YASKAWA

YASKAWA ELECTRIC CORPORATION

ANNUAL REPORT 2007

Year Ended March 20, 2007

YASKAWA ELECTRIC CORPORATION

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.

About the Front Cover

Yaskawa Electric' s MOTOMAN robots are no longer confined to the realm of manufacturing, and we are working on the research and development and the commercialization of new robots that can live in coexistence with humans in the not-so-distant future. The front cover of this year' s annual report features the MOTOMAN-DIA10, which can handle 10-kg workpieces with its multi-jointed arms (seven axes in one arm) and can also gyrate its entire body. The MOTOMAN-DIA10 is almost humanlike in its form, size, and movements.

The MOTOMAN-DIA10 was awarded a prize in the category of industrial robots in the Robot Award 2006 sponsored by the Japanese Ministry of Economy, Trade and Industry. The DIA10 is the product that best represents Yaskawa achievements for the year 2006.

CONTENTS

Note:
As for the descriptions in this annual report up to page 32, 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 33, 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.

Consolidated Financial Highlights

Yaskawa Electric Corporation and Consolidated Subsidiaries

Years Ended March 20

	2007	2006	2005	2007
	Millions of yen (except for per share amounts)			Thousands of U.S. dollars (except for per share amounts)
Net sales	¥368,971	¥322,916	¥309,615	$3,130,056
Operating income	33,564	24,486	17,527	284,730
Ordinary income	33,383	24,331	17,414	283,195
Income before income taxes and minority interests	29,973	17,286	9,222	254,267
Net income	18,982	10,157	1,860	161,037
Earnings per share (basic)	¥81.12	43.18	7.80	0.688
Earnings per share (diluted)	¥75.29	39.12	7.30	0.639
ROE (Return on equity)	28.4%	22.3%	5.0%	–
ROA (Return on assets)	12.6%	9.5%	6.9%	–
Total assets	273,180	255,222	254,438	2,317,450
Shareholders' equity	80,787	52,750	38,366	685,333
Shareholders' equity ratio	29.6%	20,7%	15.1%	–
Debt/equity ratio	0.58	1.2	2.0	–
Dividend per share	6	6	0	0.051
Number of employees	8,056	7,754	7,620	–

Consolidated Sales by Business Segment	2007	2006	2005	2007
	Millions of yen			Thousands of U.S. dollars
Motion Control	¥159,601	¥133,909	¥122,944	$1,353,928
Robotics	126,723	113,458	105,164	1,075,026
System Engineering	49,487	41,932	44,930	419,808
Information Technologies	26,472	24,783	25,421	224,567
Other	6,686	8,833	11,154	56,727
Total	¥368,971	¥322,916	¥309,615	3,130,056

Consolidated Sales by Destination	2007	2006	2005	2007
	Millions of yen			Thousands of U.S. dollars
Japan	200,273	171,568	179,361	$1,698,948
The Americas	55,343	51,286	40,725	469,494
Europe	46,566	39,766	34,588	395,037
Asia	65,249	58,310	51,538	553,521
Other	1,538	1,985	3,402	13,056
Total	¥368,971	¥322,916	¥309,615	3,130,056

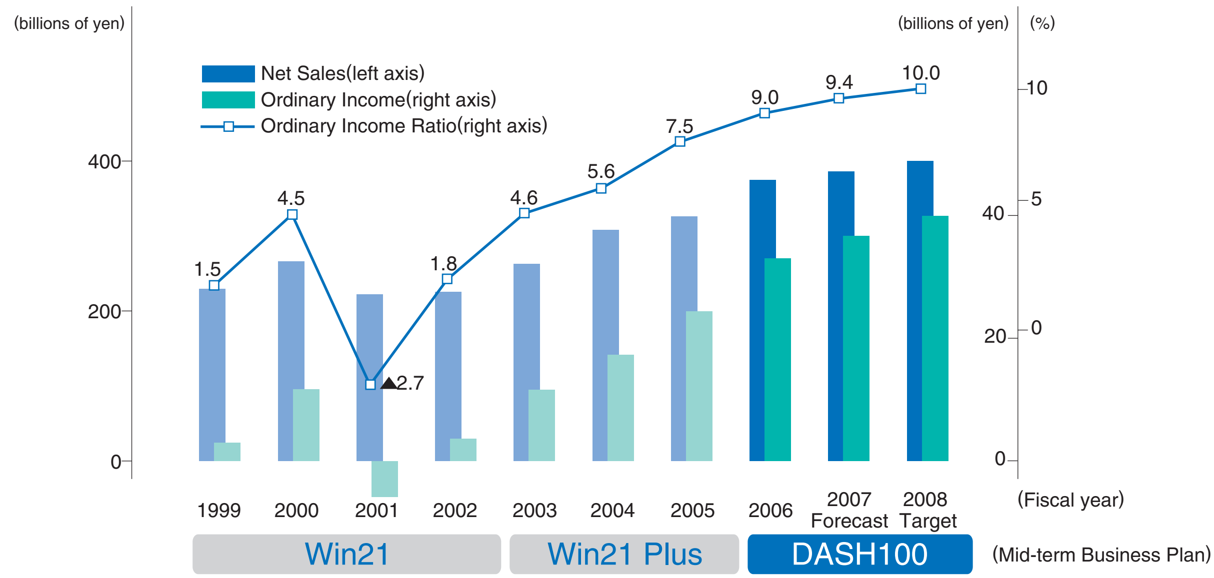
Note : Dollar figures are translated, for convenience only, at the rate of ¥117.88 = US$1. (See "4. U.S. Dollar Amounts" on page 44.)

Aiming to become the firm global No.1

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” till March 2006. “Win21 Plus” greatly improved our performance and left us with a firm basis to further expand our businesses.

YASKAWA Group will strengthen its global No.1 position in the core business and develop new businesses. The three years of “DASH 100” were positioned as the first stage of 10 years till YASKAWA Electric’s 100th anniversary in 2015. We will enhance our growth by expanding our market share in the core business, and by developing new markets. Also, we will realize continuous growth and increase in profitability while we work on increasing added value and cost reductions.

Corporate Performance



Basic Objectives

- Establish businesses that are truly global No.1(No.1 in market share, size and profitability)
- Develop and start up new businesses
- Realize ordinary income ratio of 10% as soon as possible

→ Double corporate value

Consolidated Financial Goals

	FY 2005	FY 2008 outlook
Sales (billion yen)	323	400
Ordinary income (billion yen)	24	40
Ordinary income ratio	7.5%	10%
Shareholders' equity ratio	20.7%	30%

Action Plans

In order to achieve the basic objectives and financial goals, the following policies are implemented with priority.

Main objectives	Action plans	Implementation
1) Establish businesses that are truly global No.1 2) Develop and start up new businesses 3) Realize ordinary income ratio of 10% as soon as possible < Basic stance > ◆ Focus on growth ◆ Establish growth and profitability as corporate DNA	Enhance business structure (Reform) - Strengthen existing businesses - Expand business areas - Accelerate the start-up of new businesses Continuous reform in the profit structure - Higher added-value - Cost reduction	Optimize and subdivide management units. Clarify the persons in charge of implementation Enhance implementation in sales, technology development (creativity) and production 5 points to enhance corporate power Fostering and maintaining human resources / Group management / Enhancement of CS-Brand / Reform in work processes / Efficiency of balance sheet structure

Shin Nakayama
Chairman of the Board

To our Stakeholders,

The economic conditions in Europe, North America, and Asia during the fiscal year 2006 were generally positive, even though there was some concern over the rising prices of crude oil and raw materials. The Japanese economy also continued to gradually expand with increased corporate capital expenditures, and improvements in employment conditions.

In the midst of this economic environment, the Yaskawa Group began implementation of the mid-term business plan “DASH100”, aimed at conducting growth-oriented management. The three basic goals of “DASH100” are to establish businesses that are truly global No.1 in market share, size, and profitability, to start up and develop new businesses, and to realize ordinary income ratio of 10% as soon as possible. In the first year of “DASH100”, we worked on sales expansion in the markets that we have focused on, namely, automobile, semiconductor and LCD markets, as well as the markets in Asia, Europe and North America. We also focused our efforts on developing new products and their marketing. All these efforts had the aim of reinforcing existing businesses and expanding the business domain.

As a result, all of sales, operating income, ordinary income, and net income of the Yaskawa Group marked record highs. We also achieved increase in sales and ordinary income for five consecutive years. Based on these results, the dividend at the end of the fiscal year was set at ¥3 per share. Together with the interim dividend of ¥3 paid previously, total annual cash dividend for the fiscal year 2006 was ¥6 per share.

Although steady economic growth is expected to continue, some concerns remain over higher interest rates, economic slowdown in the U.S., and fluctuations in exchange rates.

In this economic condition, the Yaskawa Group positions the fiscal year 2007, the second year of the mid-term business plan “DASH 100”, as the year to build a firm basis toward achieving its goals. We will accelerate the implementation of the following measures.

Firstly, we will strongly carry out new product

Koji Toshima
President

launches of such core products as AC servomotors and controllers, inverter drives and robots. We will also expand our business and market share while we increase sales by enhancing collective strength in sales, technology development (creativity), and production. Meanwhile, we will further expand our business areas with such products as new generation robots.

Also, the new inverter factory will go into operation in August, which will increase production capacity and improve production efficiency.

We will also continue the corporate-wide thorough pursuit of enhancing customer satisfaction by improving further the product quality, which determine our brand value. As for the quality of our work, internal control system is continuously being strengthened by ensuring compliance, while we work on standardization of our business, and build highly transparent business processes.

Furthermore, on the basis of the idea that exercising maximum organizational strength by enhancing the ability of each employee is essential for permanent development of the Yaskawa Group, we will work on human resource development by introducing new methods to the previously taken measures.

Through these measures, we will meet the expectations of all of our stakeholders, including shareholders, customers, and employees, while increasing our corporate value. We appreciate the continued support and understanding from all of our stakeholders.

July 2007,

Shin Nakayama

Shin Nakayama
Chairman of the Board

K. Toshima

Koji Toshima
President

Our focus is on realization of sustained growth and higher profitability.

Q What were the market environment and business strategy that, in the background, led Yaskawa Group to achieve growth in sales and income for five consecutive years?

A We recorded another successful business performance in fiscal year 2006 greatly surpassing the previous year's results, as with the past four years. I believe this is due to the concerted efforts of the employees of Yaskawa Electric group around the globe, sales agents, suppliers, and business partners. This accomplishment is the fruit born of the collective strength of all individuals and entities involved in the group.

Over the five fiscal years from 2001 to 2006, consolidated net sales kept growing at an annual rate of 10% or more. The Motion Control and Robotics segments recorded a particularly large increase of 13 to 14% a year. In retrospect, the major turning point was the mid-term business plan "Win21" that started in fiscal year 1999. With this business plan we converted the business structure by shifting our axis of management from high dependency on heavy industries to the field of mechatronics, which we call "mechatronics shift." This decision paved the way for the high growth of today's core businesses – Motion Control and Robotics. The succeeding "Win21 Plus" implemented from fiscal year 2003 to 2005 reinforced the growth dynamic by focusing our target on the growing semiconductor, FPD, and automobile industries, and Chinese and other Asian markets. The System Engineering segment intentionally did not set its sights on the increase of sales in view of its matured market. Instead, the segment worked on slimming down the cost structure in earnest to facilitate stabilization of income. Continuous growth in sales and income for five consecutive years is quite an accomplishment for us since it occurred for the first time after the high-growth period of the Japanese economy that ended in the 80s. I believe this great achievement was because of our steady and diligent implementation of each and every policy based on the mid-term business plans.

