



Kimball International 2006 Annual Report

sharpening our focus

who we are

Kimball International, Inc. is a preeminent manufacturer of furniture and electronic assemblies, serving customers around the world. Our customers, both large and small, receive our undivided attention, as we treat every one as the only one. Our touch is felt throughout daily life in both the workplace and in the home.

Recognized with a reputation for excellence, Kimball International is committed to a high performance culture that values personal and organizational commitment to quality, reliability, value, speed, and ethical behavior. Kimball employees know they are part of a corporate culture that builds success for Customers while enabling employees to share in the company's success through personal, professional and financial growth.

what we do

Kimball International, Inc. provides a variety of products from its two business segments: the Furniture and Cabinets segment and the Electronic Contract Assemblies segment. The Furniture and Cabinets segment provides furniture for the office and hospitality industries sold under the Company's family of brand names. The Furniture and Cabinets segment also provides engineering and manufacturing services which utilize common production and support capabilities on a contract basis to customers primarily in the residential furniture and cabinets industry. The Electronic Contract Assemblies segment provides engineering and manufacturing services which utilize common production and support capabilities to a variety of industries globally.

to our share owners

Your Company experienced significant change during the past year. Consolidated Net Sales for the fiscal year were \$1,143,000,000. Overall sales are up from fiscal 2005 as the planned reduction in contract private label furniture sales has been more than offset by increased sales of our branded furniture. We also had additional sales late in fiscal 2006 related to acquisition activity in the Electronics segment. Annual earnings are down due to expenditures relating to the first quarter restructuring decision to sharpen our focus and to simplify and standardize business processes within the Furniture and Cabinets segment. We have made significant progress and are encouraged by trends in recent quarters.

As planned in the first quarter restructuring decision, we exited non-core markets and divested several unprofitable operations. The progress we have made in tightening our focus on our core markets is beginning to show in our operating results. We are confident this new business model will allow for greater customer service, with greater speed, at a much reduced operating cost structure and therefore higher earnings. We are most pleased with the quarterly progress in earnings since the announcement of the restructuring. Each successive quarter since the first quarter showed higher earnings, exclusive of restructuring costs. This is an excellent trend resulting from the decision to restructure the furniture operations. As we go forward, addressing challenges of rising commodity costs, from fuel to steel to flakeboard, as well as tighter margins in our Electronics segment, particularly on new program awards, will continue to receive our attention as we work to sustain our improved profitability.

Your Company's enviable record of positive cash flow from operations continued during fiscal 2006, and once again our balance sheet remains solid. With cash and short-term investments of \$172 million and virtually no long-term debt, your Company is well positioned with capital readily available to fund our growth.



SERVING A MARKET

The strategic expansion of our worldwide capabilities and responsiveness in serving our customers emphasizes our commitment to automotive electronics manufacturing.



CELEBRATING OUR GROWTH

Kimball Electronics welcomes our Irish and Welsh team-mates, whose capabilities will significantly add to our package of value offered to our global customers.



A CENTER OF EXCELLENCE

Kimball Electronics Wales will provide manufacturing services to a major customer for its medical diagnostics products, as well as seek new medical customers for this facility.

electronics

In our Electronic Contract Assemblies segment, sales and income continued to be challenged by the lower automotive volumes which have resulted from stresses within that industry. We are excited however, to see revenues from several new product introduction investments we made during the prior year. These new additions have been important to partially offset our reduced automotive sales. We are continuing our long-standing strategy to diversify our business among different automotive customers and also into other market sectors, such as industrial controls, medical devices, and public safety, where we can leverage our capabilities and unique package of value. Our recent acquisitions in Wales and Ireland are excellent examples of our efforts to broaden our package of value in these markets. We acquired a manufacturing operation in Wales and an assembly operation in Ireland as part of that growth and diversification plan for this segment. These acquisitions build upon strong long-term relationships with two customers who view us as both a trusted business partner and a supplier.

The contract electronics industry overall is expected to continue to grow with additional outsourcing of manufacturing to companies such as Kimball. The market is also expected to continue to be very cost competitive, which means cost management will be key to good operating margins in this segment.



Douglas A. Habig,
Chairman of the Board
James C. Thyen,
President and Chief Executive Officer



MAKING A STATEMENT
New showrooms in Chicago and Jasper both earned prestigious LEED certifications for environmentally responsible design. These investments demonstrate our commitment to our markets and to our environmental stewardship philosophy.



