

Annual Report 2008

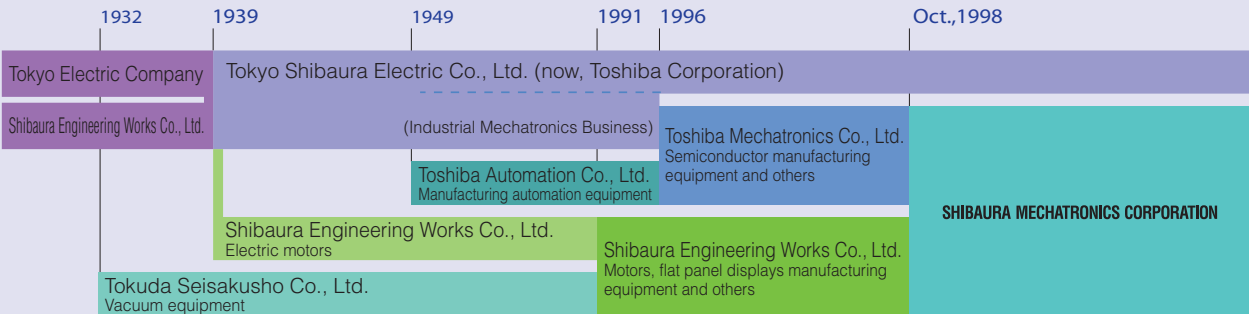
Year ended March 31, 2008

Profile

In 1939, when the company was established as Shibaura Engineering Works Co., Ltd., our primary focus was on the motor business. However, in 1998 we completed an ambitious business restructuring to be reborn as a manufacturer of manufacturing equipment for LCDs, semiconductors and optical discs. It is a young company exactly 10 years old this year, and guided by our determination to be the "Infrastructure Provider for the Digital Age" we manufacture essential electronic equipment that supports a changing social infrastructure.

The 21st 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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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.

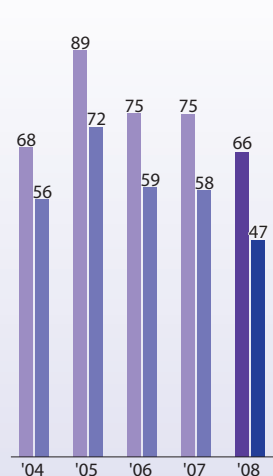
Financial Highlights

	Year ended March 31, 2008	Year ended March 31, 2007	Year ended March 31, 2008
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Consolidated			
Net sales	¥ 61,441	¥ 74,663	\$ 663,153
Operating income (loss)	1,647	(1,630)	16,436
Net income (loss)	426	(1,047)	4,252
Total assets	64,995	73,197	648,715
Net assets	25,045	25,084	249,973
	(Yen)		(U.S. dollars)
Net income per share (loss)	¥ 8.62	¥ (20.60)	\$ 0.09
	(Millions of yen)		(Thousands of U.S. dollars)
Non-consolidated			
Net sales	¥ 47,077	¥ 58,144	\$ 469,877
Operating income (loss)	(480)	(3,407)	(4,792)
Net income (loss)	539	(1,420)	5,378
Total assets	52,470	59,946	523,709
Net assets	21,157	21,041	211,167
	(Yen)		(U.S. dollars)
Net income per share (loss)	¥ 10.90	¥ (27.93)	\$ 0.11

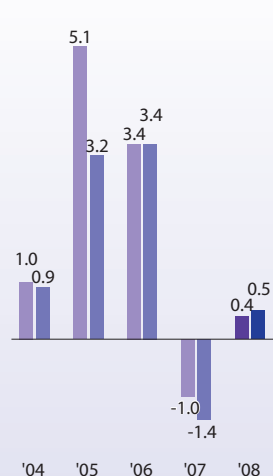
Effective for the year ended March 31, 2007, net assets are presented based on the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board Statement No.5, 2005/12/9) and the "Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Financial Standards Implementation Guidance No.8, 2005/12/9).

Note 1 : The U.S. dollar amounts in this report represent translations of Japanese yen, for convenience only, at the rate of ¥100.19 = U.S.\$1.00, as of March 31, 2007.

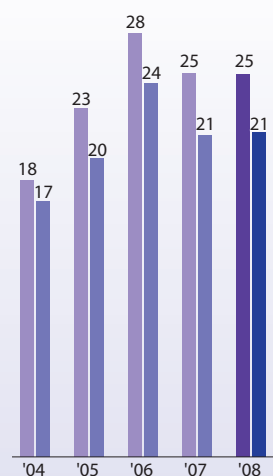
Net Sales (¥Billions)



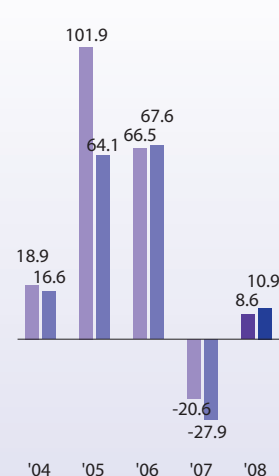
Net Income (¥Billions)



Net Assets (¥Billions)



Net Income Per Share (¥)



To Our Shareholders



SHIBAURA MECHATRONICS CORPORATION
President and chief Executive Officer

Kenji Minami

Shibaura Mechatronics, as the “Infrastructure Provider of the Digital Age”, offers manufacturing equipment for flat panel displays, semiconductors optical discs and other essential electronic components. As a provider of infrastructure supporting digitization and a networked society, we are contributing to the achievement of an affluent society.

In promoting business, we have adopted “Innovation in All Things”, “Pursuit of Rationality” and “Respect for Humanity” as Corporate philosophy for our corporate activities. As we strive to become an energetic global corporate group, able and ready to respond quickly to changing circumstance, we will ensure that this philosophy permeates the group.

Through our business we contribute to society. We have defined “contribute to the achievement of an affluent life by offering superior technology and services” as our management philosophy, and we believe it is essential to fully understand and promptly respond to customers’ demands and rapidly changing needs, and to thoroughly implement priority measures. We make sure that all employees share ownership of this management vision, define objectives that must be achieved, and assign and assure responsibility for results through the practice of commitment management. As we promote efforts to realize our business visions, we also make sure of compliance with rules and observance of fair corporate activities.

Results for FY ending March 2008

There was increasing uncertainty about the future of the Japanese economy in the fiscal year ending March 2008, driven by the impacts of rising prices for crude oil and raw materials, and by the worldwide financial turmoil triggered by the sub-prime loan issue. In these circumstances, the market for electronic devices was relatively buoyant, as demand remained strong for digital home appliances, including personal computers, mobile phones, large-sized FPD TVs, portable music players, all of which expanded into emerging markets. In the LCD panel business, our main customers, LCD panel manufacturers in overseas markets postponed planned capital expenditures during the first half of the fiscal year to March 2008. However,

we saw increased investment on equipment for large-sized panels in the latter half of the term, both in Japan and overseas. The semiconductor industry was less confident. While some NAND flash memory manufacturers remained positive, price declines in DRAM had a negative impact, especially on manufacturers of logic devices, and the industry saw weaker capital investment.

In this business environment, Shibaura Mechatronics Group continued to maintain a basic policy of “realize high profitability by reinforcing product appeal and overall productivity” and promoted business and production activities to secure profit.

As a result, for the fiscal year ending March 2008, we recorded consolidated sales of 66,441 million yen, an 11% decrease from the previous term, operating income of 1,646 million yen, and net profit of 426 million yen. We have decided to pay an annual dividend of eight yen per share, a one yen increase from the previous term.

Future Outlook

In the LCD panel business, we expect to see continuation of the positive mood of the latter part of fiscal year 2008, and continued active capital investment in Japan, South Korea and Taiwan during the fiscal year ending March 2009. In the semiconductor business, we expect capital expenditure on NAND Flash memory and logic to remain steady in the first half of the year, and we anticipate a recovery in market conditions in 2009. In the optical disc business, thanks the resolution of the next generation DVD standard, investment in Blue-ray Discs is expected to increase. In the battery industry, where we see tremendous growth potential, we look forward to increasing significant roles for solar batteries, secondary batteries and fuel cells.

In these market conditions, Shibaura Mechatronics Group will promote business expansion by moving into new growth areas, such as batteries, alongside our businesses in flat panel displays, semiconductors and optical discs. We will also implement measures to strengthen cost competitiveness and manu-

facturing and to enhance procurement capabilities, in order to secure profit.