The Asian market has expanded remarkably during these five years, and securing such overseas market growth is an important business tactic. For over ten years we have emphasized globalization. As a result, the overseas export ratio of our products has increased to near 50% in the last five years. Including such products as servo motors installed in customers' equipment before exporting overseas, nearly 60% of our products are considered to have been actually sold for overseas use. We intend to further strengthen our overseas marketing strategy in light of the anticipated growth of overseas markets, particularly those in BRICs.

It is significantly important that we were able to demonstrate our ability to continue stable growth into the future for evaluation in the stock market.

Q What were the points that you emphasized in business management in fiscal year 2006?

A In fiscal year 2006, we switched to a growth-oriented strategy taking advantage of the positive global economy and market environment, and the management emphasis was placed on "earnings expansion" and "realization of the collective strength of the group."

For earnings expansion, we strived to securely capture the increase in capital expenditures to expand business performance over the market growth. For this purpose we implemented all proactive activities and projects including release of new products that allow us to cultivate new markets, reinforced price management in marketing, and improvement in production efficiency.

Our business performance is evaluated by the consolidated business results of Yaskawa Electric group. For realization of the collective strength of the group, we reinforced activities to maximize the synergetic effect of the group while promoting the initiative and competitive edge of individual group companies. Specifically, the management executives of the domestic and overseas group companies regularly gathered and shared management policies and major strategies to develop closer communication and coordination aiming at realization of group management characterized by a sense of unity and speed. These activities brought about significant results in that the group companies individually achieved nearly targeted performance in fiscal year 2006.

Q

Please explain the accomplishments in fiscal year 2006 that marked the start of "DASH 100" and remaining issues to be addressed in accordance with the four major objectives.

A

1. Establishment of businesses that are truly globally No.1:

We aspire to increase the market share and establish businesses that are truly No. 1 globally by providing quality products and services that satisfy customers and by becoming recognized as necessary for society.

In "DASH 100," the scope of targets in activities to enhance brand value has been extended to include shareholders, investors, society in general, partners, as well as customers and employees. A brand name is an important intangible asset that determines to a great extent corporate value. Although various efforts to boost Yaskawa Electric's corporate value and visibility have already been implemented, we still need to strengthen and expand the activities.

At present the Yaskawa brand is becoming established with such flagship products as Motoman robots and servomotors. For the future we intend to broaden our product applications beyond the scope of industrial use, so that our products will be seen playing active roles in the areas closer to our daily lives. Our social role will further expand when, for example, home-use service robots are made available and advanced digital home appliances and automobiles are installed with our servo-motors. I believe that businesses that are truly globally No.1 will be established when these ambitions are realized.

2. Development and starting up of new businesses:

The concept for developing new businesses that will constitute pillars of the future Yaskawa Group is "human- and environment-friendly technologies, products and services." In my view, new businesses should be those which are radically new and indicative of expandable potentials with innovations beyond mechatronics, while making the most of the existing corporate culture and characteristics. New business is budding in our present core businesses of Motion Control and Robotics, including those which we will surely develop within the two remaining years of the current mid-term business plan.

MOTOMAN CENTER (Kitakyushu, Japan)

We are committed to manufacturing and human resource development, and work on creation of new markets.

3. Early realization of a 10% ordinary income ratio:

The mid-term business plan "DASH 100" is the declaration of Yaskawa Electric that it has entered the phase to aspire for earnings expansion through a growth-oriented strategy, and aims to firmly yield a substantial outcome. To be more precise, the targeted financial figures are 400 billion yen in consolidated net sales and 40 billion yen in ordinary income with ordinary income ratio at 10%. In fiscal year 2006, the consolidated ordinary income ratio increased to 9.0%, as a result of the Motion Control segment recording an operating income ratio of 12.4% and the System Engineering segment going into the black through business structural reform. Thus we advanced toward early realization of the targeted ordinary income ratio of 10%.

4. Efficiency improvement in financial structure (shareholders' equity ratio of 30%):

Shareholders' equity ratio at the end of fiscal year 2006 was 29.6%, closely approaching the target of 30%. This favorable result is attributable to increased shareholders' equity facilitated by increased income, inventory reduction realized by shortening the lead time from receipt of order to realization of sales, and progress of stock conversion of bonds with stock acquisition rights following the increased share price. As a result, we can now see the positive prospects of an improved financial structure shortly, which we have been addressing since Win21.

The release of new products will allow us to make an aggressive approach to expand market share and develop new markets, and therefore help us continue sales and income growth in fiscal year 2007.

Q **Please share with us your management policy for fiscal year 2007.**

A Within the year I would like to clearly ensure the prospect of accomplishing the final targets of "DASH 100." For this purpose, my attention is particularly focused on sales expansion of new products and the development of human resources.

1. Sales expansion of new products

With the mind-set of igniting markets with our products, we are going to launch new products consecutively in all business segments in fiscal years 2007 and 2008, including robots, servomotors, inverters, and medium-voltage inverters. We will maintain sales and income growth in fiscal 2007 by aggressive expansion of our market share and development of new markets facilitated by release of these new products.

These new products feature enhanced user-friendliness in addition to high performance. They are designed for ease of maintenance, such as shortened setup time and simple and easy tuning which may be done by anyone. The advantage of this is that it allows us to make inroads into the markets where ease-of-use is a major point of preference. This is the basic concept for the new products to be released in 2007 to 2009. We believe products developed with this concept will spur further enhancement of customer satisfaction.

2. Development of human resources

In striving to seek new businesses and continue sustained development, Yaskawa Electric needs the influx of new culture and new strength in the company. The key to business management is personnel development, and human resources are the greatest assets of a company. I therefore decided to exert additional efforts to foster human resources. Not only by upgrading the individual's skills and abilities but by further realizing the collective power of these individuals as a group, the company will be evaluated more highly from those outside the organization, which will encourage new talent to join the company. In order to make this concept known to everyone working in Yaskawa, I have assumed the responsibility of promoting human resource development from the current fiscal year 2007. I am committed to and have started activities to increase those who love and take pride in Yaskawa Electric.

Q

Please explain your plan of balanced allocation of cash flow that is expected to increase.

A

It is extremely important for Yaskawa Electric as a manufacturing company to proactively implement capital and R&D expenditures for future growth so as to ensure sustained growth in corporate value. Therefore, the priority is placed on effective use of company resources for the establishment of businesses that are truly No. 1 globally. Meanwhile, we have strived to improve our financial structure by reducing interest-bearing liabilities, with the object to raise the shareholders' equity ratio to 30%. Now that the prospects on accomplishing this goal have nearly reached the target in fiscal year 2006, I intend to focus on healthy, balanced financial management while increasing returns to the shareholders.

Q

Could you share your vision toward the centennial anniversary in 2015?

A

For ninety-one years since its foundation, Yaskawa Electric has contributed to manufacturing automation and productivity improvement with such mechatronics products as motion control products and robots, in line with the changes in industrial structure. We will continue to hold on to our strong commitment to manufacturing and boost our core businesses to become No. 1 globally outdistancing our competitors. At the same time, while eying the possibility of extending to the services and non-manufacturing industries, we intend to offer new solutions conducive to the development of society, welfare of mankind, and betterment of the global environment. I hope that, by raising its brand value and better serving the world as a global corporation, Yaskawa Electric will become a company appreciated by all its stakeholders including the shareholders, suppliers, customers, people in communities, and employees who will all be glad to share a relationship with Yaskawa Electric.

SOLUTION CENTER (Saitama, Japan)

Board of Directors

Koichi Takei
Executive Managing Director
General Manager, Personnel, General Affairs, Finance & Accounting

Shin Nakayama
Chairman of the Board

Koji Toshima
President

Masao Kito
Managing Director
General Manager, Production Management & Operations Div. Manager, Export Administration Div.

Sadahiro Iwata
Managing Director
General Manager, Finance Div.

Directors

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

Toshihiro Sawa
Director
General Manager, Motion Control Div.

Norio Miyahara
Director
General Manager, Technology & Development Div. General Manager, Corporate Research & Development Center

Yoshifumi Shimizu
Director
General Manager, System Engineering Div.

Noboru Usami
Director
General Manager, Business System Reengineering Div.

Hideki Goto
Director
General Manager, Corporate Marketing Div. Manager, Corporate Marketing Div. Tokyo Sales Branch

Junji Tsuda
Director
General Manager, Robotics Div.

Koki Nakamura
Director
General Manager, Semiconductor Robotics Div.

Hiroshi Ogasawara
Director
General Manager, Drives Div.

Osamu Motomatsu
Director
General Manager, Corporate Planning Div.

Auditors

Tadakazu Hotta
Standing Auditor

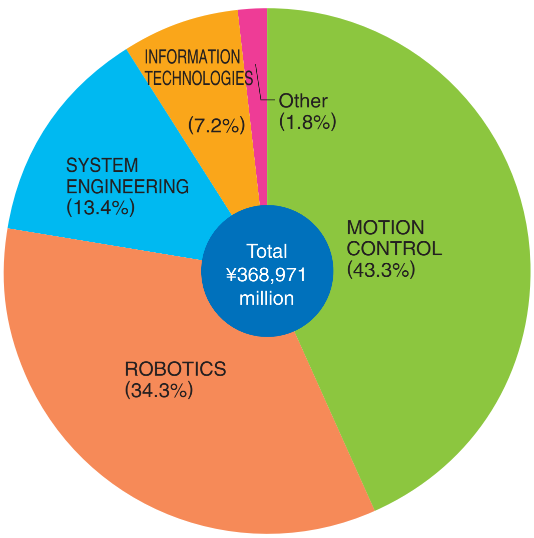
Toshifumi Sanematsu
Auditor

Masaaki Tani
Auditor (External)
Chairman of the Board and President, Fukuoka Financial Group, Inc. President, The Bank of Fukuoka, Ltd.

Ichiro Takita
Auditor (External)
Managing Director, Krosaki Harima Corporation

Review of Operations

Key Products



Net Sales by Business Segment
(Year Ended 20th March, 2007)

MOTION CONTROL

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

ROBOTICS

Main Applications

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

SYSTEM ENGINEERING

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

INFORMATION TECHNOLOGIES

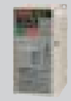
Main Applications

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

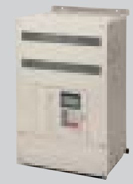
MOTION CONTROL


Machine Controller
MP2000 Series


AC Servo Drives
Σ-V Series

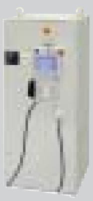

Compact,
General-purpose Drive
V1000


Inverter Drives
J7,F7,G7 Series

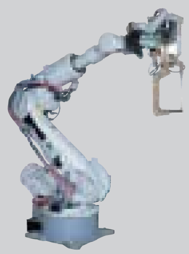

Matrix Converter
Varispeed AC

ROBOTICS


Digital Inverter Welder
MOTOWELD-EL350Ⅱ


Robot Controller
NX100


Arc-welding Robot
MOTOMAN-SSA2000


Spot-welding Robot
MOTOMAN-ES165N


LCD Glass Substrates
Handling Robot
MOTOMAN-CHL2400D

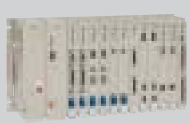

Semiconductor Wafer
Handling System
SEMISTAR-M Series


New-generation Robot
MOTOMAN-DIA/IA Series

SYSTEM ENGINEERING


EI-integrated Plant
Operator Station
CP-5800

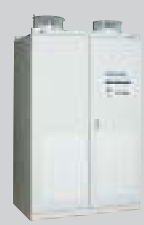

Human-machine
Interface
CP-519


System Controller
CP-312


System Controller
CP-3550


Super Energy Saving
Medium-voltage Inverter
FSDrive-MV1S

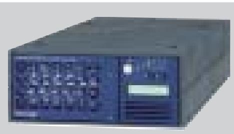

Medium-voltage
Matrix Converter
FSDrive-MX1

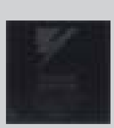

Medium-
/Large-capacity Digital
Thyristor Converter
VARISPEED-590


Large-Capacity
IGBT Inverter
VARISPEED-676H5

INFORMATION TECHNOLOGIES

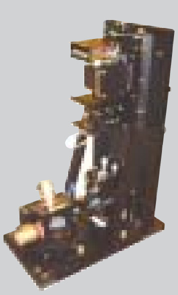

Multi Card Reader to Support
the New Generation ExpressCard Slot
ExpressCard Reader 5 in 1


Appliance Server for High-performance Web Filtering
NetSHAKER for i-FILTER


High-performance
Intelligent LSI
Intesse D2Core


Touch-panel Liquid Crystal Terminal
Intesse xP-5000DX


General Purpose Board
with a Touch Panel
Intesse xP-5000


Exposure Unit for
Laser Marking System

Motion Control

Business Overview

The Motion Control segment consists of the inverter business as well as the business for motion and control (M&C).

