

Okamura Corporation
ANNUAL REPORT 2004



okamura



“Quality pays for itself”

Awarded Gold IDEA in 2004



Contessa Wins Gold Industrial Design Excellence Award

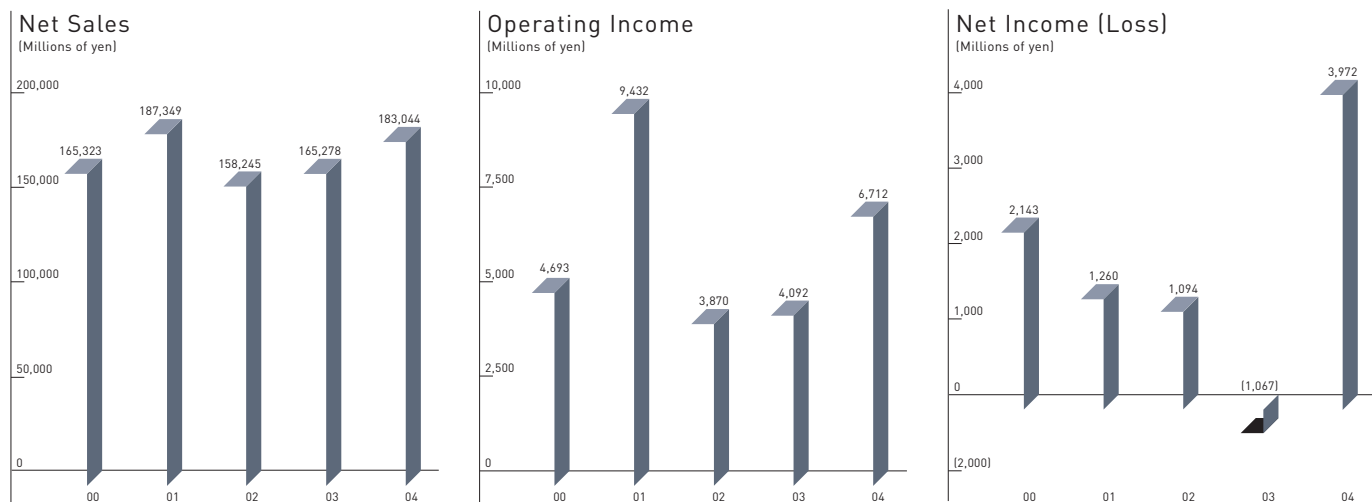
A key trend reflected in this year’s design was the move toward environmentally friendly products. Contessa won approval for incorporating materials with low chemical emissions to help protect the world’s ecology.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

Years Ended March 31, 2002, 2003 and 2004	Millions of yen, except per share figures			Thousands of U.S. dollars, except per share figures
	2002	2003	2004	2004
Summary of Operations:				
Net sales	¥158,245	¥165,278	¥183,044	\$1,731,895
Operating income	3,870	4,092	6,712	63,506
Net income (loss)	1,094	(1,067)	3,972	37,582
Net income (loss) per share	¥ 9.74	¥ (9.50)	¥ 35.41	\$ 0.34
Year-end Financial Position:				
Total assets	¥155,862	¥157,802	¥172,825	\$1,635,207
Total shareholders' equity	52,386	51,779	59,265	560,744
Equity ratio	33.61%	32.81%	34.29%	—
Interest-bearing debt	44,084	39,999	35,180	332,860
General:				
Capital expenditures	¥ 2,480	¥ 2,915	¥ 4,531	\$ 42,871
Depreciation and amortization	4,603	4,447	4,487	42,454
Dividends per share	¥ 5.00	¥ 5.00	¥ 7.50	\$ 0.07
Common Stock Prices:				
High	¥ 815	¥ 675	¥ 731	\$ 6.92
Low	506	372	368	3.48

U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥105.69=US\$1.



TO OUR SHAREHOLDERS

The Okamura Group continues to lead in the creation and development of new markets with innovative new products for office furniture and store displays as well as material handling systems, guided by “information technology (IT),” “globalization” and “specialization” as the key words for corporate reform. In addition, we continue to pursue increased customer satisfaction by providing solutions as well as innovative new products in response to diversifying needs. Our aim is to be the “optimal space solutions company” and to firmly establish Okamura as Japan’s leading company in the office furniture and store displays businesses as we strive for future growth and development.

