

SHIBAURA MECHATRONICS CORPORATION

5

ANNUAL REPORT 2003

Financial Section For the year ended March 31, 2003

Consolidated Financial Statements

Shibaura Mechatronics Corporation and Subsidiaries

Years ended March 31, 2003 and 2002 with Report of Independent Auditors

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Shibaura Mechatronics Corporation and Subsidiaries Consolidated Balance Sheets

	Marc	March 31,	
	2003	2002	2003
	(Millions	of yen)	(Thousands of
Assets			U.S. dollars) (Note 1)
Current assets:			
Cash and bank deposits	¥ 3,343	¥ 3,256	\$ 27,818
Short-term investments	70	75	579
Marketable securities (Note 3)	11	_	92
Notes and accounts receivable, trade	19,025	20,245	158,280
Allowance for doubtful accounts	(103)	(98)	(857)
Inventories (Note 4)	15,181	17,507	126,295
Deferred tax assets	950	425	7,906
Other current assets	830	523	6,901
Total current assets	39,307	41,933	327,014
Property, plant and equipment:	205	225	2 526
Land	305	335	2,536
Buildings and structures	28,125	28,103	233,990
Machinery and equipment	8,887	11,217	73,940
Construction in progress	60	127	500
Total	37,377	39,782	310,966
Accumulated depreciation	(18,245)	(18,734)	(151,794)
Property, plant and equipment, net	19,132	21,048	159,172
Investments and other assets:			
Investment securities (Note 3)	538	632	4,477
Deferred tax assets	3,614	3,044	30,066
Other assets	1,025	990	8,523
Allowance for doubtful accounts	(1)	(-)	(8)
Fotal investments and other assets	5,176	4,666	43,058
Total assets	¥ 63,615	¥ 67,647	\$ 529,244

	Marc	March 31,	
	2003	2002	2003
	(Millions	of yen)	(Thousands of
Liabilities and shareholders' equity			U.S. dollars) (Note 1)
Current liabilities:			
Short-term bank loans (Note 5)	¥ 7,289	¥ 13,488	\$ 60,643
Current portion of long-term debt (Note 5)	4,681	224	38,944
Notes and accounts payable, trade	16,703	14,260	138,963
Accrued expenses	2,864	3,651	23,829
Accrued income taxes (Note 7)	372	100	3,095
Accrued consumption tax	81	62	676
Other current liabilities	1,611	951	13,394
Total current liabilities	33,601	32,736	279,544
Long-term liabilities:			
Long-term debt (Note 5)	4,921	7,548	40,938
Allowance for retirement benefits (Note 8)	4,611	5,443	38,366
Directors' retirement benefits	116	142	962
Other long-term liabilities	3,300	3,264	27,456
Total long-term liabilities	12,948	16,397	107,722
Contingent liabilities (Note 12)			
Shareholders' equity:			
Common stock:			
Authorized: 100,000,000 shares			
Issued:			
50,033,312 shares at March 31, 2003and 2002	5,868	5,868	48,819
Additional paid-in capital (Note 9)	9,848	9,848	81,927
Retained earnings (Note 9)	1,552	2,969	12,911
Net unrealized holding gain on other securities	(19)	1	(157)
Foreign currency translation adjustments	(2)	5	(16)
Less treasury stock, at cost	(181)	(177)	(1,506)
Total shareholders' equity	17,066	18,514	141,978
Total liabilities and shareholders' equity	¥ 63,615	¥ 67,647	\$ 529,244

Shibaura Mechatronics Corporation and Subsidiaries Consolidated Statements of Operations

			Year ended
	Year ended March 31,		March 31,
	2003	2002	2003
	(Millions	s of yen)	(Thousands of U.S. dollars) (Note 1)
Net sales	¥ 54,761	¥ 54,917	\$ 455,589
Cost of sales	45,428	44,519	377,940
Gross profit	9,333	10,398	77,649
Selling, general and administrative expenses	10,835	11,934	90,149
Operating loss	(1,502)	(1,536)	(12,500)
Other income (expenses):			
Interest and dividend income	7	5	56
Interest expense	(178)	(162)	(1,482)
Equity in earnings of affiliates	21	104	181
Gain on sale of land	_	482	_
Loss on disposal of inventories	-	(359)	-
Other, net	(520)	(344)	(4,326)
Loss before income taxes	(2,172)	(1,810)	(18,071)
Income taxes (Note 7):			
Current	344	114	2,866
Deferred	(1,100)	(806)	(9,156)
	(756)	(692)	(6,290)
Net loss	¥ (1,416)	¥ (1,118)	\$ (11,781)