The M&C business offers new solutions for machinery and systems by providing motion control products and technology including AC servomotors, controllers, and linear motors, which are used in a broad range of equipment from general industrial machinery to machine tools. Although the servomotors initially saw limited use with textile machines, machine tools, robots, printing machines, and food and packaging machines, their outstanding performance has drawn the attention of other industries. Today they are also widely used in semiconductor manufacturing machines and electronic component mounting machines. The application of our AC servomotors as sustainable energy alternatives is expanding into areas such as machine presses and injection molding machines, which require considerable force, conventionally supplied by hydraulic servo systems.

Inverter uses and applications are not just expanding in the market of industrial machinery but also in the consumer-products market. New applications include home appliances such as air conditioners, refrigerators, washing machines, and devices used in the health 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 industrial facilities, large commercial facilities such as office buildings and department stores are now required to implement effective energy management systems. This trend has thrust the inverter into the limelight as an energy saving device.

With regard to these inverter and M&C products, the general scenario is that their demand increase as investments in social infrastructure and the following capital expenditures grow.

Review of Operations for Motion Control FY2006

The M&C business established the Solution & Support Center to develop and propose solutions that reflect the anticipated needs of the market, through collaboration between the sales and technical divisions. The M&C segment achieved record sales and operating income thanks to coordinated promotions and sales approaches by the sales and technical divisions to a wide range of customers, and to successful cultivation of large accounts. In terms of operating income alone, improved methods, such as the marketing of multiple products in combination and stringent production cost management, had a positive effect.

The inverter business significantly increased its sales around the world. This was attributed to the strong increase in building construction including elevators in China, increased capital expenditures and air-conditioner demand in Europe, and the growth of housing-related investments and capital expenditures for energy resource development in the U.S. The regional composition of our inverter sales was well balanced with Japan, Asia including China, the Americas, and Europe each contributing 25% each. We were able to take full advantage of the globally expanding market. In December 2006, we launched the compact, general-purpose inverter series “V1000”, targeting the prominently expanding inverter market.

Inverter Application : Escalator

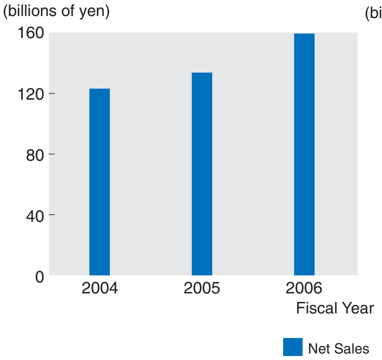
AC Servo Application : Chip Mounter

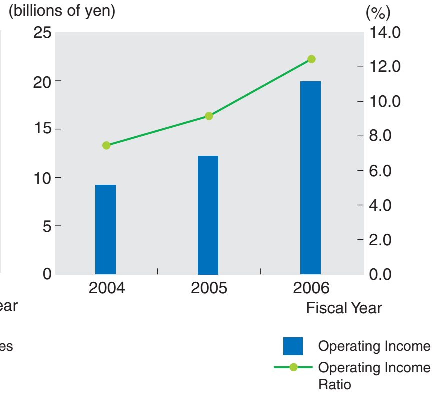
AC Servo Application : Injection Molding Machine

Future Outlook for M&C and Inverters

The Japanese market for the M&C business is expected to continue to grow with the trend toward returning production activities in the electrical industry to Japan. In this market environment, our goal is to extend our business performance to surpass market growth, with sales of the new Σ-V (Sigma-Five) series servo drives released in April 2007. We plan to elicit increased orders for the Σ-V series by selling its performance and effect to customers in a simple and compelling manner. For example, we will prepare demonstration units to enable potential customers to see how the product will help solve their existing problems when actually installed in their equipment. The Asian market for this business, particularly in China, is expected to grow and the European market will remain favorable despite the strong Euro. For the U.S. market, we will augment the product line to meet the local specifications and attract new customers. In addition, by building on the adaptability of Σ-V series, we will act to develop and provide optional functions suited to the particular requirements of each market, to expand sales globally. We will strive to be the firm global leader in the M&C business by providing solutions that cover everything from components to applications based on our motor technology, which allow us to respond not only to current market needs but to an anticipated future market needs.

In FY2007, the inverter business will focus on the reinforcement of sales in the Chinese market, which is booming with special procurements for the upcoming Beijing Olympic Games and Shanghai World Expo, as well as the thriving Indian market. The European and U.S. markets are expected to remain strong, and we will actively promote sales of new products targeting an increased share in those markets. For the Japanese market, a dedicated task force will be organized to beef up market cultivation activities. The new factory, scheduled for completion in August 2007, is designed to lead in global production and quality assurance systems as the mother factory. This will realize the world's finest quality inverters, and double our production capacity (to three million units per year) with a 50% increase in productivity. Yaskawa Electric gained the largest global market share of inverters at 13.4%* in FY2006. (*: An estimate by Yaskawa Electric.) We are determined to increase this share at twice the market growth rate by promoting sales of our new differentiated products, the V1000 series, and by cultivating new markets. Furthermore, to solidify our Number 1 position in the global inverter market, we will work to cultivate sales in BRIC countries (Brazil, Russia, India and China), for which formation of alliances is a possibility, to achieve 20% of the world market share in a long-term perspective.





New M&C Products

Today, as the markets and applications for servo drives and inverters continue to expand, there is demand not just for enhanced performance and functions, but for broader selections of user-friendly products. Yaskawa Electric is expanding the product lineup to respond to these needs.

■ AC Servo Drive Σ-V Series

This Σ-V series was developed with the concepts of superlative performance, simple start-up, and outstanding expandability, to satisfy all requirements for AC servo drives. The use of a product from this series brings innovation to the customer's machines and systems.

AC Servo Drive Σ-V Series

■ Compact,General-purpose Inverter V1000

The V1000 inverter was developed to realize our three-part concept of advanced, easy, and small. As a result of our pursuit of an inverter that will truly satisfy each customer from all perspectives, the V1000 features enhanced functions and performance, a user-friendly interface and a compact size.

Compact, General-purpose Inverter V1000

Robotics

Business Overview

In 1977 Yaskawa Electric developed the first all-electric industrial robot in Japan, the 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 started out as an arc-welding robot for the automobile industry. Today, with a large global share in the field of arc welding, Motoman can also be found working in fields such as spot welding, painting, LCD panel handling and semiconductor wafer handling. Yaskawa Electric was the first company in the world to propose the concept of "application-specific robots" in 2001, signifying the evolution of robots into a variety of different shapes and designs with optimum functions for specific applications. The Motoman-E series, designed to be optimized for specific tasks, has won enormous customer support. As a result, Yaskawa Electric has achieved the largest share in the global market, with cumulative shipments of over 150,000 units as of October 2006.

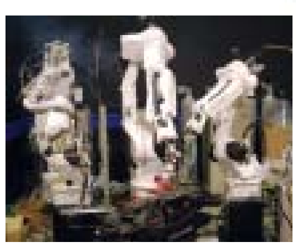
The Japan Robot Association predicts that the robot market will grow, not only in manufacturing but also in biotechnology and lifestyle-related fields (including home use, living-assistance services, and education), healthcare and nursing, and many other areas. The market is expected to expand to 1.8 trillion yen in 2010 and to 6.2 trillion yen in 2025. Yaskawa Electric is developing new robots, such as the new-generation robots (dual-arm robots) that provide a solution to labor shortages resulting from the declining birthrate and aging population, as well as rehabilitation support robots geared for medical use. Through an aggressive approach to future technologies, Yaskawa Electric will continue to develop and market, along with industrial robots, human service robots to be used in fields directly related to our daily lives.

Review of Operations for Robotics FY2006

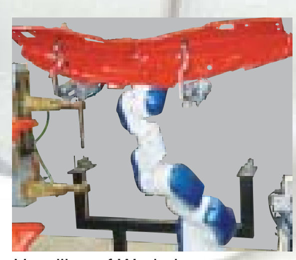
In the automobile industry in Japan, demand recovery was indicated with the end of the recent correctional phase of capital expenditures. In the U.S., due to the slump in the automobile market, a tendency toward curbs on capital expenditures was dominant, and demand decreased in the automobile industry. On the other hand, with the worldwide growth of energy resource development investments, our sales of the products for large-scale construction equipment market increased in the U.S. While demand for LCD panel handling robots was affected by the delay in capital expenditures in the second half of the fiscal year, demand for semiconductor wafer transfer robots increased, with 23% market growth over the previous fiscal year. As a result, the Robotics segment marked a record high figure in sales. However, profits decreased by 8.8% from the record high figure of the previous fiscal year due to the decreased capital expenditure in the European and American automobile industries, which are the main markets for this segment.

Yaskawa Electric developed and marketed the world's fastest arc-welding robot, the MOTOMAN-SSA2000, which greatly enhances the efficiency of the arc-welding process. For the semiconductor market, the SEMISTAR-M series modular system of semiconductor wafer handling units was released to facilitate a quick response to the diverse needs of a wide range of customers. The alliance with Brooks Automation, Inc. in the U.S. helped Yaskawa Electric broaden the spectrum of solutions it can offer the semiconductor industry, and reinforced customer support.

High-speed Palletizing
of Plastic Bottoles



Synchronous Arc-welding



Handling of Workpieces
for Spot Welding

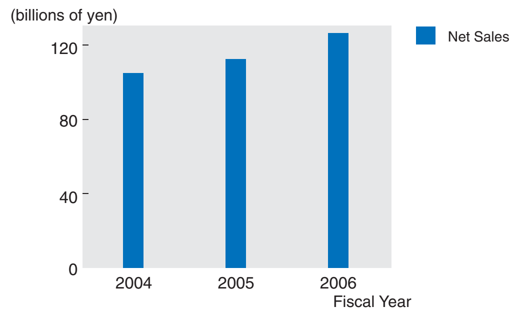
Future Outlook for Robotics

Domestic and European robotics markets are expected to remain strong in FY2007. In the U.S., an increase in demand is expected with the resumption of capital expenditures by leading automobile manufacturers, and the FPD market is likely to recover in the second half of the year. One projection indicates that the semiconductor market may slow down in the second half of the year due to the influence of delayed capital expenditures by the leading semiconductor manufacturers. Nevertheless, general expansion of the robotics market is expected for FY2007. Yaskawa Electric will ensure to lead the growth of orders to the growth of profits, by utilizing the production system strengthened to accommodate increasing orders, including the new factory, Motoman Station, which started operation in January 2006. For new-generation robots, Yaskawa Electric is in position to create a market. We will explore potential applications in diverse markets, while developing and reinforcing the engineering strength necessary for applications.

