

Annual Report 2004

For the year ended March 31, 2004

Contents

Financial Highlights	1
To Our Shareholders	2
Financial Review	6
Five-Year Summary	9
Topics 2003 in Shibaura	10
Environmental Activities 2003 in Shibaura	13
Corporate Governance	14
Board of Directors	15
Investor Information	16

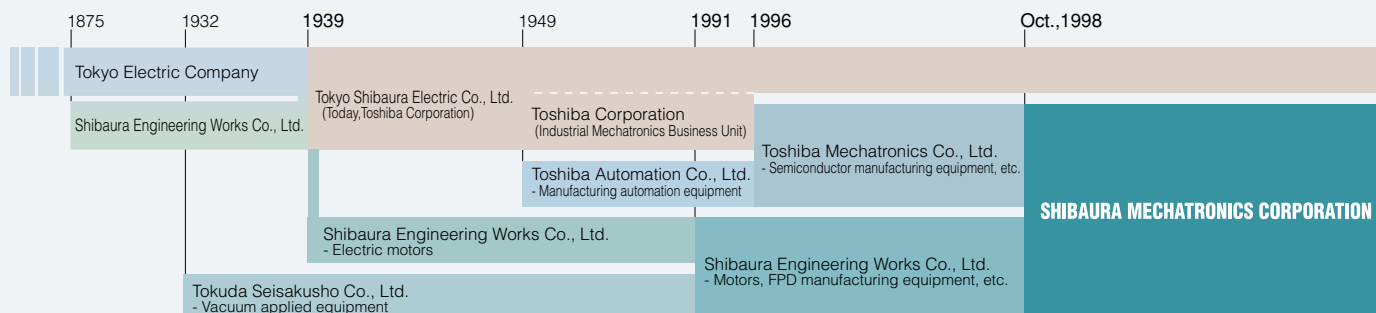
Profile

Shibaura Mechatronics Corporation commenced operations in 1939 under the name of Shibaura Engineering Works Co., Ltd. as an electric power equipment manufacturer, mainly of electric motors. The Company significantly contributed to building the infrastructure of the industrialized society in the 20th century.

In the last decade, however, the Company carried out a bold business restructuring and changed its name to Shibaura Mechatronics Corporation to reflect its new objective of supplying electronic device manufacturing equipment. At the same time, the Company defined its corporate identity as "The Provider of Infrastructure for the Digital Age".

The 21st century is the age of IT and of the environment. To fulfill the demands of this century, the Company has declared that it will become "e-Shibaura", a truly IT-based enterprise, as well as "E-Shibaura", an enterprise that places priority on the Earth's environment. In other words, as "e & E-Shibaura" we will supply products and services that are suitable for the age of IT and of the environment while encouraging innovative behavior and thinking among our employees in the pursuit of global business expansion.

History



Cover Photo :
LCDs being manufactured using the OLB

The era of flat panel TVs has come. The OLB (outer lead bonder) is bonding equipment that builds driver ICs on a liquid crystal panel. Featuring high precision and high productivity, our OLB is most widely used in the world. As LCD TVs become larger in size, there is increasing demand for large OLBs.

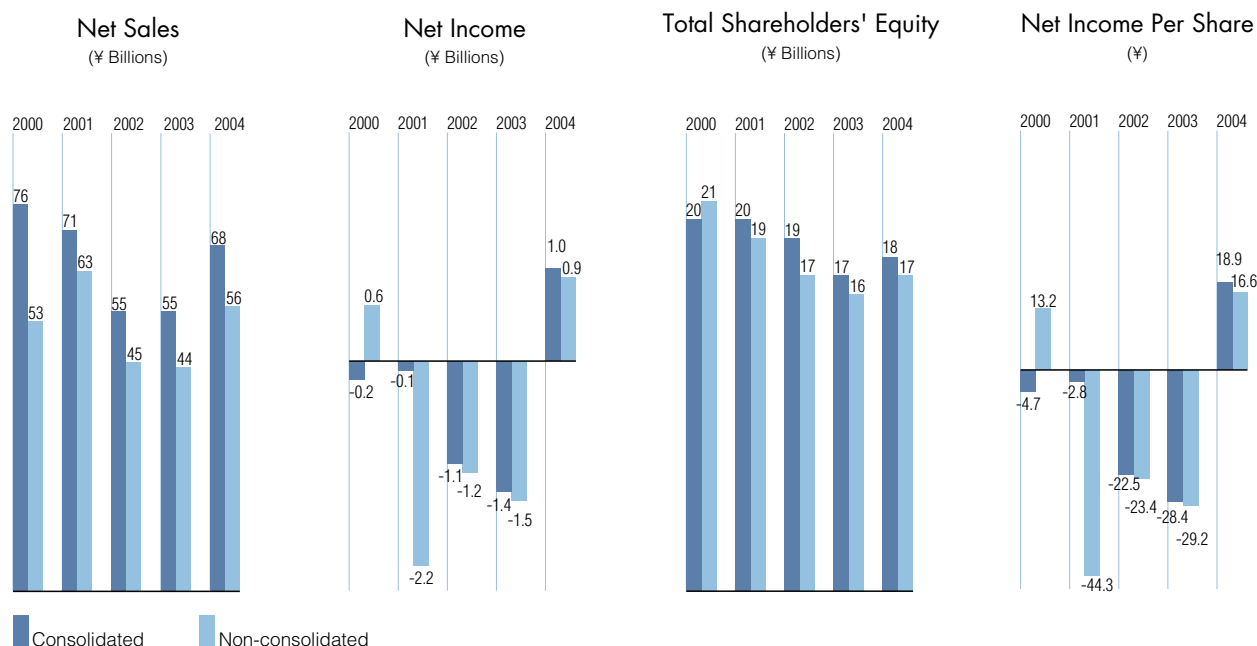
Forward-Looking Statements

This annual report contains forward-looking statements concerning Shibaura's future plans, strategies and performance. These forward-looking statements are not historical facts, rather they represent assumptions and beliefs based on data currently available. Furthermore, they are subject to a number of risks and uncertainties that, without limitation, relate to economic conditions, worldwide mega-competition in the electronics business, customer demand, foreign currency exchange rates, tax rules, regulations and other factors. Shibaura therefore wishes to caution readers that actual results may differ materially from our expectations.

