

Financial Section

Annual Report 2007 Year ended March 31, 2007

Contents

01	Report of Independent Auditors
02	Consolidated Balance Sheets
04	Consolidated Statements of Operations
05	Consolidated Statements of Changes in Net Assets
06	Consolidated Statements of Cash Flows
08	Notes to Consolidated Financial Statements
21	Supplemental Information



■ **Certified Public Accountants**

Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011
C.P.O. Box 1196, Tokyo, Japan 100-8641

■ Tel: 03 3503 1100

Fax: 03 3503 1197

Report of Independent Auditors

The Board of Directors
Shibaura Mechatronics Corporation

We have audited the accompanying consolidated balance sheets of Shibaura Mechatronics Corporation (the "Company") and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, changes in net assets, 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, 2007 and 2006, 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, 2007 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.

Ernst & Young Shin Nihon

June 21, 2007

A MEMBER OF ERNST & YOUNG GLOBAL

Consolidated Balance Sheets

Shibaura Mechatronics Corporation and Subsidiaries

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets :			
Cash and bank deposits (Note 10)	¥ 8,211	¥ 14,337	\$ 69,555
Short-term investments	388	222	3,285
Notes and accounts receivable, trade	25,532	24,734	216,280
Allowance for doubtful accounts	(46)	(67)	(392)
Inventories (Note 4)	15,919	15,700	134,848
Deferred tax assets (Note 7)	1,581	1,042	13,396
Other current assets	1,182	636	10,014
Total current assets	52,767	56,604	446,986
Property, plant and equipment :			
Land	197	162	1,670
Buildings and structures (Note 10)	29,339	27,812	248,535
Machinery and equipment	1,184	1,167	10,029
Construction in progress	192	125	1,624
Total	30,912	29,266	261,858
Accumulated depreciation	(14,448)	(14,067)	(122,388)
Property, plant and equipment, net	16,464	15,199	139,470
Investments and other assets :			
Investments in securities (Note 3)	371	401	3,142
Deferred tax assets (Note 7)	2,793	2,096	23,662
Other assets	807	851	6,837
Allowance for doubtful accounts	(5)	-	(48)
Total investments and other assets	3,966	3,348	33,593
Total assets	¥ 73,197	¥ 75,151	\$ 620,049

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Liabilities and net assets			
Current liabilities :			
Short-term bank loans (Note 5)	¥ 1,146	¥ 793	\$ 9,706
Current portion of long-term debt (Note 5)	0	2,670	1
Notes and accounts payable, trade	21,683	21,628	183,675
Allowance for bonuses to directors and statutory auditors	13	-	108
Provision for contract losses	373	-	3,160
Accrued expenses	3,321	3,355	28,132
Accrued income taxes (Note 7)	354	964	2,997
Accrued consumption taxes	97	79	824
Other current liabilities	2,433	2,560	20,612
Total current liabilities	29,420	32,049	249,215
Long-term liabilities :			
Long-term debt (Note 5)	10,220	6,420	86,569
Retirement benefits (Note 8)	4,779	4,836	40,486
Directors' retirement benefits	159	151	1,345
Reserve for repair and maintenance	296	398	2,511
Negative goodwill	239	299	2,025
Other long-term liabilities	3,000	3,000	25,413
Total long-term liabilities	18,693	15,104	158,349
Contingent liabilities (Note 11)			
Net assets :			
Shareholders' equity :			
Common stock :			
Authorized : 100,000,000 shares			
Issued : 51,926,194 shares at March 31, 2007 and 2006	6,762	6,762	57,276
Additional paid-in capital	10,739	10,739	90,971
Retained earnings	8,769	10,224	74,284
Less treasury stock, at cost	(1,715)	(215)	(14,526)
Total shareholders' equity	24,555	27,510	208,005
Valuation and translation adjustments :			
Net unrealized holding gains on other securities	129	125	1,095
Foreign currency translation adjustments	99	35	833
Total valuation and translation adjustments	228	160	1,928
Minority interest in consolidated subsidiaries	301	328	2,552
Total net assets	25,084	27,998	212,485
Total liabilities and net assets	¥ 73,197	¥ 75,151	\$ 620,049