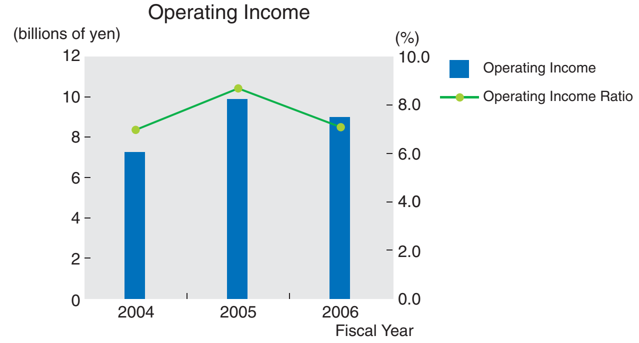
By further strengthening our global perspective, building a system to provide the best support for customers around the world, and achieving an overwhelmingly larger share than competitors in each area, we can hold firm Number 1 global position in the robotics industry. We will continue our efforts toward this goal. For the semiconductor market, we intend to expand our contribution to the automation of semiconductor manufacturing, without confining our activities to the framework of wafer handling robots. At the same time, by growing and improving our unique Yaskawa technologies and product lines, we are targeting to be the firm global leader in the semiconductor manufacturing industry.

ROBOTICS

Net Sales



Operating Income



New Robotics Products

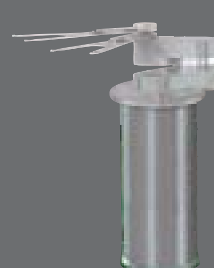
■ The World's Fastest Arc-welding Robot
MOTOMAN-SSA2000

Greatly enhances arc-welding productivity. The robot's motion speed has been increased by up to 40% over conventional models of Yaskawa Electric, and less production time is wasted as welding starts immediately upon completion of robot arm positioning.

The World's Fastest Arc-welding Robot
MOTOMAN-SSA2000

■ Semiconductor Wafer Handling System
SEMISTAR-M Series

The individual components for proven semiconductor wafer handling systems have been modularized. This was done to realize high reliability and significant reduction (50%) of development time, and to meet diverse needs for transfer systems in semiconductor manufacturing equipment.



Semiconductor Wafer
Handling System
SEMISTAR-M Series

System Engineering

Business Overview

Yaskawa Electric has accumulated vast expertise in system engineering through many years of development, design, and manufacture of electrical systems and equipment for steel plants and other such facilities. We have also made 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. This has earned us a solid reputation for reliability among our customers. Yaskawa Electric controllers are used in all currently operating steel mill blast furnaces in Japan, for round-the-clock stable operation seven days a week.

In recent years, the demands for streamlined systems and facilities, products with more added value, and shortened equipment renovation periods are increasing at steel plants. This has intensified the need for renovation and replacement of electrical systems and equipment using our experience and technology. In response to increasing environmental and financial concerns involving 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 have been applying our latest technological advances to electrical system designs, IT, communications, and drives, to construct and propose the improved systems to meet public demand.

Review of Operations for System Engineering FY2006

The System Engineering segment achieved record highs in sales and profits in FY2006, as a result of cost reduction through business structural reforms, and improved management for each received or pending order. Specifically, we outsourced our entire hardware production operation to concentrate our efforts on engineering, and reinforced our order management system by visualizing the progress after order entry, specification changes, costs, and so on, for each individual order.

Our water and sewage treatment systems faced intensified competition in FY2006. Yet, sales of steel plant systems were increased by acting upon demands for facility renovation spurred by the increased demand for steel materials. Orders for medium-voltage inverters increased by more than 50% over the previous fiscal year because of their energy-saving effects. In overseas markets, the demand for electrical equipment for use in cranes in China increased.

Blast Furnace and Control Room

Future Outlook for System Engineering

The demand for steel products is expected to continue to grow, as a high level of production activity has continued in the manufacture of automobiles, ships, industrial machinery, and electrical equipment in Japan. In China, there is also a large and growing demand for steel, along with continued expansion in exports. For the Japanese steel plant market, we will work on expansion of market share in existing fields and on cultivation of new demand for medium-voltage inverters for energy conservation and other applications.

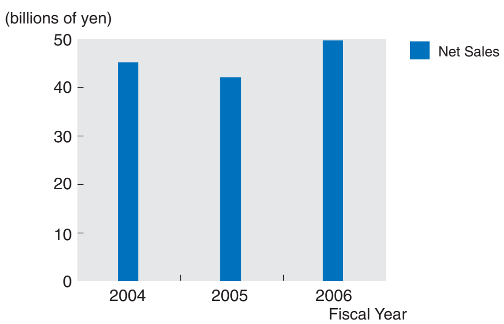
We will also expand our businesses in environmental areas, such as energy conservation and water quality improvement for public water and sewage treatment plants, while clarifying cost structures and strengthening cost management.

For overseas markets, we will expand our marketing of medium-voltage drives for energy saving applications from Asia to other parts of the world, and will strengthen our global after-sales services systems. We will also promote sales of medium-voltage matrix converters to markets and applications where their use can provide significant improvements.

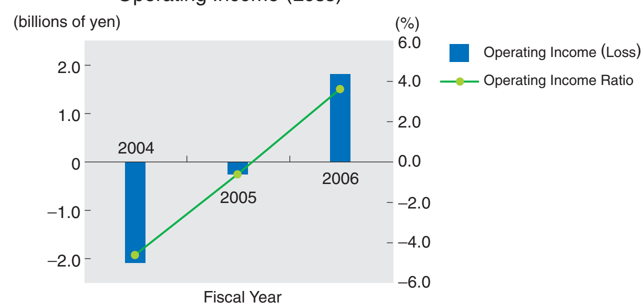
This segment is expected to post a profit in the first half of FY2007, particularly since orders have been growing since the previous year for system products for water treatment and steel plants. We intend to secure our profit structure and further develop businesses based on our highly regarded and proven technological and engineering strengths in medium-voltage drives, systems and information controls.

Sewage Treatment Facility and Control Room

Net Sales



Operating Income (Loss)



TOPICS

■ Shipment Started of Medium-voltage Matrix Converters

Yaskawa Electric has started shipment of the FSDrive-MX1, the world's first matrix converter with multi-output connected in a series for direct AC to AC power conversion. The FSDrive-MX1, in addition to the same energy-saving functions as for medium-voltage inverters, features a power regeneration function that enables the power generated during deceleration to be returned to the power supply for greater energy savings. With power regeneration and PWM control, operations that require dynamic acceleration and deceleration or quick responses are now possible. FSDrive-MX1 can expand our market to those in which conventional medium-voltage inverters could not be applied.

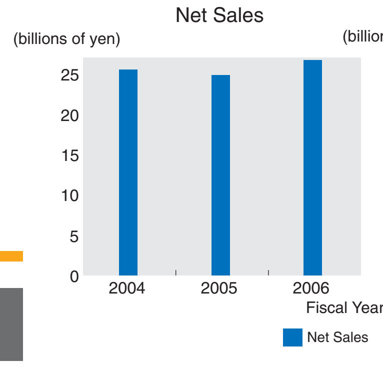
Applications

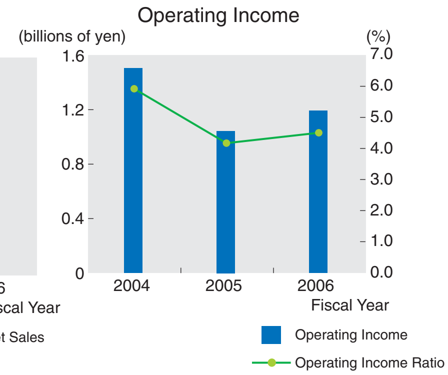
- Heavy-load applications with high levels of regenerative power (E.g. Steel-processing lines)
- Applications requiring quick response to changes in acceleration or deceleration (E.g. Blowers for boilers)
- Applications requiring regenerative loads (E.g. Testing devices)

Medium-voltage Matrix Converter, FSDrive-MX1

Review of Operations

Information Technologies





Business Overview

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

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

Yaskawa Information Systems Corporation

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

Since its establishment, the Yaskawa Group has applied engineering technology for manufacturing to software development in order to improve productivity and enhance the quality of developed software. The group named this software development and production system "Engineered IT Solutions", and it forms the guiding principle of business operations. The major lines of business at present are in these four areas:

Business Systems	Embedded Components
Network Communications	Services

Review of Operations for FY2006 and Future Outlook

In FY 2006, the business system division made favorable progress with the system integration for telecommunication business and business solutions for manufacturers, but the provision of total solutions (order system construction for the food-service industry) that was launched as a new venture the previous fiscal year developed rather more slowly than initially projected.

In the information service industry, private sector information-related investment and demand for value added products mainly for use in digital appliances are expected to continue to grow steadily. In the future, information system technologies including software will continue advancing in response to the active needs of the market. Furthermore, innovative new technologies, new products, and new services will stimulate latent demand, and contribute to significant changes in our daily lives and corporate activities.

In order to effectively respond to trends and changes in the market and in customer needs, we, as a provider of these new technologies, products and services, emphasize maintaining technological strength to keep up with advances and the application of the our advanced technological expertise to develop potential fields of application. We will take up the challenge of transforming ourselves into a corporation with a management structure that can endure and adapt to environmental changes and accelerate our growth.

YE Data Inc.

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

Starting with the launch of Japan's first FDD unit, we have pursued original technology and superior quality to provided outstanding quality computer peripheral products. As technological innovations rapidly progress, we are now focused on providing solution services under the theme of Information Quality & Security. We do this by integrating our newly developed cutting-edge hardware technology with our original software technology and other technologies accumulated over the years. Our major lines of business are currently in the following areas:

Multimedia	Marking Systems
Data Recovery Services	Solution Equipment

Review of Operations for FY2006 and Future Outlook

In the multimedia products business, the shrinking of the FDD market was counteracted by our cultivation of new core lines of products, which saw sales increased by 18.7% over the previous fiscal year, with our new card readers (Express Card Reader, KIOSK Card Reader) being adopted by PC manufacturers. Data recovery services posted nearly a billion yen of sales thanks to the acquisition of service partners and public relations activities. As a result, net sales exceeded the 10-billion yen mark for the first time in five fiscal years, 10.6% up from the previous fiscal year.

While the world economy is expected to generally hold a steady course, IT-related markets will continue to experience rapid changes in market needs and further intensifying price competition due to the advancement of globalization. In this demanding environment, we intend to accelerate innovation and implementation, and cultivate core businesses by developing new products and services in each line of our business.

Specifically, the Multimedia Products business will work on mass production of UWB wireless USB products, the Marking Systems business will reinforce efforts in solar cells, and the Solution Equipment business will pursue business development of such items as MIRAMOTION products and photo kiosk terminal products.

KIOSK Reader YD-8V31, an Exclusive Cardreader for Photo Kiosk Systems

Corporate Activities

Interview: Development of MOTOMAN-DIA10

Robots that can practically serve society will expand future possibilities.

We will change the industrial structure with robots that will help to solve social issues.

Masahiro Ogawa,
Manager of New Robotics Business Promotion Division,
Robotics Division

What prompted you to develop the dual-arm robot MOTOMAN-DIA10 released in December 2005?

Where there are people, there is a market for robots – this was our simple but ambitious concept in aiming towards new robot market areas. When it comes to the realization of motion performance to replace humans, we believed there must be a robot that can exactly mimic the movements of a human. Later, we reached the conclusion that “to increase the robots' motion capability or arm capacity, which allows a robot to see and clutch an object, and to understand its strength to conduct a variety of work, the focus should be on the robot’s shape.” This was when dual-arm construction came to the fore. Yaskawa Electric has a fairly long history in dual-arm technology and its concepts, starting around 1990 when development of the live-line maintenance robot* was first initiated. The conventional single-arm robots evolved from 4 axes to 5 and 6 axes over the last 20 years. The MOTOMAN-DIA10 with two 7-axis arms demonstrates movement much closer to that of a human. By developing the dual-arm robot, we are not looking to create a humanoid robot but to provide a robot with humanlike movements.

