

Charting a New Course

Minebea is a company with immense potential. It is also a company with an unchanging commitment to responding to the expectations of its shareholders. Unfortunately, neither of these statements is borne out by our financial performance in recent years. In fiscal 2003, ended March 31, 2003, we again fell considerably short of our initial forecasts. While to a certain extent we can blame this on a harsh operating environment, I believe that Minebea should be able to achieve results that reflect its true potential under any conditions. I also believe that for this to happen, it is imperative that we undertake a fundamental reevaluation of how the Company is managed. Specifically, we must create a management system that facilitates the effective use of resources to achieve greater corporate value. To date, our strategic planning has emphasized reinforcing core competencies and restructuring, merging or divesting all noncore businesses. In line with this focus, we have concentrated product development efforts exclusively in our mainstay high-precision components business. Obviously, however, we have not done enough—if we continue the way we are going now, we are in danger of never being anything more than a passably profitable company locked



Representative Director,
President and Chief Executive Officer
Tsugio Yamamoto

in a specific business cycle. With this in mind, we have formulated a new strategic plan that is even more ambitious in its measures to reinforce core competencies and build a highly competitive, highly profitable product portfolio, thereby ensuring our place as the world's leading comprehensive manufacturer of miniature ball bearings and high-precision components.

Direction and Strategy

Our fiscal 2003 results demonstrate clearly the tasks that lie ahead of us. Consolidated net sales declined 2.6% from fiscal 2002, to ¥272,202 million. Operating income fell 11.9%, to ¥19,352 million. We recorded a net loss of ¥2,434 million. This was largely attributable to one-time factors, notably losses on revaluation of marketable and investment securities—primarily shares in financial institutions—of ¥4,945 million; losses on liquidation of switching power supplies and related businesses of ¥3,144 million, resulting

from our decision to withdraw from switching power supplies and related businesses at fiscal year-end; and environment-related expenses incurred by U.S. subsidiaries of ¥1,206 million.

In terms of our ability to ensure stable growth in corporate value, the most telling aspect of our performance in

fiscal 2003 is the drop in operating income, which was significantly sharper than the decline in net sales. In other words, we succeeded in maintaining or expanding our market shares for mainstay products—evidence that we remain highly competitive—but failed to improve their profitability. Herein lies the real issue: businesses, such as miniature and small-sized ball bearings, which befit our core competencies—ultraprecision machining technologies, a vertically integrated manufacturing system and mass production technologies—continued to yield high profits despite challenging conditions, but businesses largely unrelated to these core competencies were easily swayed by external factors and saw profitability sag. This has been the trend for several years now, and underscores the single most important challenge facing Minebea's management team, that is, the need to build a portfolio of businesses that maximize our core competencies. This involves:

- revamping our product portfolio, thereby positioning ourselves to capitalize on emerging business opportunities,
- further enhancing existing core competencies, and
- cultivating new core competencies that will enable us to thrive in promising new markets.

The principal challenge here is to ensure that the Company is managed in a manner that befits its new direction. We recognize—and again this is supported by fiscal results in recent years—that there are limits to the level of growth we can reasonably expect in a persistently harsh environment if we continue as we are now. We must transform the way Minebea is managed to ensure understanding of our future direction and accelerate its realization. First, we must further tighten our focus on businesses that meet the criteria of our core competencies strategy. Second, we must implement organizational changes that will enhance the

strategy's effectiveness. Third, we must substantially reinforce our ability to execute the strategy's various elements. Finally, we must introduce clear standards for evaluating business performance.

Specific Measures

We have formulated and are implementing a variety of specific measures for addressing the tasks outlined above.

■ Further tighten our focus on businesses that meet the criteria of our core competencies strategy

In last year's annual report, I spoke about the need to restructure unprofitable businesses as a crucial task for Minebea, giving switching power supplies as an example. In fiscal 2003, however, we made the decision to withdraw from the switching power supplies business, based on a fair evaluation that indicated the business was unlikely to achieve significant growth in sales or a sufficient recovery in earnings to justify ongoing involvement. In a related move, we subsequently decided to terminate production and sales of a number of other products, including inductors, transformers, soft ferrites and solenoid valves. As a consequence, we have essentially completed efforts to restructure unprofitable operations and will be able to focus on key product areas in which we enjoy specialized expertise.

■ Implement organizational changes that will enhance the strategy's effectiveness

In the period under review, we absorbed our R&D Headquarters into the newly established Engineering Headquarters, a step designed to facilitate technology sharing among Minebea Group companies and forward-looking R&D, as well as to strengthen coordination between R&D and

production groups. We integrated the 1st and 2nd Manufacturing Headquarters, which were responsible for the manufacturing of mechanical components and electronic devices, respectively, to promote advanced development and production efforts that fuse our capabilities in these key fields.

■ Substantially reinforce our ability to execute the strategy's various elements

To encourage more open, meaningful discussion and debate of management efforts, we substantially reduced the number of directors on our Board. At the same time, to enhance the speed of execution of business strategies we introduced a new executive officer system. In addition to 23 former members of the Board of Directors, we have chosen eight individuals from among our employees, a move aimed at enhancing and accelerating our responsiveness to the market.

■ Introduce clear standards for evaluating business performance

To improve capital efficiency—thereby raising corporate value—as well as to ensure accurate understanding and assessment of our operating activities and our efforts to selectively focus investment in key areas and efficiently invest resources, in April 2002 we began preparations to implement an economic value added (EVA®)* management system. In April 2003, we began a step-by-step introduction of this system that will culminate with the use of EVA® to evaluate management achievements and capital investment programs. The next step in this process will involve using EVA® to assess the performance of our manufacturing and sales teams. In line with our commitment

to building an unparalleled product lineup, we also plan to introduce EVA® to assess the performance of individual products, facilitating effective evaluations, swift decision making and efficient management.

Minebea continues to operate in a difficult environment, reflecting the collapse of the information technology (IT) bubble and the subsequent economic malaise, the plunge into global recession and persistent deflation. While these negative circumstances have hampered our financial results over the short term, we also see them as having provided an invaluable opportunity to chart a new course for growth. Minebea's competitive edge and excellent potential for future growth are the outcome of earnest, tireless efforts to confront difficulties head-on. Accordingly, we are confident that our efforts to clarify the true nature of the challenges we face today, enhance management quality and accelerate the implementation of appropriate strategies will enable us to make a strong start on this new course. As president of Minebea, I recognize that ensuring this happens is my foremost responsibility. In these and all our efforts, I look forward to the continued support of our shareholders.

June 27, 2003



Tsugio Yamamoto

Representative Director,

President and Chief Executive Officer

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