KIMBALL INTERNATIONAL INCORPORATED ANNUAL REPORT 1998

Heartland Virtues

Global Impact

Kimball International, Inc.

Kimball is

Kimball Office Group. The Office Group provides a complete variety of wood and metal office furniture solutions for customers ranging from small businesses through multi-national corporations. Kimball, National and Harpers brands offer a spectrum of flexible systems, casegoods, seating and filing products for value-oriented office applications through option-rich executive settings.

financial highlights (1) virtues and impact (2) letter to the share owners (5)

Kimball Lodging Group. The Lodging Group designs and manufactures custom and standard hospitality furniture for the world's most prestigious hotel properties and leading lodging chains. Related healthcare furniture lines provide solutions for long-term care and assisted living facilities. The Group also provides institutional lodging pieces for government applications.

dedication (8) persistence (11) progress (12) prudence (16)

Kimball Cabinet and Furniture Group. The Cabinet and Furniture Group manufactures diverse collections of solid-wood residential furniture under the Kimball Home brand, and period reproductions under the Kimball brand. It also produces a variety of original equipment manufacturer (OEM) products such as television cabinets, speaker systems, billiard tables and furniture for companies worldwide.

loyalty (19) integrity (20) management's discussion (24)

Kimball Electronics Group. The Electronics Group is a leading technology company that designs, engineers, manufactures, packages and distributes electronics products to companies in the automotive, computer, telecommunications, medical, aerospace and defense industries. These custom, high-value OEM products include multichip modules, semiconductor components, board assemblies and "box build" products.

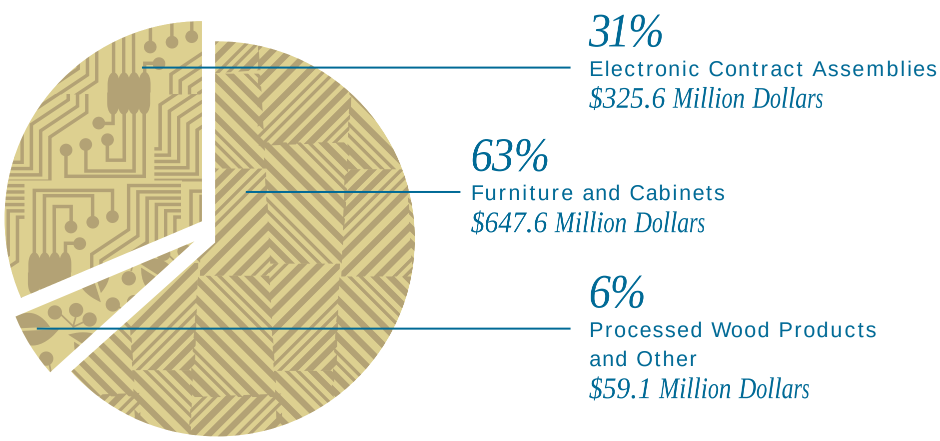
report of management (28) financials (29) board of directors (inside back cover)

Kimball Raw Materials Group. The Raw Materials Group manages Kimball's forestry holdings and processes lumber, plywood, veneer and other wood components for Kimball's furniture manufacturing operations and a variety of other customers. In addition, the group provides metal stamping, molded plastics and carbide cutting tools operations.

Kimball® International, Inc.

Financial Highlights

Founded in 1950, Kimball International manufactures and markets a broad range of diversified consumer durable products under the family of Kimball brand names. The Company also manufactures products for other companies.



	1998	1997	% of Change
Net Sales	1,032,317	992,049	4.1%
Net Income	55,027	57,745	-4.7%
Return on Capital	11.90%	13.36%	-10.9%
Earnings Per Share (Diluted)			
Class A	1.31	1.38	-5.1%
Class B	1.32	1.38	-4.3%
Dividends Declared			
Class A	.58 7/8	.53	11.1%
Class B	.60 1/2	.53 1/2	13.1%
Market Price Per Share			
High	24 15/16	22 5/8	
Low	17	13 1/4	
Close	18 1/8	20 1/8	

Heartland Virtues. Global Impact.

Almost 50 years ago, America's heartland witnessed the birth of a regional cabinet-making business. With time, this enterprise evolved into a premier manufacturer whose furniture and electronic products are used in applications all over the world. The products and processes have changed since Kimball International's beginnings, but the heartland virtues responsible for the company's growth and success remain firmly rooted.

dedication. persistence. progress. prudence. loyalty. integrity.

They continue to define our culture and act as the foundation for our decisions. Our commitment to these bedrock heartland virtues create global opportunities for ourselves and for our customers. The success in our endeavors brings reward to all stakeholders – customers, employees, suppliers, communities and Share Owners.

Kimball International, Inc.

virtues and impact. Like the spreading ripples in a pond, the heartland virtues embraced by the people at Kimball International are creating an impact all over the world. It can be seen in the face of a corporate executive, whose pride reflects the craftsmanship and dedication of workers who designed and built his wood office furniture. It can be witnessed in the satisfaction of Kimball dealers, whose product lines reflect the progress of new and enhanced products and sales tools. The impact is embodied in the dedication of workers, who have tremendous flexibility to shape their jobs. And for the Share Owners, whose loyalty is the foundation for long-term results. The following pages describe how Kimball lives by these heartland virtues.

Thomas L. Habig
Vice Chairman

James C. Thyen
President

Douglas A. Habig
Chairman, Chief Executive Officer

To Our Share Owners

Kimball's fiscal 1998 performance was simultaneously gratifying and disappointing for us. For the first time in company history, sales surpassed one billion dollars and established yet another record. Three of the four quarters set new highs. Strong demand continued for office furniture and some of our electronics products. Yet, from an earnings standpoint, short-term challenges offset the positives spawned from sales growth.

We're certainly not pleased with this decline in earnings, nor are we happy with the fourth-quarter drop in the company's share price. But short-term performance is secondary to longer-term goals.

Measures are underway to reverse the earnings decline. These steps are consistent with the long-term horizon under which Kimball is operated. As we explain in this annual report, we believe Share Owner value is created most effectively from decisions based on a foundation of traditional heartland virtues - not through quarter-by-quarter reactions to market fluctuations. Our business approach nurtures our people's skills and well-being, builds trust with customers and suppliers, and provides an entrepreneurial environment for designing, building and marketing a wide range of competitive products and accompanying services.

During the last twelve months, many new Kimball products have been commanding market attention with their innovative or unique features. The strategic groundwork we've embedded across the company will produce even more results in the future.

We envision great achievements. Our goals are centered around much more aggressive growth - with top-line performance driving even faster bottom-line results. We are pushing with newfound urgency to speed the momentum of progress. Your Board of Directors' confidence is reflected in its stock repurchases as well as its June decision to raise the annual dividend seven percent to 64 cents per Class B share.

The accomplishments and challenges of fiscal 1998

Record office furniture sales provided the lion's share of Kimball's growth, with strength across many brands of casegoods, seating and systems. Furniture and Cabinet Segment revenues increased by $30.3 million, or 5 percent, to $647.6 million - and would have been higher if much lower shipments of contract TV cabinets and stands and softer lodging furniture sales hadn't tempered segment performance.

Consolidated sales rose four percent to an all-time high of $1.03 billion, reflecting record demand for Kimball's office furniture and contract electronics products. Income declined five percent to $55.0 million from the previous record year.

The Board raised the annual dividend rate seven percent to 64 cents per Class B share.

To Our Share Owners (continued)

Polly Kawalek, Vice President of The Quaker Oats Company and President, Hot Breakfast Division, The Quaker Oats Company, joined Kimball's Board of Directors in December 1997. Her experience in corporate strategic planning, marketing leadership and attaining profitable growth represents a valuable addition to the Board.

The solid foundation of a strong financial position provides the resources necessary to help achieve our more aggressive growth goals.

Many factors impacted earnings - lower contract cabinet sales, greater-than-anticipated start-up costs for our *Definition* modular wood office casegoods, increased office furniture sales incentives and promotional costs, and higher implementation expenses associated with the initial phase of upgrading the office furniture order management information system. These challenges have received very close attention and we have made excellent progress in mitigating them as we enter fiscal 1999.

Electronics is Kimball's other primary income engine. Sales rose three percent in that segment to a record $325.6 million. We diversified our products and customer base in the automotive industry - offsetting lower production of computer assemblies last year. Higher engineering and start-up costs associated with new products, coupled with our investment in capacity to meet anticipated growth in demand, were responsible for the operating income decline.

Sales were flat in the smallest segment, Processed Wood Products and Other, the foundation of Kimball's furniture vertical integration philosophy. Higher lumber, laminates and metal part sales were offset by lower demand for plastics used in TV cabinet production.

Together, Kimball operations generated cash flow of $76.2 million - nearly two-thirds of which was reinvested in new production equipment, enhanced information technology and expanded electronics and furniture manufacturing capacity. We also focused on the basics - improving on-time performance, reducing lead times, shipping damage-free goods and simplifying processes.

Fulfilling our vision as a premier manufacturer and marketer

Our quest for growth is predicated on the ability to design and build exciting products that customers rank as their best value. In this regard, we're pushing harder than ever.

Kimball Home Furniture's solid wood residential collections have been turning heads. Four new series introduced in the last eighteen months position us well in the multi-billion-dollar residential furniture market. We continue working to broaden product lines and to apply our craftsmanship toward future introductions.

We also made great impressions with several bold new seating lines, a mobile, modular office system and an innovative stackable file unveiled in June at the national premier office furniture show.

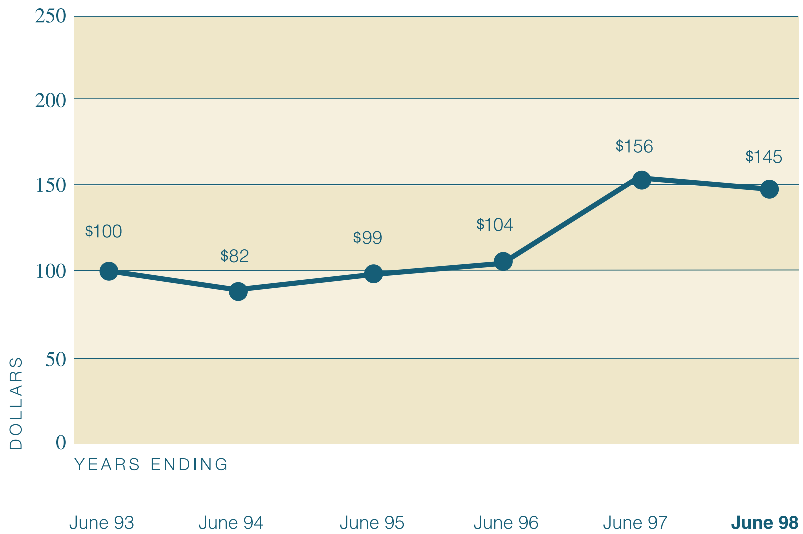
Despite production limitations last year, both *Definition* and our *Interworks* metal office system have been winners. We expect them to be catalysts for growth for all of our office furniture product lines.

Kimball Lodging Group, which supplies prestigious resort properties and hotel chains alike, will unveil a number of redesigned "in-line" suites this year. We also see signs that the market may be recovering for TV cabinets and stands.

In electronics, Kimball is offering customers more than contract manufacturing. On the front end, we bring engineering design and the ability to make components smaller and lighter. We're also extending our services into distribution. Leadership has been broadened to keep pace with the increasingly global nature of our customers' support requirements.

SHARE OWNER TOTAL RETURN

Based on $100 investment on June 30, 1993



In our raw materials operations, units are aggressively pursuing outside business to supplement internal production. In addition, radically different processes are being implemented to harvest hardwood in ways that are both environmentally sound and more cost-effective.

Across the company, we are dramatically building upon fiscal 1998's progress. Our people have the incentive to spark growth and we continue to invest in building the necessary talent and skills. Our design capabilities add a whole new dimension to the supply chain. Our manufacturing facilities are flexible and efficient. Our marketing and customer intimacy focus drives customer satisfaction. Our never-ending quest for quality and value generates Economic Profit and long-term Share Owner returns.

We appreciate your support as we integrate these resources to pursue our vision of growth.

Dedication. Craftsmanship Applied to the Corporate Environment.

By applying international quality standards, Kimball improved the assembly process for its Artec office furniture, saving more than $800,000 annually and reducing customer complaints by half.

At Kimball seating plants, rapid-fire improvement sessions are held every month to help workers perform their jobs better and bring immediate productivity benefits.

Kimball Electronics Group was honored by its customers as the best contract manufacturer for the third consecutive time in a survey by the research firm *Technology Forecasters* and by *Circuits Assembly Magazine*.

A heritage of craftsmanship and quality extends from Kimball International's very foundation. The company's dedication to these values was embedded in its beginnings as a regional cabinet-maker, and has grown as operations spread across North America and into Europe.

Indeed, the role of the craftsman has changed over the decades. Simpler tools of yesteryear have been replaced by state-of-the-art production equipment and information systems. Yet, Kimball people carry a relentless dedication to quality and value. It is embodied in furniture manufacturing employees. In lumbermill workers. In design engineers, electronic component assemblers and customer service representatives.

Improving product design, manufacturing and marketing gets constant attention. One process used repeatedly is "Kaizen" - a procedure that literally means "take apart" and "put together." Support teams and front-line workers join efforts to challenge the status quo. Within days, innovative changes are boosting capacity, reducing inventories and raising productivity.

craftsmanship. *TeZett*, an acclaimed contemporary lounge seating line introduced in 1998, reflects Kimball's continuing dedication to craftsmanship.

Kimball businesses also achieve gains by adopting international quality standards as their Quality Systems (QS) model. By defining, organizing and documenting processes, they promote consistency and identify areas to improve. In fiscal 1998, four units involved in plastics, laminates, tooling and corporate information systems achieved ISO 9000 QS registration. In all, fifteen units now have QS registered to either ISO 9000 or ISO 25 standards. In addition, the automotive segment of Kimball Electronics Group attained the more demanding QS 9000 quality standard, developed by Detroit automakers for direct component suppliers.

