SHIBAURA MECHATRONICS CORPORATION

Annual Report 2000

HISTORY

1939	Founded to succeed part of motor business of former Shibaura Engineering Works Co., Ltd. (now Toshiba Corporation)
1942	Operations begin at Ofuna works
1943	Operations begin at Obama works
1969	The Company is listed on the Tokyo Stock Exchange (Second Section)
1972	The Company is listed on the Tokyo Stock Exchange (First Section)
1991	Merger with Tokuda Seisakusho Co., Ltd., taking over that company's electronics and vacuum equipment business
1995	Research and development building in Ofuna works completed
1996	ISO9001 certification obtained (Ofuna works)
1997	ISO14001 certification obtained (Toshiba Mechatronics Co., Ltd. : now Sagamino operations)
1998	Ofuna and Sagami works integrated (Ofuna works renamed as Yokohama operations)
	Small motor production shifted to Shibaura Nidec Corporation
	Merger with Toshiba Mechatronics Co., Ltd., taking over that company's mechatronics business
	Corporate name changed to Shibaura Mechatronics Corporation
1999	ISO14001 certification obtained (Yokohama operations)
2000	Convertible bonds issued in Euromarket
	ISO9001 certification obtained (Sagamino operations)

PROFILE

Shibaura Mechatronics Corporation was founded in 1939, when Shibaura Engineering Works Co., Ltd.(now Toshiba Corporation) split off its industrial motor manufacturing operations.

In the age of widespread use of mobile equipment and the Internet, markets for semiconductor devices and LCDs have recovered from recession, and the optical disc industry, especially DVDs, has been growing rapidly. Under such circumstances, the Company has evolved into a high-tech and global "provider of infrastructure for the digital age," making semiconductor, LCD, and optical disc manufacturing equipment, as well as automated equipment, laser systems, and vending machines.

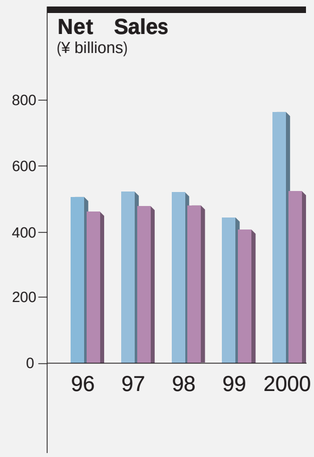
We plan to target further growth as we aim to become a "billion dollar company" in the 21st century, with net sales of ¥100 billion for the Shibaura Group.

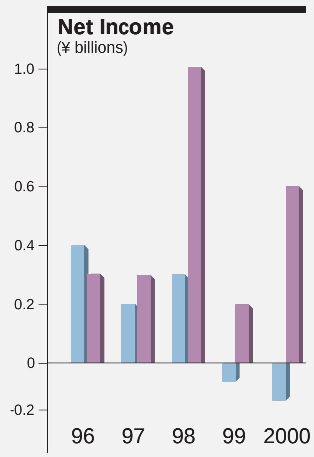
Contents

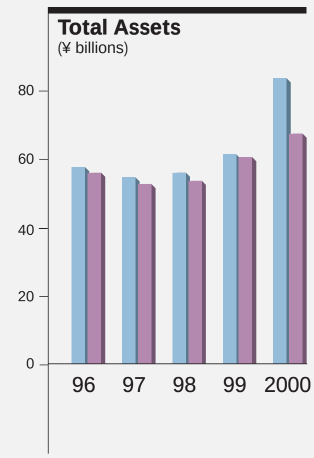
FINANCIAL HIGHLIGHTS

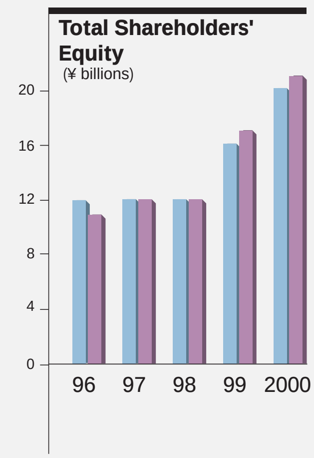
	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
	Years ended 31st March		
Consolidated			
Net sales	¥ 75,935	¥ 43,875	$ 715,358
Operating income	2,735	501	25,765
Net income	-215	-111	-2,032
Total shareholders' equity	19,684	16,127	185,435
Total assets	83,090	60,770	782,767
Net income per share	¥ -4.65	¥ -2.80	$ -0.04
Non-Consolidated			
Net sales	¥ 52,562	¥ 41,548	$ 495,175
Operating income	1,995	321	18,797
Net income	610	212	5,760
Total shareholders' equity	21,176	16,598	199,493
Total assets	66,691	59,830	628,273
Net income per share	¥ 13.18	¥ 4.63	$ 0.12

Note1: The U.S. dollar amounts in this report represent translation of Japanese yen for commence only at the rate of ¥ 106.15=U.S.$ 1.00,as of 31st March ,2000









Years ended 31st March

■ Consolidated ■ Non consolidated

Note2: Amounts in fiscal 1996 and 1997 indicate the financial results of Shibaura Engineering Works Co., Ltd. before the merger with Toshiba Mechatronics Co., Ltd.

Tadao Sumi
President and Chief Executive Officer

TO OUR SHAREHOLDERS

Shibaura Mechatronics Corporation is a high-tech, global company headquartered in Yokohama City, Japan. It makes and supplies manufacturing equipment for semiconductors, LCDs, and optical discs, as well as automated machines, devices, and vending machines.

The Company started operations as Shibaura Engineering Works Co., Ltd., in 1939 when Toshiba Corporation split off part of its heavy electrical business, focusing on motors. It celebrated its 60th anniversary in October 1999.

In 1991, the Company merged with Tokuda Seisakusho Co., Ltd., a manufacturer of vacuum pumps and equipment. In 1998, we merged with Toshiba Mechatronics Co., Ltd., and changed our name to Shibaura Mechatronics Corporation.

When I was appointed president in June 1997, the Company faced a critical situation. Productivity of our domestic plants was extremely low due to recession caused by collapse of the "bubble economy" and the shift of motor production to China and Thailand, because of the yen's appreciation. Consequently, it was difficult to maintain employee job security.

Now, three years later, we have successfully implemented a number of major business structural reforms, such as the sale of the Company's DC motor business, shift of our small motor business to a newly established joint venture company (Shibaura Nidec Corporation), the merger with Toshiba Mechatronics Co., Ltd., and the adoption of our new name. As a result, Shibaura Mechatronics Corporation has been reborn as a major "provider of infrastructure for the digital age."

FISCAL 1999 IN REVIEW

In fiscal 1999, Shibaura Mechatronics reported record-high results in three areas: consolidated net sales of ¥75.9 billion (¥52.6 billion on non-consolidated basis), consolidated operating income of ¥2.7 billion (¥2.0 billion on non-consolidated basis), and consolidated ordinary income of ¥1.5 billion (¥1.2 billion on non-consolidated basis).

These achievements resulted from the market recovery for semiconductor manufacturing equipment, our expanded share of markets in Taiwan and Korea for LCD manufacturing equipment, and increased demand for optical disc (CD and DVD) manufacturing equipment, boosted by the arrival of multimedia era.

The Company made a number of major achievements in fiscal 1999. In April, we established Shibaura Mechatronics Taiwan Corporation, a wholly owned subsidiary, in Hsinchu, Taiwan, to expand sales and strengthen services in that market. When the huge earthquake occurred in Taiwan in September 1999, customers appreciated the quick action taken by that subsidiary to provide support services.

In October 1999, the Company concluded a comprehensive technical collaboration agreement with Toshiba Corporation's Corporate Manufacturing Center. Making use of Toshiba's high potential in manufacturing technology, the Company will strengthen its ability to develop new products and provide necessary services to customers in Japan and overseas.

Also in October 1999, the Company launched a commemorative campaign for its 60th anniversary to reinforce its brand name. In these ways, we continue to raise our name recognition at home and abroad. We are accelerating development of 11 items that we have nominated as commemorative products for the 60th anniversary. We will introduce those new products to the market in stages, beginning in April 2000, and we anticipate that such products will account for 38% of net sales in fiscal 2000.

BECOMING A BILLION DOLLAR COMPANY

In the age of consolidated accounting, the next challenge for Shibaura Group is to become a "billion dollar company" in fiscal 2001. First, we aim to achieve net sales of ¥100 billion. Our customers are leading companies in their respective fields, from domestic and overseas makers of semiconductors and LCDs to producers of automated equipment and cigarette vending machines. For this reason, we think that it is key to survive steadily through the 21st century, when winners and losers will be distinguished more severely.