BECOMING A LEADER
Our National brand has evolved and positioned itself as a market leader offering extremely relevant, well styled office furnishings with a high value focus.



BUILDING AN IMAGE
Kimball Hospitality continues to be selected as the room furniture provider by many of the most recognized hotel chains, luxury properties and resort destinations around the world...installing over 25,000 rooms in the last year.

furniture

Our Furniture and Cabinets segment was the focus of a business model change. We realigned manufacturing and marketing into one streamlined and integrated organization focused on serving our office furniture and hospitality furniture customers. Historically, our furniture segment has operated in a decentralized organizational model that has supported many diversified businesses in a variety of markets. The restructuring announced in September 2005 was and is entirely focused on simplification and standardization of our business processes, and improving the management alignment within this organization. Certainly, a major intent was to improve the cost structure, and we are already seeing some benefit in our actual results and expect continuing improvements in fiscal 2007. This strategy is enabling growth of this segment, not mere cost containment.

The office furniture industry had strong growth this past year with double digit increases. Market growth over the next year is expected to continue although at a slower rate, reflecting the slowing economy. Market growth in the hospitality industry is expected to remain strong over the coming year.

Our vision remains constant: to build success for our customers which enables us to build success for ourselves.

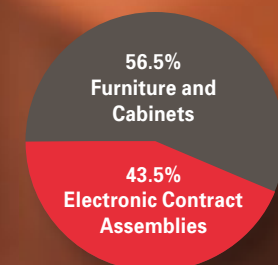
financial highlights

(Amounts in thousands, except for per share data)

| | 2006 | 2005 | % Change |
|---|-------------|-------------|----------|
| Net Sales | \$1,142,581 | \$1,053,147 | 8.5% |
| Income from Continuing Operations | 22,179 | 21,101 | 5.1% |
| Net Income | 15,362 | 16,588 | -7.4% |
| Return on Capital | 4.96% | 4.59% | 8.1% |
| Cash Flow from Operations | 76,612 | 64,707 | 18.4% |
| Working Capital | 231,381 | 203,668 | 13.6% |
| Capital Investments | 31,517 | 33,665 | -6.4% |
| Share Owners' Equity | 422,582 | 428,226 | -1.3% |
| Earnings Per Share from Continuing Operations (Diluted) | | | |
| Class A | 0.57 | 0.54 | 5.6% |
| Class B | 0.58 | 0.55 | 5.5% |
| Dividends Declared | | | |
| Class A | 0.62 | 0.62 | 0.0% |
| Class B | 0.64 | 0.64 | 0.0% |
| Market Price Per Share | | | |
| High | 19.72 | 15.40 | |
| Low | 10.25 | 11.22 | |
| Close | 19.71 | 13.20 | |

* Income from Continuing Operations, Net Income, Return on Capital, Cash Flow from Operations and Earnings Per Share include restructuring charges.

2006 Sales By Business Segments



Our focus is on the future, and from where we stand, that future is filled with opportunities for success!

We thank all our employees for what they have done to make a positive difference in our operational excellence, our profit improvement and our organizational effectiveness. With their continued commitment, we are confident in our ability to sharpen our focus, address our challenges, and build more success in 2007.

We invite you to read the enclosed Form 10-K to better understand how Kimball International is sharpening its focus.

James C. Thyen
President and
Chief Executive Officer

Douglas A. Habig
Chairman of the Board

board of directors

Harry W. Bowman + ^

Retired; Former President and Chief Executive Officer of The Stiffel Company
Director 6 years

Gary P. Critser +

Retired; Former Senior Executive Vice President, Secretary and Treasurer, Kimball International
Director 2 years

Douglas A. Habig *

Chairman of the Board of Directors, Kimball International
Director 33 years

John B. Habig *

Chairman of the Board of Directors of SVB&T Corporation, a Bank Holding Company
Director 50 years

Polly B. Kawalek +

Retired; Former Senior Vice President and President, Quaker Foods, PepsiCo Beverages and Foods
Director 9 years

Geoffrey L. Stringer +

Retired; Former Executive Vice President of Bank One and Chief Executive Officer of Bank One Capital Corporation
Director 3 years

James C. Thyen *

President and Chief Executive Officer, Kimball International
Director 24 years

John T. Thyen

Retired; Former Senior Executive Vice President, Strategic Marketing, Kimball International
Director 16 years

