SHIBAURA

ANNUAL REPORT 2010

Year ended March 31, 2010

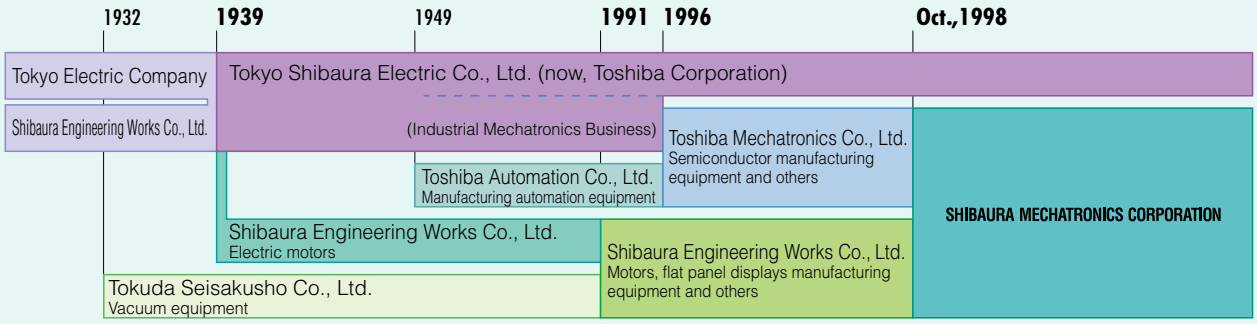
SHIBAURA MECHATRONICS CORPORATION

ANNUAL REPORT 2010

Profile

Shibaura Mechatronics was established In 1939 as Shibaura Engineering Works Co., Ltd. Iinitially, our primary focus was on the motor business, but in 1998 we completed an ambitious restructuring from which we emerged as a producer of manufacturing equipment for LCDs, semiconductors and optical discs. At that time the company took on its present name, Shibaura Mechatronics Corporation. Guided by our management philosophy of “contribute to the achievement of an affluent life by offering superior technology and services,” and inspired by our determination to be “the infrastructure provider for the digital age,” we support an evolving social infrastructure by supplying manufacturing equipment for the production of essential electronic components.

History



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Forward-Looking Statements

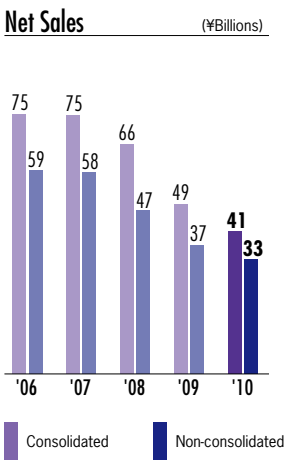
This annual report contains forward-looking statements concerning Shibaura Mechatronics' future plans, strategies and performance. These forward-looking statements are not historical facts, rather they represent assumptions and beliefs based on data currently available. Furthermore, they are subject 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.

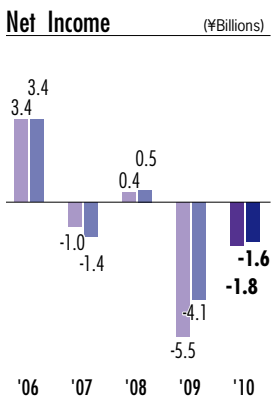
Financial Highlights

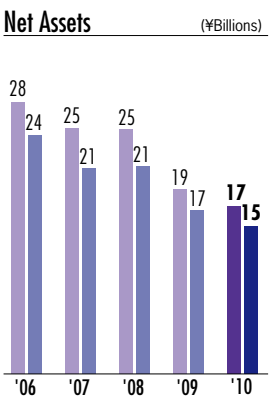
	Year ended March 31, 2010	Year ended March 31, 2009	Year ended March 31, 2010
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Consolidated			
Net sales	¥ 41,096	¥ 49,013	$ 441,698
Operating income (loss)	(1,870)	(1,462)	(20,096)
Net income (loss)	(1,752)	(5,525)	(18,841)
Total assets	52,658	55,649	565,980
Net assets	17,019	18,870	183,894
	(yen)		(U.S. dollars)
Net income (loss) per share	¥ (35.47)	¥ (111.80)	$ (0.38)
	(Millions of yen)		(Thousands of U.S. dollars)
Non-consolidated			
Net sales	¥ 33,161	¥ 37,077	$ 356,415
Operating income (loss)	(1,901)	(1,588)	(20,429)
Net income (loss)	(1,593)	(4,060)	(17,132)
Total assets	45,774	47,259	491,988
Net assets	15,085	16,652	162,136
	(yen)		(U.S. dollars)
Net income (loss) per share	¥ (32.26)	¥ (82.17)	$ (0.35)

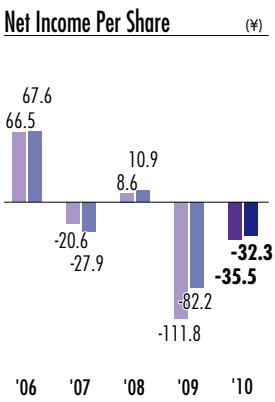
Effective for the year ended March 31, 2007, net assets are presented based on the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board Statement No.5, 2005/12/9) and the "Implementation Guidance for the Accounting Standard for 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 ¥93.04 = U.S.$1.00, as of March 31, 2010.









To Our Shareholders

Consolidated results for the fiscal year to March 2010

In the aftermath of the global financial crisis that began in the fall of 2008, manufacturers of electronic products everywhere have felt the impacts of inventory adjustments and reduced investment in plant and machinery. In the fiscal year to March 2010, Shibaura Mechatronics' operating results reflected this reality, with year-on-year sales revenue 16% lower at 41.1 billion yen, an operating loss of 1.9 billion yen and deterioration in our net loss to 1.8 billion yen. In consideration of these business results, we have decided, with regret, to suspend both the interim and full-term dividend payments.

Although we were unable to return to the black over the full year, we managed to return to profit in the second half of the year, on the strength of progress in improving the gross profit ratio and bringing down the breakeven point, resulting in an operating profit of 200 million yen and a net profit of 100 million yen.