Financial Highlights

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Years ended March 31			
Consolidated			
Net sales	¥ 67,521	¥ 54,761	\$ 638,857
Operating income (loss)	3,168	(1,502)	29,974
Net income (loss)	979	(1,416)	9,265
Total assets	69,245	63,615	655,174
Total shareholders' equity	18,091	17,066	171,168
Net income (loss) per share	¥ 18.88	¥ (28.40)	\$ 0.17
Non-consolidated			
Net sales	¥ 56,108	¥ 43,754	\$ 530,876
Operating income (loss)	2,092	(1,742)	19,793
Net income (loss)	859	(1,455)	8,127
Total assets	61,520	57,646	582,084
Total shareholders' equity	16,707	15,785	158,077
Net income (loss) per share	¥ 16.62	¥ (29.19)	\$ 0.15

Note 1: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥105.69 = U.S.\$1.00, as of March 31, 2004.



Hiroo Okuhara
President and Chief Executive Officer

To Our Shareholders

In October 1998, after a number of mergers and acquisitions, Shibaura Mechatronics sharply transformed itself from a manufacturer mostly specializing in motors into "The Provider of Infrastructure for The Digital Age". In October 2003 we marked the fifth anniversary of the transformation. Overcoming difficulties such as the IT recession during the period, we have steadily grown to be a provider of equipment for manufacturing liquid crystal and other flat panel displays (FPDs), semiconductors, optical discs, and other products.

We expect that high growth will definitely continue in our principal business field of providing various types of equipment for manufacturing electronics components, and we will keep on pouring our efforts into this field.

The corporate philosophies of Shibaura Mechatronics are "Innovative in All Things", "Pursuit of Rationality", and "Respect Humanity". By endeavoring to ensure that these concepts will permeate the Company and its subsidiaries and affiliates, we are working hard at actualizing a global business group full of speed and vitality. Under these corporate philosophies, we are continuously pursuing business activities that can ensure high growth and high profitability. These activities include fully implementing the management innovation activity "SM2003", which incorporates statistical management reform techniques; adopting result-based personnel treatment programs designed to help employees find greater satisfaction in their jobs and thus enhance their morale, and further stepping up our environmental preservation activities.



In order to win recognition in Japan and in the rest of the world, we need to accurately grasp and promptly respond to the customer's voice and quickly changing needs and to steadily carry our core initiatives. Our core initiatives are to shift to fields of growth, to strengthen our financial structure, and to pursue even more efficient management. By carrying out these core initiatives, we will strive to be the leading company that is really reliable. At the same time, we will pursue commitment-based management in which all employees share our management visions and assume responsibility for achieving targets set. All of us will work hard to achieve our management visions, complying with rules and sticking to fair business activities.

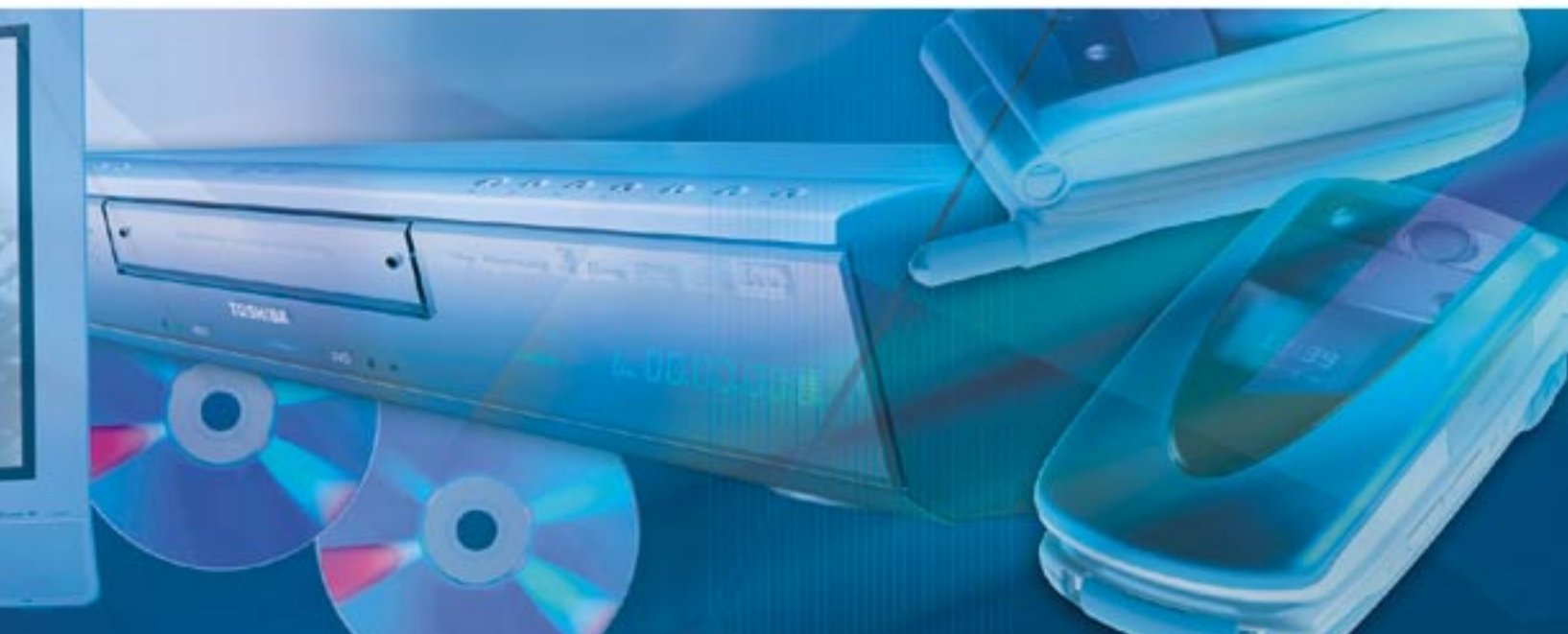
Performance in Fiscal 2003

When fiscal 2003 began, the Japanese economy was surrounded by a number of uncertainties, such as over the impact of the war in Iraq on the U.S. economy and the effect of SARS (severe acute respiratory syndrome) on the Asian economy. In the second half of the year, equipment investment began to recover gradually and stock prices in Japan started to follow a basically upward trend, indicating that the Japanese economy is now picking up. The economy is still under severe circumstances, but in the electronics industry, in which our major customers operate, there is continued active investment in LCD manufacturers. With respect to the semiconductor

industry, equipment investment continues to be strong, supported by brisk sales of digital home appliances and a turnaround in the demand for personal computers.

