2000 Annual Report

R E V O L U T I O N

# WORK

T R A N S F O R M A T I O N

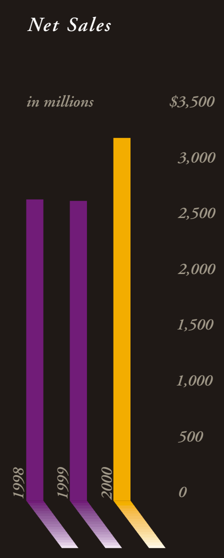
Steelcase

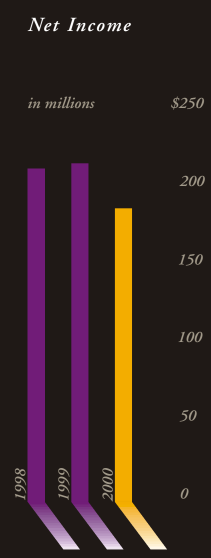
Steelcase Inc.

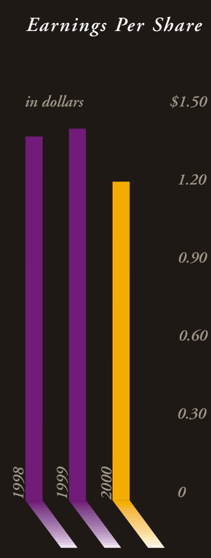
*about the cover*

## Revolution drives transformation

Supported by technology
and encouraged by the rewards
of successful innovation,
people everywhere are working in
dramatically new and different ways.
They are revolutionaries, and their
revolution is helping us achieve our
aspiration to "transform the ways
people work...to help them work
more effectively than they
ever thought they could."



**From a financial perspective,** fiscal year 2000, which ended February 25, 2000, fell short of the year that preceded it. While net sales rose, net income and earnings per share declined.

From an operating perspective though, the year was filled with developments that will have a positive impact on our company's future.

You'll find an in-depth analysis of fiscal year 2000 financial results in the Management's Discussion and Analysis section of this report. I would, however, like to highlight these points:

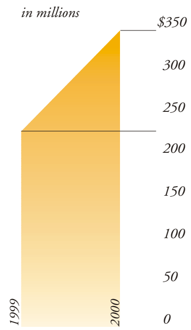
- Our performance in North America was actually slightly better than our industry's. The Business and Institutional Furniture Manufacturers' Association reported that sales declined one percent industry-wide.

- Impressive sales gains recorded by the European units that we acquired in fiscal year 2000 were tempered by the decline in the value of the euro relative to the U.S. dollar. Their sales rose six percent when measured in their local currencies, but only one percent in dollar terms.

• Our Design Partnership companies posted a 23 percent sales gain, and sales of our Turnstone brand, which serves smaller companies, more than doubled.

• The asset base of Steelcase Financial Services grew 52 percent as more customers chose leasing to finance their purchases.

***Steelcase Financial Services Inc. (SFSI) Leased Asset Growth***




*Steelcase has the only captive finance company in the industry. SFSI provides benefits to customers and supports sales growth.*

These gains were offset primarily by the performances of our core Steelcase branded products in North America, due to pricing pressures and soft demand from our larger customers.

Our margins were impacted primarily by these developments:

• Competitive pricing pressures that occur when a market grows slowly.

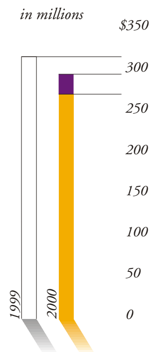
• The expenses involved in completing our acquisition of Strafor.

• A one-time $15 million after-tax charge to cover retrofits at several of our Pathways customers' facilities.

• New product introduction and ramp-up costs.

• Investments in creating build-to-order systems – which will enable us to provide better service and greater value to our customers.

***Operating Income***




*Excluding non-recurring charges (■), operating income would have totaled $296.3 million.*

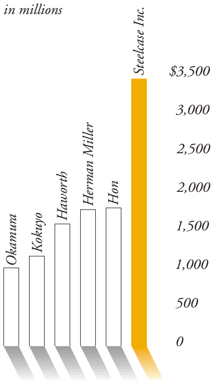
**So much for yesterday. Now for tomorrow.** When I mentioned earlier that fiscal year 2000 included developments that promise to have a positive impact on our company's future, here's what I had in mind:

- We strengthened our competitive position internationally.
- We strengthened our product portfolio across the company and around the world.
- We attracted a record number of new customers around the world.
- We enjoyed a record number of successful product introductions.
- We implemented a comprehensive e-business strategy throughout the company.
- We held to our commitment to hit the financial targets we set for ourselves 18 months ago (although it may take longer given our industry's tepid near-term growth prospects).

Regarding this last point, in my letter to you a year ago, I outlined four cornerstone corporate strategies. This year, I'd like to share our growth strategies with you as well. They've become our "road map."

***Global Market Position***

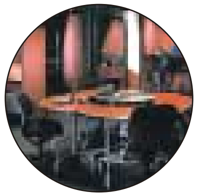
*in millions*




*An important competitive advantage: Steelcase's worldwide revenues are nearly double its nearest rivals.*

***Percent of sales from new customers.***

*Leap: 22%*



*Pathways: 14%*

*Answer: 37%*

**One**
**Corporate Vision**

We aspire to transform the ways people work...
to help them work more effectively than
they ever thought they could.

**Leads to Four**
**Corporate Strategies**

- Be a work effectiveness company
- Achieve operational perfection
- Pursue ambitious financial goals
- Live our core values

**Which Lead to Six**
**Growth Strategies**

- Focus on product innovation
- Pursue new market opportunities
- Pursue acquisitions, alliances & new ventures
- Leverage our global presence
- Leverage our dealer network
- Leverage our installed base

**These six growth strategies define** our "Road to Six Billion and Beyond," which is detailed in the next section of this report. Here is a summary.

Steelcase will grow faster than the overall market in North America by:

- Introducing new product and service innovations with proprietary technologies wherever possible (e.g., the Leap™ chair).
- Entering new markets (e.g., the interior architecture-refurbishment market).
- Serving new customer segments (e.g., emerging growth companies via Turnstone® products).
- Launching new businesses.
- Pursuing alliances, new ventures and acquisitions that offer a strategic fit, a cultural fit and material synergies.
- Harnessing the power and potential of the Internet ("e-Steelcase").
- Working with Steelcase dealers to build market share with existing products and services (e.g., our storage products and financial services).
- Using our Workplace Performance and Community-based Planning methodologies to show current customers how improving physical work environments boosts organizational performance.

Steelcase will also increase international revenues significantly by leveraging its global presence and its global dealer network.

***Global Dealer Network***

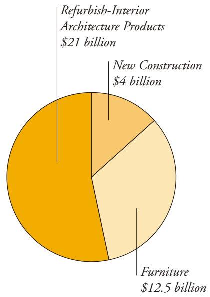
*More than*

800

*dealer locations worldwide.*

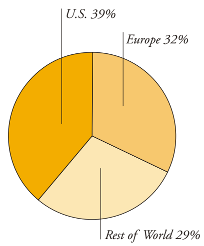
***U.S. Market Opportunity $37.5 billion***

*Interior architecture products enable the company to enter attractive new markets.*




***Global Office Furniture Market***

*Sixty-one percent of the $32 billion worldwide market lies outside the U.S.*



That's the plan. We will adjust it to take advantage of opportunities as they come along. But its framework is not likely to change. We expect it to deliver two kinds of benefits in the years ahead: higher revenues and better margins.

**Before I strike the print key,** I want to turn the spotlight on two groups of people who work "behind the curtain."

The people who work in our plants and offices around the world, and the people who work for our dealers around the world.

These men and women "ghost wrote" the customers' stories you'll read later in this report, as well as hundreds more that are just as compelling. They are tremendous sources of strength for our company.

They are our unsung heroes and heroines.

Finally, a personal note. For two decades now, I have admired and benefited from the business acumen and social conscience of a very wise and wonderful man, the Vice Chairman of our Board of Directors, Peter Wege. Peter is stepping down from the board, and plans to devote more of his energies to the causes he champions so ably. I will miss him. He has added to the humanity of our company and our world.

Talk about unsung heroes.

JAMES P. HACKETT
*President and Chief Executive Officer*

**P.S.** Given that one of our corporate strategies is to "be a work effectiveness company," I'm often asked just what this means. Just in case you, too, are wondering, here's how I respond:

## A work effectiveness company

Helps office workers work more effectively.

Helps real estate and facilities executives add to the functional effectiveness and value of the facilities they own and manage.

Helps financial executives increase the returns on their facilities investments.

Helps operating and human resource executives attract and inspire talented, "best of class" employees.


## The key to success? Harmonious integration.

The typical work environment includes three core elements: architecture, furniture and technology. A work environment that "transforms the ways people work" integrates these elements…seamlessly, harmoniously.

Harmonious integration. That's the key. And that is what we as a work effectiveness company are all about.

We provide knowledge, products and services that enable our customers and their consultants to create work environments that harmoniously integrate architecture, furniture and technology.

It's that simple.

# THE ROAD TO SIX BILLION

# AND BEYOND

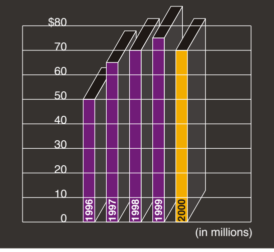
Four Corporate Strategies:

1. Be a work effectiveness company
2. Achieve operational perfection
3. Pursue ambitious financial goals
4. Live our core values

lead to six growth strategies:

## Focus on Product Innovation

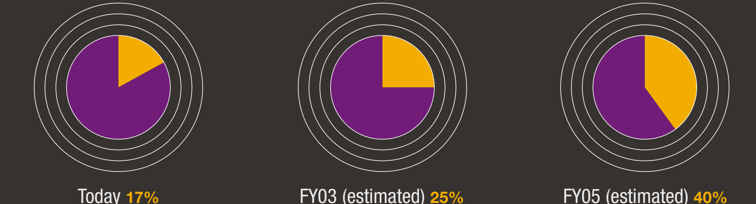
We expect our investments in research and development to yield more new products that seamlessly blend furniture, architecture and technology.



Investments in R&D, FY96 – FY00

Research generates knowledge; knowledge yields innovation.

Percent New Product Contributions to Revenue



Today 17% FY03 (estimated) 25% FY05 (estimated) 40%

Are these expectations realistic? Our track record suggests that they are.

## Pursue New Market Opportunities

An increasingly diverse product portfolio enables us to compete in new construction, renovation and emerging growth markets, as well as reach new customer segments within our traditional markets.

A $37.5 Billion U.S. Market Opportunity

Interior architectural products comprise a large portion of our market.

- Refurbish - Int. Arch. Prod. $21 billion
- New Construction $4 billion
- Furniture $12.5 billion

U.S. Renovation Market Growth

Rapid technological advances spawn office building renovations that create new markets for our products.

- Renovation
- New

Emerging growth companies constitute a $500 million market opportunity.

What do we offer these markets?

Extraordinary flexibility: "living walls" that move and whose heights and surfaces can be changed again and again, connectivity as well as floors, lighting and furniture that can be reconfigured easily, quickly and affordably.

## Pursue Acquisitions, Alliances and New Ventures

Acquisitions' Contributions to FY00 Revenue*

Acquisitions completed in the past two years not only added to our revenues, they also added to our capabilities. Ventures and alliances pair our capabilities with those of other industry leaders.

STRAFOR
WERNDL
CLESTRA
J.M. LYNNE

*The $576 million would have been $750 million had these acquisitions been part of Steelcase for the entire year.

More than revenues...capabilities.

The companies that became part of Steelcase added to our capabilities. For example, Strafor (France) and Werndl (Germany) strengthened our dealer network and our product portfolio everywhere.

Clestra Hauserman brings a variety of reconfigurable wall products to our Pathways® portfolio.

## Leverage Global Presence

The market for office furniture outside the U.S. is large and growing, thanks to the worldwide growth in knowledge workers. And we are uniquely positioned to take advantage of it.

Steelcase International 1999 Revenue Comparison

Our international revenues alone would put us among the leading office furniture companies.

The Global Office Furniture Industry

Its sales are approximately $32 billion, and the U.S. accounts for only 39% of it.

- U.S. 39%
- Europe 32%
- Rest of World 29%

Our infrastructure is in place overseas.

- 21 manufacturing facilities
- 4,500 employees
- 400+ dealer locations

We can offer products that reflect local cultures in local currencies at competitive prices.

## Leverage Dealer Network

The Steelcase Dealer Network is the industry's largest and most capable... and an important competitive advantage.

The Steelcase Dealer Network

| Size | Services |
|---|---|
| North American | Account Management |
| International | Asset Management |
| | Design |
| | Specification |
| | Order Management |
| | Installation |
| | Warranty |

How we intend to take full advantage of this network.

1. By providing our dealers with superior products that attract new customers.
2. By providing Quick Delivery programs that enable dealers to serve customers who "can't wait."
3. By providing training programs that enable dealers to offer integrated interior solutions.
4. By providing financial services that enable our dealers to offer customers a variety of financing arrangements, including leasing.
5. By providing secure online connections that enable our dealers to order, track and bill products and components... and global order fulfillment so they can take better care of their international customers.

## Leverage Installed Base

We intend to increase sales to current customers by continuing to offer them new products and services that help their people work more effectively.

$17 billion

Steelcase has the industry's largest installed base. For systems furniture alone, it is estimated at $17 billion.

- Potential Penetration
- Existing Penetration

The Billion Dollar Opportunity

Increasing seating, filing and wood penetrations to the same level as systems (26%) adds a billion dollars in revenue.

Special Delivery!

Our Quick Delivery programs – which let buyers choose from 6,000 products that are available within 12 days – also expand our reach. Now people who "can't wait" don't have to.

# spaceware

**A successful leap.**

The Leap™ chair that debuted in June, 1999, is the most successful new chair introduction in the company's history.

**New task light outshines all rivals.**

The best new products contain proprietary, patent-protected technology. The Leap chair is one example; our new Canopy™ task light is another.

**It's a "world's first."**

Huddleboard™ products, our personal, portable whiteboards that help people on the move record, display and transport information. They're the first of what will be a family of knowledge management devices.

The Footnote™ table and L'attitude™ chair, two award winners from Brayton International.

Frisco enables European knowledge workers to shift and change their workstation to suit the task at hand.

**Leap wins new customers.**

22% of Leap sales were from new customers.

**Turnstone attracts new customers.**

Our Turnstone® brand products are designed and priced to appeal to people at fast-track, cost-conscious companies who value speed, convenience and price.

37% of Answer® sales were from new customers.

turnstone®

# PATHWAYS

**Path.ways (path´wāys),** n. 1. a portfolio of interior architecture and technology products, furniture and work tools that enable designers to create work environments that offer exceptional flexibility, affordability and user control. 2. an innovation that transforms an expense (conventional work environments) into a productive asset.

STEELCASE SURFACES PARTNERSHIP

We have formed a new venture, the Steelcase Surfaces Partnership, comprised of DesignTex and J.M. Lynne. Both provide textiles for any application.

*J.M. Lynne's Luxor Group of wall coverings, a NeoCon Gold Award winner.*

IDEO

We also work continuously with our partner IDEO Product Design to enhance our portfolio. IDEO people helped design the Leap chair, the Detour™ family of teamworking products for Metro, and the award-winning Kart™ chair for Vecta.

Alliances, too, are a key component of our plans. We are currently working with The Appliance Studio and others to co-develop technology-enhanced furniture products. Hewlett-Packard is a founding sponsor of the studio.

WORKSTAGE

**A new venture, a new market opportunity.**

Workstage™, a new venture with Gale & Wentworth, a leading real estate developer, offers firms a chance to lease or buy Pathways outfitted office space at attractive rates.

**Case in point.**

Our fastest growing seating line in Brazil, Easy, is locally developed and manufactured.

**An international leap.**

Leap is now being manufactured in France as well as the United States, and sold throughout Asia and Europe.

**Information, expertise, products and services flow in every direction.**

Steelcase dealers everywhere work with one another to meet customers' global needs. Designers, engineers and plant managers everywhere exchange equipment, processes, procedures and ideas. Order fulfillment is seamless worldwide.

AN INTERNATIONAL COLLECTION

gives Steelcase dealers in North America a variety of attractive new products to offer their customers.

6. By providing programs that enable our dealers to engage prospective customers in their communities.

HotHouse environments

*HotHouse seminars help executives turn their offices into "breeding grounds for innovation."*

Our business-to-business strategy could increase our dealers' revenues by as much as 12 percent.

# B2B

**A popular leap.**

Leap was a hit with existing customers, too (they purchased 78% of all Leap chairs sold).