In the office furniture group, a specially trained Product Quality Assurance Team addresses customer questions quickly - and uses feedback to bring about permanent improvements. This dedication to quality is bringing positive results. Furniture lead times are shorter. On-time shipping reliability has improved. Kimball Electronics Group (KEG) won IBM's top supplier award during 1998. And for the third consecutive time in as many attempts since 1993, KEG won the Service Excellence Award for contract electronics manufacturers based upon an annual customer survey co-sponsored by *Technology Forecasters* and *Circuits Assembly Magazine*. Dedication to quality permeates every part of Kimball.

k a i z e n . In a process called Kaizen, employees literally develop new ways to work. Their efforts improve craftsmanship - bringing faster, more efficient processes, cost savings and better productivity.

i n t e r w o r k s . Despite early production difficulties, Kimball stood behind its long-term investment in *Interworks*. Its rapidly increasing sales are a tribute to the company's persistence.

p e r s p e c t i v e . No matter how you look at it, persistence and a little patience is paying off with *Interworks*.

Persistence. There are no Short-Cuts to Lasting Success.

Lasting success requires persistence. Despite the lure of quick-fix responses to market fluctuations or challenges, reaching long-term goals demands both fortitude and vision. Kimball's values provide the guidance for achieving success.

The foundation under Kimball International's vision are its Guiding Principles. These ideals embody the spirit of Kimball's culture, guiding relationships with customers, employees, communities and Share Owners by defining the expectations of trust, respect, dignity and pride the company was founded on.

bloxx stackable file.
By licensing an innovative design from another company, Kimball exhibited an aggressive approach to product development in the new *BLOXX* stackable file system.

The company is committed to pursuing its long-term goals without compromising its heritage. Lasting success requires achieving sales growth that ranks among the market leaders. It requires the persistent pursuit of innovative, high-quality products that outshine the competition. It means providing a workplace and advancing a culture that attracts and retains the very best workers, as well as a continued focus on generating exceptional long-term returns to Share Owners.

To achieve these goals, the company has invested millions of dollars in its people, information systems and manufacturing capabilities. This drive to enhance their infrastructure through world-class facilities and marketing information systems will continue, fostered by a more aggressive strategic leadership necessary to guide the coming phases of growth. These changes focus Kimball on its historic strengths-creating superior furniture solutions, maintaining leading edge technology capabilities for electronics customers and reliably supplying its own wood furniture operations with raw materials.

Other opportunities will drive Kimball's growth: by expanding into related product lines, by enhancing product and service capabilities and by broadening the customer base geographically. Through persistence, Kimball will achieve long-term success for all of its stakeholders.

Employees are full partners with Kimball. Their valuable skills are critically important to the company's ability to consistently build and market quality products over time. Thus, short-term financial results do not dominate decision-making at Kimball– flexibility does.

Kimball Electronics Group has persisted in the pursuit of quality. While registering its plants to international quality standards known as ISO 9000, it has achieved the tough QS-9000 standards that the automobile industry requires of suppliers.

Progress. The Pioneer Spirit Behind Marketplace Innovations.

Kimball was an instrumental player in launching the first Office Furniture Design Symposium during fiscal 1998. The successful symposium, conducted under the auspices of the International Interior Design Association, drew hundreds of designers and industry specialists.

Market introductions of nonconventional seating lines, a unique stackable file, a mobile alternative office system and upscale home furniture won Kimball acclaim from customers, dealers, interior designers and others in the industry.

The lifeblood of progress is more than innovation. It is a spirit that drives the imagination of designers to create bold new products, modify existing furniture lines, and fully employ their talents in the battle for a competitive edge. The pioneer spirit of progress takes many forms at Kimball.

Progress begins with listening to the customer. As the result of this process, the furniture and electronics marketplaces were enhanced in fiscal 1998. An abundance of market introductions helped spur *record* Kimball Office Group and Kimball Electronics Group sales.

In fact, at the June 1998 NEOCON office furniture industry trade show, Kimball launched more products than ever. Among the highly acclaimed Kimball lines was *Skate*, a uniquely designed modular system named for its mobility and ease of reconfiguration in today's alternative workplaces. Another new product introduced at NEOCON was *BLOXX*, a stackable metal file system.

extremely progressive. The easily adjustable *XTreme* task / desk chair was one of the hits at the NEOCON furniture industry trade show.

Kimball won widespread praise for the uncharacteristic styles of its five newly designed seating products that also debuted at NEOCON. The company's largest introduction of seating products ever at NEOCON included *TeZett*, a chrome accented, contemporary lounge seating line. The unveiling also included *Zip*, a retro seating line that tastefully mixes wood and metal; the futuristic *Savona*; the highly adjustable and mobile *XTreme* task chair; and the *Navara* professional task chair.

Kimball Home Furniture also created a buzz of excitement within the multi-billion-dollar home furniture market. Kimball Home's introductions at the High Point, North Carolina markets over the past year-combined with current home lines-reflect distinct high-quality, solid-wood collections designed for the lifestyles of today's quality-conscious consumer. The *Oak Meadow*, *Cherry Falls*, *Pine Mountain* and *Maple Creek* collections were the brainchild of renowned designers using a successful formula of function, versatility and storage space. Additional collections and expanded offerings can be expected regularly from Kimball Home Furniture.

innovative office systems. To provide the flexibility needed in today's changing office environment, Kimball launched *Skate*, a highly adaptable system that can be configured to optimize productivity in today's alternative office environment.

b a b y s t e p s . Often, progress is measured in small steps. In this case, the progress is big for little people. The Kimball Kids Child Development Center, when completed in early 1999, will provide an additional option for employees who need affordable and trustworthy child care.

Progress (continued)

Progress is also reflected in a $4 million dollar capacity expansion planned for early fiscal year 1999 for *Definition*, the award-winning modular wood casegoods line. In the Kimball Electronics Group, multichip module (MCM) technology is being applied to make electronic products smaller, lighter and more cost effective. Progress is represented by the decision to double the size of Kimball Electronics Group's Reynosa, Mexico manufacturing facility to meet anticipated demand. Progress even means the planned addition of drying kilns at key Kimball raw materials facilities to maintain the quality of one very important Kimball component: wood. For Kimball's contract furniture customers, progress is Kimball's approach to "value engineering"-finding the best and most cost effective combination of manufacturing approaches and component materials.

progressive thinking. After evaluating its long-term markets, Kimball began expanding its electronics plant in Reynosa, Mexico, to keep pace with anticipated growth in demand.

Progress doesn't stop with products. For Kimball Office Group dealers, it's a CD-ROM resource allowing instant retrieval of information, photos, specifications and other tools to support sales. For employees, it's an innovation that touches their lives a little closer to home. When complete, the Kimball Kids Child Development Center will provide employees another option for child care and a resource to help balance family and work issues. Kimball selected the country's largest corporate childcare management organization, Bright Horizon's Family Solutions, to manage the facility-the first of which is being constructed in a centralized location in Jasper, Indiana.

Progress is all about finding new and better ways to satisfy customer and employee needs. Kimball continues to take steps on many fronts to do just that.

By employing designs and technology that make products smaller and lighter, and by adding distribution capabilities, Kimball Electronics is evolving into much more than a contract manufacturer.

Innovative quick-ship programs are putting products into customer hands faster, and is contributing to growth. Most items within the Kimball Home Furniture collections are shipped within 48 hours. National and Kimball office furniture brands also feature accelerated shipping programs.

Highly skilled employees are a key ingredient in Kimball's furniture manufacturing flexibility. The company can shift production among plants to ensure that operations are running at efficient capacity, or to meet specific customer needs.

Prudence. Practical Management of World-Class Resources.

Prudent financial management, combined with strong cash flow, provides Kimball the flexibility to invest in improving processes and enhancing the skills of its people. This foundation of strength allows the company to act on opportunities–such as growing electronic related business and the addition of metal office furniture.

Over the years, Kimball Lodging Group has designed and built furniture for some of the country's most prestigious properties. Using this foundation of knowledge, the Lodging Group began offering a catalogue of standard products for hotel chains, and also expanded into the healthcare furnishing business.

Financial strength not only provides the flexibility for a company to pursue its goals. It also allows the freedom to respond quickly to changing markets, and take advantage of attractive business opportunities. Kimball prudently balances these goals as it strives to achieve long-term objectives.

Kimball has invested millions of dollars in its people, capacity and information technology systems to build the business structure necessary to achieve long-term growth in a competitive environment. Prudent financial management and strong cash flow provided the flexibility to undertake those investments. Measures such as economic profit-which includes the cost of capital investment in the profitability scorecard-help management direct capital to the best opportunities for return.

The investment in Harpers and the successful development of a new metal office furniture system exemplifies actions taken to position Kimball for long-term success. While Kimball has historically ranked as the industry's top wood office furniture producer, the metal segment accounts for approximately 75 percent of the total office furniture market. During fiscal 1998, sales of Kimball's metal systems outpaced the industry dramatically.

collective resources. Kimball Lodging Group employs various Kimball facilities to manufacture its products, including the pieces featured in this hotel suite.

Kimball Home Furniture represents another opportunity for growth in the residential furniture market. The solid-wood collections graphically display the company's furniture design and manufacturing sophistication, and underscore Kimball's production flexibility.

Kimball has wide-ranging furniture manufacturing capabilities that were applied to Kimball Lodging Group's hotel, resort and healthcare customers, and other furniture manufacturers on a contract basis. The Lodging Group has worked to employ internal capacity by developing fully upholstered seating manufacturing capability.

Highly skilled employees who apply carefully documented manufacturing procedures help Kimball efficiently use its production resources. The prudent management of Kimball's production flexibility plays a key role in long-term achievements.

p r u d e n c e . Kimball prudently employed its furniture building experience and available manufacturing capacity with the launch of Kimball Home Furniture. The acclaimed *Maple Creek* collection, Kimball Home's fourth introduction in the last year, is the epitome of Kimball's craftsmanship and its flexible capacity.

quality first. For years, Kimball Electronics Group has provided a major automotive supplier the key electronic components needed for its anti-lock braking systems. Kimball's multichip module technology is being researched to make these systems smaller, lighter and more cost effective.

Loyalty. Decision Making to Benefit the Larger Community.

The most effective business relationships are true partnerships. Each person or organization on a team benefits from the knowledge and skills of the other. Over the long run, trust and loyalty are necessary components for the relationship to thrive with the changing opportunities and challenges of the marketplace.

Kimball's success ultimately emerges from providing solutions to the many opportunities provided by its customers: A family furnishing a new home. A business seeking office solutions. A resort refurbishing its property. A billiards table for a recognized leader of quality entertainment products. An automotive manufacturer seeking an electronic component for a new vehicle model year.

commitment. Kimball builds an assortment of OEM products, including billiard tables, nurturing long-term relationships with its customers.

These relationships thrive because Kimball continuously adds value to its customer partnerships. For example, Kimball has reduced the size and cost of anti-lock vehicle braking device components for one key partner. Major hotel chains rely on Kimball to provide quality, cost-effective lodging furniture. In the case of a television manufacturer's move from California to Mexico, Kimball followed with its just-in-time cabinet assembly operations.

Customer intimacy is key. Office furniture customers know Kimball will recommend the best application from any of the wood or metal products in the Kimball family. This Total Best Solution approach is winning customers and dealers. In the Electronics Group, plans are underway to form a pilot design engineering center to serve existing and new customers.

Internal partnerships are enhancing how products are designed, built and sold. New operating information systems are providing better data for ordering and scheduling. In the Lodging Group, Regional Support Teams meld the expertise of many professionals into a seamless offering. To help Kimball engineers throughout the company, a Product Data Management digital storage system will allow quicker, more efficient access to furniture designs.

In the end, Kimball's decisions to make investments for long-term growth are guided by loyalty.

Kimball Electronics Group engineers work side-by-side with its customer's technical people to find ways to reduce the size and cost of anti-lock braking modules used in automobiles.

Customers of the Kimball Lodging Group can contact any of the members in their service team–whether it's in sales, finance, shipping or production–for information regarding any order.

Kimball's Cabinet and Furniture Group "value-engineers" products it makes for its OEM customers to find the most efficient manufacturing methods possible.

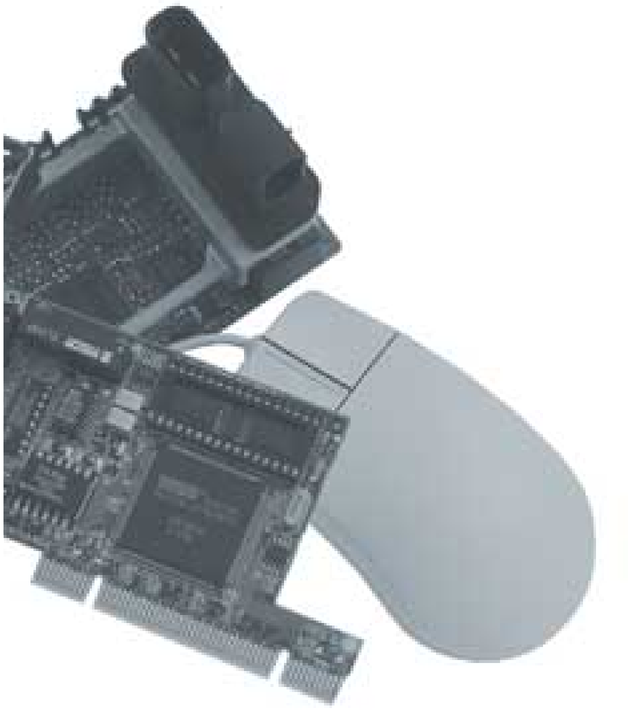
Integrity. Keeping Faith with Our Strategic Partners.

Kimball's Heartland Virtues are embodied in a corporate philosophy called the Guiding Principles, which the company uses to direct its long-term relationships with employees, customers, suppliers and Share Owners.

A company that operates with integrity keeps its promises. If challenges or unexpected difficulties block the path, then the company informs its stakeholders. By adhering to the Guiding Principles, Kimball fulfills its commitment to those whose well-being is shaped by the company.

Revenues, economic profit, return on capital and total Share Owner return are all measurements of a company's performance. Over time, they reflect both the successes and the shorter-term challenges.

One such challenge involved *Definition*, the highly acclaimed wood casegoods product introduced at the 1997 NEOCON trade show. Early demand exceeded expectations so greatly that it overwhelmed the company's capacity. The extended lead times subsequently suppressed orders and impacted similar product lines. Kimball has since recovered market share and growth momentum lost to these difficulties.

