

## Targeting New Growth as a Company that Leads the Competition through Manufacturing and Technological Excellence

When I assumed the position of president and chief executive officer of Minebea in 2005, I stated that I believed my main mission was to increase profitability and to do so with momentum. With this in mind, I set three priority strategic tasks:

1. **Take decisive actions to implement structural reforms**
2. **Reinforce R&D**
3. **Manage the Company with a clear vision**

Through resolute efforts aimed at addressing these tasks, we have endeavored to improve results in persistently unprofitable businesses and strengthen the foundations of growth businesses. As a consequence, in fiscal 2006, ended March 31, 2006, we achieved a 36.8% increase in operating income—a major step toward a full recovery. In March 2006, I introduced a new road map for growth that positions fiscal 2006 as a year for structural reform, fiscal 2007 as a year for eradicating elements that are not conducive to growth and fiscal 2008 as a year for surging forward. In line with this road map, in fiscal 2007 we will ready ourselves for fiscal 2008 by resolving any remaining issues in our business and establishing a firmly profitable business structure.

### Results of Operations

In fiscal 2006, Minebea recorded consolidated net sales of ¥318.4 billion, an increase of 8.2% from fiscal 2005, and operating income of ¥19.3 billion, up 36.8%. Nonetheless, net income declined 23.7%, to ¥4.3 billion.

Principal global economies were firm during the period, mirroring robust demand in key sectors, notably PCs, HDDs, digital household appliances, aircraft and automobiles. In this environment, our sales were driven by steadily expanding sales of bearings and key machined components and a sharp increase in sales of lighting devices.

We also succeed in achieving our initial target for operating income, which was bolstered by solid gains in such key businesses as ball bearings, rod-end and spherical bearings, and pivot assemblies, as well as improvements in three loss-making businesses, notably HDD spindle motors, which returned to profitability in the fourth quarter.

The decline in net income was largely attributable to the fact that we recorded a business restructuring loss of ¥3.5 billion, owing to sweeping measures implemented in our PC keyboard business—another of our three loss-making businesses.

Takayuki Yamagishi  
Representative Director,  
President and Chief Executive Officer



### Initiatives and Accomplishments in Fiscal 2006

During the period under review, we focused on the following four key initiatives in our drive to improve results in persistently unprofitable businesses and reinforce the operating foundation of growth businesses:

- Implement structural reforms, namely, introduce a business unit system and establish headquarters
- Shift our focus to quality rather than volume, and income rather than sales
- Reinforce engineering and technological development (through the promotion of coordinated management by the Engineering Headquarters and the establishment of basic technology development divisions)
- Improve the performance of loss-making businesses

Structural reforms focused on the introduction of a business unit system and the establishment of five headquarters to provide support for business units. These reforms have enhanced the independence and freedom of individual businesses as well as clarified accountability. At the same time, they have eliminated organizational barriers, thereby facilitating the efficient deployment of Group resources and enabling Group companies to effectively align their business strategies.

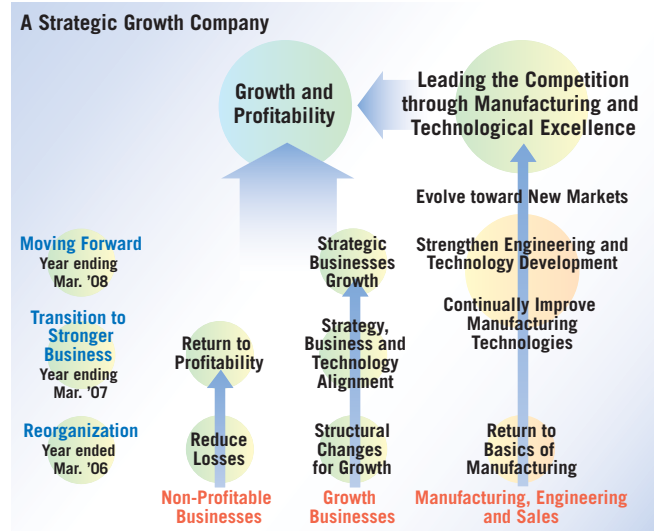
On another front, we acknowledged that our traditional emphasis on high volume is not suited to all Minebea businesses. A classic example of a business that has performed poorly as a consequence of this approach is HDD spindle motors. Accordingly, we set a clearly defined policy of placing profit ahead of volume and took steps to ensure that the meaning and objective of this shift were communicated clearly to all employees. Together with this, we sought to convey the importance of returning to the basics of manufacturing. The impact of this initiative was especially evident in our HDD spindle motor business, which returned to profitability in the fourth quarter.