What new markets do you expect to create with this dual-arm robot?

Our original intention with this development was to create new markets. Our desire is to make changes to the industrial structure by providing robots that can help to solve such pressing social issues as the rapidly aging society, low birthrate, and subsequent labor shortages. As technology progresses exponentially, we believe that incredible technologies will emerge in the next five to ten years.

At present, our focus is centered upon the manufacturing and distribution industries. Even in fairly automated manufacturing industries, there are still many tasks that depend on human labor, and it is in this area where we believe the greatest potential for robots lies. Our target areas are where the requirements for human flexibility are highest, such as in assembly, parts distribution, sorting and inspection processes. These areas pose the greatest difficulties for automation.

The other target is the distribution industry. When people are involved in the process line, it naturally becomes a time consuming prcess. They work for six to ten hours, and for the remaining hours the equipment sits idle. If you want to increase distribution volume, the number of workers must be increased, or another work-shift must be added.

Thus, most areas, whether manufacturing or distribution, have some restrictions that relate directly to the human factor. We believe that a new robot solution is certain to rise from these kinds of circumstances.

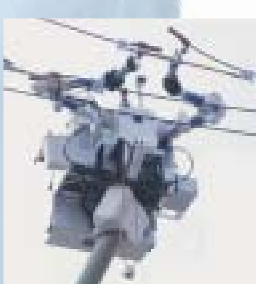
A solution evolves from the birth of dual-arm robots that can more closely mimic human movement.

MOTOMAN-DIA10

What are some of the stories behind the development of dual-arm robots?

I feel that integrating dual-arm robots into wide areas of use, and encouraging their acceptance into the culture are perhaps more difficult than the actual development of the robot itself. Development to improve robot performance to gain a lead on the competition or to meet new requirements is simply a matter of having the technological skills. However, it is not an easy matter to widely introduce and integrate robots in various industries where there is currently no market. I feel that public relations and marketing skills are needed in addition to technological skills. Ideally people would get to know about robots through word of mouth. We should promote public relations activities that would allow people to learn about robots, and come to regard them more reasonably and logically. This would motivate people to find the potential uses for the robot. In line with that aim, there is a necessity, and even urgency, to construct an effective business model.

Another thing that we kept in mind when developing the dual-arm robot was to make conscious efforts to incorporate many of the live-line maintenance robot technologies and to further add new technologies. In incorporating new technologies, conditions and timing are of the essence. Yaskawa has a multitude of valuable technologies stored away because the conditions or timing were not right when they were developed. As such, technologies that were put aside on the past may be revived to create something new and quite unique. This renewal of past technologies is truly a satisfying accomplishment.



Live-line Maintenance Robot*

*: Live-line maintenance robot system co-developed with Kyushu Electric Power Co., Inc. to perform work in cooperation with trained workers on live lines (6 or 22 kV), where there is a risk of electrical shock

What do you envision for the future?

I believe that a successful scenario for any business depends on whether or not it can contribute to society. For that purpose, we chose a robot with dual arms whose movements closely mimic those of humans. We sensed the marketability of robots in any place where there are humans, or where human labor is a large factor. The basis of the dual-arm concept is that robots should be freely able to perform a varied range of multiple assignments to some extent, instead of being limited to only simple tasks. Therefore, we have set a target on certain markets.

There are a variety of advanced and incidental technologies that control a robot's arm movements, and its autonomy and sophistication in performing work, and these technologies are advancing on a daily basis. Our ultimate goal is to see our products occupying the central position in such technologies. I feel that the expectation value for robots in new markets is higher than in any other industry. How will we respond to these expectations and grow markets with our dual-arm robots? I am excited by the possibilities, because it is almost as if we are undergoing a test of our own skills and capabilities rather than the robot's.

Lastly, we take great pride in this dual-arm robot and its technological strides towards practical application. Humanoid robots have already been realized, and they provide a strong impetus to our dreams and the things to follow. As yet, though, I don't think that they have reached the level of a practical model. On the other hand, the MOTOMAN-DIA10 has already reached the stage of practical application. Yaskawa Electric may well lead the way in the practical application of humanoid robots. Robots have no value if they cannot be of help to humans, and so practical application and realization are two totally different things. Solutions begin to progress only when the robots are actually used. The current MOTOMAN-DIA10 may be one or two years old if in human years. We are certain that as they grow, they will reveal even more interesting aspects and even greater potential spurred by technological advancements.

Technology Development

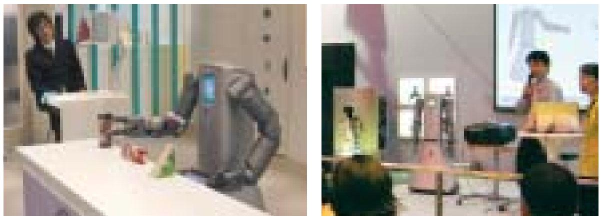
Research & Development Overview and Policy


Tsukuba Research Laboratory Reopened

Yaskawa Electric is active in the development of human and eco-friendly mechatronics for application to the advancement of motion controls, drives, robotics and other mechatronics products. Other important themes include the development of new technologies that meet the latest needs of the public, to support people and the protection of the environment. In order to strengthen these efforts, the Tsukuba Research Laboratory resumed activities on May 25, 2006. The Laboratory works as the hub of Yaskawa's pursuit of seed technologies. This is enhanced by the favorable Tsukuba location, where distinguished research institutions converge and leading-edge research is undertaken with active coordination among the institutions.

FY2006 Achievements and Topics

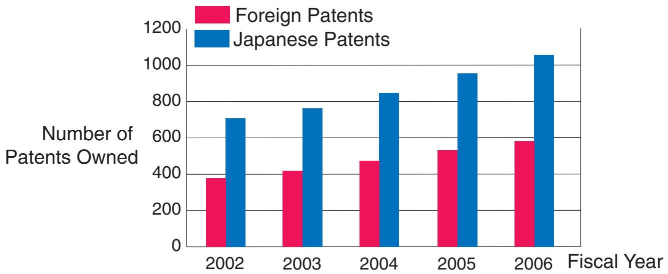
In the field of motion control, we developed new actuators which realized high-speed and high-precision motion, and control technology to bring out their best performance. In the field of drives, we developed a technology to minimize electromagnetic influences and a software technology to facilitate efficient inverter development. In the area of robotics, along with the development of technology to enhance user-friendliness and prolong the service life of existing products, we directed our efforts to the development of new technology to broaden the potential applications of next-generation robots. In addition, in order to accelerate the substantiation of element and application technologies of next-generation robots, we have conducted diverse demonstrations using SmartPal.


Demonstration Using SmartPal
(Left: Miraikan Right: International Next Generation Robot Fair)

Intellectual Property

At Yaskawa Electric, we make strategic use of our intellectual property rights, and protect our products, in order to maintain competitiveness of our new products and to ensure customer confidence.

Activities for Intellectual Property Rights



Development of Number of Patents Owned by Yaskawa Electric

Starting from Yaskawa's initial ten patent applications filed on September 28, 1917, the number of applications filed by Yaskawa Electric has exceeded 16,000.

Within the framework of the Strategic Corporate Management Trinity, the focus of our activities regarding intellectual property rights has shifted from quantity to quality, to enhance our intellectual property strategy and promote effective use of management resources.

We have been implementing a pro-patent cycle of creating, protecting, and using our intellectual properties, to avoid product risks and promote product differentiation.

As a result, we have a competitive edge in the industrial robotics field and hold a top position in the number of patent applications filed, along with a large product market share.

(Information source: Survey Reports on Technology Trends and Patent Applications (2006) - Robotics, compiled by the Japan Patent Office)

Framework for Promotion of Intellectual Property Rights

The framework for the promotion of intellectual property rights, consisting of the intellectual property division, which provides company-wide supervision, pro-patent promoters assigned to the R&D division, and the business divisions, has been established to systematically facilitate pro-patent activities.

Policy and Status of Intellectual Property Rights

Yaskawa Electric's activities regarding intellectual property rights focus on ensuring full coverage of new products, and application filing is actively promoted for service robots that are expected to develop non-manufacturing applications.

Corporate Governance and Compliance

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 internal control system and also the system of how our current shareholders' meetings, board of directors and auditors, and accounting audits operate.

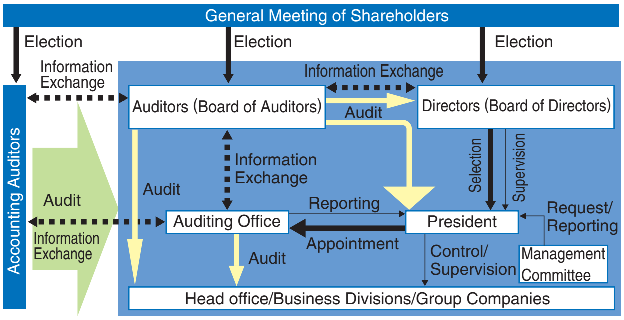
Furthermore, we will ensure swift and accurate disclosure of a wide-range of information to our shareholders and other capital providers, and will thereby increase the transparency of the Company's management.

Activities for Enhanced Corporate Governance

During the past fiscal year, the Board of Directors met a total of 11 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.

Corporate auditors regularly meet with accounting auditors and internal auditors to exchange information that each of them can learn of for their position. Also, in order to ensure transparency and enable multidimentional 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 is working on standardization of our business, and aims at building highly objective and transparent business processes. The organizational structure concerning the Company's corporate governance is as follows.



Compliance for Fair Business Operations

In order to ensure compliance to the laws and social norms, the Company has formulated the Corporate Charter and the Yaskawa Electric Corporate Activity Standards, and is carrying out their corporate-wide education and observance. The Compliance Guidelines were distributed to all employees and the in-house information section was set up. Corporate Social Responsibility Promotion Committee was established, and its subordinate committee is working to strengthen the Company's activities related to corporate social responsibility, such as compliance, risk management, and appropriate corporate communications.

With 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, and have been educating employees of these policies.

Yaskawa Group has also set up and follows internal regulation for export control to observe export-control-related laws, international rules and their spirits from the standpoint of maintenance of international security.

Aiming to become a company that contribute to the development of society and the welfare of mankind

Yaskawa Electric will have its 100th anniversary of its foundation in 2015. We are all grateful to our various stakeholders, including our customers, the local community, the employees, and our shareholders and many others for their support over the years. The present-day idea of CSR (Corporate Social Responsibility) is inherent as our corporate DNA, as our management policy advocates contribution to the development of society and the welfare of mankind through the performance of its business. We aspire to become a company with global competitiveness and brand that meet the expectations of various stakeholders on a long-term perspective by providing solutions that is suited to the changes of society and industrial structure.

Yaskawa Electric Corporate Activity Standards

Yaskawa Electric's management policy advocates contribution to the development of society and the welfare of mankind through the performance of its business. We will build a solid and trustful relationship with the society by fully recognizing corporate citizenship, and by operating a conscientious and fair business. We thus respect human rights and conduct ourselves in a socially responsible manner toward the creation of a sustainable society, observe both the spirit as well as the letter of all laws and regulations applying to our activities both in Japan and abroad in accordance with the following ten principles.