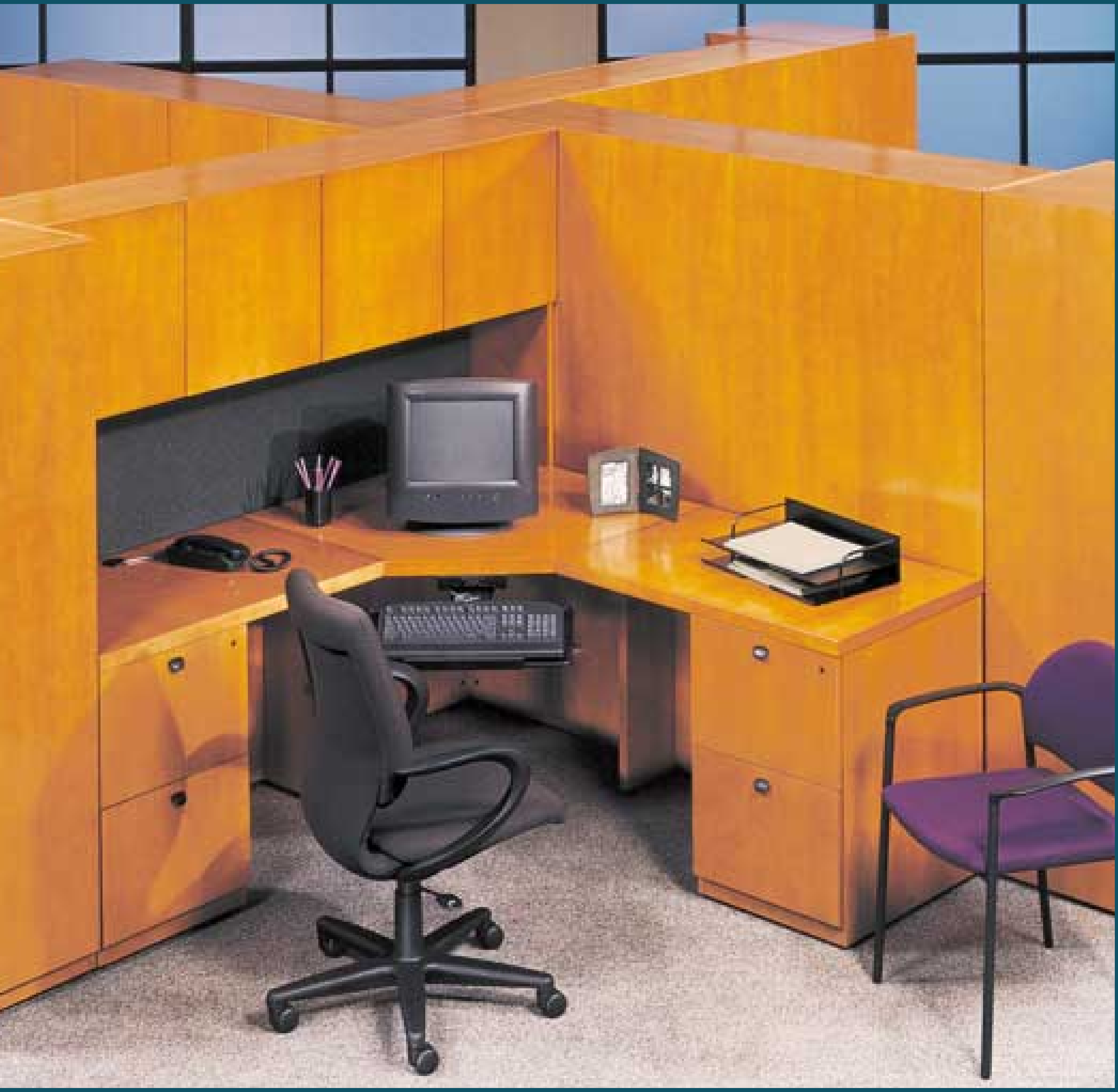


kimball electronics group. Not only manufactures components for applications in the automotive, telecommunications and computer industries, but it has expanded its services into product design and distribution.

Another challenge is the difficulty implementing an order management information system in the office furniture marketing group. When in full operation, the order system will more effectively organize and share incoming customer orders with manufacturing partners, resulting in dramatically improved product availability and shorter lead times. The lessons from this experience are guiding the remaining phases of implementation.

Meanwhile, the volatile television manufacturing environment impacted Kimball's contract TV cabinet business. The industry turmoil regarding the next generation of TV technology has been compounded by the consolidation of customer manufacturing facilities, combining to dramatically disrupt Kimball production.

DEFINITION Ushers in a new era in casegoods flexibility that meets every specification from the private office to the open plan.



environmental integrity. Kimball's responsibility to the environment is illustrated through the use of its harvester, which allows hardwood to be removed more efficiently while protecting the forests. The machine cuts trees, gently lowers them to the ground and slices them into sections for easy, damage-free removal.

Integrity (continued)

Despite these occasional detours, Kimball continues to fine-tune the engine that serves customers and drives sales and earnings. These include a systematic effort to evaluate processes, make changes that boost efficiency and cement those gains with the speed of technology. Another is the application of information systems that provides critical cost data for appropriate pricing and manufacturing decisions. Ultimately, these steps help Kimball serve customers through an industrial covenant–immediate access to world-class design and manufacturing resources.

Kimball's employees share in the benefits of a successfully implemented vision. Incentive programs reward employees, in part, on the company's progress in growing economic profit. Because personal development is also important to the company's success, Kimball provides wide-ranging opportunities for education and training. The company's flexibility with employees-which offers part-time work, family friendly scheduling, and other innovative job approaches-has been in place long before other corporations found it necessary to adopt these practices.

what goes around. An annual amusement park picnic gives Kimball families a chance to have fun and visit with one another away from the workplace.

The promise-the integrity-lies in doing what is right. Protecting the environment for ourselves and our communities is taken very seriously. Kimball's stewardship involves a gamut of superior environmental practices. Kimball manages nearly 15,000 acres of company-owned and private woodland forests for today's needs, and for the future. Instead of clear-cutting, Kimball selects specific trees for commercial use. And innovative harvesting and transporting equipment will further improve productivity while preserving the natural beauty of the forests. Within manufacturing operations, new techniques are being explored to reduce emissions and recycle by-products as a means to eliminate wastes.

Execution is the ultimate measurement for Kimball's success. With officer stock ownership requirements and key support personnel stock option programs, the decision makers have a measurable stake-and incentive-to build performance and lead the company into a new, more intense phase of growth.

The company truly is being managed for the future, steeped in the bedrock heartland virtues that guide corporate decisions. These longstanding virtues act as the foundation for a company whose actions are globally impacting all Kimball stakeholders.

Dealers invited to a roundtable discussion highlighted successes and concerns, resulting in responsive programs that reduced lead time on orders and service.

A dramatically new process allows Kimball to selectively harvest hardwood and haul it from forests with much less impact on the environment. Kimball manages its forests and those of contract landowners so that the land can be used for future generations.

Across the company, Kimball's creative problem solving, leadership and manufacturing excellence training courses have produced more than 5,000 graduates.

Overview

Fiscal year 1998 net sales surpassed the $1 billion mark for the first time, as sales increased 4% above 1997 levels to set a new annual record of $1,032,317,000. Net income and Class B diluted earnings per share were $55,027,000 and $1.32, respectively, a decrease of 5% from 1997 record levels.

Results of Operations

1998 Discussion

Net sales for the 1998 fiscal year surpassed 1997 levels on increased sales by both the Furniture and Cabinets segment and the Electronic Contract Assemblies segment. Net sales in the Processed Wood Products and Other segment were flat with fiscal year 1997. Operating income in 1998 decreased 11% to $72,476,000, from $80,992,000 in 1997.

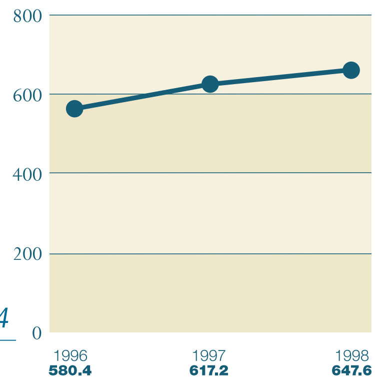
Furniture and Cabinets

Fiscal 1998 net sales in the Furniture and Cabinets segment, the Company's largest segment, increased 5% over the prior year.

Furniture and Cabinets

NET SALES

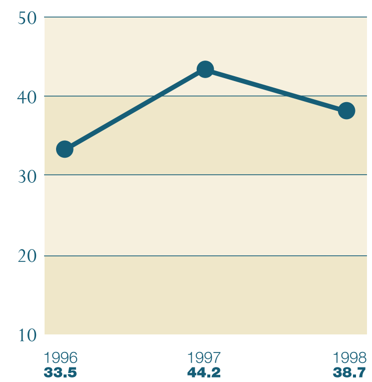
In millions of dollars



Furniture and Cabinets

OPERATING INCOME

In millions of dollars



A double-digit increase in office furniture sales was partially offset by sales declines in lodging furniture and original equipment manufacturer cabinets and furniture.

Office furniture experienced record annual net sales in 1998. Growth was achieved without acquisitions and was distributed across all major product groupings - casegoods, seating, and systems. Increases in net sales resulted primarily from higher volumes. Office furniture sales growth kept pace with the most recent twelve-month industry trend. Price discounting remains a competitive factor in the office furniture industry, resulting in lower operating margins in the year over year comparison.

Net sales for cabinets and furniture product lines declined when compared to the prior year, with volume declines in television cabinets and stands and audio speaker cabinets. Fiscal 1998 residential furniture sales increased in comparison to 1997. Sales of original equipment manufacturer cabinets and stands in the home entertainment market were impacted by the relocation of a large customer and its longer than anticipated start up time in the early part of the fiscal year, resulting in lower volumes in 1998. The Company's production flexibility allows it to utilize portions of the available production capacity created by lower volumes within these product lines to support and balance increased production schedules of other product lines within this segment. The Company continues to explore other potential external product avenues to utilize excess capacity in this group, including new customers and new products.

Net sales of lodging furniture in 1998 declined when compared to 1997. Increased sales in the Company's standard product lines were more than offset by reduced sales of custom-made product. Lower volumes were primarily the result of competitive pricing pressures. In the latter half of the fiscal year, the Company re-evaluated its lodging furniture pricing structure, and initiated a new pricing strategy to offer more competitive pricing. In addition, based upon customer feedback certain products were reengineered which enabled the Company to lower costs without sacrificing customer-defined quality.

Operating income in the Furniture and Cabinets segment decreased in 1998 when compared to 1997, despite an increase in sales. Cost of goods sold, as a percent of sales, was lower in 1998 as favorable shifts in the product mix were partially offset by higher labor costs, as a percent of sales. Sales and administrative expenses rose in 1998 primarily due to increased investments in people and technology, higher product distribution costs, and increased sales-based incentive costs.

Electronic Contract Assemblies

The Electronic Contract Assemblies segment achieved record net sales in fiscal 1998 with an increase of 3% over the prior year. Increased demand for electronic automotive products was partially offset by decreased volumes in computer-related products. Fiscal 1998 fourth quarter results were unfavorably impacted by the General Motors (GM) labor strike, as the Electronic Contract Assemblies segment assembles components that are installed in GM vehicles. The Company estimates that the impact resulting from the GM strike was less than 2% of fourth quarter consolidated sales. With the settlement of the strike occurring in late July, 1998, the Company's expectations are that the effect on first quarter fiscal 1999 results will be greater than the fourth quarter 1998 impact. The information included above concerning the General Motors labor strike is a forward-looking statement under the Private Securities Litigation Reform Act of 1995 and is subject to risks and uncertainties including, but not limited to how quickly GM and it suppliers will return to full production, as well as the ability of the Company and its suppliers to ramp up production to respond to the anticipated acceleration in demand. This segment's working capital carries a higher degree of risk than the Company's other segments due to rapid technological changes and the contract nature of this industry. Included in this segment are sales to one customer which accounted for 16% and 15% of consolidated sales in fiscal 1998 and 1997, respectively.

Operating income in 1998 decreased when compared to the prior year. Cost of goods sold, as a percent of sales, increased as lower material costs due to a product mix shift were more than offset by higher direct labor and overhead costs. Selling and administrative costs increased from one year ago on increased investments in people and technology. The Company continues to build its infrastructure to take advantage of the latest design and production technologies and to support growth opportunities within the segment.

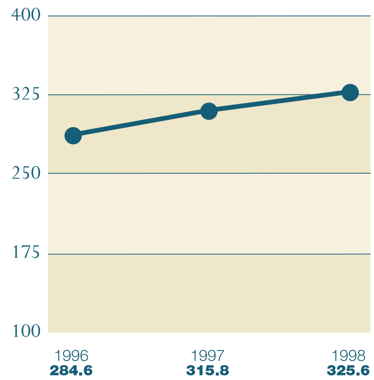
Processed Wood Products and Other

Outside sales in the Processed Wood Products and Other segment, which accounted for 6% of consolidated outside sales in 1998, remained relatively consistent with the prior year as increases in sales of lumber, laminate products and metal parts were offset by a decline in sales of dimension product and plastic parts. In an effort to grow additional outside sales in this segment, the Company has invested in additional human resources focused in the sales and marketing area. Internal sales of this segment to the Company's other operations, particularly the Furniture and Cabinets segment, provide a key link in the Company's vertically integrated supply chain. Operating income declined in the current year as material costs, as a percent of sales, increased from the prior year.