We at Okamura are aggressively pursuing a further solidification of our sales and earnings base by proposing the enhancement of productivity in the new, ubiquitous age of diversifying work styles, and at the same time by targeting growth markets such as home centers and drugstores, where demand for new stores and the renovation of existing stores is strong. In addition, by further enhancing our technological expertise, design strengths, product quality, and integrated design-to-production capabilities to produce environmentally friendly products, we will continue working to establish Okamura as a global brand.

1

MAJOR ACTIVITIES AND ACCOMPLISHMENTS DURING FISCAL 2004

The business environment for fiscal 2004 (the fiscal year ended March 31, 2004) was characterized by a growing number of positive economic developments, although not quite a full-fledged recovery. Our efforts to develop office-related demand produced noticeable results, given the increase of secondary and tertiary relocation, arising from the upsurge in redevelopment projects in the central Tokyo area. We also saw a steady improvement in results from our efforts to capture store-related demand from new store openings and renovations. As a result, net sales increased 10.7% over the previous fiscal year to ¥183,044 million.

At the same time, we continued our efforts to reduce total costs. In particular, production cost savings were achieved by the building of a supply chain management (SCM) system and the promotion of the cell production method for small-lot production, which contributed to the reduction of inventory levels and reduced distribution costs. Moreover, we continued working to improve inventory asset efficiency and to reduce interest-bearing debt to strengthen our balance sheet.



Kikuo Nakamura, Chairman



Kazuyoshi Hisamatsu, President

The result of these efforts was a 64.0% increase in operating income for the fiscal year to ¥6,712 million. Net income for the period recovered sharply, from a deficit of ¥1,067 million in the previous fiscal year to ¥3,972 million, while net income per share rebounded from a minus level in the previous fiscal year to ¥35.41 per share.

1-1 Rejuvenation of the Office Furniture Business

Solid results were produced in the office furniture business through efforts to capture the demand arising from secondary and tertiary office relocation, relating to metropolitan redevelopment projects, based on the introduction of new products to match diversifying work styles and solutions-based sales to gain aggregated orders. In addition, we have for some time been utilizing our Garden Court showroom in Tokyo's New Otani hotel as a vehicle for proposal-based sales by allowing customers to experience first-hand our superior office interiors.

In February 2004, we completely renewed our Osaka showroom on Midosuji Avenue in Osaka. This showroom is the base from which we are actively promoting our "five senses sales" activities to deepen our penetration of Kansai region-based demand.

In October 2002, Okamura launched the industry's first global strategic product called the "Contessa," an ergonomic mesh chair developed in collaboration with the famous Italian industrial designer Giorgetto Giugiaro. Under the slogan "born in Japan, raised in the world," sales of this chair have favorably expanded from the U.S. to Europe, and it is now sold in 21 countries.

In the security area, Okamura offers a diverse range of products to meet customer needs, including vaults for financial institutions, total security systems such as access control systems, and flood barriers. In addition, given the synergies with the office furniture and store displays businesses, the security business saw favorable sales expansion.

As a result, sales in this segment increased 4.8% to ¥108,873 million for the fiscal year, and produced a 107.2% surge in operating income to ¥3,238 million.

1-2 New Historical High in the Store Displays Business

Aided by an increase in new large-scale and specialty store investment and expanded existing store renewal demand, Okamura leveraged its strength as the only company in Japan that can provide total store facilities both for display shelves and for refrigerated and freezer showcases, while at the same time offering attractive proposal-based store design and construction that meets the diversifying needs of consumers. This, in addition to active efforts to develop new customers, resulted in a significant increase in sales and operating income.

Consequently, sales for the Store Displays segment during the period under review were up 20.3% to ¥66,647 million and produced a 20.4% increase in operating income to ¥3,560 million.

Additionally, given future growth prospects in refrigerated and freezer showcases demand, and in keeping with the increase in sales, additional capital investment was made in March 2004 at our Fuji plant to expand capacity. In utilizing the latest facilities and the cell production method, we have achieved a highly efficient production structure that has expanded capacity 1.3-fold while reducing work in progress to zero.

1-3 Approaching Breakeven Profits in the Material Handling Systems and Others

The material handling systems business saw sales growth backed by favorable demand in the pharmaceutical wholesale, transportation and automobile industries, and active sales promotion of automated warehouse systems, delivery/sorting equipment, production facility large component handling systems and small component storage/supply systems.