1. We, by the development and provision of socially beneficial goods and services in a safe and environmentally-friendly manner, shall contribute to the improvement of people's lives and to the economic and social development, while taking necessary measures to protect personal data and customer related information.
2. We shall work to protect the environment more proactively with a broad perspective in our overall business activities.
3. We shall engage in communication not only with shareholders but also with members of society at large, including active and fair disclosure of corporate information.
4. As "a good corporate citizen," we shall actively engage in philanthropic activities, and other activities of social benefit.
5. We shall strive to respect diversity, individuality and differences of the employees, to promote safe and comfortable workplaces, and to ensure the mental and physical well-being of the employees.
6. We shall observe laws and regulations applying to our overseas activities and respect the culture and customs of other nations and strive to manage our overseas activities in such a way as to promote and contribute to the development of local communities.
7. We shall operate businesses based on fair, transparent, free competition and sound trade, which strictly observe all laws and never violate social norms.
8. We shall reject all contacts with organizations involved in activities in violation of the law or accepted standards of responsible social behavior.
9. Top management shall assume the responsibility for implementing these standards and for taking all necessary action in order to raise awareness in its corporation and inform its group companies and business partners of its responsibility. Management shall also promote the development and implementation of systems that will contribute to the achievement of business ethics.
10. In the case of incidents contrary to the principles of these standards, top management must work to solve the problems caused by these incidents, investigate the cause for the incident, and develop reforms to prevent recurrence. After the prompt public disclosure of information regarding the incident, responsibility for the event and its effects should be clarified and disciplinary action should be taken, including the highest levels of management where necessary.

Topics

■ Activities of "Yaskawa Mirai (Future) Club"

Yaskawa Electric celebrated the 90th anniversary of its foundation in 2005. We are all grateful to our customers, shareholders, residents of the local community, and many others for their support over the years. As an expression of our gratitude and our role as a good corporate citizen, the Yaskawa Mirai (Future) Club was established within the company as a part of our project to commemorate our 90 years in business.

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 Club encourages more people to join so as to be able to better contribute to society.

Supporting "The Project to Establish Children's Village Fukuoka"

■ 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.

■ Strengthening Cooperation with Kitakyushu City for Promotion of Robotics Industry

In June 2006, Kitakyushu city and Yaskawa Electric made an agreement to strengthen cooperation to develop Kitakyushu city as the center of robotics industry.

■ Sports Activities

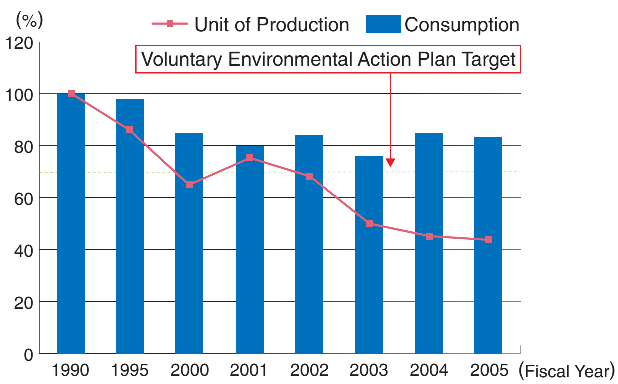
Sports activities are also an important part of our corporate activities, and encouragement and support are provided to employees or their family members to participate in local marathons and walking events. Yaskawa Electric's track & field team partakes in corporate team Ekiden championships (relay road race) and other races held in various locations. These athletes also actively interact with children in community by running with them and giving advice.

YASKAWA Track & Field Team Website
http://www.yaskawa.co.jp/activities/track-field/index.html
(Available in Japanese only)

Kyushu corporate Mainichi Ekiden First Victory (November 2006)

■ Energy Conservation and Prevention of Global Warming

Greenhouse gases emitted by our company are carbon dioxide (CO_2) and sulfur hexafluoride (SF_6), and we are aggressively working on their reduction. Our voluntary action plan originally targeted a 30% reduction in CO_2 emissions per unit of production by FY2010 compared to the FY1990 level. This target was already achieved in FY2002, therefore we revised the action plan to reduce by 57% per unit of production by FY2008. In FY2006, we achieved the target of a 57% reduction two years ahead of schedule through various energy conservation activities in each of our business locations.



Energy Cousumption and CO_2 Emissions per Unit of Production

Financial Section

Financial Review

The economic conditions in Europe, North America, and Asia during the fiscal year 2006 were generally positive, even though there was some concern over the rising prices of crude oil and raw materials. The Japanese economy also continued to gradually expand by increased corporate capital expenditures, and improvements in employment conditions.

In the midst of this economic environment, the Yaskawa Group began implementation of the mid-term business plan "DASH100", aimed at conducting growth-oriented management. The three basic goals of "DASH100" are to establish businesses that are truly global No.1 in market share, size, and profitability, to start up and develop new businesses, and to realize ordinary income ratio of 10% as soon as possible. In the first year of "DASH100", we worked on sales expansion in the markets that we have focused on, namely, automobile, semiconductor and LCD markets, as well as the markets in Asia, Europe and North America. We also focused our efforts on developing new products and their marketing. All these efforts had the aim of reinforcing existing businesses and expanding the business domain.

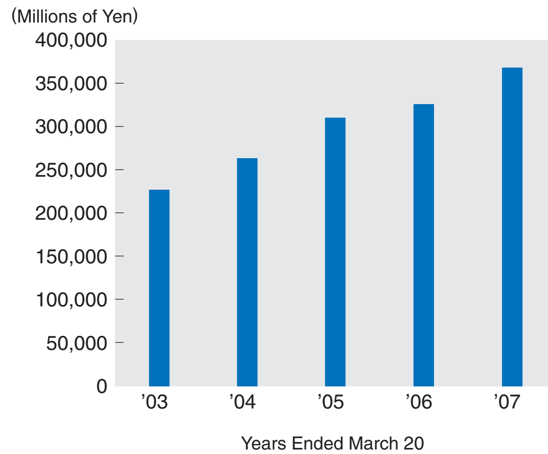
Group Overview

YASKAWA Group includes 78 subsidiaries and 21 affiliated companies. Based on the scope of consolidation and application of equity method accounting for the fiscal year ended March 20, 2007, YASKAWA Group comprises 62 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 14 affiliated companies to which equity method accounting is applied.

Net Sales

Consolidated net sales in fiscal year 2006 were ¥368,971 million, which was up by 14.3% from the previous fiscal year. It increased for five consecutive fiscal years and broke record high for three consecutive fiscal years. Consolidated sales in all business segments but Other increased. Regional sales in the Americas, Europe, and Asia all increased from the previous fiscal year, and the ratio of overseas sales was 46%.

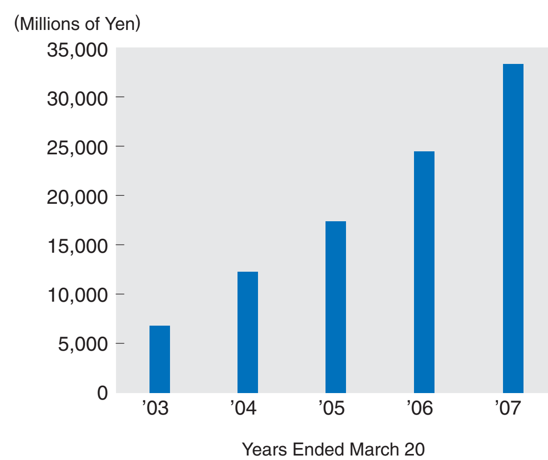
Net Sales



Profit and Loss

Cost of sales in fiscal year 2006 amounted to ¥264,084 million, 13.8% greater than the previous fiscal year. The cost of sales ratio decreased by 0.3 points to 71.6%. Selling, general and administrative (SG&A) expenses rose by 7.4% to ¥71,322 million. The percentage of SG&A expenses against net sales decreased by 1.2 points to 19.3%. As a result, operating income increased by 37.1% to ¥33,564 million, and operating income ratio reached 9.1%, which was up by 1.5 points from the previous fiscal year.

Operating Income



As for the operating income per business segment, Motion Control saw a significant increase, and System Engineering turned profitable for the first time in three years. Robotics recorded less operating income due to factors such as reduced sales of high value-added businesses. In terms of geographical areas, all regions but Europe

(Japan, other countries in Asia, and the Americas) earned more operating income in fiscal year 2006.

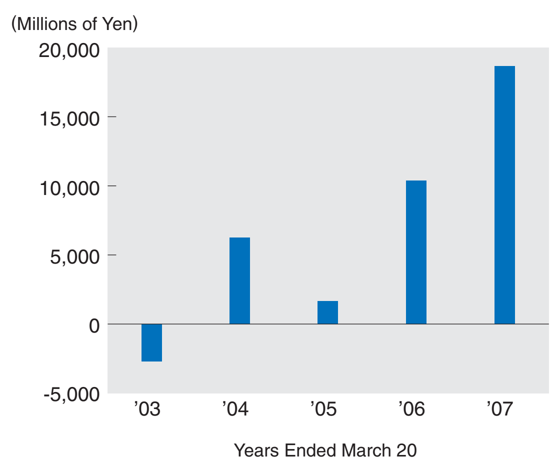
Non-operating income decreased by 8.6% to ¥1,867 million due to decrease in equity in earnings of affiliated companies and subsidiaries. Non-operating expenses also decreased by 6.8% to ¥2,048 million. As a result, ordinary income was ¥33,383 million, up by 37.2% from the previous fiscal year.

Extraordinary income increased by ¥2,628 million from the previous fiscal year to ¥3,076 million due to increase in the proceeds from sales of fixed assets and securities of affiliates. Extraordinary losses decreased by ¥1,006 million to ¥6,486 million.

As a result of the above, net income before taxes and minority interests totaled ¥29,973 million, up by 73.4% from the previous fiscal year.

Net income after deducting income taxes and recording minority interests amounted to ¥18,982 million, up by 86.9% from the previous fiscal year. Net income per share increased from ¥43.18 in the previous fiscal year to ¥81.12 this fiscal year. ROE (return on equity), one of our key management indicators, in the fiscal year 2006 was 28.4%, up by 6.1 points from the previous fiscal year.

Net Income (loss)



Segment Information

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

[Motion Control]

We focused on developing markets by strengthening sales operations, while we expanded sales of new products, and improved the product lineup. We also focused on increasing added value, and made cost reductions in order to raise profitability. The Motion Control segment experienced positive conditions in the semiconductor and electronic component markets for its AC servomotors and controllers, while the overseas air conditioning market remained positive for the inverter drives. As a result, both sales and operating income rose compared to the previous fiscal year.

The overall results for the Motion Control segment, compared to the previous fiscal year, show sales increasing by 19.2% to ¥159,601 million and operating income increasing by 61.5% to ¥19,832 million. These results marked record highs.

[Robotics]

We continuously worked on expansion of existing markets by providing products optimized for each purpose and market. The demand for welding, handling, and painting robots in the Japanese automobile market has recovered as capital expenditure adjustments came to an end, however the Robotics segment was affected by restrained capital expenditures in European and North American markets. Although there was robust demand for the panel-transfer robots for the LCD industry in the first half of the fiscal year, capital expenditure was postponed in the second half of the fiscal year. Meanwhile, the demand for wafer-handling robots for the semiconductor industry recovered.

As a result, although sales rose by 11.7% to ¥126,723 million compared to the previous fiscal year, operating income decreased by 8.8% to ¥8,983 million due to a decrease in sales of high value-added products.

[System Engineering]

The System Engineering segment progressed with a reform in the profit structure by specializing in its strong businesses and by cost reductions. Also, efforts were made to take in the increasing demand for electrical systems for steel plants. Sales of control systems for loading and unloading cranes for the Chinese market increased.

As a result, sales rose compared to the previous fiscal year by 18.0% to ¥49,487 million, and operating income rose by ¥2,073 million to ¥1,814 million. The segment turned profitable for the first time in three years.

