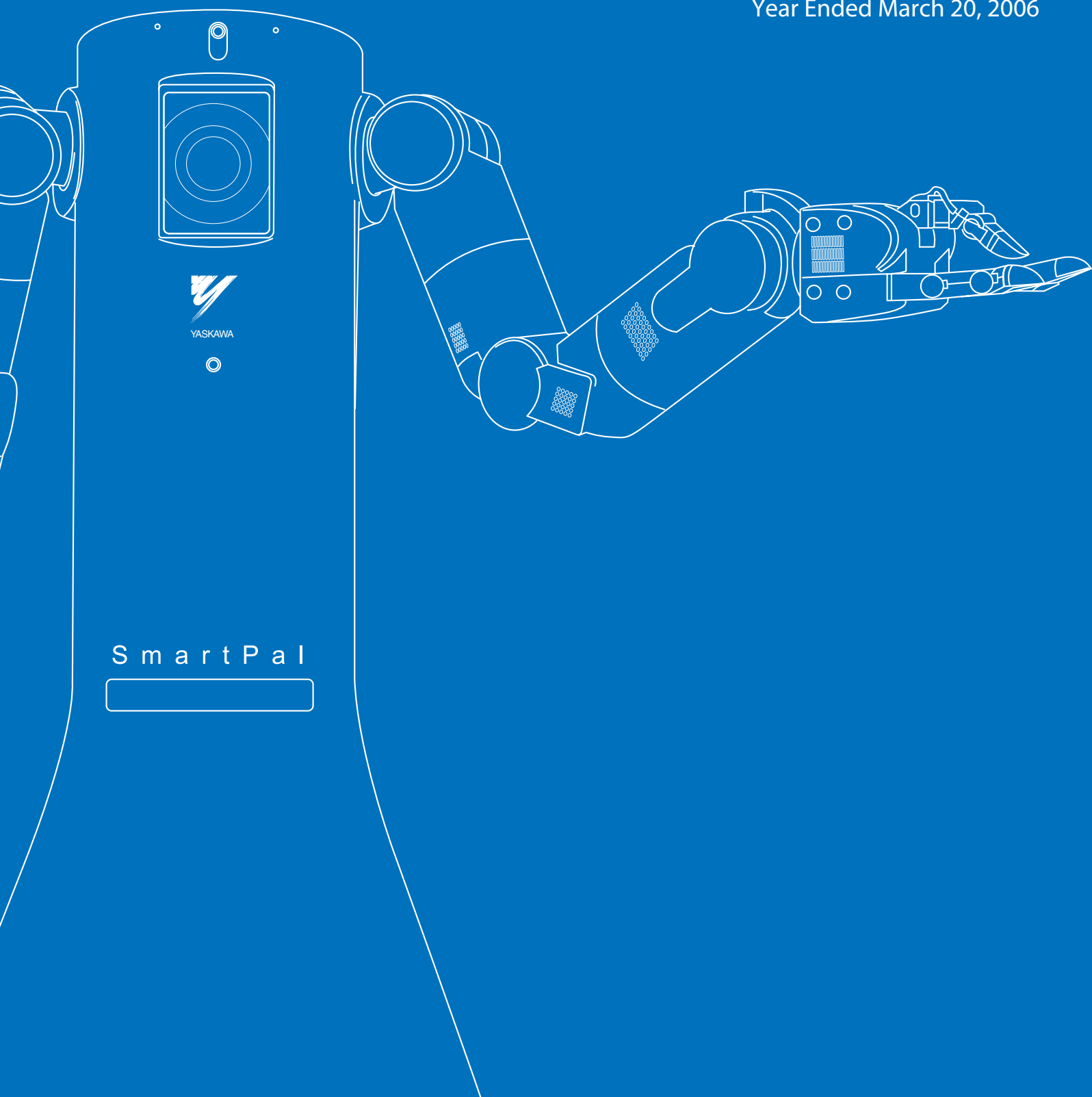




YASKAWA ELECTRIC CORPORATION
ANNUAL REPORT 2006
Year Ended March 20, 2006



CONTENTS

01 Profile

02 Results Highlight of the Previous Mid-Term Business

Plan “Win21 Plus”

03 Consolidated Financial Highlights

04 To our Stakeholders

07 Board of Directors

08 Review of Operations

09 Key Products

12 Review of Operations

12 Motion Control

14 Robotics

16 System Engineering

18 Information Technologies

19 Corporate Activities

20 Technology Development / Intellectual Property

21 Corporate Governance and Compliance

22 Corporate Social Responsibility (CSR)

24 Financial Section

25 Financial Review

30 Consolidated Balance Sheets

32 Consolidated Statements of Income

33 Consolidated Statements of Shareholders' Equity

34 Consolidated Statements of Cash Flows

35 Notes to Consolidated Financial Statements

46 Report of Independent Auditors

47 Yaskawa Group in Japan

48 Overseas Offices and Main Subsidiaries

About the Front Cover

At the corporate R&D center of Yaskawa Electric, the thchnologies necessary for the next-generation robots that are intended to work in factories and offices are being developed. The robot on the front cover is "SmartPal", developed as a platform for technological demonstration. SmartPal has 7-axis arms that enable movements comparable to that of human arms. It also has communication functions necessary to coexist with humans and work autonomously.

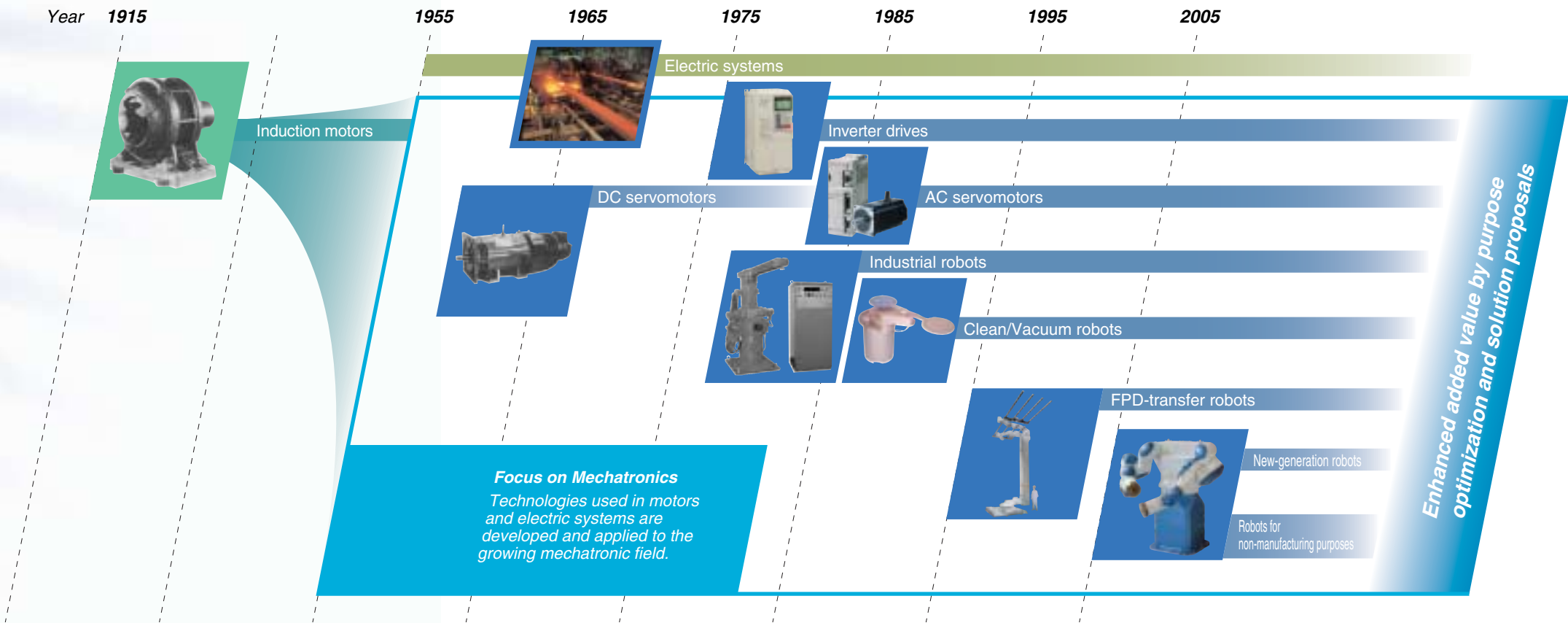
As for the descriptions in this annual report up to page 29, amounts of less than one million yen have been omitted, as permitted by the Securities and Exchange Law of Japan. However, in preparing the consolidated financial statements starting on page 30, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form that is more familiar to readers outside Japan. As a result, the amounts in the consolidated financial statements do not necessarily agree with the ones that are shown on the preceeding pages.

Profile

Since the founding in 1915, Yaskawa Electric Corporation has always provided support for the key industries of the times. Started from motors, then factory automation, and now mechatronics*, our history runs in parallel with the modernization of industry. Further strengthening our core businesses of servomotors, controllers, inverters and industrial robots, we will commit ourselves to contributing to the development of society by providing new solutions that utilize to the maximum the strength of Yaskawa’s core technologies.

*: Yaskawa Electric Corporation led the world in putting forward the term “mechatronics” in the late 1960s. This concept evolved when we combined our customers’ machinery with Yaskawa’s electronic products to create superior quality and function.

Key products transition and orientation

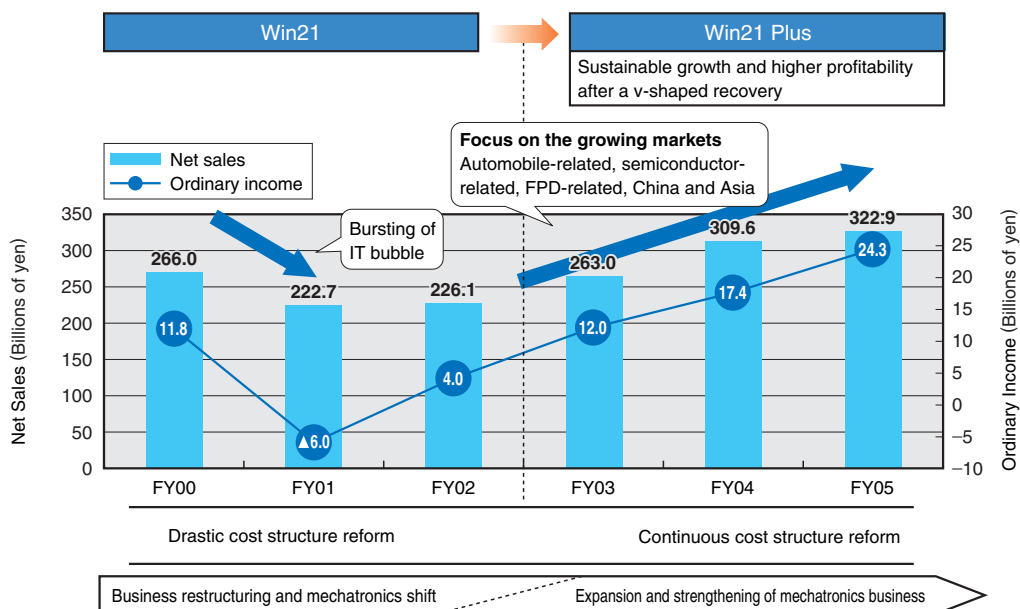


Results Highlight of the Previous Mid-Term Business Plan “Win21 Plus”

Growth in sales and ordinary income achieved for four consecutive years and record highs achieved for two consecutive years.

Yaskawa Group has worked on a mid-term business plan called “Win21”, which started in fiscal year 1999 and then on “Win21 Plus”, which ended in the fiscal year 2005. The plan focused on strengthening our competitiveness and attaining efficient business operations through structural reforms in four areas of business, management, and finance as well as in corporate organization.

The basic policy of the previous business plan “Win21 Plus” (FY2003-FY2005) was to “expand and strengthen post-mechatronics shift businesses”. We worked on a drastic reform in the cost structure by reducing fixed costs and making them variable, increased added-value, and focused on the growing markets, such as semiconductor-related, LCD-related, and automobile-related markets; China and other Asian countries. As a result, we achieved growth in sales and ordinary income for four consecutive fiscal years. In fiscal year 2005, we set record highs for sales and ordinary income for two consecutive years.



Consolidated financial goals were achieved as follows.

	FY 02 Results	FY 05		Change from FY 02 to FY 05
		Target	Results	
Sales (billion yen)	226.1	300.0	322.9	Up 96.8 billion (Up by 43%)
Ordinary income ratio (%)	1.8	10	7.5	Improved by 5.7 points
Debt/Equity ratio	3.2	Less than 1.0	1.2	Improved by 2 points
Interest-bearing debt (billion yen)	99.1	55.7	62.5	Reduced by 37%

The sales target of 300 billion yen was achieved one year ahead in fiscal year 2004. In fiscal year 2005, sales record high was set for two consecutive years especially because of sales expansion in Motion Control and Robotics Automation segments. As for ordinary income ratio, even though the target of 10% remained a challenge, it improved by 5.7 points from 1.8% in fiscal year 2002 to 7.5%. Ordinary income ratios of the core businesses are nearing 10%, however there were businesses that fell short of the targets. Debt/Equity ratio at the end of the fiscal year 2005 was 1.2, improving by 2 points from 3.2 in 2002. We expect to reach the target ratio of 1.0 in fiscal year 2006 by raising profitability and improving asset efficiency.

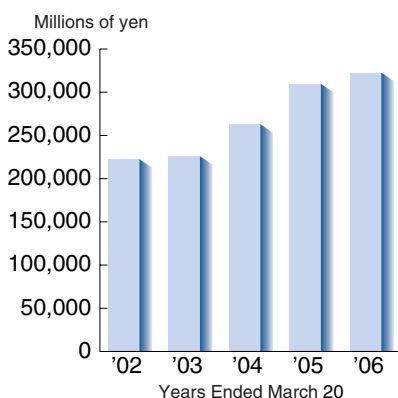
Given the achievements and challenges above, Yaskawa Group will aim to achieve sales of 400 billion yen in fiscal year 2008 (Up by 24% from fiscal year 2005) and ordinary income ratio of 10% with the new mid-term business plan starting in fiscal year 2006.

Consolidated Financial Highlights

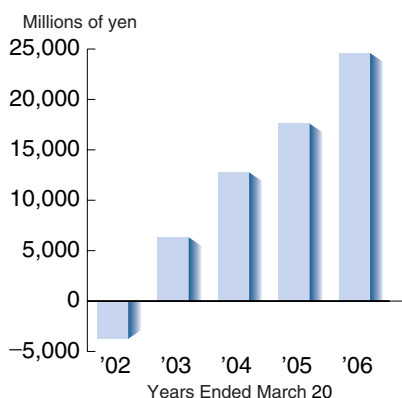
Yaskawa Electric Corporation and Consolidated Subsidiaries Years Ended March 20

	Millions of yen	Millions of yen	Thousands of U.S. dollars (except per share amounts)
	2006	2005	2006
Net sales	¥ 322,916	¥ 309,615	\$ 2,778,020
Operating income	24,486	17,527	210,659
Income before income taxes and minority interests	17,286	9,222	148,710
Net income	10,157	1,860	87,380
Per Share Data			
Net income (Yen)	¥ 43.18	¥ 7.80	\$ 0.371
Cash dividends (Yen)	6	—	0.052
Total assets	¥ 255,222	¥ 254,438	\$ 2,195,656
Shareholders' equity	52,750	38,366	453,802
Note: Dollar figures are translated, for convenience only, at the rate of ¥116.24 to US\$1.			

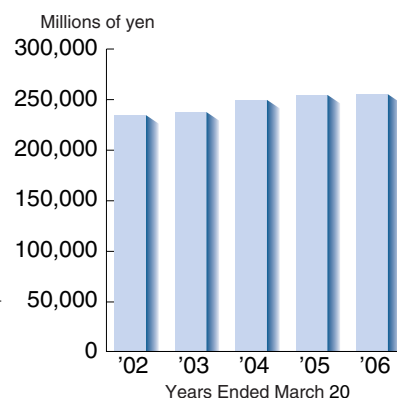
Net Sales



Operating Income (Loss)



Total Assets



To our Stakeholders



Koji Toshima, President and Shin Nakayama, Chairman of the Board

■ Review of Fiscal Year 2005

Economic environment in fiscal year 2005

Compared to the latter half of fiscal year 2004 when economic slowdown was seen with soaring prices of raw materials and stronger yen, economic recovery in Japan gained strength in fiscal year 2005 with increased capital expenditures, improvements in employment conditions, and a gain in personal consumption. The economic conditions in Europe, North America and Asia were all generally positive.

Efforts made in fiscal year 2005

Given the economic conditions above, Yaskawa Group implemented with speed the policies targeted at increasing added value and expanding business through market strategy and innovation.

And, especially for the growing markets such as automobile-, semiconductor-, and LCD-related markets, we strengthened our market capture and sales operations by enhanced marketing strategy, and introduced strategic new products in a timely manner, and thus raised profitability.

