

# OKAMURA ANNUAL REPORT 2005





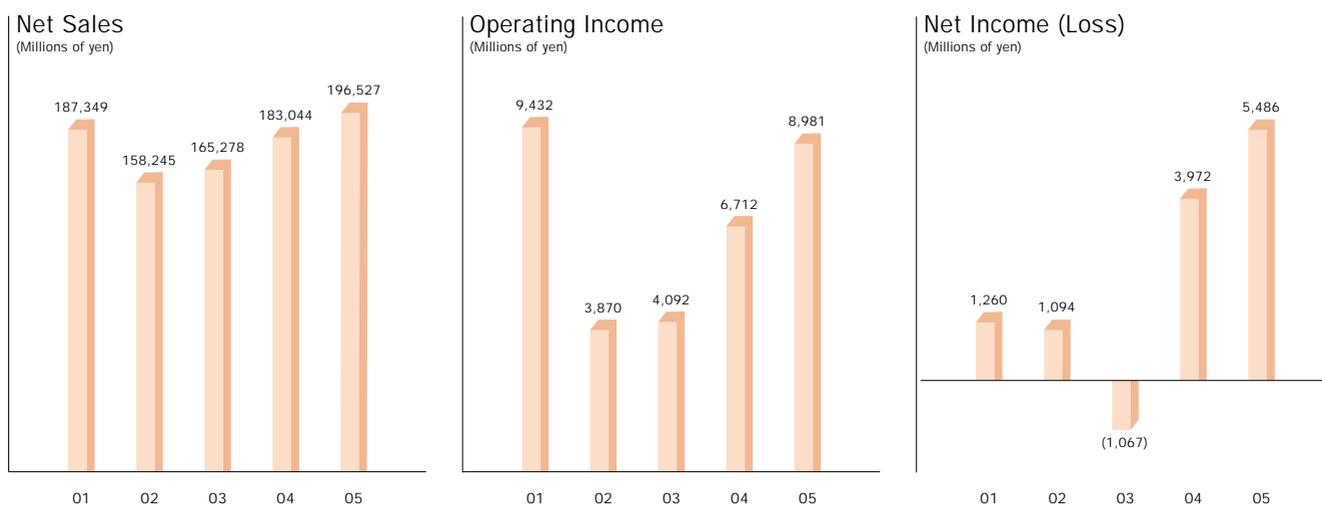
# “Quality pays for itself”

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# Consolidated Financial Highlights

Years Ended March 31, 2003, 2004 and 2005	Millions of yen, except per share figures			Thousands of U.S. dollars, except per share figures
	2003	2004	2005	2005
<b>Summary of Operations:</b>				
Net sales	¥165,278	¥183,044	¥196,527	\$1,830,031
Operating income	4,092	6,712	8,981	83,630
Net income (loss)	(1,067)	3,972	5,486	51,085
Net income (loss) per share	¥ (9.50)	¥ 35.41	¥ 48.93	\$ 0.46
<b>Year-end Financial Position:</b>				
Total assets	¥157,802	¥172,825	¥173,623	\$1,616,752
Total shareholders' equity	51,779	59,265	63,965	595,633
Equity ratio	32.81%	34.29%	36.84%	—
Interest-bearing debt	39,999	35,180	29,980	279,169
<b>General:</b>				
Capital expenditures	¥ 2,915	¥ 4,531	¥ 4,648	\$ 43,282
Depreciation and amortization	4,447	4,487	4,485	41,764
Dividends per share	¥ 5.00	¥ 7.50	¥ 10.00	\$ 0.09
<b>Common Stock Prices:</b>				
High	¥ 675	¥ 731	¥ 984	\$ 9.16
Low	372	368	671	6.25

U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥107.39=US\$1.



Guided by the motto “Quality pays for itself,” the Okamura Group has since its establishment striven to be beneficial to its customers, and has developed and marketed many products. The Company constantly strives to increase customer satisfaction through comfort and functionality in the work environment, in other habitats, for relaxation, and wherever people gather.

The keywords in corporate innovation today are information technology, globalization, and specialization. Guided by those concepts, 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.

Under these circumstances, the Okamura Group is further expanding its business and shoring up its revenue base by offering support for the many work styles that have emerged as the ubiquitous networking society advances, and is seeking to capture growth markets such as ¥100 shops and drugstores. In addition, the Company is establishing itself as a global brand through the development of environmentally friendly products, honing its capabilities in the areas of technology and design, and through heightened product quality.

Okamura is striving for future growth and development to strengthen its position as the “Optimal Space Solutions Company” and to firmly establish itself as Japan’s leading company in the office furniture and store displays businesses.

