

Annual Report 2005 For the year ended March 31, 2005

SHIBAURA MECHATRONICS CORPORATION

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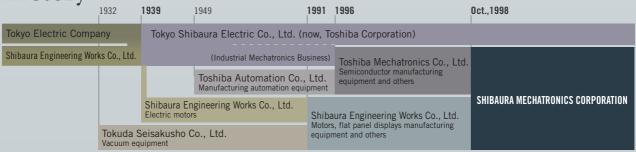
Profile

Shibaura Mechatronics Corporation started operations in 1939, the successor to Shibaura Engineering Works Co., Ltd. famous as one Japan's largest manufacturers of heavy electrical equipment. Building on this heritage, the Company made major contributions to the infrastructure that supported Japan's industrial development, by supplying electric power equipment, particularly industrial motors.

In 1998, Shibaura Mechatronics repositioned itself and established a new corporate identity as "The Provider of Infrastructure for The Digital Age." Since then, dramatic innovations in our business structure have made us a provider of essential manufacturing equipment for the electronic components that support social progress.

The 21st century is the age of IT and of the environment. To fulfill the demands of this century, the Company is determined to become "e-Shibaura," a truly IT-based enterprise, and "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 suited to this age of IT and the environment, and pursue global business expansion by encouraging innovative attitudes and thinking among our employees.

History



Cover Photo



DVD Vacuum Bonding Equipment

This breakthrough equipment integrates the disc adhesive coating function with our original vacuum bonding function in a single piece of equipment. This value-added, high-tech solution won a high evaluation and the Chairman's Awards from the Japan Vacuum Industry Association in May 2005.

The equipment supports all major formats; not only DVD but next generation BD (Blu-ray Disc) and HD DVD.

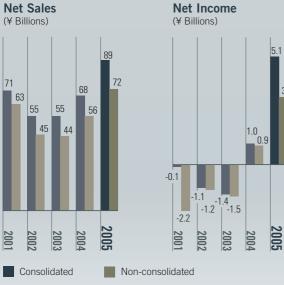
Forward-Looking Statements

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, relate to economic conditions, worldwide megacompetition 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

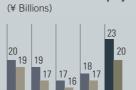
		Millions of yen Years ended March 31		
Consolidated	2005	2004	2005	
Net sales	¥ 88,513	¥ 67,521	\$ 824,217	
Operating income	8,824	3,168	82,163	
Net income	5,134	979	47,805	
Total assets	70,411	69,245	655,661	
Total shareholders' equity	22,791	18,091	212,229	
Net income per share	¥ 101.92	¥ 18.88	\$ 0.95	
Non-consolidated	_			
Net sales	¥ 71,674	¥ 56,108	\$ 667,416	
Operating income	5,473	2,092	50,969	
Net income	3,241	859	30,180	
Total assets	58,771	61,520	547,266	
Total shareholders' equity	19,518	16,707	181,751	
Net income per share	¥ 64.11	¥ 16.62	\$ 0.60	

Note 1: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥107.39 = U.S.\$1.00, as of March 31, 2005.





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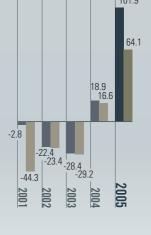
2004 2003 2002

2001

2005

Total Shareholders' Equity





To Our Shareholders

Shibaura Mechatronics defines itself as "The Provider of Infrastructure for the Digital Age." Through the provision of manufacturing equipment for electronic components, particularly flat panel displays, semiconductors and optical discs, the Company contributes to the realization of a rich, abundant society as an infrastructure provider supporting digitalization and the networked society.

In promoting its businesses, the Company derives inspiration from a corporate philosophy that promotes "Innovation in All Things," "Pursuit of Rationality" and "Respect for Humanity," and targets realization of a global business group characterized by speed and dynamism. Guided by this management vision and philosophy, the Company is evolving a top-down-type style of management innovation activity, "SM2005," that fosters an approach to business - BCM, or Balanced CTQ Management — that is able to identify key issues, apply the innovative statistical measures of six-sigma, and cultivate businesses that achieve high growth and profitability. Combining this with "Active," a bottom-uptype of in-house self-actualization program that seeks to increase job satisfaction and raise morale, allows the continued evolution toward a dynamic business group.

