

■ **Annual Report 2005**

For the year ended March 31, 2005

Financial Section

Consolidated Financial Statements

Shibaura Mechatronics Corporation and Subsidiaries

Years ended March 31, 2005 and 2004
with Report of Independent Auditors

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Consolidated Balance Sheets

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash and bank deposits	¥ 7,455	¥ 4,506	\$ 69,419
Short-term investments	75	14	695
Notes and accounts receivable, trade	24,295	23,176	226,226
Allowance for doubtful accounts	(50)	(211)	(462)
Inventories (Note 4)	17,093	18,628	159,171
Deferred tax assets (Note 7)	1,176	1,779	10,955
Other current assets	917	982	8,543
Total current assets	50,961	48,874	474,547
Property, plant and equipment:			
Land	280	299	2,601
Buildings and structures	27,061	27,821	251,986
Machinery and equipment	994	1,399	9,258
Construction in progress	289	341	2,692
Total	28,624	29,860	266,537
Accumulated depreciation	(12,932)	(13,037)	(120,418)
Property, plant and equipment, net	15,692	16,823	146,119
Investments and other assets:			
Investment securities (Note 3)	931	498	8,673
Deferred tax assets (Note 7)	2,077	2,236	19,344
Other assets	750	814	6,978
Total investments and other assets	3,758	3,548	34,995
Total assets	¥ 70,411	¥ 69,245	\$ 655,661

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 890	¥ 1,914	\$ 8,285
Current portion of long-term debt (Note 5)	1,953	670	18,186
Notes and accounts payable, trade	19,649	22,023	182,967
Accrued expenses	3,644	3,672	33,930
Accrued income taxes (Note 7)	2,250	377	20,951
Accrued consumption tax	177	82	1,654
Other current liabilities	1,117	2,625	10,401
Total current liabilities	29,680	31,363	276,374
Long-term liabilities:			
Long-term debt (Note 5)	9,875	11,828	91,953
Retirement benefits (Note 8)	4,525	4,488	42,142
Directors' retirement benefits	171	142	1,588
Other long-term liabilities	3,369	3,333	31,375
Total long-term liabilities	17,940	19,791	167,058
Contingent liabilities (Note 11)			
Shareholders' equity:			
Common stock:			
Authorized: 100,000,000 shares			
Issued:			
50,033,312 shares at March 31, 2005 and 2004	5,868	5,868	54,642
Additional paid-in capital (Note 9)	9,848	9,848	91,700
Retained earnings (Note 9)	7,228	2,531	67,309
Net unrealized holding gain on other securities	60	48	558
Foreign currency translation adjustments	(20)	(20)	(183)
Less treasury stock, at cost	(193)	(184)	(1,797)
Total shareholders' equity	22,791	18,091	212,229
Total liabilities and shareholders' equity	¥ 70,411	¥ 69,245	\$ 655,661

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

Consolidated Statements of Income

	Year ended March 31,		Year ended March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales	¥ 88,513	¥ 67,521	\$ 824,217
Cost of sales	67,492	54,308	628,480
Gross profit	21,021	13,213	195,737
Selling, general and administrative expenses	12,197	10,045	113,574
Operating income	8,824	3,168	82,163
Other income (expenses):			
Interest and dividend income	17	7	162
Interest expense	(147)	(179)	(1,372)
Equity in earnings of affiliates	262	96	2,443
Gain on sale of land	968	119	9,016
Loss on devaluation of investment in unconsolidated subsidiary	—	(226)	—
Other, net	(1,664)	(1,027)	(15,501)
Income before income taxes	8,260	1,958	76,911
Income taxes (Note 7):			
Current	2,370	462	22,064
Deferred	756	517	7,042
	3,126	979	29,106
Net income	¥ 5,134	¥ 979	\$ 47,805

