

# ANNUAL REPORT 2006

FOR THE YEAR ENDED MARCH 31, 2006

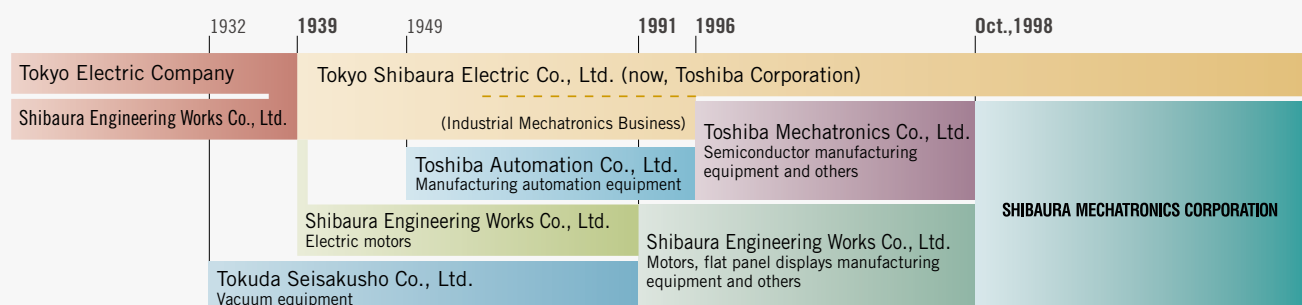


## PROFILE

Shibaura Mechatronics Corporation traces its origins back to 1939, when it was established as Shibaura Engineering Works Co., Ltd. Since that time, the Company has gone through many and diverse changes, including a thoroughgoing reform of its business structure in 1998, when it took its present name and redefined its corporate identity as "The Provider of Infrastructure for The Digital Age." This clearly reflects the Company's role in providing essential manufacturing equipment for electronic components that support social progress.

The 21<sup>st</sup> century is the age of IT and of the environment. In working to fulfill the demands of the 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, and that pursues global business expansion by encouraging innovative attitudes and thinking among employees.

## HISTORY



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### COVER PHOTO : WAFER INSPECTION EQUIPMENT



In July, 2005, Shibaura Mechatronics took over the semiconductor inspection equipment business of the former Honda Electron Co., Ltd. The scope of the business includes equipment for inspecting both the top and bottom faces of semiconductor wafers, and for inspecting the wafer edge. Wafer face and edge management is becoming increasingly important as miniaturization continues to make advances, and wafer inspection equipment makes essential contributions to yield improvement.

### FORWARD-LOOKING STATEMENTS

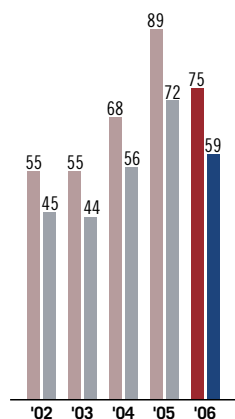
This annual report contains forward-looking statements concerning Shibaura Mechatronics' future plans, strategies and performance. These forward-looking statements are not historical facts, rather they represent assumptions and beliefs based on data currently available. Furthermore, they are subject to a number of risks and uncertainties that, relate to economic conditions, worldwide 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

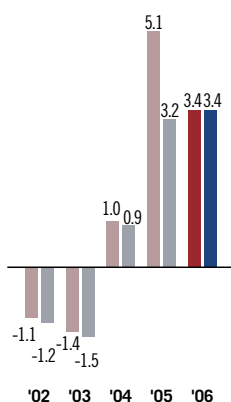
	Millions of yen Years ended March 31	Thousands of U.S. dollars <sup>(Note 1)</sup> Year ended March 31
<b>Consolidated</b>	<b>2006</b>	<b>2005</b>
Net sales	¥ 74,913	¥ 88,513
Operating income	5,180	8,824
Net income	3,393	5,134
Total assets	75,151	70,411
Total shareholders' equity	27,670	22,791
Net income per share (yen and U.S. dollars)	¥ 66.52	¥ 101.92
<b>Non-consolidated</b>		
Net sales	¥ 58,663	¥ 71,674
Operating income	2,451	5,473
Net income	3,436	3,241
Total assets	62,027	58,771
Total shareholders' equity	24,360	19,518
Net income per share (yen and U.S. dollars)	¥ 67.58	¥ 64.11

Note 1: The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥117.47 = U.S.\$1.00, as of March 31, 2006.

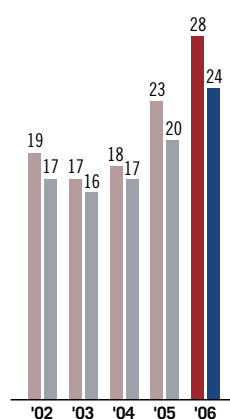
**Net Sales**  
(¥ Billions)



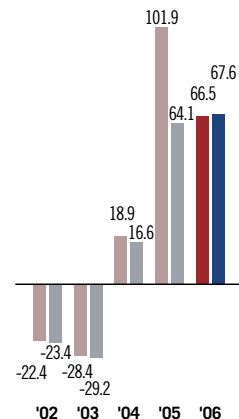
**Net Income**  
(¥ Billions)



**Total Shareholders' Equity**  
(¥ Billions)



**Net Income Per Share**  
(¥)



Consolidated Non-consolidated

## TO OUR SHAREHOLDERS



Shibaura Mechatronics, building on its business foundations as "The Provider of Infrastructure for The Digital Age," contributes to the realization of a richer society as an infrastructure provider supporting digitization and a networked society, and by delivering manufacturing equipment for essential electronic components, including flat panel displays, semiconductors and optical discs.

In promoting business, Shibaura Mechatronics acts in full accordance with its corporate philosophy: "Innovative in All Things," "Pursuit of Rationality" and "Respect for Humanity," in order to build a global business group characterized by speed and dynamism. Guided by our management vision and philosophy, the Company is promoting a management innovation movement through an approach grounded in BCM, or Balanced CTQ Management; this supports us in identifying key issues, developing appropriate measures, and achieving high growth and high profit. By combining this with "ACTIVE," a bottom-up-type of in-house self-actualization program that seeks to boost job satisfaction and the morale of employees, we are making continuous efforts toward being a dynamic business group.