At the beginning of fiscal 2000, we embarked on a new medium-term management plan. The essence of the plan is to target profitability not only through sheer size but also by maximizing profit in every plant, operation, division, and business unit, as well as at all affiliated companies.

SM2001 CAMPAIGN

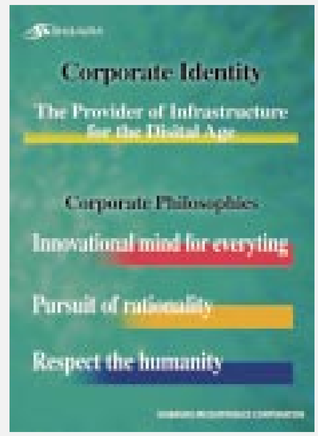
In order to ensure the success of the medium-term management plan, we will promote a program called SM2001

Campaign throughout the Shibaura Group over a two-year period until the end of fiscal 2001.The goal of the campaign is to become a highly profitable corporation with consolidated net sales of ¥100 billion and ROE of 10% in fiscal 2001. Instead of former QC circle activities, which were based on voluntary bottom-up activities within work groups, the SM2001 Campaign will utilize statistical methods, including Six Sigma methodology, as well as computerized technologies. In each work place, we will promote the synergistic benefits of both bottom-up and top-down activities, which we believe will lead directly to an improved corporate performance in the short term.

GLOBAL CUSTOMER BASE

The widespread use of mobile equipment and the Internet has quickly made our market global in nature. Due to our success in Taiwan and Korea, overseas sales reached 47% of net sales in fiscal 1999. In February 2000, the Company issued convertible bonds in the Euromarket. If the bonds are converted to common stock, it is expected that almost 20% of the Company's shares will be held by non-Japanese investors. For this reason, we intend to actively deploy investor relations activities targeting both Japanese and foreign shareholders.

One of the Company's corporate philosophies is to respect humanity. As intensifying competition makes survival tougher than ever, it is important to foster a human-focused society and cultivate a corporate culture accordingly.



Corporate Identity

The best way to become a "billion dollar company" is to express our human culture in order to attract customers, both in Japan and overseas, who visit us for business discussions and on-site inspections. We believe that such a corporate culture will encourage customers to remain close to us for a long time.

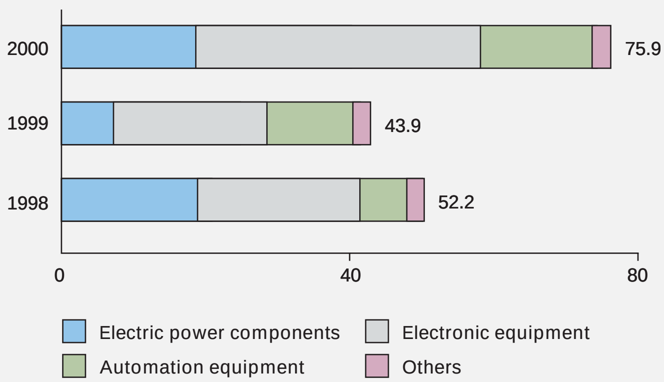
We ask our shareholders and business partners for their continuing support and understanding for our future endeavors.

June 2000

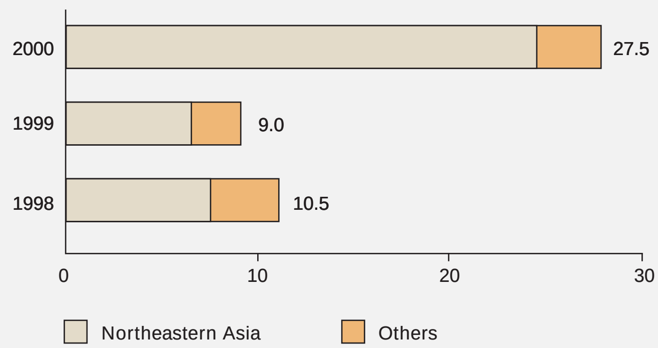
TADAO SUMI
President and Chief Executive Officer

Segment & Regional Information

■ Consolidated Sales by Segment



■ Consolidated Overseas Sales by Geograhital Region



Note: Major countries or regions included in each geographical area
Northeastern Asia — Korea, Taiwan
Others — U.S.A., the Netherlands

Report of the Managing Board

Fine Mechatronics Division

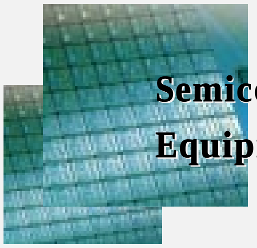
Major products of the Fine Mechatronics Division include wet process equipment, such as LCD cleaning and stripping equipment. As a result of the Company's reorganization in 1999, cell assemblers, outer lead bonders, and other equipment were added to our line-up. Under the new system, we are now a full-scale producer of flat panel display manufacturing equipment.

In fiscal 1999, the Division reported record-high sales of ¥22.3 billion. This was due to substantial capital expenditures by LCD panel manufacturers in Taiwan, as well as to warm acceptance of our technological capabilities, mainly in wet cleaning.

The flat panel display market is expected to grow by 20% to 30% per year due to active demand for notebook PC and LCD monitors. However, the outlook for the latter half of fiscal 2000 is unclear, with concerns about an excess supply of equipment. Nevertheless, fully aware of the rapid shift toward large-scale glass panel sizes, we intend to maintain our market share by developing products ahead of our competitors. Moreover, we will seek to increase sales by entering the semiconductor cleaning business.

Vice President
Choichi Kimura

Wet spin cleaning Equipment



Semiconductor Manufacturing Equipment Division

Vice President
Michiro Ishii

The Semiconductor Manufacturing Equipment Division was established in fiscal 1999 as result of the Company's reorganization. The Division manufactures and sells dry etching and ashing equipment for wafer processes, as well as wire bonders, die bonders, and automated molding machines for semiconductor assembly.

Sales of the Division in fiscal 1999 reached in ¥9.9 billion owing to recovery of the semiconductor manufacturing equipment industry, which began in the latter part of 1999 after the market reached bottom in 1998.

Fiscal 2000 and beyond will see further rapid progress in semiconductor device speed and miniaturization. We also expect to see more and more factories undertake full-scale production of 12-inch wafers. Under these circumstances, the Division intends to expand its business by mounting state-of-the-art ashing/etching chambers for low-dielectric-constant materials onto the high-speed ALLEGRO 12-inch wafer platform. We will also incorporate our new CMP slurry for polishing copper devices. In addition, we will expand our line of flip-chip bonders for CSP, COP, and other new types of packaging, which is expected to generate growth in the future.

High-speed platform
“ALLEGRO”

Electronic & Vacuum Equipment Division

Senior Vice President
Toshimichi Sanada

The Electronic & Vacuum Division manufactures and sells disc-sputtering equipment for CDs and DVDs, sputtering equipment used in electromagnetic shields for cellular phones and PCs, and cartesian robots for industrial use.

Sales of the above products in fiscal 1999 were ¥5.4 billion, up 35% compared with the previous fiscal year.

The market for disc-sputtering equipment is growing rapidly because of active CD-R/RW production, particularly in Taiwan. DVDs have also become very popular thanks to the success of SCE’S (Sony Computer Entertainment Co.,Ltd.) “Play Station II”. In this period of market growth, the Division intends to expand market share by promoting its reputation as a top domestic manufacturer of sputtering equipment, especially its OCTAVA sputtering equipment for CD/DVD-RW/RAM and Stella sputtering equipment for CD/DVD-ROM/R, on the world stage.

Utilizing a wealth of vacuum technology expertise accumulated over many years, we expect to expand our sputtering equipment businesses to the field of such as printed wire boards, automobile mirrors, and light reflecting boards.

Sputtering system for CD-RW,
DVD-RAM “OCTAVA-II”

Automation & Laser Systems Division

Vice President

Iwao Komatsu

The Automation & Laser Systems Division was formed as a new business upon the Company's reorganization in 1999. It handles the Company's operations in industrial-use automation systems and YAG laser systems.

In fiscal 1999, the Division generated sales of ¥8.2 billion despite overall sluggish capital expenditures in Japan. This sales was attributable to the healthy performance of mobile products, especially cellular phones, and to increased sales of automated manufacturing equipment for rechargeable batteries, laser welders, and semiconductor markers.

In the future, the Division will develop and manufacture automated systems, namely rechargeable battery manufacturing equipment, paper cup forming machines, and paper picking equipment. In laser processing equipment, we will focus on new marking equipment, new pulse-form controlled welders, high-output LD (laser diode) pumped YAG lasers, and drillers for precision printed boards.