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, 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)
Net income	—	—	—	5,134	—	—	—
Cash dividends	—	—	—	(399)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(38)	—	—	—
Net change	—	—	—	—	12	—	—
Foreign currency translation adjustments	—	—	—	—	—	0	—
Net increase in treasury stock	—	—	—	—	—	—	(9)
Balance as of March 31, 2005	50,033,312	¥ 5,868	¥ 9,848	¥ 7,228	¥ 60	¥ (20)	¥ (193)

	(Thousands of U.S. dollars) (Note 1)					
Balance as of March 31, 2004	\$ 54,642	\$ 91,700	\$ 23,569	\$ 451	\$ (190)	\$ (1,715)
Net income	—	—	47,805	—	—	—
Cash dividends	—	—	(3,714)	—	—	—
Bonuses to directors and corporate auditors	—	—	(351)	—	—	—
Net change	—	—	—	107	—	—
Foreign currency translation adjustments	—	—	—	—	7	—
Net increase in treasury stock	—	—	—	—	—	(82)
Balance as of March 31, 2005	\$54,642	\$ 91,700	\$ 67,309	\$ 558	\$ (183)	\$ (1,797)

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,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities			
Income before income taxes	¥ 8,260	¥ 1,958	\$ 76,911
Depreciation and amortization	1,255	1,756	11,686
Reversal of provision for doubtful accounts	(49)	(18)	(458)
Provision for (reversal of) employees' retirement benefits	66	(97)	615
Interest and dividend income	(17)	(7)	(162)
Interest expense	147	179	1,372
Gain on sale of property and equipment	(967)	(71)	(9,009)
Loss on disposal of property and equipment	24	84	221
Loss on devaluation of investment in unconsolidated subsidiary	—	226	—
Equity in earnings of unconsolidated subsidiaries and affiliates	(262)	(96)	(2,443)
Bonuses to directors and statutory auditors	(38)	—	(351)
(Decrease) increase in advances received	(1,522)	1,242	(14,172)
Increase in notes and accounts receivable, trade	(1,119)	(4,150)	(10,417)
Decrease (increase) in inventories	1,535	(3,447)	14,291
(Decrease) increase in notes and accounts payable, trade	(2,492)	5,995	(23,205)
Other, net	215	(251)	2,007
Subtotal	5,036	3,303	46,886
Interest and dividends received	59	86	551
Interest paid	(151)	(178)	(1,402)
Income taxes paid	(596)	(456)	(5,550)
Net cash provided by operating activities	4,348	2,755	40,485

	Year ended March 31,		Year ended March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Investment activities			
Payments for time deposits	(75)	(35)	(695)
Proceeds from time deposits	14	90	136
Proceeds from redemption of bonds	–	11	–
Purchases of property, plant and equipment	(593)	(990)	(5,525)
Proceeds from sale of property, plant and equipment	1,517	1,983	14,124
Purchases of intangible fixed assets	–	(28)	–
Purchases of investment securities	(143)	(1)	(1,331)
Increase in short-term loans receivable	–	(184)	–
Increase in long-term loans receivable	–	(132)	–
Collection of long-term loans receivable	15	138	138
(Increase) decrease in other assets	(31)	63	(289)
Net cash provided by investing activities	704	915	6,558
Financing activities			
Decrease in short-term bank loans	(1,025)	(5,375)	(9,541)
Proceeds from long-term debt	–	2,600	–
Repayment of long-term debt	(670)	(1,883)	(6,244)
Proceeds from issuance of Zero Coupon Japanese yen convertible notes	–	4,975	–
Redemption of non-interest-bearing convertible bonds	–	(2,820)	–
Purchases of treasury stock	(9)	(3)	(82)
Cash dividends paid	(399)	–	(3,714)
Net cash used in financing activities	(2,103)	(2,506)	(19,581)
Effect of exchange rate changes on cash and bank deposits	0	(1)	(1)
Net increase in cash	2,949	1,163	27,461
Cash and bank deposits at beginning of the year	4,506	3,343	41,958
Cash and bank deposits at end of the year	¥ 7,455	¥ 4,506	\$ 69,419

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

Notes to Consolidated Financial Statements

March 31, 2005

1. Basis of Presentation

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 in accordance with accounting principles generally accepted in Japan, which differ in certain respects from the application and disclosure requirements of International Financial Reporting Standards, and have been 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 that is familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under accounting principles generally accepted in Japan but which is presented herein as supplemental information.