**Keeping up with the ways people actually work.**

Our Community-based Planning methodology shows customers how improving physical work environments boosts organizational performance. Customers who take advantage of this methodology often find that it makes sense to invest in new products – particularly Pathways type products that integrate furniture, architecture and technology. They often do this by "mixing and matching." That's why our products are designed to let them migrate to new environments over time.

**Sharing our wealth of knowledge.**

Offering our customers access to our knowledge often prompts them to think about their space in new ways – as an asset, not just an expense.

STEELCASE FINANCIAL

**New services make it easier for customers to get what they want.**

Quick Delivery programs, leasing alternatives and Workplace Performance evaluation tools, to name three of many.

# e Steelcase

1 A key component of our e-Steelcase strategy involves using the Net to enable boundaryless sharing of information and ideas between Steelcase entities around the world.

2 e-Steelcase turns many of the people who use our products into potential buyers of them.

Our online connections to many of our large corporate customers create an attractive new market opportunity. They enable us to offer Steelcase products directly to their employees around the world, at their companies' contract rates.

3 An agreement with KiSP, Inc., gives Steelcase ownership of an Internet-based tool kit and access to its developers. We've used both to create online links between our customers and their dealers.

4 Thanks to e-Steelcase, dealers, designers, engineers and plant managers everywhere can exchange policies, processes, procedures and ideas almost instantly.

5 Our global dealer network gives Steelcase something others are investing millions to create: the ability to effectively fulfill orders and provide ongoing customer service.

6 e-Steelcase lets customers get what they want in "Internet time."

A Pathways® configuration engine lets them do in minutes what once took hours...with 100 percent accuracy. Visual specification tools support our entire product line (90,000 style numbers!).

Focus on Product Innovation

Pursue New Market Opportunities

Pursue Acquisitions, Alliances and New Ventures

Leverage Global Presence

Leverage Dealer Network

Leverage Installed Base

# The Six Growth Strategies Illustrated

S E A T T L E ,   W A S H I N G T O N


## Democracy in action!

Many organizations say they value their employees. Attachmate — a Bellevue, Washington-headquartered leading provider of host access management and e-business solutions — demonstrates it by inviting employees to participate in corporate decision-making.

So when Heidi Jung, director of corporate services, began planning for a new facility, she naturally turned to her colleagues for input. She asked them to evaluate four different task chairs, for example, and then to cast their votes in a "winner-take-all" election...which our new Leap chair won. Heidi also responded to her colleagues' desires for "scribbling places" by giving each of them one of our new Huddleboards™ and covering the facility with our mobile easels.

Other Steelcase products include: mobile Activity tables; Answer and Context® workstations; Protégé®, Rally® and Player® chairs; and Brayton International lounge tables and chairs.

It all adds up to a wonderfully comfortable, supportive work environment. Small wonder that a Washington CEO Magazine study found Attachmate to be the state's best large company to work for. □

CARLSBAD, CALIFORNIA

## The Year 2000 revolution at The Callaway Golf Ball Company.


Chairman Ely Callaway had promised the golfing world that Callaway Golf would introduce a revolutionary new golf ball in year 2000. To fulfill this promise, the company had to design the product from scratch. They hired experts from around the world and built a new, state-of-the-art facility that emphasized creativity, teamwork, communication, collaboration and flexibility.

The Callaway golf ball team not only had to move quickly, they also had to be able to turn on a dime and "plug and play" wherever they happened to be. Pathways – with its flexibility, access to computing and communications technologies, reconfigurable walls and mobile furniture – provided the tools that the team needed to do just that... and that the company needed to meet both its short- and long-range goals for the new facility.

The new ball made a successful debut right on time. □

MUMBAI, INDIA

## Workstations from France.
## Tables from England.
## Chairs from the United States.

## Destination: Mumbai.

Reliance Industries, headquartered in Mumbai (formerly Bombay), is one of India's proudest and most successful enterprises. Its founder, Mr. Dhirubhai Ambani, was named India's "Businessman of the Century," and his two sons, Mr. Mukesh Ambani and Mr. Anil Ambani, are building on his achievements, expanding this integrated energy refining company beyond India's borders into markets around the world.

Reliance turned to Steelcase to help outfit its new headquarters, The Reliance Centre. The assignment: a high-performance work environment that would give the staff all the support they needed to help the company attain its ambitious goals.

Steelcase responded by tapping its own global capabilities: TNT workstations and Please and Arpeggio chairs from its Strafor unit in France; conference tables from its Gordon Russell unit in England; Sonata™ chairs from its Turnstone unit in the U.S.; and La Costa® chairs from Brayton International, a U.S.-based Steelcase Design Partnership company.

And Mumbai gained another state-of-the-art workplace. □

SANTIAGO, CHILE

## Steelcase dealer helps his nation's airline take wing.

*Steelcase dealer, Luis Fernando Moro.*

Once, the headquarters employees of Chile's illustrious Lan Chile airline worked in several different facilities in different parts of the Santiago area and communicated with one another by fax and phone.

Today, they all work at a three-building campus near the Santiago International Airport, and they do most of their communicating face-to-face – with significant boosts in morale and productivity.

The move was part of Chief Executive Officer Mr. Enrique Cueto's comprehensive program to re-energize the airline, and he enlisted Steelcase dealer Luis Fernando Moro to help.

Together with a team of architects, they created bright, airy work environments that include Montage® and Avenir® workstations; Rally, Protégé and Criterion® chairs; and a variety of products from Steelcase Design Partnership companies.

And Lan Chile is flying higher than ever. □

STEVENAGE, ENGLAND

Nowhere is the cliché “time is money” more literally true than in the pharmaceutical industry. The race to create patentable new drugs is an endless sprint.

In an attempt to pick up the pace, Glaxo Wellcome executives in Stevenage, England, decided to break with tradition. They created a laboratory that positioned chemists, biologists and computer technicians side by side rather than in separate facilities, so they could save time by working together. But would they? Fortunately for all of us, the answer is a resounding “Yes!”

This “Flexi Lab” features specially modified TNT™ wave desks from Strafor and flat screen computer monitor arms from Details, a Steelcase Design Partnership company. Tyndale Solutions, one of England’s largest Steelcase dealers, helped design the space.

## Revolutionary laboratory promises better medicines faster.

CAIRO, EGYPT

"A 21st century company needs a 21st century work environment."

Mobinil is a pioneer. A Cairo-based provider of mobile telephone lines and equipment, this two-year-old company has set new standards in serving customers, and has established the largest, most advanced customer center in the Middle East.

Mobinil's Chief Executive, Osman Sultan, understands how much high-performance work environments can contribute to a company's success – especially a company that has to attract, support and inspire exceptional people to continue its rapid growth.

In the case of Mobinil, this meant creating work environments in the company's new headquarters that could be reconfigured quickly in response to the company's growth; that provided easy access to computing and communications technologies; and that had a contemporary look and feel.

The company worked with Steelcase's Cairo dealer, Living In Interiors, and chose products from Steelcase's U.S. operations to meet these needs: Avenir® workstations; Surprise™ and Sonata™ chairs; tables from Steelcase Wood; and Mask™ and Tonga™ from Brayton International for conference rooms.

Its work environments now reflect its dynamism.

*Steelcase Offerings Around the World*

**Steelcase**

- **Steelcase North America**
  - **Steelcase** — Furniture and furniture systems; reconfigurable architectural, technology and lighting products.
  - **Clestra Hauserman** — Reconfigurable architectural products.
  - **Steelcase Wood** — Wood furniture and furniture systems.
  - **Turnstone** — Furniture and furniture systems for emerging growth and cost-conscious companies.
  - **Steelcase Services** — Workplace Performance consulting services.

    Revest, remanufacturing and refurbishing services for furniture and furniture systems.

    Furniture Management Coalition, facilities services.

    Steelcase Financial Services, financing and leasing services.
- **Steelcase International**
  - **Airborne (France)** — Furniture for emerging growth and cost-conscious companies.
  - **Gordon Russell (UK)** — Furniture and furniture systems.
  - **Pohlschröder (Germany)** — Furniture and furniture systems.
  - **Strafor (France)** — Furniture and furniture systems; reconfigurable architectural and lighting products.
  - **Waiko (Germany)** — Furniture and furniture systems.
  - **Werndl (Germany)** — Modular wood furniture.
  - **Steelcase** — Furniture and furniture systems for Africa, Asia-Pacific, Middle East and Latin America.
- **Steelcase Design Partnership**
  - **Brayton International** — Lounge, executive and health care seating and tables.
  - **Details** — Ergonomic work tools, computer support products, personal lighting.
  - **Metro** — Furniture for collaborative worksettings.
  - **Vecta** — Furniture for learning and conference environments and dining areas.
  - **Wigand** — Architectural woodwork and fabric walls.
- **Steelcase Surfaces Partnership**
  - **DesignTex** — Upholstery textiles, wall coverings, drapery and panel fabrics.
  - **J.M. Lynne** — Wall coverings.
- **Other Ventures**
  - **IDEO** — Product development and innovation services.
  - **Attwood** — Injection moldings and marine accessories.
  - **Workstage** — Turnkey office environments.

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## Financial Highlights

*(in millions, except per share data)*

| | 5-Year Compound Annual Growth Rate | February 25, 2000 (3) | February 26, 1999 | February 27, 1998 | February 28, 1997 (1) | February 23, 1996 | February 28, 1995 |
|---|---|---|---|---|---|---|---|
| **STATEMENT OF INCOME DATA** | | | | | | | |
| Net sales | 10.1% | **$ 3,316.1** | $ 2,742.5 | $ 2,760.0 | $ 2,408.4 | $ 2,155.9 | $ 2,048.7 |
| Net sales increase (decrease) | | **20.9%** | (0.6)% | 14.6% | 11.7% | 5.2% | 13.0% |
| Gross profit | 13.1% | **$ 1,102.7** | $ 989.4 | $ 1,003.4 | $ 856.8 | $ 687.7 | $ 596.9 |
| Gross profit – % of net sales | | **33.3%** | 36.1% | 36.4% | 35.6% | 31.9% | 29.1% |
| Operating income | 28.3% | **$ 271.8** | $ 317.2 | $ 317.4 | $ 141.6 | $ 163.6 | $ 78.2 |
| Operating income – % of net sales | | **8.2%** | 11.6% | 11.5% | 5.9% | 7.6% | 3.8% |
| Net income | 23.5% | **$ 184.2** | $ 221.4 | $ 217.0 | $ 27.7 | $ 123.5 | $ 64.2 |
| Net income – % of net sales | | **5.6%** | 8.1% | 7.9% | 1.2% | 5.7% | 3.1% |
| **EARNINGS PER SHARE (BASIC AND DILUTED)** | | | | | | | |
| Net income | | **$ 1.21** | $ 1.44 | $ 1.40 | $ 0.18 | $ 0.80 | $ 0.42 |
| Weighted average shares outstanding | | **152.8** | 153.8 | 154.8 | 154.7 | 154.6 | 154.6 |
| Dividends per share of common stock (2) | | **$ 0.44** | $ 0.41 | $ 1.36 | $ 0.27 | $ 0.26 | $ 0.21 |
| **BALANCE SHEET DATA** | | | | | | | |
| Working Capital | | **$ 200.1** | $ 290.6 | $ 355.1 | $ 474.6 | $ 475.6 | $ 476.4 |
| Assets | | **$ 3,037.6** | $ 2,182.5 | $ 2,007.2 | $ 1,922.1 | $ 1,884.5 | $ 1,761.8 |
| Long-term debt | | **$ 257.8** | — | — | — | — | — |
| Liabilities | | **$ 1,475.4** | $ 682.5 | $ 674.8 | $ 542.1 | $ 490.9 | $ 459.6 |
| Shareholders' Equity | | **$ 1,562.2** | $ 1,500.0 | $ 1,332.4 | $ 1,380.0 | $ 1,393.6 | $ 1,302.2 |
| **STATEMENT OF CASH FLOW DATA** | | | | | | | |
| Net cash provided by operating activities | | **$ 305.7** | $ 359.9 | $ 402.7 | $ 126.7 | $ 264.1 | $ 102.4 |
| Depreciation and amortization expense | | **$ 141.8** | $ 107.0 | $ 95.3 | $ 93.4 | $ 92.5 | $ 97.0 |
| Capital expenditures | | **$ 188.8** | $ 170.4 | $ 126.4 | $ 122.0 | $ 104.6 | $ 94.8 |
| Dividends paid (2) | | **$ 67.3** | $ 63.1 | $ 210.9 | $ 41.8 | $ 39.8 | $ 32.3 |

*(1) During 1997, the Company concluded a 17-year patent litigation which, net of reserves, reduced net income by $123.5 million.*

*(2) During 1998, the Company paid a special dividend in the aggregate amount of $150.9 million, or approximately $0.97 per share of common stock. See Note 4 to the Consolidated Financial Statements.*

*(3) Includes Steelcase Strafor. See Note 19 to the Consolidated Financial Statements.*

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Overview

The Company recorded net sales of $3,316.1 million for fiscal 2000 ("2000") an increase of 20.9% over fiscal 1999 ("1999") net sales of $2,742.5 million, primarily attributable to the acquisition of Steelcase Strafor S.A. and subsidiaries ("Steelcase Strafor") and other domestic acquisitions. The Company consolidated the results of Steelcase Strafor for the final three quarters of 2000 after completing the acquisition of the remaining 50% equity interest in Steelcase Strafor on April 22, 1999. The acquisition was effective as of March 31, 1999 and has been accounted for under the purchase method of accounting in the accompanying consolidated financial statements as of February 25, 2000. The Company accounts for the results of operations of Steelcase Strafor on a two month lag. Excluding the impact of all acquisitions, the Company recorded net sales of $2,739.5 million for 2000, a decrease of 0.1% over 1999 net sales.

The Company recorded consolidated net income for 2000 of $184.2 million, or $1.21 per share (basic and diluted), which included a $15.0 million after-tax charge for material and installation costs associated with Pathways product line improvements. The earnings for 2000 decreased 16.8% from the $221.4 million, or $1.44 per share (basic and diluted), earned in 1999. In addition to the Pathways charge discussed above, the decrease in profitability was attributable to several factors which occurred during 2000 including:

- An unfavorable industry-pricing environment.
- The impact of new products – which typically have lower initial margins – in the sales mix.
- Major new product introduction and ramp up costs.
- The expected dilutive effect of the acquisition of Steelcase Strafor (approximately $.04 per share) due to the amortization of intangibles that resulted from the acquisition, as well as financing and interest costs arising from credit facilities used to fund the acquisition.

## Results of Operations

The following table sets forth consolidated statement of income data as a percentage of net sales for 2000, 1999 and 1998.

| Year Ended | Feb 25, 2000 | Feb 26, 1999 | Feb 27, 1998 | Increase (Decrease) 2000 vs 1999 | Increase (Decrease) 1999 vs 1998 |
|---|---|---|---|---|---|
| Net sales | **100.0%** | 100.0% | 100.0% | **20.9%** | (0.6)% |
| Cost of sales | **66.7** | 63.9 | 63.6 | **26.3%** | (0.2)% |
| Gross profit | **33.3** | 36.1 | 36.4 | **11.5%** | (1.4)% |
| Selling, general and administrative expenses | **25.1** | 24.5 | 24.9 | **23.6%** | (2.0)% |
| Operating income | **8.2** | 11.6 | 11.5 | **(14.3)%** | (0.1)% |
| Interest expense | **(0.5)** | — | — | **n/m** | n/m |
| Other income, net | **1.2** | 0.7 | 0.8 | **100.5%** | (10.6)% |
| Income before provision for income taxes and equity in net income of joint ventures and dealer transitions | **8.9** | 12.3 | 12.3 | **(12.2)%** | (0.8)% |
| Provision for income taxes | **3.4** | 4.5 | 4.7 | **(7.5)%** | (4.6)% |
| Income before equity in net income of joint ventures and dealer transitions | **5.5** | 7.8 | 7.6 | **(14.9)%** | 1.6% |
| Equity in net income of joint ventures and dealer transitions | **0.1** | 0.3 | 0.3 | **(62.9)%** | 12.7% |
| Net income | **5.6%** | 8.1% | 7.9% | **(16.8)%** | 2.0% |

*n/m = not meaningful*

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Net sales

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosure about Segments of an Enterprise and Related Information,* the Company operates on a worldwide basis within three reportable segments, two of which are geographic furniture segments, and services and other businesses. In prior years, the Company has reported the two geographic furniture segments as being the U.S. and International/Canada combined. Due to the acquisition of the remaining 50% equity interest in Steelcase Strafor and the significant impact of this acquisition on the Company's consolidated financial statements, the Company has implemented a new reporting structure which focuses separately on North American and International furniture operations. North America includes the U.S., Canada and the Steelcase Design Partnership ("SDP"). International includes the rest of the world, with the major portion of the operations located in Europe. The services and other businesses segment remains largely unchanged, with only insignificant reclassifications (see Note 18).

