



Annual Report 2004

Financial Section

For the year ended March 31, 2004

Consolidated Financial Statements

Shibaura Mechatronics Corporation and Subsidiaries

Years ended March 31, 2004 and 2003
with Report of Independent Auditors

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Shibaura Mechatronics Corporation and Subsidiaries
Consolidated Balance Sheets

	March 31,		March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash and bank deposits	¥ 4,506	¥ 3,343	\$ 42,633
Short-term investments	14	70	138
Marketable securities (Note 3)	—	11	—
Notes and accounts receivable, trade	23,176	19,025	219,281
Allowance for doubtful accounts	(211)	(103)	(2,000)
Inventories (Note 4)	18,628	15,181	176,252
Deferred tax assets	1,779	950	16,835
Other current assets	982	830	9,288
Total current assets	48,874	39,307	462,427
Property, plant and equipment:			
Land	299	305	2,827
Buildings and structures	27,821	28,125	263,234
Machinery and equipment	1,399	8,887	13,235
Construction in progress	341	60	3,227
Total	29,860	37,377	282,523
Accumulated depreciation	(13,037)	(18,245)	(123,352)
Property, plant and equipment, net	16,823	19,132	159,171
Investments and other assets:			
Investment securities (Note 3)	498	538	4,711
Deferred tax assets	2,236	3,614	21,155
Other assets	814	1,025	7,710
Allowance for doubtful accounts	(—)	(1)	(—)
Total investments and other assets	3,548	5,176	33,576
Total assets	¥ 69,245	¥ 63,615	\$ 655,174

	March 31,		March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 1,914	¥ 7,289	\$ 18,112
Current portion of long-term debt (Note 5)	670	4,681	6,345
Notes and accounts payable, trade	22,023	16,703	208,372
Accrued expenses	3,672	2,864	34,742
Accrued income taxes (Note 7)	377	372	3,572
Accrued consumption tax	82	81	772
Other current liabilities	2,625	1,611	24,833
Total current liabilities	31,363	33,601	296,748
Long-term liabilities:			
Long-term debt (Note 5)	11,828	4,921	111,910
Allowance for retirement benefits (Note 8)	4,488	4,611	42,460
Directors' retirement benefits	142	116	1,349
Other long-term liabilities	3,333	3,300	31,539
Total long-term liabilities	19,791	12,948	187,258
Contingent liabilities (Note 12)			
Shareholders' equity:			
Common stock:			
Authorized: 100,000,000 shares			
Issued:			
50,033,312 shares at March 31, 2004 and 2003	5,868	5,868	55,521
Additional paid-in capital (Note 9)	9,848	9,848	93,175
Retained earnings (Note 9)	2,531	1,552	23,948
Net unrealized holding gain on other securities	48	(19)	459
Foreign currency translation adjustments	(20)	(2)	(192)
Less treasury stock, at cost	(184)	(181)	(1,743)
Total shareholders' equity	18,091	17,066	171,168
Total liabilities and shareholders' equity	¥ 69,245	¥ 63,615	\$ 655,174

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Operations

	Year ended March 31,		Year ended March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales	¥ 67,521	¥ 54,761	\$ 638,857
Cost of sales	54,308	45,428	513,843
Gross profit	13,213	9,333	125,014
Selling, general and administrative expenses	10,045	10,835	95,040
Operating income (loss)	3,168	(1,502)	29,974
Other income (expenses):			
Interest and dividend income	7	7	66
Interest expense	(179)	(178)	(1,690)
Equity in earnings of affiliates	96	21	909
Gain on sale of land	119	–	1,126
Loss on devaluation of investment in unconsolidated subsidiary	(226)	–	(2,143)
Other, net	(1,027)	(520)	(9,718)
Income (loss) before income taxes	1,958	(2,172)	18,524
Income taxes (Note 7):			
Current	462	344	4,371
Deferred	517	(1,100)	4,888
	979	(756)	9,259
Net income (loss)	¥ 979	¥ (1,416)	\$ 9,265

The accompanying notes are an integral part of the consolidated financial statements.