Electronic Contract Assemblies

NET SALES

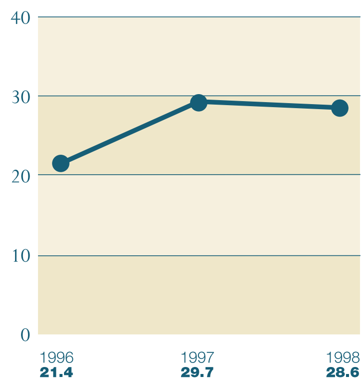
In millions of dollars



Electronic Contract Assemblies

OPERATING INCOME

In millions of dollars



Consolidated Operations

Other income in 1998 increased over the prior year as interest income increased on higher average investment balances. In the third quarter of the current year the Company realized a $616,000 after tax gain ($1.2 million pre-tax affect), or $0.01 per diluted share, on the sale of a stock investment of which the Company holds a minority interest. The Company also recorded a $1.0 million after tax gain ($1.8 million gross gain affect), or $0.02 per diluted share, on the sale of an automotive service center in the second quarter of the current year. In addition, the prior year includes a $3.8 million pretax loss (no after tax affect) charged to Other - net related to the sale of a foreign subsidiary.

The effective income tax rate increased 2.3 percentage points in 1998 primarily due to a $3.8 million tax benefit received on the sale of a foreign subsidiary in the prior year. Excluding this $3.8 million benefit, the effective income tax rate decreased 0.4 percentage point when compared to the prior year primarily the result of a decrease in the state income taxes in the current year.

Net income and Class B diluted earnings per share of $55,027,000 and $1.32, respectively, in fiscal 1998, decreased 5% from the prior year levels of $57,745,000 and $1.38, respectively. The current year earnings per share amounts reflect a two-for-one stock split which occurred during the second quarter. All prior year amounts have been restated.

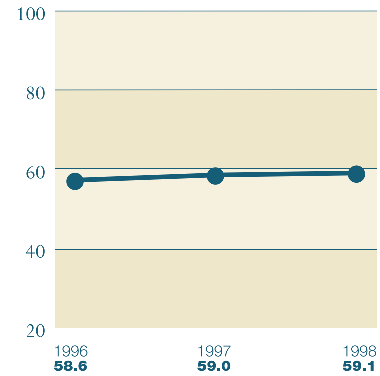
1997 Discussion

Net sales for the 1997 fiscal year, led primarily by increases in the Furniture and Cabinets, and Electronic Contract Assemblies segments and, to a lesser extent, the Processed Wood Products and Other segment increased 7% to $992,049,000. Operating income in 1997 increased to $80,992,000, a 30% improvement over the 1996 level of $62,511,000.

Processed Wood Products and Other

NET SALES

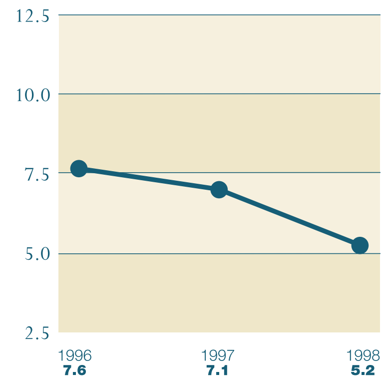
In millions of dollars



Processed Wood Products and Other

OPERATING INCOME

In millions of dollars



Furniture and Cabinets

The Company's largest segment, Furniture and Cabinets, increased net sales 6% above the prior year as double-digit increases in office furniture and lodging furniture were partially offset by declines in cabinets and furniture.

Office furniture product lines realized volume growth in all three major product groupings - casegoods, seating, and systems, with growth particularly evident in value-oriented products which had sales grow at a faster pace than that experienced by the industry in general. Sales growth in systems also outpaced the industry as a whole.

Sales of most cabinet and furniture product lines declined when compared to the prior year, with television cabinets and stands, audio speaker cabinets, and residential furniture all seeing lower volumes in fiscal 1997. The Company's fiscal 1996 decision to exit the domestic wholesale piano market also contributed to the declining volumes in these product lines. Lower volumes of original equipment manufacturer cabinets and stands in the home entertainment market were the result of some customers realizing lower retail sales of their products. The Company utilized the available capacity created by the sales declines to support and balance production schedules of other product lines within this segment.

Sales of lodging furniture increased as volumes increased in the Company's standard and custom-made furniture product lines. Strongest growth was seen in product destined for use in the lodging industry in both renovated and newly constructed facilities. Sales growth was also achieved in product utilized within the healthcare industry and other institutional environments.

Operating income in the Furniture and Cabinets segment increased in 1997, when compared to 1996, as higher volumes and lower costs, as a percent of sales, combined to improve profitability during the year. The prior year included additional one-time costs to exit the domestic wholesale piano product line and certain facility start-up costs incurred to redeploy an existing facility to the production of systems office furniture to support increased volumes. Gross profit increased in 1997 as material costs declined, as a percent of sales, when compared to the prior year. Sales expense increased, as a percent of sales, partially due to increases in volume and performance related expenses, including commissions and incentives, and higher expenses incurred to promote product to the customer, such as showroom, delivery, and other expenses. Administrative expense in 1997 declined in absolute dollars and as a percent of sales, as minimal changes were needed within the existing administrative infrastructure to support the increased volumes.

The Company sold its piano key and action production facility located in the United Kingdom, Herrburger Brooks, PLC, during the first quarter of fiscal 1997, with the transaction resulting in no impact to consolidated 1997 net income.

Electronic Contract Assemblies

Fiscal 1997 sales in the Electronic Contract Assemblies segment increased 11% over the 1996 level. The acquisition of ELMO Semiconductor in the prior year third quarter contributed 2% to the increased sales level. Certain large customers in the automotive and computer industries increased their demand for the Company's products in the 1997 fiscal year, with volumes increasing in electronic automotive products and internal and peripheral computer products, when compared to the prior year. Other customers, primarily in the computer networking market, reduced order levels. Rescheduling, production flexibility and material availability are inherent risks in the contract electronic assemblies market. In addition, as a supplier to customers operating within the automotive industry, the Company has a certain degree of risk associated with labor relations within that industry. Due to these factors, this segment's working capital carries a higher degree of risk than the Company as a whole. Working capital in this segment as of June 30, 1997, had been reduced from the elevated levels present at June 30, 1996. As in other segments, the Company records reserves in response to these risks as they arise based upon estimates derived from available information known at that time. Operating income in 1997 increased primarily due to increased volumes, with product mix also contributing to the improved results, although competitive pricing pressures remain a constant in the industry. Included in this segment were sales to one customer which accounted for 15% of consolidated sales in 1997 and 14% in 1996.

Processed Wood Products and Other

Outside sales in the Processed Wood Products and Other segment improved marginally over the prior year as increases in sales of dimension, lumber and metal parts were offset by a decline in sales of plastic parts, veneer and laminate products. This segment continued to provide goods and services to the Company's internal operations, mainly in the Furniture and Cabinets segment, in support of the vertically integrated supply chain maintained by the Company. Operating income declined when compared to the prior year due to higher costs for some raw material commodities coupled with a changing customer mix.

Consolidated Operations

Other income declined from the prior year as an increase in interest income earned due to higher average investment balances during the 1997 fiscal year was more than offset by a $3.8 million charge to Other - net, related to a pretax loss on the sale of a foreign subsidiary in the first quarter of 1997, which was offset by a $3.8 million income tax benefit recorded in Taxes on Income. Other - net, also declined due to larger gains realized on sales of assets in the prior fiscal year.

The effective income tax rate decreased 4.5 percentage points in 1997 due primarily to the $3.8 million tax benefit received on the sale of a foreign subsidiary in the first quarter of this fiscal year. The tax benefit was the result of a higher U.S. tax basis due to previously nondeductible losses on the investment in this U.K. subsidiary. Excluding this benefit, the effective income tax rate decreased 1.8 percentage points when compared to the prior year due to reduced European operating losses, which provide no immediate tax benefit, and a slight reduction in the effective state tax rate.

The sale of a foreign subsidiary in the first quarter of fiscal year 1997 resulted in a deferred tax asset for the Company due to a capital loss recognized in the current year as previously non-deductible losses created a higher tax basis on this investment. Based on the Company's prior earnings history and its expectations for future earnings, the Company has determined that it is more likely than not that the carrying value of the deferred tax asset will be realized in the future as part of the Company's overall tax planning strategy under current income tax law.

The Company attained record net income and Class B diluted earnings per share of $57,745,000 and $1.38, respectively, in fiscal 1997, an increase of 23% over the prior year levels of $46,965,000 and $1.13, respectively, excluding the effects of the product line exit costs in the prior year. Including the product line exit costs, net income and Class B earnings per share increased 28% over the prior year. Earnings per share amounts have been restated to reflect the two-for-one stock split effective in the second quarter of fiscal 1998.

Liquidity and Capital Resources

The Company's liquidity position improved slightly from $168 million in cash, cash equivalents, and short-term investments at the end of fiscal 1997, to $173 million at the end of fiscal 1998. Working capital increased $16 million to $260 million and the current ratio was 2.7 to 1 as of June 30, 1998.

Operating activities generated $76 million of cash flow in 1998, down from $122 million in 1997. Net income and non-cash charges to net income were partially offset by increases in receivables of $9 million and inventory of $15 million. The Company reinvested $49 million into capital investments for the future, including facility renovation and expansion, production equipment upgrades and improvements to the Company's information technology systems. Financing cash flows of $30 million were primarily in the form of dividend payments and share repurchases. Net cash flow, excluding the purchases and maturities of short-term investments was a positive $2 million for fiscal year 1998.

The Company anticipates maintaining a strong liquidity position for the 1999 fiscal year and believes its available funds on hand, borrowing capacity, and cash generated from operations will be sufficient for working capital needs and to fund investments in the Company's future. This statement is a forward-looking statement under the Private Securities Litigation Reform Act of 1995 and is subject to certain risks and uncertainties including, but not limited to a downturn in the economy, loss of key customers or suppliers, availability or cost of raw materials, or a natural disaster or similar unforeseen event.

Year 2000

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in a major system failure or miscalculations. The Company has completed an assessment of its computer systems and the embedded systems contained in its machinery, equipment and other infrastructure, and is in the process of executing a plan to resolve the Year 2000 issue. An Executive Committee has been established to oversee completion of these activities. Management believes the modification of its computer information systems will be completed in adequate time to enable proper processing of transactions relating to the Year 2000 and beyond. Integrated testing of interfaces between various applications used within the Company is scheduled to begin before September, 1998, with completion of Year 2000 compliance estimated for January - March, 1999. While the Year 2000 issue has been given the highest priority amongst the information technology (IT) group, any deferrals of other IT projects by the Company will not have a material effect on its financial condition or results of operations.

The total gross cost of Year 2000 compliance is estimated to range from $9 million to $11 million, of which approximately 25% had been incurred as of June 30, 1998. Existing information technology resources have been redeployed, which are anticipated to account for approximately 50% of the total costs, with the balance being incremental costs to the Company. Approximately 30% of the total gross costs relate to machinery and other fixed assets which will be capitalized, with the remaining costs being expensed as incurred.

The Company believes the key risk factors associated with Year 2000 are those it cannot directly control, primarily the readiness of its key suppliers, distributors, customers, public infrastructure suppliers and other vendors. The Company has initiated discussions with these third parties to determine their Year 2000 compliance status, and is keeping the communication channels open with respect to their readiness. The Company has mailed correspondence to third party affiliates to assess their Year 2000 readiness based upon their representations. The Company has received a good response to those letters and is in the process of following up with those mission critical third parties who did not respond. While the Company is working diligently to ensure its mission critical third parties will be compliant, there can be no assurance that the systems of any third party on which the Company's systems and operations rely will be timely converted and which will not have a material adverse effect on the Company.

The determination of the effect on the Company's results of operations for its own noncompliance or for third party noncompliance is complex and hinges on numerous unknowns. Therefore, while the Company does not have a reasonable estimate of the impact this could have on its results of operations, it recognizes this noncompliance could range from the malfunction of an embedded chip in a piece of machinery temporarily shutting down a product line, to a select public infrastructure of one of the Company's outlying locations or international facilities being unable to provide service temporarily idling one or more production facilities. In addition, worst case scenarios could include a key customer being unable to process transactions halting production on one of the Company's product lines, to a single source supplier, as well as back-up suppliers, being unable to provide necessary materials also suspending production on a product line(s). Some of these individually, and in the aggregate, could have a material effect on the Company's results of operations.

During the first half of fiscal year 1999, contingency plans will be developed, documented, and tested outlining recovery strategies for possible failures. Contingency plans would include such items as sourcing alternatives for single source suppliers, developing business resumption plans for all of the Company's business units, and evaluating alternative manual processes.

This Year 2000 disclosure contains forward-looking statements under the Private Securities Litigation Reform Act of 1995 and is subject to risks and uncertainties including, but not limited to such factors as the availability and cost of human resources with expertise in this area, the ability to locate and correct all relevant computer codes and time constraints.

report of management

To the Share Owners of Kimball International, Inc.

The management of Kimball International, Inc. is responsible for the preparation and integrity of the accompanying financial statements and other related information in this report. The consolidated financial statements of the Company and its subsidiaries, including the footnotes, were prepared in accordance with generally accepted accounting principles and include judgement and estimates, which in the opinion of management are applied on a conservative basis.

The Company maintains a system of internal controls intended to provide reasonable assurance that assets are safeguarded from loss or material misuse, transactions are authorized and recorded properly, and that the accounting records may be relied upon for the preparation of the financial statements. This system is tested and evaluated regularly for adherence and effectiveness by the Company's staff of internal auditors, as well as the independent public accountants in connection with their annual audit.

The Audit Committee of the Board of Directors, which is comprised of directors who are not employees of the Company, meets regularly with management, the internal auditors and the independent public accountants to review the work performed and to ensure that each is properly discharging its responsibilities. The internal auditors and the independent public accountants have free and direct access to the Audit Committee, and they meet periodically, without management present, to discuss appropriate matters.

Douglas A. Habig
Chairman, Chief Executive Officer

James C. Thyen
President

Robert F. Schneider
Executive Vice President,
Chief Financial Officer,
Assistant Treasurer

report of independent public accountants

To the Board of Directors and Share Owners of Kimball International, Inc.