The following table sets forth consolidated and pro forma worldwide net sales by segment for 2000, 1999 and 1998. The segment disclosures for 1999 and 1998 have been restated to reflect the Company's new reporting structure noted above.

*(in millions)*

| | | | | Increase (Decrease) | |
|---|---|---|---|---|---|
| *Year Ended* | **Feb 25, 2000** | *Feb 26, 1999* | *Feb 27, 1998* | **2000 vs 1999** | *1999 vs 1998* |
| North America | **$ 2,606.4** | $ 2,511.3 | $ 2,495.7 | **3.8%** | 0.6% |
| International (1) | **573.2** | 115.3 | 138.4 | **n/m** | (16.7)% |
| Services and other businesses | **136.5** | 115.9 | 125.9 | **17.8%** | (7.9)% |
| Consolidated net sales | **$ 3,316.1** | $ 2,742.5 | $ 2,760.0 | **20.9%** | (0.6)% |
| Steelcase Strafor (1) (2) | **148.3** | 506.9 | 468.6 | **n/m** | 8.2% |
| Worldwide net sales (1) | **$ 3,464.4** | $ 3,249.4 | $ 3,228.6 | **6.6%** | 0.6% |

*(1) Worldwide net sales include, on a pro forma basis, the Company's consolidated net sales plus those of its unconsolidated operations in Steelcase Strafor. Because of the acquisition date, Steelcase Strafor's sales for 2000 have been consolidated (and are included in International) for the last nine months, with only the first quarter of 2000 being unconsolidated. Full year sales for 1999 and 1998 were unconsolidated and included in the Steelcase Strafor line item above. Net sales of all other unconsolidated joint ventures and dealer transitions are not material. See Notes 8 and 19 to the Consolidated Financial Statements.*

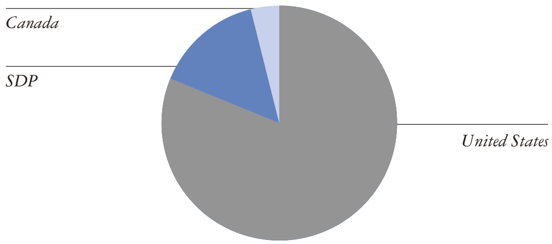
*(2) In local currency, Steelcase Strafor net sales increased 6.1% in 2000, 9.8% in 1999 and 19.1% in 1998.*

The Company's consolidated net sales in 2000 posted a 20.9% increase over 1999 net sales, primarily from the acquisition of Steelcase Strafor and other domestic acquisitions. Excluding the impact of all acquisitions, the Company's net sales in 2000 decreased 0.1% compared to 1999 net sales. During 1999 and 1998, the Company's consolidated net sales did not include those of Steelcase Strafor and therefore, more closely resembled those of the U.S. office furniture industry. In 1999, the Company, along with the U.S. office furniture industry overall, experienced a slowdown in its growth. The Company posted flat sales for the year, lagging U.S. industry growth as reported by The Business and Institutional Furniture Manufacturers' Association ("BIFMA"). For 1998, the Company's consolidated net sales outpaced the industry, increasing by 14.6%.

*North America.* North American sales grew at 3.8%, 0.6% and 16.2% for 2000, 1999 and 1998, respectively. Domestic acquisitions, along with strong SDP sales and an increased momentum in new product sales, provided the bulk of the sales increase across North America in 2000. New product sales doubled their run rates in 2000 over 1999. The sales of the Company's core Steelcase branded products in North America followed the industry trends in 2000, as sales for the full year declined. Excluding the impact of acquisitions, North American net sales for 2000 increased 0.2%, which is comparable to fiscal 1999 levels, despite an overall decline in the industry of 1%.

North American net sales growth in 1998 resulted primarily from increases in unit sales across most product categories reflecting strong industry fundamentals. In 1999, the industry began to soften due to financial volatility in Asian and Latin American markets, which, along with a high level of merger and acquisition activity within the U.S. Fortune 500 companies, contributed to the lack of sales growth. As the industry softened in 1999, the Company's core Steelcase branded products in North America were impacted by the deferred spending actions within the Company's large corporate account business, resulting in declines across the same product categories that benefited from a strong industry in 1998.

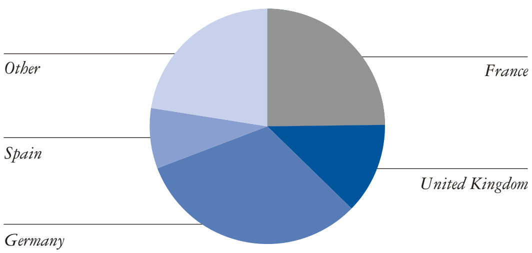
**North American Sales by Operation**



## Management's Discussion and Analysis of Financial Condition and Results of Operations

***International.*** In 2000, due to the effective date of Company's acquisition of the remaining 50% interest in Steelcase Strafor, the International segment includes nine months of Steelcase Strafor net sales. Steelcase Strafor realized local currency growth of 6.1% in 2000 primarily driven by Werndl BüroMöbeL AG ("Werndl"). However, the devaluation of the euro throughout 2000 offset most of the local currency growth, resulting in 1% growth in U.S. dollars. Net sales outside of Europe declined by 4.0% during 2000, primarily due to a decline in the Company's export business coupled with the adverse impact of currency devaluation in Brazil, offset by growth in Mexican operations. In 1999, the International segment decreased by 16.7% due to several factors including a reduction in export projects to Latin America and flat sales in Asia, as well as the reorganization of the Company's Japanese subsidiary. In 1998, the International segment experienced growth of 9.3% due to strong export sales to both Latin America and the Middle East.

**Steelcase Strafor Net Sales by Country**




***Services and other businesses.*** Services and other businesses rose by 17.8% in 2000 after experiencing a decline of 7.9% in 1999. The 2000 sales were positively impacted by growth in IDEO, the Company's subsidiary that provides product development and innovation services. The decline in 1999 was due to the disposal of a product line and distributor within the Company's marine business at the end of the third quarter of 1998. Net sales for 1998 were virtually flat.

### Gross profit

**Gross Profit Margins**


The Company's gross profit as a percentage of sales decreased in 2000 from 36.1% to 33.3% after a slight decrease in 1999 from the 1998 level of 36.4%. The Company's warranty policy offers a lifetime warranty on Steelcase brand products, subject to certain exceptions, which provides for the free repair or replacement of any covered product or component that fails during normal use because of a defect in design, materials or workmanship. In accordance with this policy, the Company recorded a $24.5 million pre-tax charge for expenses related to the field retrofit of beltways and insulation materials within installed Pathways products. Excluding this charge, the Company's gross margin was 34.0% which was a decrease of 2.1 percentage points from the prior year. This margin decline during 2000 was primarily the result of the unfavorable industry-pricing environment, the impact of new products – which typically have lower initial margins – in the sales mix and major new product introduction and ramp up costs. Additionally, the Company experienced the expected margin decrease of approximately 0.5 percentage points with the consolidation of Steelcase

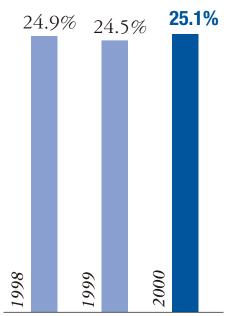
Strafor, which has historically had lower margins. The overall decrease in gross margin for 2000 was partially offset by lower variable compensation.

In 1998 and 1999, margins remained relatively flat as the Company's continued efforts to reduce costs and to improve efficiencies were tempered by upfront investments required to fund cost-reduction efforts to be realized in future periods, as well as the expected disruptions and inefficiencies associated with the Company being in the midst of launching the largest product portfolio in its history.

### Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses as a percentage of net sales increased to 25.1% in 2000 from 24.5% in 1999 after decreasing from 24.9% in 1998. Overall SG&A ratios were impacted by Steelcase Strafor, including increased intangible amortization, write-off of bad debts in the United Kingdom and costs associated with the consolidation of German operations. Excluding Steelcase Strafor, SG&A expense held flat at 24.5% reflecting management's cost containment and resource redeployment efforts. During the three-year period, investments in information systems and new product research, development and launch costs have been significant. However, the Company has been focused on the redeployment of resources in support of its strategic initiatives. In addition, a reduction in variable compensation contributed to the achievement of the current year's 24.5% operating expense ratio, excluding the impact of Steelcase Strafor.

**Operating Expenses**




In 1998, the Company reported that selling, general and administrative costs included aggregate costs of $11.0 million relating to the restructuring of a foreign subsidiary, the relocation of a showroom facility, the initial public offering and receipt by the Company of a net litigation settlement in the amount of $9.8 million. There were no similar costs or litigation settlements of a material nature in 1999.

### Interest expense; Other income, net and Income taxes

2000 was impacted significantly by the acquisition of Steelcase Strafor, which was partially financed through short and long-term borrowings. Interest expense increased to $15.9 million from zero in 1999 and $1.7 million in 1998 as a result of the acquisition of Steelcase Strafor. Overall, other income, net did not vary significantly during 1998 and 1999. However, other income, net increased significantly in 2000 due to several gains. First, the Company recognized a gain of $7.5 million in connection with the transition of its customers to new dealers in the United Kingdom, with respect to which the Company had previously written off bad debts. Second, the Company recorded a gain of $10.0 million from the sale of certain non-income producing facilities. Finally, the Company recorded investment income of $7.0 million from the sale of investments in common stock. The above mentioned gains were offset by decreased interest income of $6.6 million in 2000 due to lower cash balances. Also, 1999 included $5.8 million of interest income recorded in connection with the favorable resolution of income tax litigation discussed below.

Income tax expense as a percentage of income before taxes ("the effective tax rate") approximated 39.0% in 2000, 37.0% in 1999 and 38.5% in 1998. During 2000, the effective tax rate increased because of the consolidation of Steelcase Strafor and the recording of non-deductible goodwill. Steelcase Strafor operations are located in Europe, whose countries typically have higher effective tax rates than the U.S. During 1999, the provision for income taxes benefited from the favorable resolution of income tax litigation dating back to 1989, primarily related to investment tax credits and accelerated depreciation on the Company's Corporate Development Center. The resolution of these matters contributed to a reduced effective tax rate for 1999 and resulted in the recognition of interest income of $5.8 million in 1999. These tax matters increased 1999 consolidated net income by $6.2 million, or $0.04 per share (basic and diluted).

### Net income

For the reasons set forth above, net income decreased from $221.4 million in 1999 to $184.2 million in 2000 after increasing from $217.0 million in 1998. Net income decreased 16.8% in 2000 after increasing by 2.0% in 1999 and 43.5% in 1998.

## Liquidity and Capital Resources

Historically, the Company's cash and capital requirements have been satisfied through cash generated from operating activities. The Company's financial position at February 25, 2000 included cash, cash equivalents and short-term investments of $88.6 million, which is slightly higher than the $76.1 million which existed on February 26, 1999. These funds, in addition to cash generated from future operations and available credit facilities, are expected to be sufficient to finance the known or forseeable future liquidity and capital needs of the Company.

Through February 1999, the Company had no long-term debt. However, with the acquisition of Steelcase Strafor and management's intent to leverage the significant financial resources available to the Company to meet its growth objectives, the Company has obtained long-term debt financing from bank syndicates in Europe and the United States. The Company is currently in the process of obtaining a debt rating to further utilize its available financial resources. Total debt at February 25, 2000 aggregated $466.8 million, which was approximately 23% of total capitalization of the Company. The Company also holds $483.1 million of interest bearing assets predominantly through its finance subsidiary, Steelcase Financial Services Inc.

### Cash provided by operating activities

Cash provided by operating activities totaled $305.7 million in 2000, $359.9 million in 1999, and $402.7 million in 1998. The operating cash flows have been impacted by a reclassification within the cash flow statement. The Company has reclassified the change in leased assets to the investing portion of the cash flow statement, which is consistent with the Company's allocation of resources to its captive finance operation and industry practice for finance subsidiaries. The cash provided by operations resulted primarily from net income excluding non-cash charges such as depreciation and amortization, net of increases in accounts receivable and inventories and prepaids. The consolidation of Steelcase Strafor increased working capital in 2000. However, management continues to closely monitor the Company's inventories and accounts receivable, attempting to maximize the number of inventory turns per year and minimize the impact of increasing international receivables, which typically have longer payment terms than domestic dealers.

### Cash used in investing activities

Cash used in investing activities totaled $514.6 million in 2000, $342.2 million in 1999 and $219.2 million in 1998. The increases have resulted from increases in capital expenditures and leased assets, joint venture transactions and corporate acquisitions.

The Company's capital expenditures were $188.8 million in 2000, $170.4 million in 1999 and $126.4 million in 1998, reflecting investments in excess of depreciation for each of the last three years. Capital expenditures continue to include increased investments in manufacturing equipment, information systems and facilities. Collectively, these investments are expected to improve productivity and safety, increase capacity, decrease the impact on the surrounding environments in which the Company operates and facilitate the launch of new products. The Company expects capital expenditures in fiscal 2001 to equal or exceed 2000 levels due to the planned construction of a new wood manufacturing facility and the continued investment in new product development, information systems and corporate and showroom facilities. The Company expects to fund these capital expenditures primarily through cash generated from operations.

The Company continues to invest in its leasing portfolio, which includes both direct financing and operating leases of office furniture products. The Company's net investment in leased assets increased from $228.9 million as of February 26, 1999 to $349.1 million as of February 25, 2000. The Company expects to fund future investments in leased assets primarily through its lease receivables transfer facility and through cash generated from operations.

Joint venture transactions in the three-year period include the issuance of a note receivable to Steelcase Strafor in 1999 in the amount of $66.4 million to equalize lending levels between the Company and its partner, Strafor Facom S.A., and to fund in part the acquisition of Werndl by Steelcase Strafor.

Corporate acquisitions in 2000, aggregating $209.6 million, reflect the complete ownership of Steelcase Strafor, Clestra Hauserman and a significant dealer. Corporate acquisitions in 1999, aggregating $57.2 million, reflect the complete ownership of J.M. Lynne and the partial ownership of Microfield Graphics, Clestra Hauserman and the Modernform Group Public Company Limited. See Note 19 to the Consolidated Financial Statements.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Cash provided by (used in) financing activities

Cash provided by (used in) financing activities totaled $219.4 million in 2000, ($53.3) million in 1999 and ($254.4) million in 1998, reflecting dividends paid, certain common stock transactions and proceeds from the issuance of debt, net of repayments.

Management continues to evaluate the optimal capital structure for the Company in light of its long-term growth strategies. At the time of the above mentioned acquisition of Steelcase Strafor, the Company established a 364-day unsecured committed $200 million revolving credit facility. Subject to certain conditions, the facility is renewable annually for additional 364-day periods. The Company also established a $200 million lease receivables transfer facility. Subject to certain conditions, the facility is renewable annually, with borrowings on the facility scheduled to mature in accordance with the terms of the underlying leases.

Additionally, the Company has an unsecured, committed credit facility of EUR 200 million from bank syndicates in Europe to provide liquidity and finance capital expenditures for its European operations. The agreement is comprised of two tranches: Tranche A is a EUR 75.0 million, 364-day revolving facility, and Tranche B is a EUR 125.0 million, five-year term facility.

Annual dividends per share of common stock were $0.44 in 2000, $0.41 in 1999 and $0.39 in 1998. In addition, the Company paid a special dividend in 1998 in the aggregate amount of $150.9 million, or approximately $0.97 per share of common stock.

During 1999, eligible employees purchased shares of Class A Common Stock pursuant to the terms of the Employee Discount Option Grant, resulting in proceeds to the Company of $24.8 million. The shares for this grant, along with the shares for the Employee Stock Grant issued in 1998, were purchased by the Company from the selling shareholders in the initial public offering for $43.5 million. Under a three million share repurchase program authorized by the Board of Directors on June 17, 1998 and amended on September 22, 1999 for an additional three million shares, the Company repurchased 1,373,870 and 794,300 shares of Class A Common Stock for $18.4 million and $15.0 million in 2000 and 1999, respectively, and 1,086,400 Class B shares for $18.3 million in 2000. Management anticipates that the stock repurchase program will not reduce the Company's tradable share float in the long run as it expects that Class B Common Stock will continue to convert to Class A Common Stock over time.