Ronald J. Thyen *

Retired; Former Senior Executive Vice President, Operations Officer, Assistant Secretary, Kimball International
Director 33 years

Christine M. Vujovich ^

Vice President, Marketing and Environmental Policy, Cummins, Inc.
Director 12 years

Dr. Jack R. Wentworth # ^

Retired; Arthur M. Weimer Professor Emeritus of Business Administration, Indiana University; Former Dean of the Kelley School of Business, Indiana University
Director 22 years

* Member of the Executive Committee of the Board

+ Member of the Audit Committee of the Board

Member of the Compensation Committee of the Board

^ Member of the Governance and Nominating Committee of the Board

officers

Corporate Officers

Randall L. Catt

Executive Vice President, Human Resources

Donald D. Charron

Executive Vice President, President-Kimball Electronics Group

John H. Kahle

Executive Vice President, General Counsel, Secretary

P. Daniel Miller

Executive Vice President, President-Furniture

Robert F. Schneider

Executive Vice President, Chief Financial Officer

Gary W. Schwartz

Executive Vice President, Chief Information Officer

R. Gregory Kincer

Vice President, Business Development, Treasurer

Michelle R. Schroeder

Vice President, Corporate Controller

Dean M. Vonderheide

Vice President, Safety, Environment and Facilities

Domestic Subsidiary Officers

Roger Chang (Chang Shang Yu)

Vice President, Asian Operations, Kimball Electronics Group

John S. Dick

Vice President, Chief Financial Officer, Office Furniture Group

Steven T. Korn

Vice President, Business Development, Kimball Electronics Group

Kent F. Mahlke

Vice President, Global Supply Chain Management, Office Furniture Group

John C. Manchir

Vice President, Manufacturing, Office Furniture Group

Dirk H. Manning

Vice President, Sales, Kimball Office

Kevin D. McCoy

Vice President, Sales, National Office Furniture

Dwaine R. Saalman

Vice President, Division Sales Manager, Kimball Office

Stanley C. Sapp

Vice President, General Manager, Kimball Hospitality

Michael K. Sergesketter

Vice President, Chief Financial Officer, Kimball Electronics Group

Kevin R. Smith

Vice President, North American Operations, Kimball Electronics Group

Donald W. VanWinkle

Vice President, General Manager, National Office Furniture

David E. White

Vice President, General Manager, Kimball Office

Zygmunt Witort

Vice President, European Operations, Kimball Electronics Group

Foreign Subsidiary Managers

Janusz Kasprzyk

General Manager, Kimball Electronics Poland, Sp. z o. o.

John R. Spears

General Manager, Kimball Electronics-Mexico, S.A. de C.V.

J. Keith Beatty

General Manager, flexcel-Juarez, S. A. de C. V.

Tongchai Chuenchujit

General Manager, Kimball Electronics (Thailand), Ltd.

Shane Tiernan

General Manager, Kimball Electronics Ireland, Ltd.

John Harris

General Manager, Kimball Electronics Wales, Ltd.

Daniel Gu (LuYin Gu)

General Manager, Kimball Electronics (Nanjing) Co., Ltd.

other corporate data

Kimball International, Inc. and Subsidiaries

Annual Meeting:

The annual meeting of Share Owners will be held at 9:30 a.m. Central Daylight Time on October 17, 2006, at the General Office Building, Kimball International, Inc., 1600 Royal Street, Jasper, Indiana. Share Owners are cordially invited to attend.

10-K Report:

A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K is available, without charge, upon written request directed to Robert F. Schneider, Executive Vice President, Chief Financial Officer at our corporate headquarters.

Common Stock:

Kimball International Class B Common Stock is traded on the NASDAQ Global Select Market of NASDAQ Stock Market LLC under the symbol: KBALB.



Transfer Agent and Registrar of the Class A and B Common Stock:

Share Owners with questions concerning address changes, dividend checks, registration changes, lost share certificates or transferring shares may contact:

National City Bank
Corporate Trust Operations
PO Box 92301
Cleveland, OH 44193-0900
Phone: (800) 622-6757
TDD Line: (800) 622-5571
Internet Address: www.nationalcitystocktransfer.com
E-Mail Address: shareholder.inquiries@nationalcity.com

Analyst Contact:

Financial analysts with questions concerning the Company may contact Robert F. Schneider, Executive Vice President, Chief Financial Officer at our corporate headquarters.

