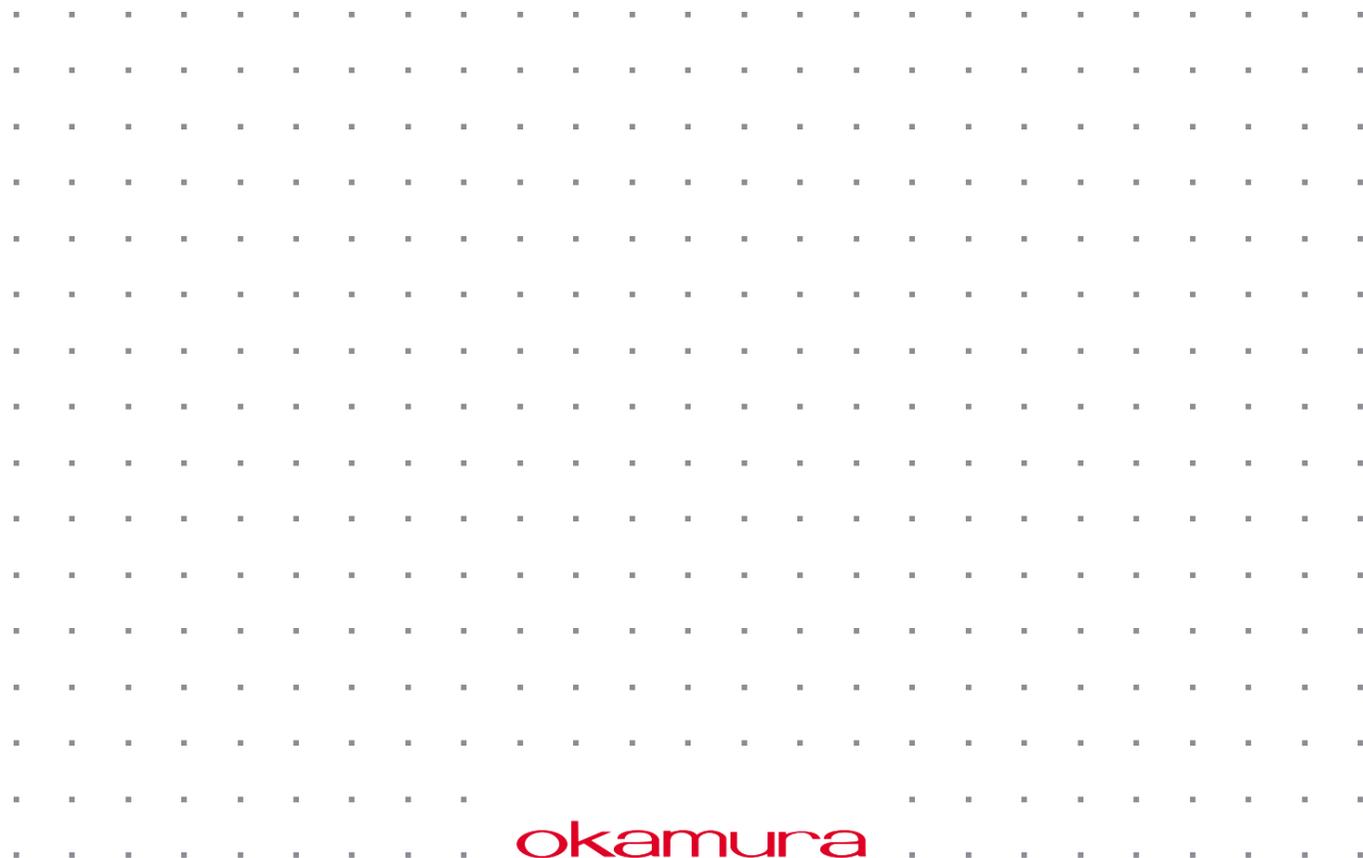


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OKAMURA CORPORATION

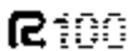
ANNUAL REPORT 2006

# OKAMURA ANNUAL REPORT 2006



**okamura**

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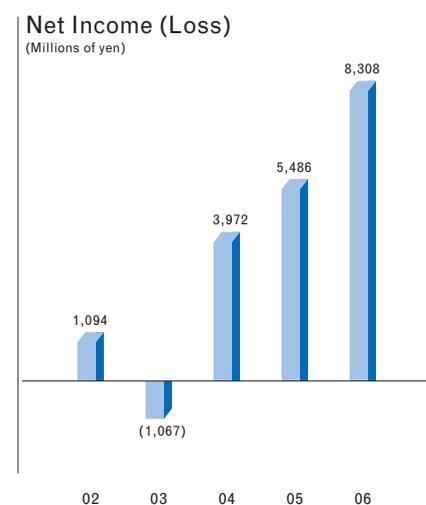
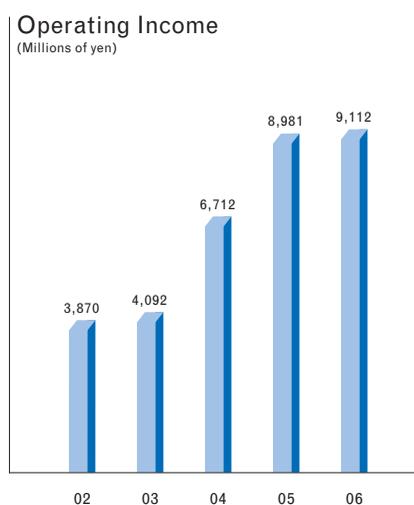
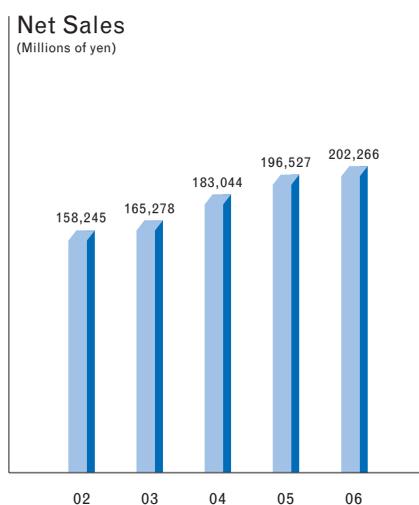
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# Quality pays for itself

# Consolidated Financial Highlights

| Years Ended March 31, 2004, 2005 and 2006 | Millions of yen,<br>except per<br>share figures |          |          | Thousands of<br>U.S. dollars,<br>except per<br>share figures |
|---|---|----------|----------|--|
|   | 2004  | 2005     | 2006     | 2006   |
| <b>Summary of Operations:</b>             |   |          |          |  |
| Net sales                                 | ¥183,044  | ¥196,527 | ¥202,266 | \$1,721,852  |
| Operating income                          | 6,712   | 8,981    | 9,112    | 77,569   |
| Net income                                | 3,972   | 5,486    | 8,308    | 70,724   |
| Net income per share                      | ¥ 35.41   | ¥ 48.93  | ¥ 74.14  | \$ 0.63  |
| <b>Year-End Financial Position:</b>       |   |          |          |  |
| Total assets                              | ¥172,825  | ¥173,623 | ¥185,969 | \$1,583,119  |
| Total shareholders' equity                | 59,265  | 63,965   | 77,148   | 656,747  |
| Equity ratio                              | 34.29%  | 36.84%   | 41.48%   | —  |
| Interest-bearing debt                     | 35,180  | 29,980   | 29,240   | 248,914  |
| <b>General:</b>                           |   |          |          |  |
| Capital expenditures                      | ¥ 4,531   | ¥ 4,648  | ¥ 5,257  | \$ 44,752  |
| Depreciation and amortization             | 4,487   | 4,485    | 4,885    | 41,585   |
| Dividends per share                       | ¥ 7.50  | ¥ 10.00  | ¥ 12.00  | \$ 0.10  |
| <b>Common Stock Prices:</b>               |   |          |          |  |
| High                                      | ¥ 731   | ¥ 984    | ¥ 1,270  | \$ 10.81   |
| Low                                       | 368   | 671      | 699      | 5.95   |

U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥117.47=US\$1.