Shibaura Mechatronics Corporation and Subsidiaries

Consolidated Statements of Shareholders' Equity

	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on other securities	Foreign currency translation	,
			(N	lillions of yen)		
Balance as of March 31, 2001	50,033,312	¥ 5,868	¥ 9,848	¥ 4,149	¥ 16	¥ –	¥ (177)
Net loss	-	-	-	(1,118)	-	-	-
Increase in earnings arising from							
inclusion of consolidated subsidiaries	-	-	-	53	-	-	-
Increase in earnings arising from							
inclusion of affiliates	-	-	-	41	-	-	-
Cash dividends paid	-	-	-	(150)	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(6)	-	-	-
Net change	-	-	-	-	(15)	-	-
Foreign currency translation adjustments	-	-	-	-	-	5	-
Net increase in treasury stock	-	-	-	-	-	-	(0)
Balance as of March 31, 2002	50,033,312	5,868	9,848	2,969	1	5	(177)
Net loss	-	-	-	(1,416)	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(1)	-	-	-
Net change	_	_	-	-	(20)	-	-
Foreign currency translation adjustments	_	_	-	-	-	(7)	-
Net increase in treasury stock	_	_	_	-	-	-	(4)
Balance as of March 31, 2003	50,033,312	¥ 5,868	¥ 9,848	¥ 1,552	¥ (19)	¥ (2)	¥ (181)
			(TI	housands of	U.S. dollars)	(Note 1)	
Balance as of March 31, 2002		\$ 48,819	\$ 81,927	\$ 24,703	\$ 12	\$ 48	\$ (1,478)
Net loss		-	_	(11,781)	-	-	_
Bonuses to directors and statutory auditors		_	_	(11)	-	-	-
Net change		_	_	_	(169)	_	_
Foreign currency translation adjustments		_	_	_	_	(64)	-
Net increase in treasury stock		_	_	_	-	_	(28)
Balance as of March 31, 2003		\$ 48,819	\$ 81,927	\$ 12,911	\$ (157)	\$ (16)	\$ (1,506)

Shibaura Mechatronics Corporation and Subsidiaries Consolidated Statements of Cash Flows

	Veerended	Year ended March 31,	
		Year ended March 31, 2003 2002	
			2003
Operating activities	(Millions	or yen)	(Thousands of U.S. dollars) (Note 1)
Loss before income taxes	¥ (2,172)	¥ (1,810)	\$ (18,071)
Depreciation and amortization	2,080	2,144	17,310
Provision for (reversal of) doubtful accounts	5	(7)	42
Reversal of allowance for employees'			
retirement benefits	(857)	(888)	(7,136)
Interest and dividend income	(6)	(5)	(56)
Interest expense	178	162	1,482
Loss (gain) on sale of property and equipment	22	(482)	183
Loss on disposal of property and equipment	58	11	484
Loss on revaluation of marketable and investment			
securities	30	26	253
Loss (gain) on sale of investment securities	10	(0)	83
Translation loss (gain)	3	(1)	26
Equity in earnings of unconsolidated subsidiaries			
and affiliates	(21)	(78)	(180)
Bonuses to directors and statutory auditors	(1)	(6)	(10)
Increase (decrease) in advances received	355	(22)	2,957
Decrease in notes and accounts receivable, trade	1,219	3,067	10,146
Decrease in inventories	2,327	3,956	19,361
Increase (decrease) in notes and accounts			
payable, trade	1,847	(8,293)	15,372
Other, net	98	14	814
Subtotal	5,175	(2,212)	43,060
Interest and dividends received	4	5	34
Interest paid	(175)	(174)	(1,461)
Income taxes paid	(72)	(796)	(601)
Net cash provided by (used in) operating activities	4,932	(3,177)	41,032

Year ended

			real ended	
	Year ended March 31,		March 31,	
	2003	2002	2003	
Investment activities	(Millions	s of yen)	(Thousands of U.S. dollars) (Note 1)	
Payments for time deposits	¥ (69)	¥ (80)	\$ (579)	
Proceeds from time deposits	74	74	620	
Purchases of property, plant and equipment	(475)	(1,166)	(3,955)	
Proceeds from sale of property, plant and				
equipment	143	383	1,196	
Purchases of intangible fixed assets	(81)	(274)	(679)	
Purchases of investment securities	(15)	(16)	(125)	
Proceeds from sale of investment securities	43	21	361	
Increase in long-term loans receivable	(132)	_	(1,098)	
Collection of long-term loans receivable	4	_	34	
Decrease in other assets	39	63	323	
Net cash used in investing activities	(469)	(995)	(3,902)	
Financing activities				
(Decrease) increase in short-term bank loans	(6,198)	2,942	(51,563)	
Proceeds from long-term debt	2,000	2,850	16,638	
Repayment of long-term debt	(171)	(2,522)	(1,421)	
Purchases of treasury stock	(4)	(1)	(28)	
Cash dividends paid		(149)		
Net cash (used in) provided by financing activities	(4,373)	3,120	(36,374)	
Effect of exchange rate changes on cash and				
bank deposits	(3)	1	(27)	
Net increase (decrease) in cash	87	(1,051)	729	
Cash and bank deposits at beginning of the year	3,256	4,233	27,089	
Increase arising from inclusion of subsidiaries in				
consolidation		74		
Cash and bank deposits at end of the year	¥ 3,343	¥ 3,256	\$ 27,818	