## Year 2000

Beginning in 1994, the Company actively engaged in replacing or modifying all business software applications as well as manufacturing and other equipment with embedded technology that could fail or generate erroneous results as a result of Year 2000 date processing ("Year 2000 issues") issues affecting Steelcase Inc. and most other companies. Prior to December 31, 1999, the Company completed the modification or replacement of all critical business applications, technical infrastructure components and manufacturing equipment, as well as contingency and business continuity planning activities for critical business processes within the Company.

As of this filing, there have been no Year 2000 issues reported or discovered that would be expected to have a material impact on the Company's operations or future results of operations.

Costs incurred through the date of this filing specifically to address Year 2000 issues approximated $18 million. Management views the process of assessing and remediating Year 2000 issues as an on-going effort which will require continued focus, testing and verification throughout calendar year 2000. However, no material future expenditures are anticipated.

## Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing sovereign currencies and the euro. There will be a transition period from January 1, 1999 through January 1, 2002, at which time all legal tender will convert to the euro. The transition period is anticipated to resolve difficulties in handling local currencies and the euro simultaneously, while remaining flexible to the market. The Company's primary exposure to the euro conversion is concentrated in Steelcase Strafor. Steelcase Strafor has created an internal Euro Committee, a pan-European multifunctional team whose goal is to determine the impact of this currency change on products, markets and information systems. Based on the Euro Committee's work to date, the Company does not expect the euro conversion to have a material impact on Steelcase Strafor's financial position, or on the Company as a whole.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Safe Harbor Provision

There are certain forward-looking statements under the Liquidity and Capital Resources, Year 2000, and Euro Conversion sections, particularly those with respect to the Company's future liquidity and capital needs, future capital expenditures, conversion of Class B common shares to Class A common shares, the expected ability of and costs to the Company and its key customers, dealers and suppliers to successfully manage Year 2000 issues, and the impact of the euro conversion on the financial position of Steelcase Strafor and the Company. Such statements involve certain risks and uncertainties that could cause actual results to vary from stated expectations. The Company's performance may differ materially from that contemplated by such statements for a variety of reasons, including, but not limited to, competitive and general economic conditions domestically and internationally; currency fluctuations; changes in customer order patterns; the success of new products and their continuing impact on the Company's manufacturing processes; the Company's ability to improve margins on new products, to successfully integrate acquired businesses, to reduce costs, including ramp up costs associated with new products, and to successfully implement technology initiatives; the impact on the Company's business due to internal systems or systems of suppliers, key customers, dealers and other third parties adversely affected by Year 2000 issues; costs, including claims, due to Year 2000 issues and remediation efforts; the impact of the euro conversion, the sufficiency of the reserve established with regard to material and installation costs associated with Pathways product line improvements and other risks detailed in the Company's 10-K Report for the year ended February 25, 2000, and its other filings with the Securities and Exchange Commission.

### Recently Issued Accounting Standards

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* establishes accounting and reporting standards for derivative instruments, requiring recognition of the fair value of all derivatives as assets or liabilities on the balance sheet. Gains and losses resulting from changes in fair value would be included in income, or in comprehensive income, depending on whether the instrument qualifies for hedge accounting and the type of hedging instrument involved. SFAS No. 137 *Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133* makes this statement effective for fiscal years beginning after June 15, 2000. Management intends to adopt the provisions of SFAS No. 133 during the Company's fiscal year 2002. The impact of this pronouncement on the Company's financial results is currently being evaluated.

## Consolidated Statements of Income

*(in millions, except per share data)*

| *Year Ended* | **February 25, 2000** | *February 26, 1999* | *February 27, 1998* |
|---|---|---|---|
| Net sales | **$ 3,316.1** | $ 2,742.5 | $ 2,760.0 |
| Cost of sales | **2,213.4** | 1,753.1 | 1,756.6 |
| Gross profit | **1,102.7** | 989.4 | 1,003.4 |
| Selling, general and administrative expenses | **830.9** | 672.2 | 686.0 |
| Operating income | **271.8** | 317.2 | 317.4 |
| Interest expense | **(15.9)** | — | (1.7) |
| Other income, net | **40.5** | 20.2 | 24.3 |
| Income before provision for income taxes and equity in net income of joint ventures and dealer transitions | **296.4** | 337.4 | 340.0 |
| Provision for income taxes | **115.5** | 124.9 | 130.9 |
| Income before equity in net income of joint ventures and dealer transitions | **180.9** | 212.5 | 209.1 |
| Equity in net income of joint ventures and dealer transitions | **3.3** | 8.9 | 7.9 |
| Net income | **$ 184.2** | $ 221.4 | $ 217.0 |
| Earnings per share (basic and diluted) | **$ 1.21** | $ 1.44 | $ 1.40 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Balance Sheets

*(in millions, except share data)*

| | February 25, 2000 | February 26, 1999 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 73.7 | $ 67.5 |
| Short-term investments | 14.9 | 8.6 |
| Accounts receivable, less allowances of $45.5 and $27.6 | 592.6 | 348.9 |
| Notes receivable and leased assets | 189.0 | 140.4 |
| Inventories | 166.5 | 96.5 |
| Prepaid expenses | 12.5 | 6.8 |
| Deferred income taxes | 78.1 | 68.7 |
| Total current assets | 1,127.3 | 737.4 |
| Property and equipment, net | 939.1 | 739.0 |
| Notes receivable and leased assets | 294.1 | 209.1 |
| Joint ventures and dealer transitions | 37.0 | 210.4 |
| Deferred income taxes | 43.7 | 40.5 |
| Goodwill and other intangible assets, net of accumulated amortization of $38.6 and $25.6 | 422.6 | 99.6 |
| Other assets | 173.8 | 146.5 |
| Total assets | $ 3,037.6 | $ 2,182.5 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Balance Sheets

*(in millions, except share data)*

| | February 25, 2000 | February 26, 1999 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts and notes payable | $ 219.8 | $ 102.1 |
| Short-term borrowings and current portion of long-term debt | 209.0 | — |
| Accrued expenses: | | |
| Employee compensation | 121.1 | 92.8 |
| Employee benefit plan obligations | 90.0 | 51.8 |
| Other | 287.3 | 200.1 |
| Total current liabilities | 927.2 | 446.8 |
| Long-term liabilities: | | |
| Long-term debt | 257.8 | — |
| Employee benefit plan obligations | 243.7 | 222.8 |
| Deferred income taxes | 29.5 | — |
| Other long-term liabilities | 17.2 | 12.9 |
| Total long-term liabilities | 548.2 | 235.7 |
| Total liabilities | 1,475.4 | 682.5 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred Stock-no par value; 50,000,000 shares authorized, none issued and outstanding | — | — |
| Class A Common Stock-no par value; 475,000,000 shares authorized, 30,168,585 and 23,676,407 issued and outstanding | 82.4 | 78.0 |
| Class B Common Stock-no par value; 475,000,000 shares authorized, 120,989,840 and 129,942,288 issued and outstanding | 260.3 | 301.4 |
| Accumulated other comprehensive income (loss) | (33.0) | (15.0) |
| Retained earnings | 1,252.5 | 1,135.6 |
| Total shareholders' equity | 1,562.2 | 1,500.0 |
| Total liabilities and shareholders' equity | $ 3,037.6 | $ 2,182.5 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Statements of Changes in Shareholders' Equity

*(in millions)*

| | Common Stock Class A | Common Stock Class B | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Shareholders' Equity | Total Comprehensive Income |
|---|---|---|---|---|---|---|
| *February 28, 1997* | $ — | $ 408.9 | $ (0.1) | $ 971.2 | $ 1,380.0 | |
| Common stock conversion | 36.9 | (36.9) | | | — | |
| Common stock repurchase | | (43.5) | | | (43.5) | |
| Employee stock grant | 4.2 | | | | 4.2 | |
| Other comprehensive income | | | (14.4) | | (14.4) | $ (14.4) |
| Dividends paid | | | | (210.9) | (210.9) | |
| Net income | | | | 217.0 | 217.0 | 217.0 |
| *February 27, 1998* | 41.1 | 328.5 | (14.5) | 977.3 | 1,332.4 | $ 202.6 |
| Common stock conversion | 27.1 | (27.1) | | | — | |
| Common stock repurchase | (15.0) | | | | (15.0) | |
| Common stock issuance | 24.8 | | | | 24.8 | |
| Other comprehensive income | | | (0.5) | | (0.5) | $ (0.5) |
| Dividends paid | | | | (63.1) | (63.1) | |
| Net income | | | | 221.4 | 221.4 | 221.4 |
| *February 26, 1999* | 78.0 | 301.4 | (15.0) | 1,135.6 | 1,500.0 | $ 220.9 |
| Common stock conversion | **22.8** | **(22.8)** | | | **—** | |
| Common stock repurchase | **(18.4)** | **(18.3)** | | | **(36.7)** | |
| Other comprehensive income | | | **(18.0)** | | **(18.0)** | **$ (18.0)** |
| Dividends paid | | | | **(67.3)** | **(67.3)** | |
| Net income | | | | **184.2** | **184.2** | **184.2** |
| **February 25, 2000** | **$ 82.4** | **$ 260.3** | **$ (33.0)** | **$ 1,252.5** | **$ 1,562.2** | **$ 166.2** |

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Statements of Cash Flows

*(in millions)*

| *Year Ended* | **February 25, 2000** | *February 26, 1999* | *February 27, 1998* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income | **$ 184.2** | $ 221.4 | $ 217.0 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | **141.8** | 107.0 | 95.3 |
| Pension and postretirement benefit cost | **26.3** | 22.7 | 17.9 |
| (Gain) loss on disposal of assets | **(17.0)** | — | 4.3 |
| Employee stock grant | **—** | — | 4.2 |
| Deferred income taxes | **(4.5)** | (2.7) | (4.7) |
| Equity in net income of joint ventures and dealer transitions | **(3.3)** | (8.9) | (7.9) |
| Changes in operating assets and liabilities, net of corporate acquisitions: | | | |
| Accounts receivable | **(9.4)** | 15.4 | (36.7) |
| Inventories | **(21.2)** | 9.3 | 2.2 |
| Prepaids expenses and other assets | **(14.7)** | (20.6) | 3.7 |
| Accounts and notes payable | **7.9** | (15.7) | 12.7 |
| Accrued expenses and other liabilities | **15.6** | 32.0 | 94.7 |
| Net cash provided by operating activities | **305.7** | 359.9 | 402.7 |
| **INVESTING ACTIVITIES** | | | |
| Capital expenditures | **(188.8)** | (170.4) | (126.4) |
| Proceeds from the disposal of assets | **39.6** | — | 1.2 |
| Net increase in notes receivable and leased assets | **(140.2)** | (52.2) | (69.3) |
| Net change in investments | **(5.9)** | 4.4 | (20.7) |
| Joint ventures and dealer transitions | **(9.7)** | (66.8) | 0.8 |
| Corporate acquisitions, net of cash acquired | **(209.6)** | (57.2) | (4.8) |
| Net cash used in investing activities | **(514.6)** | (342.2) | (219.2) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of debt | **326.3** | — | — |
| Repayments of debt | **(93.4)** | — | — |
| Short-term borrowings, net | **90.5** | — | — |
| Common stock issuance | **—** | 24.8 | — |
| Common stock repurchase | **(36.7)** | (15.0) | (43.5) |
| Dividends paid | **(67.3)** | (63.1) | (210.9) |
| Net cash provided by (used in) financing activities | **219.4** | (53.3) | (254.4) |
| Effect of exchange rate changes on cash and cash equivalents | **(4.3)** | — | — |
| Net increase (decrease) in cash and cash equivalents | **6.2** | (35.6) | (70.9) |
| Cash and cash equivalents, beginning of year | **67.5** | 103.1 | 174.0 |
| Cash and cash equivalents, end of year | **$ 73.7** | $ 67.5 | $ 103.1 |

*The accompanying notes are an integral part of these consolidated financial statements.*

# Notes to Consolidated Financial Statements

## Note 1

### Nature of Operations

Steelcase Inc. and its majority-owned subsidiaries (the "Company") is the world's largest manufacturer and provider of office furniture, office furniture systems and related products and services. The Company manufactures at more than 35 locations throughout the world, including the United States, Canada, Mexico and Europe. The Company distributes its products through a worldwide network of independent dealers in approximately 800 locations including approximately 400 in North America, 340 in Europe and 60 throughout the rest of the world. The Company operates under two geographical furniture segments, North America and International, and a services and other businesses segment.

## Note 2

### Summary of Significant Accounting Policies

***Principles of Consolidation***

The consolidated financial statements include the accounts of Steelcase Inc. and its majority-owned subsidiaries, including the accounts of Steelcase Strafor S.A. and subsidiaries ("Steelcase Strafor"), which became a wholly-owned subsidiary of the Company effective March 31, 1999 (See Note 19). The Company accounts for Steelcase Strafor on a two-month lag. During the normal course of business, the Company may obtain equity interests in dealers which the Company intends to resell as soon as practicable ("dealer transitions"). The financial statements for majority-owned dealer transitions for which no specific transition plan has been adopted or is in the process of being adopted at the acquisition date are consolidated with the Company's financial statements. Majority-owned dealer transitions with a transition plan that has been adopted or is in the process of being adopted at the acquisition date are accounted for under the equity method of accounting and included in joint ventures and dealer transitions in the accompanying consolidated balance sheet in an amount equal to the Company's equity in the net assets of those entities, principally based on audited financial statements for each applicable year.

All significant intercompany accounts, transactions and profits have been eliminated in consolidation. Foreign currency-denominated assets and liabilities are translated into U.S. dollars at the exchange rates existing at the balance sheet date. Income and expense items are translated at the average exchange rates during the respective periods. Translation adjustments resulting from fluctuations in the exchange rates are recorded in accumulated other comprehensive income, a separate component of shareholder's equity. Gains and losses resulting from the exchange rate fluctuations on transactions denominated in currencies other than the functional currency are not material.

***Reclassifications***

The Company has reclassified certain amounts from 1998 and 1999 to conform to the 2000 presentation.

***Year End***

The Company's year end is the last Friday in February with each fiscal quarter including 13 weeks. Fiscal years presented herein include the 52-week periods ended February 25, 2000, February 26, 1999 and February 27, 1998.

***Revenue Recognition***

Net sales include product sales, service revenues and leasing revenues. Product sales and service revenues are recognized as products are shipped and services are rendered. Leasing revenue includes interest earned on the net investments in leased assets, which is recognized over the lease term as a constant percentage return. Service and leasing revenues are not material.

### *Cash Equivalents*

Cash equivalents consist of highly liquid investments, primarily interest-earning deposits, treasury notes and commercial paper, with an original maturity of three months or less. Cash equivalents are reported at amortized cost, which approximates market, and approximated $17.0 million and $72.9 million as of February 25, 2000 and February 26, 1999, respectively.

### *Long-Term Investments*

The Company currently classifies its investments as available-for-sale or held-to-maturity. Investments classified as available-for-sale approximated $1.5 million and $5.5 million as of February 25, 2000 and February 26, 1999, respectively. Gross unrealized gains and losses, net of taxes, are charged or credited to comprehensive income, a separate component of shareholders' equity. Investments classified as held-to-maturity typically include treasury notes, tax-exempt municipal bonds and other debt securities which the Company has the intent and ability to hold until maturity. These investments are reported at amortized cost. Investments classified as long-term mature over the next five years.

Investments in corporate-owned life insurance ("COLI") policies, which were purchased to fund employee benefit plan obligations, are recorded at their net cash surrender values as reported by the issuing insurance companies associated with the COLI.

### *Inventories*

Inventories are stated at the lower of cost or market and are valued based upon the last-in, first-out ("LIFO") method and the average cost method.

### *Property and Equipment*

Property and equipment are stated at the lower of cost or net realizable value and depreciated using the straight line-method over the estimated useful life of the assets. Internal-use software applications and related development efforts are capitalized and amortized over the estimated useful lives of the applications, which do not exceed five years except for certain business application systems which approximate ten years. Software maintenance, Year 2000 related matters and training costs are expensed as incurred. Estimated useful lives of property and equipment are as follows:

| | |
|---|---|
| Buildings and improvements | 10-50 years |
| Machinery and equipment | 3-15 years |
| Furniture and fixtures | 5-8 years |
| Leasehold improvements | 3-10 years |
| Capitalized software | 3-10 years |

### *Leased Assets*

The Company's net investment in leased assets includes both direct financing and operating leases. Direct financing leases consist of the present value of the future minimum lease payments receivable (typically over three to five years) plus the present value of the estimated residual value (collectively referred to as the net investment). Residual value is an estimate of the fair value of the leased equipment at the end of the lease term, which the Company records based on market studies conducted by independent third parties.