Paper cup forming machine

Vending Machine & Systems Division

Excutive Vice President

Kunihiko Wada

The Vending Machine & Systems Division manufactures and sells cigarette and ticket vending machines.

In fiscal 1998, Division sales grew as cigarette companies increased installation of vending machines. In fiscal 1999, the number of new machines declined as new installations slowed. As a result, sales of the Division fell to ¥4.4 billion.

The market remains depressed, reflecting various environmental trends, including tougher smoking restrictions and slowing population growth. To expand our business in existing products and enter the multimedia market, we will accelerate development of card-operated vending machines, which we have consistently brought to market ahead of our competitors. We will also develop vending machines that can handle electronic money, as well as information terminals utilizing Internet technology.

We intend to raise market share and enlarge the scope of our business by promoting snack and general-purpose vending machines, as well as beverage vending machines, for which demand is expected to rise in the future. Hereafter, we will develop information equipment using the most advanced IT, EC, and network technologies as the core business of the Division.

Ticket vending machine

CONSOLIDATED BALANCE SHEETS

	31st March, 1998	31st March, 1999	31st March, 2000	31st March, 2000
	Millions of yen			Thousands of U.S. dollars (Note 1)
ASSETS				
Current assets:				
Cash and bank deposits	¥ 2,681	¥ 2,855	¥ 5,745	$ 54,130
Marketable securities (Notes 3 and 5)	424	343	479	4,509
Notes and accounts receivable, trade	17,402	19,403	27,821	262,096
Allowance for doubtful accounts	(144)	(134)	(117)	(1,100)
Inventories (Note 4)	6,961	11,123	18,192	171,378
Other current assets	938	570	1,705	16,052
Total current assets	28,262	34,160	53,825	507,065
Property, plant and equipment (Note 5):				
Land	583	454	611	5,753
Buildings	23,296	27,529	28,801	271,329
Machinery and equipment	21,072	10,269	12,456	117,346
Construction in progress	1,902	148	650	6,125
Total	46,853	38,400	42,518	400,553
Accumulated depreciation	(20,547)	(13,571)	(16,467)	(155,129)
Net property, plant and equipment	26,306	24,829	26,051	245,424
Investments and other assets:				
Investment securities (Notes 3 and 5)	762	832	800	7,542
Other assets	1,103	949	2,414	22,737
Allowance for doubtful accounts	(213)	(0)	(0)	(1)
Total investments and other assets	1,652	1,781	3,214	30,278
Total assets	¥56,220	¥60,770	¥83,090	$782,767

	31st March, 1998	31st March, 1999	31st March, 2000	31st March, 2000
	Millions of yen			Thousands of U.S. dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term bank loans (Note 5)	¥ 11,913	¥ 12,734	¥ 17,275	$ 162,741
Notes and accounts payable	10,933	10,386	24,634	232,074
Accrued expenses	3,106	2,791	4,416	41,605
Accrued income taxes (Note 7)	778	65	847	7,977
Accrued consumption tax	279	0	100	943
Other current liabilities	1,400	1,613	1,457	13,724
Total current liabilities	28,409	27,589	48,729	459,064
Long-term liabilities:				
Bonds (Note 5)	5,000	5,000	2,990	28,168
Long-term debt (Note 5)	4,164	6,635	5,848	55,092
Employees' retirement benefits (Note 8)	2,910	1,988	2,415	22,748
Directors' retirement benefits (Note 8)	204	229	149	1,407
Other long-term liabilities	3,193	3,202	3,275	30,853
Total long-term liabilities	15,471	17,054	14,677	138,268
Contingent liabilities (Note 11)				
Shareholders' equity:				
Common stock, ¥50 par value:				
Authorized:100,000,000 shares				
Issued:				
33,455,333 shares at 31st March, 1998,				
45,865,834 shares at 31st March, 1999,				
49,863,822 shares at 31st March, 2000	3,155	3,776	5,783	54,479
Additional paid-in capital (Note 9)	4,776	7,759	9,763	91,971
Retained earnings (Notes 9 and 14)	4,409	4,592	4,138	38,989
Less treasury stock, at cost	(0)	(0)	(0)	(4)
Total shareholders' equity	12,340	16,127	19,684	185,435
Total liabilities and shareholders' equity	¥ 56,220	¥ 60,770	¥ 83,090	$ 782,767

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

Consolidated Statements of Operations

	Years ended 31st March,			Year ended 31st March,
	1998	1999	2000	2000
	Millions of yen			Thousands of U.S. dollars (Note 1)
Net sales	¥52,192	¥43,875	¥ 75,935	$715,358
Cost of sales	40,585	33,868	59,853	563,848
Gross profit	11,607	10,007	16,082	151,510
Selling, general and administrative expenses	11,112	9,506	13,347	125,745
Operating income	495	501	2,735	25,765
Other income (expenses):				
Interest and dividend income	77	73	25	241
Interest expense	(552)	(438)	(478)	(4,504)
Gain on transfer of business	—	387	—	—
Equlity in losses of affiliates	—	(314)	—	—
Gain on sale of land	1,783	—	932	8,784
Exchange loss on foreign currency transactions	(656)	—	—	—
Special retirement payments	—	—	(2,730)	(25,724)
Special amortization of past service coats of defined benefit pension plan	—	—	(320)	(3,015)
Other net	(165)	(164)	(1,132)	(10,672)
Income before income taxes	982	45	(968)	(9,125)
Income taxes (Note 7):				—
Current	700	133	847	7,984
Deferred	17	23	(281)	(2,648)
Minority interests in loss of consolidated sudsidiaries	(67)	—	(1,319)	(12,429)
Net income (loss)	¥332	¥(111)	¥(215)	$(2,032)
Per share of common stock	Yen			U.S. dollars
Net income (loss)	¥9.95	¥(2.80)	¥(4.65)	$(0.04)
Cash dividends applicable to the period	3.00	3.00	5.00	0.04

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

Consolidated Statements of Shareholders' Equity

	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
		Millions of yen		
Balance as of 31st March, 1997	33,455,333	¥ 3,155	¥ 4,776	¥ 4,474
Net income	—	—	—	332
Decrease in earnings arising from inclusion of consolidated subsidiaries	—	—	—	(284)
Cash dividends paid	—	—	—	(100)
Bonuses to directors and statutory auditors	—	—	—	(13)
Balance as of 31st March, 1998	33,455,333	3,155	4,776	4,409
Increase due to merger	12,410,501	621	2,983	394
Net loss	—	—	—	(111)
Increase in earnings arising from inclusion of affiliated companies accounted for by the equity method	—	—	—	0
Cash dividends paid	—	—	—	(100)
Balance as of 31st March, 1999	45,865,834	3,776	7,759	4,592
Cumulative effect on a change of accounting principles	—	—	—	338
Net loss	—	—	—	(215)
Decrease in earnings arising from inclusion of consolidated subsidiaries	—	—	—	(440)
Cash dividends paid				(137)
Conversion of convertible bonds	3,997,988	2,007	2,004	—
Balance as of 31st March, 2000	49,863,822	¥5,783	¥9,763	¥4,138

	Common stock	Additional paid-in capital	Retained earnings
		Thousands of U.S. dollars	
Balance as of 31st March, 1999	$35,572	$73,101	$43,260
Cumulative effect on a change of accounting principles	—	—	3,194
Net loss	—	—	(2,032)
Decrease in earnings arising from inclusion of consolidated subsidiaries	—	—	(4,137)
Cash dividends paid	—	—	(1,296)
Conversion of convertible bonds	18,907	18,870	—
Balance as of 31st March, 2000	$54,479	$91,971	$38,989