# 1.

## Major Activities and Accomplishments During Fiscal 2005

In fiscal 2005, ended March 31, 2005, corporate performance and business confidence were solid at the beginning of the year. As we moved into the second half, however, a full-scale recovery in exports, IT-related demand, consumer spending and employment conditions failed to materialize. As a result, the economy remained in a corrective phase, and stagnant business conditions persisted.

Confronted by this economic environment, Okamura worked to create and develop new markets through aggregated orders, which involves formulating proposals that increase office productivity in ways that are responsive to the diverse work styles that have emerged in the ubiquitous networking society, capturing the supermarket and specialty store market, and moving forward with new product development and proposal-based sales. As a result of these efforts, net sales grew 7.4% to ¥196,527 million.



Kikuo Nakamura, Chairman



Kazuyoshi Hisamatsu, President

To reduce costs, Okamura increased productivity by expanding supply chain management (SCM) and moving forward with a cell production method. We also continued to emphasize cuts in procurement costs and in distribution costs, and to strengthen our financial position by increasing the efficiency of inventory assets and reductions in interest-bearing debt.

As a result of the foregoing, operating income increased 33.8% to ¥8,981 million, and net income rose 38.1% to ¥5,486 million. Net income per share rose ¥13.52 to ¥48.93.

### 1-1

**Revenue and Earnings Growth in the Office Furniture Business** > During the fiscal year under review, Okamura focused efforts on securing new orders. The Company saw continued strength in new office-related demand and demand generated by office relocations in Tokyo, while demand in regional areas also showed signs of recovery. On the back of efforts to expand total orders supported by activities to develop new products and solutions that are suited to the diverse lifestyles of the “ubiquitous age,” the Company achieved a steady increase in net sales.

Sales of the ergonomic mesh chair, *Contessa*, reached the highest level since they were first released. Highly acclaimed in overseas markets, Okamura worked to expand marketing channels for *Contessa* to expand beyond the 45 nations where it is currently sold. Our new *Alzata* office systems and new *Carrozza* and *Feego* office seating products were also well received in the market, and contributed to overall sales results.

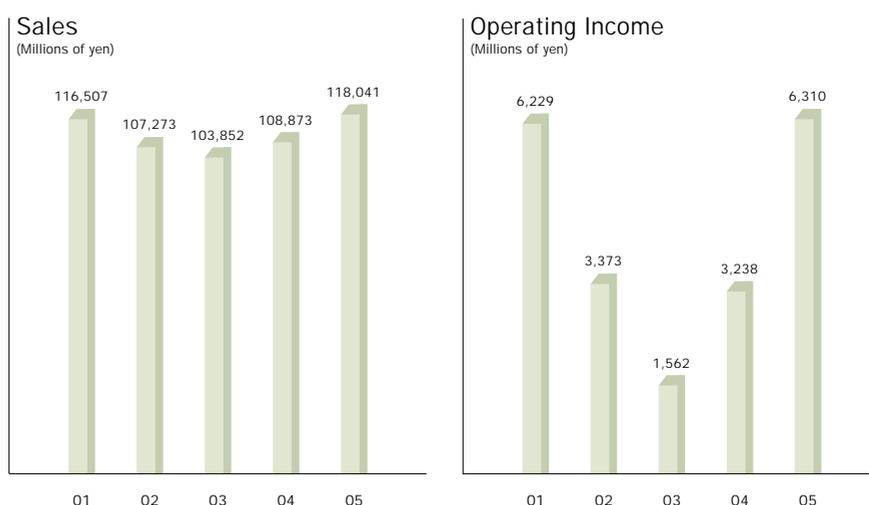
The Company attained a sales increase in the security systems business, with steady demand for vaults for financial institutions, office access control systems, flood barriers, electromagnetic wave-resistant shield doors for hospitals and broadcasting facilities, and other products from our diverse product lineup. Efforts to leverage synergistic effects with other office products also contributed to the increase in sales.

As a result, sales in the Office Furniture segment increased 8.4% to ¥118,041 million, and operating income surged 94.9% to ¥6,310 million.

### 1-2

**Revenue Growth and Income Decline in the Store Displays Business** > Okamura carried out aggressive marketing activities in the Store Displays business, leveraging its strength as the sole company that can provide total store facilities for both display shelves and refrigerator and freezer showcases. At the same time, the Company continued to offer attractive store design and construction suited to the diversifying needs of customers.

#### Office Furniture



Sales growth in the fiscal year under review remained in the 3% range due to the slowdown in the overall retail industry. We believe, however, that the slowdown was a step for further reorganization by clients, and we expect to see healthy growth in this business in the future. In addition, we completed construction of new production lines and increased the number of staff. Though this led to a one-time cost increase in the year under review, we consider this to be an important investment for future growth, as production capacity had been insufficient to keep pace with recent sales increases.

As a result, net sales in the Store Displays segment reached ¥68,595 million, an increase of 2.9% over the previous fiscal year, while operating income declined 27.7% to ¥2,574 million.