The Company promotes business on the basic principle of "continuous growth and strengthened high profitability." It is essential that we listen closely to the voices of our customers, quickly and accurately gauge changing market needs, and steadily promote the measures necessary for us to contribute to the world through our business activities. In addition, all employees must share the management vision, set and accomplish realistic targets, execute commitment management that takes responsibility for results, comply with rules, and work towards achievement of the management vision through appropriate business activities. Steady promotion of these measures will assure the Company achieves its target of becoming a truly trusted industry leader.

Financial Results in Fiscal 2004

In the first half of fiscal 2004, the domestic economy saw continued positive capital expenditure, thanks to increased exports and capital expenditure resulting from recovery in overseas economies since the latter half of fiscal 2003, and increased sales and profit on the part of domestic corporations. The second half brought concerns about the impact on results from inventory adjustment in digital consumer products, which brought a leveling off to a previously growing market, as well as increased prices for ferrous materials and rising oil prices.

In the flat panel displays market, where the Company has key customers, demand for panels for PC monitors and TVs increased, and sales of LCD panel manufacturing equipment moved favorably. In semiconductor device manufacturing equipment, steady



Shigeki Morita President and Chief Executive Officer

capital expenditure continued, thanks to the marked expansion in demand for digital consumer products, including digital cameras, mobile phones and DVD players, a driving force in the market. At the same time, the optical disc industry witnessed positive investment in media device manufacturing equipment to meet increased demand for DVD recorders, though that trend leveled off in the second half on a move to delay investment timing. Vending Machines & Systems saw a healthy rise in sales, thanks to a wave of replacement demand for tobacco and ticket vending machines able to accept Japan's new bank notes.

In this business environment, and by giving top priority to securing orders, the Company secured orders with a value of 79.5 billion yen. Sales in every business segment exceeded forecasts made at the beginning of the fiscal year. As a result of these and other factors, consolidated sales established a new record of 88.5 billion yen, a 31% increase against the previous fiscal year. In profit and loss, as a result of increased gross profit on sales that far surpassed the original plan; promotion of rationalization through Company-wide management innovation activity "SM2005" and cost reduction activities; and improved profitability though the execution of measures to reduce fixed costs, consolidated recurring profit increased by 5.2 billion yen to 7.3 billion yen, a record high. Consolidated net profit increased by 4.2 billion yen to 5.1 billion yen.

Looking Ahead

At the start of fiscal 2005, the Company responded to this business environment by defining a mid-term



business plan for the coming three years that takes into account changes in economic trends and the business environment, both in Japan and in overseas. Under the mid-term plan, the Company positions "continuous growth and strengthened high profitability" as its basic guiding principle and is promoting measures to "identify and cultivate new businesses" and "secure and expand orders and sales." Another concern is to improve financial strength by focusing on improved cash flow, collecting accounts receivable at an early stage and reducing inventories. Moves to "promote efficient management" will target a stronger, more stable profit structure through optimization of Shibaura Mechatronics Group's global production and further reductions in fixed costs.

Shibaura Mechatronics is determined to increase the number of products with a No.1 market share, and to deliver to customers new, high value-added products that put significance on COO (Cost of Ownership), at a speedy and continuous pace. The Company's first priority is to secure orders and to promote proactive marketing activities in Japan and overseas, especially in areas of new technology. In flat panel displays manufacturing equipment, the Company will enter new fields, among them SED and OLED. Orders and business enquiries are favorable, especially for new generation devices, such as for manufacturing equipment for large substrates and bonding equipment for LCD panels. Semiconductors has already seen a recovery in demand for assembly equipment, and we now look forward to a rise in orders and sales associated with new technology processes and 300mm wafers, as well as in wafer inspection equipment, a business that was recently transferred to the Company. In the media device equipment, demand for DVD-related equipment continues to be favorable. In addition, we will eagerly promote measures related to the Company-wide management innovation activity "SM2005," and promote our "human resource strategy," under which we train and utilize human resources to strengthen our operating base.