Efforts to reinforce engineering and technological development focused on implementing a new, coordinated management system under the guidance of the Engineering Headquarters and establishing basic technology development divisions. From here, we have begun to create a basic foundation that will enable the Engineering Headquarters to oversee R&D worldwide. We are also placing a high priority on strengthening basic technologies, recognizing their importance in developing new and next-generation products and cultivating new markets.

Actions taken during the period to improve the performance of loss-making businesses met with considerable success—in HDD spindle motors, as previously mentioned, as well as information motors, PC keyboards and other targeted businesses. In the HDD spindle motor business, groups responsible for parts production and assembly worked together to lower costs and increase yields. We embarked on a review of the structure of our information motor business—an exercise that concluded shortly after the fiscal year-end—and succeeded in trimming losses. In PC keyboards, we shifted our focus to high-value-added models and made the decision to implement far-reaching structural reforms aimed at significantly lowering fixed costs.

### A New Road Map

The most crucial task facing Minebea going forward is to increase profitability and to do so swiftly. Achieving a temporary jump in profitability is not, however, the same as launching Minebea on a new growth trajectory. To realize high profitability and true growth potential, we must thoroughly reexamine our core competencies. This is also essential to achieve the vision



I have set forth for Minebea—that of a company that leads the competition through manufacturing and technological excellence.

The four initiatives implemented in fiscal 2006 were undertaken with this vision in mind. These initiatives shared one constant, namely, a return to the basics of manufacturing. To accommodate this, we must refashion our strategies, our structure and our various businesses—this is what is meant by “structural reform.” In fiscal 2007, we will build on the foundation established through these initiatives to resolve remaining issues and establish a solid framework for growth, thereby laying the groundwork for a surge forward in fiscal 2008.

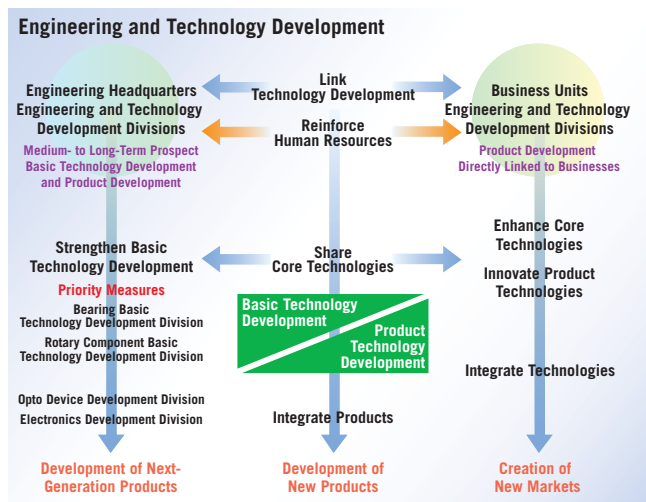
### Strengthening Engineering and Technology Development: The Key to Future Growth

The most important challenge facing us in realizing our vision of Minebea as a company that leads the competition through manufacturing and technological excellence is to strengthen our engineering and technology development capabilities. Pursuing product development technologies alone is not enough to ensure a competitive advantage. Recognizing that superior product development technologies derive from outstanding basic technologies, the Engineering Headquarters focuses on both, with an approach that emphasizes a medium-to long-term perspective.

Technology development divisions affiliated with business units are tasked with developing new products with immediate practicality, that is, new, commercially viable products based on products currently in the business units’ portfolios. It is thus crucial for these divisions to understand customer needs and be able to translate that understanding into business potential—with this capability comes competitive advantage.

Minebea also recognizes that responding to market needs requires the integration of multiple basic and product development technologies. Accordingly, the technology development divisions focus not only on strengthening existing technologies, but also on combining these technologies as well as integrating them with technologies introduced from external sources.