Looking more closely at particulars, guided by our mid-term business plan for the three years from the fiscal year ending March 2009, we will steadily carry out the measures outlined below, as means to improve profitability, asset efficiency and shareholder value. We will aim to achieve an ROA (return on assets) of 10% and ROE (return on equity) of 15% in the fiscal year ending March 2011.

1. Expand the semiconductor business
2. Improve profitability in the liquid crystal display business
3. Expand the vacuum and laser businesses
4. Expand the inkjet business
5. Develop new businesses
6. Reinforce productivity and procurement
7. Reinforce price and cost competitiveness
8. Reinforce product appeal and development capabilities
9. Develop and deploy capable human resources
10. Reinforce internal controls and CSR

Further to this, and toward strengthening our overall structure, we initiated a business reorganization on April 1, 2008. We established an Ink-jet Business Product Promotion Team to accelerate the expanding application of use of inkjet technology to LCDs and semiconductors. We also merged the Electronic & Vacuum Systems Division with the Laser Systems Division, toward achieving a synergy between our vacuum application transfer technology and laser process technology. Through this synergy effect, we propose to strengthen the System Equipment business in such areas as solar batteries and secondary batteries.

CSR Management

We promote CSR activities from the perspective of what we should do for the future based on the guiding principles of our corporate behavior. We constantly consider the role that we ought to play through our communication with our stakeholders, and strive to reflect such considerations in our management.

In order to address and help to mitigate global environmental issues, we have established an "Environmental Charter." We promote sound environmental activities in our business and in our products, aiming to improve resource productivity and environmental efficiency, but more than this we believe it is essential to define a long-term plan that allows us to achieve effective results that contribute to countering the acceleration of climate change. In order to secure sustainable development which implies meeting that meets the needs of the present generation without compromising the ability of future generations to meet their own needs, we have a responsibility for reaching a balance between comprehensive corporate activities and the requirements of the global environment. In order to fulfill our responsibilities, we must proactively consider the nature of our future corporate activities and, as a maker of manufacturing equipment, utilize our technology, our know-how and our experience. Furthermore, we believe that CSR activities will be completely rooted in the company when our employees actively engage themselves in the CSR that the Group aims for, and bring an awareness of CSR to the conduct of day-to-day business. We encourage our employees to think for themselves, to take action, and to achieve personal growth, an approach we refer to as "CSR that activates people".

Toward Achieving New Growth

Shibaura Mechatronics operates in a business environment where it is not easy to forecast the future with any confidence. Business in the area of electronic devices, including semiconductors, flat panel displays and optical discs, all face fierce competition in a market that can change very quickly. However, these are also the businesses that provide the basis for many current industries and the IT society, and they are all expected to see continued growth and expansion. Building on core capabilities that we have built up over many years, we constantly seek to strengthen our technological capabilities in products and manufacturing, and to produce excellent products in a short time at low prices. We also value positive relations with our business partners that allow us to promote business together, and to provide our customers with new value. Through this approach, we aim to continue to grow our busi-

nesses.

As we do so, I very much hope that we may continue to rely on the support and encouragement that our shareholders and investors have extended to us for so long.

October 2008

Kenji Minami
President and CEO



New Products

New products that we have brought to market during the course of the year include the following.

LCDs

LCD manufacturing equipment compatible with large glass substrates

New wet processing equipment that brings together Shibaura Mechatronics' long-cultivated know-how and expertise in wet process technology to reduce our customers' COO (cost of ownership).

Semiconductors

SC300GX III: High efficiency manufacturing single wafer type wet processor

Highly efficient manufacturing equipment that saves space and supports miniaturization of flash memory. This equipment offers the industry's highest level of productivity, even as it achieves a smaller footprint.

FTD-7000: High Precision Die Bonder

The perfect die bonder for multi-level packages such as flash memories and System LSI

TFC-5500: Ultra High-Speed Flip Chip Bonder

The optimum equipment for RFID and other small chips, offering compatibility with the ultrasonic process and high level production efficiency.

TFC-3200: High Precision Flip Chip Bonder for COF

Optimization for FPD driver packages assures the achievement of high-level precision combined with high productivity.

Media Devices

Dual layer transcription equipment for BD-ROM dual layer discs

This equipment's utilization of a metal stamper during the Blu-Ray disc manufacturing process achieves dramatic cost reductions.

Solar Battery Field

Thin film solar battery manufacturing equipment

We have brought to market laser patterning equipment for the thin film silicon solar battery panel manufacturing process.



High efficiency manufacturing
single wafer type wet processor
SC300GX III



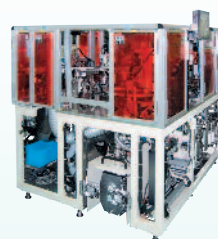
High Precision Die Bonder
FTD-7000



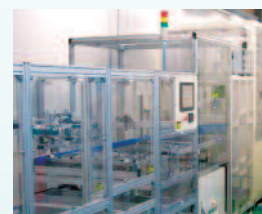
Ultra High-Speed
Flip Chip Bonder
TFC-5500



High Precision
Flip Chip Bonder for COF
TFC-3200



Dual layer transcription equipment
for BD-ROM dual layer discs



Thin film solar battery
manufacturing equipment

Financial Review

Business at a Glance

In the fiscal year ended March 2008, the market for digital consumer products, including LCD TVs, PCs, mobile phones and portable audio players, continued to expand, while some LCD and semiconductor manufacturers reviewed their capital investment plans in the face of price erosion and a deteriorating supply and demand balance in LCD displays and memory devices.

In the LCD panel business, Shibaura Group's major customer, some foreign panel manufacturers postponed capital investments. Despite this, the second half of the fiscal year saw capital investments in large-sized panels and other areas enter a more aggressive phase, both at home and overseas. In the semiconductor industry, capital investment for NAND flash memory remained steady, supported by continued demand growth for digital consumer products. However, investments in logic and LCD driver ICs were sluggish.

As a result of the foregoing, sales against the previous fiscal year decreased by 11.0% to 66,441 million yen, operating income increased by 3,276 million yen to 1,646 million yen, ordinary profit saw increased by 3,209 million yen to 1,481 million yen, and net income increased by 1,473 million yen to 426 million yen.

Segment Information

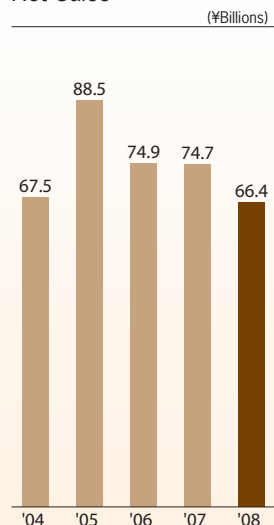
1. Fine Mechatronics Segment

Segment sales decreased by 19.6% from the previous fiscal term to 47,559 million yen, while operating income increased by 2,966 million yen to 587 million yen.

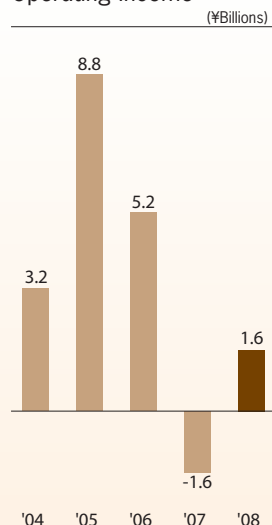
Sales of LCD manufacturing equipment, including cleaning equipment, decreased against the previous fiscal year in the Taiwanese and Korean markets. However, a more active investment environment emerged in the second half and orders increased. Among our core products, PI ink jet coaters for larger LCD panels saw a better performance in Taiwan and Korea. Demand for outer lead bonders for large-sized LCD TVs and monitors turned in a solid performance, and we were able to deliver those products to a broader geographical area, including Eastern Europe and Latin America.