Toward the Future

Since positioning the goal of being "The Provider of Infrastructure for The Digital Age" at the heart of its activities and new business in 1998, Shibaura Mechatronics has made deep inroads into the electronics component manufacturing equipment business (hop). The Company responded positively to the bursting of the IT bubble in 2001, using it as an opportunity to remake itself, and promoted radical innovations in its organization, financial capabilities and management culture that led to record sales and profit in fiscal 2004, and that also showed the strength of the business structure (step). The Company now targets achievement of a highly profitable business structure: sales of more than 100 billion yen, an ROS of more than 10%, and an equity ratio of more than 40% in fiscal 2007, the last year for the current mid-term business plan (jump).

Manufacturers face continued evolution in globalization and a business environment of increasing severity. However, Shibaura Mechatronics will promote businesses proudly aware that "it is Japanese manufacturing equipment makers that lead global manufacturing" and that "manufacturing equipment is a driving force of IT." Japan has the ability to create the next generation of IT in the field of digital information products with such products as DVD, mobile phones, digital cameras and digital TVs. Shibaura Mechatronics is determined to deliver the manufacturing equipment required to make the transition to this next step forward for IT at an early stage, and will continue to devote itself to becoming the "best choice partner" for its customers.

I sincerely hope that you will join me in looking forward to the future growth and development of Shibaura Mechatronics. As we work for further success, I hope that we can rely on your continued understanding and support.

August 2005

Shigeki Morita President and Chief Executive Officer

Topics 2004 in Shibaura

Market leading products significantly contributed to improved business results

Products that boast a leading share in the global or domestic market greatly contributed to improved results in fiscal 2004. The ability to create diverse products that win top shares in their market reflect our efforts to assure a precise understanding of the market and its needs; our cultivation of the high-tech base necessary for the timely commercialization of products integrating value that customers understand and appreciate; and top notch after-sales service and support.

The first product area where we have claimed the top share of the world market is LCD cleaning equipment. Our wet cleaning equipment for glass substrates draws on our experience and capabilities to deliver support for large-sized, sixth-generation and after substrates. A notable innovation here is the new configuration of the VIP (Vertical Integrated Processor) series. The low COO* of this equipment supports us in winning orders.

Second is the outer lead bonder that assembles driver ICs around the panel in the LCD module manufacturing process. Our equipment offers superb precision and productivity, characteristics that have won an unrivaled top share in production of large screen LCD TVs.

Third is the inner lead bonder that attaches driver ICs for LCDs to the TCP (Tape Carrier Package). This equipment also supports the transition from TCP to COF (Chip on Film), which is accompanied by a narrowing of the lead pitch of LCD driver ICs.

Fourth and fifth are integral to the DVD production process: the sputtering equipment that forms films on polycarbonate disc and the vacuum bonding equipment that facilitates the process. One particular advantage of our bonding equipment is that vacuumbased bonding eliminates air bubbles on the disc surface. The ability to manufacture discs with a consistent high quality has won positive evaluations for

*COO (Cost of Ownership): Indicates to customers the economic efficiency of equipment. It is based on comprehensive evaluation and quantification of the cost of equipment itself the floor area it takes up once installed, material consumption during manufacturing and maintenance costs.

our equipment.

Sixth is the ticket vending machines that sell meal tickets at highway service areas. They are number one in the Japanese market.



Wet cleaning equipment



Outer lead bonder



Inner lead bonder

Vacuum bonding equipment



Single layer sputtering equipment



Ticket vending machine

Promotion of global management

Just over half of sales are now generated overseas, making cultivation of our overseas presence and capabilities an increasingly important concern. We are promoting localization of equipment installation and onsite support in cooperating with subsidiaries in the U.S.,



Taiwan, Korea and China, and strengthening our ability to engage the global market.

Taiwan is the most important of our overseas markets and accounts for the lion's share of overseas sales. Reinforcing the number of local hires at Shibaura Mechatronics Taiwan Corporation produced positive results in expanded sales of equipment for flat panel displays (FPD), semiconductors and DVD. In order to deepen relations with Taiwanese customers, we will continue to reinforce sales and service systems, and to strengthen cooperation with our subsidiary.

Our Korean subsidiary, SCK Co., Ltd., has bolstered its ability to meet demand from Korean manufacturers by starting its own manufacturing operations, with a focus on LCD cleaning equipment. We are providing expert support by dispatching human resources, and hope to reinforce the company's capabilities through this cooperation.