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

Consolidated Statements of Operations

Shibaura Mechatronics Corporation and Subsidiaries

	Year ended March 31, 2007	Year ended March 31, 2006	Year ended March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales	¥ 74,663	¥ 74,913	\$ 632,466
Cost of sales	65,322	58,015	553,340
Gross profit	9,341	16,898	79,126
Selling, general and administrative expenses	10,971	11,718	92,934
Operating income (loss)	(1,630)	5,180	(13,808)
Other income (expenses) :			
Interest and dividend income	43	28	359
Interest expense	(121)	(117)	(1,028)
Foreign exchange gain, net	118	132	1,001
Gain on sale of land	-	955	-
Amortization of negative goodwill	60	-	506
Loss on disposal of inventory	(196)	(338)	(1,657)
Loss on impairment of fixed assets	-	(111)	-
Other, net	(1)	23	(6)
Income (loss) before income taxes and minority interest	(1,727)	5,752	(14,633)
Income taxes (Note 7) :			
Current	540	2,268	4,577
Deferred	(1,202)	125	(10,183)
Income (loss) before minority interest	(662)	2,393	(5,606)
	(1,065)	3,359	(9,027)
Minority interest in losses of consolidated subsidiaries	(18)	(34)	(156)
Net income (loss)	¥ (1,047)	¥ 3,393	\$ (8,871)

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

Consolidated Statements of changes in Net Assets

Shibaura Mechatronics Corporation and Subsidiaries

	Shareholders' equity					Valuation and translation adjustments			Total
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Minority interest in consolidated subsidiaries	
	(Millions of yen)					(Millions of yen)			(Millions of yen)
Balance as of March 31, 2005	50,033,312	¥ 5,868	¥ 9,848	¥ 7,228	¥ (193)	¥ 60	¥ (20)	¥ -	¥ 22,791
Stock acquisition rights exercised	1,892,882	894	891	-	-	-	-	-	1,785
Net income (loss)	-	-	-	3,393	-	-	-	-	3,393
Addition to retained earnings									
upon consolidation of subsidiaries	-	-	-	34	-	-	-	-	34
Cash dividends	-	-	-	(376)	-	-	-	-	(376)
Bonuses to directors and statutory auditors	-	-	-	(55)	-	-	-	-	(55)
Net increase in unrealized holding gains									
on other securities	-	-	-	-	-	65	-	-	65
Foreign currency translation adjustments	-	-	-	-	-	-	55	-	55
Net change during the year	-	-	-	-	-	-	-	328	328
Net increase in treasury stock	-	-	-	-	(22)	-	-	-	(22)
Balance as of March 31, 2006	51,926,194	6,762	10,739	10,224	(215)	125	35	328	27,998
Net income (loss)	-	-	-	(1,047)	-	-	-	-	(1,047)
Cash dividends	-	-	-	(363)	-	-	-	-	(363)
Bonuses to directors and statutory auditors	-	-	-	(45)	-	-	-	-	(45)
Net change during the year	-	-	-	-	-	4	64	(27)	41
Net increase in treasury stock	-	-	-	-	(1,500)	-	-	-	(1,500)
Net decrease in treasury stock	-	-	(0)	-	0	-	-	-	0
Balance as of March 31, 2007	51,926,194	¥ 6,762	¥10,739	¥ 8,769	¥(1,715)	¥ 129	¥ 99	¥ 301	¥ 25,084

	Shareholders' equity				Valuation and translation adjustments			Total
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Minority interest in consolidated subsidiaries	
	(Thousands of U.S. dollars) (Note 1)				(Thousands of U.S. dollars) (Note 1)			(Thousands of U.S. dollars) (Note 1)
Balance as of March 31, 2006	\$ 57,276	\$ 90,972	\$ 86,605	\$ (1,818)	\$ 1,061	\$ 293	\$ 2,782	\$ 237,171
Net income (loss)	-	-	(8,871)	-	-	-	-	(8,871)
Cash dividends	-	-	(3,068)	-	-	-	-	(3,068)
Bonuses to directors and corporate auditors	-	-	(382)	-	-	-	-	(382)
Net change during the year	-	-	-	-	34	540	(230)	344
Net increase in treasury stock	-	-	-	(12,713)	-	-	-	(12,713)
Net decrease in treasury stock	-	(1)	-	5	-	-	-	4
Balance as of March 31, 2007	\$ 57,276	\$ 90,971	\$ 74,284	\$ (14,526)	\$ 1,095	\$ 833	\$ 2,552	\$ 212,485