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 ¥107.39 = U.S. \$1.00, the approximate rate of exchange in effect on March 31, 2005. 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) Basis 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.

Investments in unconsolidated subsidiaries that 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 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. Differences arising from translations where two exchange rates have been used are presented as foreign currency 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 their purchase dates to be cash equivalents.

(d) Securities

Available-for-sale securities categorized as 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 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 individual receivables.

(i) Severance benefits and pension plans

An 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 effective the year subsequent to the year in which they arise 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 that 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 that are deemed to transfer the ownership of the leased assets to the lessee are not capitalized, but 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, 2005 and 2004, securities with quoted market prices classified as other (available-for-sale) securities are summarized as follows:

	March 31,						March 31,		
	2005			2004			2005		
	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	¥ 143	¥ 252	¥ 109	¥ 141	¥ 238	¥ 97	\$1,330	\$2,348	\$ 1,018
Debt securities	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Total	¥ 143	¥ 252	¥ 109	¥ 141	¥ 238	¥ 97	\$1,330	\$2,348	\$ 1,018

At March 31, 2005 and 2004, other securities without determinable market prices are summarized as follows:

	March 31,		March 31,
	2005	2004	2005
	(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	¥ 637	¥ 221	\$ 5,935
Other unlisted securities other than those traded on the over-the-counter market	42	39	390

4. Inventories

Inventories at March 31, 2005 and 2004 are summarized as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Finished products	¥ 7,810	¥ 8,555	\$ 72,724
Raw materials	129	203	1,199
Work in process	9,154	9,870	85,248
Total	¥17,093	¥18,628	\$159,171

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

The annual interest rates of the Companies' short-term bank loans ranged principally from 0.50 percent to 3.00 percent at March 31, 2005, and from 0.60 percent to 3.25 percent at March 31, 2004.

The summary of long-term debt at March 31, 2005 and 2004 is as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Unsecured:			
Zero Coupon Japanese yen convertible notes (notes with stock acquisition rights)	¥ 5,000	¥ 5,000	\$ 46,559
0.90 percent to 2.10 percent loans from banks and insurance companies due 2005 – 2008	6,823	7,493	63,533
Loans from Pension Welfare Service Public Corporation due 2005 – 2034	5	5	47
Total	11,828	12,498	110,139
Current portion	(1,953)	(670)	(18,186)
Long-term debt less current portion	¥ 9,875	¥11,828	\$ 91,953

Loans from the Pension Welfare Service Public Corporation represent financing for 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, 2005, is summarized by maturity as follows:

	March 31, 2005	
	(Millions of yen)	(Thousands of U.S. dollars)
2006	¥ 1,953	\$ 18,186
2007	2,670	24,863
2008	—	—
2009 and thereafter	7,205	67,090
Total	¥11,828	\$110,139

At March 31, 2005, the Company has unused committed lines of credit with seven banks for efficient financial arrangements for operating funds aggregating ¥10,000 million (\$93,119 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, 2005 and 2004 were as follows:

	Year ended March 31,		Year ended
	2005	2004	March 31,
	(Millions of yen)		(Thousands of U.S. dollars)
	¥2,337	¥1,415	\$21,764

7. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprised corporation, inhabitants' and enterprise tax that, in the aggregate, resulted in a statutory tax rate of 40.6 percent for 2005 and 41.7 percent for 2004. Income taxes of the foreign subsidiaries are based on the tax rates applicable in their countries of incorporation.