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended 31st March, 1998	1999	2000	Year ended 31st March, 2000
	Millions of yen			Thousands of U.S. dollars (Note 1)
OPERATING ACTIVITIES:				
Income before income taxes	¥ 982	¥ 45	¥ (968)	$ (9,125)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:				
Depreciation and amortization	2,330	2,502	3,302	31,109
Provision for (reversal of) doubtful accounts	14	(278)	(56)	(530)
Provision for or(reversal of) employees' retirement allowances	(48)	(143)	(1,049)	(9,880)
Interest and dividend income	(77)	(73)	(25)	(241)
Interest expense	552	438	478	4,504
Bond issuance expenses	—	—	202	1,903
Gain on sale of property and equipment	(1,783)	—	(923)	(8,694)
Loss on disposal of property and equipment	153	82	38	362
Gain on sale of marketable and investment securities	—	(49)	(3)	(30)
Loss (gain) on revaluation of marketable and investment securities	33	42	(37)	(356)
Translation losses (gains)	656	(5)	—	—
Equity in earnings of unconsolidated subsidiaries and affiliates	—	(432)	—	—
Special retirement payments	—	—	2,730	25,724
Bonuses to directors and statutory auditors	(13)	—	—	—
Changes in assets and liabilities;				
(Increase)decrease in notes and accounts receivable	(477)	4,424	(2,367)	(22,296)
Increase in inventories	(617)	(1,638)	(5,425)	(51,111)
(Decrease) increase in notes and accounts payable	(1,271)	(3,618)	11,237	105,859
Other	(879)	(434)	(734)	(6,910)
Subtotal	(445)	862	6,400	60,288
Interest and dividends received	76	72	25	239
Interest payments	(407)	(438)	(436)	(4,110)
Payments of special retirement	—	—	(2,730)	(25,724)
Income tax payments	99	(785)	(73)	(687)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(677)	(289)	3,186	30,006
INVESTMENT ACTIVITIES:				
Pyments for deposits	—	—	(654)	(6,162)
Proceeds of time deposits	—	—	477	4,494
Purchases of marketable securities	—	(496)	(2,098)	(19,771)
Proceeds from sale of marketable securities	73	695	2,001	18,853
Purchases of property and equipment	(2,402)	(3,053)	(1,287)	(12,126)
Proceeds from sale of property, plant and equipment	2,525	—	2,490	23,462
Increase in net assets due to change in scope of consolidation	622	—	—	—
Purchases of marketable securities	—	(927)	(307)	(2,900)
Proceeds from sale of investment securities	40	10	85	802
Proceeds from disposition of businesses	—	4,244	—	—
Decrease in other assets	112	249	98	931
NET CASH PROVIDED BY INVESTING ACTIVITIES	970	722	805	7,583
FINANCING ACTIVITIES:				
Increase (decrease) in short-term loans	826	(2,832)	(4,861)	(45,799)
Proceeds from long-term debt	17	3,000	805	7,589
Repayments of long-term debt	(927)	(1,017)	(576)	(5,431)
Proceeds from issuance of bonds	—	—	6,797	64,040
Redemption of bonds	—	—	(5,000)	(47,103)
Proceeds from issuance of stock to minority shareholders	—	—	600	5,652
Cash dividends paid	(100)	(100)	(137)	(1,296)
Others	—	—	(0)	(0)
NET CASH USED IN FINANCING ACTIVITIES	(184)	(949)	(2,372)	(22,348)
Effect of exchange rate changes on cash and bank deposits	—	—	12	122
Net increase (decrease) in cash	109	(516)	1,631	15,363
Cash and bank deposits at beginning of the year	2,389	2,681	2,855	26,902
Increase (decrease) arising from exclusion/inclusion of subsidiaries from/in consolidation	183	(182)	1,259	11,865
Cash arising from merger	—	872	—	—
Cash and bank deposits at end of the year	¥ 2,681	¥ 2,855	¥ 5,745	$ 54,130

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31st March, 2000

1. Basis of Presenting Financial Statements

Shibaura Mechatronics Corporation (the "Company") and its consolidated subsidiaries (collectively the "Companies") maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan. The accompanying consolidated financial statements have been prepared from the financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan. Accordingly, the accompanying financial statements are not intended to present the consolidated financial positions, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. For the purposes of this document, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

Effective the year ended 31st March, 2000, under revised disclosure requirements, consolidated statements of cash flows have been adopted as a component of the basic financial statements. The Company has made certain reclassifications to the consolidated statements of cash flows for the years ended 31st March, 1998 and 1999 to conform these to the 2000 presentation.

The accompanying consolidated financial statements are stated in yen, the currency of the country in which the Company is incorporated and operates. The translation of yen amounts into U.S. dollar amounts has been included solely for the convenience of readers outside Japan. The translation has been made at the rate of ¥106.15 = U.S.$1.00, the approximate rate of exchange on 31st March, 2000. This translation should not be construed as a representation that yen could be converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) *Scope of Consolidation*

The accompanying consolidated financial statements include the accounts of Shibaura Mechatronics Corporation and two subsidiaries for the year ended 31st March, 1998, one subsidiary for the year ended 31st March, 1999 and four subsidiaries for the year ended 31st March, 2000. Effective the year ended 31st March, 2000, the scope of consolidation has been changed from including subsidiaries whose voting interests are owned 50% or more by the parent, to an expansion of the scope to a include subsidiaries whose voting interests are owned more than 40% but less than 50% by the parent, whose making decisions concerning its operations are significantly affected by the parent through financial or technical support, personnel, transactions, and so forth. For the years ended 31st March, 1998, 1999 and 2000, seven, six and five subsidiaries, respectively, have been excluded from the scope of consolidation. The exclusion of these subsidiaries is not material to the consolidated financial statements.

(b) *Application of the Equity Method of Accounting*

The accounts of Shibaura Nidec Corporation were initially included in the consolidated financial statements for the year ended 31st March, 1999 by the equity method of accounting. However, Shibaura Nidec Corporation was consolidated effective the year ended 31st March, 2000 as a result of a change in the scope of consolidation adopted by the Company.

For the years ended 31st March, 1998, 1999 and 2000, seven, six and five investments in unconsolidated subsidiaries, respectively, are stated at cost because they have no material effect on the consolidated financial statements.

(c) *Elimination of Intercompany Investments and Relevant Shareholders' Equity*

The Company's investment in each consolidated subsidiary and the Company's interest in the consolidated subsidiaries have been eliminated as of the date of each acquisition.

(d) *Elimination of Unrealized Profits or Losses*

a. Unrealized profits or losses resulting from intercompany transactions relating to assets remaining within the Companies have been eliminated.
b. In connection with the elimination of unrealized profits or losses relating to "Property, plant and equipment" and "Intangible assets", the related depreciation and amortization have been adjusted accordingly.

(e) *Translation of Items in the Financial Statements of Overseas Subsidiaries and Affiliates*

Items in the financial statements of overseas subsidiaries and affiliates are translated into yen at the exchange rate in effect at the balance-sheet dates of such subsidiaries, except for the components of shareholders' equity, which are translated at their historical rates. The resulting foreign currency translation adjustment is included in other assets.

(f) *Cash and Cash Equivalents*

The Company and its subsidiaries substantially consider all highly liquid investments with a maturity of three months or less from the purchase date, are to be cash equivalents.

(g) *Inventories*

Inventories of the Company and its consolidated subsidiaries are stated at cost determined principally by the following methods:

Finished goods, raw materials and supplies– – Primarily by the moving average method

Partially finished goods– – Primarily by individual cost method

Work in process– – Primarily by individual cost method

(h) *Property, Plant and Equipment*

Depreciation of property, plant and equipment is generally computed by the declining-balance method based on the estimated useful lives of the respective assets as stipulated by the Corporation Income Tax Law of Japan and the related regulations. The straight-line method is adopted for a certain building acquired during the year ended 31st March, 1995, and to all buildings acquired since 1st April, 1998.

(i) *Severance Benefits and Pension Plans*

The Company's employees are generally covered by an employee retirement allowances plan, which upon termination of employment provides for a lump-sum payment determined by reference to the current rate of pay, length of service and conditions under which the termination occurs. Accrued severance benefits are stated at 50 per cent. of the amount which would be required to be paid if all employees covered by the plan voluntarily terminated their employment as of the balance sheet date.

Two of the consolidated subsidiaries state their accrued severance benefits at the full amount which would be required to be paid if all employees covered by the plan voluntarily terminated their employment at the date of the balance sheet.

The employee pension plan, which is a funded non-contributory plan, was instituted to replace all the benefits under the retirement allowances plan with respect to employees who retire at the mandatory retirement age. The Company's employees who retire before the mandatory retirement age are also eligible to receive a pension from the pension plan in addition to the benefits under the retirement allowances plan.

In addition, the Company provides for retirement benefits to directors and statutory auditors based on the Company's internal rules at the amount which would be required to be paid if all directors and statutory auditors retired at the balance sheet date.

(j) Liability for Periodic Repairs

A certain building acquired in the year ended 31st March, 1995 requires periodic repairs. An accrual for the related repair expenses is recorded based on the current portion of the total expenses estimated for such repairs.

(k) Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessee are not capitalized, but are accounted for by a method similar to that applicable to operating leases.

(l) Research and Development Expenses

Research and development expenses are charged to income when incurred.

(m) Per Share Information

Net income (loss) per share of common stock is based on the weighted average number of shares of common stock outstanding during each period. Cash dividends per share shown for each period in the consolidated statements of operations represent dividends applicable to the respective period.

(n) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax-based reporting of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

Effective 1st April, 1999, in accordance with a change in accounting principles, the method of accounting for income taxes has been changed to adopting tax-effect accounting whereas tax-effect accounting was applied only to limited temporary differences in previous years. The effect of this change was to increase deferred tax assets by ¥445 million (current assets by ¥319 million and other assets by ¥126 million), to increase net income by ¥302 million and to increase consolidated retained earnings by ¥640 million for the year ended 31st March, 2000.