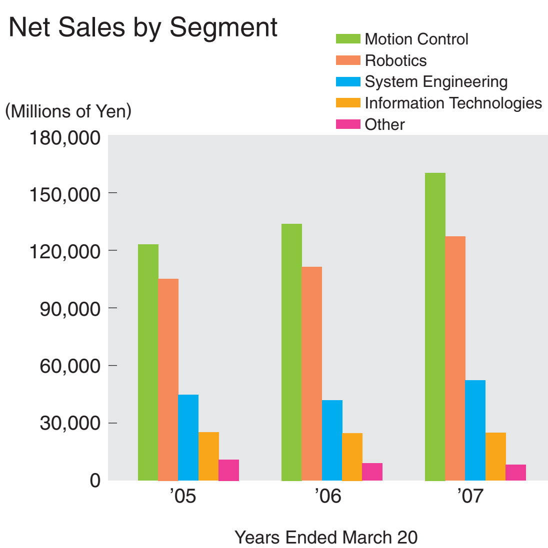
[Information Technologies]

As for the Information Technologies segment, there was robust demand for its multimedia equipments, especially card readers, as well as for its system integration for telecommunication businesses, and control software for semiconductor/LCD manufacturers.

As a result, sales rose by 6.8% to ¥26,472 million, and operating income was ¥1,192 million, up by 14.4% from the previous fiscal year.

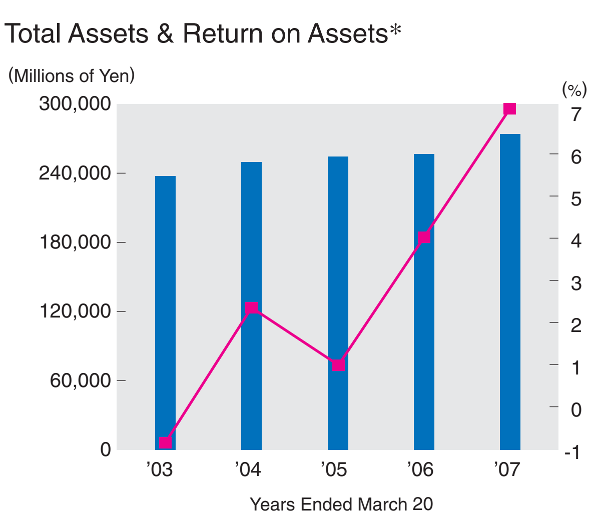
[Other]

The Other segment includes businesses such as logistic services and temporary staffing services. Sales of the segment decreased by 24.3% to ¥6,686 million, and operating income increased by 11.2% to ¥1,875 million compared to the previous fiscal year.



Balance Sheet Highlights

Total assets increased by ¥17,957 million to ¥273,180 million, as trade notes and accounts receivable increased by ¥14,219 million.



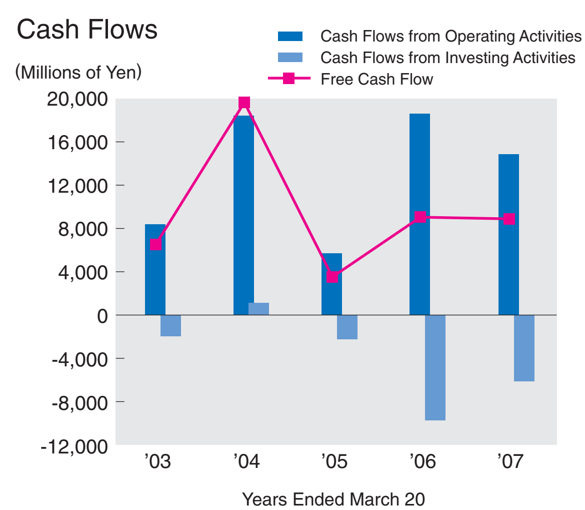
*: Return on Assets = Net Income/Total Assets

Total liabilities decreased by ¥11,444 million to ¥186,938 million, as trade notes and accounts payable increased by ¥4,236 million, and short-term bank loans and convertible bonds decreased by ¥7,163 million and ¥8,168 million respectively.

Total net assets amounted to ¥86,242 million, as common stock increased by ¥4,095 million because of conversion of bonds. Additional paid-in capital and retained earnings also increased by ¥4,160 million and ¥18,369 million respectively.

Cash Flows

The balance of cash and cash equivalents at the end of the fiscal year was ¥13,214 million yen, up by ¥1,112 million yen from the corresponding date of the previous year. Net cash provided by operating activities was ¥14,990 million. Its rough breakdown is income before income taxes and minority interests of ¥29,973 million, depreciation and amortization of ¥6,962 million, increase of trade receivables by ¥12,016 million, and income taxes paid of ¥10,147 million. Net cash used in investing activities was ¥6,119 million as a result of purchases of property, plant and equipment of ¥8,429 million, and sales of securities of affiliates of ¥1,848 million.



Free cash flow, which is a sum of cash flows from operating and investing activities, resulted in an increase of ¥8,871 million.

Net cash used in financing activities was ¥8,960 million as repayments were made for the interest-bearing debt, and cash dividends were paid.

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 June 20, 2007. 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, the Americas, 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 145 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, 2007, it was reduced to ¥46,750 million (down by ¥15,806 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 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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

Assets	20th March, 2007 (Millions of yen)	2006 (Millions of yen)	2007 (Thousands of U.S. dollars) (Note 4)
Current assets:			
Cash and cash equivalents	**¥13,215**	¥12,102	**$112,106**
Short-term investments (Note 5)	**168**	99	**1,425**
Trade receivables			
Notes	**16,490**	13,072	**139,888**
Accounts (Note 7)	**82,742**	71,941	**701,917**
Allowance for doubtful accounts	**(998)**	(733)	**(8,466)**
Inventories (Notes 6 and 7)	**58,137**	58,177	**493,188**
Deferred tax assets (Note 9)	**6,944**	7,170	**58,907**
Other current assets	**11,063**	7,364	**93,850**
Total current assets	**187,761**	169,192	**1,592,815**
Property, plant and equipment, at cost (Notes 7 and 15):			
Land	**7,768**	9,425	**65,898**
Buildings and structures	**38,435**	37,569	**326,052**
Machinery and equipment	**33,883**	31,887	**287,436**
Other	**24,514**	23,322	**207,957**
	104,600	102,203	**887,343**
Less accumulated depreciation	**(64,804)**	(62,547)	**(549,746)**
Net property, plant and equipment	**39,796**	39,656	**337,597**
Investments and other assets:			
Investment securities (Note 5)	**18,153**	18,936	**153,996**
Investments in and advances to unconsolidated subsidiaries and affiliates	**5,024**	4,905	**42,620**
Deferred tax assets (Note 9)	**11,790**	11,052	**100,017**
Other assets	**10,657**	11,482	**90,405**
Total investments and other assets	**45,624**	46,375	**387,038**
Total assets	**¥273,181**	¥255,223	**$2,317,450**

Liabilities and net assets	20th March, 2007 (Millions of yen)	2006 (Millions of yen)	2007 (Thousands of U.S. dollars) (Note 4)
Current liabilities:			
Short-term bank loans (Note 7)	**¥18,276**	¥24,306	**$155,039**
Current portion of long-term debt (Note 7)	**14,836**	5,969	**125,857**
Trade payables			
Notes	**10,912**	8,732	**92,569**
Accounts	**58,407**	56,350	**495,478**
Accrued income taxes (Note 9)	**5,600**	4,797	**47,506**
Accrued expenses	**19,084**	16,952	**161,894**
Accrued bonuses to directors	**154**	—	**1,306**
Other current liabilities	**10,010**	11,868	**84,917**
Total current liabilities	**137,279**	128,974	**1,164,566**
Long-term liabilities:			
Long-term debt (Note 7)	**13,640**	32,283	**115,711**
Accrued retirement benefits for employees (Note 8)	**34,912**	35,775	**296,166**
Accrued directors' retirement benefits	**701**	—	**5,947**
Deferred tax liabilities (Note 9)	**36**	59	**305**
Other long-term liabilities	**371**	1,292	**3,147**
Total long-term liabilities	**49,660**	69,409	**421,276**
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity (Note 11):			
Common stock:			
Authorised: 560,000,000 shares			
Issued: 243,953,569 shares in 2007			
232,915,735 shares in 2006	**19,954**	15,859	**169,274**
Capital surplus	**15,489**	11,329	**131,396**
Retained earnings	**38,736**	20,368	**328,605**
Treasury stock, at cost: 574,704 shares in 2007;			
753,971 shares in 2006	**(282)**	(309)	**(2,392)**
Total shareholders' equity	**73,897**	47,247	**626,883**
Valuation and translation adjustments:			
Net unrealized holding gain on other securities	**4,619**	4,739	**39,184**
Net deferred hedge losses	**(9)**	—	**(76)**
Foreign currency translation adjustments	**2,281**	764	**19,350**
Total valuation and translation adjustments	**6,891**	5,503	**58,458**
Minority interests	**5,454**	4,090	**46,267**
Total net assets	**86,242**	56,840	**731,608**
Total liabilities and net assets	**¥273,181**	¥255,223	**$2,317,450**

See notes to consolidated financial statements.

Consolidated Statements of Income

Yaskawa Electric Corporation and Consolidated Subsidiaries

	Year ended 20th March, 2007 (Millions of yen)	2006 (Millions of yen)	2007 (Thousands of U.S. dollars) (Note 4)
Net sales	**¥368,971**	¥322,917	**$3,130,056**
Cost of sale (Note 12)	**264,085**	232,053	**2,240,287**
Gross profit	**104,886**	90,864	**889,769**
Selling, general and administrative expenses (Note 12)	**71,322**	66,377	**605,039**
Operating income	**33,564**	24,487	**284,730**
Other income (expenses):			
Interest and dividend income	**512**	293	**4,343**
Interest expense	**(1,207)**	(1,470)	**(10,239)**
Other, net (Note 13)	**(2,896)**	(6,024)	**(24,567)**
Income before income taxes and minority interests	**29,973**	17,286	**254,267**
Income taxes (Note 9):			
Current	**10,948**	9,618	**92,874**
Deferred	**(795)**	(2,803)	**(6,744)**
Income before minority interests	**19,820**	10,471	**168,137**
Minority interests	**837**	314	**7,100**
Net income	**¥18,983**	¥10,157	**$161,037**

Per share of common stock	2007 (yen)	2006 (yen)	2007 (U.S. dollars) (Note 4)
Net income – basic	**¥81.12**	¥43.18	**$0.688**
Net income – diluted	**75.29**	39.72	**0.639**
Cash dividends	**6.00**	6.00	**0.051**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets For the Year Ended 20th March 2007

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at 20th March 2006	¥15,859	¥11,329	¥20,368	¥(309)	¥47,247
Changes during the year					
Exercise of stock acquisition rights	4,095	4,073	—	—	8,168
Cash dividends	—	—	(2,093)	—	(2,093)
Bonuses to directors and corporate auditors	—	—	(170)	—	(170)
Net income	—	—	18,983	—	18,983
Acquisition of treasury stock	—	—	—	(62)	(62)
Disposition of treasury stock	—	87	—	89	176
Effect of increase in consolidated subsidiaries	—	—	1,225	—	1,225
Effect of decrease in consolidated subsidiaries	—	—	1,461	—	1,461
Effect of increase in affiliates accounted for by the equity-method	—	—	141	—	141
Effect of decrease in affiliates accounted for by the equity-method	—	—	(1,179)	—	(1,179)
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	4,095	4,160	18,368	27	26,650
Balance at 20th March 2007	¥19,954	¥15,489	¥38,736	¥(282)	¥73,897