The fast pace of economic growth in China is reflected in our own increased sales: by 2% in 2003 and 8% in 2004. We are securing a broader customer base, and we must maintain that by assuring our sales and service capabilities. At this point, we have established offices in five locations: Shanghai, Nanjing, Beijing, Suzhou and Shenzhen. Looking forward, we will now establish bases in other major regions, in turn. We plan to increase the number of sales and service personnel as a first step to further expansion of business.

The essence of global management is the ability to offer comprehensive support close to the customers. We will proactively promote further localization of business as a tool for achieving higher levels of customer satisfaction.

Efficient management by the expansion of manufacturing systems and the business reforms

In readiness for fast growing demand for digital home appliances, we are strengthening our systems to produce manufacturing equipment for FPD, semiconductors and DVD discs. Thoroughgoing reforms and rationalization at Yokohama Operations and Sagamino Operations are supporting us in achieving our goal of increased production and enhanced efficiency. Consolidation of LCD manufacturing equipment to Yokohama Operations was a notable step in this direction.

Overall group manufacturing capabilities were enhanced by the July 2004 establishment of Shibaura Hi-Tech Corporation in partnership with our parent company, Toshiba Corporation (51% owned by Shibaura Mechatronics Corporation, 49% by Toshiba Corporation). The strong technology and design capabilities of this new company are not only being applied to the production and assembly processes of FPD and semiconductors, but also to the development of manufacturing equipment to support emerging businesses at Toshiba Corporation.

Consolidation at Yokohama Operations of operations previously carried out at two locations has provided a significant boost in efficiency for Shibaura Precision Co., Ltd., a subsidiary that uses advanced technology and machining skills to produce precision machined parts for our equipment.

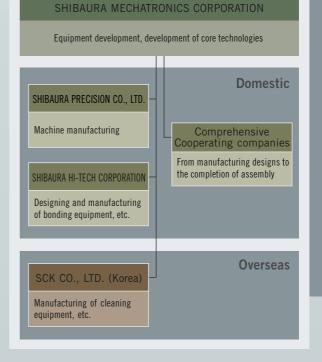
In another area, we are enhancing cooperation with business partners that prove themselves able to handle business from design through to assembly, as a means to maximize efficient use of our own resources and assure a system able to respond quickly and efficiently.

Overseas, we provide human resources to support our Korean subsidiary, SCK Co., Ltd. and to strengthen its manufacturing systems for products such as LCD cleaning equipment.

Another business reform involved the February 2005 transfer of our industrial robot business to Toshiba Machine Co., Ltd., another Toshiba Group company. This move will allow us to concentrate our management resources on manufacturing FPD, semiconductor and DVD production equipment, and supports a tighter focus in our management base.

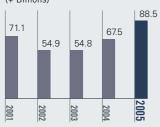


SHIBAURA HI-TECH CORPORATION

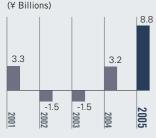


In April 2005, Shibaura Vending Machine Corporation, the Shibaura Mechatronics Group company responsible for sales and services of vending machines, was the surviving company in a merger with Shibaura EMS Co., Ltd., which develops and manufactures vending machines. In fiscal 2004, both companies achieved record sales and profits. Nonetheless, the vending machine business is expected to see a severe market environment, where the long-term trend is to a decrease in the installed machine base. In these circumstances, forward — looking moves were taken to achieve accelerated management decision making and product development, and to assure that both are directly linked to the market and able to generate further improvements in competitiveness and efficiency.





Operating Income



Sales by Segment



Overseas Sales by Region



Financial Review

Shibaura Mechatronics Corporation and Subsidiaries Years ended March 31

Sales Situation

In the beginning of the fiscal term under review, the Japanese economy saw upturns in exports and capital expenditure, on the strength of recovery in overseas economies and continuing capital expenditure by companies in Japan. The second fiscal half was more uncertain. Within the growth trend, leveling-off in demand prompted uncertainty about the future.

In the electronics sector, where the Company finds most of its customer, demand rose for flat panel displays for application in TVs, resulting in favorable sales of LCD panel manufacturing equipment. In semiconductors, capital expenditure was steady and continuous on an expanding market for the digital consumer products, including digital cameras and DVD players. In the optical disc industry, there was positive investment growth in media device manufacturing equipment to meet growing market demand for DVD-related products. The second half was less confident, as a leveling-off in demand prompted decisions to defer capital investment. In tobacco and ticket vending machines, the main products in Vending Machines & Systems, sales were favorable on replacement demand for vending machines able to accept Japan's new bank notes.