*We achieved growth in
for four consecutive years*

Key points of the business results of fiscal year 2005

As a result of the above, Yaskawa Group achieved growth in sales, operating income, and ordinary income for four consecutive years and set record highs for two consecutive years. Net income also reached record high. Consolidated net sales were ¥322,916 million, which was up by 4.3% from the previous fiscal year. Operating income increased by 39.7% to ¥24,486 million, ordinary income was also up by 39.7% at ¥24,331 million, and net income increased by 446.1% to ¥10,157 million.

As sales expanded in each region of Europe, North America and Asia, sales outside Japan increased by 16.2% to ¥151,348 million. The overseas sales ratio against consolidated net sales thus grew to 47%.

Based on our performance in fiscal year 2005, the Company paid a dividend of ¥6 per share. (¥5 as regular payment and ¥1 as commemorative payment related to Yaskawa Electric Corporation's 90th anniversary)

Results by business segment

The Motion Control segment saw high demand for its AC servomotors and controllers for semiconductor-, LCD-related, and automobile-related markets. Also, the demand growth for air-conditioning and elevators in Asian markets especially China led to a large sales increase for our inverters. As a result, net sales in the Motion Control segment increased by 8.9% to ¥133,909 million and operating income was up by 34.6% at ¥12,278 million. These results marked record highs. The Motion Control segment achieved operating income ratio of 10% in the second half of the fiscal year 2005, which shows that the structural reform worked on yielded positive results.

sales, operating income, and ordinary income and set record highs for two consecutive years.

The Robotics Automation segment successfully increased our market shares for robots for arc-welding, spot-welding, and painting, which are our key products for the automobile-related market. These markets in Japan showed a temporary slowdown in the second half of the fiscal year as capital expenditures came to an adjustment phase. However, sales for the markets in the Americas and Europe showed positive increase. The improvements on the production system worked on since the previous fiscal year contributed to profitability increasing to a large degree. As a result, net sales in the Robotics Automation segment increased by 7.9% to ¥113,458 million, and operating income increased by 35.3% to ¥9,850 million. These results also set record highs.

The System Engineering segment carried out a reform in the profit structure by specializing in its strong businesses and by cost reductions while fierce market conditions lasted. Improvements in profitability for the business of electrical systems for steel plants and reduction of indirect costs led to non-consolidated segment results to turn profitable. As a result, net sales in the System Engineering segment decreased by 6.7% to ¥41,932 million. An operating loss of ¥259 million occurred, however it improved by ¥1,833 million from the previous year.

As for the Information Technologies segment, YE Data Inc., with businesses in computer peripheral and terminal equipments, was affected by a fall in demand for floppy disk drives, however both sales and operating income of the company increased because of the efforts to develop new businesses. On the other hand, Yaskawa Information Systems Corporation, with businesses in information management software and services, was affected by intensifying competition in its business sector and a decrease in sales of high added-value businesses. This

led to net sales in this segment decreasing by 2.5% to ¥24,783 million and operating income decreasing by 30.5% to ¥1,042 million compared to the previous fiscal year.

The Other segment includes businesses such as logistic services and temporary staffing services. Net sales in this segment decreased by 20.8% to ¥8,833 million, and operating income was down by 3.0% at ¥1,686 million compared to the previous year.

■ Basic Policies and Measures

In 2005, Yaskawa Electric Corporation marked its 90th anniversary. During these 90 years, we have always committed ourselves to the development of industry with leading-edge technology and products, starting from the development of domestically-produced motors, promotion of industrial automation, and creation of mechatronics, and robotics. Yaskawa Electric Corporation aspires to become a value-generating enterprise that will continue to create products best suited for the markets and customers based on its technology and product development capability in motion control and robotics.

From the fiscal year 2006, Yaskawa Group started implementing a new mid-term business plan “DASH100” that will last till fiscal year 2008. The three years of “DASH 100” are positioned as the first stage for the Company’s

We aspire to become a value-generating enterprise.

100th anniversary in 2015. Taking advantage of positive market conditions, Yaskawa Group will switch to growth-oriented management, and make a dash toward accelerating business expansion and growth.

The three basic goals of “DASH 100” are to establish businesses that are truly global No.1 (No.1 in market share, size, and profitability), to develop and start up new businesses, and to realize ordinary income ratio of 10% as soon as possible. We will attain to a firm global No.1 position in the core businesses and establish a new pillar of business.

Although some concerns remain over the economic slowdown in the U.S. for the fiscal year 2006, European and Asian markets are recovering and growing. As for the Japanese market, while there is some concern over high prices of crude oil and fluctuations in exchange rates, economic recovery is expected to continue with increase in capital expenditures.

Based on the conditions mentioned above, we will work on the measures as follows.

Firstly, we will strengthen our effort to increase our market share in the automobile-, semiconductor-, and LCD-related markets on which we have focused our marketing efforts. Also, we will enhance our marketing in the growing Asian markets, especially in China, and in profitable markets in North America and Europe, and in emerging markets like India. We will also speed up the development of new products and create new businesses while we enhance productivity.

Secondly, we will work on improving further the quality of our products and of our work, which determine our brand value.

Thirdly, regional management is strengthened to enable implementation of a flexible market strategy that suits each region in the world, thus maximizing our strength as a corporate group to expand business.

Lastly, in order to promote business reform, internal control system will be enhanced. We will thereby ensure compliance and risk management, as well as work on standardization of our business, and build highly objective and transparent business processes.

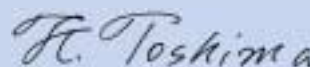
We believe that these measures will increase our corporate value.

We appreciate the continued support and understanding from all of our stakeholders.



Shin Nakayama

Chairman of the Board



Koji Toshima

President

Board of Directors

As of June 16, 2006

Directors



Shin Nakayama
Chairman of
the Board



Koji Toshima
President



Koichi Takei
Executive
Managing Director



Masao Kito
Managing Director



Sadahiro Iwata
Managing Director



Tadakazu Hotta
Managing Director



Mitsuaki Sato
Director(External)
Representative
Director
Executive Vice
President
Kyushu Electric
Power Co., Inc.



Toshihiro Sawa
Director



Norio Miyahara
Director



Yoshifumi Shimizu
Director



Noboru Usami
Director



Hideki Goto
Director



Junji Tsuda
Director



Koki Nakamura
Director



Hiroshi Ogasawara
Director



Osamu Motomatsu
Director

Auditors



Muneshige Yamazaki
Auditor



Toshifumi Sanematsu
Auditor



Masaaki Tani
Auditor(External)
President
The Bank of
Fukuoka, Ltd.



Ichiro Takita
Auditor(External)
Managing Director
Kurosaki Harima
Corporation

Review of Operations

CONTENTS

- 09 Key Products
- 12 Review of Operations
 - 12 Motion Control
 - 14 Robotics
 - 16 System Engineering
 - 18 Information Technologies



Main Applications

- Injection Molding Machine
- Electrical-parts Assembly/Mounting
- Semiconductor/Liquid Crystal Manufacturing
- Robots
- Metal Processing
- Machine Tools
- Pumps, Fans, Blowers
- Carriages
- Food-packing Machine
- General-purpose Machines

AC Servo Drives Sigma-III Series



Machine Controller MP2000 Series

Inverter Drives G7, F7, V7, J7 Series



Key Products

El-integrated Plant Operator Station CP-5800



System Controller CP-3550



Human-machine Interface CP-518, CP-519



Super Energy Saving Medium Voltage Inverter FSDrive-MV1S



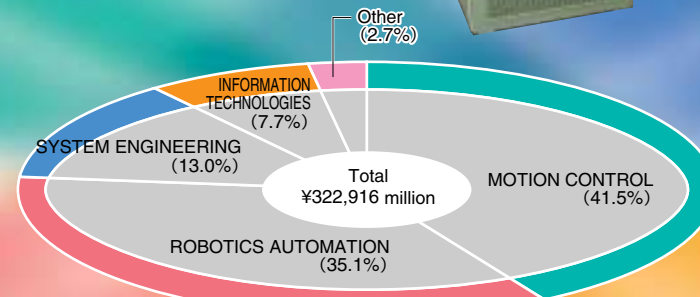
Large-Capacity IGBT Inverter VARISPEED-676H5

Medium-/Large-capacity Digital Thyristor Converter VARISPEED-590

Main Applications

- Iron and Steel Plants
- Water Treatment Plants
- Fluid Machinery (Energy-saving for Fans, Pumps and Blowers)
- Paper-making/Printing/Fiber/Film
- Port Cargo Handling

MOTION CONTROL



Net Sales by Business Segment
(Year Ended 20th March, 2006)

SYSTEM ENGINEERING

Main Applications

- Semiconductor/Liquid Crystal Manufacturing
- Arc Welding
- Spot Welding
- Transfer
- Painting
- Handling
- Sealing

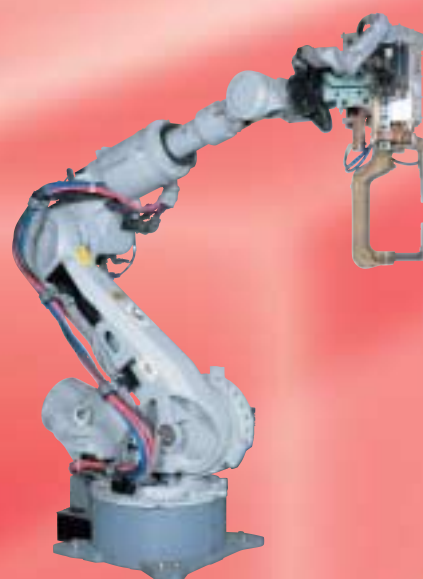
ROBOTICS



LCD Glass Substrates Handling Robot MOTOMAN-CSL2400D



Wafer Handling Clean Robot MOTOMAN-RC400M



Spot-welding Robot MOTOMAN-ES165N



Arc-welding Robot MOTOMAN-EA1400N



Robot Controller NX100



Digital Inverter Welder MOTOWELD-EL350

INFORMATION TECHNOLOGIES

Main Applications

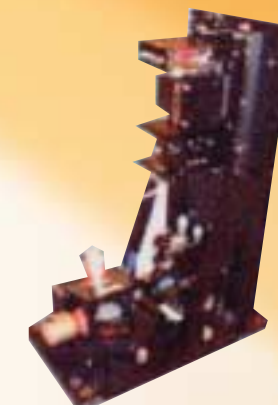
- Multi-card Reader/Writer
- Two-dimensional Code Marking/Reading Device
- Information Software and Service
- OA Equipment



Multi card reader to support the new generation ExpressCard slot ExpressCard Reader 5 in 1



High-performance intelligent LSI Intesse D2Core



Exposure Unit for Laser Marking System



Internet appliance server NetSHAKER BlueRack



Touch-panel liquid crystal terminal Intesse xP-5000DX



General purpose board with a touch panel Intesse xP-5000

Business Overview and Policy

The Motion Control segment consists of inverter products as well as products for motion and control (M&C). M&C products include AC servo motors, controllers, and linear motors, which are used in a broad range of equipment from general industrial machinery to machine tools. Inverter products, which are indispensable for energy conservation and smooth power transmission, are used for both industrial and non-industrial applications.

The M&C division offers enhanced-performance and high-productivity solutions for machinery systems and has earned customer confidence for solid performance as a leading servo-drive manufacturer. The Sigma series of AC servo drives, arising out of the integration of Yaskawa's renowned mechatronic technologies, provides new solutions for customers' machinery and systems to bring about technological innovations. By considering customer needs and also incorporating the expertise we have acquired over the years when developing our product lines, we contribute to the advancement of technology as an industry leader.

The inverter division, a pioneer in motor control, has developed a number of breakthroughs in drive technologies since the commercialization of the world's first transistor inverter in 1972. These innovations have broadly disseminated in the industry as de facto standards. With a plan for the development of global business created in the 1980s, we have now established a unique global production system and marketing network that are unmatched by any other company. As a result of our technological developments and business expansion, Yaskawa Electric occupies the top position in the global inverter market, with total shipments exceeding 8.5 million units as of March 2006. The inverter division intends to carry out its unique strategy with the stress on technology development and global expansion and with the clear intention of attaining unequivocal dominance in the global market.

Current Status and Outlook for AC Servo Drives and Inverters

Since AC servo drives were launched in 1984, their total shipments reached a million units after nine years. Their shipments rapidly increased to mark over 4 million units in 2004 and 5 million units in 2006. Although initially the AC servo drives had only limited markets for use with textile machines, machine tools, robots, printing machines, and food and packaging machines, they drew attention by their performance and today they are widely used in semiconductor manufacturing equipments and electronic component mounting machines. Demand for this product is expanding at an accelerating pace into such fields as press-related applications and injection molding machines that require a large force that is difficult with ordinary servo drives. Moreover, including wire-saving models and those models that support networks for controlling device data, the use of AC servo drives in non-conventional fields is increasing, and the AC servo drive market is expected to expand and grow.

Inverters were first adopted for textile machinery in the 1970s. Because of their enhanced functions, performance, and reliability, their use and applications are expanding not only in the market of industrial machinery but also spreading to consumer-products market. New applications may include home appliances such as air conditioners, refrigerators, and washing machines, and devices used in the health, medical care, and amusement industries.

With the revision of the Energy Saving Law in April 2003 and the Kyoto Protocol becoming legally binding in February 2005, more focus is being placed on energy conservation as a way to counter the effects of global warming. In addition to factories and other industrial facilities, large commercial facilities such as office buildings and department stores are being targeted as places in which energy management systems must be implemented. This trend has thrust the inverter into the limelight as an energy saving device.

New Products

New M&C Products

Today servo drives that can draw out the maximum capability of machines are needed. In response to this need, we have been commercializing those servo drives that reflect our thorough pursuit of smaller size, higher speed, and improved user friendliness.

In FY2005, we released the Sigma-III Plus, the ultra-high performance model in the Sigma series of servo drives. In addition, the JUNMA AC servo drives featuring compactness and improved usability were extended into a series, and the Sigma-Stick linear servomotors featuring easy machinery integration were released.



Review of Operations for Motion Control FY2005

M&C orders showed increases over the previous fiscal year, particularly in the semiconductor, LCD, and electronics component markets. This growth in orders results from developing cutting-edge products together with customers in their respective industries and providing the optimal products for customers' needs as the top supplier of AC servo drives. For the robotics market, we developed actuators with built-in gears for use by the robotics segment as the key component in new-generation robots.

Sales in the inverter business significantly increased in all regions in the world, up 11% from the previous year. This was attributable to the worldwide recovery of capital expenditures and the increased demand for energy conservation. Specifically, sales in China grew over 20%, which is well above market growth. Our new technological lines, not found elsewhere, have stimulated demand, answered customer needs, and contributed to the increase in sales.

As a result, the final figures for the entire segment were 133,909 million yen in sales, up 8.9% over the previous fiscal year. Operating income, meanwhile, were 12,278 million yen, up 34.6% over the previous fiscal year. These figures mean that this segment marked record highs for both sales and operating income.

Segment Policy for FY2006 and Thereafter

Yaskawa Electric is the world's leader in the business of motion and control with the largest market share. To gain an even larger share, the M&C division will rev up development of global business. Concrete strategies will include establishment of new overseas development sites and fortification of existing ones to allow us to quickly act to area-specific needs, such as conforming to local networks. Also, we will promote and expand local production to shorten lead time for the supply of products and enhance cost competitiveness. In the rapidly growing Chinese market we will make an energetic effort to expand sales using the marketing and services sites there. For the Japanese market, we intend to restrengthen production systems, accelerate factory automation by applying Yaskawa's latest robots to the production lines, and shorten lead time.

Our inverter business developed its unique global marketing network to penetrate into the oligopolistic inverter market, and has the largest share in the global market. In FY2006, we will increase marketing activities in the growing Chinese market, and we will construct marketing and technical support systems in Japan befitting Yaskawa as the drives specialist. From now on, we will create a clearer orientation in our approach to targeted markets as well as in global business development to reinforce our sales in quality and volume.

New Inverter Products

Yaskawa Electric, known as a pioneer in motor control for our constant innovations in advanced drive technology, commercialized the world's first inverter drive that features matrix converter technology. The ultimate energy-saving drives were also commercialized to meet recent demand for energy conservation.



Environmentally Friendly Motor-drive Matrix Converter
Varispeed AC



Compact, Super Energy-saving Drive
Varispeed V7 pico

Business Overview and Policy

In 1977 Yaskawa Electric developed the first all-electric industrial robot in Japan, Motoman. Since then, our industrial robot business, backed by Yaskawa's unique servo technology, has steadily grown to be one of the main pillars of Yaskawa Electric. Motoman began life as an arc-welding robot for the automobile-related market. Today, while Motoman continues to be a valued name in the field of arc-welding, Motoman may be found working in a variety of fields, such as spot welding, painting, and LCD handling.

