

## A Message to Our Shareholders



Takayuki Yamagishi  
Representative Director,  
President and Chief Executive Officer

This is my first opportunity to address shareholders in an annual report. I am Takayuki Yamagishi, and I was appointed president and chief executive officer in June 2005. In addition to providing a brief analysis of Minebea's performance in fiscal 2005, ended March 31, 2005, my message will focus on my management policy and the progress of our efforts to improve results in three persistently unprofitable key businesses, namely HDD spindle motors, PC keyboards and the information motors business of joint venture Minebea–Matsushita Motor Corporation.

### Results of Operations

In fiscal 2005, Minebea recorded consolidated net sales of ¥294.4 billion, an increase of 9.6%, or ¥25.8 billion, from fiscal 2004. Notwithstanding higher net sales, operating income declined 22.2%, or ¥4.0 billion, to ¥14.1 billion, and net income slipped 7.3%, or ¥438 million, to ¥5.6 billion.

Net sales gains reflected higher sales of bearings and bearing-related products and the addition of the sales of Matsushita Electric Industrial Co., Ltd. (MEI)'s motor

business, owing to the establishment of Minebea–Matsushita Motor. The decline in operating income occurred despite an increase in operating income in the Machined Components segment—owing to firm demand for bearings and bearing-related products—and reflected a fall in production and a deterioration in profitability in the HDD spindle motors business, expenses resulting from the shift of PC keyboard production to China from Thailand and the restructuring of our information motors business, which prompted a sharp increase in the operating loss in the Electronic Devices and Components segment.

### Management Policy

As president and chief executive officer of Minebea, I believe my principal responsibilities are to strengthen profitability and pull Minebea out of its current malaise, and to restore the Company to a position worthy of international respect. To these ends, we have set three priority tasks for the companies of the Minebea Group going forward:

#### Take decisive actions to implement structural reforms

- Reorganize manufacturing and sales divisions
- Build a cross-divisional manufacturing organization
- Strengthen cross-divisional functions

#### Reinforce R&D

- Strengthen ability to develop basic technologies
- Establish a structure that can integrate and reorganize technologies

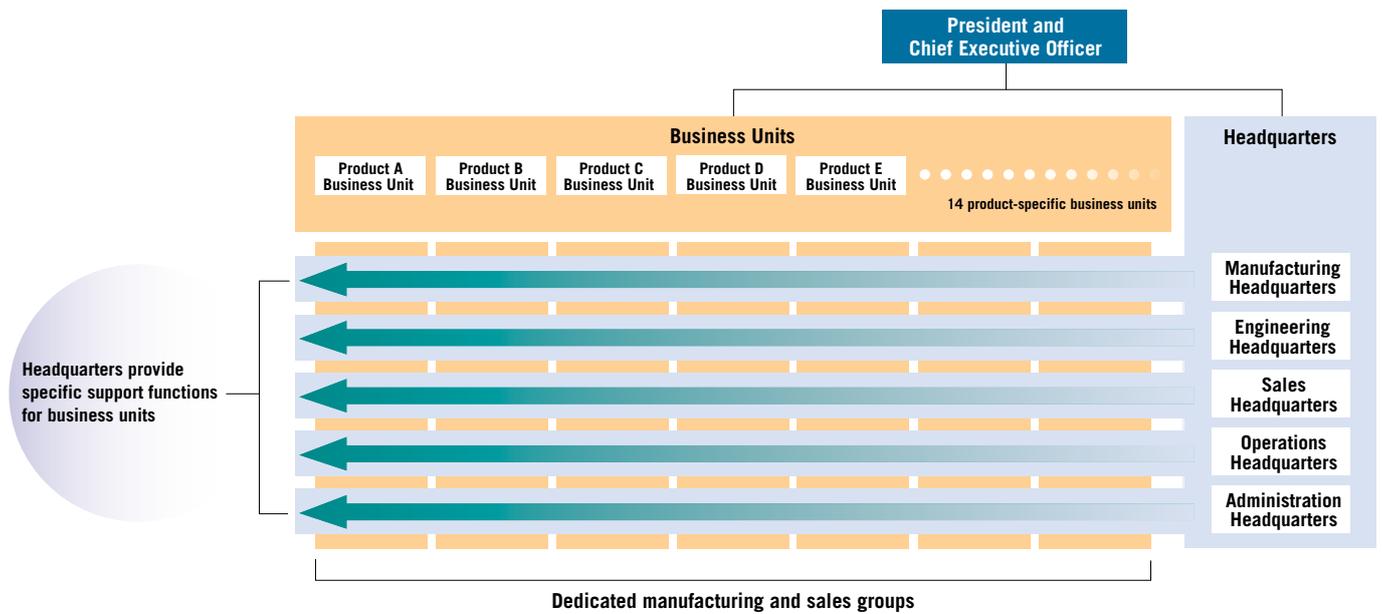
#### Manage the Company with a clear vision

- Reinforce manufacturing technologies that give Minebea an advantage in the marketplace
- Build a lineup of products that responds to market needs by maximizing cutting-edge technologies

Take decisive actions to implement structural reforms

Our first step was to implement sweeping reforms to our management structure. Our revamped management structure, which went into effect July 1, 2005, is depicted in the chart on the following page.