Under these business circumstances, the FPD market is growing rapidly. In particular, FPDs for large-screen TVs are in active demand, in addition to those for monitors. Reflecting these conditions, the LCD manufacturing equipment market fared strongly, supported by increased investment in equipment ready for large glass substrates. After being inactive for the past two years, the semiconductor manufacturing equipment market began to see a recovery in equipment investment largely because of strong results from devices for cellular phones and digital cameras. In the optical disc industry, active investment is being made in DVD-related equipment as users shift from video cassette recorders to DVD recorders on a major scale. On the other hand, in the market for laser application equipment and automatic machines, equipment investment is still generally held back in Japan. The cigarette vending machine market continued to shrink because of the global restraint on cigarette demand, but ticket vending machines fared strongly.

In this business environment, the Shibaura Group made concerted efforts, placing top priority on capturing orders. As a result, we recorded sales exceeding our initial plans for fiscal 2003. With respect to LCD manufacturing equipment of the Fine Mechatronics Segment, there was a high level of orders for wet





To Our Shareholders

cleaning equipment ready for next-generation large glass substrates. The level of orders was also satisfactory for semiconductor manufacturing equipment, especially bonding equipment. The Automation Systems & Vacuum Equipment Segment recorded sales of media device manufacturing equipment that far exceeded the initial target, especially because of strong sales of DVD-related equipment. The Group's consolidated sales for fiscal 2003 totaled ¥67,521 million, showing an increase of 23% over the previous year. Orders received during the year reached an all-time high of ¥83,033 million on a non-consolidated basis, representing an increase of 70% over the previous year, supported by favorable levels of investment in equipment for manufacturing LCDs, semiconductors, and DVDs.

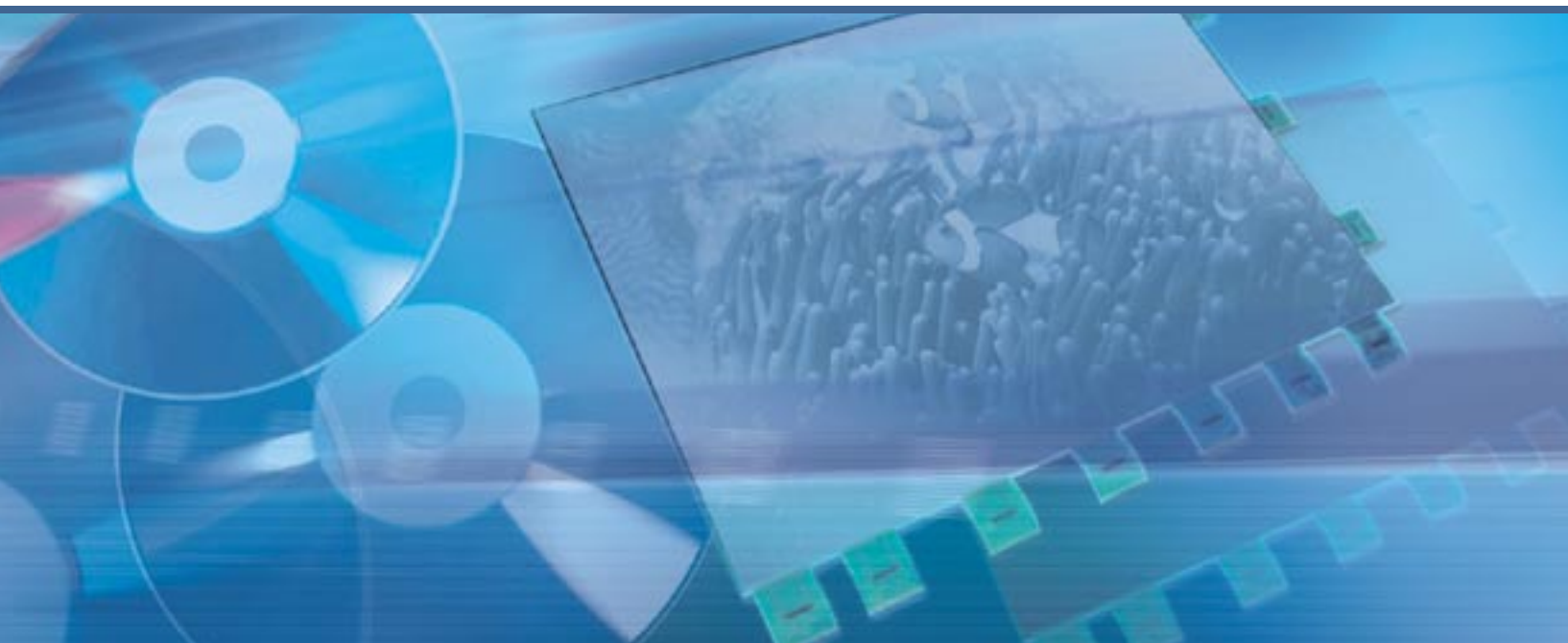
Faced by a number of adverse factors, including the negative impact of SARS in the first half of the fiscal year, we worked hard at improving the earnings performance by stepping up streamlining and cost-cutting efforts in the management innovation activity "SM2003" and implementing emergency action plans, including the efforts to reduce fixed costs and other expenses. As a consequence of these efforts and increased gross profit resulting from larger-than-expected sales, consolidated ordinary income amounted to ¥2,068 million, exceeding an initial planned amount and showing a year-on-year increase of ¥4,203 million. Consolidated net income stood at ¥979 million, an increase of ¥2,395 million over the previous year.