The Company is committed to the basic principles of "Achieve continuous growth and reinforce a highly profitable business structure." In order to achieve this, it is essential to have a solid understanding of the voices of our customers and of rapidly-changing market needs, to respond quickly and flexibly, and to ensure steady implementation of priority measures. In this way, we can contribute to society through our business. Once we share this management vision

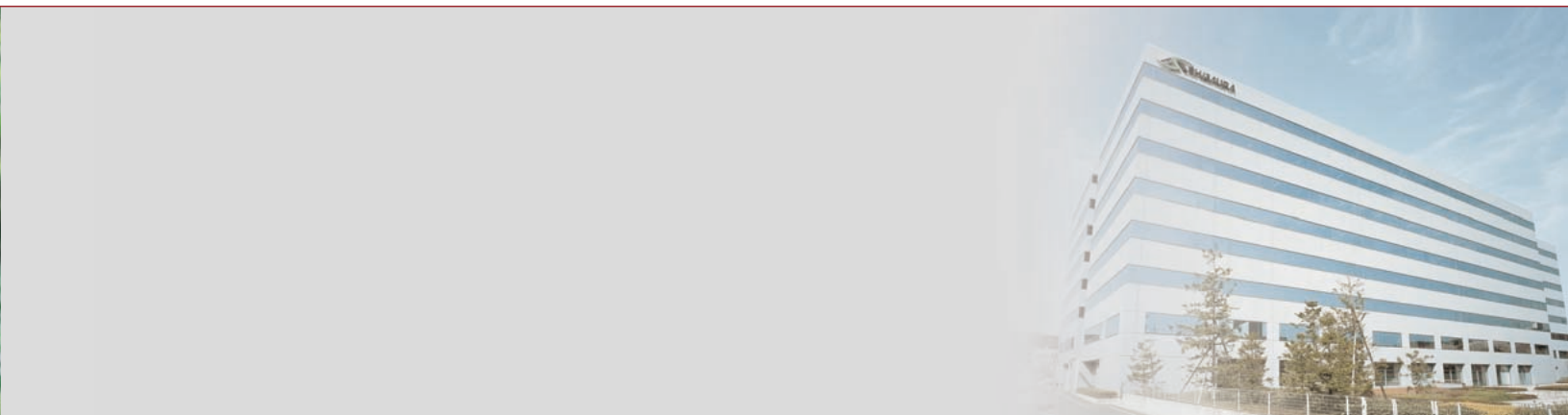
with all employees, we are able to perform commitment management by setting essential goals and taking responsibility for the results, and doing so in full compliance with all legal requirements. Pursuit of fair corporate activities will enable us to achieve our management vision. We will promote steady implementation of these measures, so as to become a truly trusted leading company.

### Financial Results in Fiscal 2005

In fiscal 2005, the Japanese economy saw inventory adjustment in IT-related sectors move toward completion, growth in corporate profits, and a gradual upturn in consumer spending. In this economic climate, capital spending by the Group's major customers in the LCD, semiconductor and DVD business fields is expected to rise and to continue a steady recovery.

In the flat panel display market, there was renewed capital investment in Japan, Korea and Taiwan, while the semiconductor market remained steady on the expanding market for digital home appliances. However, the optical disc business saw equipment investment stagnate, a consequence of issues relating to standardization of next-generation optical discs and other factors.

In this business environment, Shibaura Mechatronics Group made securing orders and sales its first priority. As a result, in fiscal 2005, the Fine Mechatronics segment saw favorable orders for next generation LCD panel equipment designed for larger LCD panel, and the Semiconductor field saw continued demand for high-speed bonding



equipment. This upturn reflected a recovery in capital spending in the latter half of the term, as the first fiscal half period still saw the lingering effects of postponed capital spending.

As a result of the foregoing and other factors, consolidated sales in fiscal 2005 were 74.9 billion yen. In terms of profit, consolidated current profit stood at 4.9 billion yen, reflecting efforts to improve the profit situation by squeezing fixed costs, promoting cost reduction activities and other measures. In extraordinary profit and loss, the Company reported an extraordinary gain of one billion yen on the disposal of land, and booked an impairment loss of 100 million yen as an extraordinary loss under new asset impairment accounting rules adopted in fiscal 2005. Consolidated net income after the deduction of tax was 3.4 billion yen in fiscal 2005.

### Future Issues

The Japanese economy remained stagnant in the first half of fiscal 2005. However, and despite concern about a surge in imports due to sharp rises in materials prices, including crude oil prices, improvements in consumer spending, capital spending and exports in the latter half of the year supported a robust economic recovery. The economy is expected to continue its upward trend in fiscal 2006, and an even stronger recovery than in fiscal 2005 is expected to continue.

All the pointers indicate that the markets for LCD and semiconductor manufacturing equipment in fiscal 2006 will remain on path for recovery, not least of all because of the broadening range of target

products, such as digital home appliances and multimedia equipment. Going forward, we can also expect a sound economic recovery in coming years, including a gradual increase in consumer spending. However, price competition for LCD and semiconductor manufacturing equipment is expected to heat up, driven by fierce price competition in digital home appliances and increases in component and material costs. Capital expenditure is becoming more aggressive, both at home and abroad, we need to be able to respond to this and must increase production capacity.

After considering domestic and international economic trends and the anticipated changes in the business environment, Shibaura Mechatronics Group formulated a medium-term business plan covering the three-year period from fiscal 2006. We have set out to achieve consolidated sales of more than 100 billion yen, an ROS (pretax profit-to-sales ratio) of more than 10% and an equity ratio of more than 40% in fiscal 2007.

In this medium-term business plan, we will strive to achieve corporate growth; higher profitability; a strengthened financial structure; and enhanced value for our shareholders. In line with the basic principles of "Bring continuous growth and reinforce highly profitable business structure," we have defined the key issues to be addressed when implementing measures:

1. Secure and expand orders and sales
2. Identify and cultivate new businesses
3. Promote efficiency enhancements
4. Improve cash flows
5. Human resource strategy

Under the medium-term business plan, Shibaura Mechatronics Group will steadily carry out various



measures for clarifying business strategies, understanding issues from the customers' perspective, and improving business procedures. Our aim is to secure profits and to act quickly in rapidly changing business environment and market for semiconductors, LCD and media devices.

### Corporate Governance in Shibaura Mechatronics Group

Shibaura Mechatronics Group recognizes corporate governance as a key management concern in respect to enhancing corporate value for shareholders, customers, employees and society in the mid-to long-term perspectives. The Shibaura Mechatronics "Shibaura Standards of Conduct" clearly defines for the company officers and employees who are responsible for creating corporate value just "what we should do" and "what we should not do." It provides firm foundations for compliance and risk management in respect of laws, social norms and ethics. The Group promotes business while observing these guidelines.

### Toward the Future

Shibaura Mechatronics defined being "The Provider of Infrastructure for The Digital Age" as the new basis of its business identity in 1998, a decision that has supported the Company in making deep inroads into the electronic components manufacturing equipment business. The Company now aims to achieve consolidated sales of more than 100 billion yen, an ROS (pretax profit-to-sales ratio) of more than 10%, and an equity ratio of more than 40% in fiscal 2007, in addition to a highly profitable business structure.

Manufacturing industry faces continued

globalization and an increasingly severe market environment. However, Shibaura Mechatronics will continue to cultivate its business proudly aware that "Japanese manufacturing equipment makers lead global manufacturing industry" and that "manufacturing equipment is a driving force for IT." Furthermore, we will grow our business from a broad perspective that goes beyond simply seeking business expansion and profit. Drawing on our corporate philosophy, we will continue to ask ourselves what we can and should do now to promote the future development of society.