In semiconductor manufacturing equipment, demand for single wafer wet cleaning equipment for 300mm wafers and for wafer inspection equipment remained steady. However, sales of dry process equipment were stagnant, reflecting restrained capital investment in logic ICs. Bonding equipment saw lower sales also under the impact of limited

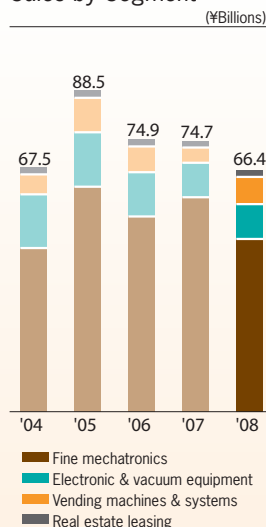
Net Sales



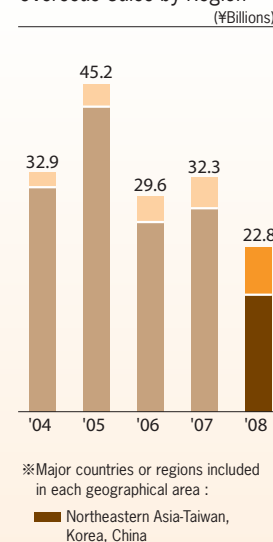
Operating Income



Sales by Segment



Overseas Sales by Region



investment in the LCD driver IC market.

2. Electronic & Vacuum Systems Segment

Segment sales increased by 0.6% from the previous fiscal term to 9,588 million yen. Operating income decreased by 172 million yen to 146 million yen.

In the media device manufacturing equipment field, demand for sputtering equipment and dual layer transcription equipment for Blu-ray Discs (BD-ROM) for games and high-definition video increased, resulting in sales growth. Also in the vacuum equipment field, vacuum bonding equipment saw a significant sales increase as a result of higher demand for mobile displays. In the laser business, equipment for thin silicon solar battery panels saw a substantial increase in demand.

3. Vending Machines and Systems Segment

Segment sales increased by 78.2% from the previous year to 7,470 million yen. Operating income increased by 782 million yen to 885 million yen.

Sales of cigarette vending machine increased as a result of the 2008 introduction of an integrated adult verification function. Overall, the ticket vending machine business remained

steady, reflecting growing demand for ticket vending machines compatible with contactless IC cards to meet the widespread use of the electronic payment cards.

4. Real Estate Leasing Segment

Sales totaled 1,823 million yen, remaining largely the same as in the previous year. Operating income decreased by 113 million yen from the previous year to 608 million yen.

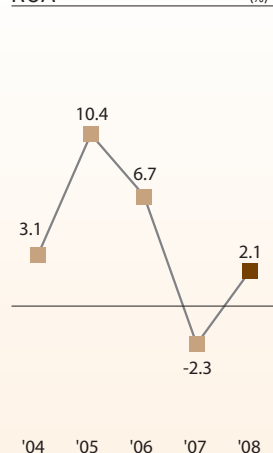
Research and Development Expenditure

Research and development expenditure by Shibaura Group as a whole in the fiscal year under review stood at 3,184 million yen. This includes 581 million yen for the development of core technologies common to Group companies.

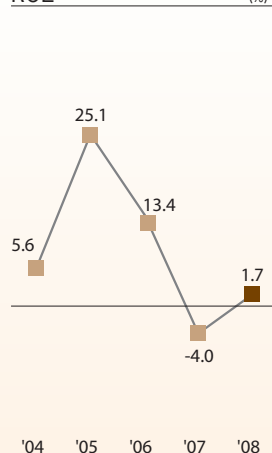
Proactive R&D activities range from basic technology to product development, and involve the Company's corporate R&D department, the development and design departments in operating divisions, and consolidated subsidiaries.

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

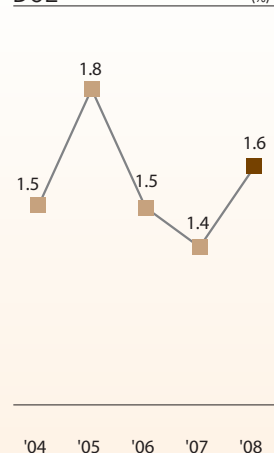
ROA (%)



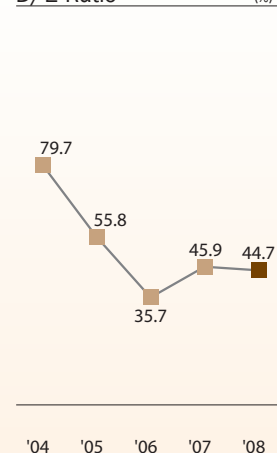
ROE (%)



DOE (%)



D/E Ratio (%)



1. Fine Mechatronics Segment

Development work for LCD manufacturing equipment covered the wet process equipment, cell assembly equipment and PI ink jet coaters, in readiness for next generation larger glass panels, and outer lead bonders for large-sized LCD TVs. Development work for semiconductor manufacturing equipment covered cleaning equipment, etching equipment, ashing equipment, wafer inspection equipment for next generation devices, and high-speed, high-precision flip chip bonders.

2. Electronic & Vacuum Systems Segment

Development work for media device and vacuum equipment covered sputtering equipment and dual layer transcription equipment for Blu-ray Discs, photocatalyst sputtering equipment, vacuum bonding equipment for mobile displays, and sputtering equipment for semiconductor backside contacts. For laser equipment, development work covered high-output fiber lasers, laser welding equipment for batteries for vehicles and thin filmsolar energy panel manufacturing equipment.

3. Vending Machines and Systems Segment

Development work for vending machines and ticket vending machines covered advanced software for cigarette vending

machines with a built-in adult verification function, development of replacement parts for installed cigarette vending machines, and new model introductions in the thin model series of ticket vending machines (incorporating LCD displays, etc.).

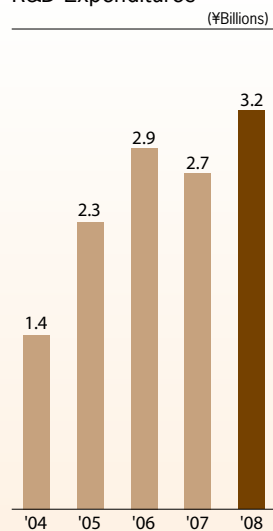
Financial Condition

Total assets at the end of the fiscal year amounted to 64,994 million yen, a decrease of 8,202 million yen from the previous fiscal year-end. Current assets decreased by 6,921 million yen from the previous fiscal year-end to 45,845 million yen. This was primarily due to a sharp drop in notes and accounts receivable and inventories. Fixed assets decreased to 19,149 million yen, a decrease of 1,281 million yen from the end of the previous fiscal year, primarily due to the depreciation of tangible fixed assets.

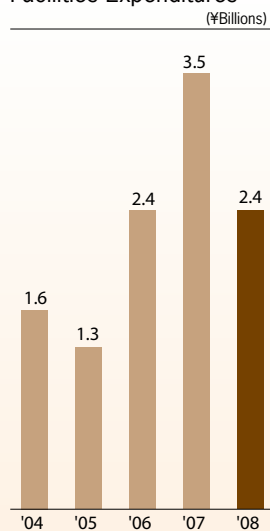
Total liabilities at the end of the fiscal year were 39,949 million yen, 8,162 million yen lower than at the end of the previous fiscal year. The primary reason for this was a decrease in notes and accounts payable and accounts payable on infrastructure in current liabilities.

Total net assets at the end of the fiscal year stood at 25,044

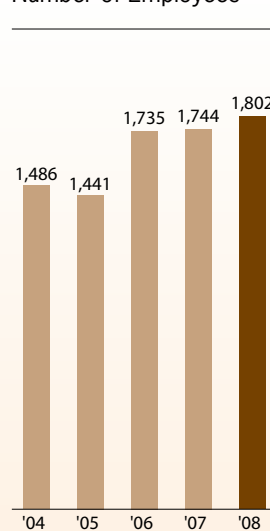
R&D Expenditures



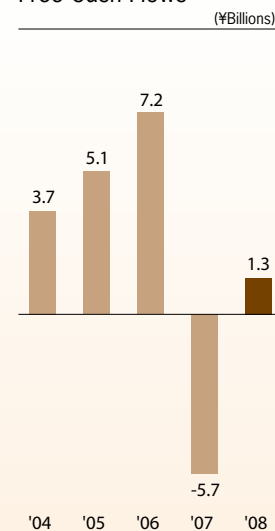
Facilities Expenditures



Number of Employees



Free Cash Flows



million yen. The underlying reason for this was a decrease in the dividend surplus and valuation and translation adjustments.

Cash Flow

Total cash and cash equivalents at the end of the fiscal year stood at 9,059 million yen, an increase of 849 million yen from the end of the previous year. This growth includes 188 million yen from the increase in the number of consolidated subsidiaries.