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 adjustments	Treasury stock
(Millions of yen)							
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)
Net income	—	—	—	979	—	—	—
Net change	—	—	—	—	67	—	—
Foreign currency translation adjustments	—	—	—	—	—	(18)	—
Net increase in treasury stock	—	—	—	—	—	—	(3)
Balance as of March 31, 2004	50,033,312	¥ 5,868	¥ 9,848	¥ 2,531	¥ 48	¥ (20)	¥ (184)
(Thousands of U.S. dollars) (Note 1)							
Balance as of March 31, 2003		\$ 55,521	\$ 93,175	\$ 14,683	\$ (178)	\$ (18)	\$ (1,713)
Net loss		—	—	9,265	—	—	—
Net change		—	—	—	637	—	—
Foreign currency translation adjustments		—	—	—	—	(174)	—
Net increase in treasury stock		—	—	—	—	—	(30)
Balance as of March 31, 2004		\$ 55,521	\$ 93,175	\$ 23,948	\$ 459	\$ (192)	\$ (1,743)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended March 31,		Year ended March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities			
Income (loss) before income taxes	¥ 1,958	¥ (2,172)	\$ 18,524
Depreciation and amortization	1,756	2,080	16,618
(Reversal of) provision for doubtful accounts	(18)	5	(166)
Reversal of allowance for employees' retirement benefits	(97)	(857)	(918)
Interest and dividend income	(7)	(6)	(66)
Interest expense	179	178	1,689
(Gain) loss on sales of property and equipment	(71)	22	(674)
Loss on disposal of property and equipment	84	58	799
Loss on revaluation of marketable and investment securities	—	30	—
Loss on sales of investment securities	—	10	—
Loss on devaluation of investment in unconsolidated subsidiary	226	—	2,143
Translation loss	1	3	12
Equity in earnings of unconsolidated subsidiaries and affiliates	(96)	(21)	(909)
Bonuses to directors and statutory auditors	—	(1)	—
Increase in advances received	1,242	355	11,749
(Increase) decrease in notes and accounts receivable, trade	(4,150)	1,219	(39,270)
(Increase) decrease in inventories	(3,447)	2,327	(32,618)
Increase in notes and accounts payable, trade	5,995	1,847	56,723
Other, net	(252)	98	(2,381)
Subtotal	3,303	5,175	31,255
Interest and dividends received	86	4	815
Interest paid	(178)	(175)	(1,688)
Income taxes paid	(456)	(72)	(4,319)
Net cash provided by operating activities	2,755	4,932	26,063

	Year ended March 31,		Year ended March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Investment activities			
Payments for time deposits	(35)	(69)	(328)
Proceeds from time deposits	90	74	848
Proceeds from redemption of bonds	11	–	104
Purchases of property, plant and equipment	(990)	(475)	(9,364)
Proceeds from sales of property, plant and equipment	1,983	143	18,763
Purchases of intangible fixed assets	(28)	(81)	(268)
Purchases of investment securities	(1)	(15)	(9)
Proceeds from sales of investment securities	–	43	–
Increase in short-term loans receivable	(184)	–	(1,740)
Increase in long-term loans receivable	(132)	(132)	(1,245)
Collection of long-term loans receivable	138	4	1,305
Decrease in other assets	63	39	592
Net cash provided by (used in) investing activities	915	(469)	8,658
Financing activities			
Decrease in short-term bank loans	(5,375)	(6,198)	(50,857)
Proceeds from long-term debt	2,600	2,000	24,600
Repayment of long-term debt	(1,883)	(171)	(17,821)
Proceeds from issuance of Zero Coupon Japanese yen convertible notes	4,975	–	47,075
Redemption of non-interest-bearing convertible bonds	(2,820)	–	(26,682)
Purchases of treasury stock	(3)	(4)	(29)
Net cash used in financing activities	(2,506)	(4,373)	(23,714)
Effect of exchange rate changes on cash and bank deposits	(1)	(3)	(12)
Net increase in cash	1,163	87	10,995
Cash and bank deposits at beginning of the year	3,343	3,256	31,638
Cash and bank deposits at end of the year	¥ 4,506	¥ 3,343	\$ 42,633

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2004

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 generally accepted 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 are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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 ¥105.69 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2004. 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

Other securities with determinable 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 determinable 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 straight-line 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 – 17 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 write-offs 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.