Japan has all the abilities required to create next generation IT in the digital information home appliances segment, including know-how in DVD, mobile phones, digital cameras and digital TVs. Shibaura Mechatronics is determined to be among the first companies to offer the manufacturing equipment required for next generation IT. We will enthusiastically engage in wide-ranging business activities in good faith, and seek to earn the trust of all of our stakeholders. We will devote ourselves to becoming a truly one-of-a-kind company for our customers.

I sincerely hope that you will join me in looking forward to Shibaura Mechatronics' future growth and success. As we take our next steps forward, your continued support and understanding would be greatly appreciated.

August 2006

Shigeki Morita  
President and Chief Executive Officer

# TOPICS

## New Products

This year, we introduced the following new products:

### LCD Field

- Wet process equipment, VIP Series (cleaning equipment and stripping equipment) for eighth generation LCD panels substrates (2160 mm x 2400 mm): Transporting substrates in a vertical position significantly reduces cost of ownership (COO) for our customers, and cuts chemical consumption, process time and the space required to install the equipment in a clean room.
- Polyimide (PI) ink jet coater for eighth generation LCD panels: Using ink jet technology instead of a conventional flexo roller in PI coating during the LCD cell process significantly reduces the required volume of PI materials and the time taken for coating, advantages that attracted industry attention.
- Outer lead bonder for large TVs: In an area where we enjoy the largest market share, we brought to market an outer lead bonder for 46 inch TVs.

### Semiconductor Field

- Super high-speed bonder: Integration of a multihead into a flip chip bonder made it possible to realize a super high speed process and a tact time of 0.29 seconds per chip. The market of this equipment is expected to grow on demand for wireless IC tags.

### Media Device Field

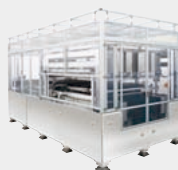
- Blu-ray Disc and HD DVD vacuum bonding equipment: We marketed vacuum bonding equipment applicable to both the Blu-ray Disc and HD DVD, the next-generation optical discs. The equipment is the first in the world to achieve total elimination of air bubbles.

### Vending Machine Segment

- Ticket vending machine for Suica: We developed and launched sales of vending machines that accept electronic money, such as the Suica card managed by East Japan Railway Company. This equipment was introduced as the first of its kind for non-contact IC cards.



Wet process equipment, VIP Series



PI ink jet coater



Outer lead bonder



Super high-speed bonder



Blu-ray Disc/HD DVD  
vacuum bonding equipment



Ticket vending machine  
for non-contact IC cards



### Integration of Vending Machine Business

In April 2005, Shibaura Vending Machine Corporation, which undertakes sales and service in the Vending Machines and System segment, was the surviving company in a merger with Shibaura EMS Co., Ltd., which develops and manufactures vending machines.

The vending machine market is experiencing a long-term downward trend, and the industry is expected to face an increasingly severe business environment in coming years. The integration unifies operations ranging from manufacturing through to sales and marketing and service support. It will enhance competitiveness and promote a more efficient management style by accelerating the speed of decision making, linking product development directly to the market, and establishing appropriate systems from manufacturing to sales and service.



Ticket vending machine

### Transfer of Semiconductor Inspection Equipment Business

As of July 1<sup>st</sup>, 2005, Honda Electron Co., Ltd., (now NetIndex Inc.) transferred all aspects of its semiconductor inspection equipment business, including manufacturing, sales, maintenance and services, to Shibaura Mechatronics Group.

The market for semiconductor inspection equipment is driven by demands for higher levels of automation, quantifiability and higher throughput rates. As a result, competition in product development is becoming increasingly fierce. By

taking over Honda Electron's semiconductor inspection equipment business, Shibaura Mechatronics will seek to expand its semiconductor business by strengthening development capabilities and product competitiveness.

The scope of the transferred business includes automatic wafer inspection equipment, automatic wafer edge inspection equipment, cassette shape checking equipment, and wafer transfer equipment. Yokohama Operations is positioned as the manufacturing base for the business, and undertakes manufacturing, sales, maintenance and service for the product line-up.

### Shibaura Hi-Tech Corporation

On July 1<sup>st</sup>, 2005, Shibaura Vending Machine Corporation transferred the equipment business (from design to production) of its Obama Works to Shibaura Hi-Tech Corporation. Since the transfer, Shibaura Vending Machine Corporation has concentrated on the vending machine business, while Shibaura Hi-Tech Corporation has taken steps to grow its business by increasing the number of designers, expanding its manufacturing capabilities and entering into new areas of business. From now on, Shibaura Hi-Tech Corporation Obama Works will design and manufacture microwave equipment, in addition to Shibaura Mechatronics' LCD manufacturing equipment and related equipment.

### Enhancing Business for the Global Market

In anticipation of the globalization of Shibaura Mechatronics Group's business operations, the

Enhancing Business for the Global Market

SHIBAURA MECHATRONICS (SHANGHAI) CO.,LTD.

SHIBAURA MECHATRONICS TAIWAN CORPORATION

SHIBAURA MECHATRONICS KOREA CO.,LTD.

SHIBAURA MECHATRONICS CORPORATION



Company has established overseas subsidiaries in the US, Taiwan and China, and a joint venture in South Korea. China remains the most significant overseas market in terms of growth potential, and since establishing Shibaura Mechatronics (Shanghai) Co., Ltd. in 2001, we have opened offices in Nanjing, Beijing and Suzhou, to serve as operations and service bases. In August 2005 we opened another office, in Shenzhen. We will continue to promote business expansion by establishing business bases in other major regions in turn, and by increasing the number of employees in the service operation.

### Enhancing Business in South Korea

In a major move to enhance business in South Korea, Shibaura Mechatronics Corporation increased its holding in SCK Co. Ltd. (South Korea) to 80%. In January 2006, we appointed Choichi Kimura, an Executive Vice President of the parent as president of the company, and the name of the company was changed to Shibaura Mechatronics Korea Co., Ltd. In March 2006, we reinforced the company's financial base by raising its capitalization to 3 billion won.

The scale of Shibaura Mechatronics' business in South Korea has increased consistently, year by year, with particularly rapid growth in demand for flat panel display manufacturing equipment. But it is also a very demanding business environment, where the Company faces intense competition from Korean manufacturers in terms of performance, price and service support. Shibaura Mechatronics realized that, in order to overcome this fierce competition and further expand business in South Korea, it was necessary to transform

SCK into the "Korean Shibaura" and to promote consolidated business operations as Shibaura Mechatronics Group.