We have audited the accompanying consolidated balance sheets of Kimball International, Inc. (an Indiana corporation) and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of income, cash flows and share owners' equity for each of the three years in the period ended June 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kimball International, Inc. and subsidiaries as of June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Chicago, Illinois
July 23, 1998

consolidated balance sheets

(Amounts in Thousands, Except for Share Data)	June 30 1998	1997
Assets		
Current Assets:		
Cash and cash equivalents	$ 16,757	$ 18,818
Short-term investments	156,010	149,677
Receivables, less allowances of $4,023 and $4,017, respectively	119,170	110,142
Inventories	96,303	76,142
Other	24,697	21,994
Total current assets	412,937	376,773
Property and Equipment, net	182,798	174,010
Other Assets	33,903	30,800
Total Assets	$629,638	$581,583
Liabilities and Share Owners' Equity		
Current Liabilities:		
Loans payable	$ 4,318	$ 2,472
Current maturities of long-term debt	434	471
Accounts payable	60,907	53,063
Dividends payable	6,521	5,989
Accrued expenses	81,030	71,263
Total current liabilities	153,210	133,258
Other Liabilities:		
Long-term debt, less current maturities	1,856	2,313
Deferred income taxes and other	25,949	23,186
Total other liabilities	27,805	25,499
Share Owners' Equity:		
Common stock–par value $.05 per share ($.31 1/4 in 1997):		
Class A– Shares authorized-49,967,000 (10,416,000 in 1997) Shares issued-14,509,000 (7,274,000 in 1997)	725	2,273
Class B– Shares authorized-100,000,000 (30,000,000 in 1997) Shares issued-28,516,000 (14,238,000 in 1997)	1,426	4,450
Additional paid-in capital	6,022	1,607
Retained earnings	464,880	434,665
Foreign currency translation adjustment	1,535	1,721
Unrealized gain/(loss) on available-for-sale securities	2,174	(73)
Less: Treasury stock-at cost:		
Class A– 125,000 shares (55,000 in 1997)	(2,362)	(2,044)
Class B– 1,688,000 shares (742,000 in 1997)	(25,777)	(19,773)
Total share owners' equity	448,623	422,826
Total Liabilities and Share Owners' Equity	$629,638	$581,583

See Notes to Consolidated Financial Statements.

consolidated statements of income

(Amounts in Thousands, Except for Per Share Data)	Year Ended June 30 1998	1997	1996
Net Sales	$1,032,317	$992,049	$923,636
Cost of Sales	723,378	692,636	664,311
Gross Profit	308,939	299,413	259,325
Selling, Administrative and General Expenses	236,463	218,421	193,414
Product Line Exit Costs	—	—	3,400
Operating Income	72,476	80,992	62,511
Other Income (Expense):			
Interest Expense	(424)	(551)	(408)
Interest Income	9,458	8,484	7,411
Other, Net	5,917	(359)	4,801
Other Income, Net	14,951	7,574	11,804
Income Before Taxes on Income	87,427	88,566	74,315
Taxes on Income	32,400	30,821	29,220
Net Income	$ 55,027	$ 57,745	$ 45,095
Earnings Per Share of Common Stock			
Basic: Class A	$1.32	$1.39	$1.08
Class B	$1.33	$1.40	$1.08
Diluted: Class A	$1.31	$1.38	$1.07
Class B	$1.32	$1.38	$1.08
Average Number of Shares Outstanding			
Basic: Class A	14,413	14,498	14,616
Class B	27,004	26,952	27,194
Totals	41,417	41,450	41,810
Diluted: Class A	14,413	14,498	14,616
Class B	27,401	27,265	27,240
Totals	41,814	41,763	41,856

See Notes to Consolidated Financial Statements. Share data has been adjusted for the 2-for-1 common stock split effective on November 12, 1997.

consolidated statements of cash flows

(Amounts in Thousands)	1998	1997	1996
	Year Ended June 30		
Cash Flows From Operating Activities:			
Net income	$ 55,027	$ 57,745	$ 45,095
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	33,806	33,395	36,092
Gain on sales of assets	(1,986)	(597)	(1,235)
Deferred income tax and other deferred charges	880	(1,247)	(939)
Product line exit costs	—	—	3,400
Change in current assets and liabilities:			
Receivables	(9,028)	6,432	(18,586)
Inventories	(15,174)	10,787	(13,343)
Other current assets	(1,413)	1,751	1,175
Accounts payable	7,844	4,055	13,138
Accrued expenses	6,248	9,487	(2,794)
Net cash provided by operating activities	76,204	121,808	62,003
Cash Flows From Investing Activities:			
Capital expenditures	(41,313)	(32,937)	(32,793)
Proceeds from sales of assets	1,177	1,366	7,282
Proceeds from sale of division/subsidiary	3,150	2,345	—
Increase in other assets	(7,359)	(11,810)	(11,658)
Purchases of held-to-maturity securities	(21,415)	(34,465)	(17,318)
Maturities of held-to-maturity securities	46,932	51,446	67,249
Purchases of available-for-sale securities	(97,120)	(58,305)	(60,822)
Sales and maturities of available-for-sale securities	67,517	—	—
Net cash used for investing activities	(48,431)	(82,360)	(48,060)
Cash Flows From Financing Activities:			
Increase in short-term borrowings	1,846	190	519
Net change in long-term debt	(494)	(724)	362
Acquisition of treasury stock, net of sales	(8,323)	(4,878)	(5,131)
Dividends paid to share owners	(24,280)	(21,508)	(19,193)
Proceeds from exercise of stock options	1,495	808	—
Other-net	(63)	(132)	(105)
Net cash used for financing activities	(29,819)	(26,244)	(23,548)
Effect of Exchange Rate Changes on Cash	(15)	(33)	(26)
Net (Decrease) Increase in Cash and Cash Equivalents	(2,061)	13,171	(9,631)
Cash and Cash Equivalents at Beginning of Year	18,818	5,647	15,278
Cash and Cash Equivalents at End of Year	$ 16,757	$ 18,818	$ 5,647
Total Cash, Cash Equivalents and Short-Term Investments:			
Cash and cash equivalents	$ 16,757	$ 18,818	$ 5,647
Short-term investments	156,010	149,677	108,425
Totals	$172,767	$168,495	$114,072

See Notes to Consolidated Financial Statements.

consolidated statements of share owners' equity

Three Years Ended June 30, 1998

(Amounts in Thousands, Except for Per Share Data)	Common Stock Class A Authorized Shares	Class A Issued Shares	Class A Issued Amount	Class B Authorized Shares	Class B Issued Shares	Class B Issued Amount
Amounts at June 30, 1995	10,477	7,335	$2,292	30,000	14,177	$4,431
Shares of Class A Common Stock converted to Class B Common Stock pursuant to charter provisions	(24)	(24)	(7)		24	7
Amounts at June 30, 1996	10,453	7,311	$2,285	30,000	14,201	$4,438
Shares of Class A Common Stock converted to Class B Common Stock pursuant to charter provisions	(37)	(37)	(12)		37	12
Amounts at June 30, 1997	10,416	7,274	$2,273	30,000	14,238	$4,450
Shares of Class A Common Stock converted to Class B Common Stock pursuant to charter provisions	(33)	(36)	(3)		36	3
Increase number of authorized shares	39,584			70,000		
2-for-1 stock split		7,271			14,242	
Change par value from $.31 1/4 pre stock split to $.05 post stock split			(1,545)			(3,027)
Amounts at June 30, 1998	49,967	14,509	$ 725	100,000	28,516	$1,426

	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount
Amounts at June 30, 1995	$ 812	$ 373,704	(514)	$ (11,883)
Net income for the year		45,095		
Treasury stock acquired-net	86		(187)	(5,189)
Cash dividends:				
Class A ($.47 per share)		(6,870)		
Class B ($.47 1/2 per share)		(12,905)		
Amounts at June 30, 1996	$ 898	$ 399,024	(701)	$ (17,072)
Net income for the year		57,745		
Treasury stock acquired-net	34		(134)	(4,878)
Shares of Class A Common Stock converted to Class B Common Stock, via treasury shares, pursuant to charter provisions	647		—	(647)
Exercise of stock options	28		38	780
Cash dividends:				
Class A ($.53 per share)		(7,682)		
Class B ($.53 1/2 per share)		(14,422)		
Amounts at June 30, 1997	$ 1,607	$ 434,665	(797)	$ (21,817)
Net income for the year		55,027		
Treasury stock acquired–net	74		(378)	(8,213)
Shares of Class A Common Stock converted to Class B Common Stock, via treasury shares, pursuant to charter provisions	81		—	(81)
Exercise of stock options	(312)		117	1,972
Cash dividends:				
Class A ($.58875 per share)		(8,483)		
Class B ($.605 per share)		(16,329)		
2-for-1 stock split			(755)	
Change par value from $.31 1/4 pre stock split to $.05 post stock split	4,572			
Amounts at June 30, 1998	$6,022	$464,880	(1,813)	$(28,139)

See Notes to Consolidated Financial Statements. Dividends per share have been adjusted for the 2-for-1 common stock split effective on November 12, 1997.

Note 1 Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of all domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts included in the consolidated financial statements and related footnote disclosures. While efforts are made to assure estimates used are reasonably accurate based on management's knowledge of current events, actual results could differ from those estimates.

Acquisition of Subsidiaries: On March 29, 1996, the Company acquired with available cash on hand, certain assets of ELMO Semiconductor Corporation of California and all of the outstanding capital stock of ELMO Semiconducteurs SARL of France, providers of semiconductor DIE processing, testing, design and packaging. The acquisition was accounted for as a purchase with operating results included in the Company's Consolidated Statements of Income from the date of acquisition.

Sale of Subsidiary: The Company sold its piano key and action production facility located in the United Kingdom, Herrburger Brooks, PLC, during the first quarter of fiscal year 1997. Included in the 1997 consolidated statement of income is a $3.8 million pretax loss on the sale reported in Other-net, with an offsetting $3.8 million income tax benefit reported in Taxes on Income. This tax benefit was the result of a higher U.S. tax basis in this subsidiary due to previously nondeductible losses on the investment in this U.K. subsidiary. This transaction resulted in no impact to fiscal year 1997 consolidated net income.

Cash, Cash Equivalents and Short-Term Investments: Cash equivalents consist primarily of highly liquid investments with original maturities of three months or less at the time of acquisition. Cash equivalents are stated at cost, which approximates market value. Short-term investments are cash investments, primarily U.S. Government securities and municipal bonds with maturities exceeding three months at the time of acquisition. Held-to-maturity securities are stated at amortized cost. Available-for-sale securities are stated at market value, with unrealized gains and losses being excluded from net income by being recorded net of related tax effect, if any, as a component of share owners' equity.

Foreign Currency Translation: Assets and liabilities of foreign subsidiaries (except for Mexico, whose functional currency is the U.S. dollar) are translated into U.S. dollars at fiscal year-end exchange rates, income statement accounts are translated at the weighted average exchange rate during the year, and the resulting currency translation adjustments are recorded as a component of share owners' equity. Financial statements of Mexican operations are translated into U.S. dollars using both current and historical exchange rates, with translation gains and losses included in net income.

Inventory Pricing: Inventories are stated at the lower of cost or market value. Cost includes material, labor and applicable manufacturing overhead and is determined using the last-in, first-out (LIFO) method for approximately 52% and 59% of consolidated inventories in 1998 and 1997, respectively. Cost of the remaining inventories is determined using the first-in, first-out (FIFO) method.

Property, Equipment and Depreciation: Property and equipment are stated at cost. Depreciation is provided over the estimated useful life of the assets using the straight-line method for financial reporting purposes. Maintenance, repairs and minor renewals and betterments are expensed; major improvements are capitalized.

Research and Development: The costs of research and development are expensed as incurred. These costs were approximately, in millions, $13.1 in 1998, $11.5 in 1997, and $10.5 in 1996.

Medical Care and Disability Benefit Plans: The Company is self-insured with respect to certain medical care and disability benefit plans for approximately 75% of covered domestic employees. The Company carries stop-loss insurance coverage to mitigate severe losses under these plans. The balance of domestic employees are covered under fully insured HMO plans. The costs for such plans are charged against earnings in the year in which the incident occurred. The Company does not provide benefits under these plans to retired employees. Employees of foreign subsidiaries are covered by local benefit plans, the cost of which is not significant to the consolidated financial statements.

Note 1 Summary of Significant Accounting Policies (continued)

Income Taxes: Unremitted earnings of foreign subsidiaries have been included in the consolidated financial statements without giving effect to the United States taxes that may be payable on distribution to the United States because it is not anticipated such earnings will be remitted to the United States. If remitted, the additional United States taxes paid would not be material.

Off-Balance Sheet Risk: The Company engages in several types of financing arrangements with customers, primarily certain guarantees, and also has business and credit risks concentrated in the automotive, computer, telecommunication, consumer electronic and wood industries.

Reclassifications: Certain prior year amounts have been reclassified to conform with the 1998 presentation.

Stock-Based Compensation: The Company continues to account for its employee stock option plans using Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, which results in no charge to earnings when options are issued at fair market value. The Company has adopted the disclosure requirements of Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation.

Note 2 Product Line Exit Costs

The Company announced a strategic decision during the 1996 fiscal year to cease production and sales of its domestic wholesale piano product line, due to the continuing decline in the domestic piano market. This product line accounted for less than 2% of consolidated sales in 1996. A pretax provision of $3,400,000, which equates to a net income effect of $1,870,000, or $0.05 per share, was established during 1996, to cover all estimated costs associated with exiting this product line. The Company ceased production of domestic wholesale pianos as of April, 1996. Costs have been applied against this provision as of June 30, 1998, totaling $959,000, with the remaining amount reserved for fulfilling long-term commitments.

Note 3 Inventories

Inventories are valued using the lower of last-in, first-out (LIFO) cost or market value for approximately 52% and 59% of consolidated inventories in 1998 and 1997, respectively. The remaining inventories are valued using the lower of first-in, first-out (FIFO) cost or market value.

Had the FIFO method been used for all inventories, net income would have been, in millions, $0.6 higher in 1998, $0.1 lower in 1997, and $0.7 lower in 1996. Additionally, inventories would have been, in millions, $20.3 and $19.3 higher at June 30, 1998 and 1997, respectively, if the FIFO method had been used. During 1998 and 1997, certain inventory quantity reductions caused a liquidation of LIFO inventory values, which were immaterial.