## To Our Shareholders

Underpinned by the motto "Quality pays for itself," and an unwavering desire to serve its customers, the Okamura Group has consistently produced high-quality products and appealing space solutions since its inception in 1945. Looking ahead, the Group will continue to evolve, guided by today's corporate innovation keywords of "information technology," "globalization" and "specialization." Leveraging its strengths as a comprehensive developer, manufacturer and marketer of Office Furniture, Store Displays and Material Handling Systems, Okamura will bolster efforts to develop its business and enhance corporate value as a "Solutions Company that Creates Comfortable Spaces."

From an information technology perspective, Okamura will work to develop new products that match the diverse work-style requirements of the IT era. Utilizing our expertise and extensive track record in product delivery, we will also advance total office space solutions for the workplace environment of the future. In this manner, our goal is to expand business activities in tune with the IT society.

Turning to the growing trend toward globalization, Okamura is adopting a broad stance in its pursuit of potential tie-ups and collaboration. In this context, we are constantly examining possible technical cooperation and joint product development with the world's leading companies, in an effort to remain one step ahead of new innovations in cutting-edge technology and product design. In addition, we are further promoting partnerships with local companies that best fit our product sales in overseas markets. Based on these endeavors, Okamura is striving to expand sales worldwide.

Working to address the growing demand for specialization, the Okamura Group will leverage individual research achievements and synergies among its various businesses to provide unrivalled quality, comfort and functionality for every possible workplace scene. In creating comfortable spaces, our goal is to further enhance customer satisfaction in each business field.

Going forward, the Okamura Group will establish a unique position within the market, fortify its position as a leading company in Japan and pursue growth as a global business brand.



Kikuo Nakamura, Chairman



Kazuyoshi Hisamatsu, President

# 1.

## Major Activities and Accomplishments During Fiscal 2006

Despite concerns surrounding the sharp rise in crude oil and raw material prices, the business environment in fiscal 2006, ended March 31, 2006, trended toward steady economic recovery in Japan buoyed by robust results in the corporate sector bringing about an increase in private-sector capital investment and a positive upswing in personal consumption on the back of an improvement in domestic employment conditions.

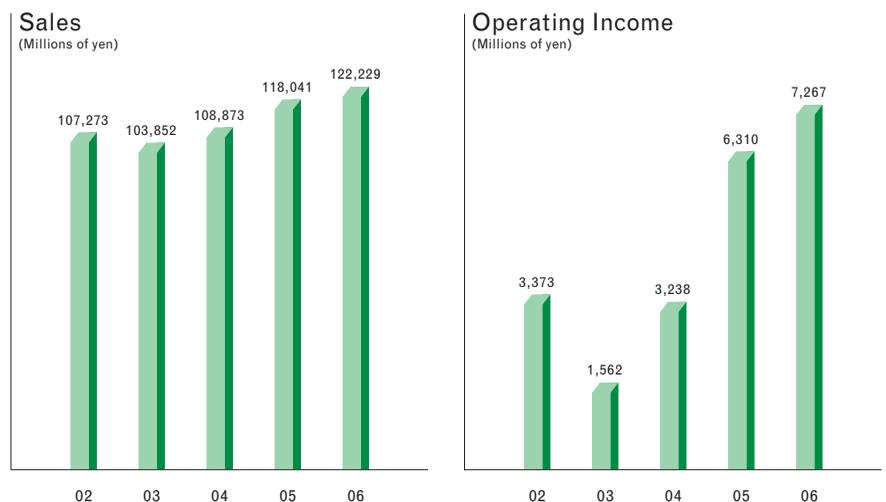
Against this backdrop, Okamura developed new products in line with evolving trends in the office market. At the same time, the Company actively promoted proposal-based sales, adopted an aggressive stance toward conveyor systems mainly for large-scale distribution centers, and allocated management resources to fields exhibiting strong potential in an effort to create and cultivate new markets. As a result of these endeavors, Okamura achieved breakthrough results, with net sales surpassing ¥200,000 million for the first time, climbing 2.9% compared with the previous fiscal year to ¥202,266 million.