Cash flow from operating activities increased by 2,917 million yen. The primary reasons for this increase were lower debt payments, net income before income taxes, fewer accounts receivable and inventory reduction.

Cash flow from investing activities decreased by 1,612 million yen, a result of expenditure on the acquisition of tangible fixed assets.

Cash flow from financing activities decreased by 637 million yen. The primary reason for this was repayment of short-term bank loans and payment of dividends.

Five-year Summary

	Year ended March 31,					Year ended
	2008	2007	2006	2005	2004	March 31, 2008
	(Millions of yen)					(Thousands of U.S. dollars)
Consolidated						
Net sales	¥ 66,441	¥ 74,663	¥ 74,913	¥ 88,513	¥ 67,521	\$ 663,153
Cost of sales	52,070	65,322	58,015	67,492	54,308	519,714
Operating income (loss)	1,647	(1,630)	5,180	8,824	3,168	16,436
Income (loss) before income taxes	1,482	(1,727)	5,752	8,260	1,958	14,788
Net income (loss)	426	(1,047)	3,393	5,134	979	4,252
Depreciation and amortization	1,245	1,165	1,133	1,255	1,756	12,427
R&D expenses	3,184	2,713	2,851	2,337	1,415	31,780
Total assets	64,995	73,197	75,151	70,411	69,245	648,715
Net assets	25,045	25,084	27,670	22,791	18,091	249,973
Net income (loss) per share	¥ 8.62	¥ (20.60)	¥ 66.52	¥ 101.92	¥ 18.88	\$ 0.09
Number of employees	1,802	1,744	1,735	1,441	1,486	1,802

Mid-term Business Plan

With full consideration for changes in domestic and overseas economic trends and in the business environment, Shibaura Mechatronics Group has drawn up a mid-term business plan covering the years beyond the March 2009, with the intent on achieving an ROA (return on assets) of 10% and an ROE (return on equity) of 15% by the end of March 2011.

Under this mid-term business plan, we aim to improve earning capacity, asset utilization efficiency, and shareholder value based on the policy "realize high profitability by reinforcing product appeal and overall productivity."

In order to ensure profits while quickly responding to volatile business environments and market trends in semiconductors, liquid crystal displays, media devices and our other product areas, the Group intends to define clear business strategies, see the issues from the perspective of our customers, and steadily implement the measures described below as a means to improve business processes.

1. Expansion of the Semiconductor Business

Capital investment in semiconductors for digital home appliances continues. In these business circumstances, and with the intent of expanding the semiconductor business, we will introduce strategic new products into the market and

actively promote collaborations with major customers in order to expand our market share in dry process equipment, wet process equipment, and die attachment equipment.

2. Improving Profitability in the Liquid Crystal Display Business

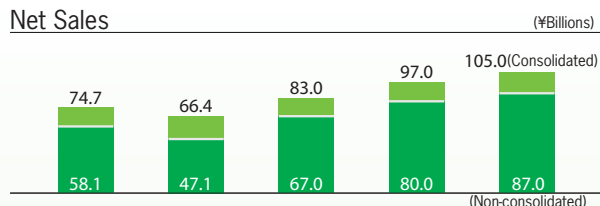
Despite active capital investment in large LCD TV, demand for cost reductions continues to grow, driven by falling prices of LCD panels. In this business environment, and to ensure profitability, we will establish profitable operations by shifting from a growth-oriented strategy to focus on a profit-oriented structure, make continuous efforts to reduce costs and lead-times, and to reinforce our competitive edge through a clear focus on strategic products.

3. Expansion of Vacuum and Laser Business

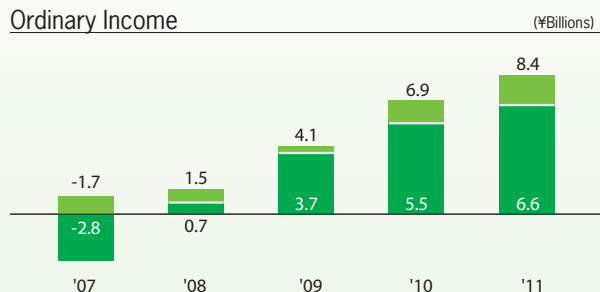
We merged the electronic and vacuum systems division and the laser systems division on April 1st, 2008, with the objective of reinforcing our system equipment business in such products as solar batteries and secondary batteries.

With the standardization issue now settled in the next generation DVD market, the Blu-ray disk is now expected to fully prevail. Besides this, concerns for the impact of global warming have spurred progress in solar power generation have progressed, and we look forward to rapid expansion in

Net Sales

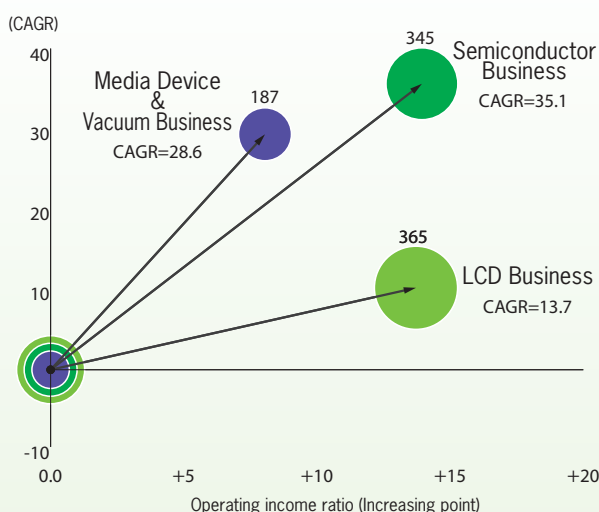


Ordinary Income



Business Port Folio

Year ended March, 2007 → 2010 (%)



the solar battery market. In this business environment, we will make every effort to expand the scale of operations by increasing our share in sputtering equipment for Blu-ray discs through reinforced collaborations with major customers, introducing unique vacuum bonding equipment to market, and delivering processing equipment for thin-film silicon solar cells.

4. Expansion of Ink-jet Business

We established the Ink jet Equipment Project Team on April 1, 2008, aiming to cultivate the market in the area of LCDs and semiconductors, and to expand operations by reinforcing the product appeal of our ink-jet equipment.

5. Launching New Business

In order to strengthen our business foundations for the mid- and long-term, we will cultivate new businesses in which we can utilize our technology, in areas that are expected to enjoy future growth and expansion, and seek to foster and grow businesses that have the potential to become next generation core operations.

6. Enhancement of Production and Procurement power

In order to win against intense competition from domestic and overseas manufacturing and equipment manufacturers,

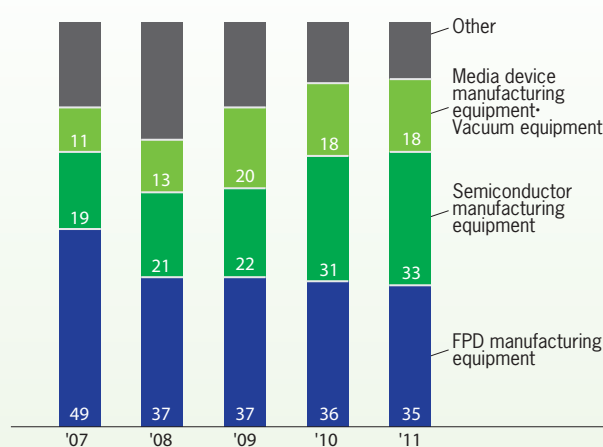
and to expand business further, we enhanced our production space to support large liquid crystal display substrates and expansion of the semiconductor business in FY ending March 2007. Thanks to the significant increase in production power, we will work on active capital investment in production equipment for large LCD panels and semiconductor, both at home and overseas.

In parallel with this, we are strongly promoting offshore procurement of parts and components by launching an overseas procurement department. We aim to win further cost reductions by collaborating in a company-wide procurement innovation promotion with our suppliers.