### 1-3

**Material Handling Systems and Others Business Returns to the Black** > Leveraging synergistic effects from the Office Furniture and Store Displays businesses, the material handling systems business achieved sales growth, supported by proactive marketing activities to logistics facilities of the pharmaceutical wholesalers, third-party logistics (3PL) and automobile industries. Sales promotions of automated warehouse systems to the Chinese market also contributed to the increase in sales.

In the hydraulic transmission business, upward momentum among domestic industrial machinery manufacturers led to a rise in orders of torque converters for forklifts and other industrial vehicles.

As a result of the above, sales for this segment climbed 31.5% to ¥9,891 million, and operating income returned to the black totaling ¥97 million.

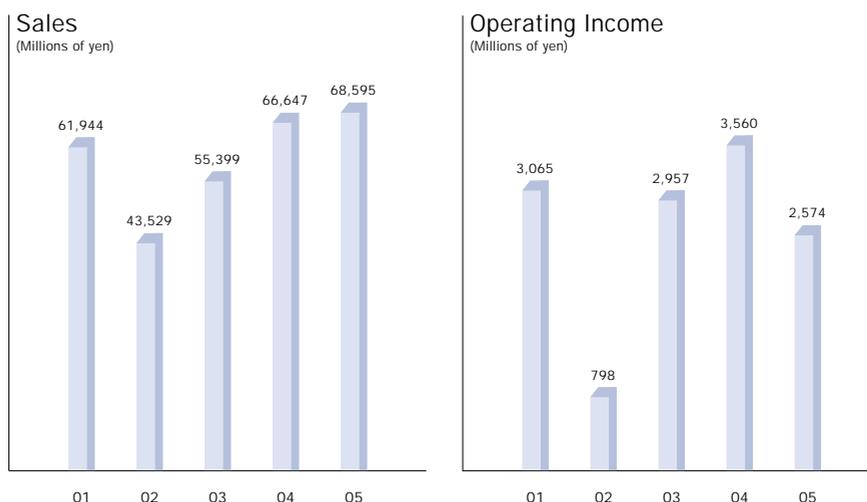


**Contessa**  
Ergonomic Mesh Chair

## 2. Outlook: Business Expectations for Fiscal 2006

The business environment in fiscal 2006, ending March 31, 2006, is expected to be severe, with conditions that do not allow for optimism. The prevailing view of the short term is for a slowdown in the recent recovery, which was led by strong corporate capital expenditures.

### Store Displays





**Baron**  
Ergonomic Mesh Chair

Further uncertainties are aggravated by the inventory adjustments in the IT sector, slowdowns in overseas economies, and the steep prices of crude oil and raw materials. Okamura will continue efforts to deepen market presence and expand sales through such measures as focusing management resources on growth markets and segments and introducing new products.

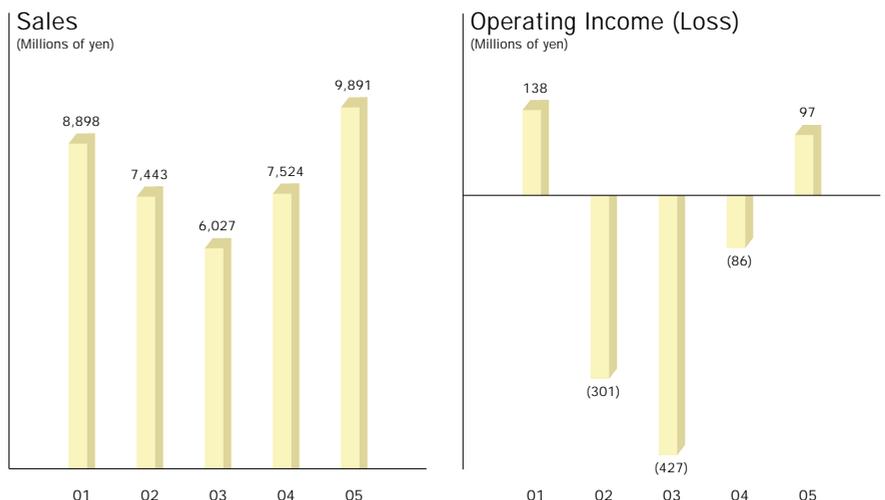
In addition, we will continue to pursue enhanced profitability through further cost reduction efforts. Concerning productivity, we will continue to conduct thorough SCM and expand proprietary new production methods. At the same time, we will review production bases and products, advance automation and laborsaving methods, and work to boost in-house manufacturing. In order to absorb higher costs for raw materials, we will promote more concentrated and global materials procurement. Okamura will also integrate distribution bases, lower inventories and construct a system of direct delivery from manufacturing bases straight to customers for a portion of its products.