On the other hand, orders for forklift and other torque converters in the hydraulic transmission business increased on a recovery in domestic capital expenditures and favorable exports with growth in the Asian economies.

As a result, sales for the segment increased 24.8% to ¥7,524 million for the fiscal year under review while the operating loss declined to ¥86 million.

okamura's solution

01

design



In addition to pinpointing customer needs, Okamura markets lasting products with superior designs that combine special qualities with safety and colorfastness. This stance is reflected in the receipt of an industry-leading 436 Good Design and 63 Long-life Design awards.

2

OUTLOOK: BUSINESS EXPECTATIONS FOR FISCAL 2005

The outlook for the business environment in fiscal 2005 is for continued gradual recovery, given the increase in capital expenditures arising from improved corporate profits by the private sector, and improved employment conditions as well as personal consumption. Okamura will continue its efforts to deepen its market presence and expand sales through such measures as focusing management resources on growth markets and segments, and the introduction of new products. In addition, we will continue to pursue enhanced profitability; through SCM systems and the expansion of proprietary new production methods to promote the further reduction of costs, further automation and labor savings, distribution cost reductions, more concentrated and more global materials procurement, and lower inventory levels.

2-1 Further Strengthening Profitability in the Office Furniture Market

An upsurge in large-scale redevelopment projects during fiscal 2004 resulted in active demand as many companies moved offices as secondary or tertiary relocations. Okamura was able to capture this demand and to produce solid profits by utilizing our integrated project management skills that include interior design and moving assistance, and our facilities management skills, in actively pursuing solutions-based aggregated orders for office furniture, architectural products and public facilities.

In addition, raising the productivity of white-collar workers will become an increasingly important issue in the new ubiquitous age. Changes in the management environment are expected to lead to qualitative changes in office demand. By proactively offering our proposals on how the future office should be, we aim to develop new demand and to further expand our business.

Outside of the major metropolitan areas, there is increased competition among local governments to provide enriched and enhanced living environs. Given the low birth rate and the aging of the Japanese population, this is expected to lead to future market growth. As a result, Okamura is actively cultivating universities as well as national and large private hospitals in the educational and health care facilities markets, and where we believe Okamura can leverage its superior solutions-based marketing.

In the security business, Okamura is strengthening its sales network and maintenance services organization in an effort to grow this business into one of our main lines. Demand for safe-related facilities for financial institutions, including vaults and rental safe-deposit facilities, is expected to grow in keeping with the increased variety of banking and other outlets. In addition, there is a growing awareness of security in office buildings, production and research facilities and commercial facilities, and this is expected to lead to growing demand for total security systems such as access control systems and surveillance camera equipment.

planning



Okamura creates attractive workplaces with carefully considered appeal and innovative work styles, adding colorful touches for the 'Creation of People-Friendly Environments.'

In addition, combined with diverse store needs, Okamura produces an effective and original store environment.

TO OUR SHAREHOLDERS

2-2 Focusing Management Resources on the Growth Area of the Store Displays Business

The store displays business is Okamura's second business pillar, and in the future we will be focusing management resources on those areas with the highest growth potential. In addition to supermarkets and home centers, the number of new drugstores and discount stores is on the rise, as is store renewal demand. Okamura is working to further expand its presence in these market segments. Among these, particular focus is being placed on the larger companies with the most aggressive growth strategies.

In addition, Okamura is making solid progress in gaining aggregated orders for store display shelves and refrigerated and freezer showcases, and is aiming to achieve growth in sales and earnings in excess of the overall growth of the market.

2-3 Aiming for an Early Return to Profitability in the Material Handling Systems and Others

In the material handling systems business, in addition to pursuing synergies with the office furniture and store displays businesses, Okamura will in the future be placing particular focus on the favorable medical equipment wholesaling, transport and automobile industries in terms of new customer development. Additionally, we have begun full-fledged sales to gain exposure to the growth in demand in the China market.

In the hydraulic transmission business, we will continue our efforts to expand sales of forklift and other torque converters, aided by the recovery in domestic capital expenditures and the favorable environment for exports to Asia in general and China in particular.