Operating leased assets consist of the equipment cost, less accumulated depreciation. Depreciation is recognized on a straight-line basis over the lease term to the estimated residual value, which is determined on the same basis as direct financing leases as set forth above.

***Goodwill and Other Intangible Assets***

Goodwill and other intangible assets resulting from business acquisitions are stated at cost and amortized on a straight-line basis over a period of 15 to 40 years. The carrying value for goodwill totaled $352.4 million and $86.2 million at February 25, 2000 and February 26, 1999, respectively. Goodwill and other intangible asset amortization expense approximated $16.9 million, $4.1 million and $4.2 million for 2000, 1999 and 1998, respectively.

The Company reviews long-lived assets, including goodwill and other intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If it is determined that an impairment loss has occurred based on expected future cash flows, a current charge to income is recognized.

***Product Related Expenses***

Research and development expenses, which are expensed as incurred, approximated $70.0 million, $75.0 million and $70.0 million for 2000, 1999 and 1998, respectively.

***Self-Insurance***

The Company is self-insured for certain losses relating to workers' compensation claims, employee medical benefits and product liability claims. The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of workers' compensation and product liability claims. Self-insured losses are accrued based upon the Company's estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry and the Company's historical experience.

The accrued liabilities for self-insured losses included in other accrued expenses in the accompanying consolidated balance sheets are as follows:

*(in millions)*

| | Feb 25, 2000 | Feb 26, 1999 |
|---|---|---|
| Workers' compensation claims | $ 18.2 | $ 18.6 |
| Product liability claims | 10.4 | 11.5 |
| | $ 28.6 | $ 30.1 |

The Company maintains a Voluntary Employees' Beneficiary Association ("VEBA") to fund employee medical claims covered under self-insurance. The estimates for incurred but not reported medical claims, which have been fully funded by the Company in the VEBA, approximated $6.8 million and $7.9 million as of February 25, 2000 and February 26, 1999, respectively.

***Product Warranty***

The Company offers a lifetime warranty on Steelcase brand products, subject to certain exceptions, which provides for the free repair or replacement of any covered product or component that fails during normal use because of a defect in design, materials or workmanship. Accordingly, the Company provides, by a current charge to operations, an amount it estimates will be needed to cover future warranty obligations for products sold. In accordance with its warranty policy, the Company reserved for known warranty issues regarding its Pathways based products. See Note 20 regarding the one-time Pathways warranty charge taken in the fourth quarter of fiscal 2000. The accrued liability for warranty costs included in other accrued expenses in the accompanying consolidated balance sheets approximated $54.5 million (including the Pathways warranty reserve) and $20.6 million as of February 25, 2000 and February 26, 1999, respectively.

### *Environmental Matters*

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition allegedly caused by past operations, that are not associated with current or future revenue generation, are expensed. Liabilities are recorded when material environmental assessments and remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with completion of a feasibility study or the Company's commitment to a formal plan of action. The accrued liability for environmental contingencies included in other accrued expenses in the accompanying consolidated balance sheets approximated \$10.0 million and \$10.7 million as of February 25, 2000 and February 26, 1999, respectively. Based on the Company's ongoing oversight of these matters, the Company believes that it has accrued sufficient reserves to absorb the costs of all known environmental assessments and the remediation costs of all known sites.

### *Advertising*

Advertising costs, which are expensed as incurred, approximated \$18.8 million, \$11.3 million and \$7.9 million for 2000, 1999 and 1998, respectively.

### *Income Taxes*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse.

### *Earnings Per Share*

Basic earnings per share is based on the weighted average number of shares of common stock outstanding during each period. It excludes the dilutive effects of additional common shares that would have been outstanding if the shares, under the Company's Stock Incentive Plans, had been issued. Diluted earnings per share includes effects of the Company's Stock Incentive Plans. The weighted average number of shares outstanding for basic and diluted calculations were 152.8 million, 153.8 million and 154.8 million for 2000, 1999 and 1998, respectively.

### *Stock-Based Compensation*

Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation,* encourages entities to record compensation expense for stock-based employee compensation plans at fair value, but provides the option of measuring compensation expense using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees.* The Company has elected to account for its Stock Incentive Plans in accordance with APB Opinion No. 25. Pro forma results of operations, as if the fair value method prescribed by SFAS No. 123 had been used to account for its Stock Incentive Plans, are presented in Note 13.

### *Fair Value of Financial Instruments*

The carrying amount of the Company's financial instruments, consisting of cash equivalents, investments, accounts and notes receivable, accounts and notes payable, short-term borrowings and certain other liabilities, approximate their fair value due to their relatively short maturities.

The carrying amount of the Company's long-term debt approximates fair value due to the variable interest rates applied to the debt.

## Notes to Consolidated Financial Statements

See additional discussion regarding foreign currency contracts and interest rate swaps and caps in Note 16.

***Accounting for Derivative Instruments and Hedging Activities***

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* establishes accounting and reporting standards for derivative instruments, requiring recognition of the fair value of all derivatives as assets or liabilities on the balance sheet. Gains and losses resulting from changes in fair value would be included in income, or in comprehensive income, depending on whether the instrument qualifies for hedge accounting and the type of hedging instrument involved. This statement is effective for fiscal years beginning after June 15, 2000. Management intends to adopt the provisions of SFAS No. 133 in fiscal year 2002. The impact of this pronouncement on the Company's financial results is currently being evaluated.

***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 amounts and disclosures in the consolidated financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

### Note 3

### Comprehensive Income

Total comprehensive income is comprised of net income and all changes to shareholders' equity, except those due to investments by owners and distributions to owners. For the Company, other comprehensive income consists of foreign currency translation adjustments, which aggregated $33.4 million and $13.8 million at February 25, 2000 and February 26, 1999, respectively, unrealized gain (loss) on investments and minimum pension liabilities, as follows:

*(in millions)*

| *Year Ended* | **Feb 25, 2000** | *Feb 26, 1999* | *Feb 27, 1998* |
|---|---|---|---|
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments | **$ (19.6)** | $ 0.7 | $ (14.4) |
| Unrealized gain (loss) on investments | **1.1** | (0.7) | — |
| Minimum pension liabilities | **0.5** | (0.5) | — |
| Other comprehensive income (loss) | **$ (18.0)** | $ (0.5) | $ (14.4) |

### Note 4

### Initial Public Offering

On September 17, 1997, the Board of Directors of the Company (the "Board") authorized management to begin the process necessary for registration of the Company's Common Stock under the Securities Act of 1933, as amended, in order to permit the Company's shareholders to make a U.S. and international public offering (the "Offerings") of a portion of their shares (the "Selling Shareholders"). On October 27, 1997, the Board (i) declared a special dividend in the aggregate amount of $150.9 million, which was paid on January 9, 1998 to Common Stock holders of record as of December 2, 1997 (the "Special Dividend") and (ii) approved a proposal which was presented to the shareholders by proxy and subsequently approved on December 2, 1997 at a special meeting. In general, the approved proposal (a) effected a recapitalization of the Company's capital stock (the "Recapitalization"), (b) made certain other changes to the Restated Articles of Incorporation and By-laws which are typical of public companies and (c) provided for the adoption of equity-based incentive and investment plans for employees of the Company (collectively, the "Stock Incentive Plans").

While the Stock Incentive Plans became effective upon approval by the Company's shareholders on December 2, 1997, the Recapitalization and other changes to the Restated Articles of Incorporation and By-laws became effective upon their filing with the State of Michigan which occurred on February 20, 1998. The Offerings, which occurred on February 18, 1998 and closed on February 25, 1998, included 13,972,500 shares of Class A Common Stock at an initial public offering price per share of $28.00. In addition, the Company purchased 1,650,000 shares of Class B Common Stock from the Selling Shareholders at the same price at which the shares of Class A Common Stock were sold to the Underwriters in the Offerings to fulfill the Employee Stock Grant and the Employee Discount Option Grant (the "Stock Repurchase") discussed in Note 12. This Stock Repurchase aggregated $43.5 million.

## Note 5

### Inventories

Inventories consist of:

*(in millions)*

| | Feb 25, 2000 | Feb 26, 1999 |
|---|---|---|
| Finished goods | $ 71.6 | $ 40.9 |
| Work in process | 45.6 | 32.3 |
| Raw materials | 93.4 | 70.8 |
| | 210.6 | 144.0 |
| LIFO reserve | (44.1) | (47.5) |
| | $ 166.5 | $ 96.5 |

Inventories determined by the LIFO method aggregated $121.3 million and $112.4 million at February 25, 2000 and February 26, 1999, respectively. The effect of LIFO liquidations is not material.

## Note 6

### Property and Equipment, Net

Property and equipment, net consist of:

*(in millions)*

| | Feb 25, 2000 | Feb 26, 1999 |
|---|---|---|
| Land | $ 90.8 | $ 43.3 |
| Buildings and improvements | 759.1 | 650.8 |
| Machinery and equipment | 1,189.3 | 984.7 |
| Furniture and fixtures | 101.0 | 72.1 |
| Leasehold improvements | 48.3 | 45.8 |
| Capitalized software | 92.3 | 59.8 |
| Construction in progress | 115.3 | 82.2 |
| | 2,396.1 | 1,938.7 |
| Accumulated depreciation and amortization | (1,457.0) | (1,199.7) |
| | $ 939.1 | $ 739.0 |

Depreciation and amortization expense approximated $124.9 million, $102.9 million and $91.1 million for 2000, 1999 and 1998, respectively. Construction in progress consists of numerous equipment, facility and software projects, none of which are material individually or in the aggregate.

## Notes to Consolidated Financial Statements

### Note 7

#### NOTES RECEIVABLE AND LEASED ASSETS

Notes receivable and leased assets consist of:

*(in millions)*

| | Feb 25, 2000 | Feb 26, 1999 |
|---|---|---|
| Notes receivable: | | |
| Project financing | $ 14.8 | $ 19.3 |
| Asset-based lending | 85.2 | 63.4 |
| Ownership transition financing | 43.7 | 41.2 |
| Other | 3.5 | 4.2 |
| Net investment in leased assets: | | |
| Direct financing leases | 259.6 | 187.6 |
| Net operating leases | 89.5 | 41.3 |
| Allowance for losses | (13.2) | (7.5) |
| | 483.1 | 349.5 |
| Current portion | 189.0 | 140.4 |
| Long-term portion | $ 294.1 | $ 209.1 |

Notes receivable include three distinct programs of dealer financing: project financing; asset-based lending; and ownership transition financing. Through these programs, the Company helps dealers secure interim financing, establish working capital lines of credit, finance ownership changes and restructure debt.

The terms of notes receivable range from a few months for project financing to 15 years for certain ownership transition financing. Interest rates are both floating and fixed, reaching up to 11% as of February 25, 2000. The loans are generally secured by certain dealer assets and, in some cases, the common stock of the dealership. Unused asset-based lending credit lines approximated $37.2 million as of February 25, 2000, subject to available collateral. These commitments generally expire in one year and are reviewed periodically for renewal.

The following summarizes future minimum lease payments receivable as of February 25, 2000:

*(in millions)*

| Year ending February | Direct financing leases | Operating leases |
|---|---|---|
| 2001 | $ 80.0 | $ 25.3 |
| 2002 | 66.4 | 23.5 |
| 2003 | 52.6 | 20.7 |
| 2004 | 40.2 | 14.0 |
| 2005 and thereafter | 47.6 | 4.3 |
| | $ 286.8 | $ 87.8 |

Approximately 34% of direct financing leases call for transfer of ownership to customers at lease-end. The original equipment cost at lease inception for leases in effect as of February 25, 2000 is $375.2 million for direct financing leases and $112.7 million for operating leases.

### Note 8

#### JOINT VENTURES AND DEALER TRANSITIONS

The Company's investments in and advances to its unconsolidated joint ventures and dealer transitions are summarized as follows:

*(in millions)*

| | Feb 25, 2000 | Feb 26, 1999 |
|---|---|---|
| Investment in and advances to Steelcase Strafor | $ — | $ 187.9 |
| Investments in dealer transitions | 25.3 | 7.1 |
| Other joint ventures | 11.7 | 15.4 |
| | $ 37.0 | $ 210.4 |

As discussed in Note 19, the Company acquired the remaining 50% interest in Steelcase Strafor effective March 31, 1999. In December 1998, the Company issued a note receivable to Steelcase Strafor in the amount of $66.4 million to fund in part the acquisition of Werndl BüroMöbeL AG ("Werndl") by Steelcase Strafor.

Investments in dealer transitions represent dealers which the Company has acquired with the intention of reselling as soon as practicable. Accordingly, the Company recognizes its share of earnings and losses from dealer transitions pursuant to the equity method of accounting. Accounts and notes receivable from dealer transitions approximated $75.2 million and $25.0 million as of February 25, 2000 and February 26, 1999, respectively.

Other joint ventures are comprised of joint ventures in the United States, Saudi Arabia, Japan and Thailand.

The Company's equity in net income of joint ventures and dealer transitions consists of:

*(in millions)*

| *Year Ended* | **Feb 25, 2000** | *Feb 26, 1999* | *Feb 27, 1998* |
|---|---|---|---|
| 50% share of Steelcase Strafor net income (1) | **$ 2.6** | $ 8.9 | $ 5.6 |
| Net income of dealer transitions | **1.0** | 0.1 | 2.0 |
| Other joint ventures, net | **(0.3)** | (0.1) | 0.3 |
| | **$ 3.3** | $ 8.9 | $ 7.9 |

*(1) Due to the effective date of the Company's acquisition of Steelcase Strafor (see Note 19), net income for the year ended February 25, 2000 represents Steelcase's share of Steelcase Strafor's net income for the first quarter of fiscal 2000.*

Summarized financial information for Steelcase Strafor, prior to the acquisition indicated in Note 19, as of December 31, 1998 and the two years ended December 31, 1998, is as follows:

*(in millions)*

| *December 31,* | *1998* |
|---|---|
| Balance Sheet: | |
| Current assets | $ 315.4 |
| Property and equipment, net | 154.4 |
| Other assets | 189.9 |
| Total assets | 659.7 |
| Current liabilities | 310.1 |
| Long-term liabilities | 118.6 |
| Total liabilities | 428.7 |
| Net assets | $ 231.0 |

*(in millions)*

| *Year Ended December 31,* | *1998* | *1997* |
|---|---|---|
| Results of Operations: | | |
| Net sales | $ 506.9 | $ 468.6 |
| Operating income | 33.3 | 26.5 |
| Net income | 17.9 | 11.2 |

## Note 9

### Other Assets

Other assets consist of:

*(in millions)*

| | **Feb 25, 2000** | *Feb 26, 1999* |
|---|---|---|
| Corporate-owned life insurance | **$ 136.8** | $ 113.5 |
| Long-term investments | **10.5** | 12.9 |
| Other | **26.5** | 20.1 |
| | **$ 173.8** | $ 146.5 |

## Note 10

### SHORT-TERM BORROWINGS AND LONG-TERM DEBT

(in millions)

| | Weighted Average Interest Rates | Maturity | Feb 25, 2000 | Feb. 26,1999 |
|---|---|---|---|---|
| U.S. dollar obligations: | | | | |
| Revolving credit facilities (1) | 6.09% | 2001 | $ 45.4 | $ — |
| Notes payable (2) | 7.00% — 7.83% | 2001 — 2007 | 60.0 | — |
| Lease receivables transfer facility (3) | 7.09% | 2001 — 2007 | 170.3 | — |
| Other | | | 2.7 | — |
| | | | 278.4 | — |
| Foreign currency obligations: | | | | |
| Revolving credit facilities (4) | 3.34% | 2001 — 2005 | 165.8 | — |
| Notes payable (5) | 3.45% — 7.00% | 2001 — 2012 | 19.9 | — |
| Other | | | 2.7 | — |
| | | | 188.4 | — |
| Total short-term borrowings and long-term debt | | | 466.8 | — |
| Short-term borrowings and current portion of long-term debt | | | 209.0 | — |
| Long-term debt | | | $ 257.8 | $ — |

(1) In April 1999, the Company established a 364-day unsecured committed revolving credit facility with various financial institutions under which it may borrow up to $200.0 million. Borrowings under the facility mature at various dates throughout the year depending on the borrowing terms, which range from one to six months as selected by the Company, subject to certain limitations. Interest on committed borrowings, which is due no later than the maturity of such borrowings, is based on LIBOR or a floating base rate, as selected by the Company, in each case plus a margin for the applicable borrowing term. The agreement which, subject to certain conditions, may be renewed annually for additional 364-day periods, contains certain covenants which include, among others, minimum levels of tangible net worth, interest coverage and debt ratio.