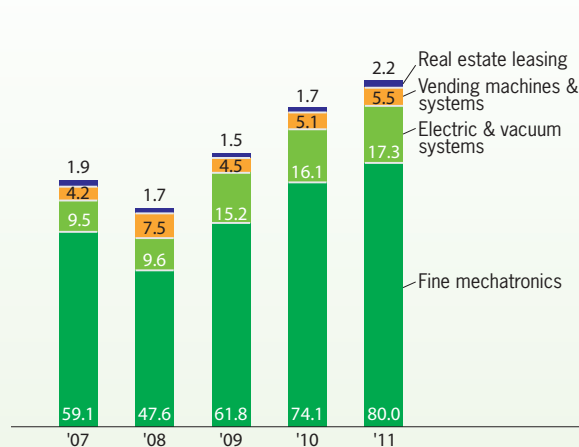
7. Enhancement of Cost Competitive Edge

Falling prices for digital home appliances are spurring demand for price reductions in the selling prices of our manufacturing equipment. In order to achieve significant cost reductions in equipment prices, we have taken measures to reduce initial manufacturing costs. Specific measures include using 3D CAD to improve design productivity, design AV, standardization, platform development, cost reductions by offshore procurement of parts and units, and reduction in lead-times by improving business operation processes. With these measures, we will advance delivery

Percentage Sales (Non-consolidated) (%)



Sales by Segment (¥Billions)



dates, and strive to improve product price competitiveness and profitability.

8. Strengthening Capabilities in Products and Development

We will deliver equipment that offers product competitiveness in each of our business segments, such as wet processor, PI inkjet coater, and Outer lead bonder for large LCD TVs in the liquid crystal display segment, high performance ashing devices, backside etching equipment, and high precision die-bonders in the semiconductor segment, Blu-ray disc sputtering equipment in the media device segment, and processing devices for thin-film silicon solar cells in the laser segment.

9. Use and Cultivation of Human Resources

Based on our recognition that employees are invaluable resources, we develop the foundations whereby human materials are transformed into human resources, focusing on training personnel by enhancing our personnel and training systems and providing the education necessary for the next generation leaders. Furthermore, as a company involved in "monotsukuri," the making of goods, we are active in promoting in-house education designed to strengthen manufacturing power.

10. Internal Control, Enhancement of CSR

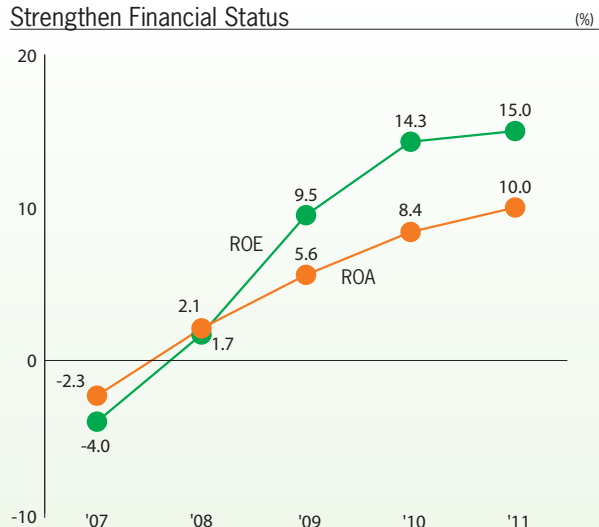
As a whole group, based on the management top policy, we will implement internal control related to the financial reports that correspond to the Financial Instruments and Exchange Law (Japanese version SOX law) that will come into effect from the fiscal year ending March 2009.

As we enhance our capabilities, Shibaura Mechatronics Group will also continue to enhance and promote Corporate Social Responsibility (CSR) activities, as we firmly believe that CSR is the foundation on which a company sustains and develops itself.

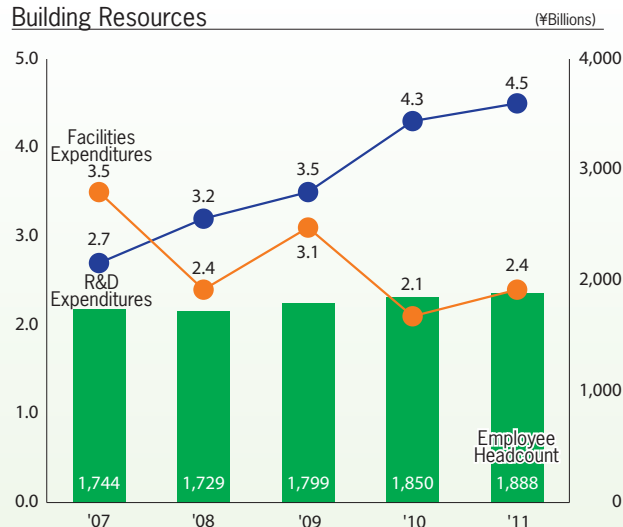
Future outlook

Sales to the LCD panel industry in the fiscal year ending March 2009 are expected to increase, thanks to an upturn in orders from the second half of the fiscal year ending March 2008, the result of active investment in production equipment for large panels in Japan, South Korea and Taiwan. In the semiconductor industry, NAND flash memory manufacturers and logic manufacturer have held back on capital investment in the fiscal year ending March 2009, market conditions are expected to recover in the fiscal year ending March 2010. In the optical disc industry, settlement of the next generation DVD standardization

Strengthen Financial Status



Building Resources



issue has activated investment in manufacturing equipment. In the solar battery industry, positive capital investment will continue and sales are expected to increase. In the automatic vending machine business, the full introduction of vending machines with built-in age verifiers will reduce demand for cigarettes vending machines, but demand for ticket vending machines offering support for contactless cards is expected to increase.

Shibaura Mechatronics Group will ensure implementation of its mid-term business plan grounded in the basic policy of “realize high profitability by reinforcing product appeal and overall productivity,” make every try to expand business in such growth areas as FPD, semiconductors, and solar cells, and work to strengthen cost competitiveness, production and procurement power in order to secure profit.

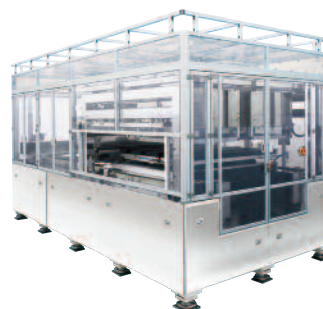
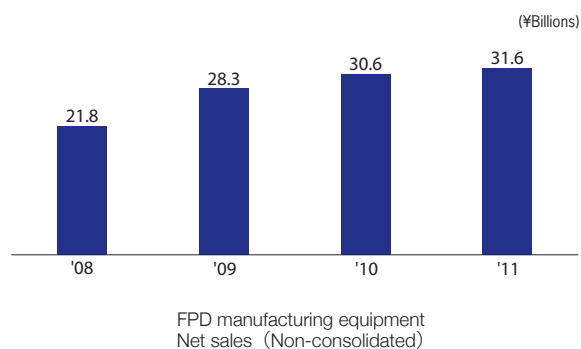
Business Overview

Fine Mechatronics Segment

Flat Panel Display Manufacturing Equipment

Main Products

- Cleaning Equipment
- Stripping Equipment
- Developing Equipment
- PI Ink Jet Coater
- Seal Dispenser
- LC Drop Fill Equipment
- Vacuum Bonder
- Outer Lead Bonder



PI ink jet coater



Seal dispenser



Outer lead bonder

Building a Profitable Business Structure

In the LCD business, investment in large-sized LCD panels is active in Japan, Taiwan and Korea. However, demands for price cuts in LCD panel manufacturing equipment continue to be strong, under the impact of falling prices of LCD panels. We make every effort to ensure positive results profit through concentrated efforts to restore profitability, including cutting costs through standardization and reducing lead times, and reinforcing product appeal.

In addition, in an effort to enhance efficiency and to achieve the required levels of product functionality and performance during development of equipment for large-sized LCD panels, we perform event analysis and optimization by fully utilizing 3D-CAD in design and simulations.

1. TFT/Color Filter Process Equipment

In the cleaning equipment business we face sharpening competition, and higher cost competitiveness is our goal. We promote unit standardization of development of equipment with selected functions, with the objective of achieving cost reductions that will sustain a profit-based structure. In addition, by applying the cutting-edge technology developed for eighth generation large-sized glass panels, we continue to develop manufacturing equipment for future, larger generations.

We also aim to expand our market share in spin cleaning equipment for technologically advanced low-temperature polysilicon LCDs and to apply that technology to OLEDs.

2. Cell Process Equipment

Panel manufacturers have already introduced our technologically advanced PI ink jet coater into their mass production lines. Building on this base, we will promote further business expansion as our customers make capital investment in large-sized LCD panels. Going forward, we aim to broaden the range of applications of the high precision coating technology based on the ink jet technology we developed for PI coating.