In 2001, Yaskawa Electric was the first in the world to propose the concept of "application-specific robots", signifying the evolution of robots into a variety of different shapes and designs with the optimum functions for specific applications. Motoman E-series is designed to be optimized for specific tasks and have earned favorable reviews, resulting in the significant growth of orders and market share. Yaskawa Electric has achieved the top share in the global market with cumulative shipments of 140,000 units (March 2006).

Most of the technology and production systems necessary for the manufacture of robots, including manipulators, servomotors, servo amplifiers, controllers, and robot systems, are developed here at Yaskawa Electric. Taking advantage of this significant collective strength, we are developing new robots that can work in tandem with human labor. Some examples are the new-generation robots, such as dual-arm robots, that provide a solution to labor shortages in Japan resulting from the aging population, and the rehabilitation robots designed for medical use. Yaskawa Electric will continue to develop and commercialize not only industrial robots but also human service robots to be used in fields directly related to our daily lives.

Current Status and Outlook for Industrial Robots

Industrial robots are representative of the many mechatronic products created by integrating mechanical, electric, and electronic technologies. As effective tools in factory automation, the usage of industrial robots has become widespread since their introduction in 1980.

According to the Japan Robot Association, production of industrial robots in Japan exceeded 600 billion yen in 1991 but significantly declined in 1992 (427.5 billion yen, 28.8% lower than the previous year) due to the collapse of the bubble economy. Driven by the booming automobile industry in Japan and the growing economy in China, however, production has been recovering to levels not seen since before the crash.

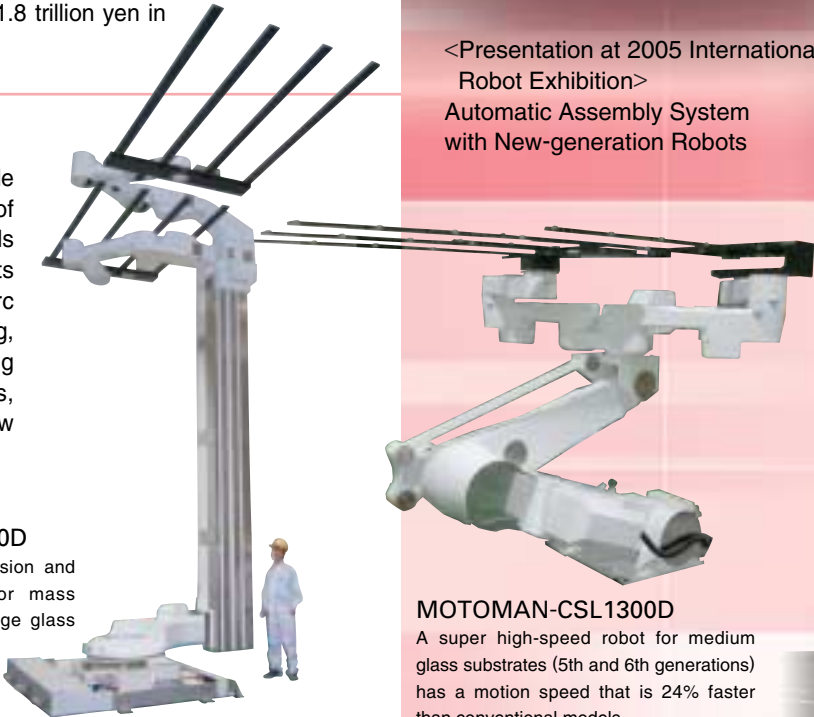
The Japan Robot Association predicts that the robot market will grow, not only in manufacturing but also in biotechnology and lifestyle-related applications (including home use, living-assistance services, and education), healthcare and nursing, and many other fields. The market is expected to expand to 1.8 trillion yen in 2010 and to 6.2 trillion yen in 2025.

New Products

Motoman are being created in response to a wide range of needs, and offer solutions to a variety of problems brought about by diverse consumer demands and labor shortages. Yaskawa Electric offers robots optimized for specific applications, such as for arc welding, spot welding, palletizing, assembling, painting, cutting, sealing, and the handling of materials including LCDs and wafers. In addition to industrial robots, rehabilitation robots for medical use are now commercially available.

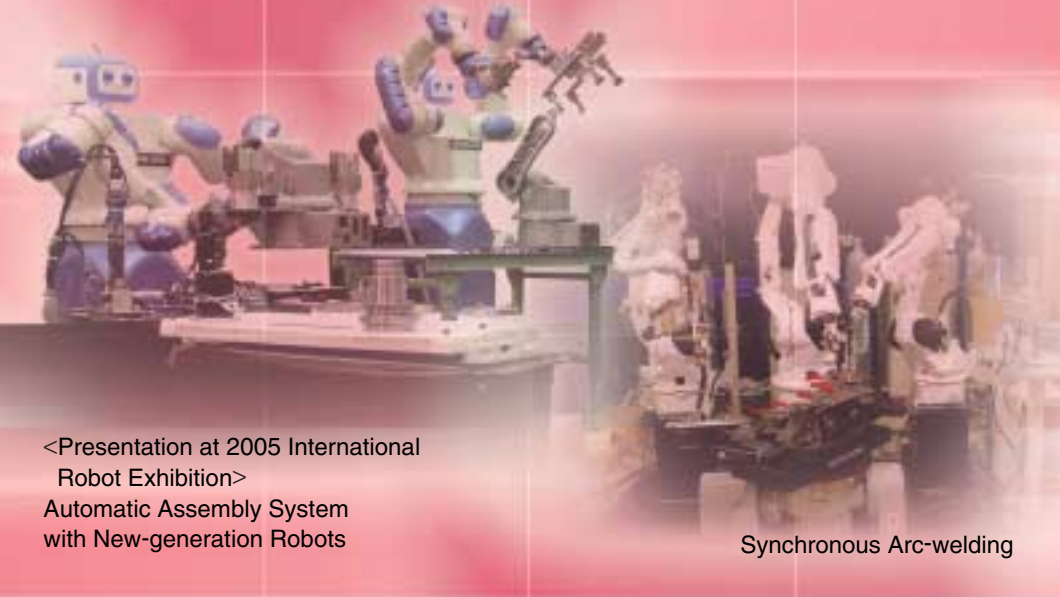
MOTOMAN-CHL2400D

Features outstanding precision and low vibration; suitable for mass production systems for large glass substrates (8th generation).



MOTOMAN-CSL1300D

A super high-speed robot for medium glass substrates (5th and 6th generations) has a motion speed that is 24% faster than conventional models.

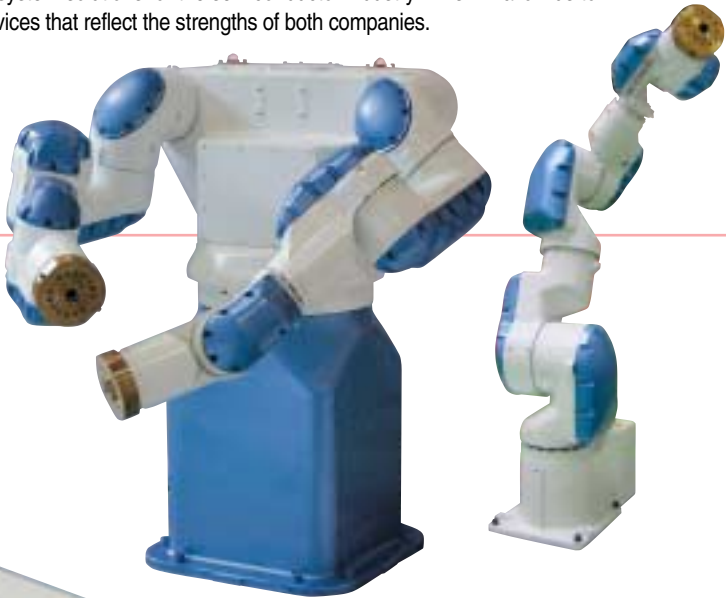


<Presentation at 2005 International Robot Exhibition>
Automatic Assembly System with New-generation Robots

Synchronous Arc-welding

Motoman Station

Motoman Station was completed in January 2006 to raise production capacity and to reorganize robot manufacturing structure. It is a production base for mid- to large-sized robots, which helped halve manufacturing lead time and raised productivity by 30%. Our robot production capacity was thus raised by 50% to 2,000 units per month.



MOTOMAN-DA/-IA Series

New-generation robots developed to automate distribution and other processes that have been performed manually until now. Slim design with seven-axis arms for humanlike motion.

Review of Operations for Robotics Automation FY2005

The Robotics Automation segment launched operation of a new plant, Motoman Station and strengthened the production system, to meet the continued growth of orders from general and automobile industries since FY2004. Though the dip in Japan's capital expenditures in the second half of FY2005 brought a temporary decline in the demand for robots, the full-year performance of our robotics business was generally good. The final figures for the entire segment were 113,458 million yen in sales, 7.9% over the previous fiscal year, and 9,850 million yen in operating income, 35.3% over the previous fiscal year. This was the result of strong sales of our LCD-handling robots, which evidenced our quick response to the market's need for faster transport of larger panels, and semiconductor wafer-handling robots, for which the market is recovering. This segment marked record highs in sales, profits, and the number of robots shipped.

With seasoned expertise in industrial robot technology, Yaskawa Electric developed and marketed new robots with manipulator arms comparable to human arms in terms of construction and the degrees of freedom of motion. The same technology was used to develop and commercialize our new line of human-sized, dual-arm robots. We have positioned them as new-generation robots and will promote the broadening of their applications, especially as a solution for the labor shortage resulting from the aging population, as well as for use in assembly and other manufacturing processes. By combining the new technology, established through the development of these new-generation robots, with our world-class mechatronic component technology, we intend to extend our business to service robots and other such fields that are directly related to people's daily lives. We are paving the way to the smooth integration of robots with human society.

Segment Policy for FY2006 and Thereafter

We will strive to further increase our share in the global market to become a runaway leader. For robots geared toward general or automobile industries, as well as those designed for handling LCDs, the strategy of application-specific robots will be further emphasized to enhance product strengths and to enrich our product lineup. Further, global business operations of the Robotics segment will be strengthened to boost robot sales and enhance services. In addition, we intend to expand our business by creating new markets for new-generation robots. For robots specialized in handling semiconductor wafers, further business expansion especially in Japan and Asia will be facilitated through our alliance with Brooks Automation, a leading US company in providing system solutions for the semiconductor industry. This will allow us to offer products and services that reflect the strengths of both companies.

*: The name of the segment was changed from the former "Robotics Automation" to "Robotics" in March 2006.

Business Overview and Policy

Yaskawa Electric has accumulated expertise in system engineering through many years of development, design, and manufacture of electrical systems and equipment for large steel plants and other such facilities. We have also gained a number of achievements in water treatment plant facilities, transportation infrastructure facilities, and public electrical facilities, that particularly require ensured operation stability. We are involved in projects from the facility planning stage and provide support throughout the facility's life cycle by offering everything from technical proposals to after-sales services, for which our reliability is highly rated by our customers.

In 1974, ahead of other companies, we systematized the control computers in the Control Pack series with microprocessors. Since then this series has been delivered to steel plants, paper manufacturing plants, and public sewage treatment facilities.

In 1979, the No. 2 continuous casting facility at Nippon Steel's Kimitsu Works was equipped with the world's first DDC (direct digital control) system with an all-AC drive using vector control inverters with transistors.

Yaskawa Electric's controllers are used in all currently operating blast furnaces in Japan, for round-the-clock stable operation seven days a week.

In October 1999, Yaskawa Electric established Yaskawa Siemens Automation & Drives as a joint venture with Siemens AG of Germany. This company provides the world's best solutions for the field of industrial drive systems by combining the Yaskawa Group's system technology and products with Siemens' system products.

We will continue to contribute to the construction of reliable industrial systems, the comfort of people's lives, and the creation of affluent cities with our wide variety of products, including drives, controllers, and HMIs (human-machine interfaces), as well as our advanced system engineering technology.

Current Status and Outlook for System Engineering Business

In recent years at steel plants, demand has increased for the renovation and replacement of electrical equipment installed 20 to 30 years ago. This has intensified the need for streamlining, adding value to products, and shortening equipment renovation periods.

In response to increasing environmental and financial concerns related to public water and sewage facilities, we have been striving to achieve high reliability, energy conservation, advanced water and sewage treatment, efficient facility utilization, and lower costs.

We will use our latest advances in electrical instrumentation, IT, communications, and drives to construct and propose the improved systems being demanded by the public.



Sewage Treatment Facility and Control Room



Blast Furnace and Control Room



High-voltage Inverter



High-voltage Matrix Converter

New Products (FSDrive Series)

For high-voltage drives, Yaskawa Electric commercialized Japan's first high-voltage inverter using PWM control with multi-output connected in a series in 1996. The technology continued to be improved, resulting in the introduction of the FSDrive-MV1S to the market in 2005. The FSDrive-MV1S helps save energy in a wide range of applications including wind-powered or hydraulic machinery and general industrial machinery.

We also commercialized the FSDrive-MX1S, the world's first AC matrix converter. With a power regenerative function, this innovative drive eliminates several problems associated with conventional high-voltage drives.

Review of Operations for System Engineering FY2005

Facing a harsh market environment, we promoted a reform in the profit structure through concentration on our expertise and reinforcement of cost reduction.

Electrical instrumentation for water and sewage facilities was hit by intensified competition. For electrical systems for steel plants, we focused on the demands for facility renovation spurred by the increased demand for steel materials.

In the area of system equipment, orders for high-voltage inverters exceeded 100 units, double the previous year. Behind this increase is the ever-increasing awareness of energy conservation in every industrial field in Japan. This was spurred after the Kyoto Protocol became legally binding on February 16, 2005.

We also commercialized the FSDrive-MX1S, the world's first matrix converter, enabling the cultivation of a new target market.

As a result, the final figures for the entire segment were 41,932 million yen in sales, 6.7% less than the previous fiscal year. Operating loss was 259 million yen, which was an improvement of 1,833 million yen from the previous fiscal year.

Segment Policy for FY2006 and Thereafter

In steel-related fields, a high level of production activity has continued since the beginning of FY2006 because of domestic demand for steel in the manufacture of automobiles, ships, industrial machinery, and electrical equipment. In China, there is also a large, growing demand for steel, along with continued expansion in exports. For the steel plants in Japan, we will act upon the demand for renovation of existing facilities and energy conservation. For overseas steel plants, we will aim to secure orders for large blast furnaces and continuous casting facilities. We will also expand our businesses in environmental areas, such as energy conservation and water quality improvement for public water treatment plants.

For systems and related products, to increase orders for high-voltage drives, the demand in Japan for energy conservation and facility renovation will be stimulated through marketing activities carried out nationwide, and our sales strength in the overseas energy-conservation market will be reinforced through tie-ups with an overseas systems integrator.

In FY2006, we will continue our efforts with the goal of achieving an ordinary income ratio of 5% in a stable manner.

Business Overview and Policy

The entire business of Yaskawa Information Systems and YE Data, which are two of the group companies of Yaskawa Group, together with the information-related technological development of Yaskawa Electric constitutes the "Information Technologies segment". The business of this segment is mainly carried out by the two subsidiaries, and Yaskawa Electric assumes the role of developing new technology and new business.

The major goal of this segment is to grow and develop into the fourth pillar of the Group business in addition to the three pillars of the conventional structure.

The IT segment, in which the two listed subsidiaries play the central part, pursues synergy as a group through close coordination in all activities with each individual player bringing out their own uniqueness in an effort to broaden the scope of business based on information technology.

Yaskawa Information Systems Corporation <http://www.ysknet.co.jp/>

Business Overview

Yaskawa Information Systems, whose slogan is "Engineered IT Solutions", applies their production control technique fostered in manufacturing to develop high-quality software. Their present major lines of business are in these four areas:

- System integrations
- Product embedded systems
- Services
- Componentwares

Review of Operations for FY2005 and Segment Policy for FY2006 and Thereafter

The IT service industry has been facing increasingly intensified market competition as a result of the users' stringent selection of their investment targets and lowered prices for products and services. While information and communication technology are gaining in importance as economic and social infrastructure supporting business activities and people's lives and software is getting more sophisticated and complex, improvements in productivity and reliability are required for the IT service providers who develop and produce software.

Given the unsatisfactory results of our mid-term management plan during FY2003 to 2005 as well as our challenges ahead, Yaskawa Information Systems have formulated a new mid-term management plan for the period from FY 2006 to 2008. The plan is designed to transform the business structure into one that enables creation of high added value and that facilitates creation of new businesses and cultivation of new clients, and to thereby depart from the current plateau in business and get back on track for growth. Based on this plan, we intend to move forward with our business operation.

New Product

Yaskawa Information Systems is working toward gaining improved recognition and thereby acquiring an overwhelming share in the market by unifying various products into one brand name "Intesse". The Intesse brand of products are designed for the lines of platforms and related products that are to be embedded in various types of equipment to provide an interface between equipment and network, equipment and equipment, or equipment and humans.

Intesse

Review of Operations for IT FY2005

As a result of a decline in demand for floppy disc drives, YE Data developed new areas of business and increased sales and profits. Yaskawa Information Systems reported a drop in sales because of increasingly intense competition and reduced sales of high added-value products and services.