Future Activities

In consideration of domestic and international business trends, changes in our business environment, and other factors, we have formulated a medium-term management plan covering the three years beginning with fiscal 2004. The basic idea of the medium-term management plan is to refocus our efforts on a more profitable structure and a growth path. Under the plan, we are taking measures to expand business in growth fields and strengthen our competitiveness in a deflationary environment. In addition, we will place priority on management that emphasizes cash flows. For this purpose, we will endeavor to further improve our financial structure through early collection of trade receivables, reduction of inventories, and so on. We will also strive to establish a more stable earnings structure by promoting "efficient management" through such measures as reduction of fixed costs.

Economic circumstances at home and abroad remain uncertain, though they are basically becoming brighter. In the field of electronics, where our major customers operate, we expect that they will steadily increase equipment investment in view of brisk sales of digital home appliances and a turnaround in the demand for personal computers.

In such a business environment, sales of LCD manufacturing equipment are expected to increase because of the present high level of orders, especially for next-generation equipment



ready for large glass substrates and for bonding equipment for liquid crystal panels. In the field of semiconductors, demand for back-end process equipment has recovered, and increases in orders and sales are projected for front-end process equipment, especially equipment ready for 300 mm wafers and new processes. In the field of media device, there is a continued strong demand for DVD-related equipment. We will continue to place top priority on capturing orders by making strenuous sales efforts at home and abroad, especially in the fields of new technologies.

Furthermore, we will keep on taking measures to strengthen our business base and will further cut back on expenses and fixed costs. We will endeavor to improve the profitability of our business operation by fully implementing the management innovation activity "SM2005", which incorporates statistical management reform techniques (six sigma methodology) and the management reform method BCM (Balanced CTQ Management) that sets important tasks based on our management visions and strategies, implementing concrete measures.

For the Future

Although Japanese companies are shifting more of their manufacturing bases to foreign countries in the continuing severe market environment, we are confident that it is Japanese

manufacturing equipment makers that will lead the world manufacturing industry in the 21st century and that manufacturing equipment is the engine for the IT industry. With this confidence and pride, we will carry on our business in the future.

In the field of digital home appliances, such as DVDs, cellular phones, digital cameras, and digital TVs, Japan has the power to develop the next generation of information technology. We are determined to provide manufacturing equipment that is required for such next-generation information technology without delay.

We will keep on making incessant efforts to make ourselves the only-one presence for customers as "The Provider of Infrastructure for The Digital Age".

We hope that in expectation of further growth and prosperity of Shibaura Mechatronics, our shareholders will extend even greater support and understanding to us.

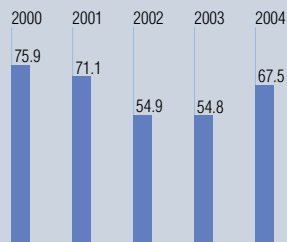
July 2004

Hiroo Okuhara
President and Chief Executive Officer

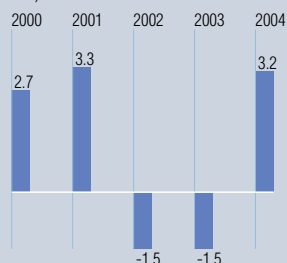
Financial Review

Shibaura Mechatronics Corporation and subsidiaries
Years ended March 31

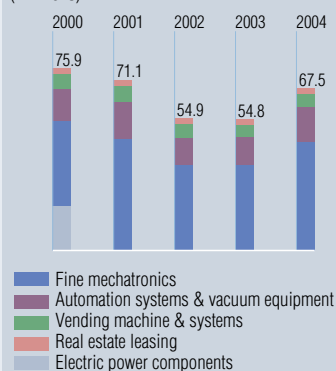
Net Sales
(¥ Billions)



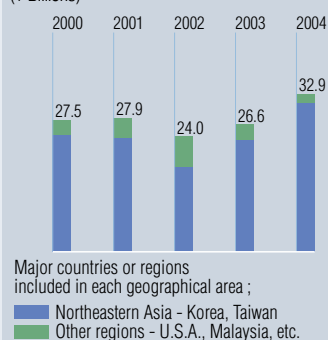
Operating Income
(¥ Billions)



Sales by Segment
(¥ Billions)



Overseas Sales by Region
(¥ Billions)



Sales

When fiscal 2003 began, the Japanese economy was surrounded by a number of uncertainties. In the second half of the year, however, equipment investment began to recover gradually, and stock prices in Japan started to follow a basically upward curve. It is considered that the Japanese economy is now picking up.

Under these business circumstances, the flat panel display (FPD) market is growing rapidly. Reflecting these conditions, the LCD manufacturing equipment market fared strongly, supported by increased investment in manufacturing equipment for processing of large glass substrates. The semiconductor manufacturing equipment market began to see a recovery in capital investment, largely because of strong results from devices for cellular phones and digital cameras. In the optical disc industry, active investment is being made in DVD-related equipment. The cigarette vending machine market continued to shrink because of the global restraint on cigarette demand, but ticket vending machines fared strongly.

Under these severe business circumstances, the Group (the Company and its consolidated subsidiaries) made concerted efforts, placing top priority on capturing orders. The Group's consolidated sales in the year ended March 31, 2004, totaled ¥67,521 million, exceeding the initially planned level and showing an increase of 23% over the previous year. Orders received during the year reached an all-time high of ¥83,033 million on a non-consolidated basis, representing an increase of 70% over the previous year.

Profit and Loss Analysis

We worked hard at improving the earnings performance by stepping up streamlining and cost-cutting efforts in the management innovation activity "SM2003" and implementing emergency action plans, including the efforts to reduce fixed costs and other expenses. As a consequence of these efforts and increased gross profit resulting from larger-than-expected sales, consolidated ordinary income amounted to ¥2,068 million, exceeding the initial planned amount and showing a year-on-year increase of ¥4,203 million. Consolidated net income stood at ¥979 million, an increase of ¥2,395 million over the previous year.