Looking Ahead

Shibaura Mechatronics Group provides manufacturing equipment for the production of key technologies for electronic components, such as the semiconductors and flat panel displays integrated into personal computers (PCs) and flat-panel TVs, and manufacturing equipment for the production of optical discs such as Blu-ray discs.

Since the second half of 2009, demand for PCs and flat -panel TVs has expanded, carried forward by economic recovery in emerging countries such as China, which has encouraged manufacturers of semiconductors and flat panel displays to reconsider their investment plans for plant and machinery. While there are concern that a sudden increase in production by those companies may upset the balance in demand and supply, we nonetheless expect to see an expansion in demand for semiconductors and flat panel displays. Demand will be driven by electronics companies launching products that cater to new applications that stimulate demand for items like 3D TVs and sophisticated smart phones, as well as for new types of multi-function tablet PCs.

Manufacturing these new applications will require new technologies. Shibaura Mechatronics Group is in the happy position of providing equipment that makes broad use of state-of-the-art edge technology in the field of these new applications.

In parallel with the launch and popularization of these new application products, we will not rest contented: instead, we will make every effort to improve our abilities for innovation in the manufacturing equipment where we expect to see demand growth.

Moreover, as a measure against global warming, we expect the global expansion in demand for clean energy will create growth in the photovoltaic (PV) cell market. Looking ahead, we also anticipate increased investment activity in equipment for rechargeable batteries for hybrid and battery-powered vehicles. By using the high precision bonding technology,

SHIBAURA MECHATRONICS CORPORATION
President and Chief Executive Officer
Kenji Minami

laser processing technology and vacuum technology that we have cultivated in fields such as semiconductors, flat panel displays and optical discs, Shibaura Mechatronics Group is positioned to provides manufacturing equipment in highly anticipated fields of environmental engineering, in such areas as PV cells and rechargeable batteries. From now on, we will engage in diverse product development for the battery industry.

CSR Management

Up until now Shibaura Mechatronics Group has been engaged in providing semiconductor, flat panel display and optical disc makers with manufacturing equipment, and as such we have played a part in the production of those products. It is widely recognized that the increased use of semiconductors, flat panels and optical discs has made our lives much more convenient and helped to enrich society—and I think Shibaura Mechatronics has been able to make a definite contribution to this. Looking to the future, I believe that we have the corporate social responsibility to contribute further to society by taking the manufacturing technologies that we have cultivated through our current businesses into the fields of the environment and energy.

Turning toward new developments

Following the global financial crisis, change is rippling through the business environment for industries related to electrical appliances, and flat panel displays and semiconductors, and the wider manufacturing equipment industry, are no exception to this. One change is that manufacturing, including for the electric-appliance industry, is shifting from Japan to overseas. Also, and particularly in Asia, we have seen the emerging or new manufacturing equipment makers.

This kind of change impacts our group's business environment. How we respond to it and how we overcome this difficult situation will define our next stage of growth.

We must strive to listen to the voices of our customers across the world, think about what our clients really need, develop products that create value and provide good services. I also want to make progress in improving the quality of our work and strengthening our cost competitiveness, so that we can meet the expectations of our customers to the full, both in the domestic market and oversees.

As we move forward, I hope we may continue to rely on the support and encouragement of our shareholders and investors.

October 2010

Kenji Minami
President and Chief Executive Officer

Financial Review

Business at a Glance

The business environment in the fiscal year ending March 2010 showed signs of economic recovery, with an increase in exports to Asia and a recovery in production. However, future prospects continued to be unclear due to the unending bleak employment situation and continued excess capacity.

In Shibaura Mechatronics Group's business environment, a rise in demand for end products, among them LCD TVs, PCs and PDAs, triggered the recommencement of capital investment by our major customers in the LCD, semiconductor and battery manufacturing industries, a shift that led to a recovery in orders.

In these circumstances, the Group consolidated activities aimed at winning orders, implemented measures that included cuts in fixed costs, and endeavored to strengthen management by revising cost structures through standardization and the reduction of lead times.

As a result of the foregoing, sales for the fiscal year amounted to 41,095 million yen (down 16.2% against the previous fiscal year), with an operating loss of 1,869 million yen (against a 1,462 million yen operating loss for the previous fiscal year), an ordinary loss of 1,611 million yen (against a 1,802 million yen ordinary loss for the previous fiscal year), and a net loss that amounted to 1,752 million yen (against a 5,524 million yen net loss for the previous fiscal year).

Although Shibaura Mechatronics Group recorded a full-term deficit in the year ending March 2010, the Group did return a profit in the second half, with net sales of 23,243 million yen, operating income of 185 million yen, ordinary income of 299 million yen, and net income of 124 million yen.

Segment Information

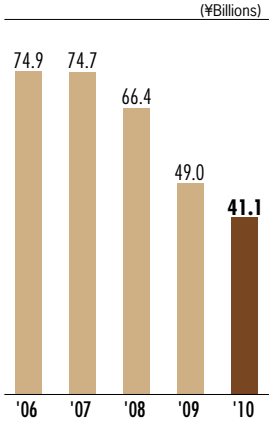
1. Fine Mechatronics Segment

Segment sales of 34,044 million yen represented an increase of 1.5% from the previous fiscal term, and we recorded an operating loss of 301 million yen (against a 1,794 million yen operating loss for the previous fiscal year).

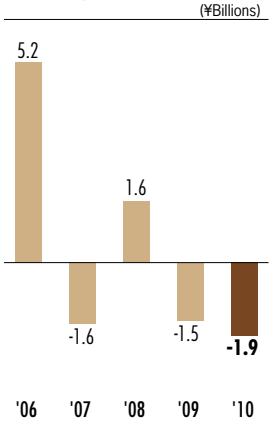
The LCD panel industry saw active capital investment by panel manufacturers, as they responded to an increase in demand driven by the Chinese government's economic stimulus package. Sales of LCD panel manufacturing equipment remained steady, mainly for wet cleaning equipment and PI ink jet coaters for large panels, along with outer lead bonders for monitors and large screen TVs for the Chinese market.