On the earnings front, Okamura continued to reap the benefits of its proprietary Okamura Production System. Buoyed by greater efficiencies in the use of personnel and reduced lead times, the Company successfully cut back production costs while increasing productivity. In addition, sales growth in the Office Furniture and Material Handling Systems businesses contributed to an upswing in gross profit that offset the increase in selling, general and administrative expenses. As a result, operating income rose 1.5% year on year to ¥9,112 million. During the fiscal year under review, Okamura reported a gain on the transfer of the substitutional portion of the pension fund for employee retirement benefits and a gain on the termination of a tax-qualified pension program. Accounting for these factors, net income surged 51.4% to ¥8,308 million. Net income per share amounted to ¥74.14, for an increase of ¥25.21 year on year.

### 1-1

**Continued Revenue and Earnings Growth in the Office Furniture Business** > The general recovery experienced in the Office Furniture segment expanded steadily from major urban to regional areas. Demand for small and medium-sized properties in areas outside Japan's principal cities, for example, was robust, while the needs of large-scale companies for relocation and integration continued unabated. Fueled by efforts to develop new products for a wide range of work styles and solutions-based proposals, Okamura reported an increase in total orders, which contributed to healthy sales growth. Recognizing the role of the workplace in creating new ideas and innovation, certain leading companies are undertaking increased investment in office renovation and design. Amid this growing trend toward office evolution, Okamura's

### Office Furniture





**Contessa**  
Ergonomic Mesh Chair

proposal-based sales for comfortable office space solutions are gradually gaining prominence.

In the high-end seating category, the Company received large-lot overseas orders for its products, including *Contessa* and *Baron*. While enjoying steady growth, Okamura is focusing on products and sales that distinguish the Company from its competitors and on the creation of new markets.

Leveraging synergies with the Office Furniture segment, Okamura is expanding orders in the security business in response to demand from the finance sector as institutions reorganize their branch networks. In addition, strong sales have been recorded for entry and exit monitoring systems for offices, contributing to steady sales in this category.

As a result, sales in the Office Furniture segment increased 3.5% to ¥122,229 million, while operating income climbed 15.2% to ¥7,267 million.

1-2

**A Decline in Revenue and Earnings in the Store Display Business Due to Market Contraction >**

In the Store Display segment, Okamura continued to leverage its competitive advantage as the only manufacturer to offer total solutions combining store display shelves and frozen and refrigerated showcases. Amid signs of reorganization within the retail industry, the Company is actively developing original and novel products, while broadening its customer base, particularly within growing retail categories. Despite these efforts, however, results were impacted by the slow-down in outlet openings by mass retailers, reflecting intense competition within the retail industry and the sharp increase in material prices including steel.

Accounting for these factors, sales in the Store Display segment fell 2.6% to ¥66,836 million. Operating income dropped 65.8% to ¥879 million.

1-3

**Significant Surge in Material Handling System and Others Business Profits >**

In the Material Handling System and Others segment, results were bolstered by strong corporate performance and healthy investment both in Japan and overseas in manufacturing as well as logistics facilities. Against this backdrop, Okamura actively proposed engineering methods for low-cost operations to large-scale distribution centers within the pharmaceutical wholesale, transportation and logistics industries. Reflecting the Company's full-fledged entry into the field of conveyor systems for clean rooms and other specially controlled environments, Okamura included Seeder Co., Ltd., in its scope of consolidation as a subsidiary company. Based on these developments, sales and earnings increased during the fiscal year under review.

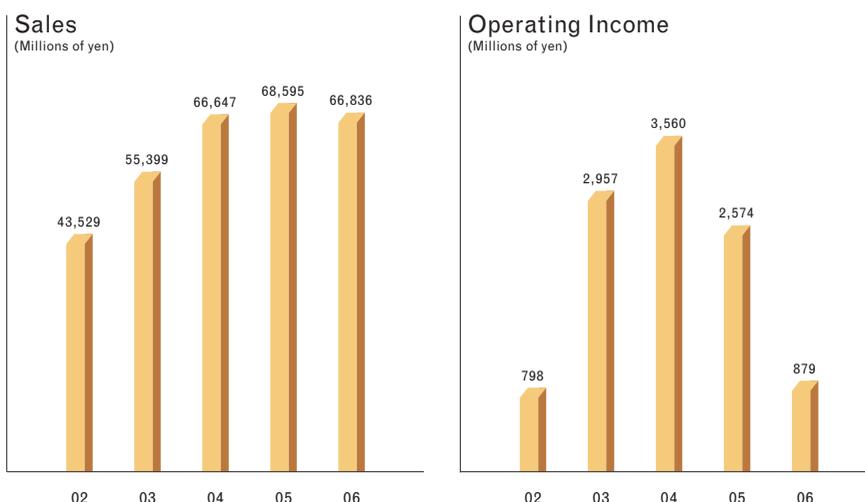
In the hydraulic transmission business, orders for torque converters increased, fanned by brisk exports of forklifts.