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

Consolidated Statements of Cash Flows

Shibaura Mechatronics Corporation and Subsidiaries

	Year ended March 31, 2007	Year ended March 31, 2006	Year ended March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities :			
Income (loss) before income taxes and minority interest	¥ (1,727)	¥ 5,752	\$ (14,633)
Depreciation and amortization	1,165	1,133	9,870
Loss on impairment of fixed assets	-	111	-
Amortization of negative goodwill	(60)	-	(506)
Allowance for doubtful accounts	(17)	(27)	(142)
(Decrease) increase provision for retirement benefits	(58)	201	(494)
Interest and dividend income	(43)	(28)	(359)
Interest expense	121	117	1,028
Gain on sale of land	-	(955)	-
Loss on disposal of property, plant and equipment	38	79	319
Gain on sale of investment securities	(9)	(60)	(75)
Gain translation	(7)	(1)	(61)
Bonuses to directors and corporate auditors	(45)	(53)	(382)
(Increase) decrease in notes and accounts receivable, trade	(700)	2,947	(5,926)
(Increase) decrease in inventories	(174)	1,963	(1,477)
Decrease in notes and accounts payable, trade	(80)	(2,002)	(674)
Increase (decrease) in accrued consumption taxes	19	(126)	157
(Decrease) increase in advances received	(902)	786	(7,645)
Other, net	(712)	100	(6,035)
Subtotal	(3,191)	9,937	(27,035)
Interest and dividends received	41	28	347
Interest paid	(123)	(117)	(1,038)
Income taxes paid	(1,100)	(3,682)	(9,318)
Net cash provided by (used in) operating activities	¥ (4,373)	¥ 6,166	\$ (37,044)

	Year ended March 31, 2007	Year ended March 31, 2006	Year ended March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Investment activities :			
Payments for time deposits	¥ (308)	¥ (309)	\$ (2,607)
Proceeds from time deposits	150	277	1,275
Purchases of property, plant and equipment	(1,646)	(958)	(13,941)
Proceeds from sale of property, plant and equipment	474	1,784	4,017
Payments for acquisition of business, net of cash acquired	-	(246)	-
Proceeds from sale of investment securities	10	114	82
Proceeds from acquisition of investment in an affiliate, net of cash acquired	-	385	-
Increase in long-term loans receivable	-	(1)	-
Collection of long-term loans receivable	1	1	10
Other, net	(43)	8	(368)
Net cash provided by (used in) investing activities	(1,362)	1,055	(11,532)
Financing activities :			
Increase (decrease) in short-term bank loans	340	(97)	2,875
Proceeds from long-term debt	3,800	1,000	32,190
Repayment of long-term debt	(2,670)	(1,953)	(22,617)
Purchases of treasury stock	(1,500)	(22)	(12,713)
Proceeds from sale of treasury stock	0	-	4
Cash dividends paid	(363)	(377)	(3,068)
Cash dividends paid to minority interest	(22)	-	(187)
Net cash used in financing activities	(415)	(1,449)	(3,516)
Effect of exchange rate changes on cash and cash equivalents	24	104	200
Net increase (decrease) in cash and cash equivalents	(6,126)	5,876	(51,892)
Cash and cash equivalents at beginning of year	14,337	7,455	121,447
Increase arising from inclusion of subsidiaries in consolidation	-	1,006	-
Cash and cash equivalents at end of year	¥ 8,211	¥ 14,337	\$ 69,555

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

Notes to Consolidated Financial Statements

Shibaura Mechatronics Corporation and Subsidiaries

March 31, 2007

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. 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 non-consolidated financial statements 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 ¥118.05 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2007. 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 seven 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.

(b) Foreign currency translation

The revenue and expense accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the average exchange rate during the yen. The balance sheet accounts, except for the components of net assets, are also translated into yen at the rate of exchange in effect at the balance sheet date. The components of net assets 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 net assets in the accompanying consolidated financial statements.

Foreign currency monetary assets and liabilities are translated into Japanese yen at the translation gains exchange rates in effect at each balance sheet date and the resulting or losses 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

Marketable securities categorized as other securities are carried at fair value with unrealized holding gain and loss, net of applicable income taxes, accounted for as a separate component of net assets. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is computed based on the moving average method.