Additionally, the Company has entered into agreements with certain financial institutions which provide for borrowings on unsecured non-committed short-term credit facilities of up to $90.0 million at variable interest rates determined by agreement at the time of borrowing. These agreements expire within one year, and subject to certain conditions, may be renewed annually.

(2) Notes payable represents various amounts payable to banks and others. Certain agreements contain covenants which include, among others, minimum levels of tangible net worth, interest coverage and debt ratio. Approximately $12.1 million of notes payable are collateralized by lease receivables, including certain leased assets.

(3) In October 1999, the Company established a $200.0 million committed lease receivables transfer facility under which it has the right, subject to certain conditions, to receive advances against the transfer of certain lease receivables. The advances are funded either by a bank sponsored conduit vehicle via the issuance of commercial paper or by committed financial institutions. Borrowings under the facility are repaid

from the cash flow of specified lease receivables related to the Company's leasing portfolio. The facility may be renewed annually, and advances on the facility are due monthly over the next seven years with principal payments determined based upon the related underlying leases. Interest on the facility is based on the floating commercial paper rate or LIBOR plus a margin (an effective rate of 6.13% at February 25, 2000). Lease payments on the underlying lease receivables are based upon fixed interest rates. Therefore, to hedge the exposure to changes in interest rates, the Company entered into interest rate swaps in conjunction with each borrowing that effectively provides a 7.09% fixed rate for borrowings on the facility at February 25, 2000. For more information regarding interest rate swaps, see Note 16.

*(4)* In August 1999, the Company established an unsecured committed multi-currency revolving credit facility with various financial institutions under which it may borrow up to euro ("EUR") 200.0 million or its equivalent in optional currencies. The agreement is comprised of two tranches; Tranche A is a EUR 75.0 million, 364-day revolving facility and Tranche B is a EUR 125.0 million five-year term facility. Tranche A facility borrowings amounted to $75.5 million (EUR 75.0 million) at February 25, 2000. Subject to certain conditions, the Tranche A facility may be renewed annually for additional 364-day periods. Tranche B facility borrowings, which amounted to $76.5 million (EUR 76.0 million) at February 25, 2000, effectively mature at the end of the facility term. Interest on each borrowing, which is due no later than the maturity of such borrowing, is based on EURIBOR, LIBOR or a floating base rate as selected by the Company, in each case, plus a margin for the applicable borrowing term (an effective rate of 3.59% and 3.63% at February 25, 2000 for Tranche A and Tranche B borrowings, respectively). The agreement contains certain covenants, which include, among others, minimum levels of tangible net worth, interest coverage and debt ratio. To reduce its exposure to adverse changes in interest rates on long-term borrowings, the Company has entered into interest rate swap and cap agreements in the amount of Tranche B borrowings which effectively produce a 3.06% fixed interest rate as long as the 12-month EURIBOR rate remains between 3.06% and 5.00%. When the 12-month EURIBOR is less than 3.06% or greater than 5.00%, the Company pays a floating rate based on the 12-month EURIBOR. The Company's effective interest rate on Tranche B borrowings including the effect of swaps and caps approximated 3.06% at February 25, 2000.

Additionally, the Company has entered into agreements with certain foreign financial institutions which provide for foreign borrowings on unsecured non-committed short-term credit facilities approximating $49.4 million, with interest rates determined by agreement at the time of borrowing. Borrowings on these agreements, which mature within one year and subject to certain conditions may be renewed annually, amounted to $13.8 million at February 25, 2000.

*(5)* Notes payable represents foreign capitalized lease obligations, collateralized by the underlying leased assets, and various other foreign third party notes payable.

Annual maturities on short-term borrowings and long-term debt are as follows:

| | *(in millions)* |
|---|---|
| 2001 | $ 209.0 |
| 2002 | 58.0 |
| 2003 | 47.3 |
| 2004 | 35.7 |
| 2005 | 97.1 |
| Thereafter | 19.7 |
| | $ 466.8 |

Total cash paid for interest on short-term borrowings and long-term debt amounted to $10.6 million and zero for the years ended February 25, 2000 and February 26, 1999, respectively.

## Note 11

### Employee Benefit Plan Obligations

Employee benefit plan obligations consist of:

*(in millions)*

| | Feb 25, 2000 | Feb 26, 1999 |
|---|---|---|
| Profit-sharing plans | $ 67.8 | $ 38.4 |
| Management incentive and deferred compensation plans | 58.4 | 56.1 |
| Pension and postretirement plans: | | |
| Pension benefits | 31.6 | 18.4 |
| Postretirement benefits | 175.9 | 161.7 |
| | 333.7 | 274.6 |
| Current portion | 90.0 | 51.8 |
| Long-term portion | $ 243.7 | $ 222.8 |

***Profit-Sharing Plans***

Substantially all North American employees are covered under the Steelcase Inc. Employees' Profit-Sharing Retirement Plan and the Steelcase Inc. Employees' Money Purchase Plan or under similar subsidiary plans. Annual Company contributions under the Steelcase Inc. Employees' Profit-Sharing Retirement Plan and similar subsidiary plans are discretionary and declared by the Compensation Committee at the end of each fiscal year. Under the Steelcase Inc. Employees' Money Purchase Plan, annual Company contributions are required in the amount of 5% of eligible annual compensation. Total expense under these plans approximated $65.9 million, $70.1 million and $79.4 million for 2000, 1999 and 1998, respectively.

***Management Incentive and Deferred Compensation Plans***

The Management Incentive Plan is an annual and long-term incentive compensation program that provides eligible key employees with cash payments and Company stock options based on the achievement by the Company of specified financial performance goals measured by Economic Value Added ("EVA"), as defined in the plan.

Annual bonuses are payable after the end of the fiscal year and therefore, are included in accrued compensation in the accompanying consolidated balance sheets. 75% of the long-term bonus amounts are paid out over a subsequent three-year period and 25% are paid in Company stock options, which vest over 3 years. The Company has future retirement obligations to certain employees in return for agreeing not to receive part of their compensation for a period of three to five years. Compensation withheld has primarily been invested in corporate-owned life insurance, which is expected to be sufficient to cover such future obligations.

Management incentive and deferred compensation expense approximated $23.9 million, $28.9 million and $21.2 million for 2000, 1999 and 1998, respectively.

***Pension and Postretirement Benefits***

The Company's pension plans include a non-qualified supplemental retirement plan that is limited to a select group of management or highly compensated employees. The obligations under this plan and other defined benefit plans at its subsidiaries are included in the pension disclosure.

The Company and certain of its subsidiaries have postretirement benefit plans that provide medical and life insurance benefits to retirees and eligible dependents. The Company accrues the cost of postretirement insurance benefits during the service lives of employees based on actuarial calculations for each plan.

The following sets forth the disclosure requirements of SFAS No. 132:

*(in millions)*

| | Pension Plans | | Postretirement Plans | |
|---|---|---|---|---|
| | **Feb 25, 2000** | *Feb 26, 1999* | **Feb 25, 2000** | *Feb 26, 1999* |
| **CHANGE IN BENEFIT OBLIGATIONS:** | | | | |
| Benefit obligations at beginning of year | **$ 38.0** | $ 20.9 | **$ 192.2** | $ 180.2 |
| Service cost | **3.6** | 2.0 | **5.7** | 5.5 |
| Interest cost | **4.6** | 2.5 | **13.2** | 12.5 |
| Amendments | **(1.3)** | 14.3 | **(6.0)** | 1.9 |
| Net actuarial (gain) loss for prior year | **(2.7)** | 0.6 | **7.9** | — |
| Plan participant's contributions | **0.2** | — | **2.5** | 2.1 |
| Acquisitions (see Note 19) | **33.5** | — | **—** | — |
| Currency changes | **0.4** | — | **—** | — |
| Benefits paid | **(4.5)** | (2.3) | **(10.2)** | (10.0) |
| Benefit obligations, end of year | **71.8** | 38.0 | **205.3** | 192.2 |
| **CHANGE IN PLAN ASSETS:** | | | | |
| Fair value of plan assets, beginning of year | **14.8** | 3.8 | **—** | — |
| Actual return on plan assets | **1.2** | 0.5 | **—** | — |
| Employer contributions | **2.5** | 4.2 | **7.6** | 7.9 |
| Plan participant's contributions | **1.0** | 0.3 | **2.4** | 2.1 |
| Acquisitions (see Note 19) | **21.1** | — | **—** | — |
| Currency changes | **1.3** | — | **—** | — |
| Benefits paid | **(4.1)** | (2.3) | **(10.0)** | (10.0) |
| Other | **—** | 8.3 | **—** | — |
| Fair value of plan assets, end of year | **37.8** | 14.8 | **—** | — |
| Funded status | **(34.0)** | (23.2) | **(205.3)** | (192.2) |
| Unrecognized prior service cost | **2.6** | — | **—** | 10.1 |
| Unrecognized transition obligation | **0.2** | 4.0 | **1.6** | — |
| Unrecognized net actuarial loss | **0.7** | 1.5 | **27.8** | 20.4 |
| Net amount recognized | **$ (30.5)** | $ (17.7) | **$ (175.9)** | $ (161.7) |
| **AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS:** | | | | |
| Accrued benefit plan obligations | **$ (31.6)** | $ (18.4) | **$ (175.9)** | $ (161.7) |
| Prepaid pension costs | **0.9** | 0.2 | **—** | — |
| Intangible assets | **0.2** | — | **—** | — |
| Accumulated other comprehensive income | **—** | 0.5 | **—** | — |
| Net amount recognized | **$ (30.5)** | $ (17.7) | **$ (175.9)** | $ (161.7) |

*(in millions)*

| Year Ended | Pension Plans Feb 25, 2000 | Pension Plans Feb 26, 1999 | Pension Plans Feb 27, 1998 | Postretirement Plans Feb 25, 2000 | Postretirement Plans Feb 26, 1999 | Postretirement Plans Feb 27, 1998 |
|---|---|---|---|---|---|---|
| **COMPONENTS OF EXPENSE:** | | | | | | |
| Service cost | **$ 3.6** | $ 2.0 | $ 0.9 | **$ 5.7** | $ 5.5 | $ 3.8 |
| Interest cost | **4.6** | 2.5 | 1.4 | **13.2** | 12.5 | 11.8 |
| Amortization of prior year service cost | **—** | — | — | **0.6** | 0.8 | 0.3 |
| Expected return on plan assets | **(2.5)** | (0.9) | (0.3) | **—** | — | — |
| Amortization of transition obligation | **0.3** | 0.3 | — | **0.5** | — | — |
| Recognized net actuarial (gain) loss | **0.1** | (0.2) | — | **0.2** | 0.2 | — |
| Net expense | **$ 6.1** | $ 3.7 | $ 2.0 | **$ 20.2** | $ 19.0 | $ 15.9 |
| **WEIGHTED-AVERAGE ASSUMPTIONS:** | | | | | | |
| Discount rate | **7.00%** | 7.00% | 7.00% | **8.00%** | 7.00% | 7.00% |
| Expected return on plan assets | **5.00%** | 7.50% | 8.00% | **—** | — | — |
| Rate of salary progression | **5.25%** | 4.50% | 4.50% | **4.50%** | 4.50% | 4.50% |

The assumed health care cost trend was 7.5% for 2000, gradually declining to 5.0% in 2005 and thereafter. A one percentage point change in assumed health care cost trend rates would have the following effects:

*(in millions)*

| | One percentage point increase | One percentage point decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ 2.1 | $ (1.9) |
| Effect on postretirement benefit obligation | $ 19.3 | $ (17.5) |

## Note 12

### CAPITAL STRUCTURE

In connection with the 1998 Offerings discussed in Note 4, the Company effected a Recapitalization of its capital stock. Pursuant to the Recapitalization, which has been given retroactive effect in the accompanying consolidated financial statements, the following occurred:

(i) to facilitate the Stock Split described below and future issuances of capital stock, the total number of authorized shares of capital stock of the Company was increased to one billion, consisting of 475,000,000 shares of Class A Common Stock, 475,000,000 shares of Class B Common Stock and 50,000,000 shares of Preferred Stock, issuable in series;

(ii) each of the existing shares of Common Stock was converted into one share of Class B Common Stock, and the Class B Common Stock resulting from that conversion was split on a 700-for-1 basis (the "Stock Split"), effected as a stock dividend of 699 additional shares of Class B Common Stock for each outstanding share; and

(iii) immediately following the Stock Split, each of the existing shares of Class A Preferred Stock and Class B Preferred Stock (collectively, the "Existing Preferred Stock") was converted into that number of shares of Class B Common Stock determined by dividing their redemption values ($103 and $2,000, respectively) by the initial public offering price of $28 per share of Class A Common Stock.

### *Terms of Class A Common Stock and Class B Common Stock*

Each share of Class A Common Stock sold in the Offerings resulted from the conversion of one share of Class B Common Stock concurrently with the consummation of such sale. The holders of Common Stock are generally entitled to vote as a single class on all matters upon which shareholders have a right to vote, subject to the requirements of the applicable laws and the rights of any series of Preferred Stock to a separate class vote. Each share of Class A Common Stock entitles its holder to one vote, and each share of Class B Common Stock entitles its holder to 10 votes. The Class B Common Stock is convertible into Class A Common Stock on a share-for-share basis (i) at the option of the holder thereof at any time, (ii) upon transfer to a person or entity which is not a Permitted Transferee (as defined in the Second Restated Articles of Incorporation), (iii) with respect to shares of Class B Common Stock acquired after the Recapitalization, at such time as a corporation, partnership, limited liability company, trust or charitable organization ceases to be 100% controlled by Permitted Transferees and (iv) on the date on which the number of shares of Class B Common Stock outstanding is less than 15% of the then outstanding shares of Common Stock (without regard to voting rights).

Except for the voting and conversion features, the terms of Class A Common Stock and Class B Common Stock are generally similar. That is, the holders are entitled to equal dividends when declared by the Board and generally will receive the same per share consideration in the event of a merger, and be treated on an equal per share basis in the event of a liquidation or winding up of the Company. In addition, the Company is not entitled to issue additional shares of Class B Common Stock, or issue options, rights or warrants to subscribe for additional shares of Class B Common Stock, except that the Company may make a pro rata offer to all holders of Common Stock of rights to purchase additional shares of the class of Common Stock held by them.

### *Preferred Stock*

The Second Restated Articles of Incorporation authorize the Board, without any vote or action by the shareholders, to create one or more series of Preferred Stock up to the limit of the Company's authorized but unissued shares of Preferred Stock and to fix the designations, preferences, rights, qualifications, limitations and restrictions thereof, including the voting rights, dividend rights, dividend rate, conversion rights, terms of redemption (including sinking fund provisions), redemption price or prices, liquidation preferences and the number of shares constituting any series.

## Note 13

### Stock Incentive Plans

The Stock Incentive Plans for employees and affiliates of the Company include the Steelcase Inc. Employee Stock Purchase Plan (the "Purchase Plan") and the Steelcase Inc. Incentive Compensation Plan (the "Incentive Compensation Plan").

***Employee Stock Purchase Plan***

The Company reserved a maximum of 1,500,000 shares of Class A Common Stock for use under the Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). Pursuant to the Purchase Plan, each eligible employee, as of the start of any purchase period, will be granted an option to purchase a designated number of shares of Class A Common Stock. The purchase price of shares of Class A Common Stock to participating employees is designated by the Compensation Committee but in no event shall be less than 85% of the lower of the fair market values of such shares on the first and last trading days of the relevant purchase period. However, no employee may purchase shares under the Purchase Plan in any calendar year with an aggregate fair market value (as determined on the first day of the relevant purchase period) in excess of $25,000. The Board may at any time amend or terminate the Purchase Plan.

The initial purchase period under the Purchase Plan began on the date of the pricing of the Offerings in 1998 and ended on April 17, 1998. Eligible employees who wished to participate in the Purchase Plan were allowed to purchase by April 17, 1998 a maximum of 100 shares of Class A Common Stock at 85% of the initial public offering price (the "Employee Discount Option Grant"). The Company granted approximately 15,000 employees the option to participate in the Purchase Plan during the initial purchase period, which resulted in the issuance of 1,045,279 shares of Class A Common Stock and the receipt by the Company of related proceeds approximating $24.8 million.

***Incentive Compensation Plan***

The Company reserved for issuance under the Incentive Compensation Plan a maximum of 150,000 shares of Class A Common Stock for a special one-time grant on the date of the pricing of the Offerings plus an additional 6,134,727 shares of Common Stock. The Compensation Committee or its designee will have full authority, subject to the provisions of the Incentive Compensation Plan, to determine, among other things, the persons to whom awards under the Incentive Compensation Plan ("Awards") will be made, the exercise price, vesting, size and type of such Awards, and the specific performance goals, restrictions on transfer and circumstances for forfeiture applicable to Awards.