In this business environment, and by giving top priority to securing orders, the company secured sales that surpassed the original business plan. Consolidated sales for the full year were a record high of 88,513 million yen, a 31% increase against the previous fiscal term. The company also secured orders in the amount of 79,547 million yen.

Analysis of Profit and Loss

In profit and loss, as a result of increased gross profit on sales that exceeded initial plans; the promotion of cost cuts through company-wide management innovation activity "SM2005;" and improved profitability as a result of successful execution of measures to reduce fixed costs, the Company recorded its highest ever consolidated recurring profit of 7,291 million yen, an increase of 5,222 million yen against the previous term, while consolidated net profit was 5,134 million yen, an increase of 4,155 million yen against the previous term.

Segment Information

1. Fine Mechatronics Segment

Shibaura succeeded in winning the top share in the market for cleaning equipment for largesized glass substrates and outer lead bonders for LCD panels, both areas where the Company enjoys notable competitive advantages. Sales of LCD panel manufacturing equipment were also favorable, supported by capital expenditure in Japan, Korea and Taiwan.

In semiconductor manufacturing equipment, sales of dry process equipment were supported by demand for leading-edge technology to process 300mm wafers and for semiconductor cleaning equipment. In assembly equipment, the company secured the No.1

market share in TAB bonders and recorded advances in both orders and sales, most notably on strong demand for bonding equipment for LCD drivers and ICs for small form factor digital devices.

As a result, consolidated segment sales surpassed the original plan to reach 61,987 million yen, a 37% gain on the previous year, while operating profit increased by 3,556 million yen to 5,286 million yen.

2. Electronic & Vacuum Systems Segment

As DVD-related capital expenditure was underpinned by the continued diffusion of DVDrelated products, the Company achieved the top share in the global market for DVD sputtering equipment and vacuum bonding equipment, resulting in increased sales for media devices manufacturing equipment.

In the automotive industry, a new area of business for the Company, orders were received for microwave equipment and plasticization coating equipment. Sales of laser equipment were also favorable.

As a result, consolidated segment sales were 15,046 million yen, a 1% increase against the previous term, while operating profit increased by 800 million yen from the previous term to 1,236 million yen.

3. Vending Machines & Systems Segment

While the market for tobacco vending machines continued to follow a downward trend, enhanced marketing activities allowed the company to raise its market share. The sector also saw stronger than expected demand for vending machines able to read Japan's new bank notes, in both the modification and replacement markets, and for both tobacco and ticket vending machines.

As a result, consolidated segment sales reached a record 9,496 million yen, a 73% increase against the previous term, and operating profit soared by 1,531 million yen to 1,976 million yen.

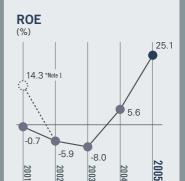
4. Real Estate Lease Segment

Consolidated sales were 1,984 million yen, a 5% decrease against the previous term, and operating profit decreased by 90 million yen to 733 million yen.

R&D Expenditure

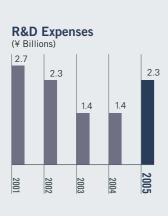
In R&D, Shibaura Mechatronics Group is active in promoting research activities that range from investigation of fundamental technologies to new product development, at the headquarters R&D department, divisional R&D groups and development groups, and at the technology departments of consolidated subsidiaries. Approximately 270 researchers undertake R&D in Shibaura Mechatronics Group, and group-wide R&D expenditure in fiscal 2004 was 2,337



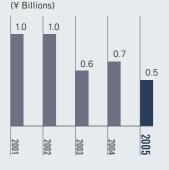




Note 1:The dotted bar in 2001 indicates values excluding the increase in retirement benefit allowance.



Capital Expenditures





million yen, including 406 million yen directed toward research into fundamental technologies. The achievements and R&D expenditure of each business unit was as follows.

1. Fine Mechatronics Segment

In LCD manufacturing equipment, R&D funds were directed to development of the vertical wet processor VIP series, which makes significant contributions to lower COO, and to a high-speed outer lead bonder for large-sized TVs that realizes a high level of productivity. In semiconductor manufacturing equipment, R&D funds supported the development of a new ion chemical etching machine and porous low-k film ashing equipment. Total R&D expenditure in this segment was 1,304 million yen.

