans	(6,100)	740	3,010
Proceeds from long-term debt	2,000	200	2,000
Repayments of long-term debt	(550)	(740)	(1,210)
Issuance of bonds	5,000	-	-
Redemption of bonds	-	(4,000)	(9,000)
Purchase of treasury stock	(28)	(30)	(50)
Cash dividends paid by the Company	(1,262)	(982)	(982)
Cash dividends paid to minority shareholders	(16)	(16)	(16)
Net cash used in financing activities	(957)	(4,829)	(6,248)
IV. Effect on exchange rate changes on cash and cash equivalents	11	10	(3)
V. Increase/decrease in cash and cash equivalents	1,435	(2,771)	(3,111)
VI. Cash and cash equivalents at beginning of year	20,426	23,538	23,538
VII. Cash and cash equivalents at term end	21,861	20,767	20,426

Segment information

Segment information by business type

First 9 Months (from Apr. 1, 2005 to Dec. 31, 2005) of FY March 2006 (from Apr. 1, 2005 to Mar. 31, 2006)

(Millions of yen)

Accounts \ Segment	Office Furniture	Store Displays	Material Handling Systems and Others	Total	Unallocated and Eliminations	Consolidated
I. Net sales and operating income (loss)						
Net sales						
1) Net sales to external customers	84,999	50,552	9,478	145,030	-	145,030
2) Internal sales or transfers between segments	-	-	-	-	(-)	-
Total	84,999	50,552	9,478	145,030	(-)	145,030
Operating expenses	81,575	49,841	8,971	140,388	(-)	140,388
Operating income	3,423	711	506	4,641	(-)	4,641

First 9 Months (from Apr. 1, 2004 to Dec. 31, 2004) of FY March 2005 (from Apr. 1, 2004 to Mar. 31, 2005)

(Millions of yen)

Accounts \ Segment	Office Furniture	Store Displays	Material Handling Systems and Others	Total	Unallocated and Eliminations	Consolidated
I. Net sales and operating income (loss)						
Net sales						
1) Net sales to external customers	80,830	53,847	7,449	142,127	-	142,127
2) Internal sales or transfers between segments	-	-	-	-	(-)	-
Total	80,830	53,847	7,449	142,127	(-)	142,127
Operating expenses	78,180	51,534	7,305	137,020	(-)	137,020
Operating income (loss)	2,649	2,313	144	5,106	(-)	5,106

Previous Consolidated Fiscal Year (from April 1, 2004 to March 31, 2005)

(Millions of yen)

Accounts \ Segment	Office Furniture	Store Displays	Material Handling Systems and Others	Total	Unallocated and Eliminations	Consolidated
I. Net sales and operating income (loss)						
Net sales						
1) Net sales to external customers	118,040	68,595	9,891	196,526	-	196,526
2) Internal sales or transfers between segments	-	-	-	-	(-)	-
Total	118,040	68,595	9,891	196,526	(-)	196,526
Operating expenses	111,730	66,021	9,793	187,546	(-)	187,546
Operating income	6,310	2,573	97	8,980	(-)	8,980

(Note) 1. Business segmentation method
Business segmentation is based on considerations of similarities among product types (inclusive of operations) and markets

2. Classification of main products by business segment

Business segment	Main Products
Office Furniture	Office furniture, Cultural and educational facilities, Partitions, Medical and research facilities, Security systems, SOHO-related products
Store Displays	Display shelving for stores, Refrigerated showcases, Counters for stores
Material Handling Systems and Others	Racks and stackers for factories and warehouses, Automated material handling systems, Torque converters for industrial and construction equipment, Real estate leasing, Insurance