As a result, the final figures for the entire segment were 24,783 million yen in sales, 2.5% less than the previous fiscal year, while operating income was 1,042 million yen, 30.5% less than the previous fiscal year.

YE Data Inc. <http://www.yedata.co.jp/>

Business Overview

Since the foundation with the primary business of manufacturing and marketing FDD units, YE Data, a computer peripheral manufacturer in Yaskawa Group, has pursued the quest for original technology and high quality. And it has provided products and services with a high degree of perfection under the policy, "YE Data contributes to the information society with technology and trust". The lines of business have been broadly expanding with the times from multimedia devices to data recovery services and laser-marking systems.

Major Products and Services

- Multimedia devices
- Marking systems
- Data recovery services
- Others

Review of Operations for FY2005 and Segment Policy for FY2006 and Thereafter

In line with the new mid-term management plan titled "Innovation I-150" (FY2005 to 2007), YE Data cultivated new core businesses to adapt to the shrinking FDD market. As a result, we produced tangible achievements including significant sales growth in data recovery services and an upward turn in the multimedia business for the first time in 5 years.

In FY2006, while we build a management base that allows for the fulfillment of the mid-term management plan, we are striving to put our business performance on track for growth with new lines of products (silicon media products supporting wireless USB) as well as new "MIRAMOTION" business (marketing of components utilizing technology acquired while working on marking systems) and photo kiosk terminals (marketing of terminals for self-service photo printing).

New Product

Kiosk Reader YD-8V31, an exclusive card reader for photo kiosk systems

A memory card reader (data reader) for photo kiosk systems, which are terminals for self-service photo printing rapidly spreading mainly among mass retailers and convenience stores, was launched on the market.



Business Overview and Policy

The entire business of Yaskawa Information Systems and YE Data, which are two of the group companies of Yaskawa Group, together with the information-related technological development of Yaskawa Electric constitutes the "Information Technologies segment". The business of this segment is mainly carried out by the two subsidiaries, and Yaskawa Electric assumes the role of developing new technology and new business.

The major goal of this segment is to grow and develop into the fourth pillar of the Group business in addition to the three pillars of the conventional structure.

The IT segment, in which the two listed subsidiaries play the central part, pursues synergy as a group through close coordination in all activities with each individual player bringing out their own uniqueness in an effort to broaden the scope of business based on information technology.

Yaskawa Information Systems Corporation <http://www.ysknet.co.jp/>

Business Overview

Yaskawa Information Systems, whose slogan is "Engineered IT Solutions", applies their production control technique fostered in manufacturing to develop high-quality software. Their present major lines of business are in these four areas:

- System integrations
- Product embedded systems
- Services
- Componentwares

Review of Operations for FY2005 and Segment Policy for FY2006 and Thereafter

The IT service industry has been facing increasingly intensified market competition as a result of the users' stringent selection of their investment targets and lowered prices for products and services. While information and communication technology are gaining in importance as economic and social infrastructure supporting business activities and people's lives and software is getting more sophisticated and complex, improvements in productivity and reliability are required for the IT service providers who develop and produce software.

Given the unsatisfactory results of our mid-term management plan during FY2003 to 2005 as well as our challenges ahead, Yaskawa Information Systems have formulated a new mid-term management plan for the period from FY 2006 to 2008. The plan is designed to transform the business structure into one that enables creation of high added value and that facilitates creation of new businesses and cultivation of new clients, and to thereby depart from the current plateau in business and get back on track for growth. Based on this plan, we intend to move forward with our business operation.

New Product

Yaskawa Information Systems is working toward gaining improved recognition and thereby acquiring an overwhelming share in the market by unifying various products into one brand name "Intesse". The Intesse brand of products are designed for the lines of platforms and related products that are to be embedded in various types of equipment to provide an interface between equipment and network, equipment and equipment, or equipment and humans.

Intesse

Review of Operations for IT FY2005

As a result of a decline in demand for floppy disc drives, YE Data developed new areas of business and increased sales and profits. Yaskawa Information Systems reported a drop in sales because of increasingly intense competition and reduced sales of high added-value products and services.

As a result, the final figures for the entire segment were 24,783 million yen in sales, 2.5% less than the previous fiscal year, while operating income was 1,042 million yen, 30.5% less than the previous fiscal year.

YE Data Inc. <http://www.yedata.co.jp/>

Business Overview

Since the foundation with the primary business of manufacturing and marketing FDD units, YE Data, a computer peripheral manufacturer in Yaskawa Group, has pursued the quest for original technology and high quality. And it has provided products and services with a high degree of perfection under the policy, "YE Data contributes to the information society with technology and trust". The lines of business have been broadly expanding with the times from multimedia devices to data recovery services and laser-marking systems.

Major Products and Services

- Multimedia devices
- Marking systems
- Data recovery services
- Others

Review of Operations for FY2005 and Segment Policy for FY2006 and Thereafter

In line with the new mid-term management plan titled "Innovation I-150" (FY2005 to 2007), YE Data cultivated new core businesses to adapt to the shrinking FDD market. As a result, we produced tangible achievements including significant sales growth in data recovery services and an upward turn in the multimedia business for the first time in 5 years.

In FY2006, while we build a management base that allows for the fulfillment of the mid-term management plan, we are striving to put our business performance on track for growth with new lines of products (silicon media products supporting wireless USB) as well as new "MIRAMOTION" business (marketing of components utilizing technology acquired while working on marking systems) and photo kiosk terminals (marketing of terminals for self-service photo printing).

New Product

Kiosk Reader YD-8V31, an exclusive card reader for photo kiosk systems

A memory card reader (data reader) for photo kiosk systems, which are terminals for self-service photo printing rapidly spreading mainly among mass retailers and convenience stores, was launched on the market.



Corporate Activities

CONTENTS

- 20 Technology Development
- 20 Intellectual Property
- 21 Corporate Governance and Compliance
- 22 Corporate Social Responsibility (CSR)



Technology Development

● Research & Development Overview and Policy

Yaskawa Electric is advancing the development of new technology, especially in the fields of motion control and robotics where we are aiming at being No. 1 globally. We are promoting the application of these technologies in product development. Based on our established expertise in these fields, we have also been accelerating R&D

activities into new fields to expand the scope of our business. With the goal of creating more human and eco-friendly mechatronics, the R&D division has been collaborating with universities to develop new-generation technologies focusing on the environment, welfare services, and recent needs for energy conservation.

● FY2005 Achievements and Topics

In the final year of the previous mid-term management plan, Win21 Plus, Yaskawa Electric promoted R&D activities for new markets and new applications in an effort to fulfill our goals. At the same time we were able to make a strategic move for the start of the new mid-term plan. As a result of launching new motion control, robotic, and other products particularly for the automobile, LCD, and semiconductor industries with increasing capital expenditures and the expanding Chinese market, we successfully fulfilled the goals of the Win21 Plus plan.



SmartPal at Expo 2005 in Aichi, Japan

Also, we promoted technological developments looking ahead to the future, including a humanoid robot that was shown at Expo 2005 in Aichi, Japan and new-generation robots that perform tasks previously only done by human.



MOTOMAN-DA20
Next-generation Robot

Intellectual Property

In order to maintain our dominance in the intensified competition for product development and ensure customer confidence, Yaskawa Electric makes strategic use of our intellectual property rights and protects our products from being patented by others.

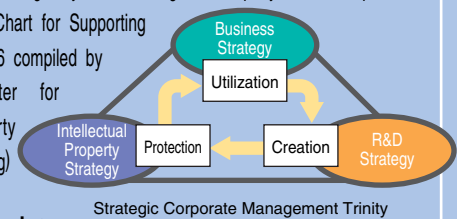
● Activities for Intellectual Property Rights

Starting count from the initial ten patent applications filed on September 28, 1917, more than 15,000 patent applications have been filed by Yaskawa Electric.

Strategies regarding intellectual property are part of Yaskawa Electric's Strategic Corporate Management Trinity along with strategies in business as well as R&D. The intellectual property division offers information regarding market shares and development trends of products to help avoid product risks and promote differentiation from others. The R&D division, the intellectual property division, and the business division form a pro-patent environment of creating,

protecting, and utilizing intellectual properties. These activities have resulted in us holding over 50% of the linear motor market, with over 200 applications for intellectual property rights, greatly outdistancing the company in second place.

(Information source: Chart for Supporting Patent Licensing 2006 compiled by the National Center for Industrial Property Information and Training)



● Framework for Promotion of Intellectual Property Rights

The framework for promotion of intellectual property, consisting of the intellectual property division that provides company-wide supervision and pro-patent promoters assigned in the R&D division and the business divisions,

has been established to systematically facilitate pro-patent activities.

Also, an intellectual property information system has been set up to allow for sharing of information by all employees.

● Policy and Status of Intellectual Property Rights

The focus of Yaskawa Electric's activity regarding intellectual property rights has shifted from quantity to quality to enhance effective use of management resources while covering all product lines. For Japanese patents, emphasis has been placed on the number of claims rather than on the number of applications. For other patents, we have been increasing patent applications in those production and

consumption areas, including China, Korea, and Taiwan, where an increase in patent disputes is predicted. With a ratio of 70.4% for patent registrations granted, we were ranked 16th among the top 30 enterprises in FY2004 (according to the Japanese Patent Office Annual Report 2005 compiled by the Japanese Patent Office), and presently own approximately 1400 patents.

● Incentive Program

Yaskawa Electric's in-house rules were amended to conform to the revision of the intellectual property-related laws concerning inventions by corporate researchers. Although our incentive program is of a level comparable to those of other companies, a complaint review system is

also provided so that any inventor may submit a complaint if not satisfied with the reward for his/her invention. Transparency of such review results is ensured by publication on our intranet website open to all employees.

Corporate Governance and Compliance

1. Basic Premise on Corporate Governance

Yaskawa Electric Corporation gives high priority to corporate ethics based on legal compliance. While the social and economic conditions surrounding our businesses are ever changing, we aim to respond to these changes with quick decision-making. We also work for sound business operations. We consider that these activities are important to increase shareholder value.

At the same time, we commit ourselves to establishing better relationships with all of our stakeholders, including our shareholders, customers, clients,

local communities and employees. The Company will enrich its corporate governance in accordance with the law as we strengthen, improve and further develop the system of how our current shareholders' meetings, board of directors and auditors, and accounting audits operate.

Furthermore, we will ensure swift and accurate disclosure of a wide-range of information to our shareholders and other capital providers, and will thereby increase the transparency of the Company's management.

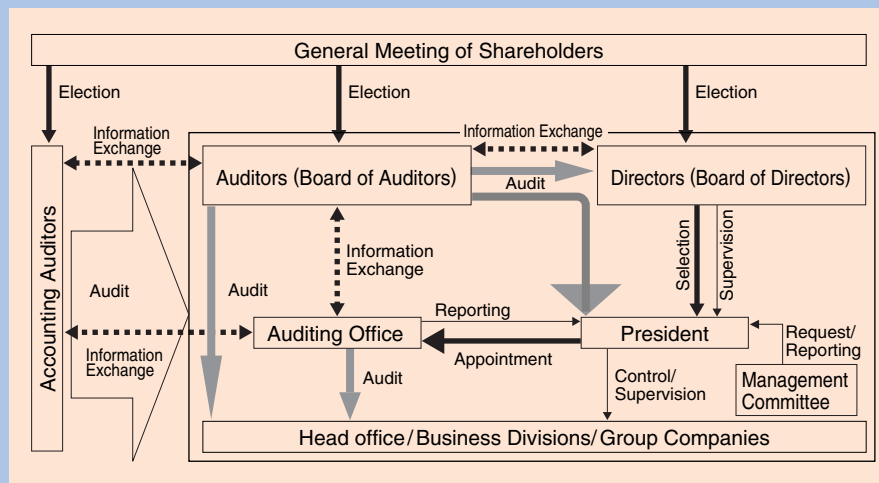
2. Activities for Enhanced Corporate Governance

During the past fiscal year, the Board of Directors met a total of ten times to make decisions on important managerial issues and legal issues, and to oversee the business operations. Yaskawa Electric Corporation adopts an external director in order to assure compliance. In order to clarify the management responsibility and to enable quick response to volatile business environments, amendment to the articles of incorporation to shorten the term of office for directors from two years to one year was resolved at the annual shareholders' meeting in June 2006.

Corporate auditors regularly meet with accounting auditors and internal auditors to exchange information that each of them can learn of for their positions. Also, in order to ensure transparency and enable multidimensional auditing, two external directors are appointed. Ernst & Young ShinNihon is the auditing firm for Yaskawa Electric Corporation. As part of the contract for auditing services, we are required to provide accurate

management information. The auditors provide an environment in which an open and impartial point of view can be attained. In any situation where the accounting auditors' judgment is necessary, the Company will consult with them to receive the necessary support.

In order to upgrade and enhance the Company's internal control system, Business System Reengineering Division was established in March 2006. We will work on standardization of our business, and build highly objective and transparent business processes. The organizational structure concerning the Company's corporate governance is as follows.



3. Compliance for Fair Business Operations

Stricter compliance to the laws and social norms is required for any corporation in conducting their corporate activities. We have carried out business activities based on the Corporate Charter and the Yaskawa Electric Corporate Activity Standards. The Compliance Guidelines were distributed to all employees and the in-house information section was set up. In order to ensure and strengthen the Company's compliance, risk management, appropriate corporate communications, and contribution to the society, Corporate Social Responsibility Promotion Committee was established in March 2006.

With the expansion of corporate activities as well as the invigorated communication with stakeholders including customers and employees, protection of personal information has become a big responsibility that a corporation has to ensure. We formulated the Privacy Policy, the Rules for Dealing with Personal Information, and the Information Security Policy to

protect personal information taking into account the Personal Information Protection Law that came into effect in Japan in April 2005, and have been educating employees of these policies.

Yaskawa Group has also set up and follows Compliance Program to observe export-control-related laws, international rules and their spirits from the standpoint of maintenance of security. In fiscal year 2005, internal inspection was reinforced, and certification system of working-level personnel was set up in order to reconstruct the control system for prevention of errors and omission of review. Also, we have been educating employees including those in Yaskawa Group, and responded to revisions of laws. Furthermore, an official statement on "Measures to Strengthen Japan's Export Controls" from Ministry of Economy, Trade and Industry on March 3, 2006, and legal violation cases of other companies are studied and analyzed to reconsider and improve our internal operations.

Corporate Social Responsibility (CSR)

Yaskawa Electric celebrated the 90th anniversary of its founding in 2005. Over these many years, Yaskawa Electric has contributed to the advancement of industry, from the development of motors made in Japan to the promotion of industrial automation and the creation of Mechatronics and then to robots, always using cutting-edge technologies and products. The management policy, "committing ourselves to the development of society and the well-being of all people through business achievements", has always been the backbone of our business activities. Based on this spirit and as we head toward our centennial anniversary in 2015, we fully intend, in a long term perspective, to meet the expectations of our stakeholders by offering solutions conforming to the reform

and evolution of the social and industrial structure while enhancing our global competitiveness and brand strength.

In FY2006, we established the CSR Promotion Committee to facilitate CSR activities covering compliance, environmental protection, risk management, promotion of customer satisfaction (CS), appropriate public relations, and social contributions. Not only through our business activities in which Yaskawa Electric's technological expertise is applied to serve environmental conservation, but we will also further increase our social contributions through company-wide efforts and activities as a conscientious corporate citizen.

Environmental Protection

Yaskawa Group recognizes that the protection of the earth's environment is one of the most important challenges for all mankind. Thus, we endeavor to fulfill the spirit of our management policy and serve its social responsibility by considering and acting in ways to protect the environment in every aspect of its business activities.

● Actions to Arrest Global Warming

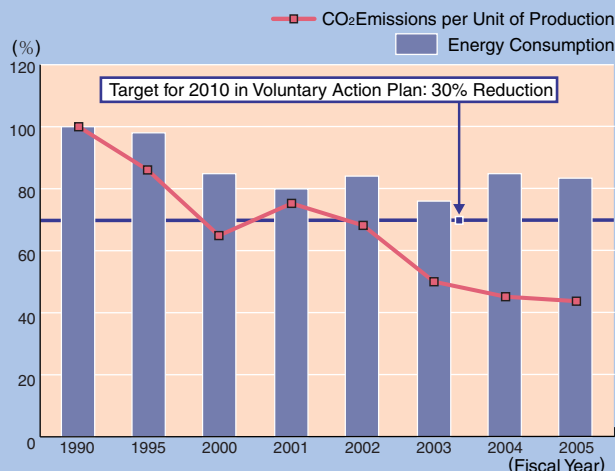
Greenhouse gases emitted by Yaskawa Electric are carbon dioxide (CO₂) and sulfur hexafluoride (SF₆), and we are aggressively working on their reduction. CO₂ emissions are closely related to energy consumption in production activity. Our voluntary action plan originally targeted a 30% reduction in emissions per unit of production by FY2010 compared to the FY1990 level. This target was achieved in FY2002, and furthermore in FY2005 CO₂ emissions dropped by more than 55% from the FY1990 level.