The major components of deferred tax assets and liabilities as of March 31, 2005 and 2004 are summarized as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Employees' retirement benefits	¥1,815	¥1,783	\$16,902
Accrued employees' bonuses	662	607	6,167
Accrual for periodic repairs	150	135	1,397
Enterprise tax payable	232	50	2,158
Net loss carried forward	126	1,150	1,171
Other	409	466	3,812
Gross deferred tax assets	3,394	4,191	31,607
Valuation allowance	(97)	(137)	(901)
Total deferred tax assets	3,297	4,054	30,706
Deferred tax liabilities:			
Unrecognized holding gain on other securities	(44)	(39)	(407)
Total deferred tax liabilities	(44)	(39)	(407)
Deferred tax assets, net	¥3,253	¥4,015	\$30,299

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31 2005 and 2004 differ from the statutory tax rates for the following reasons:

	Year ended March 31,	
	2005	2004
Statutory tax rates	40.6%	41.7%
Effect of:		
Non-deductible expenses such as entertainment expenses	0.5	1.9
Per capita levy of inhabitants' tax and others	0.2	1.0
Changes in valuation allowance	(0.4)	2.8
Correction of decrease in deferred tax assets due to change of tax rate	–	2.0
Equity in earnings of unconsolidated subsidiaries and affiliates	(1.3)	–
Tax-deductible R&D expenses	(2.0)	–
Other, net	0.2	0.6
Effective tax rates	37.8%	50.0%

8. Retirement Benefits

The Companies have defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who retire from the Companies. Eligible employees may also receive additional payments under the plans.

The following is a summary of the plans:

Retirement benefit obligation:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligation	¥(8,591)	¥(9,191)	\$(80,000)
Fair value of plan assets	2,796	3,127	26,038
Funded status	(5,795)	(6,064)	(53,962)
Unrecognized actuarial loss	1,270	1,576	11,820
Allowance for retirement benefits	¥(4,525)	¥(4,488)	\$(42,142)

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,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost - benefits earned during the year	¥ 508	¥ 489	\$ 4,735
Interest cost on projected benefit obligation	226	240	2,102
Expected return on plan assets	(109)	(90)	(1,019)
Amortization of actuarial loss	216	284	2,014
Net periodic pension cost	¥ 841	¥ 923	\$ 7,832

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,	
	2005	2004
Assumptions used in the actuarial calculation:		
Actuarial cost method	Projected unit credit method	
Discount rate	2.0% 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, 2005, included a legal reserve of ¥7,228 million (\$67,309 thousand).

10. 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 ¥693 million (\$6,452 thousand) for the year ended March 31, 2005, and ¥533 million for the year ended March 31, 2004.

Future minimum lease payments subsequent to March 31, 2005, for finance lease transactions accounted for as operating leases, are summarized as follows:

	March 31, 2005	
	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 560	\$ 5,217
Due after one year	962	8,956
Total	¥1,522	\$14,173

(2) Operating leases

	March 31, 2005	
	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 7	\$ 71
Due after one year	15	137
Total	¥ 22	\$ 208

11. Contingent Liabilities

The Company had the following contingent liabilities:

	March 31, 2005	
	(Millions of yen)	(Thousands of U.S. dollars)
As guarantor for housing loans of employees	¥ 78	\$ 726

12. 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 that 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, 2005 and 2004, fair value information for derivatives has not been presented, since all derivatives have been accounted for as hedges.