3. Marketable and Investment Securities

A comparison of the aggregate carrying and market values of marketable and investment securities at 31st March, 1998, 1999 and 2000 is as follows:

	31st March,			31st March,
	1998	1999	2000	2000
	(Millions of yen)			(Thousands of U.S. dollars)
Marketable securities:				
Cost (carrying value)	¥286	¥343	¥381	$3,590
Aggregate market value	403	393	620	5,847
Unrealized gain	¥117	¥ 50	¥239	$2,257
Investment securities:				
Cost (carrying value)	¥ 25	¥ 23	¥ 23	$ 221
Aggregate market value	46	49	50	480
Unrealized gain	¥ 21	¥ 26	¥ 27	$ 259

4. Inventories

Inventories at 31st March, 1998, 1999 and 2000 are summarized as follows:

	31st March,			31st March,
	1998	1999	2000	2000
	(Millions of yen)			(Thousands of U.S. dollars)
Finished products	¥3,901	¥ 5,820	¥ 8,185	$ 77,112
Raw materials	274	128	219	2,061
Work in process	2,786	5,175	9,788	92,205
Total	¥6,961	¥11,123	¥18,192	$171,378

5. Short-Term Bank Loans and Other Long-Term Debt

The interest rates of the Companies for annual short-term bank loans at 31st March, 1998, 1999 and 2000 principally ranged from 0.85 per cent to 1.63 per cent., from 0.62 per cent. to 1.15 per cent. and from 0.57 per cent. to 1.13 per cent., respectively.

A summary of bonds and long-term debt at 31st March, 1998,1999 and 2000 is as follows:

	31st March,			31st March,
	1998	1999	2000	2000
	(Millions of yen)			(Thousands of U.S. dollars)
Unsecured:				
Non-interest bearing convertible bonds due March 2004	¥ –	¥ –	¥ 2,990	$ 28,168
2.8 per cent. straight bonds due October 2000	5,000	5,000	–	–
0.33 per cent. to 5.10 per cent. loans payable from banks and insurance companies due 2000 – 2003	5,079	5,500	5,800	54,640
Loans payable from Pension Welfare Service Public Corporation due 2000 – 2034	90	37	51	482
Secured:				
1.31 per cent. to 3.19 per cent. loans payable from banks due 2000 – 2003	–	1,950	2,600	24,494
Loans payable from Pension Welfare Service Public Corporation due 2000 – 2034	4	2	1	15
Total	10,173	12,489	11,442	107,799
Current portion	(1,009)	(854)	(2,604)	(24,539)
Long-term debt less current portion	¥ 9,164	¥ 11,635	¥ 8,838	$ 83,260

Loans payable from the Pension Welfare Service Public Corporation are for housing loans to the Company's employees and the same amount is stated as a portion of other assets (loans receivable from employees). The Company pays the interest on such loans to the lender and collects the same amount from the employees as the borrowers.

On 7th February, 2000, the Company issued Euro yen 7,000 million ($65,944 thousand) non-interest bearing convertible bonds due March 2004 without security. The convertible bonds are convertible into shares of common stock of the Company at ¥1,003.00 per share, subject to certain adjustments, during the period from 21st February, 2000 to 24th March, 2004.

On 18th February, 2000, the Company entered into a debt assumption agreement with the Sakura Bank regarding its 2.8 per cent. straight bonds due October 2000 (the "Bonds"), under which the Sakura Bank assumed the obligation to redeem the Bonds from the bondholders in exchange for receiving the amount necessary for the redemption of the Bonds from the Company. The Bonds were eliminated from the Company's books of account as of 31st March, 2000; however, the Company still has a contingent liability to the bondholders until the bonds have been fully redeemed.

At 31st March, 2000 the following assets were pledged as collateral for certain of the above loans:

	31st March, 2000	
	(Millions of yen)	(Thousands of U.S. dollars)
Marketable and investment securities	¥ 242	$ 2,281
Property, plant and equipment pledged as collateral for industrial factory foundation, at net book value:		
Land	45	426
Buildings	2,303	21,696
Machinery and equipment	6	54
	¥2,596	$24,457

The aggregate annual maturities of long-term debt subsequent to 31st March, 2000 are summarized as follows:

	31st March, 2000	
	(Millions of yen)	(Thousands of U.S. dollars)
2001	¥2,604	$24,539
2002	3,504	33,011
2003	804	7,571
2004 and thereafter	4,530	42,678
Total	¥11,442	$107,799

6. Research and Development Expenses

Research and development expenses charged to income for the three years ended 31st March, 2000 were as follows:

Years ended 31st March			Years ended 31st March,
1998	1999	2000	2000
(Millions of yen)			(Thousands of U.S. dollars)
¥1,994	¥1,443	¥2,115	$19,924

7. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in statutory tax rates of approximately 48 per cent., 46 per cent. and 42 per cent. for 1998, 1999 and 2000, respectively. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The effective tax rates reflected in the accompanying consolidated statements of operations differ from the statutory tax rates primarily due to the effect of timing differences in the recognition of certain income and expenses such as employees' bonuses, employees' retirement benefits, periodic repair expenses, etc. for tax and financial reporting purposes and the effect of permanent nondeductible expenses.

8. Pension Plan

On 1st October, 1999, the Company's noncontributory defined benefits pension plan has been integrated into one plan from the two plans of the former Shibaura Engineering Works Co., Ltd. ("SEW") and the former Toshiba Mechatronics Corporation ("TM") who merged during the year ended 31st March, 1999. As of 31st March, 2000, the financial information for this pension fund was not available. Pension assets at 31st March, 1998 and 1999 were ¥2,111 million and ¥2,409 million (¥1,862 million for SEW at 31st March, 1999 and ¥547 million for TM at 31st December, 1998), respectively. Prior service costs for SEW and TM were being amortized over 35 years and 8 months, and 13 years and 6 months, respectively, for the years ended 31st March, 1998 and 1999.

9. Legal Reserve and Additional Paid-In Capital

The Commercial Code of Japan provides that an amount equivalent to at least 10% of all cash appropriations of retained earnings, and exactly 10% of interim cash dividends, must be appropriated to the legal reserve until such reserve equals 25% of the stated amount of common stock.

The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

Retained earnings in the accompanying financial statements include the legal reserve of ¥513 million ($4,834 thousand) as of 31st March, 2000.

10. Leases

Non-cancelable lease transactions are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee, are accounted for as finance leases. Lease expenses related to finance leases accounted for as operating leases amounted to ¥301 million, ¥425 million and ¥ 699 million ($ 6,585 thousand) for the years ended 31st March, 1998,1999 and 2000, respectively.

Future minimum lease payments subsequent to 31st March, 2000 for finance lease transactions accounted for as operating leases are summarized as follows:

	31st March, 2000	
	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 689	$ 6,491
Due after one year	2,219	20,904
Total	¥2,908	$27,395

11. Contingent Liabilities

The Company had the following contingent liabilities:

	31st March, 2000 (Millions of yen)	31st March, 2000 (Thousands of U.S. dollars)
As guarantor for housing loans of employees	¥ 160	$1,508
As joint guarantor with agencies regarding lease contracts of agencies' customers	170	1,602
As guarantor for bank loans of subsidiaries	671	6,322
Total contingent liabilities	¥1,001	$9,432

As to a contingent liability regarding a debt assumption agreement, see Note 5.

12. Merger and Transfer of Business

On 26th May, 1998, the former Shibaura Engineering Works Co., Ltd. ("SEW") entered into an agreement to merge with the former Toshiba Mechatronics Corporation ("TM") as of 1st October, 1998. SEW, as the surviving company, whose name was changed to Shibaura Mechatronics Corporation (the "Company") after the merger, issued shares of its common stock to TM's shareholders on a 1:4.19 share basis, for a total of 12,410,501 shares which comprised all the outstanding shares of TM's common stock.

The Company took over all the assets and liabilities of TM, which were accounted for based on TM's financial statements as of 31st March, 1998, with certain adjustments made to reflect the operating results up to the merger date.

In addition, on 26th May, 1998, the Company entered into an agreement to sell its small-sized motor business (the "Motor Business") as of 1st October, 1998 to Shibaura Nidec Corporation ("SN"), formerly named S.E.C. Inc., a wholly-owned subsidiary of the Company, for consideration of ¥3,000 million. The Company's loans payable related to the small-sized motor business are to be repaid by the Company and sourced by funds collected from SN. At the same time SN increased its capital from ¥10 million to ¥1,000 million with funds financed by the Company, Nidec Corporation and Toshiba Corporation, which held 40%, 40% and 20% of its shares, respectively, after the increase.