Inventory components at June 30 are as follows:

(Amounts in Thousands)	1998	1997
Finished products	$31,365	$23,822
Work-in-process	12,971	11,852
Raw materials	51,967	40,468
Total inventory	$96,303	$76,142

Note 4 Property and Equipment

Major classes of property and equipment consist of the following:

(Amounts in Thousands)	1998	1997
Land	$ 4,471	$ 5,159
Buildings and improvements	145,880	142,937
Machinery and equipment	264,316	255,586
Construction-in-progress	13,882	7,519
Total	428,549	411,201
Less: Accumulated depreciation	(245,751)	(237,191)
Property and equipment, net	$ 182,798	$ 174,010

The useful lives used in computing depreciation are based on the Company's estimate of the service life of the classes of property, as follows:

	Years
Buildings and improvements	12 to 50
Machinery and equipment	4 to 40
Leasehold improvements	Life of Lease

Depreciation and amortization of property and equipment totaled, in millions, $29.9 for 1998, $29.4 for 1997, and $30.8 for 1996.

Note 5 Commitments - Leases

Operating leases for certain office, showroom, warehouse and manufacturing facilities, and equipment, which expire 1999 – 2007, contain provisions under which minimum annual lease payments are, in millions, $6.3, $5.5, $3.7, $2.0, and $1.6 for the five years ended June 30, 2003, respectively, and aggregate $2.2 million from 2004 to the expiration of the leases in 2007. The Company is obligated under certain of the real estate leases to maintain the properties and pay real estate taxes.

Total rental expenses amounted to, in millions, $6.7, $5.9, and $5.5 in 1998, 1997 and 1996, respectively.

Note 6 Long-Term Debt

Long-term debt is principally obligations under long-term capitalized leases. Aggregate maturities of long-term debt for the next five years are, in thousands, $434, $922, $296, $92, and $92, respectively, and aggregate $454 thereafter. Interest rates range from 0% to 10%. Interest paid was immaterial in the three years ending June 30, 1998. Based upon borrowing rates currently available to the Company, the fair value of the Company's debt approximates the carrying value.

Note 7 Retirement Plans

The Company has trusteed defined contribution Retirement Plans in effect for substantially all domestic employees meeting the eligibility requirements. Company contributions are based on a percent of net income as defined in the plans; the percent of contribution is determined by the Board of Directors up to specific maximum limits. The plans include a 401(k) feature, thereby permitting participants to make additional voluntary contributions on a pretax basis. Payments by the Company to the trusteed plans are vested and held for the sole benefit of participants. Total contributions to the Retirement Plans for 1998, 1997 and 1996 were approximately, in millions, $10.1, $11.3, and $8.6, respectively.

Employees of certain foreign subsidiaries are covered by local pension or retirement plans. Annual expense and accumulated benefits of these foreign plans are not significant to the consolidated financial statements.

Note 8 Incentive Stock Options

On August 11, 1987, the Board of Directors adopted the 1987 Stock Incentive Program, which was approved by the Company's Share Owners on October 13, 1987. Under this plan, 3,600,000 shares of Class B Common Stock were reserved for incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, and performance share awards available for grant to officers and other key employees of the Company, and to members of the Board of Directors who are not employees. Approximately 275 employees were eligible to participate in the program during 1997 and 1996. This Stock Incentive Program expired in August 1997, with prior year grants expiring annually through July 2001.

On June 11, 1996, the Board of Directors adopted the 1996 Stock Incentive Program, which was approved by the Company's Share Owners on October 22, 1996. Under this plan, 4,200,000 shares of Class B Common Stock were reserved, in addition to the approximately 2 million remaining shares currently reserved under the 1987 plan, for incentive stock options, nonqualified stock options, stock appreciation rights, and performance share awards available for grant to officers and other key employees of the Company, and to members of the Board of Directors who are not employees. The 1996 Stock Incentive Program is a ten year plan. Approximately 290 employees were eligible to participate in the program during 1998.

Note 8 Incentive Stock Options (continued)

Stock options are priced at the fair market value of the stock at the date of grant. Options granted under the plans generally are exercisable beginning two years after the date of grant and expire five to ten years after the date of grant. Shares of stock issued by the exercise of incentive stock options must be held for a five year period before being sold. Stock options are forfeited when employment terminates, except in certain situations.

There are 250,000 additional shares reserved for issuance under the Directors' Stock Compensation and Option Plan which is available to all members of the Board of Directors. Under terms of the plan, Directors electing to receive all, or a portion, of their fees in the form of Company stock will also be granted a number of stock options equal to 50% of the number of shares received for compensation of fees. Option prices and vesting are similar to those of the 1996 Stock Incentive Program. The plan is in effect through October 2006.

Stock option transactions are as follows:

	Number of Shares	Per Share Option Price
Options outstanding June 30, 1995	542,800	$ 12.22 – $14.80
Granted	580,400	$ 12.77 – $14.38
Exercised	—	—
Forfeited	(23,500)	$ 12.22 – $14.80
Options outstanding June 30, 1996	1,099,700	$ 12.22 – $14.80
Granted	402,838	$ 13.63 – $19.64
Exercised	(90,872)	$ 12.22 – $14.80
Forfeited	(35,600)	$ 12.22 – $14.80
Options outstanding June 30, 1997	1,376,066	$ 12.22 – $19.64
Granted	588,889	$20.40 - $23.56
Exercised	(225,769)	$12.22 - $14.80
Forfeited	(89,170)	$12.22 - $21.83
Options outstanding June 30, 1998	1,650,016	$12.22 - $23.56
Shares available for future options	5,895,884	

Following is a status of options outstanding at June 30, 1998:

	Outstanding Options			Exercisable Options	
Exercise Price Range	Number	Weighted Average Remaining Contractural Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$12.00 - $16.00	1,072,589	2 years	$13.34	686,769	$13.08
$16.00 - $20.00	2,238	3 years	18.23	—	—
$20.00 - $24.00	575,189	5 years	21.82	106,000	21.83
Total	1,650,016	3 years	$16.30	792,769	$14.25

Share data has been adjusted for the 2-for-1 common stock split effective on November 12, 1997.

The Company adopted the disclosure requirements of Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation (FAS 123) effective in fiscal year 1997. The Company has elected to continue to follow the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations; accordingly, no compensation cost has been reflected in the financial statements for its incentive stock options. Had compensation cost for the Company's incentive stock options been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share amounts):

	Year Ended June 30		
	1998	1997	1996
Net Income			
As Reported	$55,027	$57,745	$45,095
Pro Forma	$53,343	$56,765	$44,615
Earnings per Share of Common Stock As Reported:			
Basic: Class A	$1.32	$1.39	$1.08
Class B	$1.33	$1.40	$1.08
Diluted: Class A	$1.31	$1.38	$1.07
Class B	$1.32	$1.38	$1.08
Pro Forma:			
Basic: Class A	$1.28	$1.37	$1.06
Class B	$1.29	$1.37	$1.07
Diluted: Class A	$1.27	$1.36	$1.06
Class B	$1.28	$1.36	$1.07

The pro forma effects on net income for the years ended June 30, 1997 and 1996 may not be representative of the pro forma effect on net income in future years because FAS 123 does not take into consideration pro forma compensation expense related to grants made prior to fiscal year 1996.

The weighted average fair value at date of grant for options granted during the years ended June 30, 1998, 1997 and 1996 was $4.84, $2.50 and $2.25 per option, respectively.

The fair value of the options at the date of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 31.7% in 1998, 31.4% in 1997 and 32.5% in 1996; risk-free interest rates of 6.18% in 1998, 6.34% in 1997 and 6.25% in 1996; dividend yield of 2.9% in 1998, 2.9% in 1997 and 3.5% in 1996; and an expected life of 3.5 years for all years.

Note 9 Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation reserve is provided in part for deferred tax assets relating to foreign net operating losses and U.S. capital loss carryforward benefits, due to uncertainty surrounding the utilization of these deferred tax assets. Income tax benefits associated with the foreign net operating losses have no expiration period under current tax laws, while benefits associated with the capital loss carryforward all expire during the 2002 fiscal year.

The components of the deferred tax assets and liabilities as of June 30, 1998 and 1997, are as follows:

(Amounts in Thousands)	1998	1997
Deferred tax assets:		
Receivables	$ 1,830	$ 1,709
Inventory	2,338	2,456
Employee benefits	6,579	5,805
Other current liabilities	6,507	5,261
Miscellaneous	658	643
Foreign net operating losses	2,581	2,225
Capital loss carryforward benefit	2,597	3,345
Valuation reserve	(4,794)	(4,438)
Total asset	$18,296	$17,006
Deferred tax liabilities:		
Property & equipment	$15,144	$13,617
Miscellaneous	255	1,329
Total liability	$15,399	$14,946

Note 9 Income Taxes (continued)

The components of income before taxes on income are as follows:

(Amounts in Thousands)	Year Ended June 30 1998	1997	1996
United States	$87,327	$87,626	$75,437
Foreign	100	940	(1,122)
Total income before taxes	$87,427	$88,566	$74,315

Taxes on income are composed of the following items:

(Amounts in Thousands)	Year Ended June 30 1998	1997	1996
Currently payable:			
Federal	$29,363	$28,418	$28,699
Foreign	224	179	—
State	3,650	4,538	4,120
Total current	33,237	33,135	32,819
Deferred Federal	(837)	(2,314)	(3,599)
Total taxes on income	$32,400	$30,821	$29,220

A reconciliation of the statutory U.S. income tax rate to the Company's effective income tax rate follows:

(Amounts in Thousands)	Year Ended June 30 1998		1997		1996	
	Amount	%	Amount	%	Amount	%
Taxes computed at statutory rate	$30,600	35.0%	$30,998	35.0%	$26,010	35.0%
State income taxes, net of Federal income tax benefit	2,373	2.7	3,179	3.6	2,678	3.6
Foreign tax effect	(35)	—	(329)	(.4)	393	.5
Capital loss benefit	—	—	(3,650)	(4.1)	—	—
Other-net	(538)	(.6)	623	.7	139	.2
Total taxes on income	$32,400	37.1%	$30,821	34.8%	$29,220	39.3%

Cash payments for income taxes, net of refunds, were in thousands, $28,183, $37,069, and $31,353 in 1998, 1997, and 1996, respectively.

Note 10 Common Stock

At the annual meeting held on October 28, 1997, the Company's Share Owners approved a 2-for-1 stock split on the Company's Class A and Class B Common Stock. The Share Owners also approved restating the Company's Articles of Incorporation by increasing the number of authorized shares to 150 million shares, reducing the par value of common stock from $.3125 to $0.05, and increasing the annual dividend preference on Class B Common Stock to $0.02 per share. The stock split became effective on November 12, 1997. Financial information contained in this report, including prior period share and per share amounts, has been adjusted to reflect the impact of the common stock split.

On a fiscal year basis, shares of Class B Common Stock are entitled to an additional $.02 per share dividend more than the dividends paid on Class A Common Stock, provided that dividends are paid on the Company's Class A Common Stock. The owners of both Class A and Class B Common Stock are entitled to share pro-rata, irrespective of class, in the distribution of the Company's available assets upon dissolution.

Owners of Class B Common Stock are entitled to elect, as a class, one member of the Company's Board of Directors. In addition, owners of Class B Common Stock are entitled to full voting powers, as a class, with respect to any consolidation, merger, sale, lease, exchange, mortgage, pledge, or other disposition of all or substantially all of the Company's fixed assets, or dissolution of the Company. Otherwise, except as provided by statute with respect to certain amendments to the Articles of Incorporation, the owners of Class B Common Stock have no voting rights, and the entire voting power is vested in the Class A Common Stock, which has one vote per share. The Habig family owns directly or shares voting power in excess of 50% of the Class A Common Stock of Kimball International, Inc. The owner of a share of Class A Common Stock may, at their option, convert such share into one share of Class B Common Stock at any time.

If any dividends are not paid on shares of the Company's Class B Common Stock for a period of thirty-six consecutive months, or if at any time the number of shares of Class A Common Stock issued and outstanding is less than 15% of the total number of issued and outstanding shares of both Class A and Class B Common Stock, then all shares of Class B Common Stock shall automatically have the same rights and privileges as the Class A Common Stock, with full and equal voting rights and with equal rights to receive dividends as and if declared by the Board of Directors.

Note 11 Quarterly Financial Information (Unaudited)

Quarterly financial information is summarized as follows:

	Three Months Ended			
(Amounts in Thousands, Except for Per Share Data)	September 30	December 31	March 31	June 30
1998:				
Net Sales	$245,857	$264,524	$265,001	$256,935
Gross Profit	74,280	79,952	77,732	76,975
Net Income	13,029	15,485	13,702	12,811
Basic Earnings Per Share:				
Class A	$.31	$.37	$.33	$.31
Class B	.31	.38	.33	.31
Diluted Earnings Per Share:				
Class A	$.31	$.36	$.33	$.30
Class B	.31	.37	.33	.31
1997:				
Net Sales	$ 247,700	$ 253,780	$ 243,277	$ 247,292
Gross Profit	73,134	75,169	73,819	77,291
Net Income	13,521	14,621	14,521	15,082
Basic Earnings Per Share:				
Class A	$.32	$.35	$.35	$.36
Class B	.33	.35	.35	.36
Diluted Earnings Per Share:				
Class A	$.32	$.35	$.34	$.36
Class B	.32	.35	.34	.36
1996:				
Net Sales	$ 218,933	$ 234,539	$ 223,915	$ 246,249
Gross Profit	55,856	64,725	64,124	74,620
Net Income	8,418	12,291	9,969	14,417
Basic Earnings Per Share:				
Class A	$.20	$.29	$.24	$.35
Class B	.20	.29	.24	.35
Diluted Earnings Per Share:				
Class A	$.20	$.29	$.24	$.34
Class B	.20	.29	.24	.35

Per share data has been adjusted for the 2-for-1 common stock split effective on November 12, 1997. Net income in the third quarter of 1996 was reduced by $1,870,000, or $.05 per share, for estimated costs associated with exiting sales and production of the Company's domestic wholesale piano product line. Net income in the second quarter of 1998 was increased by $1,008,000 or $0.02 per share, representing the gain on the sale of an automotive service center. Net income in the third quarter of 1998 was increased by $616,000 or $0.01 per share, from the gain on the sale of a stock investment of which the company holds a minority interest.

Note 12 Short-Term Investments

The Company classifies its short-term investments in accordance with Financial Accounting Standards Board Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. Fair values are estimated based upon the quoted market values of those, or similar instruments. Carrying costs reflect the original purchase price, with discounts and premiums amortized over the life of the security.