Sales were sluggish in the semiconductor industry as, in a repetition of the previous year, semiconductor

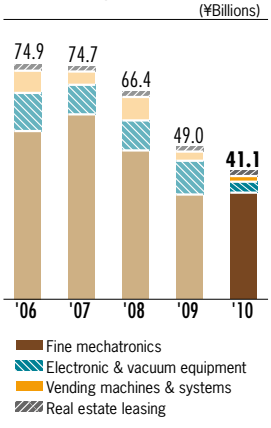
Net Sales



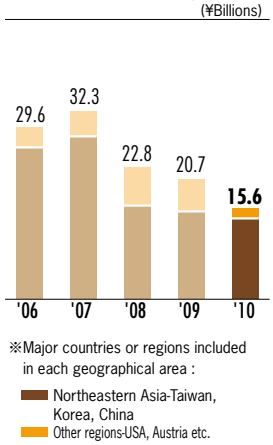
Operating Income



Sales by Segment



Overseas Sales by Region



manufacturers continued to hold back on capital investment. However, in the latter half of the period, a number of factors made themselves felt, among them semiconductor price increases due to inventory adjustments, a recovery in operation rates at semiconductor manufacturers and improved corporate earnings, and these gave rise to large-scale capital investment plans.

2. Electronic and Vacuum Systems Segment

Segment sales of 3,413 million yen represented a decrease of 68.4% from the previous fiscal term, and we recorded an operating loss of 1,499 million yen (against a 555 million operating profit for the previous fiscal year).

Vacuum-equipment-related sales decreased against the previous year on the back of stagnating capital investment, the result of uncertainty in the optical disc equipment market. Alongside this, despite stronger demand for environmentally friendly vehicles and a number of inquiries about manufacturing equipment for rechargeable batteries, sales of laser-related equipment were poor, reflecting cautious capital investment in the face of a global slump in consumption. This trend eased in the second half of the year, as the growth in orders strengthened in connection with increased demand for end products.

3. Vending Machines and Systems Segment

Segment sales of 1,818 million yen represented a 36.3% decrease from the previous fiscal term to, and we recorded an operating loss of 285 million yen (against a 278 million yen operating loss for the previous fiscal year). Sales of both ticket and cigarette vending machines were down against the previous fiscal year, due to weak demand.

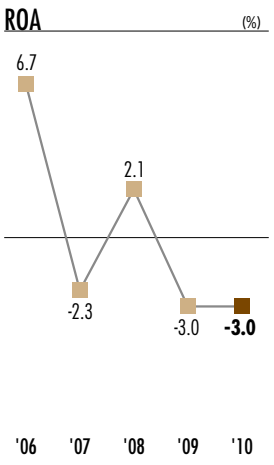
4. Real Estate Leasing Segment

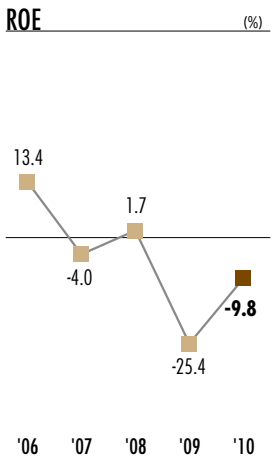
Segment sales stood at 1,819 million yen, 0.1% down from the previous fiscal year, and we recorded operating income of 546 million yen, a decrease of 5 million yen against the previous fiscal year.

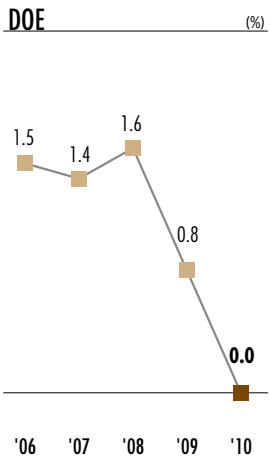
Research and Development Expenditure

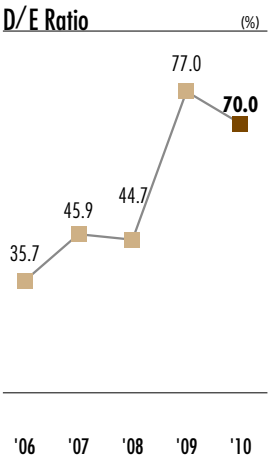
Research and development expenditure by Shibaura Mechatronics Group as a whole in the fiscal year under review stood at 2,192 million yen. This included 329 million yen for the development of core technologies common to Group companies.

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 our operating divisions, and consolidated subsidiaries.









Key research activities and results and R&D expenditure in each segment are described below.

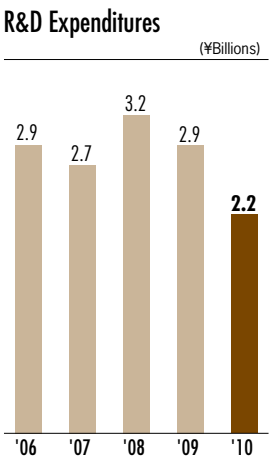
1. Fine Mechatronics Segment
   R&D costs for the segment totaled 1,278 million yen. Development work on LCD manufacturing equipment encompassed wet processing equipment, cell assembly equipment and PI ink jet coaters for next generation large glass substrates, and outer lead bonders and PWB for large screen TVs. Development of semiconductor manufacturing equipment included wet cleaning equipment for 300mm wafers and for next generation devices, etching equipment, ashing equipment and wafer inspection equipment, and high speed, high precision flip chip bonders.

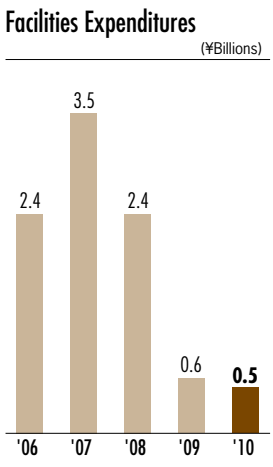
2. Electronic and Vacuum Systems Segment
   R&D costs for the segment totaled 461 million yen. In the area of laser equipment, we promoted development of fiber laser markers, manufacturing equipment for rechargeable batteries for automotive application, and thin-film PV cell manufacturing equipment. In electronic and vacuum systems, development work included single-layer and multi-layer sputtering equipment, bonding equipment and dual layer transcription equipment for Blu-ray Discs, photocatalyst sputtering equipment, and sputtering equipment for semiconductor backside contacts.