2-4 Full-scale Development of Overseas Markets

In overseas markets, Okamura will continue its efforts to expand overseas sales of its strategic "Contessa" ergonomic mesh chair. In April 2004, the chair was exhibited at the EIMU 2004, the foremost office furniture exhibition that was run concomitantly with Milan's Salone Internazionale del Mobile furniture show. Through such efforts, Okamura aims to further expand the sales area of this product.

Further demand expansion and sales growth is foreseen in the Chinese market, and Okamura established a local subsidiary called Shanghai Okamura Furniture & Logistics System Co., Ltd. in June, 2004 that will be the base from which we will work to expand our sales presence in response to the rapidly growing demand in China.

2-5 Environmental-related Activities

Okamura has created a long-term environmental vision outlining its contribution to a sustainable society, and launched its fourth medium-term environmental plan in April 2003. In addition to making solid progress in achieving stated goals, Okamura's environmental activities have received high acclaim.

Going forward, based on a foundation of growing mutual trust and a reduced environmental burden from our products and services, Okamura will continue pursuing further environmental countermeasures in all of its corporate activities.

production



Okamura aims to reconcile the establishment of proprietary manufacturing methods with high quality and cost reductions across all its businesses. In particular, by building up our proprietary cell production method, we make our highly efficient production system feasible for various types of products, each of which contains very small lots.

From the customer standpoint, products born of state-of-the-art facilities and high levels of technological expertise possess an inherent reliability.

2-6 Corporate Governance

Amidst increasing demand for effective corporate governance, Okamura aims to build and maintain good relations among its various stakeholders.

As a basic policy, Okamura has invited outside directors and is promoting a more efficient and effective functioning of its Board of Directors. In addition, outside auditors have been elected and tasked with the strict auditing of how the directors perform their duties as corporate officers. In addition to establishing both a "Code of Ethics" and "Standards of Conduct" as corporate conduct guidelines, Okamura conducts regular training sessions to ensure compliance with these guidelines. Moreover, in order to strengthen Okamura's compliance activities, a compliance officer has been appointed, while a compliance committee and a compliance hotline system have been introduced to ensure continuous and consistent adherence to legal requirements, transparency and ethical behavior in all of Okamura's business activities.

3

TOWARD FURTHER GROWTH

Okamura has continued its efforts through earnings improvement measures aimed at the continued improvement in our growth and earnings potential. However, given the possibility of future significant social changes such as socioeconomic diversification and globalization, Okamura must in the future be able to flexibly and rapidly respond.

Going forward, Okamura will continue to pursue management reforms, beginning with the "selection" and "concentration" that is the core of our medium-term management vision, the active focusing of corporate resources in cultivating growth businesses, and the continued groupwide restructuring of businesses and systems aimed at enhancing efficiency and creating a highly profitable corporate structure.

In terms of profit distribution, Okamura aims to implement profit distribution that is linked to our business performance, while at the same time giving due consideration to our financial condition, future business development and internal reserves. Under this profit distribution policy, Okamura will endeavor to provide stable dividends.

In addition, in order to fulfill our social responsibilities while achieving the continuous growth of our business, we will make every effort to meet the expectations of our stakeholders and to earn their increasing appreciation for these efforts.

We sincerely solicit your continued favor and support in these endeavors.



Kikuo Nakamura, Chairman



Kazuyoshi Hisamatsu, President



logistics



Okamura is building up a superior, highly efficient proprietary logistics system with low environmental impact characteristics. The Company is also promoting far-reaching measures to reduce packaging materials including the use of superior, environmentally friendly returnable transport packages expressly intended for the purpose.

CORPORATE SOCIAL RESPONSIBILITY

The Okamura Group is committed to building a strong relationship with all stakeholders including shareholders and investors. Through its quality products and services, the Group will cultivate close ties with customers, contribute to the local community and the society in which it operates, and promote management activities aimed at becoming a dynamic corporate entity.

Okamura was founded as a cooperative factory based on the mutual efforts and combination of the funds, technologies and labor of its employees. From this starting point, our employees have been constantly aware of their important role in business development, and we have implemented various measures to create a safe and comfortable work environment full of vitality.

Moreover, we aim to coexist with local communities through exchange with neighboring residents and government institutions, including the opening up of our gym facilities to local communities, offering tours of our plants to elementary school children, and participating in local cleanup campaigns. Taking advantage of the special business qualities of Okamura, the Company proactively engages in art projects through collaboration with people active in the fields of art, architecture and design.