As a result of the aforementioned, sales in the Material Handling System and Others segment rose 33.5% to ¥13,201 million. Operating income jumped 891.9% to ¥966 million.



**Baron**  
Ergonomic Mesh Chair

**Store Displays**



## 2.

### Outlook: Business Expectations for Fiscal 2007

In fiscal 2007, ending March 31, 2007, the business environment is expected to enter a period of stable growth. Despite the risks associated with the sharp increase in raw material prices, including crude oil, and shifts in overseas economies, continued expansion in private-sector capital investment on the back of robust corporate results and a pickup in personal consumption, buoyed by improvements in employment conditions, is anticipated to drive the domestic economy forward. Leveraging its strengths as a comprehensive developer, manufacturer and marketer of products and services, Okamura will continue to expand its business by proposing comfortable spaces.

In addition, we will make every effort to enhance productivity, while curtailing purchasing and logistics costs. In working to further increase earnings, Okamura is targeting stable operating income in excess of ¥10.0 billion.



**Cruise & Atlas**  
Intelligent Cruising

#### 2-1

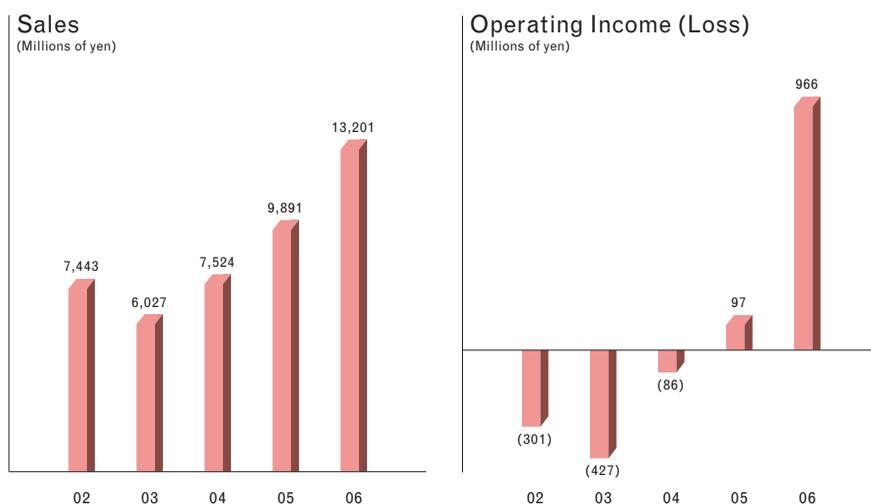
##### **Increasing Sales in the Office Furniture Business amid New Construction and Relocation Demand Growth**

> In the Office Furniture business, conditions are expected to remain robust, characterized by a spurt in the construction of large-scale office buildings in the Tokyo Metropolitan area, a decline in vacancy ratios and significant growth in relocation demand. Under these positive circumstances, and a growing focus on small and medium-sized buildings, Okamura will implement measures to attract orders across each of its product lines, including office furniture, building materials and products for public facilities. Leveraging our strengths in solutions-based proposal marketing in this manner, we will work to secure increases in sales and earnings.

Amid a growing interest in high-end seating and partitioning, Okamura will continue to enhance its product lineup and propose new concepts and models. In tune with evolving trends in the office market, we will propose new office space alternatives that facilitate innovation and the creation of ideas. As the Company forges a unique presence, Okamura will endeavor to cultivate and foster new markets.