Share Owner Contact:

Share Owners with general questions concerning the Company may contact John H. Kahle, Executive Vice President, General Counsel, Secretary at our corporate headquarters. All members of management welcome suggestions about the Company and its performance.

Corporate Headquarters:

Kimball International, Inc.
1600 Royal Street
Jasper, Indiana 47549-1001
(812) 482-1600
(800) 482-1616 (Toll Free)
(812) 482-8500 (TDD for Hearing Impaired)

Internet Address:

Additional information on Kimball International is available at www.kimball.com on the Internet.

Private Securities Litigation Reform Act of 1995:

This document contains forward-looking statements that involve risks and uncertainties regarding Kimball International's operations and future results. In accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Kimball provides cautionary statements, detailed in the Company's Securities and Exchange Commission filings including, without limitation, the Company's Form 10-K, which identifies specific factors that could cause actual results or events to differ materially from those described in the forward-looking statements.

s a l e s , m a n u f a c t u r i n g a n d s e r v i c e o p e r a t i o n s

Furniture and Cabinets Segment

Showrooms & Service Centers

New York, Chicago, Boston, Los Angeles, Atlanta, Dallas, Washington, D.C., and Jasper
Product display and regional distribution

Kimball Hospitality

Jasper, Indiana
Hospitality furniture

Kimball Office

Jasper, Indiana
High end office furniture casegoods, systems, seating and filing sales

National

Jasper, Indiana
Mid-market office furniture casegoods, seating and filing sales

flexcel-Logistics

Jasper, Indiana
Transportation and fleet operations

Product Design & Research Center

Jasper, Indiana
Product research, design, development and testing

flexcel-Borden Facility

Borden, Indiana
Office furniture casegoods manufacturing

flexcel-Danville Facility

Danville, Kentucky
Office and hospitality seating manufacturing

flexcel-Fordsville Facility

Fordsville, Kentucky
Office furniture casegoods manufacturing

flexcel-Jasper 11th Avenue Facility

Jasper, Indiana
Office and hospitality seating manufacturing

flexcel-Jasper 15th Street Facility

Jasper, Indiana
Office furniture systems manufacturing

flexcel-Jasper 16th Street Facility

Jasper, Indiana
Hospitality furniture and custom casegoods manufacturing

flexcel-Jasper Cherry Street Facility

Jasper, Indiana
Flat, molded, postformed, and plastic-faced plywood, banded flakeboard and veneer face production

flexcel-Juarez, S.A. de C.V. Facility

Juarez, Mexico and El Paso, Texas, USA
Projection TV cabinets, TV stands and hospitality casegoods manufacturing

flexcel-Post Falls Facility

Post Falls, Idaho
Office furniture systems, casegoods and filing manufacturing

flexcel-Salem Facility

Salem, Indiana
Office furniture casegoods manufacturing

flexcel-Santa Claus Facility

Santa Claus, Indiana
Office furniture casegoods, TV cabinets and TV stands manufacturing

Electronic Contract Assemblies Segment

Kimball Electronics-Jasper, Plant 1

Jasper, Indiana
Electronics assemblies production

Kimball Electronics-Jasper, Plant 2

Jasper, Indiana
Electronics assemblies production

Kimball Electronics-Auburn

Auburn, Indiana
Electronics assemblies production

Kimball Electronics Ireland, Ltd.

Longford, Ireland
Electronics assemblies production

Kimball Electronics-Mexico, S.A. de C.V.

Reynosa, Mexico and McAllen, Texas, USA
Electronics assemblies production

Kimball Electronics (Nanjing) Co., Ltd.

Nanjing, China
Electronics assemblies production

Kimball Electronics Poland Sp. z o. o.

Poznan, Poland
Electronics assemblies production

Kimball Electronics (Thailand), Ltd.

Laem Chabang, Thailand
Electronics assemblies production

Kimball Electronics Wales, Ltd.

Bridgend, Wales, U.K.
Medical diagnostics products

Administrative, Shared, and Support Services

Kimball Corporate Headquarters

Jasper, Indiana
Executive, administrative and sales offices, and corporate support services

Education Center & Corporate Showroom

Jasper, Indiana
Training services and product display

Kimball Travel and Guest Services

Huntingburg and Jasper, Indiana
Flight operations, services and guest relations

Kimball Kids

Jasper, Indiana
Employee child development center



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