Through these activities, Okamura aims to remain a company trusted by all stakeholders.

1. CODE OF CONDUCT

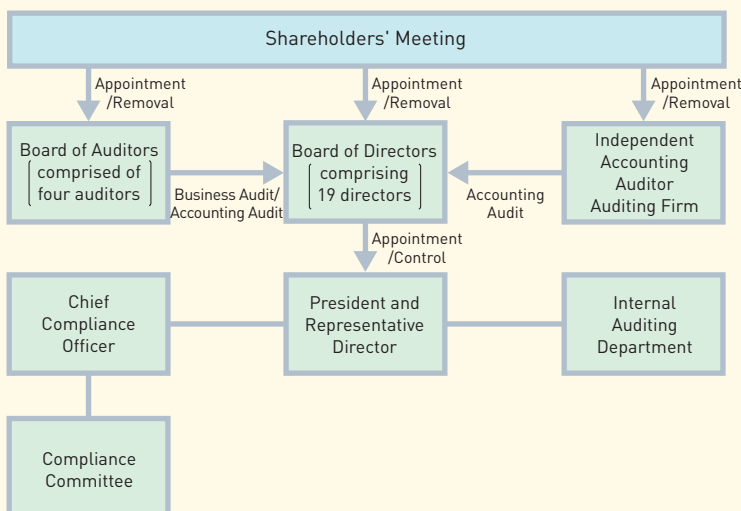
The Okamura Group has conducted corporate activities in a manner consistent with the interests of its stakeholders. We have thoroughly instilled in our directors and employees the awareness that our daily conduct is the foundation for gaining the strong trust and approval of society by strictly complying with laws and regulations, in-house rules and corporate ethics including respect for social norms.

In April 2003, Okamura formulated its Charter of Corporate Conduct and Code of Conduct as a means for precisely communicating what is appropriate behavior to all members of the Okamura Group. All directors and employees use these references in their daily conduct to take responsibility for their actions in good faith as a member of the Okamura Group and a member of society.

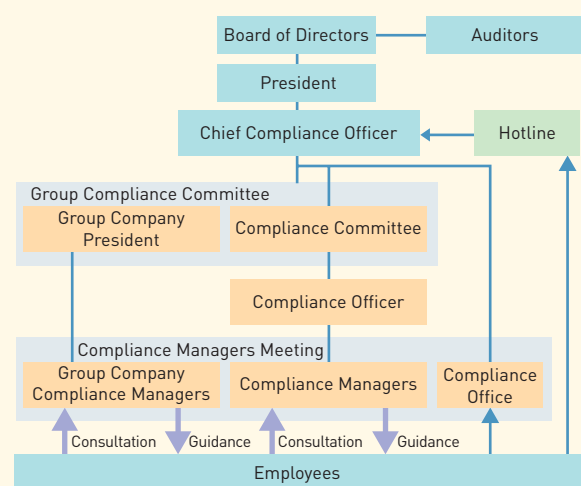
2. CORPORATE GOVERNANCE

To effectively implement corporate governance, Okamura aims to build positive relationships with all stakeholders of the Group. Based on this fundamental policy, we promote higher efficiency in management by electing external directors and enhancing the functions of the Board of Directors. Moreover, we assign external auditors to ensure appropriate auditing of the business execution of our directors. Okamura has established the Compliance Committee to regularly perform activities to ensure the strict compliance of laws and regulations, fairness and ethical conduct in the corporate activities of the Okamura Group. Sharing an awareness of issues among all members, we have set up a compliance hotline as a cross-support system to quickly resolve issues and increase the effectiveness of corporate governance.

Business Execution, Audit and Internal Control Structure



The Okamura Group's Compliance Structure



3. BUSINESS RISKS

The following risks may adversely affect the business performance, share price or financial standing of the Okamura Group. Okamura's financial position and business performance may be adversely affected by competition, prices, economic conditions, fund raising risk, changes in interest rates and valuations of investments in securities. Quality management and laws and regulations may impact the Company's ability to maintain product quality.

The Company will make every effort to control and avoid risk as much as possible through effective management of risk, and at the same time disclose information about risk voluntarily.