Segment Information

(Fine Mechatronics Segment)

Orders for LCD manufacturing equipment came in at a steady pace, most significantly for wet cleaning equipment for next-generation large glass substrates and bonding equipment for liquid crystal panels, especially in Japan, Taiwan and Korea. As a result, sales exceeded the initially planned level. Orders for and sales of semiconductor manufacturing equipment increased,

especially those for cellular phones and digital cameras devices and bonding equipment for the manufacture of IC drivers of LCDs. With respect to front-end process equipment, we received increased inquiries for equipment ready for 300mm wafers and new technologies in Japan. As a consequence, this segment recorded consolidated sales of ¥45,084 million, larger than the initially planned amount and up 26% from the previous year. The segment's operating income amounted to ¥1,730 million, a year-on-year increase of ¥2,380 million.

(Automation Systems & Vacuum Equipment Segment)

Media device manufacturing equipment recorded large increases in orders and sales because the full-scale shift from video tape recorders to DVD recorders encouraged active investment in equipment related to write-once and rewritable DVDs. On the other hand, laser application equipment and automatic machines saw little increase in orders or sales because of a decrease in general equipment investment reflecting stagnant business activity in Japan. This segment recorded consolidated sales of ¥14,844 million, near the initially planned level and up 32% over the previous year. The segment's operating income amounted to ¥436 million, showing an increase of ¥1,950 million over the previous year.

(Vending Machines & Systems Segment)

In the face of a continued severe business environment, including the shrinkage of the cigarette vending machine market, the Vending Machines & Systems Segment succeeded in capturing a larger market share through enhanced sales activities. The segment recorded consolidated sales of ¥5,501 million, down 4% from the previous year, and an operating income of ¥445 million, up ¥207 million from the previous year.

(Real Estate Leasing Segment)

The Real Estate Leasing Segment recorded consolidated sales of ¥2,092 million, down 2% from the previous year, and an operating income of ¥823 million, up ¥54 million from the previous year.

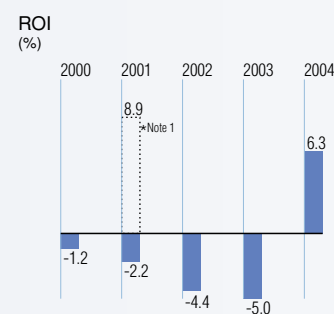
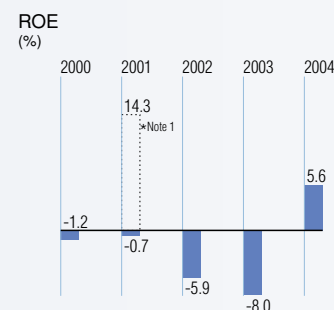
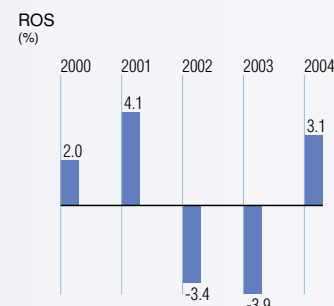
Research and Development Expenses

The Group has been actively conducting research and development activities, ranging from basic technologies to product development. At present, research and development is conducted by the Company's Research & Development Division, development and design divisions at our operations, and consolidated subsidiaries' engineering divisions. The Group has an R&D staff of about 280. The Companies' R&D expenses for the year ended March 31, 2004, totaled ¥1,415 million.

Research results and R&D expenses at each operation are described below.

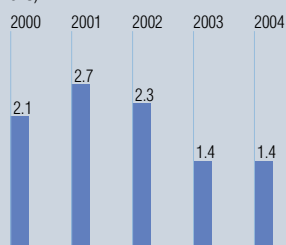
(1) Fine Mechatronics Segment

The segment worked on the development of LCD manufacturing equipment including wet cleaning



Note 1 : The dotted bar in 2001 indicates values excluding the increase in retirement benefit allowance.

R&D Expenses
(¥ Billions)



equipment and cell assembly equipment ready for substrates for large-screen TVs, and OLBs (outer lead bonders) for large-screen TVs, and semiconductor manufacturing equipment including ashing equipment ready for 300mm next-generation devices, etching equipment, wet cleaning equipment, and high-speed, high-precision FCBs (flip chip bonders). The segment's R&D expenses totaled ¥731 million.

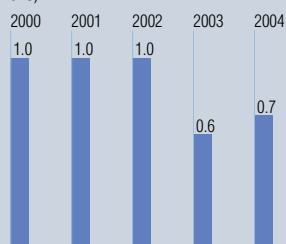
(2) Automation Systems & Vacuum Equipment Segment

The segment worked toward development of sputtering equipment and bonding equipment for DVD-ROM/R, phase change sputtering equipment for DVD-RAM/RW, sputtering equipment for photocatalysts, and so on. The segment's R&D expenses totaled ¥259 million.

(3) Vending Machines & Systems Segment

The segment worked on the development of the 2003 and 2004 models of cigarette vending machines and on the model changeover of the KA series of ticket vending machines. The segment's R&D expenses totaled ¥157 million.

Capital Expenditures
(¥ Billions)



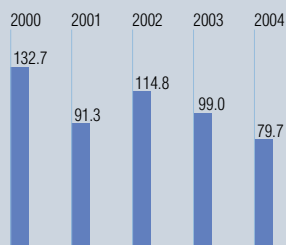
Financial Condition

As of March 31, 2004, total assets amounted to ¥69,245 million, an increase of ¥5,630 million over the previous fiscal year-end. This increase is largely attributable to a year-on-year increase of ¥9,567 million in current assets, which totaled ¥48,874 million at March 31, 2004. A breakdown of the increase includes those from notes and receivable accounts resulting from larger sales, inventories due to a larger backlog of orders, and cash and bank deposits. Property, plant and equipment decreased ¥3,936 million from a year earlier, standing at ¥20,371 million, partly because we sold and leased back some property, plant, and equipment.

Total liabilities at March 31, 2004, amounted to ¥51,154 million, an increase of ¥4,605 million over the previous fiscal year-end. Current liabilities decreased ¥2,237 million to ¥31,363 million, due to repayment of short-term debts, though notes and payable accounts increased because of an increase in received orders. Long-term liabilities increased by ¥6,843 million to ¥19,791 million, partly because of the issue of convertible bonds to meet future financial needs.