2. Electronic & Vacuum Systems Segment

In the laser equipment area, R&D funds were used for the development of a soft laser marker for 300mm wafer, LD (Laser Diode) pumped high-power YAG laser processing equipment, and a solar cell module laser processing equipment. In the vacuum equipment area, R&D funds were used for DVD-use multilayer film forming and single-layer film forming sputtering equipment, vacuum bonding equipment and photo catalyst sputtering equipment. Total R&D expenditure in this segment was 409 million yen.

3. Vending Machines & Systems Segment

R&D funds were used to achieve minor changes in tobacco vending machine in the vending machine business and to develop new ticket vending machines. Total R&D expenditure in this segment was 216 million yen.

Financial Condition

Total assets at the end of the fiscal year under review increased by 1,166 million yen to 70,411 million yen. The main contributory factor to this higher figure was current assets, which increased by 2,087 million yen from the previous term to 50,961 million yen. This was primarily due an increase in notes receivable and accounts receivable from higher sales, and increased cash equivalents from liquidation of other debts. Although fixed assets rose on the acquisition of tangible fixed assets and investment made to establish subsidiaries, total fixed assets decreased by 921 million yen to 19,450 million yen. This largely reflected effort of promote asset reduction, including the decision to reduce holdings of real estate.

Total liabilities at the end of the fiscal year were 3,534 million yen lower, at 47,620 million yen. Current liabilities eased by 1,683 million yen to 29,680 million yen, due to reductions in notes payable and accounts payable resulting from increased debt payment for purchases in the past year, increased income tax payable from the record high net profit, and reduced income tax payable resulted from advance payment in accordance with sales posting. Fixed liabilities increased by 1,851 million yen to 17,940 million yen, due to payments made for the long-term loans or transfers to short-term loans.

Total shareholder equity at the end of the fiscal year under review increased by 4,700 million yen to 22,791 million yen. The major contributory factor was the achievement of record net profit.

Cash Flow

The Company's consolidated-base cash and cash equivalents (hereafter "funds") at the end of the fiscal year increased by 2,949 million yen to 7,455 million yen. The situation in each category of cash flow and the reasons why are as follow.

1. Cash flow from operating activities

Funds from operating activities in the fiscal year under review increased by 4,348 million yen, against an increase of 2,755 million yen in the previous fiscal year. The primary reason for this increase was that, although there were decreases in funds resulting from increased payment for purchase liabilities and increased notes and accounts receivable as a result of increased sales, record high income before income taxes and minority interest, early collection of notes and accounts receivable, and inventory reduction through the promotion of management efficiency all supported an increase of funds.

2. Cash flow from investing activities

The increase in funds from investing activities was 704 million yen, against an increase of 915 million yen in the previous fiscal year. This increase was achieved despite the acquisition of tangible fixed assets and investments or additional investment in subsidiaries, and was primarily due to the sale of unused land to promote our policy of asset reduction.

3. Cash flow from financing activities

The decrease in funds from financing activities was 2,103 million yen, against a decrease of 2,506 million yen in previous fiscal year. The underlying reasons were payments made for long-term and short-term loans and payment of dividends.

Five-Year Summary

	Millions of yen				Thousands of U.S. dollars	
		Years ended March 31				Years ended March 31
Consolidated	2005	2004	2003	2002	2001	2005
Net sales	¥ 88,513	¥ 67,521	¥ 54,761	¥ 54,917	¥71,117	\$ 824,217
Cost of sales	67,492	54,308	45,428	44,519	55,175	628,480
Operating income (loss)	8,824	3,168	(1,502)	(1,536)	3,262	82,163
Income (loss) before income taxes	8,260	1,958	(2,172)	(1,810)	(1,197)	76,911
Net income (loss)	5,134	979	(1,416)	(1,118)	(141)	47,805
Depreciation and amortization	1,255	1,756	2,080	2,144	2,065	11,686
R&D expenses	2,337	1,415	1,409	2,313	2,685	21,764
Net income (loss) per share	¥ 101.92	¥ 18.88	¥ (28.40)	¥ (22.46)	¥ (2.83)	\$ 0.95
Total assets	70,411	69,245	63,615	67,647	75,394	655,661
Total shareholders' equity	22,791	18,091	17,066	18,514	19,704	212,229
Number of employees	1,441	1,486	1,586	1,719	1,756	1,441

Free Cash Flows (¥ Billions)



As the corporation which is relied by the society

We understand corporate governance to mean the function of overseeing business administration in such a way as to increase medium- and long-term enterprise value for all of our stakeholders: shareholders, customers, employees and society. In responding to stakeholder expectations, we promote CSR activities, in the belief that proactive participation that goes beyond the economic aspect to embrace the social and environmental aspects is essential to secure and even enhance corporate value.