Held-to-maturity securities are reported at carrying cost and consist primarily of government and municipal obligations with fair values and carrying costs of, in thousands, $5,430 and $5,429 at June 30, 1998, compared to $30,620 and $30,622 at June 30, 1997, respectively. Unrealized holding gains and losses were immaterial at June 30, 1998 and 1997. All held-to-maturity securities mature within a twelve month period.

Note 12 Short-Term Investments (continued)

Available-for-sale securities are reported at fair value and consist primarily of government and municipal obligations with fair values and carrying costs of, in thousands, $150,581 and $148,408 at June 30, 1998, compared to $119,055, and $119,128 at June 30, 1997, respectively. Unrealized holding gains and losses at June 30, 1998 were, in thousands, $2,254 and ($80), respectively. Unrealized holding gains and losses were immaterial at June 30, 1997. All available-for-sale securities mature within a four year period.

Proceeds from sales of available-for-sale securities were, in thousands, $27,236 for the year ended June 30, 1998. Gross realized gains on the sale of available-for-sale securities amounted to, in thousands, $76; there were no realized losses. The cost was determined on each individual security in computing the realized gain.

Note 13 Accrued Expenses

Accrued expenses at June 30 consist of:

	June 30	
(Amounts in Thousands)	1998	1997
Income taxes	$ 1,183	$ —
Property taxes	4,089	4,164
Compensation	30,327	30,248
Retirement plan	9,889	11,072
Other expenses	35,542	25,779
Total accrued expenses	$81,030	$71,263

Note 14 Business Segment and Geographic Area Information

The Company has three business segments which are listed below.

Furniture and Cabinets: Sales include office, hospitality, healthcare and home furniture; television and stereo cabinets; pianos; and other miscellaneous products. Intersegment sales are insignificant.

Electronic Contract Assemblies: Sales include electronic and electro-mechanical products (electronic assemblies) manufactured on a contract basis to customers' specifications, semiconductor processing, testing, engineering design and packaging services. Intersegment sales are insignificant. Included in the Electronic Contract Assemblies segment are sales to one customer that accounted for 16% of consolidated net sales in 1998, 15% in 1997 and 14% in 1996.

Processed Wood Products and Other: Processed Wood Products include the sales of lumber, dimension lumber, plywood, veneer, and other miscellaneous wood product sales. "Other" sales include plastic components, stamped metal products, carbide cutting tools and related services on cutting tools, and other miscellaneous services, totaling approximately 28% in 1998, 30% in 1997, and 34% in 1996, of the total customer sales of this segment. Intersegment sales include these same basic wood products, assembled components and miscellaneous products, which are used in the final production of office, home, hospitality and healthcare furniture, and cabinets; thus, intersegment sales consist primarily of sales to the Furniture and Cabinets segment.

Intersegment sales are generally priced at cost plus a percentage mark-up, and are generally thought to be marginally less than prices which would be charged for the same product to unaffiliated customers. The eliminations from operating income are various transactions including intercompany profit in inventories. Identifiable assets eliminated generally consist of intercompany profit in inventories and intercompany receivables.

	Business Segment					
	Year Ended June 30					
	1998		1997		1996	
(Amounts in Thousands)	Customers	Intersegment	Customers	Intersegment	Customers	Intersegment
Net Sales:						
Furniture and Cabinets	$ 647,597	$ 1,917	$617,249	$ 653	$580,393	$ 170
Electronic Contract Assemblies	325,602	—	315,816	—	284,639	—
Processed Wood Products and Other	59,118	60,871	58,984	60,203	58,604	58,687
Total Net Sales	$1,032,317	$62,788	$992,049	$60,856	$923,636	$58,857

(Amounts in Thousands)	Business Segment Year Ended June 30 1998	1997	1996
Operating Income:			
Furniture and Cabinets	$38,674	$44,159	$33,467
Electronic Contract Assemblies	28,625	29,748	21,437
Processed Wood Products and Other	5,177	7,085	7,607
Total Operating Income	$72,476	$80,992	$62,511

Included in Furniture and Cabinets operating income for 1996 is a pretax provision of $3.4 million, which was established to cover all estimated costs associated with exiting the domestic wholesale piano product line.

(Amounts in Thousands)	Business Segment June 30 1998	1997
Identifiable Assets:		
Furniture and Cabinets	$285,205	$261,694
Electronic Contract Assemblies	128,165	114,783
Processed Wood Products and Other	46,042	39,324
Eliminations	(2,541)	(2,713)
Total	456,871	413,088
Unallocated Corporate Assets:		
Cash, Cash Equivalents and Short-Term Investments	172,767	168,495
Total Assets	$629,638	$581,583

	Business Segment					
	1998		1997		1996	
(Amounts in Thousands)	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization	Capital Expenditures
Furniture and Cabinets	$21,246	$23,353	$21,549	$20,237	$23,511	$22,326
Electronic Contract Assemblies	8,087	12,313	7,289	8,827	7,306	7,469
Processed Wood Products and Other	4,473	5,648	4,557	3,873	5,275	8,547

Geographic Area

Total United States sales by geographic area include export sales of, in millions, $40 in 1998, $30 in 1997, and $30 in 1996. United States export sales are primarily to European and North American customers. Foreign sales originate in Europe and are generally sold to European customers.

(Amounts in Thousands)	Geographic Area Year Ended June 30 1998	1997	1996
Net Sales:			
United States	$1,016,584	$972,335	$902,448
Foreign	15,773	20,344	22,365
Eliminations	(40)	(630)	(1,177)
Total Net Sales	$1,032,317	$992,049	$923,636
Operating Income:			
United States	$ 73,779	$ 81,027	$ 64,284
Foreign	(1,306)	(215)	(1,952)
Eliminations	3	180	179
Total Operating Income	$ 72,476	$ 80,992	$ 62,511

Note 14 Business Segment and Geographic Area Information (continued)

Geographic Area

(Amounts in Thousands)	June 30 1998	1997
Identifiable Assets:		
United States	$442,881	$400,756
Foreign	14,039	12,557
Eliminations	(49)	(225)
Totals	456,871	413,088
Unallocated Corporate Assets:		
Cash, Cash Equivalents and Short-Term Investments	172,767	168,495
Total Assets	$629,638	$581,583

Note 15 Earnings Per Share

Effective December 31, 1997, the Company adopted Financial Accounting Standards Board Statement No. 128, Earnings Per Share. Earnings per share are computed using the two-class common stock method due to the dividend preference of Class B Common Stock. Basic earnings per share are based on the weighted average number of shares outstanding during the period. Diluted earnings per share are based on the weighted average number of shares outstanding plus the assumed issuance of common shares for all potentially dilutive securities. Share data has been adjusted for the 2-for-1 common stock split effective on November 12, 1997. Earnings per share of Class A and Class B Common Stock are as follows:

	1998			
	Available	Average	Earnings Per Share	
(Amounts in Thousands, Except Per Share Data)	Income	Shares	Class A	Class B
Net income	$ 55,027			
Distributed earnings:				
Class A dividends declared	(8,483)		$ .58875	
Class B dividends declared	(16,329)			$ .60500
Undistributed basic earnings	$ 30,215	41,417	.72953	.72953
Basic Earnings Per Share			$1.31828	$1.33453
Basic Earnings Per Share (rounded)			$1.32	$1.33
Dilutive effect of stock options	(240)	397		
Undistributed diluted earnings	$ 29,975	41,814	.71687	.71687
Diluted Earnings Per Share			$1.30562	$1.32187
Diluted Earnings Per Share (rounded)			$1.31	$1.32

468,891 of the 1,685,007 average outstanding stock options were antidilutive, and were excluded from the dilutive computation for this period.

	1997			
	Available Income	Average Shares	Earnings Per Share Class A	Class B
Net income	$ 57,745			
Distributed earnings:				
Class A dividends declared	(7,682)		$ .530	
Class B dividends declared	(14,422)			$ .535
Undistributed basic earnings	$ 35,641	41,450	.860	.860
Basic Earnings Per Share			$1.390	$1.395
Basic Earnings Per Share (rounded)			$1.39	$1.40
Dilutive effect of stock options	(167)	313		
Undistributed diluted earnings	$ 35,474	41,763	.849	.849
Diluted Earnings Per Share			$1.379	$1.384
Diluted Earnings Per Share (rounded)			$1.38	$1.38

All outstanding stock options were dilutive and were included in the dilutive computation for this period.

	1996			
	Available Income	Average Shares	Earnings Per Share Class A	Class B
Net income	$ 45,095			
Distributed earnings:				
Class A dividends declared	(6,870)		$ .470	
Class B dividends declared	(12,905)			$ .475
Undistributed basic earnings	$ 25,320	41,810	.606	.606
Basic Earnings Per Share			$1.076	$1.081
Basic Earnings Per Share (rounded)			$1.08	$1.08
Dilutive effect of stock options	(22)	46		
Undistributed diluted earnings	$ 25,298	41,856	.604	.604
Diluted Earnings Per Share			$1.074	$1.079
Diluted Earnings Per Share (rounded)			$1.07	$1.08

146,660 of the 754,156 average outstanding stock options were antidilutive, and were excluded from the dilutive computation for this period.

eleven-year summary of financial condition

(Amounts in Thousands, Except for Per Share Data and Number of Employees)	1998	1997	1996	1995
Assets:				
Current Assets	$412,937	$376,773	$342,251	$306,816
Property and Equipment, net	182,798	174,010	174,009	177,130
Other Assets	33,903	30,800	21,965	13,140
Total Assets	$629,638	$581,583	$538,225	$497,086
Liabilities and Minority Interest:				
Current Liabilities	$153,210	$133,258	$122,043	$105,046
Long-Term Debt, less Current Maturities	1,856	2,313	3,016	924
Deferred Income Taxes and Other	25,949	23,186	22,152	19,779
Minority Interest in Subsidiary	—	—	—	—
Total Liabilities and Minority Interest	181,015	158,757	147,211	125,749
Share Owners' Equity	448,623	422,826	391,014	371,337
Total Liabilities and Share Owners' Equity	$629,638	$581,583	$538,225	$497,086
Other Financial Data:				
Current Ratio	2.7:1	2.8:1	2.8:1	2.9:1
Working Capital	$259,727	$243,515	$220,208	$201,770
Capital Expenditures-net of Retirements and Disposals:				
Net Capital Expenditures	$ 38,972	$ 29,823	$ 28,575	$ 33,011
Depreciation and Amortization	(29,913)	(29,381)	(30,781)	(27,726)
Net Capital Expenditures over (under) Depreciation	$ 9,059	$ 442	$ (2,206)	$ 5,285
Long-Term Debt as Percent of Share Owners' Equity	0.4%	0.5%	0.8%	0.2%
Book Value Per Share of Common Stock Outstanding	$ 10.83	$ 10.20	$ 9.35	$ 8.81
Average Number of Employees	9,198	8,786	8,660	8,589
Dividends:				
Total Declared	$ 24,812	$ 22,104	$ 19,775	$ 18,039
Per Share Dividends Declared:				
Class A	$ .58 7/8	$ .53	$ .47	$ .42 1/2
Class B	$ .60 1/2	$ .53 1/2	$ .47 1/2	$ .43
Percent of Net Income Declared in Dividends	45.1%	38.3%	43.9%	43.5%

Per share book value and dividends paid prior to 1998 were restated to give retroactive effect for a 2-for-1 common stock split during fiscal 1998.

eleven-year sources of revenue

(Amounts in Thousands)	1998	1997	1996	1995
Furniture and Cabinets	$ 647,597	$617,249	$580,393	$570,219
	63%	62%	63%	64%
Electronic Contract Assemblies	325,602	315,816	284,639	245,101
	31%	32%	31%	27%
Processed Wood Products	42,432	41,327	38,540	55,957
	4%	4%	4%	6%
Other	16,686	17,657	20,064	24,635
	2%	2%	2%	3%
Total Revenue	$1,032,317	$992,049	$923,636	$895,912
	100%	100%	100%	100%

June 30						
1994	1993	1992	1991	1990	1989	1988
$288,238	$295,458	$275,507	$242,726	$233,856	$191,003	$191,685
171,243	152,361	142,304	135,757	140,766	143,685	125,103
11,932	4,886	4,212	4,202	3,361	3,058	3,576
$471,413	$452,705	$422,023	$382,685	$377,983	$337,746	$320,364
$102,164	$100,070	$ 80,769	$ 65,262	$ 72,371	$ 64,364	$ 69,261
811	2,017	3,157	4,392	6,873	8,933	11,297
17,486	17,277	16,960	17,677	18,338	16,100	13,515
—	—	—	891	1,050	1,373	1,573
120,461	119,364	100,886	88,222	98,632	90,770	95,646
350,952	333,341	321,137	294,463	279,351	246,976	224,718
$471,413	$452,705	$422,023	$382,685	$377,983	$337,746	$320,364
2.8:1	3.0:1	3.4:1	3.7:1	3.2:1	3.0:1	2.8:1
$186,074	$195,388	$194,738	$177,464	$161,485	$126,639	$122,424
$ 45,992	$ 36,436	$ 31,449	$ 18,279	$ 19,756	$ 40,109	$ 32,499
(26,919)	(26,205)	(24,902)	(23,288)	(22,675)	(21,528)	(18,690)
$ 19,073	$ 10,231	$ 6,547	$ (5,009)	$ (2,919)	$ 18,581	$ 13,809
0.2%	0.6%	1.0%	1.5%	2.5%	3.6%	5.0%
$ 8.29	$ 7.87	$ 7.56	$ 6.97	$ 6.59	$ 5.83	$ 5.30
8,140	7,621	7,641	7,559	7,971	8,351	8,090
$ 17,704	$ 16,454	$ 14,745	$ 13,889	$ 12,218	$ 10,524	$ 8,830
$ .41½	$ .38½	$ .34½	$ .32½	$ .28½	$ .24½	$ .20½
$ .42	$ .39	$ .35	$ .33	$ .29	$ .25	$ .21
48.9%	53.8%	38.2%	46.3%	28.1%	30.7%	24.8%