1. Basis of Presenting Financial Statements

Shibaura Mechatronics Corporation (the "Company") and its consolidated subsidiaries (collectively the "Companies") maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan. The accompanying consolidated financial statements have been prepared from the financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan. Accordingly, the consolidated financial positions, results of operations and cash flows presented in the accompanying financial statements may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. For the purposes of this document, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

The accompanying consolidated financial statements are stated in yen, the currency of the country in which the Company is incorporated and operates. The translation of yen amounts into U.S. dollar amounts has been included solely for the convenience of readers outside Japan. The translation has been made at the rate of $\pm 120.20 = U.S.\pm 1.00$, the approximate rate of exchange in effect on March 31, 2003. This translation should not be construed as a representation that yen could be converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Scope of consolidation

The accompanying consolidated financial statements include the accounts of Shibaura Mechatronics Corporation and five subsidiaries over which the Company exerts substantial control either through majority ownership of voting stock and/or by other means. All assets and liabilities of the subsidiaries are revalued at fair value on acquisition, if applicable. All significant intercompany balances and transactions have been eliminated in consolidation.

The investments in unconsolidated subsidiaries which are not deemed material to the consolidated financial statements are stated at cost, except for one subsidiary which is accounted for by the equity method.

(b) Foreign currency translation

The revenue and expense accounts of the foreign consolidated subsidiaries are translated into yen at the rate of exchange in effect at the balance sheet date. The balance sheet accounts, except for the components of shareholders' equity, are also translated into yen at the rate of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. The differences arising from translation when two exchange rates have been used are presented as translation adjustments, a component of shareholders' equity in the accompanying consolidated financial statements.

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the current exchange rates in effect at each balance sheet date. Gains and losses resulting from the settlement of these items are credited or charged currently to income.

(c) Cash and cash equivalents

The Company and its subsidiaries substantially consider all highly liquid investments with a maturity of three months or less from the purchase dates to be cash equivalents.

(d) Securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of shareholders' equity under "Net unrealized holding gain on other securities". The cost of other securities sold is computed based on the moving average method. Other securities without quoted market prices are stated at cost, based on the moving average method.

(e) Derivatives

Derivatives are stated at fair market value.

(f) Inventories

Inventories of the Company and its consolidated subsidiaries are stated at cost, determined principally by the following methods:

Finished goods, raw materials and supplies

-- Primarily by the moving average method

Semi-finished goods

-- Primarily by individual cost method Work in process

-- Primarily by individual cost method

(g) Depreciation and amortization

Depreciation of property, plant and equipment is generally computed by the declining-balance method, based on the estimated useful lives of the respective assets. The straightline method is adopted for a certain building acquired during the year ended March 31, 1995, and to all buildings acquired since April 1, 1998. The following summarizes the estimated useful lives of property, plant and equipment by major category:

Buildings and structures 3 - 60 years

Machinery and equipment 2-22 years

Intangible assets are amortized by the straight-line method. Development costs for software intended for internal use are amortized by the straight-line method over a period of 5 years, based on the estimated useful life of the software.

Development costs for software intended to be sold are amortized by the straight-line method over a period of 3 years (the estimated number of salable years) or at the percentage of the actual annual volume of sales to the estimated maximum volume of sales, whichever is higher.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables. For the Companies, the amount of the allowance is determined based on the historical experience with writeoffs plus an estimate of specific probable doubtful accounts based on a review of the collectibility of the individual receivables.

(i) Severance benefits and pension plans

The allowance for employees' retirement benefits has been provided based on the projected retirement benefit obligation and the pension fund assets. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of 10 years, which is shorter than the average remaining years of service of the employees. Prior service cost of ¥23 million in the aggregate with respect to the revision of the lump-sum retirement payment plan and the funded non-contributory pension plan has been charged to income as other income for

the year ended March 31, 2002.

The Companies also provide for retirement benefits to directors and statutory auditors, based on the Companies' internal rules at the amount which would be required to be paid if all directors and statutory auditors retired or resigned at the balance sheet date.

(j) Accrual for periodic repairs

A certain building acquired in the year ended March 31, 1995, requires periodic repairs. An accrual for repair expenses is recorded based on the current portion of the total expenses estimated for such repairs.