(e) Derivatives

All derivatives are carried at fair value.

(f) Inventories

Inventories are stated at cost, determined principally by the following methods :

Finished goods and raw materials

- moving average method

Semi-finished goods and work in process

- 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 applied to a certain research facility acquired during the year ended March 31, 1995, and buildings acquired after April 1, 1998. Foreign consolidated subsidiaries compute depreciation primarily using the straight-line method. 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. Capitalized software for internal use is amortized by the straight-line method over a period of 5 years, based on the estimated useful life of the software.

The Company amortizes negative goodwill over an estimated useful life of 5 years by the straight-line method.

(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. The amount of the allowance is determined based on their historical experience with write-offs, plus an estimate of specific probable doubtful accounts based on a review of the collectibility of individual receivables.

(i) Allowance for bonuses to directors and corporate auditors

To provide for the payment of bonuses to directors and corporate auditors, an allowance is made based on projected amount.

(j) Provision for contract losses

Provision for contract losses is provided at an amount considered to cover the estimated possible losses involved in orders for which loss occurrence is highly anticipated where the loss amount can be reasonably estimated at the balance sheet date for all orders.

(k) Retirement 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 corporate auditors, based on the Companies' internal rules, at the amount that would be required to be paid if all directors and corporate auditors retired or resigned at the balance sheet date.

(l) Reserve for repair and maintenance

A certain research facility acquired during the year ended March 31, 1995 requires periodic repairs and maintenance. An accrual for these repair expenses is recorded based on the current portion of the total expenses estimated for such repairs.

(m) Leases

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

(n) Hedging accounting

Interest rate swaps which meet specific hedge criteria and qualify for special hedge accounting treatment are not remeasured at fair value.

(o) Research and development costs

Research and development costs are expensed as incurred and included in cost of sales and selling, general and administrative expenses.

(p) 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.

(q) Presentation of net assets in the balance sheet

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted an

accounting standard for presentation of net assets in the balance sheet. The amount corresponding to total net assets for the year ended March 31, 2007 under the previous standards were ¥24,783 million (U.S.\$209,933 thousand).

(r) Accrued bonuses to directors and corporate auditors

Effective the year ended March 31, 2007, the Company and domestic consolidated subsidiaries have adopted an accounting standard for directors' bonuses. The standard requires that directors' bonuses be accounted for as an expense of the accounting period in which such bonuses were accrued. The adoption of this standard had no material effect on the statement of income for the year ended March 31, 2007.

3. Securities

At March 31, 2007 and 2006, marketable securities classified as other (available-for-sale) securities are summarized as follows :

	March 31, 2007			March 31, 2006			March 31, 2007		
	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 value recorded in the balance sheet exceed their acquisition costs :									
Equity securities	¥ 138	¥ 318	¥ 180	¥ 139	¥ 348	¥ 209	\$ 1,169	\$ 2,696	\$ 1,527
Debt securities	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Total	¥ 138	¥ 318	¥ 180	¥ 139	¥ 348	¥ 209	\$ 1,169	\$ 2,696	\$ 1,527

Marketable securities classified as other (available-for-sale) securities sold for the year ended March 31, 2007 are summarized as follows :

	Year ended March 31, 2007	
	(Millions of yen)	(Thousands of U.S. dollars)
Sales	¥ 10	\$ 82
Total of gain on sale of marketable securities	9	75

At March 31, 2007 and 2006, non-marketable securities carried at cost are summarized as follows :

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in affiliates :			
Unlisted equity securities other than those traded on the over-the-counter market	¥ 52	¥ 52	\$ 441
Other unlisted securities other than those traded on the over-the-counter market	1	1	5

4. Inventories

Inventories at March 31, 2007 and 2006 are summarized as follows :

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Finished products	¥ 6,455	¥ 6,034	\$ 54,681
Raw materials	149	147	1,263
Work in process	9,315	9,519	78,904
Total	¥ 15,919	¥ 15,700	\$ 134,848

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 5.99 percent at March 31, 2007, and from 0.50 percent to 2.50 percent at March 31, 2006.