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.

(l) 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.

3. Securities

At March 31, 2004 and 2003, securities with determinable market prices classified as other (available-for-sale) securities are summarized as follows:

	March 31,						March 31,		
	2004			2003			2004		
	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)			(Thousands of U.S. dollars)		
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:									
Equity securities	¥ 141	¥ 238	¥ 97	¥ 49	¥ 66	¥ 17	\$1,336	\$2,250	\$ 914
Debt securities	—	—	—	11	11	0	—	—	—
Other	—	—	—	—	—	—	—	—	—
Subtotal	141	238	97	60	77	17	1,336	2,250	914
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:									
Equity securities	—	—	—	122	69	(53)	—	—	—
Debt securities	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Subtotal	—	—	—	122	69	(53)	—	—	—
Total	¥ 141	¥ 238	¥ 97	¥ 182	¥ 146	¥ (36)	\$1,336	\$2,250	\$ 914

At March 31, 2004 and 2003, other securities without determinable market prices are summarized as follows:

	March 31,		March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in subsidiaries and affiliates:			
Unlisted equity securities other than those traded on the over-the-counter market	¥ 221	¥ 361	\$ 2,089
Other unlisted securities other than those traded on over-the-counter market	39	42	372

4. Inventories

Inventories at March 31, 2004 and 2003 are summarized as follows:

	March 31,		March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Finished products	¥ 8,555	¥ 4,660	\$ 80,943
Raw materials	203	77	1,917
Work in process	9,870	10,444	93,392
Total	¥18,628	¥15,181	\$176,252

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

The annual interest rates of the Companies' short-term bank loans ranged principally from 0.60 percent to 3.25 percent at March 31, 2004, and from 0.49 percent to 3.00 percent at March 31, 2003.

A summary of long-term debt at March 31, 2004 and 2003 is as follows:

	March 31,		March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Unsecured:			
Non-interest-bearing convertible bonds due March 2004	¥ —	¥ 2,820	\$ —
Zero Coupon Japanese yen convertible notes (notes with stock acquisition rights)	5,000	—	47,308
0.90 percent to 2.10 percent loans from banks and insurance companies due 2004 – 2008	7,493	6,771	70,898
Loans from Pension Welfare Service Public Corporation due 2004 – 2034	5	11	49
Total	12,498	9,602	118,255
Current portion	(670)	(4,681)	(6,345)
Long-term debt less current portion	¥11,828	¥ 4,921	\$111,910

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 March 8, 2004, the Company issued JPY 5,000 million Zero Coupon Japanese yen convertible notes (notes with stock acquisition rights) due March 8, 2009. The convertible notes are convertible during the period from March 22, 2004, to February 20, 2009, at the option of the holder into shares of common stock at a price of ¥943 per share, subject to adjustment in specific circumstances.

The long-term debt subsequent to March 31, 2004, is summarized by maturity as follows:

	March 31, 2004	
	(Millions of yen)	(Thousands of U.S. dollars)
2005	¥ 670	\$ 6,345
2006	1,953	18,477
2007	2,670	25,263
2008 and thereafter	7,205	68,171
Total	¥12,498	\$118,255

At March 31, 2004, the Company has unused committed lines of credit with 5 banks for efficient financial arrangements for operating funds aggregating ¥10,000 million (\$94,616 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, 2004 and 2003 were as follows:

	Year ended March 31,		Year ended March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
	¥1,415	¥1,409	\$13,387

7. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprised corporation, inhabitants' and enterprise tax which, in the aggregate, resulted in a statutory tax rate of 41.7 percent for 2004 and 2003. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation. Current income tax expense for the year ended March 31 2004 includes income tax refunds of ¥ 60 million (\$569 thousand).