Our previous management structure consisted of manufacturing and sales headquarters, which oversaw a number of subordinate divisions. Our new, integrated management structure, however, features dedicated manufacturing and sales units for each of 14 newly established, product-specific business units, to which they report. These business units in turn report directly to the president. This sleek, product-based structure is designed to make individual business units accountable for the performance of their respective businesses. The new structure also features Manufacturing, Engineering, Sales, Operations and Administration headquarters, which provide support for the business units as well as report to the president.



Rather than direct supervision of the business units, the headquarters are charged with providing specific support functions, thereby assisting business units to effectively manage their respective businesses. One example of this concept in practice is the Master Engineers Team, established within the Manufacturing Headquarters. This team comprises veteran engineers with specific expertise in Minebea’s specialized manufacturing technologies. These engineers make themselves available to business units that have need of their expertise, thereby assisting units to overcome challenging technological issues.

To use an obvious analogy, the vertical organization of the business units and the horizontal organization of the headquarters function like the warp and the weft of a piece of woven fabric. By ensuring a balanced warp–weft ratio, we will strive to clarify responsibility and authority and accelerate the making and implementation of decisions—two achievements we are confident will contribute to improved operating results.

#### Reinforce R&D

Minebea faces five key challenges in reinforcing its R&D:

- Although we boast a top-class technological development infrastructure, there is room for improvement when it comes to bringing together and making the most effective use of technologies.
- In the years since our establishment, we have created a considerable competitive advantage by developing proprietary manufacturing technologies and expanding early into Southeast Asia. In recent years, however, we are facing increasingly serious challenges to this advantage.
- Recognizing that there is a limit to our ability, using only proprietary technologies, to develop products that meet increasingly diverse market needs, we must focus on

integrating existing technologies, developing new technologies and amalgamating proprietary technologies with our proprietary technologies with technologies introduced from sources outside the Company.

- To respond to customer demands for ever-faster service, we must increase our roster of engineers.
- Minebea’s core technologies are essential to every one of its products. These core technologies are supported by outstanding basic technologies. Accordingly, we must strengthen and increase both basic and core technologies.

None of these challenges is limited to a single business unit; responding effectively will demand a broad, Company-wide perspective. Accordingly, efforts will be spearheaded by the Engineering Headquarters. As I have already stated, this is the principal reason for establishing this and other headquarters as part of a horizontal support structure. The Engineering Headquarters will focus on a number of key measures. These include:

- creating a system for integrating technologies that are currently scattered throughout the Company
- establishing a team of engineers that function outside our new management structure and are charged with cross-unit development and design
- further advancing core technologies, notably ultra-precision machining technologies, which we consider our forte
- creating an internal organization that will enable us to amalgamate technologies and strengthen cooperation with outside organizations
- reinforcing our ability to identify and cultivate talented individuals, and to assign these individuals to the most appropriate positions
- improving our system for developing basic technologies.

Through the prompt implementation of these and other key measures, the Engineering Headquarters will strive to strengthen Minebea's technological capabilities, thereby accelerating the improvement of operating results.

Manage the Company with a clear vision

Our vision has always been for Minebea to be the world's leading manufacturer of high-precision components. To this end, we have set forth three strategies:

- Strengthen and expand our bearings and bearing-related products business
- Reinforce our rotary components business, which centers on HDD spindle motors, fan motors and other high-precision small motors, into the second pillar of our operations (the first being bearings and bearing-related products)
- Increase the weighting of high-value-added products in all product categories while at the same time broadening our product range to better serve a wider range of markets.

In the course of addressing the first two challenges—take decisive actions to implement structural reforms and reinforce R&D—we will review our objectives in terms of the kinds of products we should focus on, how we should manage our plants and how we should approach marketing. In doing so, we will further elaborate on our vision and these three strategies.