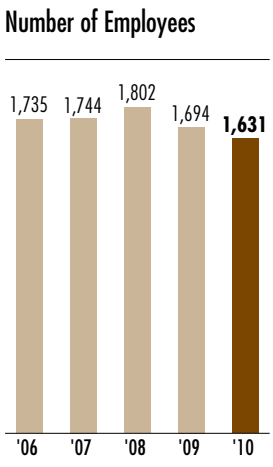
3. Vending Machines and Systems Segment
   R&D costs in this segment amounted to 123 million yen. In the field of cigarette vending machines and ticket vending machines, development activities were carried out for 2010 model cigarette vending machines, various touch panel ticket vending machines (in the fields of transportation and distribution) capable of electronic money, ordering system equipment for restaurants, and back-side operated touch panel ticket vending machines for the admission ticket market.

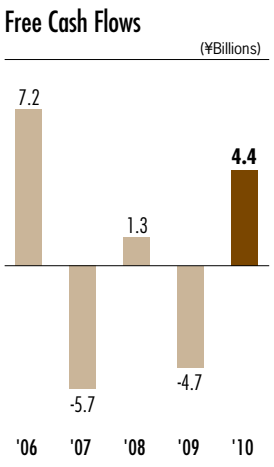
Financial Condition

Total assets at the end of the fiscal year amounted to 52,658 million yen, a decrease of 2,990 million against the end of the previous fiscal year.
Current assets at the end of the fiscal year amounted to 36,252 million yen, a decrease of 1,659 million yen. The primary reason for this was a decrease in products and products being processed.
In addition, fixed assets at the end of the fiscal year amounted to 16,406 million yen, a decrease of 1,330 million









yen. This was largely attributable to the depreciation of tangible fixed assets.
Total liabilities at the end of the fiscal year were 35,549 million yen, 1,229 million yen lower than at the end of the previous fiscal year. The major reason for this was a decrease in long-term loans payable.
Total net assets at the end of the fiscal year stood at 17,109 million yen, 1,760 million yen lower than at the end of the previous fiscal year. The underlying reason for this was a decrease in retained earnings, the result of recording a net loss for the fiscal year, and a fall in the equity of minority shareholders.

Cash Flows

Total cash and cash equivalents at the end of the fiscal year stood at 6,117 million yen, an increase of 1,732 million yen from the end of the previous fiscal year.
Cash flow from operating activities increased by 4,439 million yen (against a decrease of 4,653 million yen recorded in the previous fiscal year). This was mainly due to more funds at hand as a result of a decrease in inventory, even though cash flow fell as we recorded a net loss before income tax adjustment for the fiscal year and a rise in account receivables.
Cash flow from investment activities decreased by 45 million yen (against a decrease of 90 million yen recorded in the previous fisclal year). This was largely attributable to the acqusition of tangible fixed assets.
Cash flow from financing activities decreased by 2,681 million yen (against an increase of 223 million yen recorded in the previous fiscal year). This was mainly due to the repayment of long-term loans.

Five-year Summary

Consolidated	Year ended March 31, 2010	2009	2008	2007	2006	Year ended March 31, 2010
	(Millions of yen)					(Thousands of U.S. dollars)
Net sales	¥ 41,096	¥ 49,013	¥ 66,441	¥ 74,663	¥ 74,913	$ 441,698
Cost of sales	33,750	39,309	52,070	65,322	58,015	362,745
Operating income (loss)	(1,870)	(1,462)	1,647	(1,630)	5,180	(20,096)
Income (loss) before income taxes	(1,612)	(2,232)	1,482	(1,727)	5,752	(17,322)
Net income (loss)	(1,752)	(5,525)	426	(1,047)	3,393	(18,841)
Depreciation and amortization	1,935	2,105	1,245	1,165	1,133	20,792
R&D expenses	2,193	2,933	3,184	2,713	2,851	23,568
Total assets	52,658	55,649	64,995	73,197	75,151	565,980
Net assets	17,109	18,870	25,045	25,084	27,670	183,894
			(yen)			(U.S. dollars)
Net income (loss) per share	¥ (35.47)	¥(111.80)	¥ 8.62	¥ (20.60)	¥ 66.52	$ (0.38)
Number of employees	1,631	1,694	1,802	1,744	1,735	1,631

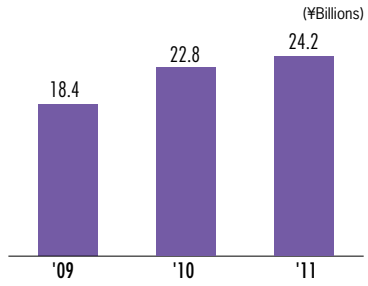
Business Overview

Fine Mechatronics Segment

Flat Panel Display Manufacturing Equipment

Main Products

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



FPD manufacturing equipment
Net sales (Non-consolidated)

Cutting Cost of Ownership (COO) by increasing product added value and expanding market share by increasing product competitiveness

Market Environment

From the second half of FY2009 demand for end products, including LCD TVs, mobile phones and PCs, started to lag. As the balance of supply and demand turned unfavorable, manufacturers of LCD panels initiated large-scale production adjustments tied to inventory adjustment.

It was with the start of FY2010 that demand for LCD TVs, PCs and personal digital assistants (PDAs) started to pick up, and with that our main customers, LCD manufacturers, began a new round of investment in equipment. As a result, our order environment recovered.

As demand for panels increased, simulated by reasons such as the Chinese government's policy to promote purchases of home electronics, the production rate at panel makers also recovered, and movement towards the next phase of investment in equipment has begun. Although it now seems that large-scale investment plans in China are on the whole delayed in FY2011, it is possible that these will stretch into FY2012.