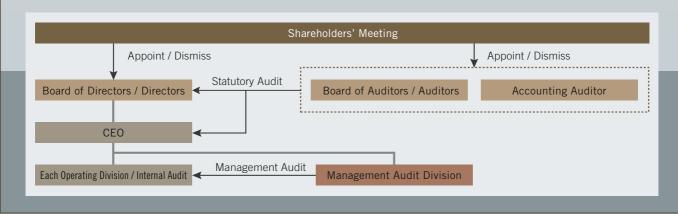
Our "Code of Conduct" provides the foundation for compliance with laws, social norms, ethics, and the like and risk management by clearly stipulating standards to be observed by all company officers and employees, the primary players in achieving increased enterprise value.

Corporate Governance Structure

Shibaura Mechatronics' top management team, consisting of 12 directors of the board, and the auditing team, consisting of four corporate auditors (two from outside the Company), assure full transparency in their decision-making and auditing functions, respectively. Both teams constantly consider means to improve existing systems.

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

- 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. We have established a Management Audit Division to monitor the execution of business and promote internal controls. This division reports directly to the President and is charged with audit managerial propriety and efficiency, mainly on the basis of business performance. Audits (especially compliance audits) by corporate auditors and audits of accounts by certified public accountants combine with on another to provide an 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.



CSR Promotion Structure

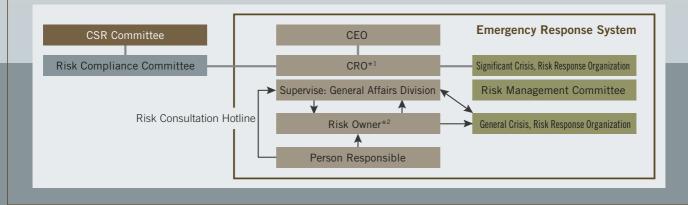
Starting from the base of legal compliance, Shibaura has consistently adopted a proactive approach to CSRrelated concerns and activities, particularly in connection with efforts to enhance customer and employee satisfaction, promote environmental protection and to contribute to society. Most recently, in April 2005, we reaffirmed our recognition of the significance of CSR by establishing a dedicated organization, the "CSR Committee," to promote a systematic approach to CSR.

Guided by policies defined by the CSR Committee, our Risk Compliance Committee, Social and ES (Employee Satisfaction) Activity Committee and Earth Environment Conference are developing their own initiatives.



Risk Compliance Structure

Shibaura Mechatronics Group promotes risk management as an essential means for minimizing damage from sudden or unexpected events, in order to protect and sustain corporate value. The Company fosters a corporate culture that positions legal compliance as the basis of management practices, that seeks to wins the trust of society, and that promotes a positive approach to risk control. A system has been put in place to assure an early and positive response if and when risk-related issues do arise. This includes a "Risk Consultation Hotline" to facilitate early reporting of risk issues, to prevent any emerging risk growing to become a significant problem.



*1: CRO (Chief Risk-Compliance Management Officer)

*2: Risk Owner (head of the department facing the risk issue)

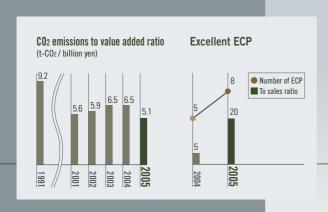
Environmental Activities 2004 in Shibaura

Considering the Environment (Environment Basic Concept)

For Shibaura Mechatronics Group, the environment is a management concern where we share common values. In promoting business as "The Provider of Infrastructure for The Digital Age," and "e&E-Shibaura" we consider the relationship between business activities and the environment from three important perspectives.