Total shareholders' equity at March 31, 2004, amounted to ¥18,091 million, up ¥1,025 million from a year earlier. This increase is largely attributable to the recording of a net income for the year and that of a net unrealized holding gain on other securities.

D/E Ratio
(%)

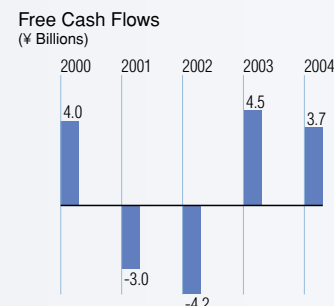


Cash Flows

Cash and cash equivalents (hereinafter called "funds") on a consolidated basis at March 31, 2004, stood at ¥4,506 million, an increase of ¥1,163 million over a year earlier.

(Cash Flow from Operating Activities)

Net cash provided by operating activities in the year ended March 31, 2004, amounted to ¥2,755 million, compared with ¥4,932 million provided in the previous fiscal year. This is largely attributable to a net increase in cash due to an increase in current net income, depreciation expense, and advance receipts, despite a decrease in cash due to an increase in accounts receivable resulting from larger sales and an increase in inventories resulting from increased orders that would be recorded as sales in the next fiscal year.

**(Cash Flow from Investing Activities)**

Net cash provided in investing activities in the year ended March 31, 2004, amounted to ¥915 million, compared with ¥469 million in net cash used in investing activities in the previous fiscal year.

(Cash Flow from Financing Activities)

Net cash used in financing activities amounted to ¥2,506 million, compared with ¥4,373 million in net cash used in financing activities in the previous year. This is due largely to the redemption of convertible bonds, the repayment of short-term bank loans to strengthen our financial structure, and the issue of convertible bonds to raise funds to meet future financial needs.

Five-Year Summary

	Millions of yen					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	2004
Consolidated			Years ended March 31			
Net sales	¥ 67,521	¥ 54,761	¥ 54,917	¥ 71,117	¥ 75,935	\$ 638,857
Cost of sales	54,308	45,428	44,519	55,175	59,853	513,843
Operating income (loss)	3,168	(1,502)	(1,536)	3,262	2,735	29,974
Income (loss) before income taxes	1,958	(2,172)	(1,810)	(1,197)	(968)	18,524
Net income (loss)	979	(1,416)	(1,118)	(141)	(215)	9,265
Depreciation and amortization	1,756	2,080	2,144	2,065	3,302	16,618
R&D expenses	1,415	1,409	2,313	2,685	2,115	13,387
Net income (loss) per share	¥ 18.88	¥ (28.40)	¥ (22.46)	¥ (2.83)	¥ (4.65)	\$ 0.17
Total assets	69,245	63,615	67,647	75,394	83,090	655,174
Total shareholders' equity	18,091	17,066	18,514	19,704	19,684	171,168
Number of employees	1,486	1,586	1,719	1,756	2,446	1,486

Topics 2003 in Shibaura



PI Ink Jet Coater



ADY Award

At the FPD MANUFACTURING TECHNOLOGY EXPO & CONFERENCE (FINETECH JAPAN), held in June 2004, our cell process system, the PI ink jet coater was awarded this year's Advanced Display of the Year Grand Prix in the manufacturing equipment category. This represents the recognition of the enormous contribution Shibaura Mechatronics has made to the development and practical use of innovative PI ink jet technology as part of the FPD manufacturing technology.

FPD Manufacturing Equipment Opening a New Era

Following notebook computers and monitors, flat panel TVs are emerging as a big market for LCDs. In pursuit of higher productivity, LCD manufacturers are endeavoring to manufacture larger mother glass substrates. They have successively invested in the sixth, seventh, and eighth generations production systems. The equipment investment to cope with the shift to larger glass substrates is making the LCD manufacturing equipment market very active. Shibaura Mechatronics provides LCD manufacturers at home and abroad with LCD manufacturing equipment ranging from the front-end process to the back-end process.

With respect to wet cleaning equipment that cleans glass substrates in the front-end process, we maintain the largest share of the worldwide market thanks to brisk sales of the fifth and subsequent generations of equipment supported by rich experience and strong technological capabilities. In addition, we worked on the development of new technologies, such as vertical or layered transfer and the mounting of new cleaning tools, and have succeeded in reducing equipment installation space, decreasing energy consumption, and cutting back necessary materials. We are applying these results to the sixth and subsequent generations of equipment ready for large glass substrates.

With respect to the back-end module process, we maintain the largest share of the worldwide market for OLBs (outer lead bonders) used for bonding driver ICs to panels, because of the high accuracy and high productivity of its product. Utilizing the developed for an OLB technology for 60-inch class PDPs (plasma display panels), we have launched an OLB for 40-inch class large LC TVs onto the market and thus meets the demand for increasingly larger LCDs.

In LCD cell assembly process, we have started selling a resource-saving system that features PI (polyimide) ink jet coating and LC dropping. This system is applied to the sixth and subsequent generations of equipment. Compared with conventional systems, the PI ink jet coater has improved the material efficiency from 30% to over 70%, and is suitable for large glass substrates, partly because it does not require printing plates. The LC drop fill system requires only one-30th of the processing time required by conventional systems. It has improved the liquid crystal utilization rate from 50 - 80 to 100%. These types of equipment in the cell assembly process help LCD manufacturers improve production efficiency and cut back on product costs.

Orders Increasing as Production of Digital Household Appliances Increases

Semiconductor demand is growing at an increasingly faster pace, reflecting rapidly expanding production of digital home information appliances such as digital cameras, DVD recorders, flat panel TVs, and camera-equipped cellular phones. For the front-end process of semiconductor manufacture, we have etching, ashing, and wet cleaning equipment; for the back-end process, we have bonding equipment.

With respect to the front-end process, Shibaura Mechatronics is working with Semiconductor Leading Edge Technologies, Inc. (Selete), a developer of device process technologies, in the Asuka Project for the development of common key technologies for leading edge semiconductors. In May 2004, we were granted a performance award for the development of high-temperature H₂/He ashing technology. This reflects the recognition of the substantial contribution we made to the practical use of the ultra-low-k technology by achieving ashing with no damage to ultra-low-k material, which had been considered difficult thus so far. We will continue to develop technologies to deal with the increasing sophistication of fine processes.