(k) Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessee are not capitalized, but are accounted for by a method similar to that applicable to operating leases.

(I) Research and development expenses

Research and development expenses are charged to income when incurred.

(m) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax-based reporting of the assets and liabilities and are measured using the statutory tax rates which will be in effect when the differences are expected to be realized.

(n) Accounting method for treasury stock and reduction of legal reserves

Effective the year ended March 31, 2003, the Company adopted a new accounting standard for treasury stock and reduction of legal reserves ("Accounting Standards for Treasury Stocks and Reduction of Legal Reserves"). Adoption of this new standard had no impact on the Company's results of operations and financial position.

(o) Per share information

Effective the year ended March 31, 2003, the Company adopted a new accounting standard for per share information ("Accounting Standard for Earnings per Share" and "Implementation Guidance for Application of Accounting Standard for Earnings per Share"). See Note 15.

3. Securities

At March 31, 2003 and 2002, securities with quoted market prices classified as other (available-for-sale) securities are summarized as follows:

			Marcl	h 31,				March 31,	
		2003 2002			2003				
	Acquisition costs	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference
		(Millions of yen)	(Millions of yen)	(Thou	sands of U.S.	dollars)
Other securities whose market values									
recorded in the balance sheet exceed									
their acquisition costs:									
Equity securities	¥ 49	¥ 66	¥ 17	¥ 52	¥ 79	¥ 27	\$ 409	\$ 549	\$ 140
Debt securities	11	11	0	10	10	0	91	92	1
Other	-	-	-	-	_		-	-	-
Subtotal	60	77	17	62	89	27	500	641	141
Other securities whose market values									
recorded in the balance sheet do not									
exceed their acquisition costs:									
Equity securities	122	69	(53)	145	96	(49)	1,015	573	(442)
Debt securities	_	_	_	1	1	(0)	-	_	_
Other	_	_	-	-	-		-	-	-
Subtotal	122	69	(53)	146	97	(49)	1,015	573	(442)
Total	¥182	¥146	¥(36)	¥208	¥186	¥(22)	\$1,515	\$1,214	\$(301)

At March 31, 2003 and 2002, other securities without quoted market prices are summarized as follows:

	Mar	March 31,		
	2003	2002	2003	
	(Millions	(Millions of yen)		
Investments in subsidiaries				
and affiliates:				
Unlisted equity securities				
other than those traded on				
the over-the-counter market	¥361	¥347	\$3,005	
Other unlisted securities				
other than those traded on				
the over-the-counter market	42	100	349	

4. Inventories

Inventories at March 31, 2003 and 2002 are summarized as follows:

	Ma	March 31,		
	2003	2002	2003	
	(Millic	(Millions of yen)		
Finished products	¥ 4,660	¥ 6,836	\$ 38,768	
Raw materials	77	77	642	
Work in process	10,444	10,594	86,885	
Total	¥15,181	¥17,507	\$126,295	

5. Short-Term Bank Loans and Long-Term Debt

The annual interest rates of the Companies' short-term bank loans ranged principally from 0.49 percent to 3.00 percent at March 31, 2003, and from 0.48 percent to 2.30 percent at March 31, 2002.

A summary of long-term debt at March 31, 2003 and 2002 is as follows:

	Ма	March 31,	
	2003	2002	2003
	(Millior	ns of yen)	(Thousands of U.S. dollars)
Unsecured:			
Non-interest-bearing			
convertible bonds			
due March 2004	¥ 2,820	¥ 2,820	\$ 23,461
1.25 percent to 2.40 percent			
loans from banks and			
insurance companies due			
2003 – 2007	6,771	4,939	56,328
Loans from Pension Welfare			
Service Public Corporation			
due 2003 – 2035	11	13	93
Total	9,602	7,772	79,882
Current portion	(4,681)	(224)	(38,944)
Long-term debt less current			
portion	¥ 4,921	¥ 7,548	\$ 40,938

Loans from the Pension Welfare Service Public Corporation represent financing housing loans to the Company's employees, and the same amount is stated as a portion of other assets (loans to employees). The Company pays the interest on such loans to the lender and collects the same amount from the employees as the borrowers.

On February 7, 2000, the Company issued Euro yen 7,000 million non-interest-bearing convertible bonds due March 2004 without security. The convertible bonds are convertible during the period from February 21, 2000, to March 24, 2004, into shares of common stock of the Company at ¥803 per share, which was adjusted from ¥1,003 per share on February 26, 2001, subject to certain adjustments.