In order to reinforce its capabilities to manufacture Shibaura Mechatronics' products, the new organization is initiating improvements in its manufacturing, sales and service operations. The new subsidiary will seek to expand sales and develop its business by promoting business operations directly linked to the market and raising customer satisfaction among Korean users.

Finally, at a time when LCD manufacturers are releasing capital investment plans one after another, and LCD panels continue to grow bigger, Shibaura Mechatronics Korea is carrying out an expansion that will almost double its production space, by adding a second floor to the current manufacturing facility. Construction will be completed in October 2006.

### Advanced Display of the Year (ADY) 2006 Grand Prix

Every year, Finetech Japan, the world's leading FPD industry exhibition, recognizes the best new FPD products. This year, our VIP series Vertical Integrated Processor took the Advanced Display of the Year, in the Display Manufacturing Equipment Category. The award citation noted the equipment's contributions to realizing significantly high efficiency, bringing energy-saving technology to the cleaning and stripping processes, and boosting productivity for manufacturing Large-area LCD-TFT for sixth generation and beyond by introducing a vertical transportation system for FPDs. The awards ceremony was held at Finetech on April 19, 2006.

Enhancing Business in South Korea



# FINANCIAL REVIEW

## Sales

In the fiscal 2005 business environment, Shibaura Mechatronics witnessed renewed capital investment in the LCD market, on the ending of an investment freeze and enhancement to existing lines in Taiwan, and proactive capital expenditure in Japan and South Korea. In the semiconductor manufacturing equipment market, capital investment remained steady, due to continuing expansion of the market for digital home appliances, including mobile music players, digital cameras, mobile phones and DVD players. However, the optical disc industry entered a phase of adjustment in supply and demand for DVDs that combined with concerns over standardization of the next generation optical disc to inhibit capital investment. In the Vending Machines and Systems Segment, including cigarette vending machines, ticket vending machines and others, capital investment slowed from the latter half of the year, after a round of procurement of machines able to handle new bills.

In this business environment, sales reached 74,913 million yen, a decrease of 15.4% from the end of the previous fiscal year.

## Profit and Loss Analysis

Consolidated ordinary income stood at 4,907 million yen, a decrease of 2,383 million yen from the end of the previous year, despite efforts to improve profits, including measures to squeeze fixed costs and

promote cost reduction activities. In extraordinary profit and loss, the Company posted an extraordinary profit of 955 million yen from the sale of land, and an extraordinary loss resulting from an impairment loss of 111 million yen from asset-impairment accounting applied from this fiscal year. As a result, consolidated net income totaled 3,393 million yen, a decrease of 1,741 million yen from the end of the previous fiscal year.

## Segment Information

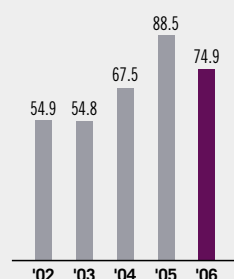
### 1. Fine Mechatronics Segment

Consolidated sales totaled 53,826 million yen, a 13.2% decrease from the end of the previous fiscal year. Consolidated operating income was 3,328 million yen, a 1,958 million yen year-on-year decrease.

At a time of active investments in LCD panel manufacturing equipment in Japan and overseas, the Company sought to improve operating performance by introducing new products, including vertical cleaning equipment and stripping equipment for larger LCD panel that support reduced Cost of Ownership (COO), and a PI ink jet coater. An abrupt shift in the size of panels for the LCD TV market resulted in delayed investment in back-end process equipment, but a recovery in capital outlays started to become apparent in the second half of the year

There was active investment in semiconductor

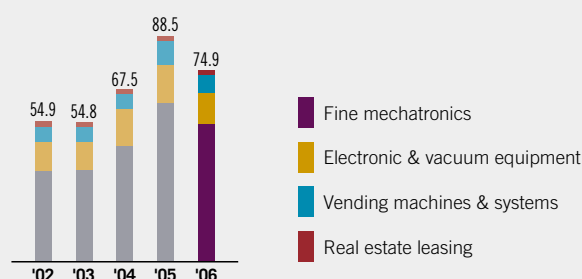
**Net Sales**  
(¥ Billions)



**Operating Income**  
(¥ Billions)



**Sales by Segment**  
(¥ Billions)



manufacturing equipment for flash memory, essential for mobile music players and digital cameras. This was reflected in demand for single-wafer cleaning equipment for the 300mm wafer manufacturing progress. The Company launched back-end process equipment for liquid crystal driver ICs offering improved tact and precision, and a newly developed high speed flip chip bonder and die bonder for memories did well.

## 2. Electronic & Vacuum Equipment Segment

Consolidated sales totaled 12,155 million yen, a 19.2% decrease from the end of the previous fiscal year. Consolidated operating income was 539 million yen, a 697 million yen year-on-year decrease.

Media device manufacturing equipment began a relative recovery in Japan, but capital investment slowed as a whole, the result of adjustment in the supply and demand balance for DVDs, restraint on capital investment by manufacturers in Taiwan as a consequence of the sharp rise in crude oil prices, and the uncertainty that competition between the Blu-ray Disc and HD DVD brought to standardization of the next generation optical disc.

In addition to the foregoing, the secondary battery business received orders for new secondary battery manufacturing facilities.

In laser equipment, demand for laser marker for semiconductors and laser equipment for welding electronic components remained steady.

## 3. Vending Machines & Systems Segment

Consolidated sales totaled 7,054 million yen, a 25.7% decrease from the end of the previous fiscal year. Consolidated operating income was 1,095 million yen, an 881million yen year-on-year decrease.

The cigarette vending machine market continued its long term shrinking trend, and a fall off in demand follow fiscal 2004 round of special procurement for machines able to handle new bills affected the segment. The Company made efforts to expand market share by enhancing operating activities.

## 4. Real Estate Leasing Segment

Consolidated sales totaled 1,878 million yen, a 5.4% decrease from the end of the previous fiscal year. Consolidated operating income was 668 million yen, a 55 million yen year-on-year decrease.

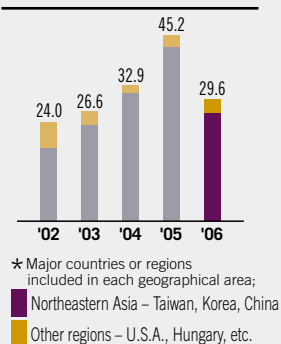
## Research and Development Expenses

Full term research and development expenses for the group as a whole amounted to 2,851 million yen, including 618 million yen for the development of basic technology common to Group companies.

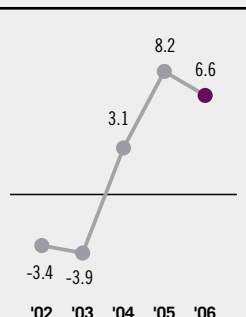
Proactive R&D activities range from basic technology to product development, and involve the Company's corporate R&D department, development and design departments in operating divisions, and consolidated subsidiaries.