Prompted by the implementation of personal information protection legislation and issues surrounding internal control, concerns regarding security and safety continue to rise among companies and individuals. Buoyed by this increased awareness, demand in the security business is experiencing significant growth. Utilizing synergies with the Office Furniture business, Okamura will endeavor to address individual needs, centering on vault and fully automated safes and entry and exit monitoring systems.

### Material Handling System and Others



2-2

**Reinvigorating Growth in the Store Display Business through the Creation of New Business Categories** > In the Store Display business, Okamura will continue to leverage its unique market position as the only manufacturer to offer total solutions combining store display shelves and frozen and refrigerated showcases. Taking into consideration the "3 Rules of Community Renovation," growth companies are expected to implement restructuring measures and to review individual branch and retail networks. In addition to an increase in renovation demand, these factors, along with the fundamental shifts from quantity to quality and regional to urban areas, are expected to generate ongoing recovery. Against this backdrop, Okamura will promote manufacturing systems that accommodate customer needs, including odd volumes for a wide range of products, as well as reduced delivery times. The Company will actively pursue new retail categories in growth sectors and work to broaden its customer base as the means to ensure a business turnaround.

2-3

**Establishing the Material Handling Systems Business as a Third High-Earnings Pillar** > Conditions in the Material Handling System and Others business are expected to benefit from across-the-board investment in production facilities and distribution centers. Based on the expertise accumulated over a lengthy period, we will promote sector-specific solutions to the pharmaceutical wholesale, transportation and distribution sectors in an effort to expand sales and earnings. Following the Company's entry into the growing field of conveyor systems for clean rooms and other specially controlled environments in 2005, we will reinforce production and supply capabilities with the aim of securing a stable order flow.

2-4

**Attracting Significant Acclaim in High-End Seating from Overseas Markets** > Sales of ergonomic mesh chairs, including *Contessa* and *Baron*, continue to expand in overseas markets. The Company boasts a substantial overseas presence, with *Contessa* now sold in 50 countries worldwide. In addition to sales growth, market pundits are increasingly recognizing the value and quality of Okamura products. *Baron*, for example, received the prestigious German *red dot design award* in 2006, which contributed to a rush of large-scale orders. Leveraging this growing market awareness while invigorating our sales promotion efforts, we will aim to further establish the Okamura brand overseas.

2-5

**Environmental Activities** > The Okamura Group has positioned environmental activities as a key issue for management in its efforts to help create a sustainable society. At every stage in a product's life cycle, from manufacturing through distribution, use and disposal, Okamura strives to enhance environmental efficiency and to minimize environmental load as the means to maximize economic value. As a part of the Group's environmental initiatives, we formulated "GREEN WAVE 2010," our long-term environmental vision. Recognizing our corporate social responsibilities, we continue to promote environmental awareness in every facet of our business activities and are working to steadily achieve stated goals. As we move forward, our environmental activities are gaining high praise from 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 appointed outside auditors to promote increased independence and better monitor directors in the execution of their duties. In addition, the term of each director has been set at one year. Looking ahead, Okamura will consider the appointment of additional outside directors to promote increased independence and enhance the corporate governance function.

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 Further Growth

Ongoing socioeconomic diversification and globalization place increased pressure on corporate management to respond flexibly, promptly and in an appropriate manner. Looking ahead, Okamura will adhere to a strict selection and focus policy, proactively allocate management resources to better cultivate growth businesses, further promote Group-wide restructuring measures and advance management reform aimed at enhancing capital efficiency for creating a highly efficient and profitable corporate structure.

In the context of returning profits to shareholders, Okamura aims to implement profit distribution in line with the Company's earnings performance. While giving due consideration to our financial condition, future business development and internal reserves, we position the return of adequate profits to shareholders and investors as a key management priority. Accordingly, Okamura strives to ensure stable cash dividends.

Heralding our 60th anniversary since foundation, we will continue to address global challenges as a "Solutions Company that Creates Comfortable Spaces." Going forward, we will make every effort to meet the expectations of our customers and other stakeholders, and to earn their increasing confidence and trust.