Long-term debt at March 31, 2007 and 2006 are summarized as follows :

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Unsecured :			
Zero coupon Japanese yen convertible notes (notes with stock acquisition rights)	¥ 3,215	¥ 3,215	\$ 27,234
1.30 percent to 2.10 percent loans from banks due 2008 - 2010	7,000	5,870	59,297
Loans from Pension Welfare Service Public Corporation due 2008 - 2034	5	5	39
Total	10,220	9,090	86,570
Less current portion	(0)	(2,670)	(1)
Long-term debt, net	¥ 10,220	¥ 6,420	\$ 86,569

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 ¥5,000 million zero coupon Japanese yen convertible notes (notes with stock acquisition rights) due March 8, 2009. These 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.

Aggregate annual maturities of long-term debt at March 31, 2007 are summarized as follows :

	March 31, 2007	
	(Millions of yen)	(Thousands of U.S. dollars)
2008	¥ 0	\$ 1
2009	6,416	54,343
2010	3,800	32,191
2011 and thereafter	4	35
Total	¥ 10,220	\$ 86,570

At March 31, 2007, the Company had unused committed lines of credit with seven banks for efficient financial arrangements for operating funds aggregating ¥10,000 million (\$84,710 thousand). These lines of credit have fee commitment requirements.

6. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2007 and 2006, respectively, are as follows :

	Year ended March 31, 2007	Year ended March 31, 2006	Year ended March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
	¥ 2,713	¥ 2,851	\$ 22,984

7. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of 40.6%

for the years ended March 31, 2007 and 2006. Income taxes of the overseas 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, 2007 and 2006 are summarized as follows :

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets :			
Employees' retirement benefits	¥ 1,887	¥ 1,917	\$ 15,989
Accrued employees' bonuses	542	623	4,592
Provision for contract losses	151	-	1,283
Accrual for periodic repairs	120	161	1,020
Enterprise tax payable	43	133	356
Tax loss carried forward	1,360	41	11,517
Other	414	482	3,508
Gross deferred tax assets	4,517	3,357	38,265
Valuation allowance	(91)	(134)	(768)
Total deferred tax assets	4,426	3,223	37,497
Deferred tax liabilities :			
Unrecognized holding gain on other securities	(52)	(85)	(439)
Total deferred tax liabilities	(52)	(85)	(439)
Net deferred tax assets	¥ 4,374	¥ 3,138	\$ 37,058

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2006 differ from the statutory tax rate for the following reasons :

	Year ended March 31, 2006
Statutory tax rate	40.6 %
Effect of :	
Tax non-deductible expenses such as entertainment expenses	0.8
Per capita levy of inhabitants' taxes and other	0.4
Changes in valuation allowance	0.7
Tax-deductible R&D credits	(3.5)
Other, net	2.6
Effective tax rates	41.6 %

The reconciliation in 2007 is omitted since loss before income taxes and minority interests was recorded for the year ended March 31, 2007.

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 :

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligation	¥ (9,997)	¥ (9,761)	\$ (84,686)
Fair value of plan assets	3,630	3,339	30,749
Funded status	(6,367)	(6,422)	(53,937)
Unrecognized actuarial loss	1,588	1,586	13,451
Allowance for retirement benefits	¥ (4,779)	¥ (4,836)	\$ (40,486)

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

Components of net periodic pension cost for the years ended March 31, 2007 and 2006 are summarized as follows :

	Year ended March 31, 2007	Year ended March 31, 2006	Year ended March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥ 464	¥ 431	\$ 3,930
Interest cost on projected benefit obligation	182	168	1,541
Expected return on plan assets	(117)	(98)	(990)
Amortization of actuarial loss	345	207	2,924
Net periodic pension cost	¥ 874	¥ 708	\$ 7,405

The allowance for retirement benefits was determined by the simplified method by the consolidated subsidiaries and has been included in service cost.

Assumptions used in the actuarial calculation for the years ended March 31, 2007 and 2006 are summarized as follows :

	March 31, 2007	March 31, 2006
Actuarial cost method	Projected unit credit method	
Discount rate	2.0% per annum	2.0% 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. Leases

(1) Finance leases

Leased property under finance leases that do not transfer the title of the leased property to the lessee on an as-if-capitalized-basis for the years ended March 31, 2007 and 2006 are as follows :

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Machinery, equipment and other assets :			
Acquisition cost	¥ 3,966	¥ 3,778	\$ 33,594
Accumulated depreciation	1,826	1,459	15,470
Net leased property	¥ 2,140	¥ 2,319	\$ 18,124

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 the title of the leased asset to the lessee are accounted for as finance leases. Lease

expenses relating to finance leases accounted for as operating leases amounted to ¥1,012 million (\$8,575 thousand) and ¥743 million for the years ended March 31, 2007 and 2006, respectively.