Light-emitting diode (LED) backlights are an example of a successful product developed by a technology development division. Development based on our existing optical and molding technologies began five years ago at the Hamamatsu Plant’s technology development division. Since commercialization, the Engineering Headquarters has pursued development efforts aimed



at anticipating market demand two years or more in the future, while the technology development division affiliated with the relevant business unit has focused on new models. In 2005, we launched a high-luminance, slim-profile LED backlight that has earned high marks from customers. Developed jointly with Japan's Nichia Corporation begun three years previously, this unit reflected a firm grasp of intrinsic market needs and a carefully prepared development road map that identified outstanding individual technologies and a superb combination of technologies as well as facilitated the development of a highly competitive product.

### Challenges for Fiscal 2007: Resolve Remaining Issues and Establish a Framework for Growth

"Resolving remaining issues" means achieving a return to profitability for those businesses that remain unprofitable and ensuring they are positioned to maintain profitability going forward.

In the HDD spindle motor business, which has already returned to profitability, we will continue to strive not only to lower manufacturing costs, but also to expand production and sales of fluid dynamic bearing (FDB) motors for 2.5-inch HDDs. We will also promote development of increasingly compact HDD spindle motors with a view to expanding sales in fiscal 2008 and beyond.

Based on the results of the structural review launched in fiscal 2005, in June 2006 we restructured our information motor business. We will capitalize on the new organization to achieve further cost reductions and ensure a return to profitability for this business.

In our PC keyboard business, which has also been restructured, we expect to complete a reorganization of related manufacturing and sales operations in fiscal 2007. In the second half of the period, we intend to narrow our product range and, by shifting to high-value-added models and reducing manufacturing costs, aim to achieve profitability on a monthly basis.

With the aim of "establishing a framework for growth," during the next year we will focus on returning to the basics of manufacturing, thereby reinforcing the foundation of this business in terms of manufacturing, engineering and sales. In doing so, we will move closer to achieving our vision of Minebea as a company that leads the competition through manufacturing and technological excellence. Efforts will not be limited to loss-making businesses, but will also be implemented in profitable businesses with the aim of realizing ever-higher levels of growth. This includes our core ball bearings business, which continues to expand.

Recognizing that returning to the basics of manufacturing offers the potential to lower costs and improve yields, we undertook a variety of initiatives during the period under review. Going forward, we will continue to pursue such initiatives with the aim of achieving further growth through cost reduction and rationalization. With the increasing prevalence of pivot assemblies and digital devices, demand for miniature—i.e., smaller than conventional "small-sized"—ball bearings is rising. Accordingly, we will chart continued growth by stepping up production of ball bearings with outer diameters of less than 10mm.

In rod-end and spherical bearings, we will respond to rising demand in emerging markets, notably China and India, and double-digit growth in the aircraft market by reinforcing production capacity and developing new products. In addition to expanding capacity at existing plants and rod-end and spherical bearings facilities in Japan, the United States and Europe, we will conduct front-end production in Thailand. We expect these efforts to also further reduce costs, thereby enhancing competitiveness.

Minebea currently enjoys a 70% share of the global market share for pivot assemblies. The market for pivot assemblies for use in HDDs is expected to rise by approximately 15% annually for the foreseeable future. We intend to bolster production capacity for these key components in line with market growth.

Demand is also growing for LED backlights. To date, we have focused on small units for cellular telephone displays. Going forward, we will strive to improve the technical superiority of our small LED backlights, as well as establish a presence in the market for medium-sized units. Customers have reacted positively to the newly developed high-luminance, slim-profile LED backlight we launched in 2005. Expanded sales of this product will reinforce our position in the market for small LCDs. In the area of medium-sized LED backlights, we will target the market for car navigation system displays.

Taking a comprehensive approach to the display market, we are also introducing backlight inverters illuminated by cold cathode-ray fluorescent lamps (CCFLs) and color wheels for projectors.

As of the publication of this annual report, our plan to achieve a full recovery for Minebea is proceeding largely as planned. We took a major step in this direction in fiscal 2006, but it was only a start. Translating the achievements of the past year into firm, sustainable growth in the next phase of this recovery will be anything but easy. The next phase will bring bigger challenges and demand greater dedication on the part of all employees. In these and all our efforts, I look forward to the continued support of our shareholders.

July 1, 2006

*T. Yamagishi*

Takayuki Yamagishi  
Representative Director,  
President and Chief Executive Officer