Awards may be made to employees and non-employee directors of the Company or others as designated by the Compensation Committee. A variety of Awards may be granted under the Incentive Compensation Plan including stock options, stock appreciation rights ("SARs"), restricted stock, performance shares, performance units, cash-based awards, phantom shares and other share-based awards as the Compensation Committee may determine. Stock options granted under the Incentive

Compensation Plan may be either incentive stock options intended to qualify under Section 422 of the Code or non-qualified stock options not so intended. The Board may amend or terminate the Incentive Compensation Plan.

In the event of a "change of control," as defined in the Incentive Compensation Plan, (i) all outstanding options and SARs granted under the Incentive Compensation Plan will become immediately exercisable and remain exercisable throughout their entire term, (ii) any performance-based conditions imposed with respect to outstanding Awards shall be deemed to be fully earned and a pro rata portion of each such outstanding Award granted for all outstanding performance periods shall become payable in shares of Class A Common Stock, in the case of Awards denominated in shares of Class A Common Stock, and in cash, in the case of Awards denominated in cash, with the remainder of such Award being canceled for no value and (iii) all restrictions imposed on restricted stock that are not performance-based shall lapse.

Concurrent with the Offerings in 1998, the Company issued 10 shares of Class A Common Stock each to certain employees of the Company and its subsidiaries as designated by the Compensation Committee (the "Employee Stock Grant"). The Employee Stock Grant included 149,540 shares of Class A Common Stock in the aggregate and resulted in $4.2 million of compensation expense which was recognized by the Company in 1998 upon issuance.

In addition, the Company issued options to purchase shares of Class A Common Stock to certain employees and non-employee directors of the Company, both in connection with and subsequent to the Offerings in 1998. Information relating to the Company's stock options, which pursuant to APB Opinion No. 25 did not result in any material compensation expense recognized by the Company, is as follows:

| | *Number of Shares* | *Weighted Average Option Price Per Share* |
|---|---|---|
| Unexercised options outstanding – | | |
| February 28, 1997 | — | — |
| Options granted | 2,661,000 | $ 28.00 |
| Options exercised | — | — |
| Options forfeited | — | — |
| Unexercised options outstanding– | | |
| February 27, 1998 | 2,661,000 | $ 28.00 |
| Options granted | 9,350 | $ 36.50 |
| Options exercised | — | — |
| Options forfeited | — | — |
| Unexercised options outstanding – | | |
| February 26, 1999 | 2,670,350 | $ 28.03 |
| Options granted | 1,609,500 | $ 14.35 |
| Options exercised | — | — |
| Options forfeited | (202,250) | $ 24.68 |
| Unexercised options outstanding – | | |
| February 25, 2000 | 4,077,600 | $ 22.80 |
| Exercisable options: | | |
| February 27, 1998 | — | — |
| February 26, 1999 | 289,100 | $ 28.00 |
| February 25, 2000 | 579,135 | $ 28.01 |

The price per share of options outstanding ranged from $13.94 to $36.50 at February 25, 2000, $28.00 to $36.50 at February 26, 1999 and $28.00 at February 27, 1998. As of February 25, 2000, there were 2,057,587 options available for future issuances.

### *SFAS No. 123 Pro Forma Data*

As discussed in Note 2, the Company accounts for its Stock Incentive Plans in accordance with APB Opinion No. 25. Accordingly, no compensation expense has been recognized for the Employee Discount Option Grant or the Company's employee stock option grants. If the Company had recognized compensation expense based upon the fair value of the Employee Discount Option Grant and the Company's employee stock option grants at the date of grant and their respective vesting periods, as prescribed by SFAS No. 123, the Company's net income and earnings per share would have been as follows:

*(in millions, except per share amounts)*

| | **Feb 25, 2000** | *Feb 26, 1999* | *Feb 27, 1998* |
|---|---|---|---|
| Pro forma net income | **$ 181.5** | $ 219.6 | $ 212.8 |
| Pro forma earnings per share (basic and diluted) | **$ 1.19** | $ 1.43 | $ 1.37 |

The estimated fair value of the Employee Discount Option Grant approximated the 15% discount discussed above. The fair value of each option grant was estimated at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | **Feb 25, 2000** | *Feb 26, 1999* | *Feb 27, 1998* |
|---|---|---|---|
| Risk-free interest rate | **5.2%** | 5.6% | 5.5% |
| Dividend yield | **3.1%** | 1.4% | 1.4% |
| Volatility | **31.6%** | 32.4% | 30.0% |
| Average expected term (years) | **4.0** | 6.8 | 6.8 |
| Fair value of options granted | **$ 3.59** | $ 14.16 | $ 10.60 |

## Note 14

### Other Income, Net

Other income, net consists of:

*(in millions)*

| *Year Ended* | **Feb 25, 2000** | *Feb 26, 1999* | *Feb 27, 1998* |
|---|---|---|---|
| Interest income | **$ 16.6** | $ 23.2 | $ 29.2 |
| Interest income from tax litigation | **—** | 5.8 | — |
| Gain (loss) on dealer transitions | **8.3** | (2.2) | (1.8) |
| Gain on disposal of property and equipment | **10.0** | — | — |
| Gain on sale of investments | **7.0** | — | — |
| Miscellaneous-net | **(1.4)** | (6.6) | (3.1) |
| | **$ 40.5** | $ 20.2 | $ 24.3 |

## Note 15

### Income Taxes

The provision for income taxes on income before equity in net income of joint ventures and dealer transitions consists of:

*(in millions)*

| *Year Ended* | **Feb 25, 2000** | *Feb 26, 1999* | *Feb 27, 1998* |
|---|---|---|---|
| Current income taxes: | | | |
| Federal | **$ 98.9** | $ 115.7 | $ 115.7 |
| State and local | **4.5** | 9.0 | 9.5 |
| Foreign | **19.2** | 2.9 | 10.4 |
| | **122.6** | 127.6 | 135.6 |
| Deferred income taxes: | | | |
| Federal | **(4.6)** | (3.1) | (0.8) |
| State and local | **(0.1)** | (0.3) | (0.3) |
| Foreign | **(2.4)** | 0.7 | (3.6) |
| | **(7.1)** | (2.7) | (4.7) |
| | **$ 115.5** | $ 124.9 | $ 130.9 |

The company has not provided for U.S. income taxes on undistributed earnings of foreign subsidiaries totaling $130.8 million at February 25, 2000, as foreign subsidiary undistributed earnings are considered permanently invested in those businesses. These amounts would be subject to possible U.S. taxation only if remitted as dividends. Foreign withholding taxes could be payable upon remittance of these earnings. Subject to certain limitations, the withholding taxes would then be available for use as credit against the U.S. tax liability. However, the determination of the hypothetical amount of unrecognized deferred U.S. taxes on undistributed earnings of foreign entities is not practicable.

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of deferred income taxes relate to the following:

*(in millions)*

| | **Feb 25, 2000** | *Feb 26, 1999* |
|---|---|---|
| Deferred income tax assets: | | |
| Employee benefit plan obligations | **$ 112.2** | $107.9 |
| Reserves and allowances | **50.9** | 29.2 |
| Foreign losses | **3.6** | 5.8 |
| Other | **7.1** | 12.3 |
| Total deferred income tax assets | **173.8** | 155.2 |
| Deferred income tax liabilities: | | |
| Property and equipment | **(45.4)** | (39.6) |
| Intangible assets | **(24.0)** | — |
| Net leased assets | **(12.1)** | (6.4) |
| Net deferred income tax assets | **92.3** | 109.2 |
| Current portion | **78.1** | 68.7 |
| Non-current portion | **$ 14.2** | $ 40.5 |

The Company has recorded a deferred tax asset as of February 25, 2000 of $3.6 million reflecting the benefit of foreign operating loss carry-forwards that expire at various dates through 2007. Realization is dependent on future taxable income of the related foreign operations and tax planning strategies available to the Company. Although realization is not assured, management believes it is more likely than not that deferred tax assets will be realized.

The effective income tax rate on income before equity in net income of joint ventures and dealer transitions varied from the statutory federal income tax rate as set forth in the following table:

| *Year Ended* | **Feb 25, 2000** | *Feb 26, 1999* | *Feb 27, 1998* |
|---|---|---|---|
| Statutory federal income tax rate | **35.0%** | 35.0% | 35.0% |
| State and local income taxes | **1.6** | 2.5 | 2.7 |
| Tax exempt interest | **—** | — | (0.2) |
| Goodwill and intangible asset amortization and write-offs | **1.0** | 0.3 | 0.2 |
| Research and development credit | **(0.3)** | (0.4) | (0.6) |
| Other | **1.7** | (0.4) | 1.4 |
| Effective income tax rate | **39.0%** | 37.0% | 38.5% |

During 1999, the provision for income taxes benefited from the favorable resolution of income tax litigation dating back to 1989, primarily related to investment tax credits and accelerated depreciation on the Company's Corporate Development Center. The resolution of these tax matters contributed to a reduced effective tax rate for 1999 and resulted in interest income of $5.8 million.

The Company made income tax payments of $123.2 million, $59.3 million and $116.0 million during 2000, 1999 and 1998, respectively.

## Note 16

### Financial Instruments, Concentrations of Credit Risk and Off-Balance-Sheet Risk

Financial instruments, which potentially subject the Company to concentrations of investment and credit risk, primarily consist of cash equivalents, investments, accounts receivable and notes receivable and leased assets, corporate-owned life insurance policies, accounts payable and short-term borrowings and long-term debt. The Company places its cash with high-quality financial institutions and invests in high-quality securities and commercial paper. The Company limits its exposure, by policy, to any one financial institution or debtor.

The Company's customers consist primarily of independent dealers in the office environment industry. They are dispersed globally, but primarily across all North American and several European geographic areas. All probable uncollectible accounts and notes receivable and leased assets have been appropriately considered in establishing the allowances for losses. In general, the Company obtains security interests in the assets of the customer. These security interests are generally secondary to the interest of the customer's primary lenders.

Guarantees of debt obligations are conditional commitments issued by the Company to guarantee the performance of certain unconsolidated dealers and joint ventures to a third party. These guarantees are primarily issued to support private borrowing arrangements. The Company has guaranteed approximately $49.7 million and $30.6 million of debt obligations of unconsolidated dealers and joint ventures as of February 25, 2000 and February 26, 1999, respectively. Although this amount represents the maximum exposure to loss, management believes the actual risk of loss to be insignificant.

The Company uses financial instruments, principally forward contracts and swaps and interest rate swaps and caps, primarily to reduce its exposure to adverse fluctuations in foreign currency exchange rates and interest rates. These contracts hedge transactions and balances for periods and amounts consistent with its committed exposures and do not constitute investments independent of these exposures. The Company does not use these financial instruments for speculative or trading purposes. Gains and losses on currency forward contracts and swaps that are designated and effective as hedges of anticipated transactions, for which a firm commitment has been attained, are deferred and recognized in income in the same period that the underlying transactions are settled, and generally offset. Gains and losses on interest rate swaps and caps are recognized as an adjustment to interest expense over the life of the contract. See Note 10 for more information regarding interest rate swaps and caps. The fair market value of forward contracts and swaps and interest rate swaps and caps was not material at February 25, 2000 or February 26, 1999.

## Note 17

### Commitments and Contingencies

The Company leases certain sales offices, showrooms and equipment under non-cancelable operating leases that expire at various dates through 2013. Minimum annual rental commitments under non-cancelable operating leases that have initial or remaining lease terms in excess of one year as of February 25, 2000, are as follows:

*(in millions)*

| *Year Ending* | *Amount* |
|---|---|
| 2001 | $ 29.5 |
| 2002 | 22.6 |
| 2003 | 19.4 |
| 2004 | 16.6 |
| 2005 | 14.2 |
| Thereafter | 24.7 |
| | $127.0 |

Rent expense under all operating leases approximated $39.8 million, $42.5 million and $47.0 million for 2000, 1999 and 1998, respectively.

The Company is involved in litigation from time to time in the ordinary course of its business. Based on known information, management believes that the Company is not currently party to any material litigation.

## Note 18

### Operating Segments

The Company's principal business is the manufacture of an extensive range of steel and wood office furniture products. Primary product lines include office furniture systems, seating, storage solutions, desk and casegoods, and interior architectural products. In addition, the Company also provides services and is engaged in non-furniture businesses, which include marine accessories and design, financial services and consulting services. The Company operates on a worldwide basis within three reportable segments, two of which are geographic furniture segments, and services and other businesses. In prior years, the Company has reported those two geographic furniture segments as being the U.S. and International/Canada combined. Due to the acquisition of the remaining 50% equity interest in Steelcase Strafor and the significant impact of this acquisition on the Company's consolidated financial statements, the Company has implemented a new reporting structure which focuses separately on North American and International furniture operations. North America includes the U.S., Canada and the Steelcase Design Partnership. International includes the rest of the world, with the major portion of the operations in Europe. Accordingly, prior year segment information presented below has been restated to reflect the new reporting structure.

The Company evaluates performance and allocates resources based on operating income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies included elsewhere herein.

## Notes to Consolidated Financial Statements

The following sets forth reportable segment data reconciled to the consolidated financial statements for the three years ended February 25, 2000, February 26, 1999 and February 28, 1998:

*(in millions)*

| | *Office Furniture* | | *Services &* | | |
|---|---|---|---|---|---|
| **2000** | *North America* | *International* | *Other Businesses* | *Eliminations* | *Consolidated* |
| Net sales | **$ 2,606.4** | **$ 721.5** | **$ 136.5** | **$ (148.3)** | **$ 3,316.1** |
| Operating income | **239.8** | **31.4** | **11.0** | **(10.4)** | **271.8** |
| Total assets | **1,678.2** | **679.2** | **680.2** | **—** | **3,037.6** |
| Capital expenditures | **169.9** | **14.5** | **8.4** | **(4.0)** | **188.8** |
| Depreciation & amortization | **103.4** | **35.1** | **8.3** | **(5.0)** | **141.8** |

| | *Office Furniture* | | *Services &* | | |
|---|---|---|---|---|---|
| *1999* | *North America* | *International* | *Other Businesses* | *Eliminations* | *Consolidated* |
| Net sales | $ 2,511.3 | $ 622.2 | $ 115.9 | $ (506.9) | $ 2,742.5 |
| Operating income | 302.5 | 39.1 | 8.8 | (33.3) | 317.2 |
| Total assets | 1,559.2 | 694.4 | 588.7 | (659.7) | 2,182.5 |
| Capital expenditures | 162.3 | 31.1 | 5.5 | (28.5) | 170.4 |
| Depreciation & amortization | 98.9 | 23.8 | 6.9 | (22.5) | 107.0 |

| | *Office Furniture* | | *Services &* | | |
|---|---|---|---|---|---|
| *1998* | *North America* | *International* | *Other Businesses* | *Eliminations* | *Consolidated* |
| Net sales | $ 2,495.7 | $ 607.0 | $ 125.9 | $ (468.6) | $ 2,760.0 |
| Operating income | 301.1 | 38.5 | 4.3 | (26.5) | 317.4 |
| Total assets | 1,444.5 | 528.8 | 528.5 | (494.6) | 2,007.2 |
| Capital expenditures | 117.3 | 13.9 | 9.1 | (13.9) | 126.4 |
| Depreciation & amortization | 85.8 | 25.9 | 7.9 | (24.3) | 95.3 |

For the first quarter of 2000 and for full year 1999 and 1998, International office furniture reflects the accounts of Steelcase Strafor, the Company's 50% owned joint venture in Europe, as if the joint venture had been consolidated. As described in Note 19, the remaining 50% equity interest of Steelcase Strafor was purchased effective March 31, 1999. Accordingly, Steelcase Strafor's results of operations have been consolidated with the Company's results of operations from the acquisition date. Eliminations include the removal of Steelcase Strafor unconsolidated financial results in order to reconcile with the Company's consolidated totals.

Total assets within services and other businesses include notes receivable and leased assets as described in Note 7.

Reportable geographic information is as follows:

*(in millions)*

| | **Feb 25, 2000** | *Feb 26, 1999* | *Feb 27, 1998* |
|---|---|---|---|
| Net Sales: | | | |
| United States | **$ 2,641.5** | $ 2,516.5 | $ 2,509.4 |
| Foreign locations (1) | **674.6** | 226.0 | 250.6 |
| Total | **$ 3,316.1** | $ 2,742.5 | $ 2,760.0 |
| Long-lived Assets: | | | |
| United States | **$ 1,070.7** | $ 953.2 | $ 819.9 |
| Foreign locations (1) | **464.8** | 31.9 | 38.4 |
| Total | **$ 1,535.5** | $ 985.1 | $ 858.3 |

*(1) Information for Steelcase Strafor prior to the Company's March 31, 1999 acquisition of the remaining 50% equity interest in Steelcase Strafor has been excluded (see Note 19).*

Net sales are attributable to countries based on the location of the customer.