4. ENVIRONMENTAL ACTIVITIES

Positioning the environment as an important management issue, the Okamura Group—as a leading company in the industry—actively engages in activities to preserve the environment. Instead of taking special measures to protect the environment, Okamura has shifted all of its corporate activities to emphasize preservation of the environment on a daily basis, and efficiently promotes environmental activities Groupwide.

Moreover, since its foundation Okamura has served its customers through high-quality products and services, and has regarded the environment as a key issue even before it became a theme common to all people. To this end, we continue to develop products that offer both high quality and environmentally friendly designs to our customers. Based on our motto that "Quality pays for itself," we continue to provide products and services that benefit customers.

In 2003, our ergonomic mesh chair Contessa received GREENGUARD certification—an environmental standard in the United States—a first for Japanese-made office furniture. This certification is given only to products that have cleared tests for emissions of organic substances by the American Society for Testing and Materials, as well as stringent reviews by the Environmental Protection Agency in the United States, the State of Washington and the Blue Angel organization in Germany.

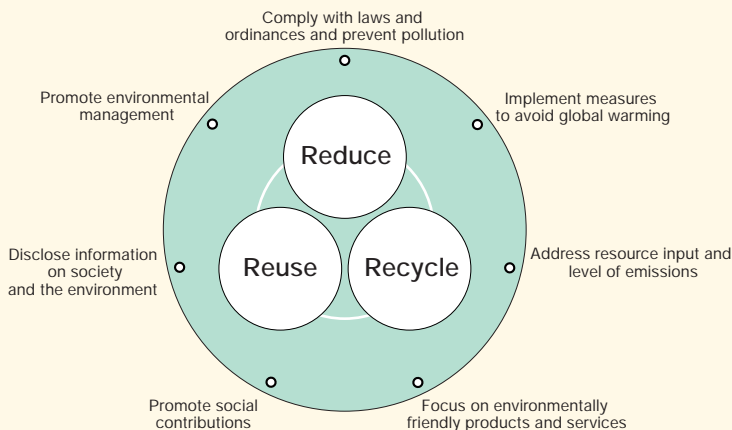


GREEN WAVE 21

Okamura has adopted the slogan "Green Wave 21," to reflect the Company's proactive efforts, in the 21st century, to create a "Wave" of activity, contributing to "Green" environmental preservation and a better society. The Company's select proprietary Green Wave products are identified by an environmentally conscious symbol.



GREENGUARD certification



Contessa

BUSINESS AT A GLANCE



Office Furniture

In addition to the core business of office furniture products, the office furniture segment includes partitions, architectural products, various types of public facility furniture and security systems. The Company makes proposals for optimal workplace creation by offering total solutions, ranging from office space design to facilities management, in response to customer needs.

Office Furniture

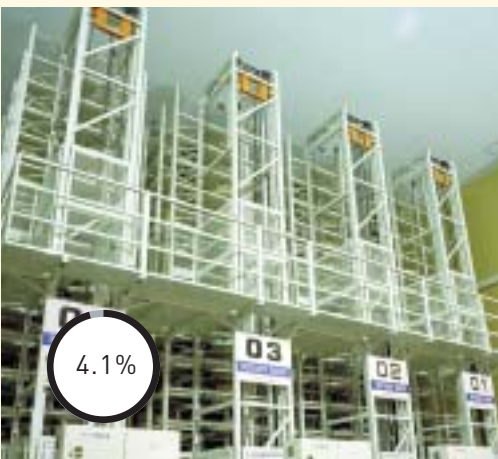
*The above chart shows percentage of consolidated sales



Store Displays

The second core business of the Company, the store displays business includes display shelves, refrigerated and freezer showcases, store counters and other furniture and fixtures for store environ facilities. The Company has established the top market share in the sector by offering total store creation support, from store planning and design to assembly, in response to rapidly changing business conditions in the retail industry.