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



Kikuo Nakamura, Chairman



Kazuyoshi Hisamatsu, President

## Cruise & Atlas

*Cruise & Atlas Workstation that Supports Intellectual Creation*



### Ergonomic Workstation for the IT Era

Featuring the "Cruise Table" and "Atlas Chair," the new Cruise & Atlas workstation provides an ideal work environment suitable for professionals in this IT era. With its low-slung, special backward-tilting seat position, designed after much ergonomic research into computer work, this workstation realizes an excellent work style that lightens the physical fatigue of office workers.

## Pro Unit UD

*Pro Unit UD Office System*



### Office System with Adjustable Top Panel

The Pro Unit UD Office System is equipped with a top panel that can be easily raised or lowered according to the worker's body size and the type of work to be performed. This office system creates an atmosphere that urges office workers to stand up or change their posture more often during daily office work, facilitating frequent change of pace and thereby contributing to the realization of more healthy, active workplaces.

## Grata

*Grata Series*



### Elegantly Designed Chair that Provides Supreme Seating Comfort

With a bending shell that provides supple back support for office workers, the Grata Series conference room chair offers incomparable seating comfort. Its stylish, spacious design allows the chair to fit in ever-diversifying office environments, contributing to the creation of sophisticated office spaces.

## FD-100N-BT1

*Biometric Fully Automatic Safe-Deposit Vault System*



### Reliable Security System with Palm Authentication

The FD-100N-BT1 fully automatic safe-deposit vault system employs palm authentication for identification. This cutting-edge, highly reliable security system identifies a person by scanning the palm veins when the person simply places his or her palm on the palm-scanning area. Developed with usability for senior citizens in mind, the FD-100N-BT1 advances a new concept in safe-deposit vaults.

## Scienza

Scienza Testing Table for Science Classrooms

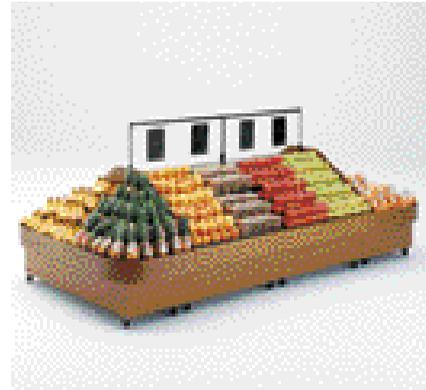


### Flexible Configuration Supports Versatile Class Activities

The Scienza Testing Table for science classrooms offers separable tables and a sink unit. This feature allows for flexible layouts of the system, which can support various class activities such as group study and experiments. Providing 10 color variations for the tabletop, this testing table embellishes science classrooms, creating more proactive learning environments.

## ADORNO

ADORNO Series Display Showcase for Fruit and Vegetables



### Supermarket Display Showcase that Enables State-of-the-Art Display

The ADORNO Series Display Showcase for fruit and vegetables is equipped with a table, multi-level shelves at a 35-degree angle and various peripherals. The 35-degree angle provides the display with vitality, presenting fruit and vegetables with a better sense of space. Contributing to the well-coordinated showcasing of fresh and seasonal merchandise, the ADORNO Series Display Showcase orchestrates a perfect selling situation that effectively appeals to supermarket customers.

## SHREDDER NC series

NC Series Standard Shredder



### Achieving Higher Safety with Basic and Additional Failsafe Functions

Thanks to its failsafe function, the NC Series Standard Shredder stops operating when detecting the accidental insertion of fingers, clothing or other objects. With an IC tag built in—the industry's first—this shredder saves a record of its maintenance history, enabling swifter services. In addition to a safe, reliable design that conventional shredders do not offer, the slim dimensions (45cm depth) of the NC Series Standard Shredder make installation in a limited space possible.

## Bi\_Motion Conveyor

Bi\_Motion Conveyor



### Realized High-Density Accumulation with Newly Developed Rollers

The Bi\_Motion Conveyor is equipped with newly developed "Bi-Motion Rollers," which boast a revolutionary clutch mechanism that allows for the low-pressure, high-density accumulation of goods on conveyors. Provided with two separate types of units for setup and conveyor system integration, the Bi\_Motion Conveyor supports a variety of manufacturing and distribution lines.