In liquid crystal drop fill/bonding equipment, we will apply our high precision filling technology of minute liquid drops for producing small to medium sized panels for portable and in-vehicle applications.

3. Module Process Equipment

By bringing to market a new product offering the high speed and high precision necessary to meet increasing demand for LCD TVs, we will seek to retain our No.1 share. Measures will include the launch of strong line-up of outer lead bonder for small panels (COG).

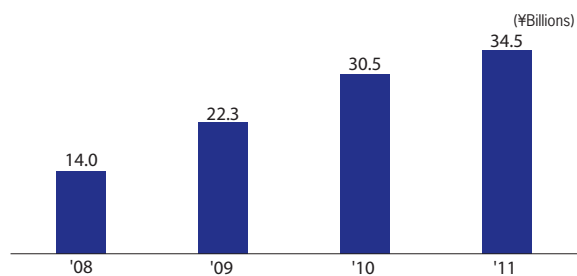
In America and in Europe, we will proactively strengthen our service capabilities in response to the opening of module production facilities.

Fine Mechatronics Segment

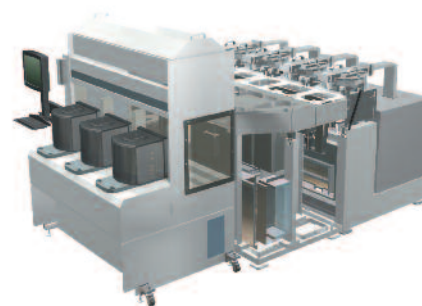
Semiconductor Manufacturing Equipment

Main Products

- Etching Equipment
- Ashing Equipment
- Wafer Cleaning Equipment
- Wafer Inspection Equipment
- Die Bonder
- Flip Chip Bonder



Semiconductor manufacturing equipment
Net sales (Non-consolidated)



Ashing equipment



Wet process equipment



Die bonder

Expanding Business Scale

In the semiconductor business environment, the main focus is on a steady expansion of investment in equipment for NAND flash memory. At the same time, there is a continuing trend to restrict investments in equipment for other types of semiconductors.

Shibaura Group intends to expand its semiconductor business by winning increased share in NAND flash memory, where we can expect to see continued investment in equipment. We will raise market share by strengthening our product line, introducing to the market such new products as high efficiency ashing equipment, high efficiency wet processing equipment and high speed flip chip bonders.

We will also promote further expansion overseas, particularly in Asian region, by strengthening the service capabilities of our overseas subsidiaries.

1. Dry Processing Equipment

In our high efficiency ashing equipment, we will first install an evaluation equipment at customers' site to get their interest in our products and get into the market and then achieve advances in mass production. Cooperation with major memory manufacturers allow us to establish the process and we are now expanding business through highly efficient manufacturing, high level reliability and low COC.

We are building our installation records of the insulation layer etching equipment by putting them for the CMOS sensor process. In developing miniaturization technologies essential for next generation devices, we are introducing evaluation equipment for chemical etching equipment and working with our customers to assess the process and drive forward progress.

2. Wet Processing Equipment, Inspection Equipment

Our strategy for the high-efficiency wet processing equipment is ,first to get orders from a major memory manufacturer and then increase sales. Our single wafer equipment

has a throughput of 420 sheets an hour, and besides wet cleaning also covers the back side etching processes included. We are also developing process applications for next-generation devices.

Management of wafer edges has become an important concern in increase yields from wafer inspection equipment. We are reinforcing our sales to major device manufacturers by incorporating evaluation mechanisms into edge inspection equipment for major device manufactures.

3. Assembly process Equipment

This is an area where we will secure a top share by introducing new flip chip bonders for LCD drivers that support high speed mounting and manufacturing at finer pitches.

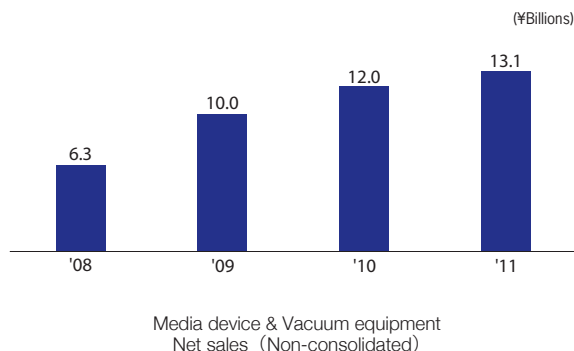
With memory-use die bonders, we will expand our share among major memory manufacturers by introducing to market new, high speed, high precision machinery supporting the transition multi-layer and thin wafers. In addition, we will enhance the versatility of flip chip bonders for microchips, IC tags and other new packages by incorporating high-speed, highly efficient manufacturing evaluation equipment.

Electronic & Vacuum Systems Segment

Media Device and Vacuum Equipment

Main Products

- DVD Sputtering Equipment
- Vacuum Bonding Equipment



Vacuum Technology Creating New Value

Restrictions on equipment had continued by the delay of standardization of the next generation DVD (whether it would be HD-DVD or Blu-Ray), but now that the optical disc industry has decided on Blu-Ray as the disc format, demand is expected to increase and with the forthcoming transition to digital broadcasting.

Also, advances in enhancing the capacity of Blu-Ray Discs have fueled increasing demand for manufacturing equipment for 50GB dual layer discs. Production of such dual layer discs requires the ability to form a highly uniform reflective film, a middle layer, and transcription pattern structuring technology. We provide high quality manufacturing equipment for this process.

In the vacuum bonding field, demand for excellent, high visibility displays used in touch panel of PDA has grown, and with it demand for the manufacturing equipment used in their production. Our high level bubbleless vacuum bonding technology makes it possible to manufacture high quality displays.

Beyond this, we are also introducing to the market high quality, highly efficient photocatalyst sputtering equipment for automobile components, and sputtering equipment for backside electrode discrete semiconductor wafers.



Replication line for Blu-Ray disc

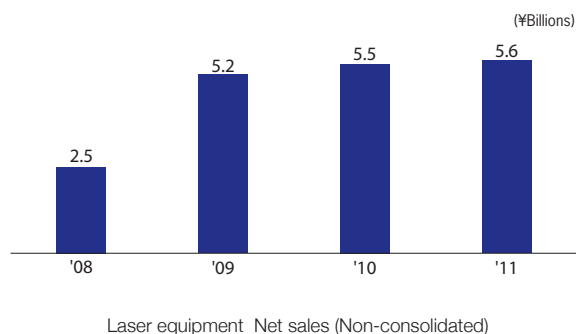


Vacuum bonding equipment

Electronic & Vacuum Systems Segment

Laser Equipment**Main Products**

- Laser Markers
- Laser Welding Equipment
- Solar Energy Panel Manufacturing Equipment

**Entering the Clean Energy Field**

Recent years have seen the recognition of global warming as an issue and rising awareness of environmental concerns, stimulating demand for solar batteries. Shibaura Group provides lasers for thin film silicon solar battery systems, an area where we anticipate future demand growth. We have also seen increased demand for new types of batteries for use by the automobile industry in hybrid cars, and demand for high-quality laser welding equipment is expected to increase along with this.

In addition to the Group's businesses in manufacturing equipment for flat panel displays, semiconductors, and electronic components for parts of mobile phones, we are focusing our attention on the clean energy business and thin film solar batteries and new types of car batteries. Utilization and development of the Group's strengths assures that we can differentiate ourselves from our competitors in such areas as large-scale substrate transportation technology, precision positioning technology, integration of factory line automation technology and the system equipment business.



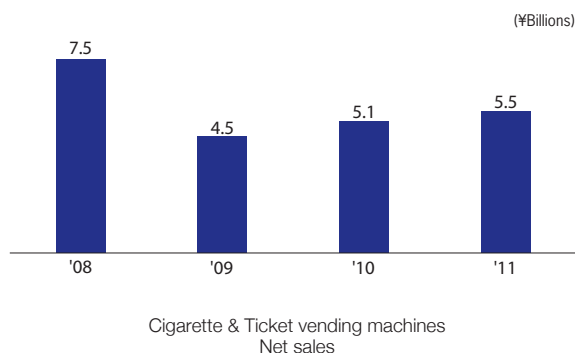
Solar energy panel manufacturing equipment

Vending Machines and Systems Segment

Cigarette Vending Machines Ticket Vending Machines

Main Products

- Cigarette Vending Machines
- Ticket Vending Machines
(Food Tickets, Admission Tickets)



Advancements in response to Contactless IC Cards

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Cigarette vending machine
with an age verification function



Ticket vending machine
for a non-contact IC cards

Corporate Governance

Fundamental Approach to Corporate Governance

Shibaura Group defines corporate governance as a key management function for developing corporate value with shareholders, customers, employees and society and for a medium - to long - term perspective. We are all of us - the company's executives and offices, all employees - responsible for implementing measure that will build corporate value, and we must all ask and clarify, "What is required of us ?" and "What should we do ?" in respect of the law, social norms, ethics, and the like, and as the basis for compliance and risk management and for drawing up and applying the "Shibaura Group Code of Conduct".