The major components of deferred tax assets and liabilities as of March 31, 2004 and 2003 are summarized as follows:

	March 31,		March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Employees' retirement benefits	¥1,783	¥1,915	\$16,869
Accrued employees' bonuses	607	427	5,748
Accrual for periodic repairs	135	122	1,281
Enterprise tax payable	50	30	473
Net loss carried forward	1,150	1,861	10,878
Other	466	300	4,412
Gross deferred tax assets	4,191	4,655	39,661
Valuation allowance	(137)	(85)	(1,300)
Total deferred tax assets	4,054	4,570	38,361
Deferred tax liabilities:			
Unrecognized holding gain on other securities	(39)	(6)	(371)
Total deferred tax liabilities	(39)	(6)	(371)
Deferred tax assets, net	¥4,015	¥4,564	\$37,990

The effective tax rates reflected in the accompanying consolidated statements of operations for the year ended March 31, 2004 differ from the statutory tax rates for the following reasons;

Statutory tax rate	41.7%
Effect of;	
Non-deductible expenses such as entertainment expenses	1.9
Per capita levy of inhabitants' tax and others	1.0
Changes in valuation allowance	2.8
Correction of decrease of deferred tax assets due to change of tax rate	2.0
Other net	0.6
Effective tax rate	50.0%

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:

	March 31,		March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligation	¥(9,191)	¥(9,731)	\$ (86,958)
Fair value of plan assets	3,127	2,579	29,582
Funded status	(6,064)	(7,152)	(57,376)
Unrecognized actuarial loss	1,576	2,541	14,916
Obligation recognized in the consolidated balance sheet	(4,488)	(4,611)	(42,460)
Allowance for retirement benefits	¥(4,488)	¥ (4,611)	\$ (42,460)

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

Components of net periodic pension cost:

	Year ended March 31,		Year ended March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost - benefits earned during the year	¥ 489	¥ 471	\$ 4,627
Interest cost on projected benefit obligation	240	296	2,269
Expected return on plan assets	(90)	(86)	(854)
Amortization of actuarial loss	284	221	2,690
Net periodic pension cost	¥ 923	¥ 902	\$ 8,732

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,	
	2004	2003
Assumptions used in the actuarial calculation:		
Actuarial cost method	Projected unit credit method	
Discount rate	2.5% per annum	2.5% per annum
Expected rate of return on plan assets	3.5% per annum	3.5% per annum
Amortization period for actuarial loss	10 years (within the employees' average remaining years of service)	

9. Legal Reserve and Additional Paid-In Capital

The Commercial Code of Japan (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, 2004, included a legal reserve of ¥2,531 million (\$23,948 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 are exercisable during the period from July 1, 2002, to June 30, 2004.

11. Leases

(1) Finance 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 ¥533 million (\$5,045 thousand) for the year ended March 31, 2004, and ¥515 million for the year ended March 31, 2003.

Future minimum lease payments subsequent to March 31, 2004, for finance lease transactions accounted for as operating leases are summarized as follows:

	March 31, 2004	
	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 604	\$ 5,710
Due after one year	1,245	11,784
Total	¥1,849	\$17,494

(2) Operating leases

	March 31, 2004	
	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 8	\$ 74
Due after one year	22	214
Total	¥ 30	\$ 288

12. Contingent Liabilities

The Company had the following contingent liabilities:

	March 31, 2004	
	(Millions of yen)	(Thousands of U.S. dollars)
As guarantor for housing loans of employees	¥ 90	\$ 851

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.