The long-term debt subsequent to March 31, 2003, is summarized by maturity as follows:

	Marcl	March 31, 2003		
	(Millions of yen)	(Thousands of U.S. dollars)		
2004	¥ 4,681	\$ 38,944		
2005	500	4,163		
2006	1,801	14,979		
2007 and thereafter	2,620	21,796		
Total	¥ 9,602	\$ 79,882		

At March 31, 2003, the Company has unused committed lines of credit with 5 banks for efficient financial arrangements for operating funds aggregating ¥10,000 million (\$83,195 thousand). These lines of credit have commitment fee requirements.

6. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31,2003 and 2002 were as follows:

		Year ended
Year ended	d March 31,	March 31,
2003	2002	2003
(Millior	ns of yen)	(Thousands of U.S. dollars)
¥1,409	¥2,313	\$11,719

7. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 42 percent for 2003 and 2002.Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The effective tax rates reflected in the accompanying consolidated statements of operations differ from the statutory tax rates primarily due to the effect of permanent nondeductible expenses for income tax purposes.

The major components of deferred tax assets and liabilities as of March 31, 2003 and 2002 are summarized as follows:

	March 31,		March 31,
	2003	2002	2003
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Employees' retirement			
benefits	¥1,915	¥2,308	\$15,936
Accrued employees' bonuses	427	254	3,553
Accrual for periodic repairs	122	110	1,014
Enterprise tax payable	30	12	249
Net loss carried forward	1,861	590	15,486
Other	300	267	2,496
Gross deferred tax assets	4,655	3,541	38,734
Valuation allowance	(85)	(71)	(711)
Total deferred tax assets	4,570	3,470	38,023
Deferred tax liabilities:			
Deferred gain on sale of			
properties	(6)	-	(51)
Total deferred tax liabilities	(6)	_	(51)
Deferred tax assets, net	¥4,564	¥3,470	\$37,972

8. Retirement Benefits

The Companies have defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who terminate their employment with the Companies. In addition, an employee, if eligible, may receive additional payments under the plans.

The following is a summary of the plans: Retirement benefit obligation:

	Ma	March 31,	
	2003	2002	2003
	(Millio	ns of yen)	(Thousands of U.S. dollars)
Projected benefit obligation	¥(9,731)	¥(10,031)	\$(80,954)
Fair value of plan assets	2,579	2,460	21,454
Funded status	(7,152)	(7,571)	(59,500)
Unrecognized actuarial loss	2,540	2,128	21,134
Obligation recognized in the			
consolidated balance sheet	(4,612)	(5,443)	(38,366)
Allowance for retirement			
benefits	¥(4,612)	¥ (5,443)	\$(38,366)

The consolidated subsidiaries have adopted a simplified method, as permitted, to calculate the projected benefit obligation.

Components of net periodic pension cost:

				Yea	ar ended	
	Year ended	d Ma	rch 31,	March 31,		
	2003	2	002		2003	
	(Millior	(Millions of yen)				
Service cost - benefits earned						
during the year	¥ 471	¥	405	\$	3,921	
Interest cost on projected						
benefit obligation	296		273		2,466	
Expected return on plan assets	(86)		(74)		(717)	
Amortization of prior service co	st –		23		-	
Amortization of actuarial loss	221		81		1,838	
Net periodic pension cost	¥ 902	¥	708	\$	7,508	

(1)Prior service cost of ¥23 million was recognized as other income for the year ended March 31, 2002.

(2)The allowance for retirement benefits was determined by the simplified method by the consolidated subsidiaries and has been included in service cost – benefits earned during the year.

	March 31,				
	2003	2002			
Assumptions used in the actuarial	calculation:				
Actuarial cost method	Projected unit credit metho				
Discount rate	2.5% per annum	3.0% per annum			
Expected rate of return on					
plan assets	3.5% per annum	3.5% per annum			
Amortization period for prior					
service cost	-	1 year			
Amortization period for					
actuarial loss	10 years (within the employees' average remaining years of service)				

9. Legal Reserve and Additional Paid-In capital

On October 1, 2001, an amendment ("Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which results in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that share issuances after September 30, 2001, will be of shares with no par value. Before the amendment, the Company's share had par value of ¥50 per share.

The Code provides that an amount equal to at least 10 percent of the amount to be disbursed as a distribution of earnings shall be appropriated to the legal reserve until such reserve and the amount of additional paid-in capital equals 25 percent of the common stock account. The Code also provides that if the sum of the additional paid-in capital account and the legal reserve exceeds 25 percent of the common stock account, then the amount of the excess (if any) is available for appropriations by resolution of the shareholders.

The retained earnings account in the accompanying consolidated financial statements at March 31, 2003, included a legal reserve of ¥1,552 million (\$12,911 thousand).

10. Stock Option Plan

On June 15, 2000, the shareholders approved a stock option plan for directors and key employees to purchase shares of the Company's common stock which had been purchased by the Company on stock exchanges in accordance with Clause 2 of Article 210-2 of the former Commercial Code of Japan. Under this plan, a maximum of 104,000 shares may be granted to directors and 51,000 shares to key employees.