Future minimum lease payments subsequent to March 31, 2007 for finance lease transactions accounted for as operating leases are summarized as follows :

	March 31, 2007	
	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 805	\$ 6,815
Due after one year	1,390	11,778
Total	¥ 2,195	\$ 18,593

(2) Operating leases

	March 31, 2007	
	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 7	\$ 61
Due after one year	6	52
Total	¥ 13	\$ 113

10. Pledged assets

Assets pledged as collateral as of March 31, 2007 are summarized as follows :

	March 31, 2007	
	(Millions of yen)	(Thousands of U.S. dollars)
Bank deposits	¥ 14	\$ 114
Buildings and structures	567	4,805
Total	¥ 581	\$ 4,919

11. Contingent Liabilities

The Company had the following contingent liability :

	March 31, 2007	
	(Millions of yen)	(Thousands of U.S. dollars)
As guarantor for housing loans of employees	¥ 58	\$ 492

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 for hedge purposes. As a matter of policy, the Company does not enter into derivative transactions for trading purposes. 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 monitors and controls the inherent risk and performance on

a daily basis and reports these to management of the Company, if and when necessary.

In accordance with the special hedge accounting under the Accounting Standard for Financial Instruments, the Company does not record certain interest swap arrangements at fair value but charges or credits the net cash flows from the swap arrangements to the interest arising from the hedged borrowing, as long as these arrangements meet the specific criteria under the standard.

At March 31, 2007 and 2006, the fair value information for derivatives was not presented, since all derivatives were accounted for as hedges.

13. Segment Information

The business segment information of the Companies for the years ended March 31, 2007 and 2006 is summarized as follows :

Business segments

	Year ended March 31, 2007						
	Fine mechatronics	Electronic & vacuum systems	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	Consolidated
	(Millions of yen)						
I. Sales and operating income							
Sales to external customers	¥ 59,118	¥ 9,528	¥ 4,193	¥ 1,824	¥ 74,663	¥ -	¥ 74,663
Intersegment sales or transfers	131	131	-	-	262	(262)	-
Total sales	59,249	9,659	4,193	1,824	74,925	(262)	74,663
Operating expenses	61,629	9,339	4,090	1,102	76,160	133	76,293
Operating income (loss)	¥ (2,380)	¥ 320	¥ 103	¥ 722	¥ (1,235)	¥ (395)	¥ (1,630)

II. Total assets, depreciation and capital expenditures

Total assets	¥ 44,567	¥ 8,124	¥ 3,435	¥ 9,235	¥ 65,361	¥ 7,836	¥ 73,197
Depreciation	423	93	85	564	1,165	-	1,165
Capital expenditures	2,439	15	88	5	2,547	-	2,547

	Year ended March 31, 2006						
	Fine mechatronics	Electronic & vacuum systems	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	Consolidated
	(Millions of yen)						
I. Sales and operating income							
Sales to external customers	¥ 53,826	¥ 12,155	¥ 7,054	¥ 1,878	¥ 74,913	¥ -	¥ 74,913
Intersegment sales or transfers	-	-	-	-	-	(-)	-
Total sales	53,826	12,155	7,054	1,878	74,913	-	74,913
Operating expenses	50,498	11,458	5,959	1,200	69,115	618	69,733
Operating income (loss)	¥ 3,328	¥ 697	¥ 1,095	¥ 678	¥ 5,798	¥ (618)	¥ 5,180

II. Total assets, depreciation and capital expenditures

Total assets	¥ 42,994	¥ 7,648	¥ 3,072	¥ 9,724	¥ 63,438	¥11,713	¥ 75,151
Depreciation	353	103	101	576	1,133	-	1,133
Capital expenditures	531	69	100	8	708	-	708