Year Ended June 30						
1994	1993	1992	1991	1990	1989	1988
$544,719	$474,222	$421,923	$401,588	$421,366	$408,070	$368,485
67%	66%	68%	72%	69%	69%	69%
204,149	180,464	132,507	92,118	121,937	123,894	101,394
25%	25%	22%	17%	20%	21%	20%
54,064	50,738	45,114	43,648	48,842	44,444	41,916
6%	7%	7%	8%	8%	7%	8%
19,552	16,976	17,757	17,909	20,811	18,597	18,045
2%	2%	3%	3%	3%	3%	3%
$822,484	$722,400	$617,301	$555,263	$612,956	$595,005	$529,840
100%	100%	100%	100%	100%	100%	100%

eleven-year summary of operations

(Amounts in Thousands, Except for Per Share Data)	1998	1997	1996	1995
Net Sales	$1,032,317	$992,049	$923,636	$895,912
Cost of Sales	723,378	692,636	664,311	645,591
Gross Profit	308,939	299,413	259,325	250,321
Selling, Administrative and General Expenses	236,463	218,421	193,414	188,495
Product Line Exit Costs	—	—	3,400	—
Restructuring Expense	—	—	—	—
Operating Income	72,476	80,992	62,511	61,826
Other Income (Expense):				
Interest Expense	(424)	(551)	(408)	(273)
Interest Income	9,458	8,484	7,411	5,755
Other, Net	5,917	(359)	4,801	3,487
Other Income, Net	14,951	7,574	11,804	8,969
Income Before Taxes on Income	87,427	88,566	74,315	70,795
Taxes on Income	32,400	30,821	29,220	29,356
Net Income	$ 55,027	$ 57,745	$ 45,095	$ 41,439
Percent of Net Sales	5.3%	5.8%	4.9%	4.6%
Earnings Per Share:				
Basic:				
Class A	$1.32	$1.39	$1.08	$0.98
Class B	$1.33	$1.40	$1.08	$0.99
Diluted:				
Class A	$1.31	$1.38	$1.07	$0.98
Class B	$1.32	$1.38	$1.08	$0.99
Average Shares Outstanding:				
Basic	41,417	41,450	41,810	42,143
Diluted	41,814	41,763	41,856	42,148

Earnings per share and average shares outstanding prior to 1998, were restated to give retroactive effect for a 2-for-1 common stock split during fiscal 1998.

manufacturing and service operations

Furniture and Cabinets

Kimball Office Group
Jasper, Indiana, and
Post Falls, Idaho
Office furniture casegoods, systems, seating and filing

Kimball Lodging Group
Jasper, Indiana
Hospitality and healthcare furniture

Furniture Showrooms & Service Centers
New York, Chicago, Boston, Los Angeles, San Francisco, Denver, Atlanta, Dallas, Seattle, Newport Beach, High Point, Post Falls, Tupelo, Jasper, London, Toronto, Vienna
Product display and regional distribution

Kimball Home Furniture
Jasper, Indiana
Residential furniture

Artec Manufacturing
Jasper and French Lick, Indiana
Office furniture systems

Kimball Office Casegoods Manufacturing
Borden, Salem and Santa Claus, Indiana, and Fordsville, Kentucky
Office furniture casegoods

Kimball Upholstered Products
Jasper and West Baden, Indiana
Office, residential, hospitality and healthcare seating

Harpers Manufacturing
Post Falls, Idaho
Office furniture casegoods, systems and filing

Product Design & Research Center
Jasper, Indiana
Product design and development

Jasper Furniture Company
Jasper and West Baden, Indiana
Hospitality and healthcare casegoods and contract furniture and components

Kimball Furniture Reproductions
Montgomery, Alabama
Period furniture reproductions

The Jasper Corporation
Jasper, Indiana
TV and audio cabinets, hospitality, office and residential furniture

Heritage Hills
Santa Claus, Indiana, and Mexicali, Mexico
TV and audio cabinets, TV stands, and office furniture

Kimball U.K., Inc.
London, England
Office and institutional furniture

L. Bösendorfer Klavierfabrik GmbH
Vienna and Wiener Neustadt, Austria
Grand and vertical pianos

Year Ended June 30						
1994	1993	1992	1991	1990	1989	1988
$822,484	$722,400	$617,301	$555,263	$612,956	$595,005	$529,840
588,849	512,781	422,563	376,533	409,373	407,589	356,038
233,635	209,619	194,738	178,730	203,583	187,416	173,802
179,981	161,984	146,891	140,154	140,014	134,476	120,061
—	—	—	—	—	—	—
—	2,850	—	—	—	—	—
53,654	44,785	47,847	38,576	63,569	52,940	53,741
(202)	(1,200)	(991)	(1,085)	(1,483)	(1,379)	(1,360)
2,240	4,237	7,146	8,580	6,989	2,446	3,077
3,727	5,500	6,712	3,062	1,978	2,352	3,359
5,765	8,537	12,867	10,557	7,484	3,419	5,076
59,419	53,322	60,714	49,133	71,053	56,359	58,817
23,250	22,739	22,086	19,116	27,578	22,060	23,197
$ 36,169	$ 30,583	$ 38,628	$ 30,017	$ 43,475	$ 34,299	$ 35,620
4.4%	4.2%	6.3%	5.4%	7.1%	5.8%	6.7%
$0.85	$0.72	$0.91	$0.71	$1.02	$0.81	$0.84
$0.86	$0.72	$0.92	$0.71	$1.03	$0.81	$0.84
$0.85	$0.72	$0.91	$0.71	$1.02	$0.81	$0.84
$0.86	$0.72	$0.92	$0.71	$1.03	$0.81	$0.84
42,330	42,398	42,302	42,329	42,391	42,400	42,467
42,330	42,398	42,302	42,329	42,391	42,400	42,467

Electronic Contract Assemblies

Kimball Electronics
Jasper, Indiana
Electronic assemblies

Kimco, S.A. de C.V.
Reynosa, Mexico, and McAllen, Texas
Electronic assemblies

Elmo Semiconductor Corporation
Burbank, California
Electronic assemblies

Elmo Semiconductuers SARL
Mantes La Jolle, France
Electronic assemblies

Processed Wood Products & Others

Lafayette Manufacturing
Lafayette, Tennessee
Lumber, dimension wood

Lafayette Sawmill
Gordonsville, Tennessee
Lumber

Dale Wood Manufacturing
Dale, Indiana
Dimension wood

Indiana Hardwoods
Chandler, Indiana
Lumber

Indiana Hardwoods Sawmill
Cloverport, Kentucky
Lumber

Greensburg Manufacturing
Greensburg, Kentucky
Lumber, dimension wood, contract wood products

Jasper Laminates
Jasper, Indiana
Flat, molded, postformed and plastic-faced plywood, banded flakeboard, veneer faces

Batesville American Manufacturing
Batesville, Mississippi
Metal stampings and assemblies, healthcare beds

Evansville Veneer & Lumber Company
Evansville, Indiana
Veneer, lumber

Jasper Plastics
Jasper, Indiana
Molded polyurethane, polyester, elastomers

Facilities/Technology Support Group
Jasper, Indiana
Product testing, property and woodlands management, energy production, research in furniture finishes

ToolPro
Jasper, Indiana
Carbide cutting tools

Corporate Logistics Services
Jasper, Indiana
Transportation and fleet operations

Corporate Headquarters
Jasper, Indiana
Executive, administrative and sales offices

Education Center & Corporate Showroom
Jasper, Indiana
Training, product display

other corporate data

Dividends:

During fiscal year 1998 dividends declared were $24.8 million or $.58875 per share on Class A Common Stock and $.605 per share on Class B Common Stock. The dividends by quarter for 1998 compared to 1997 are as follows:

	1998		1997	
	Class A	Class B	Class A	Class B
First Quarter	$.14 3/8	$.14 1/2	$.12 7/8	$.13
Second Quarter	$.14 1/2	$.15	$.12 7/8	$.13
Third Quarter	$.14 1/2	$.15	$.12 7/8	$.13
Fourth Quarter	$.15 1/2	$.16	$.14 3/8	$.14 1/2
Total Dividend	$.58 7/8	$.60 1/2	$.53	$.53 1/2

Dividends per share have been adjusted for the 2-for-1 common stock split effective on November 12, 1997.

Share Owners:

On July 29, 1998, the Company's Class A Common Stock was owned by approximately 650 share owners of record and the Company's Class B Common Stock by approximately 2,490 share owners of record, of which approximately 387 also owned Class A Common Stock.

Market Prices:

Kimball International Class B Common Stock is traded on the Nasdaq Stock Market under the symbol: KBALB. High and low price ranges by quarter for the last two fiscal years as quoted by the National Association of Security Dealers (NASDAQ) are as follows:

	1998		1997	
	High	Low	High	Low
First Quarter	$23 7/16	$19 3/4	$18 5/8	$13 1/4
Second Quarter	$22 3/16	$18 3/8	$21 3/8	$17 3/8
Third Quarter	$23 3/4	$17	$22 5/8	$18 1/4
Fourth Quarter	$24 15/16	$17 5/8	$21 1/4	$17 1/2

Market price per share has been adjusted for the 2-for-1 common stock split effective on November 12, 1997.
There is no active trading market for the Company's Class A Common Stock.

Annual Meeting:

The annual meeting of Share Owners will be held at 9:30 a.m. Eastern Standard Time on October 20, 1998, 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 Gary P. Critser, Senior Executive Vice President, Secretary and Treasurer, at the address below.

Transfer Agent and Registrar of the Class B Common Stock:

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

ChaseMellon Shareholder Services, L.L.C.
85 Challenger Road
Overpeck Centre
Ridgefield Park, NJ 07660

Phone: (800) 851-9677
Internet Address: www.chasemellon.com

Analyst Contact:

Financial analysts with questions concerning the Company may contact Kenneth L. Sendelweck, Vice President, Assistant Treasurer.

Share Owner Contact:

Share Owners with general questions concerning the Company may contact Gary P. Critser, Senior Executive Vice President, Secretary and Treasurer. All members of management welcome suggestions about the Company and its performance.

Corporate Headquarters:

1600 Royal Street
Jasper, Indiana 47549-1001
Phone: (812) 482-1600

Internet Address:

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

Private Securities Litigation Reform Act of 1995

This annual report 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 indentifies specific factors that could cause actual results or events to differ materially from those described in the forward-looking statements.

board of directors

Douglas A. Habig* #
Chairman of the Board,
Chief Executive Officer
Director 25 years

Thomas L. Habig*
Vice Chairman of the Board
Director 48 years

James C. Thyen* #
President
Director 17 years

John B. Habig*
Senior Executive Vice President,
Operations Officer, Electronics
Director 42 years

Ronald J. Thyen*
Senior Executive Vice President,
Operations Officer,
Furniture and Cabinets
Director 25 years

John T. Thyen*
Senior Executive Vice President,
Marketing and Sales
Director 8 years

Gary P. Critser* #
Senior Executive Vice President,
Secretary, Treasurer
Director 8 years

Brian K. Habig
Executive Vice President,
Sales and Marketing,
Kimball Office Group
Director 6 years

Jack R. Wentworth+ #
Arthur M. Weimer Professor
Emeritus of Business
Administration, Indiana
University
Director 14 years

Christine M. Vujovich+ #
Vice President,
Worldwide Marketing, Bus and
Light Commercial Automotive
and Environmental Management,
Cummins Engine Company, Inc.
Director 4 years

Alan B. Graf, Jr.+
Executive Vice President,
Chief Financial Officer,
FDX Corporation
Director 2 years

Polly B. Kawalek+
Vice President of The Quaker
Oats Company and President,
Hot Breakfast Division,
The Quaker Oats Company
Director 1 year

** Member of the Executive Committee of the Board*
\+ Member of the Audit Committee of the Board
 # Member of the Compensation and Stock Option Committees of the Board

From left to right: Jack R. Wentworth, John B. Habig, Brian K. Habig, Ronald J. Thyen, Christine M. Vujovich, Gary P. Critser, James C. Thyen, John T. Thyen, Douglas A. Habig, Alan B. Graf, Jr., Thomas L. Habig, Polly B. Kawalek

executive officers

Corporate Officers

Arnold F. Habig
Assistant to the
Chief Executive Officer

H. E. Thyen
Assistant to the President

Randall L. Catt
Executive Vice President,
Human Resources

Alan B. Hoffman
Executive Vice President,
Corporate Logistics

John H. Kahle
Executive Vice President,
General Counsel,
Assistant Secretary

Lawrence J. Kuntz
Executive Vice President,
Electronics Group

Gregory W. Kuper
Executive Vice President,
Manufacturing,
Office Furniture Group

Robert F. Schneider
Executive Vice President,
Chief Financial Officer,
Assistant Treasurer

Gary W. Schwartz
Executive Vice President,
Chief Information Officer

J. Keith Beatty
Vice President, Manufacturing,
Office Furniture Casegoods

Gary L. Beckman
Vice President,
Quality Systems

James A. Birk
Vice President,
Marketing and Sales,
Kimball Lodging Group

James R. Hampton
Vice President,
Raw Materials Group

Kenneth L. Sendelweck
Vice President,
Assistant Treasurer

Ronald J. Sermersheim
Vice President, Environment,
Health and Safety

Roy W. Templin
Vice President,
Corporate Controller

Kenneth J. Van Winkle
Vice President,
Manufacturing Systems

Dean M. Vonderheide
Vice President, Manufacturing,
Kimball Upholstered Products

Danny W. Wehr
Vice President, Manufacturing,
Contract and Furniture Groups

Subsidiary Officers

Mark S. Belk
Vice President,
Director of Marketing
Information Systems

Robert R. Burke
Vice President,
Sales, Kimball Office Group

Frank J. Fabiano
Vice President,
Chief Information Officer,
Electronics Group

George W. Manz
Vice President,
Product Marketing,
Kimball Office Group

James R. McIntyre
Vice President,
Sales, Electronics Group

Elie J. Moreno
Vice President,
Elmo Semiconductor
Corporation

Michael K. Sergesketter
Vice President,
Chief Financial Officer,
Electronics Group

Dedication
Persistence
Progress
Prudence
Loyalty
Integrity

Kimball International, Inc.

1600 Royal Street Jasper , Indiana 47549 812.482.1600 812.482.8500 TDD