The exercise price is ¥1,320.

The stock options will become exercisable during the period from July 1, 2002, to June 30, 2004.

11. Leases

Non-cancelable lease transactions are primarily accounted for as operating leases (regardless of whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. Lease expenses related to finance leases accounted for as operating leases amounted to ¥515 million (\$4,281 thousand) for the year ended March 31, 2003, and ¥475 million for the year ended March 31, 2002.

Future minimum lease payments subsequent to March 31, 2003, for finance lease transactions accounted for as operating leases are summarized as follows:

	March 31, 2003		
	(Millions of yen)	(Thousands of U.S. dollars)	
Due within one year	¥ 519	\$ 4,318	
Due after one year	1,067	8,874	
Total	¥1,586	\$13,192	

12. Contingent Liabilities

The Company had the following contingent liabilities:

	March 31, 2003			
	(Millions	(Thousands of		
	of yen)	U.S. dollars)		
As guarantor for housing				
loans of employees	¥ 100	\$ 828		

13. Derivatives and Hedging Activities

The Company has entered into interest rate swap contracts to reduce the cost of borrowing. The Company uses these contracts to manage its exposure to interest rate risk. As a matter of policy, the Company does not speculate in derivative transactions. The Company does not anticipate nonperformance by any of the counterparties to the above transactions, all of whom are domestic financial institutions with high credit ratings.

In accordance with the Company's policy, derivative transactions are entered into under the decision-making rules approved by the Management Strategy Committee of the Company. The department which has the responsibility to enter into such contracts controls the risk and performance on a daily basis and reports these to management of the Company, if and when necessary.

Interest-rate-related transactions

	March 31, 2002						
	Contract amounts	(Including portion in excess of one year)	Fair value	Unrealized loss			
	(Millions of yen)						
Interest rate swaps:							
Receive floating/							
pay fixed	¥ 500	¥ (-)	¥ (2)	¥ (2)			

The contract amounts in the above table do not fully represent the extent of the market risk relating to the derivative positions.

As of March 31, 2003, fair value information for derivatives has not been presented, since all derivatives have been accounted for as hedges.

14. Segment Information

The business segment information of the Companies for the years ended March 31, 2003 and 2002 is summarized as follows:

Business segments

			Year end	led March 31	, 2003		
	Fine mechatronics	Automation systems & vacuum equipment	Vending machines & systems	Real estate leasing	e Total	Eliminations or unallocated amounts	
			(M	illions of yen)			
I. Sales and operating income							
Sales to external customers	¥35,651	¥11,260	¥5,705	¥ 2,145	¥54,761	¥ –	¥54,761
Intersegment sales or transfers	-	-	-	-	-	(-)	-
Total sales	¥35,651	¥11,260	¥5,705	¥ 2,145	¥54,761	¥ –	¥54,761
Operating expenses	36,301	12,774	5,467	1,376	55,918	345	56,263
Operating income (loss)	¥ (650)	¥ (1,514)	¥ 238	¥ 769	¥ (1,157)	¥ (345)	¥ (1,502)
II. Total assets, depreciation and capital exp	enditures						
Total assets	¥29,460	¥15,052	¥5,499	¥11,517	¥61,528	¥2,087	¥63,615
Depreciation	883	437	120	640	2,080	-	2,080
Capital expenditures	415	137	84	1	637	-	637

	Year ended March 31, 2002						
	Fine mechatronics	Automation systems & vacuum equipment	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	Consoli- dated
			(M	illions of yen)			
I. Sales and operating income							
Sales to external customers	¥35,552	¥11,150	¥6,071	¥ 2,144	¥54,917	¥ –	¥54,917
Intersegment sales or transfers	-	-	-	-	-	(-)	-
Total sales	35,552	11,150	6,071	2,144	54,917	_	54,917
Operating expenses	35,335	13,237	6,086	1,302	55,960	493	56,453
Operating income	¥ 217	¥ (2,087)	¥ (15)	¥ 842	¥ (1,043)	¥ (493)	¥ (1,536)
II. Total assets, depreciation and capital	expenditures						
Total assets	¥32,225	¥15,559	¥5,751	¥12,129	¥36,664	¥1,983	¥67,647
Depreciation	897	470	128	649	2,144	-	2,144
Capital expenditures	788	338	123	23	1,272	-	1,272