Wet cleaning equipment

PI ink jet coater

Improve profitability, Realize growth plans

●TFT/Color Filter Process Equipment

Amongst equipment makers, competition is very tough in wet cleaning equipment, stripping equipment and developing equipment. As Shibaura Mechatronics makes progress reducing the cost of equipment manufacture, we continue to try and generate orders, especially for equipment that contains superior technology, and in high growth markets.

More particularly, we are targeting an expansion of sales and orders in the Chinese market, where there are plans for large-scale investment.

As we increase equipment functionality and enhance our cost competitiveness by standardization, in order to reinforce our overall competitive superiority, we also aim to differentiate ourselves as pioneers by reducing COO due to ultra-fine wet cleaning technologies and making improvements to process performance and product quality.

●Cell Process Equipment

Due to its superior technological prowess, the PI ink jet coater has been installed to panel makers' mass production lines.

Also, in areas where higher precision coating technology is demanded, we are developing equipment which employs coating techniques cultivated in PI dispensing and will bring this to the market.

●Module Process Equipment

We are proceeding to expand sales in China from TV makers that plan to start domestic production of module processes for LCD panels. By carrying out measures such as standardization and shortening equipment lead times, we aim to boost our product competitiveness.

In outer lead bonders, Shibaura Mechatronics continues to maintain the world's largest market share, although competition is becoming tougher with the recent arrival of overseas equipment makers.

We have developed and launched high precision equipment designed to bring higher screen resolutions to PC monitors. In smaller size LCD panels for mobile applications such as mobile phones, we continue to increase our share in the market for COG—the chip on glass process whereby ICs and electrical connects are formed directly on to a glass substrate.

In the LCD driver market, we have launched the high speed, high precision flip chip bonder and continue to maintain the largest market share in this product area.

Seal dispenser

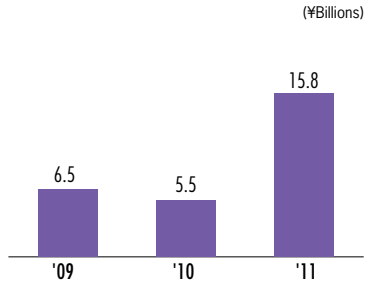
Outer lead bonder

Fine Mechatronics Segment

Semiconductor Manufacturing Equipment

Main Products

- Etching Equipment
- Ashing Equipment
- Wet Processing Equipment
- Wafer Inspection Equipmennt
- Die Bonder
- Flip Chip Bonder



Semiconductor manufacturing equipment
Net sales (Non-consolidated)

Increasing market share to reinforce our position as a semiconductor equipment manufacturer

Market Environment

Due to reduced demand and lowered prices for PCs, flat -panel TVs and PDAs during the second half of FY2009 and the first half of FY2010, the semiconductor manufacturing equipment market has continued to experience challenging market conditions, at a previously unheard of level.

However, semiconductor prices have risen following inventory adjustments in the second half of FY2010, and production rates have recovered at semiconductor manufacturers. As consequence, demand for semiconductors is rapidly turning towards recovery, and as factory utilization ratios rise, investment in manufacturing equipment is also beginning to pick up steam.

In Japan, a major manufacturer of NAND flash memory has also decided to make new investments in FY2011.

Changes in the semiconductor market occur extremely quickly. Although the market for manufacturing equipment is currently booming, it is very difficult to predict how market trends will develop in the future.

For Shibaura Mechatronics, as an equipment maker, it will become even more important in the future to pay very close attention to market movements, make accurate judgments and respond quickly.

Chemical dry etching equipment

Wet cleaning equipment

Improve profitability, Realize growth plans

●Front-end Process Equipment

In etching equipment, we have supplied large customers with chemical dry etching equipment. Working in cooperation with customers we will extend applicable processes, and will aim for further development on mass production lines. We are also aiming to win equipment orders under investment projects for next generation CMOS sensor lines.

In wet processing equipment, which sells well in both our domestic and overseas markets, we are currently developing equipment that secures higher productivity. We aim to supply this to a large domestic maker for use on its mass production lines. In addition, we continue to promote efforts to expand sales to domestic and overseas customers.

With “environmental consideration” and “COO reduction” as key words, we continue to develop high temperature SPM (sulfuric peroxide mixture) system products, and as we establish positive results with major customers we aim to supply mass production lines.

In addition, we are providing the market with equipment that satisfies customers needs in such areas as photomask etching equipment, photomask wet cleaning equipment, automatic wafer edge inspection equipment, automatic wafer surface & back inspection equipment, and cassette inspection equipment.

●Back-end Process Equipment

In die bonders, we are extending sales to memory makers and major foundries of equipment for 300mm wafers. These products are capable of highly productive, high precision bonding in the lamination of ultrathin chips.

Up until now, the primary focus of our sales results has been on Japanese customers in the domestic customer. However, as we are now developing an overseas production facility for memories, we expect to see overseas sales increase in the future.

In flip chip bonders, we have brought to market that which boasts alignment precision with ultra high precision. Going forward we plan to expand sales of this equipment, which is capable of flip chip implementation on sophisticated CPUs, COWs (chip on wafer) and TSV (through silicon via), and other devices. Furthermore, we are planning to launch equipment for 300mm wafers.

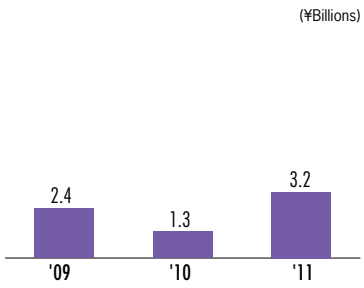
Flip chip bonder

Electronic and Vacuum Systems Segment

Laser Equipment Large-sized Rechargeable Battery Manufacturing Equipment and PV Cell Manufacturing Equipment

Main Products

- Laser Markers
- PV Cell Laser Patterning Equipment
- PV Cell Sputtering Equipment
- PV Cell CF Bonding Equipment
- Rechargeable Battery Laser Seal Welding Equipment



Laser equipment and Battely manufacturing equipment
Net sales (Non-consolidated)

Expand business in the field of clean energy

Market Environment

Whilst the clean energy and environment related markets will see short-term peaks and troughs, looking at the long-term we can foresee growth on a global scale and expect to demand to grow.
In the area of PV cells, crystal silicon PV cell models currently comprise the majority of the volume, however in the future we foresee expansion in the thin-film PV cell market as costs are expected to come down.
In rechargeable batteries, we predict future growth in the market for lithium-ion batteries used in automobiles.