#### Measures to Improve Profitability of Three Loss-Making Businesses

The principal factor behind the deterioration of Minebea's operating results in the past year has been persistent, significant losses in our HDD spindle motor, PC keyboard and information motors (Minebea–Matsushita Motor) businesses. Improving the performances of these three businesses is obviously essential to improving the Company's performance. We have taken numerous steps to date and will redouble our efforts going forward by focusing on the following measures:

##### HDD spindle motors

- Set new cost benchmarks for products
- Step up cost-cutting efforts
- Production of components: Promote the deployment of proprietary ultraprecision machining throughout the company
- Assembly: Implement a thorough review of work processes with the aim of reducing personnel needed

##### PC keyboards

- Reinforce cost-cutting efforts (to be led by the Operations Headquarters' Procurement Team)
- Terminate production of PC keyboards in Thailand as soon as possible to eliminate duplication of costs
- Review order strategy for models containing a high percentage of high-priced materials

##### Minebea–Matsushita Motor

- Consolidate plants and integrate design standards to enhance efficiency
- Shift focus to quality, rather than volume

##### HDD spindle motors

In the past, we operated under the belief that volume would guarantee profit. Accordingly, our policy was to expand our market share by increasing orders. Going forward, however, we will shift away from increasing orders and focus instead on ensuring a production volume that ensures stable profitability.

Specifically, we will benchmark costs for profitable parts and apply our ultraprecision machining technologies to realize the same cost level for HDD spindle motors. HDD spindle motors will also be the first business to receive support from the Master Engineers Team.

In addition to cutting manufacturing costs, we will conduct a thorough review of workflows at the assembly stage, thereby enabling us to reduce our workforce.

##### PC keyboards

Materials procured from outside suppliers now make up a high percentage of the cost of Minebea's PC keyboards. Accordingly, it is crucial for us to lower costs for these materials as well as for parts produced in-house. To this end, we have established a Procurement Team within the Operations Headquarters. Like the Master Engineers Team in the Manufacturing Headquarters, the Procurement Team is composed of seasoned veterans. Having selected PC keyboards as the main business requiring its support, this team will focus on developing and implementing measures to lower the cost of procured materials.

Another issue has been a slight delay in completing the shift of our PC keyboard production to our plant in Shanghai from Thailand as the number of new models exceeded initial projections. We now expect to complete this shift by the end of the current calendar year.

Reviewing our order strategy for models containing a high percentage of materials procured from outside suppliers will focus on passing the high cost of plastic materials on to customers by reassessing product prices while at the same time actively soliciting orders that suit our cost structure.

#### Minebea–Matsushita Motor

With the aim of creating an efficient manufacturing system, we have implemented structural reforms centered on the consolidation of plants in Southeast Asia previously belonging to joint venture partner MEI. We expect to complete this effort in September 2005.

In addition to consolidating redundant plants, in the fan motor and stepping motor categories we will step up efforts to integrate design standards, thereby eliminating manufacturing and sales inefficiencies that have resulted from having both Minebea- and MEI-designed models in production.

Going forward, we will shift our focus to quality, rather than volume, for motors manufactured and sold by Minebea–Matsushita Motor. This parallels a similar shift in focus for motors manufactured and sold by Minebea.

#### Strategies for Principal Product Categories

Minebea has continuously built on its mainstay business—the manufacture and sales of high-precision ball bearings—to diversify and expand its operations. This has been facilitated by our ultraprecision machining and mass production technologies, which support our vertically integrated manufacturing system. As a consequence, in all our businesses—including those added to our portfolio over the past four decades through the application of core technologies—we have operated under the basic assumption that, regardless of the product, expanding manufacturing and sales volume leads to lower costs and thus to higher profits.

Unfortunately, this is not always the case. For some Minebea products, the nature of the product and/or the market means that small-lot manufacturing and sales are far more profitable.

With this in mind, we reviewed our entire product portfolio. As a result of this review, we have repositioned our products in three categories, as shown below.



For motors, PC keyboards, speakers and fasteners, we will shift our emphasis to profitability and away from increasing volume. We will set production limits and endeavor to create a manufacturing system that ensures stable profitability and will eventually allow the expansion of profit.

For rod-end and spherical bearings (and other bearings used in aircraft applications), display peripheral components (backlights, inverters and others), measuring components and pivot assemblies, efforts to achieve business expansion will continue to focus on increasing volume. We will not limit our efforts to increasing numbers, however, but will also work to strengthen existing technologies, launch newly developed products and introduce existing products into new markets.

In our core ultrahigh-precision ball bearings business, we have already shown that the manufacturing technologies and know-how we have accumulated over more than a half-century are more than sufficient to ensure profitability. Accordingly, we will continue to focus on enhancing profit by increasing volume.

As the new representative director, president and chief executive officer, I pledge to lead the management and employees of Minebea and the many other companies of the Minebea Group in maximizing their capabilities to revitalize Minebea, improve operating results and expand operations. In these and other efforts, I look forward to the continued support of our shareholders.

July 1, 2005



Takayuki Yamagishi  
Representative Director,  
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