13. Derivative and Hedging Activities

The Company has entered into interest rate swap contracts to reduce the cost of certain borrowings. As a matter of policy, the Company does not speculate in derivative transactions. The Company uses these contracts to manage its exposure to interest rate risks. The Company does not anticipate nonperformance by any of the counterparties to the above transactions, all of whom are domestic financial institutions with high bond ratings.

In accordance with the Company's policy, derivative transactions are entered into under the decision-making rules approved by the Management Strategy Committee of the Company. The department which has the responsibility to enter into such contracts controls the risks and performance on a daily basis and, if necessary, reports these to management of the Company.

Interest Rate Related Transactions

	For the year ended 31st March, 1998			
	Contract Amounts	(Including portion in excess of one year)	Fair value	Unrealized (loss)
	(Millions of yen)			
Interest rate swaps:				
Receipts floating/ payments fixed	¥500	¥(500)	¥(29)	¥(29)

	For the year ended 31st March, 1999			
	Contract Amounts	(Including portion in excess of one year)	Fair value	Unrealized (loss)
	(Millions of yen)			
Interest rate swaps:				
Receipts floating/ payments fixed	¥6,000	¥(6,000)	¥(149)	¥(149)

	For the year ended 31st March, 2000			
	Contract Amounts	(Including portion in excess of one year)	Fair value	Unrealized (loss)
	(Millions of yen)			
Interest rate swaps:				
Receipts floating/ payments fixed	¥6,000	¥(6,000)	¥(154)	¥(154)

	For the year ended 31st March, 2000			
	Contract Amounts	(Including portion in excess of one year)	Fair value	Unrealized (loss)
	(Thousands of U.S. dollars)			
Interest rate swaps:				
Receipts floating/ payments fixed	$56,523	$(56,523)	$(1,454)	$(1,454)

The contract amounts appearing in the above tables do not fully represent the market risk amounts relating to derivative transactions.

14. Subsequent event

The following appropriations of retained earnings, which have not been reflected in the accompanying financial statements for the year ended 31st March, 2000, have been approved at a shareholders' meeting held on 15th June, 2000:

	15th June, 2000 (Millions of yen)	*15th June, 2000* (Thousands of U.S. dollars)
Cash dividends (¥5 = $0.047 per share)	¥249	$2,348
Bonuses to directors and statutory auditors	26	244
Transfer to legal reserve	27	259

15. Segment Information

The business segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 1998, 1999 and 2000 is summarized as follows:

Business segments

	Year ended 31st March, 1998					
	Electric components	Applied electric equipment	Real estate leasing	Total	Eliminations or unallocated amounts	Consolidated
	(Millions of yen)					
I. Sales and operating income						
Sales to external customers	¥13,976	¥35,709	¥2,507	¥52,192	¥ –	¥52,192
Intersegment sales or transfers	–	–	–	–	(–)	–
Total sales	13,976	35,709	2,507	52,192	–	52,192
Operating expenses	14,579	33,666	1,190	49,435	2,262	51,697
Operating income (loss)	¥(603)	¥2,043	¥1,317	¥2,757	¥(2,262)	¥495
II. Total assets, depreciation and capital expenditures						
Total assets	¥12,350	¥26,856	¥14,628	¥53,834	¥2,386	¥56,220
Depreciation	748	954	649	2,351	59	2,410
Capital expenditures	201	3,265	1	3,467	3	3,470

Notes:

a) *Basis of segmentation*

Business segments are divided into product categories by the same criteria applied for internal control purposes.

b) *Major products in each business segment:*

(1) Electric components:
Motors for household electrical appliances such as air conditioners, washing machines and others, motors for hot water-supply facilities, motors for automatic doors, motors for home use, water-supply pumps, power supplies for communication equipment and others.

(2) Applied electric equipment
Equipment for railroad maintenance, electric power tools, bolt-tightening tools, cartesian coordinate robots, vending machines, ticket vending machines, entrance/exit gate control systems, environment-related machinery, LCD manufacturing equipment, manufacturing equipment for semiconductors, electronic parts, optical devices and so forth, and the non-destructive inspection business and other.

(3) Real estate leasing:
Real estate leasing and management and other.

c) Included in eliminations or unallocated amounts of operating expenses were unallocable amounts totaling ¥2,262 million for the year ended 31st March, 1998 which consisted of expenses incurred in the control department of the Company's head office such as the General Affairs Department.

d) Included in eliminations or unallocated amounts of total assets were unallocable amounts totaling ¥3,573 million for the year ended 31st March, 1998, which primarily consisted of surplus funds (cash and marketable securities) and leased buildings of the Company. For the year ended 31st March, 1999, such eliminations or unallocated amounts primarily consisted of surplus funds (cash and marketable securities).

e) Included in depreciation was amortization and in capital expenditures, additions to long-term prepaid expenses.

	Year ended 31st March, 1999						
	Electric power components	Electric equipment	Automation Equipment	Real estate leasing	Total	Eliminations or unallocated amounts	Consolidated
	(Millions of yen)						
I. Sales and operating income							
Sales to external customers	¥ 7,194	¥ 21,250	¥ 12,928	¥ 2,503	¥ 43,875	¥ –	¥ 43,875
Intersegment sales or transfers	–	–	–	–	–	(–)	–
Total sales	7,194	21,250	12,928	2,503	43,875	–	43,875
Operating expenses	8,232	20,862	12,686	1,342	43,122	252	43,374
Operating income (loss)	¥ (1,038)	¥ 388	¥ 242	¥ 1,161	¥ 753	¥ (252)	¥ 501
II. Total assets, depreciation and capital expenditures							
Total assets	¥ –	¥ 27,407	¥ 16,350	¥ 14,047	¥ 57,804	¥ 2,966	¥ 60,770
Depreciation	324	1,052	472	650	2,498	–	2,498
Capital expenditures	327	1,327	250	2	1,906	–	1,906

	Electric power components	Electric equipment	Automation Equipment	Real estate leasing	Total	Eliminations or unallocated amounts	Consolidated
	Year ended 31st March, 2000						
	(Millions of yen)						
I. Sales and operating income							
Sales to external customers	¥ 18,519	¥ 39,351	¥ 15,721	¥ 2,344	¥ 75,935	¥ –	¥ 75,935
Intersegment sales or transfers	–	–	–	–	–	(–)	–
Total sales	18,519	39,351	15,721	2,344	75,935	–	75,935
Operating expenses	17,813	38,438	15,408	1,325	72,984	216	73,200
Operating income	¥ 706	¥ 913	¥ 313	¥ 1,019	¥ 2,951	¥ (216)	¥ 2,735
II. Total assets, depreciation and capital expenditures							
Total assets	¥ 15,966	¥ 35,857	¥ 16,340	¥ 13,401	¥ 81,564	¥ 1,526	¥ 83,090
Depreciation	669	1,018	540	652	2,879	–	2,879
Capital expenditures	728	714	111	11	1,564	–	1,564

	Electric power components	Electric equipment	Automation Equipment	Real estate leasing	Total	Eliminations or unallocated amounts	Consolidated
	Year ended 31st March, 2000						
	(Thousands of U.S. dollars)						
I. Sales and operating income							
Sales to external customers	$ 174,461	$ 370,712	$ 148,104	$ 22,081	$ 715,358	$ –	$ 715,358
Intersegment sales or transfers	–	–	–	–	–	(–)	–
Total sales	174,461	370,712	148,104	22,081	715,358	–	715,358
Operating expenses	167,809	362,114	145,150	12,480	687,553	2,040	689,593
Operating income	$ 6,652	$ 8,598	$ 2,954	$ 9,601	$ 27,805	$ (2,040)	$ 25,765
II. Total assets, depreciation and capital expenditures							
Total assets	$150,411	$ 337,793	$153,935	$ 126,247	$768,386	$ 14,381	$782,767
Depreciation	6,302	9,593	5,090	6,142	27,127	–	27,127
Capital expenditures	6,860	6,722	1,048	108	14,738	–	14,738

Notes:

a) Changes in components of segments

In connection with the business transfer to Shibaura Engineering Works Co., Ltd., the Company moved its electric power tools section to the segment of electric components and the name was then changed to electric power components. In addition, the Company divided the segment of applied electric equipment into two segments: electric equipment and automation equipment following the merger with Toshiba Mechatronics Corporation. These changes were made to reflect more accurately the actual business of the Company.