Our ultimate objective is to minimize environmental burdens and to work toward harmony with the environment in our business activities, from product development to manufacturing and sales. In this connection, we promote measures to save energy, reduce emissions and optimize management of chemicals. Our next concern is to develop and deliver manufacturing equipment that supports our customers in their own environmental management that supports them in using less energy and resources in manufacturing. We build reduced energy and materials consumption into our equipment, and this is proving effective in optimizing utilization of resources. Our third concern is to produce equipment that imposes fewer environmental loads and that also support manufacture of products that do the same. Equipment from Shibaura is used to manufacture environmentally-friendly products such as automobile exhaust gas scrubbers and solar batteries.

Since 2005, the Company has systematically enhanced promotion of environmental conservation in all operations, manufacturing facilities and related domestic



companies. Shibaura Mechatronics Group is making concerted efforts to promote environmental conservation.

Bringing Environmental Concerns to Business Activities

Activities to promote reduced environmental burdens are an integral part of moves for business expansion. Quantitative tools are used to measure the environmental inputs and outputs of business activities, and analysis of the results points the way to dealing with causes and reducing environmental loads. For example, this approach allowed us to cut the ratio of CO₂ emissions to value added to products from 6.46t-CO₂ per billion yen of added value in fiscal 2003 to 5.10t-CO₂ per billion yen in 2004.

Manufacturing Environmentally Conscious Products

Promotion of environmentally conscious products (ECP) seeks to minimize environmental burdens generated throughout the product life cycle. A company-wide environmental load assessment process promotes targets for reduced loads and assesses key factors, such as electricity and materials consumption, at every stage from product planning to development, design and manufacture. Within ECP, products that achieve superior ECP results are certified as Excellent ECP.

Contributing to Products that Impose Lower Environmental Burdens

Our microwave equipment contributes to reducing environmental burdens from diesel-powered automobiles, though use in the drying system necessary for manufacturing exhaust gas treatment unit for diesel engines. YAG laser equipment plays an important role in the manufacture of solar batteries, in the patterning of thin film solar battery modules.

Board of Directors



Standing, from left ; Masaji Mito, Ryoji Miura, Kunihiko Yokoyama, Tsunemasa Tokura, Noboru Tamura, Ryoso Kawabe, Mikio Haga, Yasutomo Fujimori, Satoshi Shimoda, Nobuyuki Yamaura, Osamu Watanabe, Tadashi Matsumoto

Sitting, from left ; Michiro Ishii, Toshimichi Sanada, Shigeki Morita, Choichi Kimura

Directors

President and Chief Executive Officer Shigeki Morita

Executive Vice President Toshimichi Sanada Choichi Kimura

Senior Vice President Michiro Ishii Mikio Haga

Vice President

Yasutomo Fujimori Noboru Tamura Nobuyuki Yamaura Kunihiko Yokoyama Osamu Watanabe Masaji Mito Ryoso Kawabe

Corporate Auditors

Tsunemasa Tokura Satoshi Shimoda Tadashi Matsumoto Ryoji Miura

Investor Information

As of March 31, 2005

Date Established	October 12, 1939
Capital	5,868 Million-Yen
Number of Employees	Consolidated : 1,441 Non-consolidated : 844
Common Stock	Authorized : 100,000,000 shares Issued and outstanding : 50,033,312 shares
Number of Shareholders	5,579
Stock Listing	Tokyo Stock Exchange (Code:6590)
Transfer Agent for Common Stock	The Chuo Mitsui Trust and Banking Co., Ltd. 33-1 Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan
Independent Auditor	Ernst & Young ShinNihon
Headquarters	2-5-1, Kasama, Sakae-ku, Yokohama 247-8610, Japan TEL:+81-45-897-2421 FAX:+81-45-897-2470 http://www.shibaura.co.jp/

Stock Price Range

High (yen) 1,081	985	604	710	1,330
Low (yen) 590	409	201	253	445

Major Shareholders	Shares (thousands)	(%)
Toshiba Corporation	18,977	37.9
Japan Trustee Service Bank, Ltd. (trust accounts)	3,972	7.9
The Master Trust Bank of Japan, Limited (trust accounts)	3,009	6.0
Trust and Custody Services Bank, Ltd. (securities investment trust account)	1,865	3.7

SHIBAURA MECHATRONICS CORPORATION

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