As of March 31, 2004 and 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, 2004 and 2003 is summarized as follows:

Business segments

	Year ended March 31, 2004						Consolidated
	Fine mechatronics	Automation systems & vacuum equipment	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	
	(Millions of yen)						
I. Sales and operating income							
Sales to external customers	¥45,084	¥14,844	¥5,501	¥ 2,092	¥67,521	¥ -	¥67,521
Intersegment sales or transfers	-	-	-	-	-	(-)	-
Total sales	¥45,084	¥14,844	¥5,501	¥ 2,092	¥67,521	¥ -	¥67,521
Operating expenses	43,354	14,408	5,056	1,269	64,087	266	64,353
Operating income (loss)	¥ 1,730	¥ 436	¥ 445	¥ 823	¥ 3,434	¥ (266)	¥ 3,168
II. Total assets, depreciation and capital expenditures							
Total assets	¥38,587	¥11,379	¥4,588	¥10,944	¥65,498	¥3,747	¥69,245
Depreciation	737	339	81	599	1,756	-	1,756
Capital expenditures	608	261	98	1	968	-	968

	Year ended March 31, 2003						Consolidated
	Fine mechatronics	Automation systems & vacuum equipment	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	
	(Millions 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 expenditures							
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, 2004

	Fine mechatronics	Automation systems & vacuum equipment	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	Consoli- dated
(Thousands of U.S. dollars)							
I. Sales and operating income							
Sales to external customers	\$426,571	\$140,453	\$52,042	\$ 19,791	\$638,857	\$ -	\$638,857
Intersegment sales or transfers	-	-	-	-	-	-	-
Total sales	\$426,571	\$140,453	\$52,042	\$ 19,791	\$638,857	\$ -	\$638,857
Operating expenses	410,200	136,328	47,834	12,005	606,367	2,516	608,883
Operating income (loss)	\$ 16,371	\$ 4,125	\$ 4,208	\$ 7,786	\$ 32,490	\$ (2,516)	\$ 29,974
II. Total assets, depreciation and capital expenditures							
Total assets	\$365,094	\$107,661	\$43,416	\$103,550	\$619,721	\$35,453	\$655,174
Depreciation	6,978	3,212	763	5,665	16,618	-	16,618
Capital expenditures	5,750	2,474	926	13	9,163	-	9,163

Notes:

a) Basis of segmentation

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

automation equipment, vacuum pumps, and other

(3) Vending machines & systems

Vending machines, ticket vending machines, and others.

b) Major products in each business segment

(1) Fine mechatronics

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

(2) Automation systems & vacuum equipment

Laser processing equipment, microwave processing equipment, media device manufacturing equipment (sputtering equipment, vacuum bonding equipment), industrial vacuum plating equipment, rechargeable battery manufacturing equipment, precision parts manufacturing equipment, cartesian robots, other

(4) Real estate leasing

Real 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 ¥6,980 million (\$66,039 thousand) for the year ended March 31, 2004 and ¥6,229 million for the year ended March 31, 2003, which primarily consisted of surplus funds (cash and bank deposits), investment funds (investment securities) of the Company and deferred tax assets.

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

Geographical segments

No information by geographical segment for the years ended March 31, 2004, and 2003 has been presented, due to the fact that the net sales and total assets of operations in Japan exceeded 90 percent of those in all segments.

Overseas sales

	Year ended March 31, 2004		
	Northeastern		
	Asia	Other	Total
	(Millions of yen)		
I. Overseas sales	¥30,912	¥2,027	¥32,939
II. Consolidated net sales			67,521
III. % of consolidated net sales	45.8%	3.0%	48.8%

	Year ended March 31, 2003		
	Northeastern		
	Asia	Other	Total
	(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, 2004		
	Northeastern		
	Asia	Other	Total
	(Thousands of U.S. dollars)		
I. Overseas sales	\$292,473	\$19,181	\$311,654
II. Consolidated net sales			638,857
III. % of consolidated net sales	45.8%	3.0%	48.8%

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
- Other – U.S.A., Malaysia

15. Per Share Information

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 computed based on the weighted average number of shares of common stock outstanding during each balance sheet date.

	Year ended March 31,		Year ended
	2004	2003	March 31,
	(yen)		(U.S. dollars)
Net income (loss):			
– Basic	¥ 18.88	¥ (28.40)	\$ 0.17
– Diluted	17.59	–	0.16
Net assets	362.07	342.24	3.42

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



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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, 2004 and 2003, 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 express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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.