## 2-1

**Further Growth through Proposals for the Office of the Future** > Office furniture demand remained sound as a result of large-scale redevelopment projects in metropolitan centers, which fueled further office relocation demand. The Company is also focusing efforts on securing new demand generated by corporate mergers and consolidations. An array of needs are also arising from large-scale corporate office movements, including requests for interior design, wiring setups, and the restoration of office environments that existed prior to moving. To respond to deeply rooted customer needs, ranging from schedule management of such logistical operations to asset management, Okamura will leverage its expertise in project and facility management methods and actively promote growth of its highly competitive solutions business. Through our efforts to raise aggregate orders, we aim to expand sales and secure profit growth.

Raising the productivity of white-collar workers will become an increasingly important issue for all corporations in the new ubiquitous age. Changes in the business environment are expected to lead to qualitative changes in office demand. By proactively offering proposals for the office of the future, we aim to develop new demand and further expand our business.

### Material Handling Systems and Others



With the full enactment of the Law Concerning the Protection of Personal Information, corporate awareness of safety and security issues is increasing. Accordingly, Okamura expects to see growing market needs for vaults and safe-deposit facilities, and for access control and other security systems.

## 2-2

**Focusing Management Resources on Growth Areas of the Store Displays Business** > The Store Displays business is Okamura's second business pillar. In addition to store display shelves and refrigerator and freezer showcases, we will focus on offering total proposals that include surrounding fixtures and backroom areas, and we will strive to raise our in-store share. At the same time, we will continue efforts to gain new customers, including specialty stores within large-scale shopping centers, and to secure demand from the new store and store renovation markets. We continue to aim for growth in sales and earnings in excess of the overall growth of the market.

## 2-3

**Aiming for Consistent Profitability in the Material Handling Systems and Others Business** > While pursuing further synergy of the Office Furniture and Store Displays businesses, the material handling systems business will continue efforts to gain new customers in the pharmaceutical wholesalers, 3PL and automobile industries. In addition, we will actively develop marketing activities for automated warehouse and inventory storage systems in the growing Chinese market.

In the hydraulic transmission business, we will continue sales of torque converters for forklifts and other industrial vehicles in expectation of a recovery in domestic capital expenditures and strong exports resulting from growth in Asian economies, especially China.

## 2-4

**Full-scale Development of Overseas Markets** > In overseas markets, Okamura will work to strengthen newly established branches and subsidiaries, continue to expand sales of the ergonomic mesh chair, *Contessa*, and reinforce our sales structure in response to demand in the robust Chinese market.

## 2-5

**Environmental Activities** > Okamura created a long-term vision to guide its contributions toward creating 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 are highly evaluated by outside parties.

Based upon our determination to deepen our relationship of trust with society, we will further advance environmental measures in all of our business activities by reducing the environmental impact of our products and services.

## 2-6

**Corporate Governance** > Amidst increasing demand for effective corporate governance, Okamura aims to build and maintain good relations with its diverse stakeholders.

In light of this basic policy, Okamura has brought in highly experienced outside directors, and is promoting a more efficient and effective functioning of its Board of Directors. In addition, outside auditors have been appointed and given the task of strict auditing the way in which directors perform the execution of operations. While the Company has established both a "Code of Ethics" and "Standards of Conduct" as corporate conduct guidelines, Okamura regularly conducts training sessions to ensure compliance with these guidelines. Moreover, in order to strengthen compliance activities, we have appointed a compliance officer and established a compliance committee to ensure continuous and consistent adherence to legal requirements, fairness and ethical behavior in all of our business activities.

# 3.

## Toward Future Growth

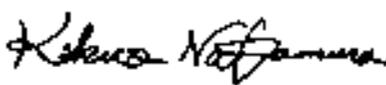
Okamura has formulated several measures in order to consistently improve growth and earnings potential. However, significant transformations related to socioeconomic diversification and globalization are expected, so we will continue to respond flexibly, rapidly and in an appropriate manner.

Based upon the principle of "Creating sustainable businesses and stable growth" that comprises the base of our medium-term management vision, we will continue to proactively invest management resources in cultivating growth businesses, and to further our Group-wide restructuring measures. We will advance in management reform efforts aimed at enhancing capital efficiency and creating a highly profitable corporate structure.

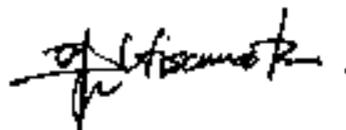
Okamura aims to conduct profit distribution appropriate to our earnings performance, while giving due consideration to our financial condition, future business development and internal reserves. Understanding that return of profits to shareholders and investors is one of management's most important priorities, Okamura endeavors to provide stable dividends.

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

We sincerely request your continued support and understanding of these endeavors.



Kikuo Nakamura, Chairman



Kazuyoshi Hisamatsu, President