13. Segment Information

The business segment information of the Companies for the years ended March 31, 2005 and 2004 is summarized as follows:

Business segments

Year ended March 31, 2005							
	Fine mechatronics	Electric & vacuum systems	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	Consoli- dated
(Millions of yen)							
I. Sales and operating income							
Sales to external customers	¥61,987	¥15,046	¥9,496	¥ 1,984	¥88,513	¥ –	¥88,513
Intersegment sales or transfers	–	–	–	–	–	(–)	–
Total sales	61,987	15,046	9,496	1,984	88,513	–	88,513
Operating expenses	56,701	13,810	7,520	1,251	79,282	407	79,689
Operating income	¥ 5,286	¥ 1,236	¥1,976	¥ 733	¥ 9,231	¥ (407)	¥ 8,824
II. Total assets, depreciation and capital expenditures							
Total assets	¥38,260	¥9,516	¥8,296	¥10,341	¥66,413	¥3,998	¥70,411
Depreciation	393	164	103	595	1,255	–	1,255
Capital expenditures	306	115	166	–	587	–	587

Year ended March 31, 2004							
	Fine mechatronics	Automation systems & vacuum equipment	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	Consoli- dated
(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	¥ 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, 2005

	Fine mechatronics	Electric & vacuum systems	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	\$577,208	\$140,104	\$88,426	\$ 18,479	\$824,217	\$ –	\$824,217
Intersegment sales or transfers	–	–	–	–	–	–	–
Total sales	577,208	140,104	88,426	18,479	824,217	\$ –	824,217
Operating expenses	527,994	128,596	70,021	11,654	738,265	3,789	742,054
Operating income	\$ 49,214	\$ 11,508	\$18,405	\$ 6,825	\$ 85,952	\$ (3,789)	\$ 82,163
II. Total assets, depreciation and capital expenditures							
Total assets	\$356,268	\$ 88,615	\$77,256	\$ 96,295	\$618,434	\$37,227	\$655,661
Depreciation	3,656	1,525	961	5,544	11,686	–	11,686
Capital expenditures	2,847	1,071	1,548	–	5,466	–	5,466

Notes:

a) Basis of segmentation

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

(3) Vending machines & systems

Vending machines, ticket vending machines, and others

(4) Real estate leasing

Real estate leasing and management and other business

b) Major products in each business segment

(1) Fine mechatronics

FPD manufacturing equipment (wet cleaning equipment, stripping equipment, etching equipment, developing equipment, PI inkjet 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), railroad maintenance equipment, non-destructive inspection, and other items

(2) Electric & vacuum systems

Laser equipment, microwave equipment, media device manufacturing equipment (sputtering equipment, vacuum bonding equipment), industrial vacuum evaporation equipment, rechargeable battery manufacturing equipment, precision parts manufacturing equipment, other automation equipment, vacuum pumps, and other

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 ¥8,036 million (\$74,828 thousand) for the year ended March 31, 2005 and ¥6,980 million for the year ended March 31, 2004, 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.

f) "Automation systems & vacuum equipment" has been renamed "Electric & vacuum systems" in order to express the

content of the business more accurately. This change has no impact on reported figures.

Geographical segments

No information by geographical segment for the years ended March 31, 2005, and 2004 has been presented, due to the fact that the net sales and total assets of operations in Japan exceeded 90 percent in all segments.

Overseas sales

	Year ended March 31, 2005		
	Northeastern Asia	Other	Total
	(Millions of yen)		
I. Overseas sales	¥42,026	¥3,148	¥45,174
II. Consolidated net sales			88,513
III. % of consolidated net sales	47.5%	3.5%	51.0%

	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, 2005		
	Northeastern Asia	Other	Total
	(Thousands of U.S. dollars)		
I. Overseas sales	\$391,345	\$29,313	\$420,658
II. Consolidated net sales			824,217
III. % of consolidated net sales	47.5%	3.5%	51.0%

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 defined based on geographical proximity.