Store Displays

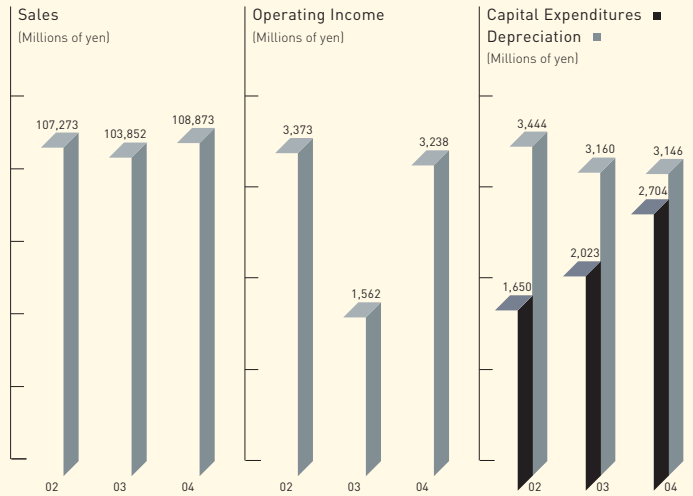


Material Handling Systems and Others

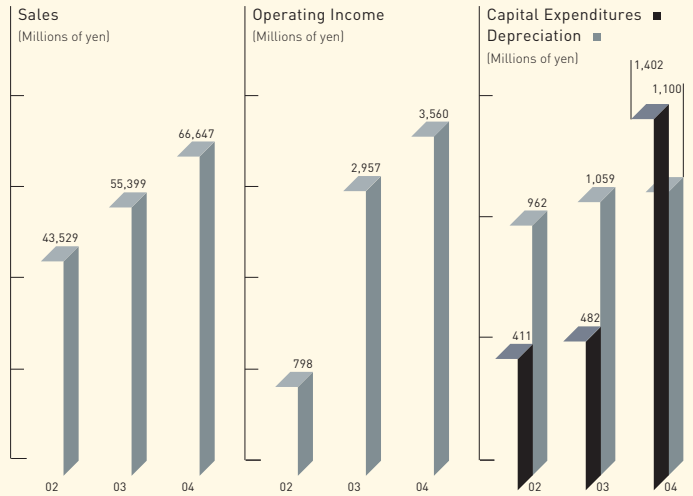
In addition to storage shelves for factories and warehouses, automated warehouse and other system equipment, as well as industrial vehicle/construction equipment-use hydraulic transmissions, this segment also handles real estate rental and an insurance business. In the material handling systems business, we actively market to manufacturers and wholesalers of medical products, convenience goods, foods, home appliances and automobile components. The start-up of China operations has been particularly favorable.

Material Handling Systems

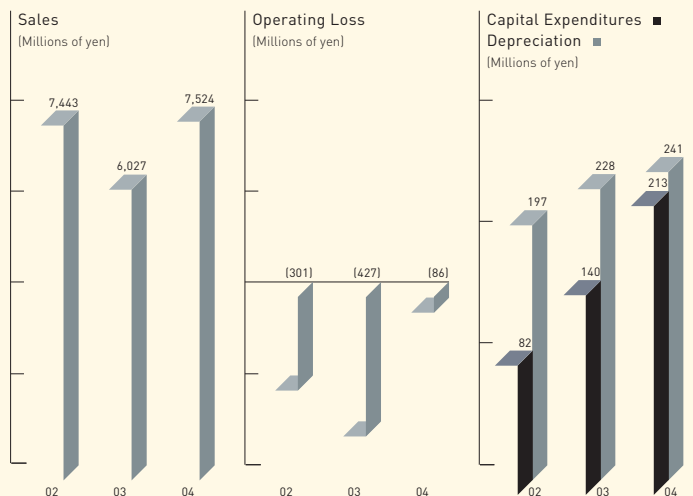
Major Products: Desk systems, Office seating, Low partitions, Storage systems, Lobby-use furniture and fixtures, Educational facility furniture and fixtures, Medical facility furniture and fixtures, Architectural products, Partitions, SOHO furniture, Vault doors, Rental safe deposit facilities, Access control systems, Surveillance camera equipment, Flood barriers, Nuclear power/sealed facilities



Major Products: Store display shelves, Refrigerated and freezer showcases, Store counters