Specifically, the Yukuhashi Plant replaced the conventional oil-fired boiler with one that uses liquefied petroleum gas (LPG) for less CO₂ and NOx per unit of energy.



Removal of Oil-fired Boiler

Energy Consumption and CO₂ Emissions per Unit of Production



Installation of LPG-fired Boiler

● Green Procurement

Yaskawa Electric promotes “green procurement,” which entails purchasing materials that are less of an environmental load, in order to manufacture environmentally friendly products. We procure materials preferentially from the suppliers who are taking a proactive stance on environmental conservation, so that we can work on conservation and preservation of the global environment together with our suppliers.

Assembly with Lead-free Solder



PbF Mark: Means that the printed circuit board was assembled with lead-free solder.

For the 6 chemical substances regulated by the RoHS Directive in Europe [lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls (PBB), and polybrominated diphenyl ethers (PBDE)], we set the date after which the use of materials containing these substances in our products will be restricted and are switching to alternate materials in an aim to abolish the use or reduce the values to within the prescribed standards.

Green Procurement Evaluation Points

◎Evaluation Items on Suppliers

- ISO certification
- Green procurement scheme
- Corporate philosophy/policy and plan/organization regarding environmental conservation
- Scheme for evaluating and reducing environmental impact
- Environmental education and disclosure of environmental information

◎Evaluation Items on Procured Goods & Materials

- Non inclusion of prohibited substances
- Resource saving effort such as reducing the amount of material used or shifting to environment-friendly materials
- Recycle-oriented design
- Disclosure of environmental information on materials
- Effort on environment-friendly packaging materials

Social Contributions

The company management policy advocates “committing ourselves to the development of society and the well-being of all people through business achievements”, and we have considered building a good relationship with the community being an important aspect of management ever since Yaskawa Electric was founded. Besides providing eco-friendly products through business, Yaskawa Group, as a corporate citizen existing in symbiosis with the community, continues to commit to activities which contribute to society.

● Establishment of “Yaskawa Mirai (Future) Club”

The Yaskawa Mirai (Future) Club, a philanthropic association, was established in-house as a part of a commemorative project for Yaskawa Electric's 90th anniversary. The members are those employees of Yaskawa Electric or Yaskawa Group companies who support its aims and voluntarily joined the Club. They contribute a portion of their income to the Club on a regular basis, and the fund

thus raised by the Club is offered for use in campaigns for health and welfare, youth, environmental protection, and tree planting.

Even though individual contributions are very small, the fund will become larger if many participate. The activities of the Yaskawa Future Club have just begun. The Club encourages more people to join so as to be able to better contribute to society.

● Supporting Robot Competition for Students

Yaskawa Electric co-sponsors the annual Technical College Students' Robot contest, popularly known as “Kosen RoboCon”, in which engineers-to-be from around Japan compete in contests focusing on robot production ideas and technology as well as robot performance. We, as a company in the robotics business, support this educational opportunity to encourage many young students to get involved in manufacturing and hope to foster the next generation of talent.



Robot competition

Financial Section

CONTENTS

- 25 Financial Review
- 30 Consolidated Balance Sheets
- 32 Consolidated Statements of Income
- 33 Consolidated Statements of Shareholders' Equity
- 34 Consolidated Statements of Cash Flows
- 35 Notes to Consolidated Financial Statements
- 46 Report of Independent Auditors



Financial Review

Aiming for turning Yaskawa Group into a “high-earnings enterprise”, we have worked on improving its growth, profitability and financial structure with previous mid-term business plan “Win21 Plus” from fiscal year 2003 to 2005. “Win21 Plus” greatly improved our business results compared to the fiscal year 2002 with its focus on the growing markets (semiconductor-related, LCD-related, automobile-related, China and Asian markets) and its effect of drastic reform in the cost structure (reduced fixed costs and made them variable), and left us with a firm basis to further expand our businesses.

Group Overview

Yaskawa Group includes 79 subsidiaries and 26 affiliated companies. Based on the scope of consolidation and application of equity method accounting for the fiscal year ended March 20, 2006, Yaskawa Group comprises 61 consolidated subsidiaries, of which Yaskawa Information Systems Corporation and YE Data Inc. are listed in the second section of Tokyo Stock Exchange. It also includes three non-consolidated subsidiaries to which equity method accounting is applied and 19 affiliated companies to which equity method accounting is applied.

Net Sales

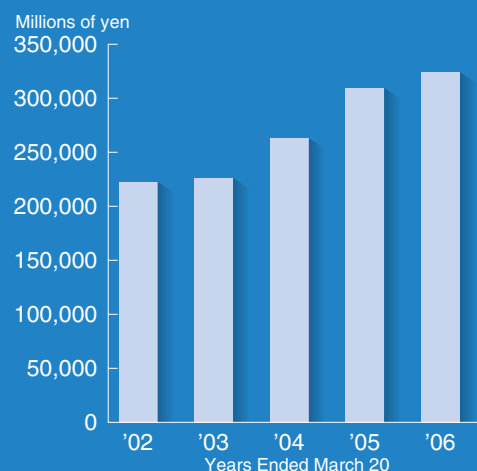
Consolidated net sales in fiscal year 2005 were ¥322,916 million, which was up by 4.3% from the previous fiscal year. It increased for four consecutive fiscal years and broke record high for two consecutive fiscal years. Consolidated sales in the segments of Motion Control and Robotics Automation, which account for 76% of consolidated net sales, increased, however, sales in System Engineering and Information Technologies were lower in fiscal year 2005 as these segments experienced intensifying competition. Regional sales in Americas, Europe, and Asia were all higher than the previous fiscal year, and the ratio of overseas sales rose to 47%.

Profit and Loss

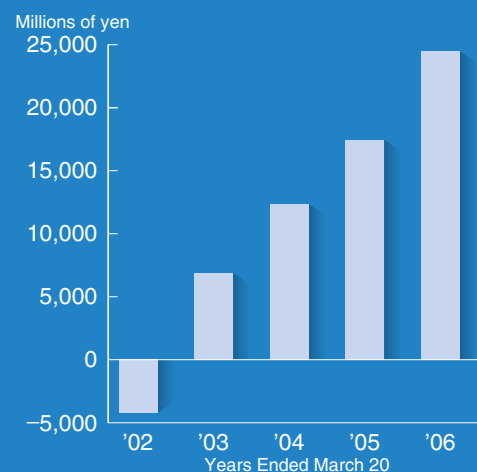
Cost of sales in fiscal year 2005 amounted to ¥232,052 million, 1.1% greater than the previous fiscal year. The cost of sales ratio decreased by 2.2 points to 71.9%. Selling, general and administrative (SG&A) expenses rose by 6.1% to ¥66,377 million. The percentage of SG&A expenses against net sales increased slightly by 0.3 points to 20.5%. As a result, operating income increased by 39.7% to ¥24,486 million, and operating income ratio reached 7.6%, which was up by 1.9 points from the previous fiscal year.

As for the operating income per business segment, Motion Control and Robotics Automation saw significant increases, and operating loss of System Engineering was reduced to a great degree. Information Technologies recorded less operating income due to factors such as reduced sales of high value-added businesses. In terms of geographical areas, all regions including Japan, other countries in Asia, Europe and Americas earned more operating income in fiscal year 2005.

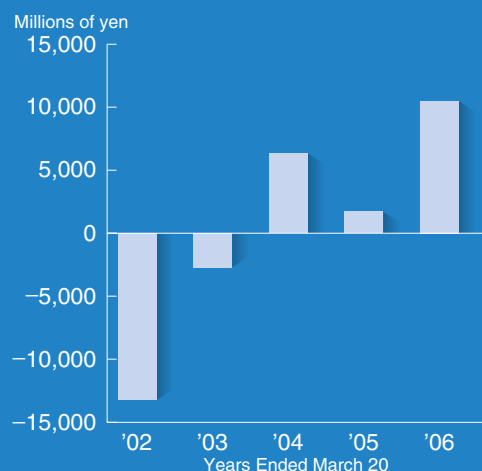
Net Sales



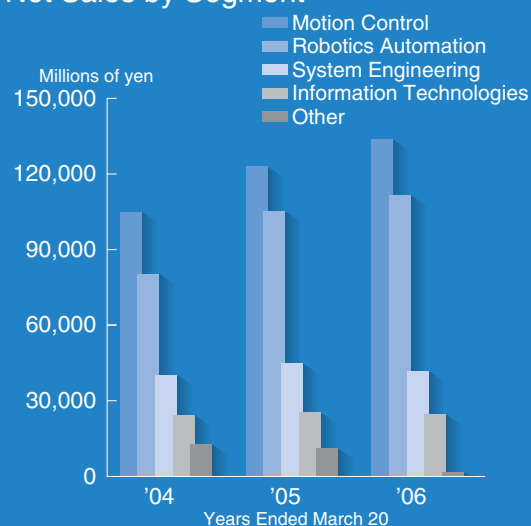
Operating Income(Loss)



Net Income(Loss)



Net Sales by Segment



Non-operating income increased by 42.5% to ¥2,042 million due to equity in earnings of affiliated companies and subsidiaries. Non-operating expenses also increased by 42.2% to ¥2,198 million. As a result, ordinary income was ¥24,331 million, up by 39.7% from the previous fiscal year.

Extraordinary income decreased by ¥2,413 million from the previous fiscal year to ¥447 million due to decrease in sales of fixed assets. Extraordinary losses of this fiscal year decreased by ¥3,560 million to ¥7,492 million as the loss due to the impairment of goodwill at Synetics Solutions Inc. was posted in the previous fiscal year.

As a result of the above, net income before taxes and minority interests totaled ¥17,286 million, up by 87.4% from the previous fiscal year. Net income after deducting income taxes and recording minority interests amounted to ¥10,157 million, up by 446.1% from the previous fiscal year. Net income per share increased from ¥7.8 in the previous fiscal year to ¥43.18 this fiscal year. ROE (return on equity), one of our key management indicators, in the fiscal year 2005 was 22.3%, up by 17.3 points from the previous fiscal year.

Segment Information

Yaskawa Group is organized into five business segments, each with businesses such as production, sales, installation, maintenance, and engineering. These segments are “Motion Control”, “Robotics Automation*”, “System Engineering”, “Information Technologies”, and “Other”. The business performance of each segment is as follows.

※: The name of the “Robotics Automation” segment was changed to “Robotics” in March 2006.

Motion Control

The demand recovery for AC servomotors and controllers gained strength in one of their main markets such as semiconductor- and LCD-related markets that experienced a temporary slowdown in the second half of the previous fiscal year. The demand in the markets for machine tools and metal working machinery in the automobile-related sector also grew steadily. Also, the demand growth for air-conditioning and elevators in Asian markets including China led to a sales increase for our inverters. As for marketing, efforts were made towards market development by strengthening sales operations. In an effort to increase added value, we also marketed new products to raise profitability.

The overall results for the Motion Control segment, compared to the previous fiscal year, show sales increasing by 8.9% to ¥133,909 million and operating income increasing by 34.6% to ¥12,278 million. These results marked record highs.

Robotics Automation

In the automobile-related sector, we successfully increased our market share for robots for arc-welding, spot-welding, and painting by our market strategy and stronger sales operations. However, these markets showed a temporary slowdown in the second half of the fiscal year as capital expenditures came to an adjustment phase. We successfully introduced new robots to meet the needs for fast-transfer and handling bigger-glass, which arose as the demand for LCDs grew. The demand for robots for clean and vacuum environments used in semiconductor production showed recovery during the second half of the fiscal year.

A new robot factory "Motoman Station" was built to increase production capacity and improve productivity.

As a result, sales in Robotics Automation rose by 7.9% to ¥113,458 million compared to the previous fiscal year, and operating income increased by 35.3% to ¥9,850 million. These results were also record highs.

System Engineering

While the fierce market conditions lasted, the System Engineering segment carried out a reform in the profit structure by specializing in its strong businesses and by cost reductions.

Intense competition affected us in the market of automation systems for wastewater process equipments. Efforts were made to take in the demand for steel plant renovation that arose as the demand for steel materials grew.

As a result, sales in System Engineering decreased by 6.7% to ¥41,932 million compared to the previous fiscal year. An operating loss of ¥259 million occurred, however it improved by ¥1,833 million from the previous year.

Information Technologies

Even though YE Data Inc., with businesses in computer peripheral and terminal equipments, was affected by a fall in demand for floppy disk drives, both sales and operating income of the company increased because of the efforts to develop new businesses. On the other hand, Yaskawa Information Systems Corporation, with businesses in information management software and services, was affected by intensifying competition in its business sector and a decrease in sales of high added-value businesses.

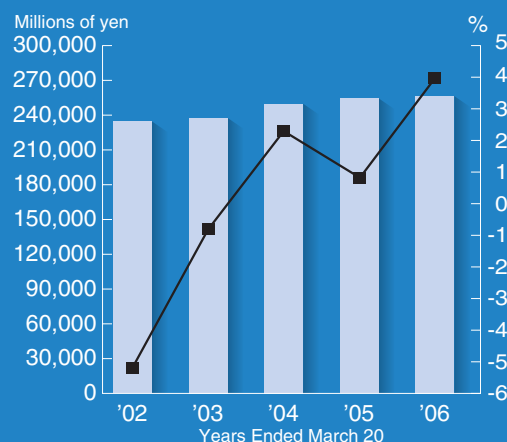
This led to sales in this segment decreasing by 2.5% to ¥24,783 million and operating income decreasing by 30.5% to ¥1,042 million compared to the previous fiscal year.

Other

The Other segment includes businesses such as logistic services and temporary staffing services.

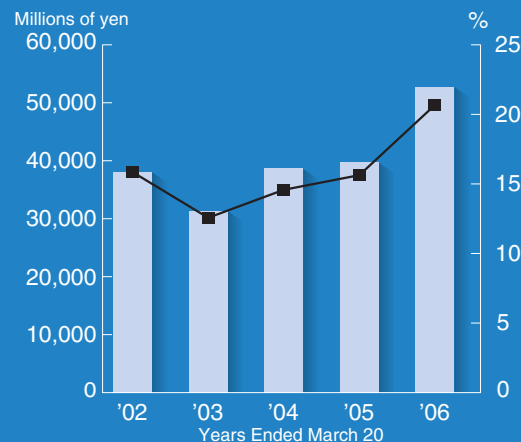
Sales in this segment decreased by 20.8% to ¥8,833 million, and operating income decreased by 3.0% to ¥1,686 million compared to the corresponding period last year.

Total Assets & Return on Assets

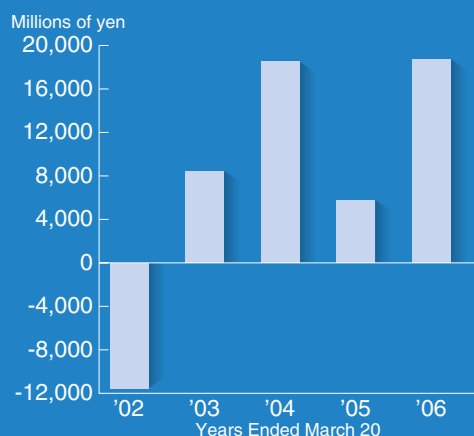


*: Return on assets = Net income / Total assets

Shareholders' Equity & Shareholders' Equity Ratio



Cash Flows from Operating Activities



Financial Position

Total assets increased by ¥784 million from the end the previous fiscal year to ¥255,222 million.

Current assets decreased by ¥6,313 million to ¥169,192 million compared to the corresponding date of previous fiscal year, while trade notes and account receivables decreased by ¥6,116 million, and inventories increased by ¥5,496 million.

As for fixed assets, property, plant, and equipment increased by ¥2,196 million, and investments and other assets increased by ¥5,807 million. Total fixed assets increased by ¥7,097 million to ¥86,030 million.

Total liabilities at the end of the fiscal year 2005 decreased by ¥13,619 million to ¥198,382 million compared to the corresponding date of the previous year.

Total current liabilities decreased by ¥9,863 million while short-term bank loans decreased by ¥8,793 million.

Regarding long-term liabilities, long-term debt decreased by ¥5,826 million and accrued retirement benefits increased by ¥3,351 million. As a result, total long-term liabilities decreased by ¥3,756 million from the end of the previous fiscal year.

Total shareholder's equity at the end of the fiscal year increased by ¥14,383 million compared to the corresponding date of the previous year to ¥52,750 million due to the increase in retained earnings.

Debt / Equity (D/E) ratio, one of our key management indicators, was 2.0 at the end of the previous fiscal year. At the end of the fiscal year 2005, it improved down to 1.2, while interest-bearing debt decreased by ¥15,251 million and shareholders' equity increased by ¥14,384 million from the corresponding date of the previous fiscal year.

Cash Flows

The balance of cash and cash equivalents at the end of the fiscal year 2005 was ¥12,102 million.