## Note 19

### ACQUISITIONS

On April 22, 1999, Steelcase Inc., through its wholly-owned French subsidiary, Steelcase SAS, acquired the 50% equity interest in Steelcase Strafor held by its joint venture partner, Strafor Facom S.A. The purchase was effective as of March 31, 1999. As a part of this transaction, the Company also acquired Strafor Facom S.A.'s 5% equity interest in Werndl, 3% equity interest in Pohlschröder GmbH and 50% equity interest in Details S.A. The purchase price paid to Strafor Facom S.A. for these equity interests approximated $230 million, including transaction costs of approximately $5 million, and was funded by approximately $78 million of existing cash balances, $111 million of short-term borrowings and $41 million of long-term debt.

As a result of this acquisition, which was accounted for under the purchase method of accounting, Steelcase Strafor is now wholly-owned by the Company. Accordingly, the February 25, 2000 consolidated balance sheet includes the accounts and balances of Steelcase Strafor, including a $25.7 million contingent liability recorded in accrued other expenses for additional purchase price to be paid resulting from Steelcase Strafor's acquisition of Werndl in calendar year 1998. Additionally, the results of operations of Steelcase Strafor, which is accounted for on a two month lag, from April 1, 1999 through December 31, 1999 have been consolidated with the Company's results of operations.

The Company recorded intangible assets as follows resulting from the consolidation of Steelcase Strafor:

*(in millions)*

| | *Amortization Period* | *Amount* | *Annual Amortization* |
|---|---|---|---|
| Goodwill | 40 years | $ 259.2 | $ 6.5 |
| Trademarks | 2 to 25 years | 52.7 | 3.3 |
| Non-compete agreement | 3.5 years | 10.8 | 3.1 |

## Notes to Consolidated Financial Statements

The following unaudited pro forma data summarizes the combined results of operations of the Company and Steelcase Strafor as if the acquisition had occurred at the beginning of the twelve month period ended February 27, 1998, and includes the effect of purchase accounting adjustments. In addition, the Steelcase Strafor results of operations include the pro forma effects of the acquisition of Werndl, a business acquired by Steelcase Strafor on December 16, 1998. No adjustment has been included in the pro forma amounts for any anticipated cost savings or other synergies.

*(in millions)*

| | Feb 25, 2000 | Feb 26, 1999 |
|---|---|---|
| Results of Operations: | | |
| Revenues | $ 3,464.4 | $ 3,344.4 |
| Gross profit | 1,150.5 | 1,176.6 |
| Operating income | 280.7 | 355.0 |
| Net income | 182.2 | 215.6 |
| Earnings per share (basic and diluted) | $ 1.19 | $ 1.40 |

Effective August 31, 1999, the Company acquired an 89% equity interest in a significant dealer located in the Northeast United States, for $33.7 million. Because no transition plan had been adopted or was in the process of being adopted on the acquisition date, the transaction was accounted for under the purchase method of accounting. Accordingly, this dealer's results of operations subsequent to August 31, 1999 have been consolidated with the Company's results of operations. The transaction was completed for $24.0 million in cash and $9.7 million in a note payable, and resulted in the Company recording an intangible asset of $28.0 million for the excess of the purchase price over the estimated fair value of the net assets acquired, which is being amortized over 15 years.

Effective September 4, 1999, the Company purchased the remaining 50% equity interest of Clestra Hauserman, Inc. ("Clestra") for $6.4 million. Clestra, based in Solon, Ohio, designs, manufactures, installs and services moveable and demountable steel walls for office interiors. The transaction, which was completed for $5.2 million in cash and $1.2 million in settlement of a note receivable, was accounted for under the purchase method of accounting. As a result, the Company reduced long term assets by $8.1 million for the excess of the estimated fair value of the net assets acquired over the purchase price, and the results of operations of Clestra subsequent to September 4, 1999 have been consolidated with the Company's results of operations. The Company's 50% equity interest in the net loss of Clestra through September 4, 1999 is included in equity in net income of joint ventures and dealer transitions in the accompanying condensed consolidated statements of income.

Effective January 4, 1999, the Company acquired certain assets and liabilities of J.M. Lynne Company, a New York Corporation, which designs and distributes vinyl wall coverings for commercial environments. The acquisition of J.M. Lynne Company was completed for $36.0 million in cash and was accounted for under the purchase method of accounting. As a result of this acquisition, the Company recorded an intangible asset of $29.4 million for the excess purchase price over the estimated fair value of net assets acquired, which is being amortized over 15 years.

## Note 20

### Unaudited Quarterly Results

The following sets forth summary unaudited information on a quarterly basis for the Company:

*(in millions, except per share amounts)*

| **2000** | *First Quarter* | *Second Quarter* | *Third Quarter* | *Fourth Quarter* | *Total* |
|---|---|---|---|---|---|
| Net sales | **$ 691.8** | **$ 831.9** | **$ 881.0** | **$ 911.4** | **$ 3,316.1** |
| Gross profit | **253.4** | **281.6** | **294.3** | **273.4** | **1,102.7** |
| Operating income | **82.7** | **66.7** | **78.3** | **44.1** | **271.8** |
| Net income | **56.7** | **38.2** | **45.3** | **44.0** | **184.2** |
| Earnings per share (basic and diluted) | **0.37** | **0.25** | **0.30** | **0.29** | **1.21** |

| *1999* | *First Quarter* | *Second Quarter* | *Third Quarter* | *Fourth Quarter* | *Total* |
|---|---|---|---|---|---|
| Net sales | $ 672.3 | $ 704.0 | $ 687.6 | $ 678.6 | $ 2,742.5 |
| Gross profit | 253.2 | 265.2 | 240.7 | 230.3 | 989.4 |
| Operating income | 78.3 | 91.8 | 76.8 | 70.3 | 317.2 |
| Net income | 54.0 | 62.7 | 57.4 | 47.3 | 221.4 |
| Earnings per share (basic and diluted) | 0.35 | 0.41 | 0.37 | 0.31 | 1.44 |

Effective March 31, 1999, Steelcase Inc. acquired the remaining 50% equity interest in Steelcase Strafor. Accordingly, the results of operations of Steelcase Strafor, which is accounted for on a two month lag, from April 1, 1999 through December 31, 1999 have been consolidated with the Company's results of operations. See Note 19.

During the fourth quarter of 2000, the Company recorded a one-time charge of $24.5 million ($15.0 million net of tax) to cost of sales for expenses related to the field retrofit of beltways and insulation materials within installed Pathways products.

Additionally, the Company sold certain non-operating assets and had investment gains resulting in one-time non-operating gains of $15.2 million ($9.3 million after tax).

During the third quarter of 1999, the Company benefited from the successful resolution of income tax litigation, which contributed to a reduction in the overall effective income tax rate expected for 1999 and resulted in interest income, resulting in an increase in net income of $6.2 million.

## Report of Independent Certified Public Accountants

***Steelcase Inc.***
***Grand Rapids, Michigan***

We have audited the accompanying consolidated balance sheets of Steelcase Inc. and subsidiaries as of February 25, 2000 and February 26, 1999, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended February 25, 2000. 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 Steelcase Inc. and subsidiaries as of February 25, 2000 and February 26, 1999, and the results of their operations and their cash flows for each of the three years in the period ended February 25, 2000, in conformity with generally accepted accounting principles.

BDO Seidman, LLP

BDO Seidman, LLP
Grand Rapids, Michigan
March 20, 2000

## Management's Responsibility for Financial Reporting

The consolidated financial statements and other financial information contained in this annual report were prepared by management in conformity with generally accepted accounting principles. In preparing these financial statements, reasonable estimates and judgments have been made when necessary.

Management is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the financial records. The concept of reasonable assurance recognizes that there are inherent limitations in any control system and that the cost of maintaining a control system should not exceed the expected benefits to be derived therefrom. Management believes its system of internal control effectively meets its objective of reliable financial reporting.

The Audit Committee of the Board of Directors meets periodically with management and the independent accountants to review and discuss audit findings and other financial and accounting matters. The independent accountants have free access to the Audit Committee, with and without management present, to discuss the results of their audit work.

The Company's independent accountants are engaged to audit the Company's consolidated financial statements, in accordance with generally accepted auditing standards for the purpose of expressing an opinion on the financial statements.

A. Rougier-Chapman

James P. Hackett
President and
Chief Executive Officer

Alwyn Rougier-Chapman
Senior Vice President-Finance,
Chief Financial Officer

# Directors and Executive Officers

## DIRECTORS

David Bing [3]
Chairman, the Bing Group

William P. Crawford
Retired; formerly President and Chief Executive Officer, Steelcase Design Partnership

James P. Hackett [1,2]
President and Chief Executive Officer, Steelcase Inc.

Earl D. Holton [1,2,3]
Chairman of the Board of Directors, Steelcase Inc.; Vice Chairman of the Board of Directors, Meijer, Inc.

David D. Hunting, Jr. [3]
Retired; formerly Executive Vice President, Subsidiaries, Steelcase Inc.

Frank H. Merlotti [1,2]
Retired; formerly President, Chief Operating Officer and Chief Executive Officer, Steelcase Inc.

Robert C. Pew II [1,2]
Chairman Emeritus of the Board of Directors, Retired; formerly Chairman of the Board of Directors and Chief Executive Officer, Steelcase Inc.

Robert C. Pew III [1,2]
Owner, Cane Creek Farm, Fletcher, North Carolina; formerly President, Steelcase North America and Executive Vice President, Operations, Steelcase Inc.

Peter M. Wege
Vice Chairman of the Board of Directors, Steelcase Inc.

Peter M. Wege II [1,2]
President, Greylock, Inc., Grand Rapids, Michigan; formerly President, Steelcase Canada Ltd., Markham, Ontario, Canada

P. Craig Welch, Jr. [2]
Venture Capitalist; formerly Director of Information Services, Director of Production Inventory Control, Steelcase Inc.

*1/ Executive Committee*
*2/ Compensation Committee*
*3/ Audit Committee*

## EXECUTIVE OFFICERS

Robert A. Ballard
President, Steelcase North America, Steelcase Inc.

Robert W. Black
Senior Vice President, Steelcase International, Steelcase Inc.

Jon D. Botsford
Senior Vice President, General Counsel and Secretary, Steelcase Inc.

Mark T. Greiner
Senior Vice President, Global E-Business and Chief Information Officer, Steelcase Inc.

James P. Hackett
President and Chief Executive Officer, Steelcase Inc.

Nancy Hickey
Senior Vice President, Global Human Resources, Steelcase Inc.

James P. Keane
Senior Vice President, Corporate Strategy, Research and Development, Steelcase Inc.

Michael Love
President and Chief Executive Officer, Steelcase Design Partnership

Alwyn Rougier-Chapman
Senior Vice President-Finance, Chief Financial Officer, Steelcase Inc.

## Information for Our Investors

Steelcase Inc. common stock is traded on the New York Stock Exchange under the symbol SCS. The following table shows the high and low stock prices by quarter for fiscal years 2000 and 1999. There were 14,254 Class A Common Stock shareholders and 245 Class B Common Stock shareholders of record as of April 14, 2000. The Class B Common Stock is not publicly traded, but is convertible to Class A Common Stock on a one-for-one basis.

### Trading and Dividend Information

| *Year Ended* | **Feb 25, 2000** | | | *Feb 26, 1999* | | |
|---|---|---|---|---|---|---|
| | *High* | *Low* | *Cash Dividends Declared* | *High* | *Low* | *Cash Dividends Declared* |
| First quarter | **$ 20.750** | **$ 13.625** | **$ 0.11** | $ 38.375 | $ 28.000 | $ 0.10 |
| Second quarter | **20.000** | **14.500** | **0.11** | 29.875 | 18.125 | 0.10 |
| Third quarter | **15.500** | **12.250** | **0.11** | 19.750 | 12.750 | 0.10 |
| Fourth quarter | **13.750** | **10.250** | **0.11** | 18.438 | 13.313 | 0.11 |

### Shareholder Accountant Assistance

Registered shareholders who wish to change their addresses or ask questions about other stock administration matters should contact the transfer agent at:

Bank of Boston, N.A.
c/o Boston EquiServe, L.P.
P.O. Box 8040
Boston, MA 02266-8040
(800) 958-6931

If outside the continental U.S. and Canada:
(781) 575-3120

TDD for those who are hearing or speech impaired:
(800) 952-9245

Internet: www.equiserve.com

### Independent Certified Public Accountants

BDO Seidman, LLP
Grand Rapids, Michigan

### Shareholder and Investor Inquiries

For additional financial information, including the company's Form 10-K and Form 10-Q reports and additional copies of this annual report, visit the Steelcase Website, www.steelcase.com, or contact:

Steelcase Investor Relations
CH.2E.02
P.O. Box 1967
Grand Rapids, MI 49501-1967

Telephone (616) 247-2200
Fax (616) 475-2270

### Corporate Headquarters

Mailing Address:
Steelcase Inc.
P.O. Box 1967
Grand Rapids, MI 49501
(616) 247-2710

Street Address:
901 44th Street
Grand Rapids, Michigan 49508

### New Electronic Voting

Shareholders can now vote their proxies by telephone or via the Internet. Their proxy card explains how. This proxy card's instructions also explain how shareholders can receive their annual report and proxy statement electronically in the future. Shareholders who choose to do this will receive an e-mail notifying them that these materials have been posted on the Steelcase Website. They will not receive printed versions of these materials unless they request them.

### Investor Relations Website

Shareholders who wish to receive Steelcase investor information as soon as it is published should visit the investor relations section of the company's Website at www.steelcase.com.

### Consumer Affairs

For your nearest Steelcase dealer's address and telephone number or for information about Steelcase products, call (800) 333-9939, or visit the company's Website.

If you have questions, comments, problems, or special requests, call your dealer or Steelcase Line 1 at (888) 783-3552 (888-STEELCASE). Outside the U.S. call (616) 247-2500.

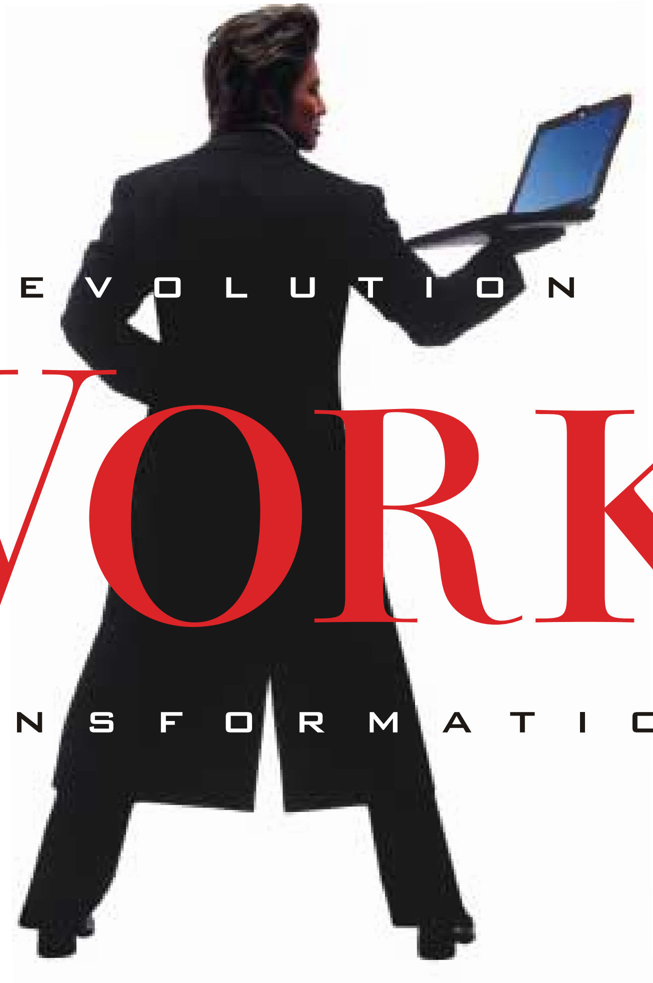
### Annual Meeting

The annual shareholders' meeting to review the fiscal year that ended February 25, 2000, begins at 11A.M. EDT on June 15, 2000, in the Systems II Building adjacent to Steelcase Corporate Headquarters at 1111 44th Street S.E., Grand Rapids, Michigan.

R E V O L U T I O N

# WORK

T R A N S F O R M A T I O N



Steelcase