With respect to bonding equipment in the back-end process, our inner lead bonders are used to manufacture IC drivers of LCDs of TVs and cellular phones, and our flip chip bonders are used to manufacture of CMOS cameras of cellular phones. Orders for both products are increasing and these enjoy the top share of the worldwide.

In the field of manufacture of IC drivers of LCDs, there is a growing trend toward narrower pitches of TCPs (tape carrier packages) and COFs (chips on films). Our bonding equipment has a highly stiff bonding head and stage and a high precision positioning mechanism in order to provide stable positional and load precision even in continuous operation under high temperatures and loads. Our bonding equipment is highly trusted by users. We will strive for further increases in precision and throughput, and will also make development efforts to deal with new bonding processes such as ultrasonic bonding.



Ashing/Etching Equipment for 300mm Wafer with Common Platform



Selete Award

In May 2004 we won a performance award from Selete (Semiconductor Leading Edge Technologies, Inc.) for the development of ashing technology.



Magnet-Optical Disc Sputtering Equipment



Excellent Company Award

In January 2004 our affiliate Shibaura Mechatronics Taiwan Corporation was presented with an excellent company award by an optical disc manufacturer for its equipments' performance and high quality services.

Capturing the Largest Share of the World Market by Dominating Taiwan

DVD recorders are coming into widespread use, and DVDs are replacing videotapes on a major scale. It is predicted that shipments of DVD recorders will exceed those of video tape recorders in units by fiscal 2005. The increasing use of DVD recorders is causing an increase in demand for discs. It is projected that global demand for discs, which exceeded 400 million discs in fiscal 2003, will surge to 2 billion in fiscal 2004 and 3 billion in fiscal 2005. Therefore, we expect continued active investment in DVD manufacturing equipment.

For the DVD manufacturing process, Shibaura Mechatronics provides sputtering equipment and bonding equipment. We enjoy the top share of the market for manufacturing equipment for DVD-R, DVD+R, and DVD-ROM, for which there is the largest demand among all types of DVD. In particular, our bonding equipment does its job in vacuum to do not make void and thus enables the production of discs of more stable quality. Hence our bonding equipment is highly rated by users.

Shibaura Mechatronics has not so far sold an integrated DVD manufacturing line. However, to take advantage of the fact that it has both sputtering equipment and bonding equipment, which together form the core of DVD manufacturing lines, we will aim for the top share by promoting business as an integrator in the fields of DVD-RW and DVD-RAM.

There is progress in the standardization of BD (blue-ray disc) and HD DVD (high definition DVD) as the next generation of discs. Because the next-generation discs are high in density, they must be free of air bubbles. This means that bonding in vacuum is effective. At present, only our manufacturing equipment can bond 0.1 mm thick films by BD standards in a vacuum. Providing experimental equipment and small-scale production lines for both BD and HD DVD manufacturers, we will develop equipment together with our customers. Shibaura Mechatronics is responding to DVD-Dual which can record many hours of high-definition broadcast, will come into wide use before BD and HD DVD.

At present, Taiwan is our main market. However, we will promote our business more aggressively overseas, e.g. by pursuing a larger market share in India and entering the Chinese market.



Environmental Activities 2003 in Shibaura

We achieved zero waste-emission two years earlier than scheduled.

Basic Environmental Concepts

It is one of our most important management tasks to establish, the recycling society, in which limited resources should be effectively used, and Shibaura Mechatronics emphasizes "E-Shibaura". Shibaura Mechatronics is working with three basic environmental concepts: Environmental Mind Innovation, Production Activities Focusing on Environmental Protection, and Environment-Friendly Designed Products.

Basic Policy for Environmental Protection

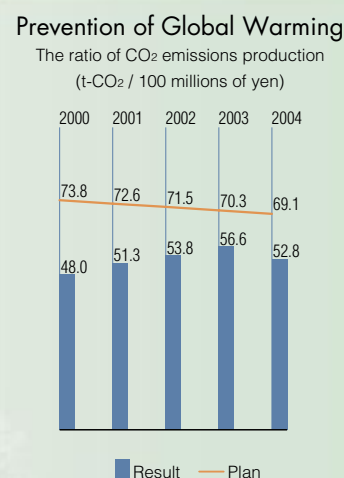
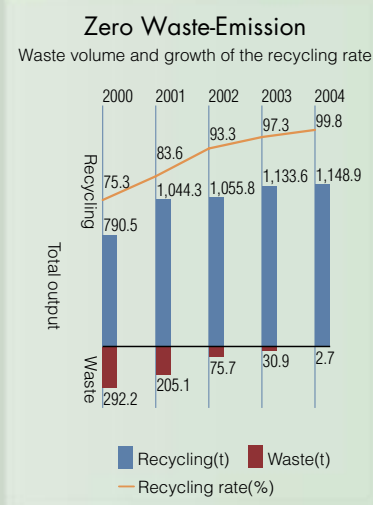
As The Provider of Infrastructure for The Digital Age, Shibaura Mechatronics is conscious of the environment in conducting production activities and aims to contribute to society by providing environment-friendly designed products worldwide. It is one of our most important management tasks to make efforts to protect the environment. We are working with the recognition that it is a fundamental duty of mankind to pass the invaluable global environment intact on to the next generation.