Research results and R&D expenses in each segment are described below:

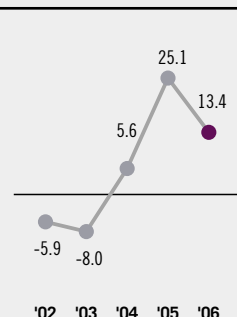
**Overseas Sales by Region**  
(¥ Billions)



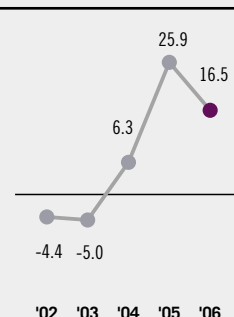
**ROS**  
(%)



**ROE**  
(%)



**ROI**  
(%)



### 1. Fine Mechatronics Segment

The segment's R&D expenses amounted to 1,559 million yen. Development of LCD manufacturing equipment including wet process equipment and cell assembly equipment for larger LCD panels, and outer lead bonders (OLBs) for large LCD TVs. Development of semiconductor manufacturing equipment including cleaning equipment and etching equipment for next generation devices, and high-speed flip chip bonders (FCBs).

### 2. Electronic & Vacuum Systems Segment

The segment's R&D expenses amounted to 468 million yen. Projects included development of sputtering equipment and vacuum bonding equipment for next generation discs, sputtering equipment for photo catalyst in the vacuum equipment field, and laser marker for wafers in the laser equipment field.

### 3. Vending Machines & Systems Segment

The segment's R&D expenses amounted to 206 million yen. Work included basic development of cigarette vending machines equipped with an adult recognition function, and development of ticket vending machine able to read non-contact cards in the vending machine and ticket vending machine field.

## Financial Condition

Total assets at the term end, including changes in

consolidated subsidiaries amounted to 75,151 million yen, an increase of 4,740 million yen from the end of the previous fiscal year.

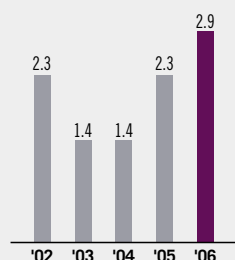
Current assets stood at 56,604 million yen, an increase of 5,643 million yen from the end of the previous fiscal year. The main contributory factors were an increase in accounts receivable from higher sales at the end of the fiscal year, an increase resulting from the change in the number of consolidated subsidiaries, lower inventory as the result of a year-end sales increase, an increase in cash and deposits from the sale of land and collection of credit accounts.

Fixed assets decreased to 18,547 million yen, down by 903 million yen from the end of the previous fiscal year, due to the sale of some securities and depreciation, and despite an increase from the acquisition of tangible fixed assets and the goodwill resulting from the acquisition of the semiconductor inspection equipment business.

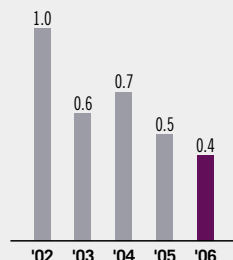
Total liabilities including changes in consolidated subsidiaries at the end of the fiscal year were 47,153 million yen, 467 million yen lower than at the end of the previous fiscal year.

Current liabilities increased to 32,049 million yen, a rise of 2,369 million yen, from the end of the previous fiscal year, due to an increase in notes payable and accounts payable resulting from changes in consolidated subsidiaries; an increase from production concentrated at year end; and an

**R&D Expenses**  
(¥ Billions)



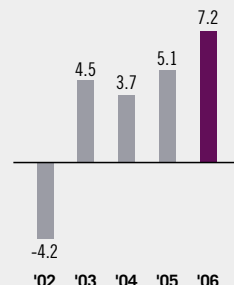
**Capital Expenditures**  
(¥ Billions)



**D/E Ratio**  
(%)



**Free Cash Flows**  
(¥ Billions)



increase in short-term loans resulting from transfer from long-term loans; and despite factors including payments made against short-term loans, reduced income tax payable resulting from interim payments, and increases in advance payment received.

Fixed liabilities decreased to 15,104 million yen down by 2,836 million yen from the end of the previous fiscal year, due to reduction in share warrant corporate bonds resulting from conversion of stock, and despite an increase in consolidated adjusted accounts in accordance with the increase in consolidated subsidiaries, a reduction in long-term loans due to payment and transfers to short-term loans, and so on.

Total shareholder equity, including the increase in accordance with the higher number of consolidated subsidiaries at the end of the fiscal year, rose to 27,670 million yen, an increase of 4,879 million yen from the end of the previous fiscal year. Although equity decreased due to dividend payments, the major contributory factors to the increase were net profit and an equity allocation resulting from conversion of stock from some share warrant corporate bonds.

## Cash Flow

The total cash and cash equivalents at the end of the fiscal year stood at 14,337 million yen, an increase of 6,882 million yen from the end of the previous fiscal year.

Cash flow from operating activities increased by 6,166 million yen. The primary reason for this increase, and despite higher debt payments and corporate payments cutting into funds, was a high level of net income before income taxes, fewer accounts receivable, and inventory reduction.

Cash flow from investing activities increased by 1,055 million yen. This primary source of this increase was income from the sale of land in the Obama district to Obama City, which outweighed payments for the acquisition of shares in a subsidiary shares and the acquisition of the semiconductor inspection equipment business.

Cash flow from financing activities decreased by 1,449 million yen. The underlying reasons were refinancing of and payment toward long-term loans, payment of short-term loans, and payment of dividends.

## FIVE-YEAR SUMMARY

	Millions of yen					Thousands of U.S. dollars
	Years ended March 31					Year ended March 31
<b>Consolidated</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2006</b>
Net sales	¥ 74,913	¥ 88,513	¥ 67,521	¥ 54,761	¥ 54,917	\$637,716
Cost of sales	58,015	67,492	54,308	45,428	44,519	493,868
Operating income (loss)	5,180	8,824	3,168	(1,502)	(1,536)	44,093
Income (loss) before income taxes	5,752	8,260	1,958	(2,172)	(1,810)	48,965
Net income (loss)	3,393	5,134	979	(1,416)	(1,118)	28,888
Depreciation and amortization	1,133	1,255	1,756	2,080	2,144	9,643
R&D expenses	2,851	2,337	1,415	1,409	2,313	24,269
Net income (loss) per share (yen and U.S. dollars)	¥ 66.52	¥ 101.92	¥ 18.88	¥ (28.40)	(22.46)	\$ 0.57
Total assets	75,151	70,411	69,245	63,615	67,647	639,743
Total shareholders' equity	27,670	22,791	18,091	17,066	18,514	235,547
Number of employees	1,735	1,441	1,486	1,586	1,719	1,735

# BUSINESS OVERVIEW

## FINE MECHATRONICS SEGMENT

### FPD MANUFACTURING EQUIPMENT

#### ► Main Products

- Wet cleaning equipment
- Stripping equipment
- Etching equipment
- Developing equipment
- Polyimide (PI) ink jet coater
- Cell assembly equipment
- Outer lead bonder

#### FPD Manufacturing Equipment

The flat panel display market continues to expand, with the main focus on LCDs, and is expected to grow further. Price reductions, the key to development along with improvement in image quality, cannot be achieved simply by enlarging the mother glass size. The solution lies in manufacturing equipment that supports process innovation free from the restrictions of established concepts.