Cash flows from operating activities ended at a positive ¥18,724 million. Even though inventories increased by ¥4,505 million, income before income taxes and minority interests amounted to ¥17,286 million, and trade receivables decreased by ¥9,069 million as credit obligations were called in and liquidated. Cash flows from investing activities ended at a negative ¥9,729 million due to purchases of ¥9,300 million of tangible fixed assets.

Free cash flow, which is a sum of cash flows from operating and investing activities, was at a positive ¥8,995 million.

Cash flows from financing activities ended at a negative ¥14,934 million as repayments were made for ¥8,951 million of short-term debt, and ¥5,877 million of long-term debt.

Risk Factors

There are risks, such as those listed below, which may affect Yaskawa Group's business performance and financial position. Any forward-looking statements made as follows were based on the judgments as of March 20, 2006. Yaskawa Group takes all possible measures to prevent outbreak of these risks and take appropriate measures in case of occurrence.

(1) Risks related to economic trends

Yaskawa Group's sales are affected by the economic trends in Japan, America, Europe and Asia (especially China) where our products are sold. We are also affected by the trends in capital expenditures of markets such as semiconductor, LCD, electronic components and automobile industries. Yaskawa Group is greatly affected especially by the trends in capital expenditures, and a fall in capital expenditures of these industries may have a negative impact on the Group's business performance and financial position.

(2) Risks related to foreign exchange fluctuations

Yaskawa Group exports products on a local currency basis in U.S. dollars and Euros, therefore foreign exchange fluctuations may affect the Group's business performance. We set the exchange rates of a U.S. dollar at 110 yen and a euro at 135 yen for the fiscal year 2006. Yen being much stronger than our estimates may lower the competitiveness of our products and affect the Group's business performance and financial position negatively.

(3) Risks related to fluctuations in interest rates

Yaskawa Group has been working on reducing interest-bearing debt, and as of March 20, 2006, it was reduced to ¥62,556 million (down by ¥15,251 million from the corresponding date of previous fiscal year), however, depending on the trends of market interest rates, their fluctuations may affect the Group's business performance and financial position negatively.

(4) Risks related to asset impairment

Yaskawa Group applies accounting for impaired assets in the fiscal year 2006 starting on March 21, 2006. We start measuring the amount of asset impairment. The impairment of fixed assets is registered as an extraordinary loss and may affect the Group's business performance negatively.

(5) Risks related to intensifying competition

Yaskawa Group's each business area is faced with competition. There is no guarantee that we can continue to compete with advantage in the future even in the areas where our products hold large market share if faced with intense competition especially in prices. Fierce price competition may affect the Group's business performance and financial position negatively.

(6) Risks related to changes in market environment

Yaskawa Group's main products, such as AC servomotors and controllers, LCD glass handling robots, and clean-room and vacuum-cluster robots for semiconductor manufacturing equipments, are affected greatly by the trends of semiconductor, LCD, and electronic components industries. If the demand from these industries declines, it may affect the Group's business performance and financial position negatively.

(7) Risks related to procurement of raw materials

Yaskawa Group procures raw materials such as steel and electronic components from various suppliers, however, soaring procurement cost and demand may inhibit us from continuously procuring the necessary amounts. This may affect the Group's production and may have a negative impact on its business performance and financial position.

(8) Risks related to outbreaks of disasters

Yaskawa Group runs businesses globally and in case a large-scale disaster occurs in the regions where we operate, our production base may be shut down, which may have a major impact on our production capacity. It may affect the Group's business performance and financial position negatively.

(9) Risks related to quality problems

Yaskawa Group manufactures products globally in accordance with the Japanese and other countries' quality standards and takes all possible measures for quality control to prevent occurrence of any quality problems. However, there is no guarantee that there is no defect in any of our products and that we are never held liable for our products. Yaskawa Group is insured against product liability, however in case the insurance fails to cover all the costs, it may affect the Group's business performance and financial position negatively.

(10) Risks related to seasonal fluctuations

Yaskawa Group's sales and income have a tendency to gather in the second half of fiscal year as more product deliveries related to private and public capital expenditures are made in that period. Depending on the economic conditions and execution of public work projects in the second half of fiscal year, the Group's business performance and financial position may be affected.

(11) Risks related to lawsuits regarding intellectual property rights

Yaskawa Group utilizes its own intellectual property rights and those licensed to it in its businesses. In the event that the Group is sued by any third party in connection with these rights or any of its business activities, the Group's business performance and financial position may be affected negatively.

Consolidated Balance Sheets

Yaskawa Electric Corporation and Consolidated Subsidiaries

	20th March,		Thousands of U.S. dollars (Note 3)
	Millions of yen		
	2006	2005	2006
Assets			
Current assets:			
Cash and cash equivalents	¥ 12,102	¥ 17,907	\$ 104,112
Short-term investments (Note 4)	99	223	852
Trade receivables			
Notes	13,072	17,765	112,457
Accounts (Note 6)	71,941	73,364	618,901
Allowance for doubtful accounts	(733)	(770)	(6,306)
Inventories (Notes 5 and 6)	58,177	52,682	500,490
Deferred tax assets (Note 8)	7,170	5,689	61,683
Other current assets	7,364	8,645	63,352
Total current assets	169,192	175,505	1,455,541
Property, plant and equipment, at cost (Notes 6 and 14):			
Land	9,425	9,041	81,082
Buildings and structures	37,569	34,874	323,202
Machinery and equipment	31,887	30,521	274,320
Other	23,322	23,471	200,637
	102,203	97,907	879,241
Less accumulated depreciation	(62,547)	(60,447)	(538,085)
Net property, plant and equipment	39,656	37,460	341,156
Investments and other assets:			
Investment securities (Note 4)	18,936	13,614	162,904
Investments in and advances to unconsolidated subsidiaries and affiliates	4,905	4,393	42,197
Deferred tax assets (Note 8)	11,052	11,488	95,079
Other assets	11,482	11,979	98,779
Total investments and other assets	46,375	41,474	398,959
Total assets	¥ 255,223	¥ 254,439	\$ 2,195,656

	20th March,		Thousands of
	Millions of yen		U.S. dollars
	2006	2005	(Note 3)
Liabilities and shareholders' equity			2006
Current liabilities:			
Short-term bank loans (Note 6)	¥ 24,306	¥ 33,342	\$ 209,102
Current portion of long-term debt (Note 6)	5,969	5,725	51,351
Trade payables			
Notes	8,732	10,035	75,120
Accounts	56,350	55,443	484,773
Accrued income taxes (Note 8)	4,797	6,292	41,268
Accrued expenses	16,952	15,424	145,836
Other current liabilities	11,868	12,576	102,099
Total current liabilities	128,974	138,837	1,109,549
Long-term liabilities:			
Long-term debt (Note 6)	32,283	38,741	277,727
Accrued retirement benefits for employees (Note 7)	35,775	32,424	307,768
Deferred tax liabilities (Note 8)	59	13	508
Other long-term liabilities	1,292	1,987	11,115
Total long-term liabilities	69,409	73,165	597,118
Minority interests	4,090	4,070	35,186
Contingent liabilities (Note 9)			
Shareholders' equity (Note 10):			
Common stock:			
Authorised: 560,000,000 shares			
Issued: 232,915,735 shares in 2006			
232,061,682 shares in 2005	15,859	15,542	136,433
Capital surplus	11,329	14,002	97,462
Retained earnings	20,368	7,291	175,224
Net unrealised holding gain on securities	4,739	1,933	40,769
Foreign currency translation adjustments	764	(115)	6,573
Treasury stock, at cost: 753,971 shares in 2006; 751,488 shares in 2005	(309)	(286)	(2,658)
Total shareholders' equity	52,750	38,367	453,803
Total liabilities and shareholders' equity	¥ 255,223	¥ 254,439	\$ 2,195,656

See notes to consolidated financial statements.

Consolidated Statements of Income

Yaskawa Electric Corporation and Consolidated Subsidiaries

	Year ended 20th March,		
	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net sales	¥ 322,917	¥ 309,615	\$ 2,778,020
Cost of sale (Note 11)	232,053	229,498	1,996,327
Gross profit	90,864	80,117	781,693
Selling, general and administrative expenses (Note 11)	66,377	62,589	571,034
Operating income	24,487	17,528	210,659
Other income (expenses):			
Interest and dividend income	293	328	2,521
Interest expense	(1,470)	(1,170)	(12,646)
Other, net (Note 12)	(6,024)	(7,464)	(51,824)
Income before income taxes and minority interests	17,286	9,222	148,710
Income taxes (Note 8):			
Current	9,618	8,968	82,743
Deferred	(2,803)	(1,754)	(24,114)
Income before minority interests	10,471	2,008	90,081
Minority interests	314	148	2,701
Net income	¥ 10,157	¥ 1,860	\$ 87,380

Per share of common stock

	Yen	U.S. dollars (Note 3)
Net income – basic	¥ 43.18	¥ 7.80 \$ 0.371
Net income – diluted	39.72	7.30 0.342
Cash dividends	6.00	— 0.052

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Yaskawa Electric Corporation and Consolidated Subsidiaries

	Year ended 20th March,		
	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Common stock			
Balance at beginning of year	¥ 15,542	¥ 15,541	\$ 133,706
Conversion of convertible bonds	—	1	—
Exercise of stock acquisition rights	317	—	2,727
Balance at end of year	¥ 15,859	¥ 15,542	\$ 136,433
Capital surplus			
Balance at beginning of year	¥ 14,002	¥ 14,000	\$ 120,458
Conversion of convertible bonds	—	1	—
Exercise of stock acquisition rights	315	—	2,710
Gain on sales of treasury stock	1	1	8
Transfer to retained earnings (Note 10)	(2,989)	—	(25,714)
Balance at end of year	¥ 11,329	¥ 14,002	\$ 97,462
Retained earnings			
Balance at beginning of year	¥ 7,291	¥ 6,172	\$ 62,724
Net income	10,157	1,860	87,380
Cash dividends	—	(696)	—
Bonuses to directors and corporate auditors	(69)	(110)	(594)
Effect of increase in affiliates accounted for by the equity method	36	3	310
Effect of decrease in consolidated subsidiaries	(36)	—	(310)
Effect of decrease in affiliates accounted for by the equity method	—	62	—
Transfer from additional paid-in capital (Note 10)	2,989	—	25,714
Balance at end of year	¥ 20,368	¥ 7,291	\$ 175,224
Net unrealised holding gain on securities			
Balance at beginning of year	¥ 1,933	¥ 1,041	\$ 16,629
Net changes during the year	2,806	892	24,140
Balance at end of year	¥ 4,739	¥ 1,933	\$ 40,769
Foreign currency translation adjustments			
Balance at beginning of year	¥ (115)	¥ 154	\$ (989)
Net changes during the year	879	(269)	7,562
Balance at end of year	¥ 764	¥ (115)	\$ 6,573
Treasury stock, at cost			
Balance at beginning of year	¥ (286)	¥ (192)	\$ (2,460)
Net changes during the year	(23)	(94)	(198)
Balance at end of year	¥ (309)	¥ (286)	\$ (2,658)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Yaskawa Electric Corporation and Consolidated Subsidiaries

	Year ended 20th March,		
	Thousands of		U.S. dollars (Note 3)
	Millions of yen		
	2006	2005	2006
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 17,286	¥ 9,222	\$ 148,710
Depreciation and amortization	6,699	6,499	57,631
Gain on sales of property, plant and equipment	(204)	(1,744)	(1,755)
Loss on devaluation of investment securities	13	30	112
Gain on sales of investment securities	(81)	(469)	(697)
Gain on sales of investments in affiliates	—	(561)	—
Impairment loss on goodwill	—	4,056	—
Interest and dividend income	(293)	(328)	(2,521)
Interest expense	1,470	1,170	12,646
Provision for employees' retirement benefits, net of payments	3,351	3,141	28,828
Decrease (increase) in trade receivables	9,070	(6,860)	78,028
(Increase) decrease in inventories	(4,505)	1,440	(38,756)
(Decrease) increase in trade payables	(1,742)	2,255	(14,986)
Other, net	493	(5,792)	4,241
Subtotal	31,557	12,059	271,481
Interest and dividends received	307	356	2,641
Interest paid	(1,462)	(1,179)	(12,577)
Income taxes paid	(11,677)	(5,447)	(100,456)
Net cash provided by operating activities	18,725	5,789	161,089
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets	(9,301)	(6,890)	(80,015)
Proceeds from sales of property, plant and equipment and intangible assets	434	2,776	3,734
Purchases of investment securities	(646)	(2,813)	(5,557)
Proceeds from sales of investment securities	231	939	1,987
Purchases of investments in affiliates	(257)	(133)	(2,211)
Proceeds from sales of investments in affiliates	—	871	—
Proceeds from expropriation of property, plant and equipment	—	3,556	—
Other, net	(191)	(548)	(1,644)
Net cash used in investing activities	(9,730)	(2,242)	(83,706)
Cash flows from financing activities			
Net decrease in short-term debt	(8,952)	(1,901)	(77,013)
Proceeds from long-term debt	31	5,391	267
Repayments of long-term debt	(5,877)	(5,357)	(50,559)
Proceeds from issuance of bonds, net	—	14,903	—
Redemption of bonds	—	(14,998)	—
Dividends paid to stockholders of the Company	—	(696)	—
Dividends paid to minority shareholders	(188)	(205)	(1,617)
Other, net	51	40	438
Net cash used in financing activities	(14,935)	(2,823)	(128,484)
Effect of exchanges rate changes on cash and cash equivalents	309	85	2,658
Net (decrease) increase in cash and cash equivalents	(5,631)	809	(48,443)
Cash and cash equivalents at beginning of year	17,907	17,098	154,052
Decrease due to exclusion of subsidiaries from consolidation	(174)	—	(1,497)
Cash and cash equivalents at end of year	¥ 12,102	¥ 17,907	\$ 104,112

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Yaskawa Electric Corporation and Consolidated Subsidiaries

1. Basis of Preparation

YASKAWA ELECTRIC CORPORATION (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to 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.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Significant companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions are eliminated in consolidation.

The excess of cost over underlying net assets at fair value as of the dates of acquisition is amortised over a period of 5 years on a straight-line basis.

Investments in subsidiaries and affiliates, which are not consolidated or accounted for by the equity method, are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Certain subsidiaries are consolidated on the basis of fiscal periods ending 20th December, 31st December or the end of February, which differ from that of the Company. The necessary adjustments are made to the financial statements of such subsidiaries to reflect any significant transactions from their respective fiscal year ends to 20th March.

(b) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made.

The resulting exchange gains and losses are credited or charged to income.

The revenue and expense accounts of the foreign subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. Except for the components of shareholders' equity, the balance sheet accounts are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments are presented as a component of shareholders' equity and minority interests in the accompanying consolidated financial statements.

(d) Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities.

Trading securities are carried at fair value and held-to-maturity securities are carried at amortised cost. The Company had neither trading nor held-to-maturity securities as of 20th March, 2006 and 2005. Marketable securities classified as other securities are carried at fair value with changes in unrealised holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are principally carried at cost. Cost of securities sold is principally determined by the moving average method.

(e) Inventories

Ordered finished products and work in process are mainly stated at cost determined by the specific identification method. Standard finished products, semi-finished products and raw materials are mainly stated at cost determined by the average method.

(f) Allowance for doubtful accounts

The allowance for doubtful receivables is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(g) Property, plant and equipment

Depreciation of property, plant and equipment is determined primarily by the declining-balance method, except for buildings of the Company and certain subsidiaries on which depreciation is computed primarily by the straight-line method, at rates based on the estimated useful lives of the respective assets. The useful lives of property, plant and equipment are summarised as follows:

Buildings and structures 3 to 50 years

Machinery and equipment 3 to 17 years

Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

(h) Intangible fixed assets

Intangible fixed assets are amortised by the straight-line method.

Goodwill recorded by the Company's U.S. consolidated subsidiaries has been accounted for in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and certain other intangible assets which have an indefinite useful life will no longer be amortised, but will be devalued for impairment on an annual basis and between annual tests as well if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying amount.

Capitalised costs of computer software for internal use are amortised over a period of five years.

(i) Accrued retirement benefits for employees

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognised net retirement benefit obligation at transition, unrecognised prior service cost and unrecognised actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of employees.

The net retirement benefit obligation at transition is being amortised principally over a period of five years by the straight-line method. Prior service cost is amortised as incurred over the average remaining years of services of employees by the straight-line method. Actuarial gain or loss is amortised in the year following the year in which the gain or loss is recognised primarily by the straight-line method over the average remaining years of service of the employees.

(j) Leases

Non-cancelable lease transactions are primarily accounted for as operating leases except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(k) Research and development expenses and advertising costs

Research and development expenses and advertising costs are charged to income as incurred.

(l) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(m) Amounts per share

Basic net income per share is computed based on the net income attributable 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 attributable to the shareholders and the weighted average number of shares of common stock outstanding during each year assuming full exercise of stock acquisition rights.

Cash dividends per share represent the cash dividends declared as applicable to the respective years.

(n) Derivative financial instruments

The Company has entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates. Derivative financial instruments are carried at fair value with changes in unrealised gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealised gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(o) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Notes 10 and 16.