Voluntary Plans

- Prevention of global warming:
 - By fiscal 2010 we will cut the ratio of CO₂ release to net sales by 28% in terms of fiscal 1990 base.
- Zero waste-emission:
 - We launched a no-waste-emission drive in fiscal 2000 and will achieve the target of reducing the quantity of final disposal to 1% or less of total discharge by fiscal 2005.
 - By fiscal 2006 we will cut the total waste amount due to our business by 5% in terms of fiscal 2003 base.
- Reducing the release of chemical substances:
 - By fiscal 2005 we will achieve a 30% reduction in terms of fiscal 2000 base.
- Voluntary restriction of total water and air pollutants and of noise and vibration:
 - We will strictly observe our self-imposed restrictions, which are based on legal restrictions.
- Information disclosure and contribution to society:
 - We will disclose more environmental information and will expand our engagement in local environmental preservation activities.
 - In addition, we will continuously issue environmental reports and employ environmental accounting.
- Green procurement:
 - By fiscal 2005 we will set green procurement ratios in terms of fiscal 2000 base.
- Creation of environment-friendly designed products:
 - We will create environment-friendly designed products, such as by striving for weight reduction and energy savings in our products, in consideration of product assessment.
 - By fiscal 2005, in terms of fiscal 2000 base:
 - We will achieve 30% reductions in weight, power consumption, and so on per product function.
 - We will ensure that environment-friendly designed products account for 50% or more of our sales.

Environmental Activities in 2003

- To have our environmental preservation activities understood, we issued an environmental report describing the results of our environmental activities during the year.
- In fiscal 2003, we pursued zero waste-emission and achieved our voluntary plan target two years earlier than scheduled.
- In cooperation with Oita Prefectural Forestry Corporation, we planted trees on forest land (183,000m²) we own. As a conservation forest, it holds mountain water, helps prevent sediment discharge, and helps reduce global warming by absorbing as much as about 1,000 tons of CO₂ a year. (Backdrop: Tree plantation)
- We reduced CO₂ emissions by saving on electric power, stepping up improvement activities, and so on.



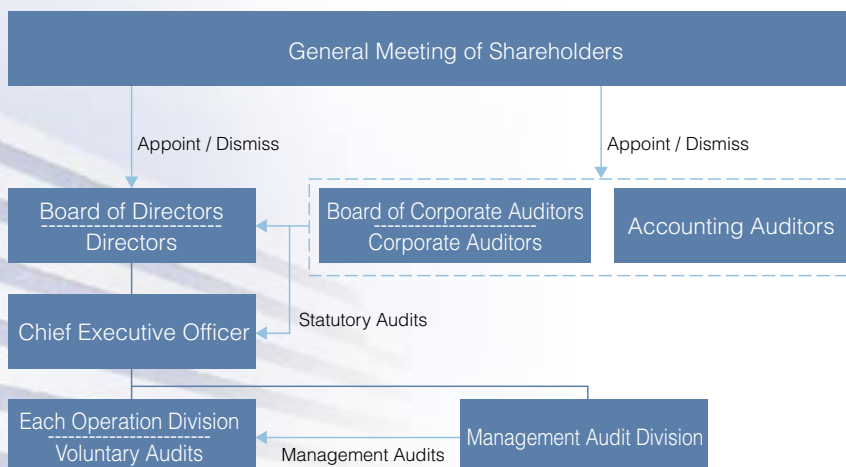
Corporate Governance

Corporate governance, as we define it, is the function of governing business administration in such a way as to increase medium-and long-term enterprise value for shareholders, customers, employees, and society. We have drawn up and are implementing our "Code of Conduct" that provides the foundation for compliance with laws, social norms, ethics, and the like and risk management by clearly stipulating what all officers and all employees, who are the primary players in achieving an increase in enterprise value, should and should not do.

Shibaura Mechatronics' management team, consisting of 13 directors of the board, and the auditing team, consisting of four corporate auditors (two of them from outside the Company) are fully displaying their decision-making and auditing functions, respectively. These teams are always making studies to improve the existing systems.

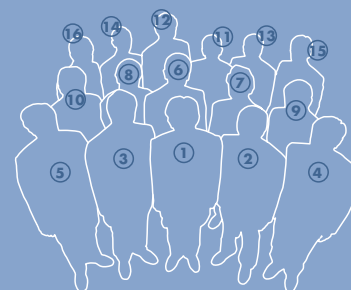
The status of implementation of our measures related to corporate governance is as follows:

- (1) We have two outside corporate auditors. Outside directors and outside corporate auditors are supported by the General Affairs Division. We have not set up non-mandatory committees (such as a nominating, compensation, or audit committee).
- (2) As a structure for monitoring the execution of business and for internal control, we have formed a Management Audit Division, which reports directly to the President. Its mission is to audit managerial propriety and efficiency, mainly on the basis of business performance. On the other hand, audits (especially compliance audits) by corporate auditors and accounting audits by certified public accountants (accounting auditors) work in tandem with each other to play the auditing function for legal issues. We have also built a system in which each division performs voluntary audits under the supervision of the Management Audit Division.



Board of Directors

As of June 17, 2004



Directors

President and Chief Executive Officer

① Hiroo Okuhara

Executive Vice President

② Toshimichi Sanada

③ Toshio Yokouchi

Senior Vice President

④ Choichi Kimura

⑤ Michirou Ishii

Vice President

⑥ Yasutomo Fujimori

⑦ Noboru Tamura

⑧ Mikio Haga

⑨ Nobuyuki Yamaura

⑩ Kunihiro Yokoyama

⑪ Masakazu Mori

⑫ Hiroshi Horioka

Corporate Auditors

Auditor

⑬ Michio Tsuruoka

⑭ Tsunemasa Tokura

Auditor(Outside)

⑮ Yasuaki Nakazawa

⑯ Noriaki Mori



Investor Information

As of March 31, 2004

Date Established October 1939

Paid-in Capital 5,868 Million-Yen

Common Stock Issued and outstanding : 50,033,312 shares

Number of Employees Consolidated : 1,486 Non-consolidated : 906

Shareholders 7,399

Stock Listings The Tokyo Stock Exchange

Accounting Auditor Shin Nihon & Co.

Common Stock Price Range
(The Tokyo Stock Exchange)

	2004	2003	2002	2001	2000
High (yen)	985	604	710	1,330	1,885
Low (yen)	409	201	253	445	511

Principal Shareholders

	Number of shares hold (thousand shares)	Percentage of total shares outstanding (%)
Toshiba Corporation	18,977	37.9
Japan Trustee Service Bank, Ltd. (trust accounts)	2,773	5.5
The Master Trust Bank of Japan, Ltd. (trust accounts)	2,273	4.5
Trust and Custody Service Bank, Ltd. (securities investment trust)	1,276	2.6

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