Major Products: Storage shelves, Automated warehouses, Rotary racks, Various transport equipment, Various sorting equipment, Industrial vehicle/construction equipment-use hydraulic transmissions



and Others

BOARD OF DIRECTORS AND AUDITORS

Chairman

Kikuo Nakamura



Kikuo Nakamura

President

Kazuyoshi Hisamatsu



Kazuyoshi Hisamatsu

Senior Managing Director

Tatsuo Ozawa



Tatsuo Ozawa

Managing Directors

Masayuki Nakamura

Koichi Kurasaki

Tamotsu Muroya



Masayuki Nakamura



Koichi Kurasaki



Tamotsu Muroya

Directors

Masayuki Takashima

Mutsuo Hayashi

Kazuhiko Matsumura

Tsutomu Hirako

Hiroshi Makino

Hideharu Sekino

Kiyoshi Sato

Masaki Tsuchiya

Hiroshi Moriwake

Takao Musa

Takao Suzuki

Onoyuki Kondo

Hiroki Iwashita



Masayuki Takashima



Mutsuo Hayashi



Kazuhiko Matsumura



Tsutomu Hirako



Hiroshi Makino



Hideharu Sekino



Kiyoshi Sato



Masaki Tsuchiya



Hiroshi Moriwake



Takao Musa

Standing Corporate Auditors

Masao Sakurai

Kiyoshi Noji



Takao Suzuki



Onoyuki Kondo



Hiroki Iwashita

Corporate Auditors

Shohachi Oki

Yuichi Suzuki

(As of June 29, 2004)

CORPORATE PROFILE

Corporate Data

[As of March 31, 2004]

Head Office

Tenri Bldg., 1-4-1, Kitasaiwai, Nishi-ku,
Yokohama 220-0004, Japan
Telephone: +81-45-319-3401
Facsimile: +81-45-319-3515
<http://www.okamura.co.jp/>

Tokyo Office

Kokusai Shin-Akasaka Bldg. West
6-1-20, Akasaka, Minato-ku,
Tokyo 107-0052, Japan
Telephone: +81-3-5561-4085
Facsimile: +81-3-5561-4086

Foundation

1945

Stock Exchange Listings

Tokyo, Osaka

Japanese Security Code No.

7994

Paid-in Capital

¥18,670 million

Number of Employees

Consolidated: 3,471

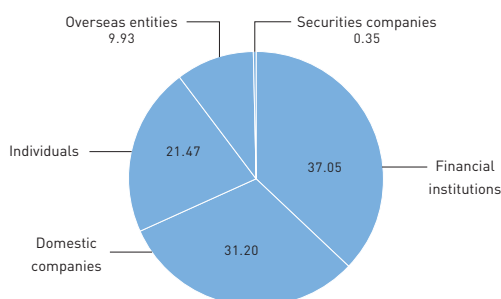
Subsidiaries

Kansai Okamura Manufacturing Co., Ltd.
NS Okamura Corporation
Okamura Logistics Corporation
Okamura Estate Corporation
Okamura International (Singapore) Pte Ltd.
Okamura Business Support Corporation
FM Solution Corporation
Okamura Support and Service Corporation
Hill International Inc.

Affiliates

JT Okamura Corporation
Siam Okamura Steel Co., Ltd.
Siam Okamura International Co., Ltd.
Asahi Sofu Corporation
SEIWA BUSINESS Corporation

Distribution of Stock by Shareholder Type [%]



Stock Information

[As of March 31, 2004]

Number of Shares of Common Stock

Authorized: 200,000,000
Issued: 112,391,530

Number of Shareholders

6,149

Major Shareholders

	(Thousands of shares)
Mitsubishi Corporation	9,163
Okamura Group Employees Stock Ownership Plan	6,287
Mitsui Sumitomo Insurance Co., Ltd.	5,895
Meiji Yasuda Life Insurance Company	5,437
Nippon Steel Corporation	5,313
The Master Trust Bank of Japan, Ltd.	5,225
Japan Trustee Services Bank, Ltd.	4,878
The Bank of Tokyo-Mitsubishi, Ltd.	4,654
The Bank of Yokohama, Ltd.	4,076
Okamura Group Suppliers and Sub-contractors Stock Ownership Plan	3,615

Note: The list of major shareholders is prepared from the register of shareholders as of March 31, 2004. Although a Notice of Change in Large-scale Shareholdings was submitted on May 26, 2004 to the Kanto Finance Bureau by Schroder Investment Management (Japan) Ltd., the Company has not included such information in the above table because that information had not been confirmed as part of the register of shareholders.

Details of the Notice of Change in Large-scale Shareholdings submitted on May 26, 2004 are as follows:

	(Thousands of shares)
Schroder Investment Management (Japan) Ltd.	7,667

Stock Price

(Yen)