	Fine mechatronics	Automation systems & vacuum equipment	Vending machines & systems	Real estat leasing	e Total	Elimination or unallocated amounts	
			(Th	ousands of U	.S. dollars)		
I. Sales and operating income							
Sales to external customers	\$296,598	\$ 93,677	\$47,466	\$17,848	\$455,589	\$ -	\$455,589
Intersegment sales or transfers	-	-	-	-	-	-	-
Total sales	\$296,598	\$ 93,677	\$47,466	\$17,848	\$455,589	\$ -	\$455,589
Operating expenses	302,007	106,271	45,488	11,453	465,219	2,870	468,089
Operating income	\$ (5,409)	\$ (12,594)	\$ 1,978	\$ 6,395	\$ (9,630)	\$ (2,870)	\$ (12,500)
II. Total assets, depreciation and capital	expenditures						
Total assets	\$245,092	\$125,221	\$45,747	\$95,818	\$511,878	\$17,366	\$529,244
Depreciation	7,343	3,637	1,002	5,327	17,309	-	17,309
Capital expenditures	3,452	1,143	699	12	5,306	_	5,306

Year ended March 31, 2003

Notes:

a)Basis of segmentation

Business segments are divided into product categories by the same criteria as applied for internal control purposes.

b)Major products in each business segment

(1) Fine mechatronics

FPD manufacturing equipment (wet cleaning equipment, stripping equipment, etching equipment, developing equipment, cell assembly equipment, outer lead bonding equipment), semiconductor manufacturing equipment (wet cleaning equipment, etching equipment, ashing equipment, die-bonding equipment, wire-bonding equipment, inner lead bonding equipment, flip chip bonding equipment, auto molding equipment), the non-destructive inspection business, equipment for railroad maintenance, and other items

(2) Automation systems & vacuum equipment

Rechargeable battery manufacturing equipment, precision parts manufacturing equipment, other automatic devices laser applied processing equipment, microwave applied equipment, cartesian robots, media devices manufacturing equipment (sputtering equipment, vacuum bonding equipment), industrial vacuum plating equipment, vacuum pumps, and other items (3) Vending machines & systemsVending machines, ticket vending machines, and others

(4) Real estate leasingReal estate leasing and management and other business

c) Included in eliminations or unallocated amounts of operating expenses are unallocable amounts relating to development expenses incurred for the entire company as part of the Company's research and development costs.

d) Included in the eliminations or unallocated amounts of total assets were unallocable amounts totaling ¥6,229 million (\$51,820 thousand) million for the year ended March 31, 2003 and ¥5,502 million for the year ended March 31, 2002, which primarily consisted of surplus funds (cash and marketable securities) of the Company.

e) Included in depreciation were amortization of and additions to long-term prepaid expenses.

Geographical segments

For the consolidated fiscal years ended March 31, 2003 and 2002, there are no statements to be made because there were no consolidated subsidiaries or important overseas branches in countries or territories other than Japan.

Overseas sales

	Year ended March 31, 2003					
	Northeastern					
	Asia Other Tota					
	(Millions of yen)					
I. Overseas sales	¥23,231	¥3,339	¥26,570			
II. Consolidated net sales			54,761			
III. % of consolidated net sales	42.4%	6.1%	48.5%			

	Year ended March 31, 2002		
	Northeastern		
	Asia	Other	Total
	(Millions of yen)		
I. Overseas sales	¥17,722	¥6,302	¥24,024
II. Consolidated net sales			54,917
III. % of consolidated net sales	32.3%	11.5%	43.7%

	Year ended March 31, 2003		
	Northeastern		
	Asia	Other	Total
	(Thousands of U.S. dollars)		
I. Overseas sales	\$193,268	\$27,778	\$221,046
II. Consolidated net sales			455,589
III. % of consolidated net sal	es 42.4%	6.1%	48.5%

Notes:

a) Overseas sales are those of the Company and its consolidated subsidiaries in countries or regions other than Japan.

b) The division of overseas sales into countries or regions and the names of such countries or regions are as follows:

(1) Overseas sales by country or region:

Geographical areas are divided into categories based on their geographical proximity.

(2)Major countries or regions included in each geographical area: Northeastern Asia – Korea Taiwan

North Odd to this to la		rtoroa, raiwan
Other	-	U.S.A., Singapore

15. Per Share Information

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year, assuming full dilution by common stock equivalents. Net assets per share is also computed based on the weighted average number of shares of common stock outstanding during each year.

Net loss and net assets per share for the year ended March 31, 2002, have been recomputed based on this new accounting standard and are restated in the accompanying financial statements.

	Year	Year ended March 31,	
	Mare		
	2003	2002	2003
	()	(yen)	
Net loss	¥ 28.40	¥ 22.46	\$ 0.24
Net assets	342.24	371.19	2.85

Per share amounts assuming full dilution have not been presented because the Company recorded net operating losses for the years ended March 31, 2003 and 2002.