Previous segment information by business for the year ended 31st March, 1998, which would have been applicable for the same categories as those presented for the years ended 31st March, 1999 and 2000 is as follows:

	Electric power components	Electric equipment	Automation Equipment	Real estate leasing	Total	Eliminations or unallocated amounts	Consolidated
	Year ended 31st March, 1998						
	(Millions of yen)						
I. Sales and operating income							
Sales to external customers	¥ 18,571	¥ 22,370	¥ 8,744	¥ 2,507	¥ 52,192	¥ –	¥ 52,192
Intersegment sales or transfers	–	–	–	–	–	(–)	–
Total sales	18,571	22,370	8,744	2,507	52,192	–	52,192
Operating expenses	19,184	20,091	8,970	1,190	49,435	2,262	51,697
Operating income (loss)	¥ (613)	¥ 2,279	¥ (226)	¥ 1,317	¥ 2,757	¥ (2,262)	¥ 495
II. Total assets, depreciation and capital expenditures							
Total assets	¥ 15,969	¥ 17,097	¥ 6,140	¥ 14,628	¥ 53,834	¥ 2,386	¥ 56,220
Depreciation	872	613	218	648	2,351	59	2,410
Capital expenditures	316	2,784	366	1	3,467	3	3,470

b) Change in the method of allocation of operating expenses

Effective the year ended 31st March, 1999, the Company began to allocate administrative expenses incurred in the General Affairs Department of the Company to each segment based on the allocation method as that used for management control purposes. In previous years, such administrative expenses were not allocated to each segment. This change was made to reflect more appropriately operating income by business segment after the merger with Toshiba Mechatronics Corporation, to establish reasonable standards to allocate such expenses, and to clarify the responsibility for profit by segment and, thus, to strengthen management control by business segment.

The effect of this change decreased operating income by ¥236 million in the electric power components segment, by ¥883 million in the electronic equipment segment, by ¥601 million in the automation equipment segment and by ¥162 million in the real estate leasing segment from the operating income which would have been recorded under the method applied in previous years. This change, however, had no effect on consolidated operating income for the year ended 31st March, 1999.

c) *Major products in each business segment.*

(1) Electric power components:
Motors for household electrical appliances such as air conditioners, washing machines and other, motors for hot water-supply facilities, motors for automatic doors, motors for home use, water-supply pumps, power supplies for communication equipment, equipment for railroad maintenance, electric power tools, bolt-tightening tools and other.

(2) Electronic equipment
LCD manufacturing equipment (wet cleaning equipment, stripping equipment, etching equipment, cell assembly equipment, outer lead bonding equipment, semiconductor manufacturing equipment (etching equipment, ashing equipment, die-bonding equipment, wire-bonding equipment, automatic molding equipment), media devices manufacturing equipment (sputtering equipment, vacuum plating equipment), magnetically levitated transportation systems, high-speed chip mounting equipment, soldering paste printing equipment, the non-destructive inspection business and others.

(3) Automation equipment
Picture tube manufacturing equipment, automatic envelope filling and sealing systems, precision parts manufacturing equipment, media devices manufacturing equipment, laser applied processing equipment, microwave applied equipment, cartesian coordinate robots, vending machines (for cigarettes, food, dry batteries, films, groceries and others), ticket vending machines (for food tickets, admission tickets and other), entrance/exit gate control systems, environment-related machines (mini-recycling mills and other) and other.

(4) Real estate leasing
Real estate leasing and management and other.

d) Included in eliminations or unallocated amounts of operating expenses are unallocable amounts relating to development expenses incurred for the entire company as part of the Company's research and development costs.

e) Included in the eliminations or unallocated amounts of total assets were unallocable amounts totaling ¥4,006 million and ¥6,581 million ($62,004 thousand) for the years ended 31st March, 1999 and 2000, respectively, which primarily consisted of surplus funds (cash and marketable securities) of the Company.

f) Included in depreciation was amortization, and in capital expenditures, additions of long-term prepaid expenses.

g) There were no assets belonging to the electric power components business at 31st March, 1999 and 2000 because this business segment was transferred to Shibaura Engineering Works Co., Ltd. during the year then ended.

Geographical segments

No information by geographical segment for the years ended 31st March, 1998, 1999 and 2000 has been presented due to the fact that the net sales and total assets of operations in Japan exceeded 90% of those in all segments.

Overseas sales

	Year ended 31st March, 1998		
	Northeastern Asia	Other	Total
	(Millions of yen)		
I. Overseas sales	¥7,096	¥3,357	¥10,453
II. Consolidated net sales			52,192
III. % of consolidated net sales	13.6%	6.4%	20.0%

	Year ended 31st March, 1999		
	Northeastern Asia	Other	Total
	(Millions of yen)		
I. Overseas sales	¥6,508	¥2,536	¥ 9,044
II. Consolidated net sales			43,875
III. % of consolidated net sales	14.8%	5.8%	20.6%

	Year ended 31st March, 2000		
	Northeastern Asia	Other	Total
	(Millions of yen)		
I. Overseas sales	¥24,267	¥3,232	¥ 27,499
II. Consolidated net sales			75,935
III. % of consolidated net sales	32.0%	4.2%	36.2%

	Year ended 31st March, 2000		
	Northeastern Asia	Other	Total
	(Thousands of U.S. dollars)		
I. Overseas sales	$228,611	$30,447	$259,058
II. Consolidated net sales			715,358
III. % of consolidated net sales	32.0%	4.2%	36.2%

Notes:

a) Overseas sales are those of the Company and its consolidated subsidiaries in countries or regions other than Japan.

b) The division of overseas sales into countries or regions and the names of such countries or regions are as follows:

(1) Overseas sales by country or region:
Geographical areas are divided into categories based on their geographical proximity.

(2) Major countries or regions included in each geographical area:
Northeastern Asia - Korea, Taiwan
Other - U.S.A., the Netherlands

Report of Independent Certified Public Accountants

CENTURY OTA SHOWA & CO.
ERNST & YOUNG INTERNATIONAL

■ Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011
C.P.O. Box 1196, Tokyo 100-8641

■ Phone: 03 3503-1100
Fax: 03 3503-1197

The Board of Directors
Shibaura Mechatronics Corporation

We have examined the accompanying consolidated balance sheets of Shibaura Mechatronics Corporation and consolidated subsidiaries as of 31st March, 1998, 1999 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended 31st March, 2000, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements refered to above expressed in yen, present fairly the consolidated financial position of Shibaura Mechatronics Corporation and consolidated subsidiaries at 31st March, 1998, 1999 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March, 2000 in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2000 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

As discussed in Note 15 to the consolidated financial statements, the Company has changed the presentation of its business segments in connection with the business transfer to Shibaura Engineering Works Co., Ltd. This change was made to reflect more accurately the actual business of the Company. In addition, effective the year ended 31st March, 1999, the Company began to allocate administrative expenses incurred in the General Affairs Department of the Company to each segment based on the allocation method which it uses for management control purposes. In previous years, such administrative expenses were not allocated to each segment. This change was made to reflect operating income by more appropriately business segment after the merger with Toshiba Mechatronics Corporation and to establish more reasonable standards for allocating such expenses as well as to clarify the responsibility for profit by segment and, thus, to strengthen management control over each business segment.

Century Ota Showa & Co.

Tokyo Japan
15th June, 2000

NON-CONSOLIDATED BALANCE SHEETS

	31st March, 1998	1999	2000	31st March, 2000
	Millions of yen			Thousands of U.S. dollars
ASSETS				
Current assets:				
Cash and bank deposits	¥1,984	¥2,539	¥4,299	$40,497
Marketable securities	424	344	473	4,452
Notes and accounts receivable, trade:				
Notes	5,779	4,493	3,732	35,162
Accounts	10,760	14,206	16,184	152,459
Allowance for doubtful accounts	(131)	(115)	(87)	(818)
Inventories	6,593	10,855	15,295	144,092
Deferred taxes	—	—	271	2,553
Other current assets	1,289	611	722	6,805
Total current assets	26,698	32,933	40,889	385,202
Property, plant and equipment:				
Land	179	254	138	1,299
Buildings	22,781	27,338	27,468	258,762
Machinery and equipment	19,929	10,071	9,919	93,445
Construction in progress	1,900	148	219	2,066
Total	44,789	37,811	37,744	355,572
Accumulated depreciation	(20,251)	(13,434)	(15,044)	(141,722)
Net property, plant and equipment	24,538	24,377	22,700	213,850
Investments and other assets:				
Investment securities	370	483	399	3,762
Investment in subsidiaries and affiliates	900	1,149	1,590	14,973
Deferred taxes	—	—	96	907
Other assets	1,009	888	1,017	9,580
Allowance for doubtful accounts	(213)	(0)	(0)	(1)
Total investments and other assets	2,066	2,520	3,102	29,221
Total assets	¥53,302	¥59,830	¥66,691	$628,273