Enforcement and Oversight of Corporate Decision Making and the Business Management Structure and Other Aspects of Corporate Governance

- (1) The board of directors currently has 12 members. Outside directors are not elected. The company recognizes the need for outside directors who are not captive to the company's internal logic, who are able to draw on their experience to offer an independent, objective perspective. Going forward, we propose to identify suitable candidates to become outside directors and to propose them to the general meeting of the shareholders.

We also intend to examine measures for further strengthening corporate governance, in order to implement optimized policy on management administration (including the size of the board and introducing the executive officer system).

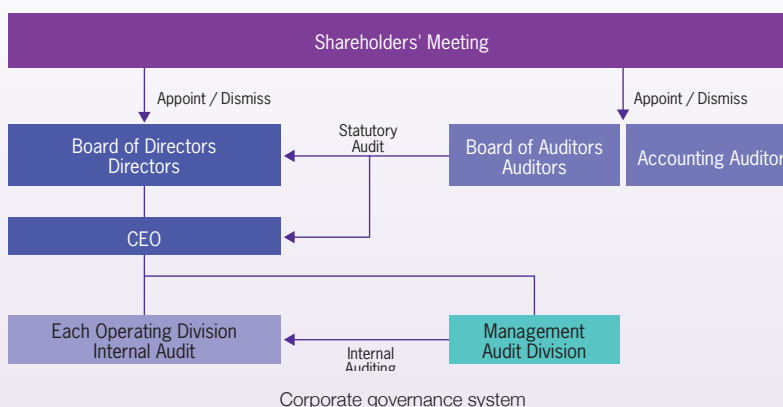
- (2) The corporate auditing system currently comprises four corporate auditors, all from outside the company, who are charged with further reinforcing corporate governance. Two of the corporate auditors are full-time, able to conduct proactive audits and to work in close cooperation with the part-time auditors. The auditors receive advance briefings on matters concerning the board of directors, and are able to play a positive role in bringing matter to the board's attention.

The corporate auditors and financial auditors cooperate closely to develop and plan audit-related policy and objectives, through such means as information exchanges and prior consultation.

The corporate governance system is shown in the illustration below.

- (3) Management Audit Division is organized under the direct control of the CEO and is responsible for auditing management. Its mission centers on monitoring management appropriateness. The audit function also includes another aspect : auditing for compliance with laws and regulations by a certified public accountant (independent auditor). Beyond this, each individual section also carries out its own audit of operations, under the guidance of Management Audit Division.

The corporate auditors and Management Audit Division, responsible for internal auditing work in close cooperation to define audit objectives, plans, et cetera, and the head of Management Audit Division ensures that audits are



enforced and that the results are reported to the corporate auditors. In addition, the head of Management Audit Division is to be appointed with prior consultations between the corporate auditors and the company.

- (4) At present, policy on providing incentives to directors of the company is being considered what kind of incentive is to contribute not restricted to short term performance, but to be continuously contributions to improve performance in the medium to long term.
- (5) Remuneration paid to directors is periodically disclosed in the business reports and the Financial Statement, as a sum total.
- (6) General Affairs Division provides the outside directors with a support organization. In addition, the division provides the full-time auditors with briefings prior to meetings, as necessary, and is dedicated to assuring a structure where there is no deficiency in the provision of information.
- (7) The management strategy meeting, in addition to the meeting of the board of directors, is held once a week in principle, with a membership comprising the CEO and executive directors, as well as the directors responsible for management corporate planning, marketing & sales, technology, production & procurement, finance & accounting and general affairs, and shall discuss and make decisions on matters related to such functions as management of business, auditing and supervision, nomination, and decisions on

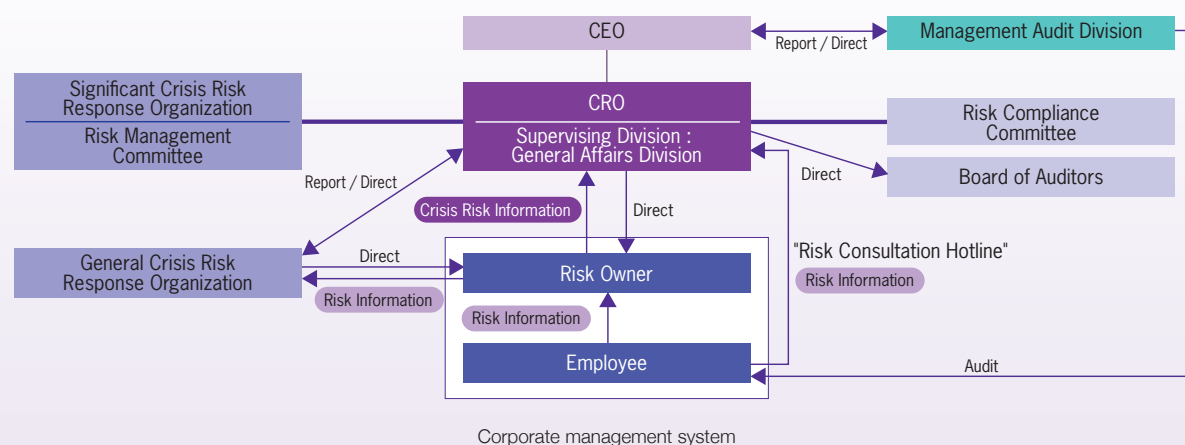
remuneration.

Basic Approach to and Maintenance of the Internal Control System

Shibaura Mechatronics deploys an internal control system that is centered on legal compliance and risk management, plus management efficiency. We continue to introduce policy measures to strengthen the internal control system (establishing official rules, comprehensive education, strengthening audit systems, information management and the like), and to make it the bedrock for further improvement.

In addition, the following has been decided in respect of the system to ensure that directors carry out their duties in conformity with laws and regulations and the company's articles of incorporation, and the system to assure the efficient performance of directors in carrying out their duties.

- (1) System in order to ensure that directors carry out their duties in conformity with laws and regulations and the company's articles of incorporation.
 - (a) The board of directors, as specified in the regulations for meetings of the board of directors, meets every month, as a general rule.
 - (b) The head of Management Audit Division develops and plans audit-related policy and objectives, in close cooperation with the corporate auditors, and also enforces internal audits by ensuring that all departments carry out audits of



Corporate management system

their operations in the same way.

- (2) System for preserving and managing information used by directors in carrying out their duties.

Important documents used by directors in carrying out their duties (minutes of major meetings, documents granting approval, contract documents, confidential documents and all applicable electronic media), must be preserved and managed pursuant to company regulations (Documents preserving regulation, Confidential information managing basic regulations, etc.) in an appropriate manner.

- (3) The regulations in respect of managing the danger of a loss and other systems.

Observing the risk management regulation, risk management systems for normal times (identify and analyze (business) risk, develop and deploy countermeasures, train employees, make internal reports) and times of emergency (establish Risk Management Committee, centralize information to the Chief Risk Officer, etc.) must be made for preventing or minimizing any damage, and for the reasonable disclosure of information.

- (4) System to guarantee the efficient performance of directors in carrying out their duties.

(a) Meetings of the board of directors shall be held at a regular time every month, and also be held in recognition of the need for timeliness.

(b) In order to achieve rapid decision-making and optimized business operations, and to observe rules on final decision-making authority, CEO and executive directors, as well as the directors responsible for management corporate planning, marketing & sales, technology, production & procurement, finance & accounting and general affairs, will, as a general rule, hold a weekly meeting of management strategy meeting, to deliberate on and make decisions.

(c) Specialized meetings related to deliberating and reporting on the following management matters, the budget,

business, manufacturing, development and design, and others, will be held every month, as a general rule.