June 17, 2004

Shin Nihon & Co.

Non-Consolidated Balance Sheets

	March 31,		March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Assets			
Current assets:			
Cash and bank deposits	¥ 2,837	¥ 1,721	\$ 26,844
Marketable securities	—	11	—
Notes and accounts receivable, trade:			
Notes	357	1,949	3,378
Accounts	19,037	13,529	180,121
Allowance for doubtful accounts	(173)	(58)	(1,636)
Inventories	16,997	13,590	160,817
Deferred tax assets	1,415	662	13,388
Other current assets	1,215	2,440	11,494
Total current assets	41,685	33,844	394,406
Property, plant and equipment:			
Land	99	105	935
Buildings and structures	27,495	27,864	260,147
Machinery and equipment	825	8,390	7,806
Construction in progress	341	58	3,227
Total	28,760	36,417	272,115
Accumulated depreciation	(12,459)	(17,790)	(117,880)
Property, plant and equipment, net	16,301	18,627	154,235
Investments and other assets:			
Investment securities	265	166	2,506
Investments in subsidiaries and affiliates	691	831	6,542
Deferred tax assets	1,927	3,356	18,230
Other assets	651	823	6,165
Allowance for doubtful accounts	(—)	(1)	(—)
Total investments and other assets	3,534	5,175	33,443
Total assets	¥ 61,520	¥ 57,646	\$ 582,084

	March 31,		March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans	¥ 560	¥ 6,010	\$ 5,298
Current portion of long-term debt	620	4,410	5,868
Notes and accounts payable:			
Notes	3,614	2,263	34,193
Accounts	15,139	12,487	143,237
Other	1	20	12
Advances from customers	1,788	509	16,922
Accrued expenses	3,322	3,144	31,433
Accrued income taxes	65	70	615
Other current liabilities	138	164	1,305
Total current liabilities	25,247	29,077	238,883
Long-term liabilities:			
Long-term debt	11,795	4,921	111,600
Allowance for retirement benefits	4,325	4,475	40,919
Directors' retirement benefits	113	88	1,066
Accrual for periodic repairs	333	300	3,154
Other long-term liabilities	3,000	3,000	28,385
Total long-term liabilities	19,566	12,784	185,124
Shareholders' equity:			
Common stock:			
Authorized: 100,000,000 shares			
Issued:			
50,033,312 shares at March 31, 2003			
and 2002	5,868	5,868	55,521
Additional paid-in capital	9,848	9,848	93,175
Legal reserve	353	353	3,340
Retained earnings	774	(85)	7,330
Net unrealized holding gain on other securities	48	(18)	453
Less treasury stock, at cost	(184)	(181)	(1,742)
Total shareholders' equity	16,707	15,785	158,077
Total liabilities and shareholders' equity	¥61,520	¥57,646	\$582,084

Non-Consolidated Statements of Operations

	Year ended March 31,		Year ended March 31,
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars)
Net sales	¥56,108	¥ 43,754	\$530,876
Cost of sales	47,913	38,912	453,338
Gross profit	8,195	4,842	77,538
Selling, general and administrative expenses	6,103	6,584	57,745
Operating income (loss)	2,092	(1,742)	19,793
Other income (expenses):			
Interest and dividend income	377	10	3,566
Interest expense	(156)	(160)	(1,477)
Gain on sale of land	119	–	1,126
Loss on disposal of inventories	(226)	–	(2,143)
Other, net	(737)	(359)	(6,969)
Income (loss) before income taxes	1,469	(2,251)	13,896
Income taxes:			
Current	(34)	20	(327)
Deferred	644	(816)	6,096
	610	(796)	5,769
Net income (loss)	¥ 859	¥ (1,455)	\$ 8,127
	(Yen)		(U.S. dollars)
Per share of common stock:			
Net income (loss)	¥ 16.62	¥ (29.19)	\$ 0.15
Cash dividends applicable to the year	5.00	0.00	0.04

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