(p) Accounting for royalty income

Until the year ended 20th March, 2005, royalty income had been accounted for as other income. Effective the year ended 20th March, 2006, however, royalty income has been accounted for as net sales considering the fact that the growing shift of production to others will result in an increase in its materiality.

The effect of this change on net sales and operating income was immaterial for the year ended 20th March, 2006.

(q) New accounting standard

A new Japanese accounting standard, "Impairment of Fixed Assets," was issued in August 2002 to become effective for the Company's fiscal years beginning on or after 21st March, 2006. This standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies are required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The Company is currently assessing the impact of this new accounting standard on its financial position and operating results.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥116.24 = US\$1.00, the exchange rate prevailing on 20th March, 2006. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Securities

a) Information regarding marketable securities classified as other securities as of 20th March, 2006 and 2005 is as follows:

	20th March, 2006					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition Cost	Carrying Value	Difference	Acquisition Cost	Carrying Value	Difference
Securities whose carrying value exceeds their acquisition cost:						
Stocks	¥ 6,209	¥ 14,537	¥ 8,328	\$ 53,416	\$ 125,060	\$ 71,644
Bonds	20	21	1	172	181	9
Others	39	60	21	335	516	181
Subtotal	¥ 6,268	¥ 14,618	¥ 8,350	\$ 53,923	\$ 125,757	\$ 71,834
Securities whose acquisition cost exceeds their carrying value:						
Stocks	¥ 1,765	¥ 1,527	¥ (238)	\$ 15,184	\$ 13,137	\$ (2,047)
Bonds	18	18	—	155	155	—
Others	500	429	(71)	4,301	3,690	(611)
Subtotal	¥ 2,283	¥ 1,974	¥ (309)	\$ 19,640	\$ 16,982	\$ (2,658)
Total	¥ 8,551	¥ 16,592	¥ 8,041	\$ 73,563	\$ 142,739	\$ 69,176

20th March, 2005			
Millions of yen			
	Acquisition Cost	Carrying Value	Difference
Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥ 5,027	¥ 8,657	¥3,630
Bonds	92	93	1
Others	39	41	2
Subtotal	¥ 5,158	¥ 8,791	¥ 3,633
Securities whose acquisition cost exceeds their carrying value:			
Stocks	¥ 2,946	¥ 2,566	¥ (380)
Bonds	70	70	—
Subtotal	¥ 3,016	¥ 2,636	¥ (380)
Total	¥ 8,174	¥ 11,427	¥ 3,253

b) Sales of securities classified as other securities for the years ended 20th March, 2006 and 2005 is summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Proceeds from sales	¥ 106	¥ 939	\$ 912
Gains on sales	81	469	697

c) The redemption schedule for securities with maturity dates classified as other securities as of 20th March, 2006 is summarised as follows:

20th March, 2006								
	Millions of yen				Thousands of U.S. dollars			
	Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due after 10 years	Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due after 10 years
Bonds	¥ 26	—	¥ 12	—	\$ 224	—	\$ 103	—
Total	¥ 26	—	¥ 12	—	\$ 224	—	\$ 103	—

5. Inventories

Inventories at 20th March, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished products	¥ 26,003	¥ 21,024	\$ 223,701
Semifinished products and work in process	14,351	14,165	123,460
Raw materials	17,823	17,493	153,329
	¥ 58,177	¥ 52,682	\$ 500,490

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

Short-term bank loans at 20th March, 2006 and 2005 consisted of following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Secured	¥ 556	¥ 1,225	\$ 4,783
Unsecured	23,750	32,117	204,319
	¥ 24,306	¥ 33,342	\$ 209,102

Long-term debt at 20th March, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Unsecured 0.0% bonds in yen due 2009 with stock acquisition rights	¥ 14,368	¥ 15,000	\$ 123,606
Unsecured 1.66% bonds in yen due 2008	10,000	10,000	86,029
Bank loans with interest rates ranging from 1.04% to 7.07%, due, in installments, through 2011:			
Secured	2,204	2,397	18,961
Unsecured	11,680	17,069	100,482
	38,252	44,466	329,078
Current portion of long-term debt	(5,969)	(5,725)	(51,351)
	¥ 32,283	¥ 38,741	\$ 277,727

At 20th March, 2006, the stock acquisition rights incorporated in the unsecured 0.0% bonds, unless the bonds have been previously redeemed or purchased and cancelled or become due and repayable, entitle the bearer to acquire fully-paid and non-assessable shares of common stock of the Company at a conversion price of ¥740. The rights are exercisable up to and including 10th August, 2009.

At 20th March, 2006, if all the outstanding stock acquisition rights had been exercised at the then current conversion price, 19,416 thousand new shares of common stock would have been issuable.

The aggregate annual maturities of long-term debt subsequent to 20th March, 2006 are summarised as follows:

Year ending 20th March,	Millions of yen	Thousands of U.S. dollars
2007	¥ 5,969	\$ 51,351
2008	13,665	117,558
2009	2,997	25,783
2010	15,593	134,145
2011	17	146
2012 and thereafter	11	95
	¥ 38,252	\$ 329,078

The assets pledged as collateral for short-term bank loans and long-term bank loans at 20th March, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Accounts receivable	¥ 3,637	¥ 2,683	\$ 31,289
Inventories	4,703	3,252	40,459
Property, plant and equipment, at net book value	2,299	3,078	19,778
	¥ 10,639	¥ 9,013	\$ 91,526

7. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of 20th March, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥ (77,114)	¥ (77,489)	\$ (663,403)
Plan assets at fair value	27,653	22,652	237,895
Unfunded retirement benefit obligation	(49,461)	(54,837)	(425,508)
Unrecognized net retirement benefit obligation at transition	—	3,576	—
Unrecognized actuarial loss	18,006	23,465	154,904
Unrecognized prior service cost	(4,320)	(4,628)	(37,164)
Accrued retirement benefits for employees	¥ (35,775)	¥ (32,424)	\$ (307,768)

Effective 1st April, 2004, the Company and nine domestic consolidated subsidiaries amended their retirement benefit plans which resulted in a recognition of prior service cost of ¥4,937 million for the year ended 20th March, 2005.

The components of retirement benefit expenses for the years ended 20th March, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 2,248	¥ 2,287	\$ 19,339
Interest cost	1,913	1,899	16,457
Expected return on plan assets	(560)	(526)	(4,817)
Amortization of net retirement benefit obligation at transition	3,576	3,576	30,764
Amortization of net actuarial loss	1,705	1,644	14,668
Amortization of prior service cost	(309)	(309)	(2,658)
Total	¥ 8,573	¥ 8,571	\$ 73,753

The assumptions used in the accounting for the above plans are as follows:

	2006	2005
Discount rate	2.5%	2.5%
Expected return on plan assets	2.5%	2.5%

8. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, enterprise tax and inhabitants' taxes which, in the aggregate, resulted in statutory tax rates of approximately 40.4% and 41.7% for the years ended 20th March, 2006 and 2005, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rate reflected in the consolidated statements of income for the year ended 20th March, 2005 differs from the statutory tax rate for the following reasons:

	2005
Statutory tax rate	41.7%
Effect of:	
Expenses not deductible for income tax purposes	3.0
Elimination of dividend income from overseas subsidiaries	15.0
Equity in earnings or losses of unconsolidated subsidiaries and affiliates	(2.9)
Changes in valuation allowance	24.1
Adjustment in deferred tax assets and liabilities due to the change in tax rate	-
Other, net	(2.7)
Effective tax rate	78.2%

The difference between the effective tax rate and the statutory tax rate reflected in the accompanying consolidated statement of income for the year ended 20th March, 2006 is less than 5% and, therefore, no reconciliation has been disclosed.

The significant components of deferred tax assets and liabilities as of 20th March, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Allowance for doubtful accounts	¥ 239	¥ 162	\$ 2,056
Accrued bonus	2,438	2,250	20,974
Retirement allowances	13,843	12,099	119,090
Investment securities	581	431	4,998
Constructive dividend	241	289	2,073
Inventories	1,376	1,106	11,838
Goodwill	1,454	1,425	12,509
Tax loss carryforwards	2,135	2,325	18,367
Other	4,576	3,248	39,367
Total gross deferred tax assets	26,883	23,335	231,272
Valuation allowance	(5,408)	(4,806)	(46,525)
Total deferred tax assets	21,475	18,529	184,747
Deferred tax liabilities:			
Net unrealised holding gain on securities	(3,248)	(1,316)	(27,942)
Other	(65)	(77)	(559)
Total deferred tax liabilities	(3,313)	(1,393)	(28,501)
Net deferred tax assets	¥ 18,162	¥ 17,136	\$ 156,246

9. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at 20th March, 2006:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥ 4,717	\$ 40,580
Beneficiary certificates of notes receivable trusts transferred	8,660	74,501
Guarantor of indebtedness of employees	189	1,626
Guarantor of indebtedness of Yaskawa Electrico do Brasil	267	2,297
Guarantor of indebtedness of others	133	1,144

10. Capital surplus and Retained Earnings

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to a legal reserve until the total of such reserve and the capital surplus account equals 25% of the common stock account. No legal reserve was recorded at 20th March, 2006 and 2005.

The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code also provides that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. During the year ended 20th March, 2006, capital surplus in the amount of ¥2,989 million was transferred to retained earnings to eliminate a deficit in accordance with the resolution by shareholders.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on 1st May, 2006. The Law stipulates similar requirements on distribution of earnings to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

11. Research and Development Expenses

Research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended 20th March, 2006 and 2005 amounted to ¥8,073 million (\$69,451 thousand) and ¥7,738 million, respectively.

12. Other Income (Expenses)

Other income (expenses) – other, net for the years ended 20th March, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Gain on sales of investment securities	¥ 81	¥ 469	\$ 697
Gain on sales of investments in affiliates	—	561	—
Royalty income (Note 2(p))	—	45	—
Foreign exchange gain	273	76	2,349
Equity in earnings of affiliates	874	268	7,519
Gain on sales of property, plant and equipment	204	1,744	1,755
Loss on devaluation of investment securities	(13)	(30)	(112)
Amortisation of net retirement benefit obligation at transition	(3,576)	(3,576)	(30,764)
Business restructuring costs	(2,649)	(1,904)	(22,789)
Impairment loss on goodwill	—	(4,056)	—
Loss on sales of trade receivables	(399)	(138)	(3,433)
Reversal of allowance for doubtful accounts	88	—	757
Other, net	(907)	(923)	(7,803)
	¥ (6,024)	¥ (7,464)	¥ (51,824)

13. Derivative Financial Instruments

The Company has entered into forward foreign exchange contracts and interest rate swaps in order to hedge risks of adverse fluctuations in foreign currency exchange rates and interest rates associated with export-import transactions and financial liabilities, but does not enter into such transactions for speculative purposes.

The Company is exposed to credit risk in the event of nonperformance by the counterparties to the derivative transactions, but any such loss would not be material because the Company enters into transactions only with financial institutions with high credit ratings.

Execution of all derivative transactions is conducted pursuant to the internal management rule for derivatives which includes limitation of transaction amounts. A derivative transaction is executed by the treasury group in accordance with a policy approved by the officer in charge of Treasury and the treasury group keeps records of the transactions and reconciles the balances with the counterparties. In addition, the treasury group reports details of the transactions and related balances to the officer in charge of Treasury and the accounting group.

The fair value of the Company's derivative financial instruments at 20th March, 2006 and 2005 were as follows:

20th March, 2006						
Millions of yen			Thousands of U.S. dollars			
		Unrealised gains			Unrealised gains	
	Contract amount	Fair value	(losses)	Contract amount	Fair value	(losses)
Forward foreign exchange contracts:						
Sell						
U.S. dollars	¥ 2,668	¥ 2,666	¥ 2	\$ 22,952	\$ 22,935	\$ 17
Euro	3,911	3,935	(24)	33,646	33,852	(206)
Total	¥ 6,579	¥ 6,601	¥ (22)	\$ 56,598	\$ 56,787	\$ (189)
Buy						
U.S. dollars	¥ 1,412	¥ 1,397	¥ (15)	\$ 12,147	\$ 12,018	\$ (129)
Euro	1,575	1,581	6	13,550	13,601	51
Yen	107	108	1	920	929	9
Total	¥ 3,094	¥ 3,086	¥ (8)	\$ 26,617	\$ 26,548	\$ (69)
Currency options:						
Sell call options						
Euro	¥ 183	¥ (1)	¥ 2	\$ 1,574	\$ (8)	\$ 18
(Premium)	(3)			(26)		
Buy put options						
Euro	183	1	(1)	1,574	9	(9)
(Premium)	(2)			(18)		
Total	¥ 366	—	¥ 1	\$ 3,148	\$ 1	\$ 9
(Premium)	(1)			(8)		

20th March, 2005						
Millions of yen			Thousands of U.S. dollars			
		Unrealised gains			Unrealised gains	
	Contract amount	Fair value	(losses)	Contract amount	Fair value	(losses)
Forward foreign exchange contracts:						
Sell						
U.S. dollars	\$ 593	\$ 596	\$ (3)			
Euro	1,141	1,175	(34)			
Total	\$ 1,734	\$ 1,771	\$ (37)			

Note: The contract amounts of the forward foreign exchange contracts presented above exclude those entered into to hedge receivables and payables denominated in foreign currencies which have been translated and are reflected at their corresponding contracted rates in the accompanying consolidated balance sheets, but include those entered into to hedge intercompany receivables and payables which have been eliminated in consolidation. In addition, the disclosure of fair value of derivatives accounted for as hedges has been omitted.

14. Leases

a) Lessors' accounting

The following amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets relating to finance leases accounted for as operating leases at 20th March, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Acquisition costs:			
Tools, furniture and fixtures	¥ 268	¥ 26	\$ 2,306
Accumulated depreciation:			
Tools, furniture and fixtures	129	23	1,110
Net book value:			
Tools, furniture and fixtures	¥ 139	¥ 3	\$ 1,196

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥42 million (\$361 thousand) and ¥5 million for the years ended 20th March, 2006 and 2005, respectively. Depreciation of the assets leased under finance leases accounted for as operating leases amounted to ¥42 million (\$361 thousand), and ¥5 million for the years ended 20th March, 2006 and 2005, respectively.

Future minimum lease income subsequent to 20th March, 2006 from finance leases accounted for as operating leases is summarised as follows:

Year ending 20th March,	Millions of yen	Thousands of U.S. dollars
2007	¥ 40	\$ 344
2008 and thereafter	99	852
Total	¥ 139	\$ 1,196

b) Lessees' accounting

The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation and net book value of the leased property as of 20th March, 2006 and 2005 which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Acquisition costs:			
Tools, furniture and fixtures	¥ 3,920	¥ 2,855	\$ 33,723
Software	1,136	1,096	9,773
Other	263	249	2,263
	¥ 5,319	¥ 4,200	\$ 45,759
Accumulated depreciation:			
Tools, furniture and fixtures	¥ 2,019	¥ 1,681	\$ 17,369
Software	693	588	5,962
Other	134	128	1,153
	¥ 2,846	¥ 2,397	\$ 24,484
Net book value:			
Tools, furniture and fixtures	¥ 1,901	¥ 1,174	\$ 16,354
Software	443	508	3,811
Other	129	121	1,110
	¥ 2,473	¥ 1,803	\$ 21,275

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,010 million (\$8,689 thousand) and ¥825 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms, for the years ended 20th March, 2006 and 2005, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to 20th March, 2006 on non-cancelable operating leases and finance leases accounted for as operating leases are summarised as follows:

Year ending 20th March,	Millions of yen		Thousands of U.S. dollars	
	Finance leases	Operating leases	Finance leases	Operating leases
2007	¥ 856	¥ 929	\$ 7,364	\$ 7,992
2008 and thereafter	1,617	4,134	13,911	35,564
Total	¥ 2,473	¥ 5,063	\$ 21,275	\$ 43,556

15. Segment Information

Business segments

The business segment information for the Company and its consolidated subsidiaries for the years ended 20th March, 2006 and 2005 is outlined as follows:

Year ended 20th March, 2006								
Millions of yen								
	Motion Control	Robotics Automation	System Engineering	Information Technologies	Other	Total	Eliminations or Corporate	Consolidated
Net sales								
Sales to third parties	¥ 133,909	¥ 113,459	¥ 41,932	¥ 24,784	¥ 8,833	¥ 322,917	¥ –	¥ 322,917
Inter-segment sales and transfers	17,004	1,254	2,841	2,746	22,122	45,967	(45,967)	–
Total sales	150,913	114,713	44,773	27,530	30,955	368,884	(45,967)	322,917
Operating costs and expenses	138,634	104,863	45,033	26,487	29,269	344,286	(45,856)	298,430
Operating income (loss)	¥ 12,279	¥ 9,850	¥ (260)	¥ 1,043	¥ 1,686	¥ 24,598	¥ (111)	¥ 24,487
Total assets	¥ 96,641	¥ 74,526	¥ 31,851	¥ 21,871	¥ 14,884	¥ 239,773	¥ 15,450	¥ 255,223
Depreciation	4,210	1,437	800	203	201	6,851	(152)	6,699
Capital expenditures	4,321	3,262	1,046	234	413	9,276	(121)	9,155