Year ended March 31, 2007

	Fine mechatronics	Electronic & vacuum systems	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	Consolidated
(Thousands of U.S. dollars)							
I. Sales and operating income							
Sales to external customers	\$ 500,792	\$ 80,709	\$ 35,516	\$ 15,449	\$ 632,466	\$ -	\$ 632,466
Intersegment sales or transfers	1,111	1,107	-	-	2,218	(2,218)	-
Total sales	501,903	81,816	35,516	15,449	634,684	(2,218)	632,466
Operating expenses	522,056	79,109	34,651	9,335	645,151	1,123	646,274
Operating income (loss)	\$ (20,153)	\$ 2,707	\$ 865	\$ 6,114	\$ (10,467)	\$ (3,341)	\$ (13,808)
II. Total assets, depreciation and capital expenditures							
Total assets	\$ 377,529	\$ 68,814	\$ 29,095	\$ 78,232	\$ 533,670	\$ 66,379	\$ 620,049
Depreciation	3,585	787	721	4,777	9,870	-	9,870
Capital expenditures	20,658	129	750	42	21,579	-	21,579

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, PI inkjet coater, cell assembly equipment, outer lead bonders), semiconductor manufacturing equipment (wet cleaning equipment, etching equipment, ashing equipment, die bonders, inner lead bonders, flip chip bonders, wafer inspection equipment), railroad maintenance equipment, non-destructive inspections, and other items.

(2) Electronic & 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 items.

(3) Vending machines & systems

Vending machines, ticket vending machines, and others.

(4) Real estate leasing

Real estate leasing and management, and other businesses.

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

d) Included in the eliminations or unallocated amounts of total assets were unallocable amounts totaling ¥7,836 million (\$66,379 thousand) and ¥11,713 million for the years ended March 31, 2007 and 2006, respectively, which primarily consisted of surplus funds (cash and bank deposits), investment funds (investment securities) of the Company and deferred tax assets.

Geographical segments

No information by geographical segment for the years ended March 31, 2007 and 2006 has been presented, due to the fact that the net sales and total assets of the operations in Japan constituted more than 90% of the respective totals for all segments.

Overseas sales

	Year ended March 31, 2007		
	Northeastern Asia	Other	Total
	(Millions of yen)		
I. Overseas sales	¥ 27,954	¥ 4,333	¥ 32,287
II. Consolidated net sales			74,663
III. % of consolidated net sales	37.4%	5.8%	43.2%

	Year ended March 31, 2006		
	Northeastern Asia	Other	Total
	(Millions of yen)		
I. Overseas sales	¥ 26,079	¥ 3,547	¥ 29,626
II. Consolidated net sales			74,913
III. % of consolidated net sales	34.8%	4.7%	39.5%

	Year ended March 31, 2007		
	Northeastern Asia	Other	Total
	(Thousands of U.S. dollars)		
I. Overseas sales	\$ 236,795	\$ 36,704	\$ 273,499
II. Consolidated net sales			632,466
III. % of consolidated net sales	37.4%	5.8%	43.2%

Notes :

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

b) The division of overseas sales into countries or regions is determined 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., Poland

14. Related Party Transactions

Toshiba Corporation held 39.1% of the Company's voting rights as of March 31, 2007.

The Company sold semiconductor manufacturing equipment to Toshiba Corporation and received rent revenue from Toshiba Corporation. The aggregate amounts of these transactions were

¥3,981 million (\$33,722 thousand) and ¥3,675 million for the years ended March 31, 2007 and 2006, respectively.

The Company purchased material from Toshiba Corporation totaling ¥65 million (\$548 thousand) and ¥132 million for the years ended March 31, 2007 and 2006, respectively.

Amounts due from and to Toshiba Corporation at March 31, 2007 and 2006 were as follows :

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Due from Toshiba Corporation	¥ 104	¥ 149	\$ 879
Due to Toshiba Corporation	3,229	3,159	27,356

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 distri-

bution to the shareholders and the weighted-average number of shares of common stock outstanding during each year, assuming full dilution of common stock equivalents. Net assets per share is computed based on the weighted-average number of shares of common stock outstanding at each balance sheet date.

	Year ended March 31, 2007	Year ended March 31, 2006	Year ended March 31, 2007
	(Yen)		(U.S. dollars)
Net income (loss) :			
- Basic	¥ (20.60)	¥ 66.52	\$ (0.17)
- Diluted	-	62.30	-
Net assets	501.41	534.03	4.25

Notes :

The information regarding diluted net income per share in 2007 is omitted because of net loss for the year ended March 31, 2007.