Shibaura Mechatronics meets customer requirements with manufacturing equipment for the TFT, color filter, cell and module processes that halve the cost of panel production.



Wet process equipment, VIP Series



PI ink jet coater

## Business Strategy

In addition to cultivating Vertical Integrated Processor for Large-area LCD panels, wet cleaning equipment and stripping equipment, we will develop equipment with new manufacturing technology for small-medium LCD panels. We will promote efforts to extend the application of coating techniques based on ink jet technology. We will also continue to market outer lead bonders (OLB) for large screen TVs with a screen size of 50 inches and more, including OLB for Chip on Glass (COG).

In flat panel displays other than LCD, Shibaura also plans to develop and market equipment for SED (Surface-conduction Electron-emitter Display) and OLED, promising display technologies that are expected to see future growth.

Shibaura Mechatronics Korea made a new start in

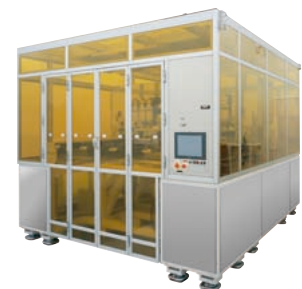
January 2006, as a manufacturing base serving the Korean market. That role will be bolstered by the October 2006 completion of an increase in the production floor space.

The fast growing Chinese market shows promise, and we anticipate capital investment with a focus on the module process. In Taiwan, panel manufacturers are promoting business reorganization, and we expect that to be followed by large-scale investments. We will continue to promote business there, with an eye toward a local production presence.

In Europe and the Americas, where investment related to FPD has been limited until recently, we have seen a series of new equipment programs, centering on the module process. We are responding to this with measures to reinforce our service and support system.



Outer lead bonder



LC dispenser



Seal dispenser



Cell assembly in vacuum machine



## SEMICONDUCTOR MANUFACTURING EQUIPMENT

**Semiconductor Manufacturing Equipment**

Semiconductor devices achieve higher levels of integration through miniaturization. Shibaura Mechatronics develops equipment that supports continued technology advances, that promotes improved performance and economic efficiency, and that contributes to more environmentally friendly products. From front-end processes to back-end processes, we meet a wide range of customer demands with equipment for 300mm wafers.

**▶ Main Products**

- Wet cleaning equipment
- Etching equipment
- Ashing equipment
- Die bonder
- Inner lead bonder
- Flip chip bonder
- Semiconductor inspection equipment



Etching/Ashing equipment for 300mm wafer

Single wafer wet cleaning equipment  
for 300mm wafer

Wafer inspection equipment

## Business Strategy

Semiconductor manufacturers constantly seek to push device performance through miniaturization, and by exploring new structures and new materials. As the manufacturing process grows in scale, they also focus on refining each of its stages, in order to boost yields.

Shibaura supports the front-end process with dry process equipment and wet process equipment, and last year we added wafer inspection equipment to our product line-up. Used in combination, these different items of equipment achieve a synergistic multiplier effect that offers customers new functions in the manufacturing system. Our integration of dry and wet

process equipment has already won recognition in the market, and we will build on this by marketing new integrated equipment.

The semiconductor back-end process market is now witnessing increasing demand for new packages, including LED, IC tags and MEMS. As a result, the bonder field will see demand for advances in technologies for miniaturization, higher speeds and finer pitches. Shibaura Mechatronics has developed and brought into market, in order to meet the move to Chip on Film (COF), high-speed, high-precision flip chip bonders, ultra sonic flip chip bonders and die bonders for multi chip packages.



Flip chip bonder



Die bonder

## MEDIA DEVICE MANUFACTURING EQUIPMENT VACUUM EQUIPMENT & VARIOUS EQUIPMENT

### ► Main Products

Media Device Manufacturing Equipment

DVD sputtering equipment

DVD vacuum bonding equipment

Vacuum Equipment & Various Equipment

Industrial vacuum evaporation equipment

Secondary battery manufacturing equipment

OLED vacuum bonding equipment

Precision parts manufacturing equipment

Other automation equipment

### Media Device Manufacturing Equipment

DVD and other recording media continue to win higher densities for storing text, sound and image data. Shibaura Mechatronics keeps pace with this fast changing market by pursuing high productivity, high availability and low running costs, and provides the world market with sputtering equipment and vacuum bonding equipment that minimizes manufacturing unit costs. This proactive approach extends to development of next generation media.

### Vacuum Equipment & Various Equipment

Fusing automation equipment offering speed and reliability with the vacuum technology that has made the Company a pioneer among vacuum pump manufacturers allows Shibaura Mechatronics to deploy time-tested manufacturing know-how and to deliver value-creating equipment in fields as diverse as electronic components automotive parts and semiconductors.



Single wafer multi layer sputtering equipment



Next generation DVD-ROM in-line equipment

### Business Strategy

In the media device field, Blu-ray Disc and HD DVD, the next generation optical discs, are expected to achieve significant market penetration from 2007, preceded by increased capital investment from fiscal 2006. These advanced optical discs seek to double and triple capacity. In the same way, with our DVD-Dual sputtering equipment, vacuum bonding equipment and other equipment, we aim to realize higher levels of performance, lower prices and lower COO.

In vacuum equipment and various equipment, we will provide a constant stream of products derived from

vacuum technology. In vacuum coating equipment (sputtering equipment, evaporation equipment), we have marketed high performance photo catalyst sputtering equipment for automobile mirrors. We are already supplying products to a major mirror manufacturer and anticipate future growth in this area.

We have already supplied vacuum bonding equipment for production of OLED, the highly promising next generation display. In future, we will market vacuum bonding equipment for large substrates, allowing us to meet diverse requests from our customers.



Photo catalyst sputtering equipment



OLED vacuum bonding equipment

## LASER EQUIPMENT MICROWAVE EQUIPMENT

### ► Main Products

Laser marker  
Laser welder  
Pattern cutting equipment  
Microwave heating/drying equipment

### Laser Equipment

As a manufacturer of laser equipment, we have made efforts to improve productivity and promote automation. By drawing on 40 years of experience in micro-level fabrication and optical application technology, we have brought laser processing to new areas of application, and in doing so delivered compact, easy to use equipment that offers high levels of efficiency while minimizing environmental loads.

### Microwave Equipment

Microwave technology finds wide application in industry, both as an energy resource for industrial heating devices and in plasma processing equipment. Microwaves possess the superior characteristics of a short heating time, uniform heating, and high energy-absorption efficiency. We will make full use of these features in developing new applied technologies that meet our customers' needs.