Year ended 20th March, 2006								
Thousands of U.S. dollars								
	Motion Control	Robotics Automation	System Engineering	Information Technologies	Other	Total	Eliminations or Corporate	Consolidated
Net sales								
Sales to third parties	\$ 1,152,005	\$ 976,075	\$ 360,737	\$ 213,214	\$ 75,989	\$ 2,778,020	\$ –	\$ 2,778,020
Inter-segment sales and transfers	146,283	10,788	24,441	23,624	190,313	395,449	(395,449)	–
Total sales	1,298,288	986,863	385,178	236,838	266,302	3,173,469	(395,449)	2,778,020
Operating costs and expenses	1,192,653	902,125	387,414	227,865	251,798	2,961,855	(394,494)	2,567,361
Operating income (loss)	\$ 105,635	\$ 84,738	\$ (2,236)	\$ 8,973	\$ 14,504	\$ 211,614	\$ (955)	\$ 210,659
Total assets	\$ 831,392	\$ 641,139	\$ 274,011	\$ 188,154	\$ 128,045	\$ 2,062,741	\$ 132,915	\$ 2,195,656
Depreciation	36,218	12,363	6,882	1,746	1,729	58,938	(1,307)	57,631
Capital expenditures	37,173	28,063	8,999	2,013	3,553	79,801	(1,041)	78,760

Year ended 20th March, 2005								
Millions of yen								
	Motion Control	Robotics Automation	System Engineering	Information Technologies	Other	Total	Eliminations or Corporate	Consolidated
Net sales								
Sales to third parties	¥ 122,944	¥ 105,164	¥ 44,931	¥ 25,422	¥ 11,154	¥ 309,615	¥ –	¥ 309,615
Inter-segment sales and transfers	15,919	2,667	1,970	3,460	21,431	45,447	(45,447)	–
Total sales	138,863	107,831	46,901	28,882	32,585	355,062	(45,447)	309,615
Operating costs and expenses	129,741	100,549	48,993	27,382	30,846	337,511	(45,424)	292,087
Operating income (loss)	¥ 9,122	¥ 7,282	¥ (2,092)	¥ 1,500	¥ 1,739	¥ 17,551	¥ (23)	¥ 17,528
Total assets	¥ 95,365	¥ 74,108	¥ 34,344	¥ 22,754	¥ 15,418	¥ 241,989	¥ 12,450	¥ 254,439
Depreciation	4,279	1,386	629	171	259	6,724	(225)	6,499
Capital expenditures	4,976	1,694	969	177	165	7,981	(63)	7,918

Notes: 1) The business segments are classified based on similarity of product nature and manufacturing methods and selling methods, etc.

2) Corporate assets included in "Eliminations or Corporate" at 20th March, 2006 and 2005 amounted to ¥29,331 million (\$252,331 thousand) and ¥28,016 million, respectively. Those assets principally consisted of excess funds (cash and cash equivalents and short-term investments) and long-term investments (investment securities) of the Company.

3) Depreciation and capital expenditures include amortisation of and additions to long-term prepaid expenses.

Geographical areas

The geographical segment information for the Company and its consolidated subsidiaries for the years ended 20th March, 2006 and 2005 is outlined as follows:

Year ended 20th March, 2006						
Millions of yen						
	Japan	The Americas	Europe	Asia	Total	Eliminations & Corporate Consolidated
Net sales						
Sales to third parties	¥ 208,729	¥ 50,353	¥ 38,235	¥ 25,600	¥ 322,917	¥ – ¥ 322,917
Inter-segment sales and transfers	47,865	312	372	8,286	56,835	(56,835) –
Total sales	256,594	50,665	38,607	33,886	379,752	(56,835) 322,917
Operating costs and expenses	242,634	46,136	35,017	30,908	354,695	(56,265) 298,430
Operating income	¥ 13,960	¥ 4,529	¥ 3,590	¥ 2,978	¥ 25,057	¥ (570) ¥ 24,487
Total assets	¥ 174,642	¥ 26,419	¥ 23,489	¥ 19,021	¥ 243,571	¥ 11,652 ¥ 255,223

Year ended 20th March, 2006						
Thousands of U.S. dollars						
	Japan	The Americas	Europe	Asia	Total	Eliminations & Corporate Consolidated
Net sales						
Sales to third parties	\$ 1,795,673	\$ 433,181	\$ 328,932	\$ 220,234	\$ 2,778,020	\$ – \$ 2,778,020
Inter-segment sales and transfers	411,777	2,684	3,200	71,284	488,945	(488,945) –
Total sales	2,207,450	435,865	332,132	291,518	3,266,965	(488,945) 2,778,020
Operating costs and expenses	2,087,354	396,903	301,247	265,898	3,051,402	(484,041) 2,567,361
Operating income	\$ 120,096	\$ 38,962	\$ 30,885	\$ 25,620	\$ 215,563	\$ (4,904) \$ 210,659
Total assets	\$ 1,502,426	\$ 227,280	\$ 202,073	\$ 163,636	\$ 2,095,415	\$ 100,241 \$ 2,195,656

Year ended 20th March, 2005						
Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations & Corporate Consolidated
Net sales						
Sales to third parties	¥ 214,891	¥ 41,785	¥ 34,306	¥ 18,633	¥ 309,615	¥ – ¥ 309,615
Inter-segment sales and transfers	42,472	176	515	5,178	48,341	(48,341) –
Total sales	257,363	41,961	34,821	23,811	357,956	(48,341) 309,615
Operating costs and expenses	247,637	38,649	31,719	21,955	339,960	(47,873) 292,087
Operating income	¥ 9,726	¥ 3,312	¥ 3,102	¥ 1,856	¥ 17,996	¥ (468) ¥ 17,528
Total assets	¥ 199,897	¥ 22,354	¥ 22,033	¥ 14,001	¥ 258,285	¥ (3,846) ¥ 254,439

Notes: 1) Geographical areas are divided into categories based on their geographical proximity.

2) Major nations or regions included in each geographical area:

- (1) The Americas – the U.S.A. and other
- (2) Europe – Germany, Sweden, the United Kingdom
- (3) Asia – Singapore, Korea, the People's Republic of China

3) Corporate assets included in "Eliminations or Corporate" at 20th March, 2006 and 2005 amounted to ¥29,331 million (\$252,331 thousand) and ¥28,016 million, respectively. Those assets principally consisted of excess funds (cash and cash equivalents and short-term investments) and long-term investments (investment securities) of the Company.

4) Effective the year ended 20th March, 2006, the geographical area of "North America" has been changed to "The Americas." This change had no effect on the geographical segment information for the year ended 20th March, 2006.

Overseas sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the years ended 20th March, 2006 and 2005 are summarised as follows:

		Year ended 20th March, 2006				
		Millions of yen				
	The Americas	Europe	Asia	Other	Total	
Overseas sales	¥ 51,287	¥ 39,767	¥ 58,310	¥ 1,985	¥ 151,349	
Consolidated net sales	—	—	—	—	322,917	

		Thousands of U.S. dollars				
	The Americas	Europe	Asia	Other	Total	
Overseas sales	\$ 441,216	\$ 342,111	\$ 501,635	\$ 17,077	\$ 1,302,039	
Consolidated net sales	—	—	—	—	2,778,020	
Overseas sales as a percentage of consolidated net sales	15.9%	12.3%	18.1%	0.6%	46.9%	

		Year ended 20th March, 2005				
		Millions of yen				
	North America	Europe	Asia	Other	Total	
Overseas sales	¥ 40,726	¥ 34,589	¥ 51,538	¥ 3,402	¥ 130,255	
Consolidated net sales	—	—	—	—	309,615	
Overseas sales as a percentage of consolidated net sales	13.1%	11.2%	16.7%	1.1%	42.1%	

Notes: 1) Geographical areas are divided into categories based on their geographical proximity.

2) Major nations or regions included in each geographical area are as follows:

(1) The Americas – the U.S.A. and other

(2) Europe – Germany, Sweden, the United Kingdom

(3) Asia – Singapore, Korea, the People's Republic of China

3) In connection with the change in the geographical area of "North America" to "The Americas" effective the year ended 20th March, 2006, sales in Brazil have been included in "The Americas" instead of "Other."

16. Subsequent Events

a) On 8th May, 2006, the Company entered into an agreement with Brooks Automation, Inc. ("Brooks"), a U.S. corporation, with respect to a strategic alliance covering the establishment of an equally-owned joint venture company in Japan with stated capital of ¥450 million (\$3,871 thousand) in June 2006, and the sale of all shares owned by the Company and its subsidiary of Synetics Solutions Inc., a U.S. consolidated subsidiary, to Brooks.

b) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended 20th March, 2006, were approved by the shareholders at a meeting held on 16th June, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends	¥ 1,396	\$ 12,010
(¥6 = U.S.\$0.05 per share)		
Bonuses to directors and corporate auditors	83	714

Report of Independent Auditors

The Board of Directors
YASKAWA ELECTRIC CORPORATION

We have audited the accompanying consolidated balance sheets of YASKAWA ELECTRIC CORPORATION and consolidated subsidiaries as of 20th March, 2006 and 2005, 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.

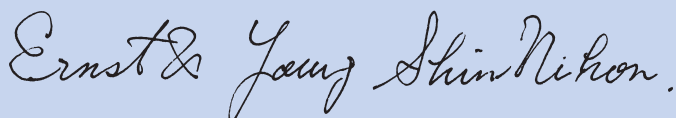
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of YASKAWA ELECTRIC CORPORATION and consolidated subsidiaries at 20th March, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 16, on 8th May 2006, the Company entered into an agreement with Brooks Automation, Inc., a U.S. corporation, to form a strategic alliance.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 20th March, 2006 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 3.

Ernst & Young ShinNihon



Fukuoka, Japan
16th June, 2006

Yaskawa Group in Japan

**YASKAWA INFORMATION SYSTEMS CO., LTD.**

TEL.+81-93-622-6111 FAX.+81-93-622-6121

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

Information processing, software development, and sales of system equipment.

YASKAWA ELECTRIC ENGINEERING CORPORATION

TEL.+81-93-521-4301 FAX.+81-93-521-4302

<http://www.yaskawa-eng.co.jp/>

Maintenance, test run, and adjustment of electrical equipment as well as technical training

YASKAWA CONTROLS CO., LTD.

TEL.+81-930-24-4601 FAX.+81-930-24-7131

<http://www.yaskawa-control.co.jp>

Manufacturing and sales of electrical equipment and related instruments and parts

OJI ELECTRIC CO., LTD.

TEL.+81-48-291-2860 FAX.+81-48-298-8650

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

Manufacturing and sales of electrical equipment

YASKAWA SIEMENS AUTOMATION & DRIVES CORPORATION

TEL.+81-3-3570-3023 FAX.+81-3-3570-3061

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

Design, sales, maintenance, and modification of industrial electrical equipment and systems

YASKAWA MOTOR CORPORATION

TEL.+81-93-288-4440 FAX.+81-93-288-4452

<http://www.yaskawa.co.jp/subsidia/ym/>

Design, manufacturing, sales, maintenance, and modification of motors, generators, and motor applications

**YE DATA INC.**

TEL.+81-4-2932-9850 FAX.+81-4-2932-9881

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

Manufacturing and sales of computer peripheral and terminal equipment as well as Ontrack Data Recovery services.

YASKAWA LOGISTEC CORPORATION

TEL.+81-93-512-0882 FAX.+81-93-512-0885

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

General distribution

YASKAWA OBVIOUS COMMUNICATIONS INC.

TEL.+81-93-662-8700 FAX.+81-93-662-8711

<http://www.y-obvious.com/>

Public-relations planning, advertisement and publications; production of catalogs and technical documents

YASKAWA BUSINESS STAFF CORPORATION.

TEL.+81-93-645-5886 FAX.+81-93-645-5309

<http://www.ybstaff.com/>

Temporary employment staffing specialists

YASKAWA MECATREC CORPORATION

TEL.+81-3-5441-5980 FAX.+81-3-5441-5961

<http://www.ym-c.co.jp/>

Sales of electrical equipment and other machines and instruments

Overseas Offices and Main Subsidiaries



Overseas Offices

BEIJING OFFICE

TEL.+86-10-8518-1862 FAX.+86-10-8518-1863

Room 1011A, Tower W3 Oriental Plaza, No.1 East Chang An Ave.,
Dong Cheng District, Beijing 100738, China

SHANGHAI OFFICE

TEL.+86-21-5385-2220 FAX.+86-21-5385-3299

No.18 Xizang Zhong Road, Room 1701, Harbour Ring Plaza,
Shanghai 200001, China

TAIPEI OFFICE

TEL.+886-2-2502-5003 FAX.+886-2-2505-1280

9F, 16, Nanking E. Rd., Sec. 3. Taipei, Taiwan

The Americas

YASKAWA ELECTRIC AMERICA, INC. (U.S.A.)

TEL.+1-847-887-7000 FAX.+1-847-887-7370

<http://www.yaskawa.com/>

Import, manufacturing, sales, and after-sales service of electrical equipment

MOTOMAN, INC. (U.S.A.)

TEL.+1-937-847-6200 FAX.+1-937-847-6277

<http://www.motoman.com/>

Manufacturing, sales, and after-sales service of robots and robotic systems

YASKAWA ELÉTRICO DO BRASIL COMÉRCIO LTDA. (Brazil)

TEL.+55-11-5071-2552 FAX.+55-11-5581-8795

<http://www.yaskawa.com.br/>

Import, manufacturing, sales, and after-sales service of electrical equipment

Europe

YASKAWA ELECTRIC EUROPE GMBH (Germany)
TEL.+49-6196-569-300 FAX.+49-6196-569-312

<http://www.yaskawa.de/>

Import, manufacturing, sales, and after-sales service of electrical equipment

MOTOMAN ROBOTECH GMBH (Germany)
TEL.+49-8166-90100 FAX.+49-8166-90103

<http://www.motoman.de/>

Manufacturing, sales, and after-sales service of robots and robotic systems

MOTOMAN ROBOTICS EUROPE AB (Sweden)
TEL.+46-480-417800 FAX.+46-480-417999

<http://www.motoman.se/>

Manufacturing, sales, and after-sales service of robots and robotic systems

YASKAWA ELECTRIC UK LTD. (United Kingdom)
TEL.+44-1236-735000 FAX.+44-1236-458182

Production of inverter, sales and service

OMRON YASKAWA MOTION CONTROL B.V. (The Netherlands)
TEL.+31-23-568-7400 FAX.+31-23-568-7488

Sales, technical support and customer service of motion control and related products

YASKAWA ESHED TECHNOLOGY LTD. (Israel)
TEL.+972-3-900-4114 FAX.+972-3-903-0412

<http://www.yetmotion.com/>

Development and manufacturing of motion-control products

Asia

SHANGHAI YASKAWA DRIVE CO., LTD. (China)
TEL.+86-21-5990-3067 FAX.+86-21-5990-3467

Manufacturing and sales of electrical equipment and devices

SHOUGANG MOTOMAN ROBOT CO., LTD. (China)
TEL.+86-10-67880551 FAX.+86-10-67882878

<http://www.sg-motoman.com.cn/>

Manufacturing, and sales of robots and robotic systems

YASKAWA ELECTRIC (SHANGHAI) CO., LTD. (China)
TEL.+86-21-5385-2200 FAX.+86-21-5385-3299

<http://www.yaskawa.com.cn/>

Import, sales, and after-sales service of electrical equipment

SHANGHAI YASKAWA-TONGJI M & E CO., LTD (China)
TEL.+86-21-6553-6060 FAX.+86-21-5588-1190

Manufacturing, sales, and after-sales service of electrical equipment

YASKAWA ELECTRIC KOREA CORPORATION (Korea)
TEL.+82-2-784-7844 FAX.+82-2-784-8495

<http://www.yaskawa.co.kr/>

Import, sales, and after-sales service of electrical equipment

YASKAWA ELECTRIC (SINGAPORE) PTE. LTD. (Singapore)
TEL.+65-6282-3003 FAX.+65-6289-3003

<http://www.yaskawa.com.sg/>

Import, sales, and after-sales service of electrical equipment

YASKAWA ELECTRIC TAIWAN CORPORATION (Taiwan)
TEL.+886-2-2502-5003 FAX.+886-2-2505-1280

Sales, technical support, and after-sales service of mechatronic products

MOTOMAN MOTHERSON ROBOTICS LTD. (India)
TEL.+91-124-5148514 FAX.+91-124-5148515

Sales and after-sales service of robots and robot systems

YASKAWA ELECTRIC CORPORATION

2-1, Kurosaki-shiroishi, Yahatanishi-ku, Kitakyushu 806-0004, Japan

Phone: +81-93-645-8801 Fax: +81-93-631-8837

URL: <http://www.yaskawa.co.jp/en/>