(2) Major countries or regions included in each geographical

area:

Northeastern Asia	–	Taiwan, Korea, China
Other	–	U.S.A., Austria

14. 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 March 31,
	2005	2004	2005
	(yen)		(U.S. dollars)
Net income:			
– Basic	¥ 101.92	¥ 18.88	\$0.95
– Diluted	92.12	17.59	0.86
Net assets	456.15	362.07	4.25

Report of Independent Auditors



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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, 2005 and 2004, and the related consolidated statements of income, 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, 2005 and 2004, 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, 2005 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 16, 2005

Ernst & Young Shin Nihon

Supplemental Information

Non-Consolidated Balance Sheets

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Assets			
Current assets:			
Cash and bank deposits	¥ 4,398	¥ 2,837	\$ 40,950
Notes and accounts receivable, trade:			
Notes	404	357	3,766
Accounts	18,109	19,037	168,626
Allowance for doubtful accounts	(26)	(173)	(242)
Inventories	15,316	16,997	142,618
Deferred tax assets	626	1,415	5,833
Other current assets	939	1,215	8,743
Total current assets	39,766	41,685	370,294
Property, plant and equipment:			
Land	80	99	740
Buildings and structures	15,670	27,495	145,917
Machinery and equipment	234	825	2,183
Construction in progress	289	341	2,692
Total	16,273	28,760	151,532
Accumulated depreciation	(1,033)	(12,459)	(9,616)
Property, plant and equipment, net	15,240	16,301	141,916
Investments and other assets:			
Investment securities	276	265	2,573
Investments in subsidiaries and affiliates	987	691	9,184
Deferred tax assets	1,912	1,927	17,803
Other assets	590	651	5,496
Total investments and other assets	3,765	3,534	35,056
Total assets	¥58,771	¥61,520	\$547,266

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans	¥ –	¥ 560	\$ –
Current portion of long-term debt	1,920	620	17,880
Notes and accounts payable:			
Notes	3,571	3,614	33,248
Accounts	11,175	15,139	104,064
Other	9	1	79
Advances from customers	500	1,788	4,658
Accrued expenses	3,142	3,322	29,254
Accrued income taxes	1,162	65	10,824
Other current liabilities	65	138	610
Total current liabilities	21,544	25,247	200,617
Long-term liabilities:			
Long-term debt	9,875	11,795	91,952
Allowance for retirement benefits	4,321	4,325	40,234
Directors' retirement benefits	144	113	1,336
Accrual for periodic repairs	369	333	3,440
Other long-term liabilities	3,000	3,000	27,936
Total long-term liabilities	17,709	19,566	164,898
Shareholders' equity:			
Common stock:			
Authorized: 100,000,000 shares			
Issued:			
50,033,312 shares at March 31, 2005			
and 2004	5,868	5,868	54,643
Additional paid-in capital	9,848	9,848	91,700
Legal reserve	353	353	3,287
Retained earnings	3,587	774	33,400
Net unrealized holding gain on other securities	55	48	518
Less treasury stock, at cost	(193)	(184)	(1,797)
Total shareholders' equity	19,518	16,707	181,751
Total liabilities and shareholders' equity	¥58,771	¥61,520	\$547,266

Supplemental Information

Non-Consolidated Statements of Income

	Year ended March 31,		Year ended March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Net sales	¥ 71,674	¥ 56,108	\$667,416
Cost of sales	58,391	47,913	543,727
Gross profit	13,283	8,195	123,689
Selling, general and administrative expenses	7,810	6,103	72,720
Operating income	5,473	2,092	50,969
Other income (expenses):			
Interest and dividend income	184	377	1,709
Interest expense	(128)	(156)	(1,191)
Gain on sale of land	968	119	9,017
Loss on devaluation of investment in affiliate	—	(226)	—
Other, net	(1,347)	(737)	(12,545)
Income before income taxes	5,150	1,469	47,959
Income taxes:			
Current	1,109	(34)	10,331
Deferred	800	644	7,448
	1,909	610	17,779
Net income	¥ 3,241	¥ 859	\$ 30,180
	(Yen)		(U.S. dollars)
Per share of common stock:			
Net income	¥ 64.11	¥ 16.62	\$ 0.60
Cash dividends applicable to the year	7.00	5.00	0.07

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