Non-Consolidated Balance Sheets

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Assets			
Current assets :			
Cash and bank deposits	¥ 3,806	¥ 9,053	\$ 32,241
Notes and accounts receivable, trade :			
Notes	106	132	896
Accounts	21,189	19,784	179,489
Allowance for doubtful accounts	(21)	(24)	(181)
Inventories	12,823	13,353	108,626
Deferred tax assets	1,229	553	10,415
Other current assets	1,068	564	9,045
Total current assets	40,200	43,415	340,531
Property, plant and equipment :			
Land	68	68	582
Buildings and structures	27,556	26,874	233,424
Machinery and equipment	590	681	4,996
Construction in progress	183	125	1,552
Total	28,397	27,748	240,554
Accumulated depreciation	(13,802)	(13,500)	(116,918)
Property, plant and equipment, net	14,595	14,248	123,636
Investments and other assets :			
Investments in securities	290	328	2,456
Investments in subsidiaries and affiliates	1,416	1,415	11,989
Deferred tax assets	2,565	1,836	21,729
Other assets	886	785	7,507
Allowance for doubtful accounts	(6)	-	(48)
Total investments and other assets	5,151	4,364	43,633
Total assets	¥ 59,946	¥ 62,027	\$ 507,800

	March 31, 2007	March 31, 2006	March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Liabilities and net assets			
Current liabilities :			
Current portion of long-term debt	¥ -	¥ 2,670	\$ -
Notes and accounts payable :			
Notes	3,565	3,200	30,199
Accounts	12,780	13,158	108,256
Advances from customers	219	1,016	1,855
Allowance for bonuses to directors and corporate auditors	10	-	83
Provision for contract losses	373	-	3,160
Accrued expenses	3,895	2,923	32,996
Accrued income taxes	46	517	389
Other current liabilities	240	66	2,031
Total current liabilities	21,128	23,550	178,969
Long-term liabilities :			
Long-term debt	10,219	6,420	86,569
Allowance for retirement benefits	4,139	4,173	35,058
Directors' retirement benefits	123	126	1,039
Accrual for periodic repairs	296	398	2,511
Other long-term liabilities	3,000	3,000	25,413
Total long-term liabilities	17,777	14,117	150,590
Net assets :			
Shareholders' equity :			
Common stock :			
Authorized : 100,000,000 shares			
Issued : 51,926,194 shares at March 31, 2007 and 2006	6,762	6,762	57,276
Additional paid-in capital	10,739	10,739	90,971
Retained earnings	5,139	6,957	43,534
Less treasury stock, at cost	(1,715)	(215)	(14,526)
Total shareholders' equity	20,925	24,243	177,255
Valuation and translation adjustments :			
Net unrealized holding gain on other securities	116	117	986
Total net assets	21,041	24,360	178,241
Total liabilities and net assets	¥ 59,946	¥ 62,027	\$ 507,800

Non-Consolidated Statements of Income

	Year ended March 31, 2007	Year ended March 31, 2006	Year ended March 31, 2007
	(Millions of yen)		(Thousands of U.S. dollars)
Net sales	¥ 58,144	¥ 58,663	\$ 492,534
Cost of sales	54,116	48,491	458,412
Gross profit	4,028	10,172	34,122
Selling, general and administrative expenses	7,435	7,721	62,984
Operating income (loss)	(3,407)	2,451	(28,862)
Other income (expenses) :			
Interest and dividend income	805	1,470	6,823
Interest expense	(105)	(105)	(889)
Gain on sale of land	-	955	-
Other, net	(57)	3	(486)
Income (loss) before income taxes	(2,764)	4,774	(23,414)
Income taxes :			
Current	25	1,226	212
Deferred	(1,369)	112	(11,601)
	(1,344)	1,338	(11,389)
Net income (loss)	¥ (1,420)	¥ 3,436	\$ (12,025)
	(Yen)		(U.S. dollars)
Per share of common stock :			
Net income (loss)	¥ (27.93)	¥ 67.58	\$ (0.24)
Cash dividends applicable to the year	7.00	7.00	0.06

SHIBAURA MECHATRONICS CORPORATION

5-1, Kasama 2-chome, Sakae-ku, Yokohama,
Kanagawa Pref. 247-8610, Japan
TEL : +81-45-897-2421
FAX : +81-45-897-2470

<http://www.shibaura.co.jp/>