(d) The decisions made by the final decision-making authority including the meetings of the board of directors shall be undertaken pursuant to organization regulations, regulation of division of duties and managerial responsibilities, and assuring observance of regulations in undertaking all professional duties and the appropriate performance of business management.

- (5) System to guarantee conformity with laws and regulations and the articles of incorporation by employees carrying out their responsibilities.

(a) The CSR Committee is responsible for taking concrete action to promote thorough penetration of and systematic compliance with management ethics and laws and regulations. Further to this, the Shibaura Group Code of Conduct has been established to provide group companies with ethical standards in their business activities, and the content should be made familiar to all employees through training.

(b) In addition to distributing information through the organization, early detection of problems and an appropriate response making use of an internal report procedure (include a risk consultation hotline for any necessary consultation with a lawyer) should be achieved.

- (6) System to ensure business operations appropriate for a public company by the business group comprising the parent company and its affiliated companies.

(a) The Shibaura Group Code of Conduct shall apply to all the the affiliated companies and should be made familiar to all the employees.

(b) Shibaura's Management Audit Division also oversees management audits at the affiliated companies.

(c) In order to supervise the management performance of the affiliated companies, managers from the Company may be appointed to serve as part-time directors.

(d) Both domestic and overseas affiliated companies must implement and abide by regulations regarding business management (matters requiring prior approval by or that

have to be notified to the parent) pursuant to Domestic affiliated companies and Overseas affiliated companies respectively.

- (7) System by which auditors carrying out their duties and who seek assistance can assure the assistance of an appropriate assistant.

(a) Management Audit Division and General Affairs Division support the auditors carrying out their duties.

(b) When auditors seek assistance carrying out their duties, an assistant shall be selected from an appropriate department, in consultation with the auditors.

- (8) The independence of the assistant referred to above from directors of the company.

The assistant referred to in (7)(b) above shall be treated as full-time staff, subject to oversight by the auditors, and shall not carry out other assignments concurrently.

- (9) The system for reports to the auditors by directors and employees and the system for reports to the other auditors.

(a) In the event that directors, the CRO and the head of Management Audit Division discover, in connection with an internal audit, any material items that will impact on performance or any actions that represent serious breaches of laws and regulations, they shall, without delay, inform the corporate auditors.

(b) The auditors shall be allowed to attend management strategy meetings and other important meetings, and committee meetings.

- (10) System to further ensure the practical effectiveness of audits by the auditors.

(a) The president shall, at certain intervals, exchange information with the auditors.

(b) The corporate auditors shall, at certain intervals, exchange information with the independent auditors.

(c) The head of Finance and Accounting Division shall, at certain intervals, exchange information with the auditors.

(d) The head of Management Audit Division shall submit a report to the corporate auditors in respect of the results of internal audits.

(e) The head of Management Audit Division shall be appointed with prior consultations between the corporate auditors and the company.

CSR Activities

CSR Management

We established the CSR Committee in April 2005. This move brought a systematic approach to dealing with issues and activities previously handled by individual departments and independent committees. The CSR Committee drafts Group-wide plans related to promoting CSR, and assures promotion of CSR activities by providing direction and impetus for the activities of Global Environment Committee, the Social & ES (Employee Satisfaction) Activities Committee and the Risk Compliance Committee.

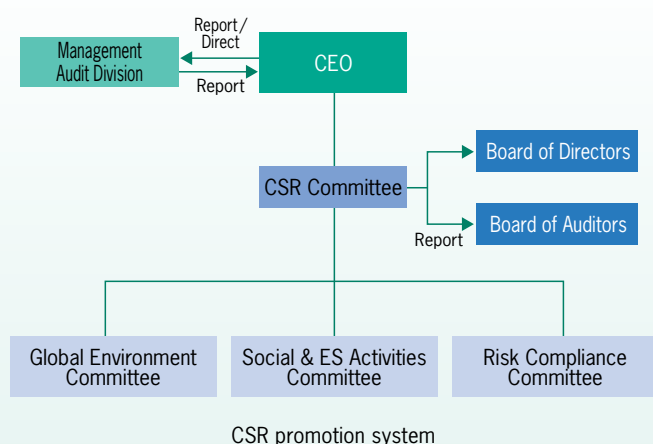
Environmental Initiatives

The beginning of the Group's "Environmental Charter" states that, "Shibaura Mechatronics Group, The Provider of Infrastructure for the Digital Age, promotes business activities with consideration for the environment, and offers environmentally conscious products on the global level". Furthermore, as a maker of manufacturing equipment, we exert every effort in the twin aspects of our manufacturing systems and business systems, seeking to raise overall efficiency and to reach a higher level in our environmental activities.

Across our operations, we promote measures to reduce envi-

ronmental impacts from our business activities and to channel the strengths of the Group into our Products, where we are working to create environmentally conscious products. In this respect, it is essential to consider and reduce environmental load throughout the product lifecycle, so works in product planning and designing phases are most influential. Guided by this understanding, we have developed a "Product Assessment Manual" that is applied to every step of the product planning, development and design process, in order to cut energy consumption, minimize use of resources, promote recycling rates, and otherwise reduce environmental loads.

One example of an environmentally conscious product is a die bonder, which bonds an IC chip to the substrate in semiconductor manufacturing lines. This equipment has improved environmental efficiency (Factor) to 3.5 times compared with conventional models.



A new model (2007)

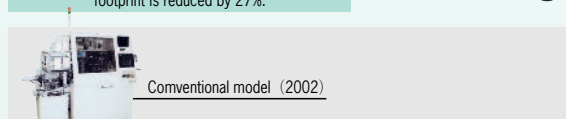
Factor **3.45**

Value improvement

High speed Tact time is shortened by 50%(Max) compared with a conventional model.
High accuracy Accuracy is improved by 1.7times.

Environmental improvement

Global warming prevention
 Consumed electricity is cut by 56%
Effective use of resources
 Compact designing reduced Equipment's footprint is reduced by 27%.



Board of Directors



Back row ; Yukimasa Yoshida, Satoru Hara, Sennosuke Yoshida, Junichi Kanda, Masahiro Abe, Shunichi Kishimoto, Kazuo Takahashi, Masaaki Nomi, Shuichi Shimada, Yoshiaki Sato , Shigeki Fujita
Front row ; Hiroshi Hiraoka, Nobuyuki Yamaura, Kenji Minami, Mikio Haga, Ryoso Kawabe

Directors

President and Chief Executive Officer

Kenji Minami

Executive Vice President

Mikio Haga

Nobuyuki Yamaura

Senior Vice President

Ryoso Kawabe

Hiroshi Hiraoka

Vice President

Kazuo Takahashi

Masahiro Abe

Shuichi Shimada

Satoru Hara

Shigeki Fujita

Yukimasa Yoshida

Shunichi Kishimoto

Auditor

Junichi Kanda

Masaaki Nomi

Yoshiaki Sato (Outside)

Sennosuke Yoshida (Outside)

Executive Adviser

Shigeki Morita

Investor Information

As of March 31, 2008

Date Established	October 12, 1939	
Capital	6,761 Million-Yen	
Number of Employees	Consolidated	: 1,802
	Non-consolidated	: 985
Common Stock	Authorized	: 100,000,000 shares
	Issued and outstanding	: 51,926,194 shares
Number of Shareholders	7,956	
Stock Listings	The Tokyo Stock Exchange (Code : 6590)	
Transfer Agent for Common Stock	The Chuo Mitsui Trust and Banking Company, Limited 33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan	
Independent Auditor	ERNST & YOUNG SHINNIHON LLC	
Headquarters	5-1, Kasama 2-chome, Sakae-ku, Yokohama, Kanagawa Pref. 247-8610, Japan TEL : +81-45-897-2421 FAX : +81-45-897-2470 http://www.shibaura.co.jp/	

Common Stock Price Range (The Tokyo Stock Exchange)

	Year ended March 31,				
	2008	2007	2006	2005	2004
High (yen)	824	1,374	1,759	1,081	985
Low (yen)	388	525	864	590	409

Principal Shareholders

	Number of shares hold (thousand shares)	Percentage of total shares outstanding (%)
Toshiba Corporation	18,977	36.5
Japan Trustee Services Bank, Limited (trust accounts)	1,456	2.8
The Banc of New York GCM Client Account E L RG	1,024	2.0
The Banc of New York GCM Client Account JPRD ISG FE AC	863	1.7

SHIBAURA MECHATRONICS CORPORATION

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