### Business Strategy

In the laser equipment field, we will cultivate business centering on laser markers for semiconductor, laser welders for electronic components, patterning equipment for solar cell electrode formation, and on patterning equipment and repairing equipment for FPD.

Additionally, in the microwave equipment field, we aim to develop business in the environmental market and automobile segment.



Laser marker for TAB-IC



LCD laser short-ring cut system

## VENDING MACHINES AND SYSTEMS SEGMENT

# CIGARETTE VENDING MACHINES TICKET VENDING MACHINES

### ▶ Main Products

Cigarette vending machine

Ticket vending machine

Shibaura Vending Machine Corporation develops, manufactures and undertakes sales and service of various types of vending machines, and will draw on these capabilities, and make full use of networking technology, to establish its leadership in the industry.

### Business Strategy

We will market cigarette vending machines incorporating an adult recognition function, promote replacement of cigarette vending machines with new machines with this capability.

We will increase the range of ticket vending machines for non-contact IC cards, such as Suica, and promote sales of system products, such as machines integrating an ordering system. Our strategy is to provide customers with high value-added products.



Ticket vending machine for non-contact IC cards



Adult recognition function unit for cigarette vending machine

# TO BE A TRULY TRUSTED COMPANY

## What is CSR?

We believe the essence of CSR is an understanding of "What is required of us?" and "What should we do?" in our dealings with stakeholders, including customers, suppliers, shareholders and investors, employees and local communities, combined with the ability to act with sincerity and enthusiasm. Achieving this approach generates trust and provides the foundations for the company's continuing survival and development.

Expanding business and pursuing profit are essential business activities; however, before that, we have to give priority to legal compliance. Moreover, in areas where there are no legal stipulations, it is essential that we act independently and make our own determinations on what is appropriate. With this

in mind, Shibaura Mechatronics Group has drawn up a "Shibaura Standards of Conduct" that clearly defines how we meet our social responsibilities and clarifies "what we should do" and "what we should not do". We make sure that all company officers and employees are familiar with the content.

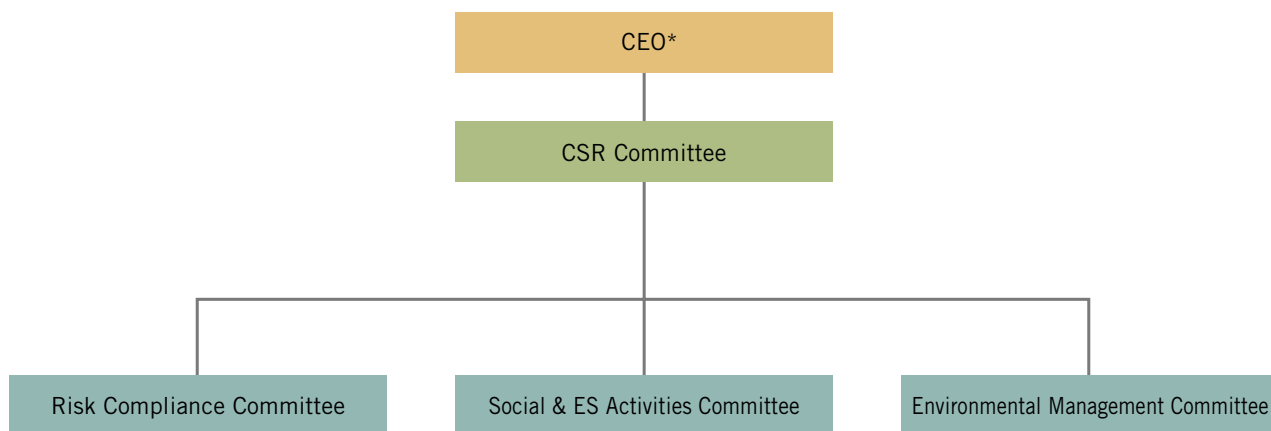
Another concern is "Safety & Health." Our main emphasis here is on the safety of our customers, employees and business partners, and we also give full consideration to health.

We ask each and every individual to give their full attention to legal compliance and safety and health as they carry out their duties and the company's business.

## CSR Management

We established the CSR Committee in April 2005, to improve and bring a systematic approach to activities previously carried out by individual departments and independent committees. The CSR Committee frames and promotes CSR policy and activities for Shibaura

Mechatronics Group, and gives direction to activities of the Environmental Management Committee, Social & Employee Satisfaction (ES) Activities Committee and Risk Compliance Committee.



\* CEO (Chief Executive Officer)



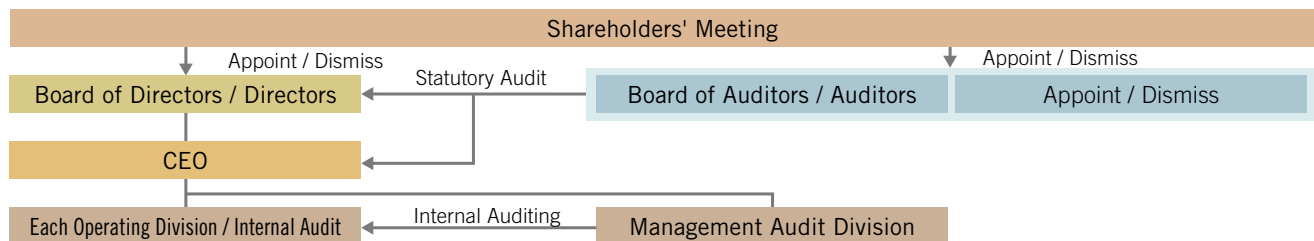
## Corporate Governance

The Company's Board of Directors consists of twelve directors and the audit system consists of four auditors (three outside auditors), assuring proper exercise of the decision-making and audit functions. The current system is constantly examined in order to identify ways in which it might be improved.

Status of implementation of corporate governance policies is as follows.

1. The company appoints three outside auditors, and they are supported by the General Affairs Department.

2. A Management Audit Division that reports directly to the President was established to operate and monitor the business oversight system and internal control system. Its mission is to undertake internal audits that gauge management appropriateness and efficiency, focusing on performance. In addition, the Management Audit Division operates a system whereby each section implements audits of its own operations. The audit function also includes legally required audits that are examined and verified by independent auditors.