Improve profitability, Realize growth plans

●PV Cell Systems

The PV cell industry is expected to enjoy considerable growth in coming years, and Shibaura Mechatronics has assured its readiness for this with the market launch of the equipment described below. These products have been developed by making full use of the core technologies we have built up in other business areas.
Thin-film PV cell laser processing systems, and in particular laser scribing, with its high speed and high precision processing technology, are already being supplied to domestic thin-film PV cell makers. We aim

PV cell sputtering equipment

PV cell CF bonding equipment

to develop our capabilities in process technologies and, going on from that, join the market for next generation PV cell processes, such as CIGS※1

Furthermore, by using LCD module process equipment technology, for the manufacturing process of crystal PV cells, we have developed ACF TAB stringer as a replacement for the conventional soldering stringer, and brought it to market. This equipment can also be applied to thin-film PV cell systems, and in the future we expect to see sales growth.

Apart from this, we are also planning to bring to market PV cell manufacturing sputtering equipment that will make use of the high speed single wafer sputtering technology that we cultivated for use on optical discs, etc.

●Lithium-ion Battery Systems for Automobiles.

Drawing on technology that we initially developed for lithium-ion battery manufacturing equipment for mobile phones, we have achieved high speed sealing equipment for use on large sized batteries for automobiles.

Rather than sell it as stand-alone equipment, we also intend to market a standardized line based on our core automation technology and our core capabilities in laser welding, transportation and immersion technologies.

※1 CIGS: CuIn-GaSe, is a kind of thin-film PV cell that uses a compound composed of Cu (copper), In (Indium), Ga (Gallium) and Se (Selenium), and that does not incorporate silicon.

※2 ACF: Anisotropic Conductive Film.

Rechargeable battery laser seal welding equipment

PV cell laser patterning equipment

Electronic and Vacuum Systems Segment

Optical Disc Manufacturing Equipment Vacuum Equipment

Main Products

- Sputtering Equipment
- Vacuum Bonding Equipment

Optical Disc and Vacuum equipment
Net sales (Non-consolidated)

Market Environment

The vacuum industry is a basic industry that supports many other industries, and vacuum technology is a core technology that supports many industries.
Originally developed as a commercial reality in one industry, vacuum technology is now extending into other areas, and finding application in new businesses.
Amongst the many industrial areas that now apply vacuuming, one in which Shibaura Mechatronics has actively cultivated business is the optical disc market.
Investment in production facilities has continued through different optical disc products, from CDs to MDs and DVDs. However, growth in the current market for Blu-ray Discs is weak, equipment investment remains sluggish.
Going forward we believe that the vacuum industry will continue to develop in areas including the FPD market, the semiconductor market, PV cell market and automobile industry.

Improve profitability, Realize growth plans

●Optical Disc Manufacturing Equipment

We will conrinue to maintain our NO.1 market share in sputtering equipment through tie-ups with the leading manufacturers of recordable and read-only optical discs (BD-ROM and BD-R).

Sputtering equipment for Blu-ray disc

Vacuum bonding equipment for small size panels

●Vacuum Bonding Equipment

We have developed and launched vacuum bonding equipment which is applied in the manufacture of high resolution displays and used in products like touch-panel portable consumer products.

Application ranges over many products, from smaller size displays for PDAs to touch-panels for laptop PCs and tablet PCs, and even to larger sized displays for 3D TVs.

Moving ahead we will promote active expansion in this area, which considerable growth is forecast.

●High speed single wafer sputtering equipment

This is equipment forms metal film and dielectric film on automobile components, electrical components and digital consumer electronics.

In contrast to traditional batch style coating equipment, single wafer type equipment has realized high productivity and energy efficiency, as well as achieving a low COO; it is capable of many different types of coating, and in future its application is expected to extend to PV cell manufacturing processes and discontinuous film formation for components in mobile phones, and other areas.

●Multi purpose semiconductor sputtering equipment

We will continue to expand sales in discontinuous film for PDAs, sputtering equipment, semiconductor rear side sputtering equipment, and reflecting film formation for lamp reflectors.

And in semiconductor rear side equipment, we aim to expand our market share by building up our sales record to major makers.

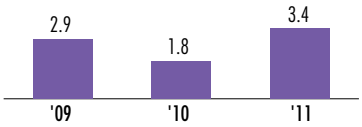
Vending Machines and Systems Segment

Vending Machines

Main Products

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

(¥Billions)



Cigarette and Ticket vending machines
Net sales

Market Environment

In the cigarette vending machine industry factors such as the reduction in the number of smokers, as well as the overall shift from vending machines sales towards in-store, face-to-face sales, are all contributing to a shrinking market.

In the wider vending machine business, demand for ticket vending machines, which were introduced in 2004 at the time new bank notes were introduced, is steadily increasing as customers replace old models.

In the area of food tickets, low-price stores and restaurants aiming to reverse tough business conditions are on the increase, and the importance of reducing personnel expenses and keeping track of finances is leading to the introduction of new ticket-vending machines.

Touch panel
ticket vending machines

Improve profitability, Realize growth plans

By enhancing our system technology and improving our line-up and product quality through alliances and tie-ups, Shibaura Mechatronics Group aims to expand sales revenue from vending machines.