Certified Public Accountants Hibiya Kokusai Bldg. 2-2-3, Uchisaiwai-cho, Chiyoda-ku, Tokyo, 100-0011 C.P.O. Box 1196, Tokyo 100-8641 Phone:03-3503-1100 Fax: 03-3503-1197

The Board of Directors Shibaura Mechatronics Corporation

We have audited the accompanying consolidated balance sheets of Shibaura Mechatronics Corporation and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shibaura Mechatronics Corporation and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Shim Mihon & Co.

June 12, 2003

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Shibaura Mechatronics Corporation and consolidated subsidiaries under Japanese accounting principles and practices.

Supplemental Information Shibaura Mechatronics Corporation Non-Consolidated Balance Sheets

	March 31,		March 31,
	2003	2002	2003
	(Millions	(Millions of yen)	
Assets			U.S. dollars)
Current assets:			
Cash and bank deposits	¥ 1,721	¥ 1,757	\$ 14,316
Marketable securities	11	_	92
Notes and accounts receivable, trade:			
Notes	1,949	966	16,215
Accounts	13,529	15,932	112,549
Allowance for doubtful accounts	(58)	(83)	(483)
Inventories	13,590	16,128	113,060
Deferred tax assets	662	213	5,507
Other current assets	2,440	1,579	20,303
Fotal current assets	33,844	36,492	281,559
Buildings and structures Machinery and equipment Construction in progress	27,864 8,390 58	27,859 10,765 127	231,814 69,801 482
Total	36,417	38,886	302,970
Accumulated depreciation	(17,790)	(18,373)	(148,000)
Property, plant and equipment, net	18,627	20,513	154,970
nvestments and other assets:			
Investment securities	166	267	1,385
Investments in subsidiaries and affiliates	831	796	6,910
Deferred tax assets	3,356	2,994	27,920
Other assets	823	820	6,849
Allowance for doubtful accounts	(1)	(-)	(8)
otal investments and other assets	5,175	4,877	43,056
otal assets	¥ 57,646	¥ 61,882	\$ 479,585

	March 31,		March 31,
	2003	2002	2003
	(Millions of yen)		(Thousands of
Liabilities and shareholders' equity			U.S. dollars)
Current liabilities:			
Short-term bank loans	¥ 6,010	¥12,210	\$ 50,000
Current portion of long-term debt	4,410	0	36,692
Notes and accounts payable:			,
Notes	2,263	4,041	18,828
Accounts	12,487	8,653	103,883
Other	20	6	166
Advances from customers	509	196	4,237
Accrued expenses	3,144	3,316	26,161
Accrued income taxes	70	46	579
Other current liabilities	164	151	1,362
Total current liabilities	29,077	28,619	241,908
Long-term liabilities:			
Long-term debt	4,921	7,332	40,938
Allowance for retirement benefits	4,475	5,292	37,224
Directors' retirement benefits	88	111	735
Accrual for periodic repairs	300	264	2,497
Other long-term liabilities	3,000	3,000	24,958
Total long-term liabilities	12,784	15,999	106,352
Shareholders' equity:			
Common stock:			
Authorized: 100,000,000 shares			
Issued:			
50,033,312 shares at March 31, 2003			
and 2002	5,868	5,868	48,819
Additional paid-in capital	9,848	9,848	81,927
Legal reserve	353	553	2,936
Retained earnings	(85)	1,171	(700)
Net unrealized holding gain on other securities	(18)	1	(151)
Less treasury stock, at cost	(181)	(177)	(1,506)
Total shareholders' equity	15,785	17,264	131,325
Total liabilities and shareholders' equity	¥57,646	¥61,882	\$479,585

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Supplemental Information Shibaura Mechatronics Corporation Non-Consolidated Statements of Operations

			Year ended
	Year ended	March 31,	March 31,
	2003	2002	2003
	(Millions	(Millions of yen)	
Net sales	¥43,754	¥45,406	\$364,010
Cost of sales	38,912	39,891	323,729
Gross profit	4,842	5,515	40,281
Selling, general and administrative expenses	6,584	7,194	54,778
Operating loss	(1,742)	(1,679)	(14,497)
Other income (expenses):			
Interest and dividend income	10	56	84
Interest expense	(160)	(149)	(1,332)
Gain on sale of land	-	481	-
Loss on disposal of inventories	-	(359)	-
Other, net	(359)	(245)	(2,987)
Loss before income taxes	(2,251)	(1,895)	(18,732)
Income taxes:			
Current	20	20	166
Deferred	(816)	(747)	(6,788)
	(796)	(727)	(6,622)
Net loss	¥ (1,455)	¥ (1,168)	\$ (12,110)
	(Yen)		(U.S. dollars)
Per share of common stock:			
Net loss	¥ 29.19	¥ 23.42	\$ 0.24
Cash dividends applicable to the year	0.00	0.00	0.00



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