Non-Consolidated Balance Sheets

	31st March, 1998	31st March, 1999	31st March, 2000	31st March, 2000
	Millions of yen			Thousands of U.S. dollars
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term bank loans	¥10,552	¥11,810	¥5,970	$56,241
Current portion of long-term debt	1,009	854	2,603	24,521
Notes and accounts payable				
Notes	5,080	4,950	7,868	74,122
Accounts	3,934	4,675	11,331	106,743
Other	1,196	95	51	478
Advances from customers	219	594	554	5,216
Accrued expenses	3,888	3,032	4,045	38,112
Accrued income taxes	660	63	772	7,278
Accrued consumption tax	246	—	—	—
Other current liabilities	248	208	147	1,384
Total current liabilities	27,032	26,281	33,341	314,095
Long-term liabilities:				
Bonds	5,000	5,000	2,990	28,168
Long-term debt	2,584	6,635	4,025	37,916
Employees' retirement allowances	2,823	1,891	1,796	16,925
Directors' retirement allowances	204	223	134	1,259
Liability for periodic repairs	172	202	229	2,155
Other long-term liabilities	3,000	3,000	3,000	28,262
Total long-term liabilities	13,783	16,951	12,174	114,685
Shareholders' equity:				
Common stock, ¥50 par value:				
Authorized: 100,000,000 shares				
Issued and outstanding:				
33,455,333 shares at 31st March, 1998,				
45,865,834 shares at 31st March, 1999,				
49,863,822 shares at 31st March, 2000	3,155	3,776	5,783	54,479
Additional paid-in capital	4,776	7,760	9,763	91,971
Legal reserve	392	487	500	4,716
Retained earnings	4,164	4,575	5,130	48,327
Total shareholders' equity	12,487	16,598	21,176	199,493
Total liabilities and shareholders' equity	¥53,302	¥59,830	¥66,691	$628,273

Non-Consolidated Statements of Operations

	Years ended 31st March,			Year ended 31st March,
	1998	1999	2000	2000
	Millions of yen			Thousands of U.S. dollars
Net sales	¥49,031	¥41,548	¥52,562	$495,175
Cost of sales	38,513	32,549	42,681	402,086
Gross profit	10,518	8,999	9,881	93,089
Selling, general and administrative expenses	10,265	8,678	7,886	74,292
Operating income	253	321	1,995	18,797
Other income (expenses):				
Interest and dividend income	79	113	30	282
Interest expense	(406)	(437)	(336)	(3,171)
Gain on sale of land	1,722	—	932	8,784
Special retirement payments	—	—	(991)	(9,333)
Gain on transfer of business	—	422	—	—
Other net	(89)	(115)	(497)	(4,681)
Income before income taxes	1,560	304	1,133	10,678
Income taxes:				
Current	590	92	795	7,489
Deferred	—	—	(272)	(2,571)
Net income	¥969	¥212	¥610	$5,760
Per share of common stock:		Yen		U.S. dollars
Net income	¥28.98	¥4.63	¥13.18	$0.12
Cash dividends applicable to the period	3.00	3.00	5.00	0.04

ORGANIZATION CHART

As of 1st April, 2000

- **Board of Directors**
  - **Chief Executive Officer**
    Tadao Sumi
    - **Export Control Division**
      GM Osamu Ushiku
    - **General Affairs Division**
      GM Shintaro Kujiraoka
    - **Information & Communications System Division**
      GM Michio Tsuruoka
    - **Finance & Accounting Division**
      GM Kiyoshi Ozawa
    - **Corporate Planning Division**
      GM Toshio Yokouchi
    - **Technology Planning & Coordination Division**
      GM Kouichi Hyoudou
    - **Research & Development Division**
      GM Yasutomo Fuzimori
    - **Seibu Branch Office**
      GM Kunihiko Yokoyama
    - **Fine Mechatronics Company**
      CP Yoshio Amano
      - **Fine Mechatronics Division**
        GM Choichi Kimura
      - **Semiconductor Manufacturing Equipment Division**
        GM Michiro Ishii
    - **Automation systems & Electronic, Vaccuum Equipment Company**
      CP Toshimichi Sanada
      - **Automation & Laser Systems Division**
        GM Iwao Komatsu
      - **Electronic & Vacuum Equipment Division**
        GM Toshimichi Sanada
    - **Vending Machines & Systems Company**
      CP Kunihiko Wada
      - **Vending Machines & Systems Division**
        GM Kunihiko Wada
    - **Manufacturing Company**
      CP Hiroshi Yamamoto
      - **Yokohama Operations**
        GM Shunichi Kato
      - **Sagamino Operations**
        GM Hiroshi Yamamoto
      - **Obama Works**
        GM Harumichi Konaka
      - **Precision Machining Center**
        GM Norio Fujimoto
- **Board of Corporate Auditors**

Abbreviations
CP: Company President
GM: General Manager

Board of Directors

As of 31st March, 2000

Standing, from left ; Kazuhiko Kojima , Toshimichi Sanada ,Goro Iketani , Toshio Yokouchi , Yoshio Amano , Hajime Okado, Noboru Saito , Fujio Tsuchiya , Hitoshi Hirano, Toshio Tsukuno
Sitting, from left ; Tetsurou Yanagiya , Osamu Ushiku , Tadao Sumi , Kunihiko Wada , Hiroshi Yamamoto , Kiyoshi Ozawa

As of 15th June, 2000

President and Chief Executive Officer:
Tadao Sumi

Executive Vice President:
Kunihiko Wada
Assistant to President
President of Vending Machines & Systems Company
General Manager of Vending Machines & Systems Division
General Manager of Tokyo Bay Office

Tetsurou Yanagiya
Assistant to President
Chief Technical Officer
Chief Procurement Officer
(Technology Planning & Coordination Division)
(Research & Development Division)

Senior Vice President:
Hiroshi Yamamoto
Chief Manufacturing Officer
General Manager of Sagamino Operations
(Precision Machining Center)
Executive Quality Leader

Kiyoshi Ozawa
General Manager of Finance & Accounting Group

Yoshio Amano
President of Fine Mechatronics Company
(Marketing Planning Group)
(Seibu Branch Office)
General Manager of Export Control Division
General Manager of Tokyo Office

Toshimichi Sanada
President of Automation Systems & Electronic, Vacuum Equipment Company
General Manager of Electronic & Vacuum Equipment Division

Vice President:
Toshio Yokouchi
General Manager of Corporate Planning Group
(General Affairs Group)

Choich Kimura
General Manager of Fine Mechatronics Division

Iwao Komatsu
General Manager of Automation & Laser Systems Division

Michiro Ishii
General Manager of Semiconductor Manufacturing Equipment Division

Shunichi Kato
General Manager of Yokohama Operations
Assistant to Chief Manufacturing Officer

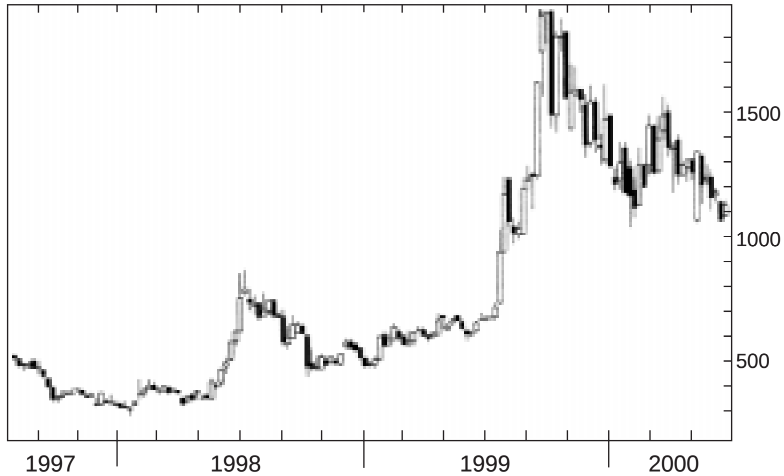
Auditors:
Osamu Ushiku
Hajime Okado
Yasuaki Nakazawa (Outside)
Toshio Tsukuno (Outside)

CORPORATE DATA

■ Date of Established
October, 1939
■ Paid-in Capital
5,783Million-Yen
■ Common Stock
Issued 49,863,822 shares
■ Number of Employees
1,329
■ Stock Listngs
The Tokyo Stock Exchange
■ Shareholders
6,056
■ Major Shareholders
Toshiba Corporation 23,477,463 shares (47.08%)
■ Accounting Auditor
Century Showa Ota & Co.

(As of 31st March , 2000)

■ Stock Prices on the Tokyo Stock Exchange



SHIBAURA

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