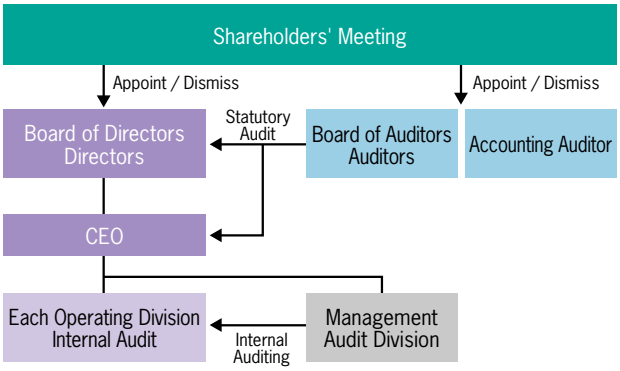
Corporate Governance

Fundamental Approach to Corporate Governance

Shibaura Mechatronics 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 Mechatronics Group Code of Conduct".

Summary of Corporate Governance

(1) The board of directors comprises 11 members, none of whom have been appointed from outside the company. Meetings of the board of directors are held on a monthly basis, and the role of the meeting is not simply confined to making decisions on important issues. Every director is required to give a specific report on the status of business operations, an approach that allows the other directors and auditors to contribute to business oversight, and that also promotes lively discussions and exchanges of ideas regarding operational policies and other issues.



Corporate governance system

(2) The board of corporate auditors currently has four members, all of them outside auditors, who are charged with reinforcing corporate governance. Two of the corporate auditors serve full-time and are thus able to conduct proactive audits and to work in close cooperation with the part-time auditors. Prior to the board of directors meeting, the auditors discuss the proposals that the directors will bring to the meeting, allowing them to play a proactive role and to offer appropriately timed and worded comments during the meeting.
Audits by the board of auditors are carried out in accordance with auditing policies and plans, as decided at the board of auditors meeting. This follows consultation with the Management Audit Division, which is part of the Internal Control Department.
Corporate auditors and accounting auditors cooperate closely with one another in respect of auditing policies and plans, and exchange information and hold prior consultations before meetings.

(3) The Internal Control Department reports directly to the president and is responsible for the Management Audit Division, which has a staff of two. The section is responsible for monitoring the company's efforts to reinforce corporate governance, and for the permeation of compliance and corporate ethics throughout the company, with a main emphasis on auditing to assure the appropriateness of management. When improvement is found to be necessary, improvement programs are requested and the progress of each department in promoting remedies for itself is monitored.

(4) Ernst & Young have been appointed as accounting auditors to Shibaura Mechatronics and cooperate with the board of auditors to conduct audits on corporate law and on the financial instruments and exchange law.

Internal Audit and Audit of Corporate Auditors

(1) The mission of the Management Audit Division is to audit the propriety of management, which focuses

mainly on financial results.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.

(2) A board of auditors support group has been established (consisting of three staff members) to support the auditors in carrying out their duties. The evaluation and treatment of the support group are subject to prior consultation with the board of auditors so as to guarantee its independence.

Outside Directors and Outside Corporate Auditors

Full-time outside corporate auditors do not merely attend the board of directors meetings, but also many other meetings. These include the Management Strategy Meeting, which as a rule is held every week, whose members consist of senior executive directors, including the CEO, as well as the directors responsible for management planning, marketing, technology, accounting and operations. Other major meetings are held monthly by each of the reporting bodies which are responsible for the functions related to the budget, sales, production and development planning. Important monthly committees meetings are also held to discuss policy and planning related to issues such as compliance, risk management and CSR. Attendance at all of these meetings serves to link the board of auditors to the wider functions of the comppany. The entire board of auditors, including part-time outside auditors, conduct interviews with directors and accompany the Management Audit Division on site visits internal audit, where they can to interview representatives of business units and affiliated companies. This enables them to perform management audits on the legality of business operations, and also from the perspective of ensuring efficiency. Thorough execution of this these auditing and supervisory functions allow the four outside corporate auditors to fill the role that would generally be expected of outside directors. So whilst Shibaura Mechatronics does not now appoint outside directors, we believe this current structure is capable of enforcing corporate governance.
Notwithstanding the foregoing, and irrespective of our internal company logic, we do realize the value of experienced outside directors who can cast an objective eye over the overall corporate environment. In coming months, we hope to be able to select a suitable candidate for outside director, and if possible we would like to nominate that person at the next general shareholders' meeting.

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 thei 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 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 Mechatronics 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 Mechatronics Group Code of Conduc 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.

Evaluation and treatment of staff assigned to support the auditors in carrying out their duties in item (7). (a) above, will be subject to prior consultation with the board of auditors.

(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.

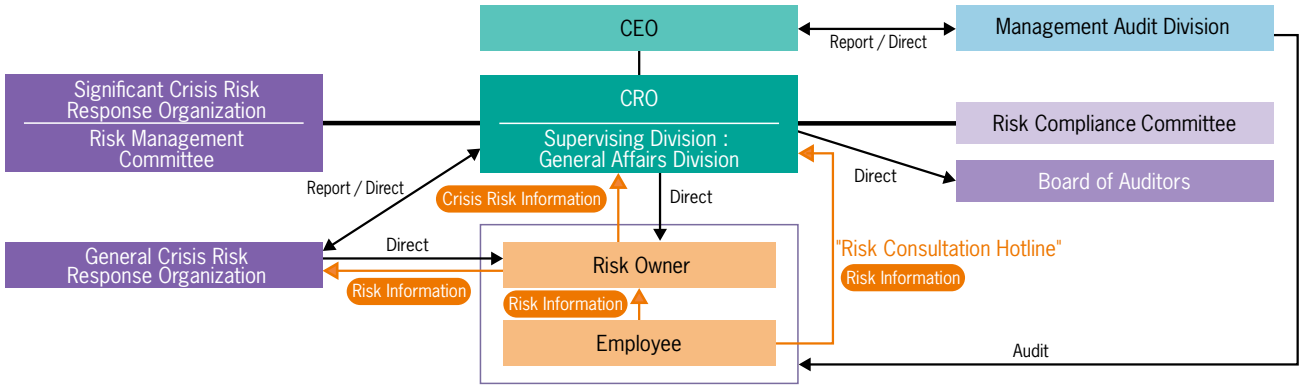
(a) The president shall, at certain intervals, exchange information with the auditors.