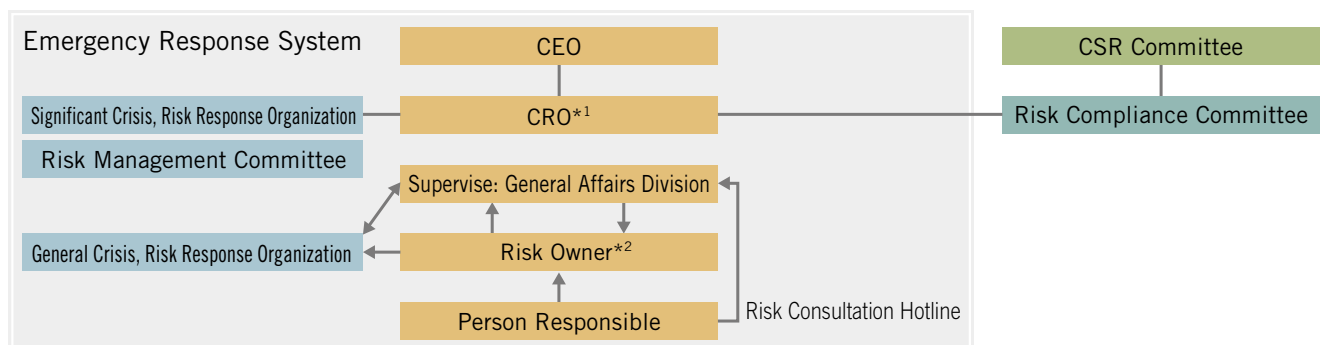


## Risk and Compliance

Shibaura Mechatronics Group considers risk management an important means for reducing potential damage from risk and for protecting corporate value. The company is cultivating a corporate culture in which compliance provides the basis for corporate management, winning the trust of

society and a positive approach to risk management.

The Company has introduced a "Risk Consultation Hotline," a whistleblower system, to prevent risk from becoming a serious issue, and also put in place a system for delivering appropriate solutions in case of risk-related problems.



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

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

# EFFORTS TO PROTECT THE ENVIRONMENT

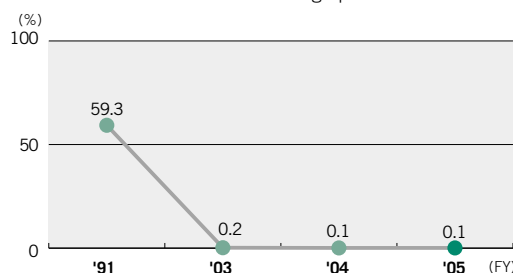
Shibaura Mechatronics Group, guided by its Environmental Charter, seeks to contribute to a sustainable society by achieving the symbiosis of a rich level of value creation with the Earth's environment.

Our first concern is to promote concerted efforts to reduce environmental loads in our own business activities, including product development and manufacturing, so as to promote harmonious coexistence with the global environment. Towards this, we promote thorough waste treatment through separation and processing, and in 2003 we brought emissions down to the zero level of 1% or below, in terms of cubic volume, a level that we continue to maintain.

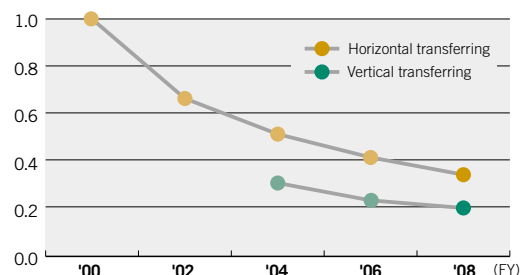
Our second emphasis is on developing manufacturing equipment that enables our customers to use less energy and fewer materials in their own production programs. For example, in wet process equipment for manufacturing LCD, one of our main product areas, we replaced the usual horizontal carrier system with a vertical system that improves the efficiency of materials consumption, including pure water and chemicals, and that supports our customers in achieving reduced environmental loads.

Thirdly, we are committed to the development of products expressly designed to directly reduce environmental loads. Our equipment contributes to the manufacture of such environmentally friendly products, such as exhaust-gas treatment equipment and solar battery.

Zero emission graph



Graph of consumption rate of pure water per unit area



## Toward the Future

Shibaura Mechatronics will continue to promote business with full consideration for what should be done now for society and for the global environment, for people today and for the future, and not just pursue business expansion as an end in itself. We will carry out our business activities with a zealous sincerity and hope that all our stakeholders will recognize Shibaura Mechatronics as a reliable company worthy of their trust.

# BOARD OF DIRECTORS



*Standing, from left ;* Kunihiko Yokoyama, Kazuo Takahashi, Ryoji Miura, Masaji Mito, Tsunemasa Tokura, Nobuyuki Yamaura, Hiroshi Hiraoka, Yasutomo Fujimori, Satoshi Shimoda, Osamu Watanabe, Tadashi Matsumoto, Ryoso Kawabe, Noboru Tamura

*Sitting, from left ;* Michiro Ishii, Shigeki Morita, Mikio Haga

## Directors

### President and Chief Executive Officer

Shigeki Morita

### Executive Vice President

Mikio Haga

### Senior Vice President

Michiro Ishii

Noboru Tamura

Kunihiko Yokoyama

### Vice President

Yasutomo Fujimori

Nobuyuki Yamaura

Osamu Watanabe

Masaji Mito

Ryoso Kawabe

Kazuo Takahashi

Hiroshi Hiraoka

## Corporate Auditors

Satoshi Shimoda

Tsunemasa Tokura

Tadashi Matsumoto

Ryoji Miura

# INVESTOR INFORMATION

AS OF MARCH 31, 2006

<b>Date Established</b>	October 12, 1939
<b>Capital</b>	6,761 Million-Yen
<b>Number of Employees</b>	Consolidated 1,735 Non-consolidated 927
<b>Common Stock</b>	Authorized 100,000,000 shares Issued and outstanding 51,926,194 shares
<b>Number of Shareholders</b>	4,982
<b>Stock Listings</b>	The Tokyo Stock Exchange (Code:6590)
<b>Transfer Agent for Common Stock</b>	The Chuo Mitsui Trust and Banking Company, Limited 33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan
<b>Independent Auditor</b>	Ernst & Young ShinNihon
<b>Headquarters</b>	2-5-1, Kasama, Sakae-ku, Yokohama 247-8610, Japan TEL:+81-45-897-2421 FAX:+81-45-897-2470 <a href="http://www.shibaura.co.jp/">http://www.shibaura.co.jp/</a>

## Common Stock Price Range (The Tokyo Stock Exchange)

Years ended March 31	2006	2005	2004	2003	2002
High (yen)	1,759	1,081	985	604	710
Low (yen)	864	590	409	201	253

## Principal Shareholders

	Number of shares hold (thousand shares)	Percentage of total shares outstanding (%)
Toshiba Corporation	18,977	36.5
Japan Trustee Services Bank, Ltd. (trust accounts)	5,019	9.7
The Master Trust Bank of Japan, Ltd. (trust accounts)	2,747	5.3
Trust & Custody Services Bank, Ltd. (trust account B)	1,882	3.6



## **SHIBAURA MECHATRONICS CORPORATION**

2-5-1, Kasama, Sakae-ku, Yokohama 247-8610, Japan  
TEL:+81-45-897-2421  
FAX:+81-45-897-2470

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