(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.

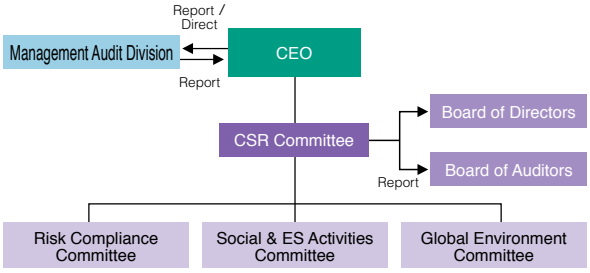


Corporate management system

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 Groupwide 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.



CSR promotion system

Environmental Charter

Based on the understanding that "humankind has the duty to hand on the irreplaceable global environment to the next generation in a sound state," we seek to make our contributions to a sustainable society.

- **Environmental Management Promotion**
  "Promoting the idea we must use less resources and reduce emissions in all of our business processes."
- **Offering Environmentally Conscious Products**
  "In pursuit of fewer environmental burdens, from the development stage all the way through to disposal."
- **A Socially Aware Company**
  "Promoting CSR management in cooperation with our stakeholders."

Environmental Approach

Worldwide environmental problems, including climate change, are some of the most important issues that mankind must solve.

Over the course of many years, Shibaura Mechatronics Group has cultivated core technologies in areas that include precision mechatronics, vacuum, wet cleaning, sputtering, bonding and laser applications. We apply this know-how to manufacturing equipment for flat panel displays, semiconductors, optical discs, electrical components and batteries, all the way from development through to service. As a maker of manufacturing equipment we give consideration to the environment in manufacturing activities, and promote and supply environmentally friendly products.

Specific activities are detailed below

1. Promoting environmental management
   By reducing our use of the planet's resources, the burdens that we impose on the Earth's environment, and the CO_2 emissions that result from our business activities, we promote business with a balance that emphasizes both "management and "environment".
2. Providing environmentally conscious products
   We fully recognize the finite nature of our planet and its resources, and act on this awareness to proactively expand our line of environmentally conscious products.
3. Promoting business activities
   We set environmental targets and goals regarding the environmental aspects of our business activities, such as reducing the effects of climate change, making full and effective use of resources, properly managing and reducing use of chemicals. In all of our business processes we seek to reduce environmental loads.
   In our Environmental Charter, we recognize that "humankind has the duty to hand on the irreplaceable global environment to the next generation in a sound state" as the core concept in our environmental policy. Acting on this, we will continue to promote environmental management.

＊For full details of Shibaura Mechatronics Group's CSR activities please refer to the "2010 Shibaura Mechatronics Group CSR report" at the below link.
http://www.shibaura.co.jp/csr/pdf/CSR_2010.pdf

Topics

Winner of "Vacuum Equipment Category Award" in Japan Vacuum Industry Association Honors

In the Japan Vacuum Industry Association honors, Shibaura Mechatronics won the Vacuum Equipment Category Award for "Developing Sputtering Equipment for Blu-ray Discs".
The equipment coats, by sputtering technology, a reflective layer which reads reflected signals by exposing laser to bits on the disc and coats a moisture absorporion layer which prevents a disc warpage. The prize was awarded because, "Reducing the cost of Blu-ray Disc manufacture by using high speed sputtering equipment was achieved by improving materials selection and yield ratios, making possible mass production of discs on a small line structure." The equipment has won an extremely high market share, and its contributions to the vacuum industry have earned high praise.

Commendation ceremony

Winner of the "Yokohama Environmental Performance Award"

Our Yokohama facility has been recognized and honored by the City of Yokohama for three consecutive years in the business category of the "Yokohama Environmental Performance Awards" for being a "facility with exemplary waste separation procedures (3-star facility)". This award is granted to facilities that meet the following three standards: appropriate separation of waste; thorough procedures for waste separation; and recycling of all items that can be recycled. Of the 2,600 large scale facilities operating in Yokohama City, only 20 were recognized with this award in 2009.

Commendation ceremony

Board of Directors

As of June 22, 2010

	Yoshiaki Sato Auditor	Yutaka Okazaki Auditor	Kazumasa Uchida Auditor	Sennosuke Yoshida Auditor	
Hitoshi Dojima Vice President	Yukimasa Yoshida Vice President	Shuichi Shimada Vice President	Satoru Hara Vice President	Masaharu Yamanaka Vice President	Akira Nakai Vice President
Shunichi Kishimoto Senior Vice President	Masahiro Abe Senior Vice President	Kenji Minami President and Chief Executive Officer	Shigeki Fujita Senior Vice President	Kazuhiko Igarashi Senior Vice President	

Directors

President and Chief Executive Officer
Kenji Minami

Senior Vice President
Masahiro Abe
Shigeki Fujita
Shunichi Kishimoto
Kazuhiko Igarashi

Vice President
Shuichi Shimada
Satoru Hara
Yukimasa Yoshida
Masaharu Yamanaka
Hitoshi Dojima
Akira Nakai

Auditor

Yutaka Okazaki
Kazumasa Uchida
Yoshiaki Sato (Outside)
Sennosuke Yoshida (Outside)

Executive Adviser

Shigeki Morita

Investor Information

As of March 31, 2010

Date Established	October 12, 1939
Capital	6,761Million-Yen
Number of Employees	Consolidated : 1,631 Non-consolidated : 980
Common Stock	Authorized : 100,000,000 shares Issued and outstanding : 51,926,194 shares
Number of Shareholders	7,781
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,				
	2010	2009	2008	2007	2006
High (yen)	472	687	824	1,374	1,759
Low (yen)	244	234	388	525	864

Principal Shareholders

	Number of shares hold (thousand shares)	Percentage of total shares outstanding (%)
Toshiba Corporation	18,977	38.4
Japan Trustee Services Bank, Limited (trust accounts)	1,063	2.1
The Master Trust Bank of Japan, Limited (trust accounts)	939	1.9
Shibaura Mechatronics Employee	371	0.7

SHIBAURA MECHATRONICS CORPORATION

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