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at 20th March 2006	$134,535	$96,106	$172,786	$(2,621)	$400,806
Changes during the year					
Exercise of stock acquisition rights	34,739	34,552	—	—	69,291
Cash dividends	—	—	(17,755)	—	(17,755)
Bonuses to directors and corporate auditors	—	—	(1,442)	—	(1,442)
Net income	—	—	161,037	—	161,037
Acquisition of treasury stock	—	—	—	(526)	(526)
Disposition of treasury stock	—	738	—	755	1,493
Effect of increase in consolidated subsidiaries	—	—	10,392	—	10,392
Effect of decrease in consolidated subsidiaries	—	—	12,394	—	12,394
Effect of increase in affiliates accounted for by the equity-method	—	—	1,196	—	1,196
Effect of decrease in affiliates accounted for by the equity-method	—	—	(10,003)	—	(10,003)
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	34,739	35,290	155,819	229	226,077
Balance at 20th March 2007	$169,274	$131,396	$328,605	$(2,392)	$626,883

(Millions of yen)

Valuation and Translation Adjustments					
Net Unrealized Gains on Other Securities	Net Deferred Hedge Losses	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments	Minority Interests	Total Net Assets
¥4,739	¥—	¥764	¥5,503	¥4,090	¥56,840
—	—	—	—	—	8,168
—	—	—	—	—	(2,093)
—	—	—	—	—	(170)
—	—	—	—	—	18,983
—	—	—	—	—	(62)
—	—	—	—	—	176
—	—	—	—	—	1,225
—	—	—	—	—	1,461
—	—	—	—	—	141
—	—	—	—	—	(1,179)
(120)	(9)	1,517	1,388	1,364	2,752
(120)	(9)	1,517	1,388	1,364	29,402
¥4,619	¥(9)	¥2,281	¥6,891	¥5,454	¥86,242

(Thousands of U.S. dollars) (Note 4)

Valuation and Translation Adjustments					
Net Unrealized Gains on Other Securities	Net Deferred Hedge Losses	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments	Minority Interests	Total Net Assets
$40,202	$–	$6,481	$46,683	$34,696	$482,185
—	—	—	—	—	69,291
—	—	—	—	—	(17,755)
—	—	—	—	—	(1,442)
—	—	—	—	—	161,037
—	—	—	—	—	(526)
—	—	—	—	—	1,493
—	—	—	—	—	10,392
—	—	—	—	—	12,394
—	—	—	—	—	1,196
—	—	—	—	—	(10,003)
(1,018)	(76)	12,869	11,775	11,571	23,346
(1,018)	(76)	12,869	11,775	11,571	249,423
$39,184	$(76)	$19,350	$58,458	$46,267	$731,608

Consolidated Statement of Changes in Net Assets For the Year Ended 20th March 2006

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at 20th March 2005	¥15,542	¥14,002	¥7,291	¥(286)	¥36,549
Changes during the year					
Exercise of stock acquisition rights	317	315	—	—	632
Transfer to retained earnings	—	(2,989)	2,989	—	—
Bonuses to directors and corporate auditors	—	—	(69)	—	(69)
Net income	—	—	10,157	—	10,157
Disposition of treasury stock	—	1	—	(23)	(22)
Effect of decrease in consolidated subsidiaries	—	—	(36)	—	(36)
Effect of increase in affiliates accounted for by the equity-method	—	—	36	—	36
Net changes in items other than shareholders' equity	—	—	—	—	—
Total changes during the year	317	(2,673)	13,077	(23)	10,698
Balance at 20th March 2006	¥15,859	¥11,329	¥20,368	¥(309)	¥47,247

See notes to consolidated financial statements.

(Millions of yen)

Valuation and Translation Adjustments				
Net Unrealized Gains on Other Securities	Foreign Currency Translation Adjustments	Total Valuation and Translation Adjustments	Minority Interests	Total Net Assets
¥1,933	¥(115)	¥1,818	¥4,070	¥42,437
—	—	—	—	632
—	—	—	—	—
—	—	—	—	(69)
—	—	—	—	10,157
—	—	—	—	(22)
—	—	—	—	(36)
—	—	—	—	36
2,806	879	3,685	20	3,705
2,806	879	3,685	20	14,403
¥4,739	¥764	¥5,503	¥4,090	¥56,840

Consolidated Statements of Cash Flows

Yaskawa Electric Corporation and Consolidated Subsidiaries

	Year ended 20th March,		
	2007	2006	**2007**
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Cash flows from operating activities			
Income before income taxes and minority interests	**¥29,973**	¥17,286	**$254,267**
Depreciation and amortization	**6,963**	6,699	**59,069**
Loss on impairment of fixed assets	**2,168**	—	**18,392**
Gain on sales of property, plant and equipment	**(974)**	(204)	**(8,263)**
Loss on devaluation of investment securities	**728**	13	**6,176**
Gain on sales of investment securities	**(120)**	(81)	**(1,018)**
Gain on sales of investments in affiliates	**(1,857)**	—	**(15,753)**
Interest and dividend income	**(512)**	(293)	**(4,343)**
Interest expense	**1,207**	1,470	**10,239**
Provision for employees' retirement benefits, net of payments	**(1,123)**	3,351	**(9,527)**
Provision for directors' retirement benefits, net of payments	**701**	—	**5,947**
(Increase) decrease in trade receivables	**(12,017)**	9,070	**(101,943)**
Decrease (increase) in inventories	**802**	(4,505)	**6,803**
Increase (decrease) in trade payables	**1,101**	(1,742)	**9,340**
Other, net	**(1,326)**	493	**(11,249)**
Subtotal	**25,714**	31,557	**218,137**
Interest and dividends received	**695**	307	**5,896**
Interest paid	**(1,271)**	(1,462)	**(10,782)**
Income taxes paid	**(10,147)**	(11,677)	**(86,079)**
Net cash provided by operating activities	**14,991**	18,725	**127,172**
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets	**(8,430)**	(9,301)	**(71,513)**
Proceeds from sales of property, plant and equipment and intangible assets	**1,104**	434	**9,365**
Purchases of investment securities	**(586)**	(646)	**(4,971)**
Proceeds from sales of investment securities	**208**	231	**1,764**
Purchases of investments in affiliates	**—**	(257)	**—**
Proceeds from sales of investments in affiliates resulting in change in scope of consolidation	**1,802**	—	**15,287**
Other, net	**(217)**	(191)	**(1,841)**
Net cash used in investing activities	**(6,119)**	(9,730)	**(51,909)**
Cash flows from financing activities			
Net decrease in short-term debt	**(4,517)**	(8,952)	**(38,319)**
Proceeds from long-term debt	**3,716**	31	**31,524**
Repayments of long-term debt	**(6,063)**	(5,877)	**(51,434)**
Dividends paid to stockholders of the Company	**(2,093)**	—	**(17,755)**
Dividends paid to minority shareholders	**(162)**	(188)	**(1,374)**
Other, net	**158**	51	**1,340**
Net cash used in financing activities	**(8,961)**	(14,935)	**(76,018)**
Effect of exchange rate changes on cash and cash equivalents	**227**	309	**1,926**
Net increase (decrease) in cash and cash equivalents	**138**	(5,631)	**1,171**
Cash and cash equivalents at beginning of year	**12,102**	17,907	**102,664**
Increase due to inclusion of subsidiaries in consolidation	**975**	—	**8,271**
Decrease due to exclusion of subsidiaries from consolidation	**—**	(174)	**—**
Cash and cash equivalents at end of year	**¥13,215**	¥12,102	**$112,106**

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 average exchange rates for the period. Except for the components of net assets excluding minority interests, the balance sheet accounts are translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets excluding minority interests are translated at their historical exchange rates. Translation adjustments are presented as a component of valuation and translation adjustments 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, 2007 and 2006. 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 net assets. 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 60 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 are not amortised, but are 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 bonuses to directors

Accrued bonuses to directors are provided mainly at an amount estimated to be paid for the current year's services subsequent to the balance sheet dates.

(j) 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 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.

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.

(k) Accrued directors' retirement benefits

Accrued directors' retirement benefits is provided mainly at an amount estimated to be paid at the balance sheet dates based on the Company' internal regulations.

(l) 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.

(m) Research and development expenses and advertising costs

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

(n) 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.

(o) 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.

(p) 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 and presented as net deferred hedge gains (losses), net of the applicable income taxes, in valuation and translation adjustments. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

3. Accounting Changes

(a) Accrued bonuses to directors

Effective the year ended 20th March, 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for directors' bonuses, which requires that such bonuses be recorded as an expense in the year incurred.

The effect of adoption of this standard was to decrease operating income and income before income taxes and minority interests by ¥156 million ($1,323 thousand) for the year ended 20th March, 2007 from the corresponding amounts which would have been recorded under the previous method.
The effect of this change on the segment information is described in Note 17.

(b) Accrued directors' retirement benefits

Effective the year ended 20th March, 2007, the Company and some of its domestic consolidated subsidiaries changed their method of accounting for directors' retirement benefits from a cash basis to an accrual basis in order to present operating results more accurately as well as to establish a solid financial position.
As a result, directors' retirement benefits attributable to the current year of ¥125 million ($1,060 thousand) were recorded in selling, general and administrative expenses, and those attributable to the prior years of ¥391 million ($3,317 thousand) were included in other expenses.

The effect of this change was to decrease operating income by ¥125 million ($1,060 thousand) and income before income taxes and minority interests by ¥516 million ($4,377 thousand) for the year ended 20th March, 2007 from the corresponding amounts which would have been recorded under the previous method.

The effect of this change on the segment information is described in Note 17.

(c) Translation of revenue and expense accounts of foreign subsidiaries

Until the year ended 20th March, 2006, the revenue and expense accounts of the foreign subsidiaries had been translated into yen at the rates of exchange prevailing at the balance sheet dates. Effective the year ended 20th March, 2007, these accounts have been translated into yen at the average rates of exchange in effect during the year.

This change was made in response to growing importance of the foreign subsidiaries in terms of production and sales activities of the Group and to obtain more accurate information on the quarterly operating results.

As a result of this change, sales decreased by ¥4,115 million ($34,908 thousand), and operating income and income before income taxes and minority interests decreased by ¥314 million ($2,664 thousand) and ¥319 million ($2,706 thousand), respectively, for the year ended 20th March, 2007 from the corresponding amounts which would have been recorded under the previous method.

The effect of this change on the segment information is described in Note17.

(d) Accounting standard for impairment of fixed assets

Effective the year ended 20th March, 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for the impairment of fixed assets and the related implementation guidance. 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 Group bases its grouping for assessing impairment losses on fixed assets on its business segments. However, the Group determines whether or not an asset is impaired on an individual asset basis for the rental assets and the asset which is deemed idle.

As a result of the adoption of this new accounting standard, the Company and certain domestic consolidated subsidiaries recognized impairment losses in the aggregate amount of ¥2,168 million ($18,392 thousand) mainly on idle assets (land and buildings) due to a significant decline in their market value by reducing their book value to the respective net realizable value of each asset. Accordingly, income before income taxes and minority interests decreased by the same amount for the year ended 20th March, 2007.

(e) Accounting standard for presentation of net assets in the balance sheet

Effective the year ended 20th March, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended 20th March, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of 20th March, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended 20th March, 2007.

4. 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 ¥117.88 = US$1.00, the exchange rate prevailing on 20th March, 2007. 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.

5. Securities

a) Information regarding marketable securities classified as other securities as of 20th March, 2007 and 2006 is as follows:

	20th March, 2007					
	Acquisition Cost	Carrying Value	Difference	Acquisition Cost	Carrying Value	Difference
	(Millions of yen)			(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition cost:						
Stocks	**¥7,213**	**¥15,136**	**¥7,923**	**$61,189**	**$128,402**	**$67,213**
Bonds	—	—	—	—	—	—
Others	**39**	**58**	**19**	**331**	**492**	**161**
Subtotal	**¥7,252**	**¥15,194**	**¥7,942**	**$61,520**	**$128,894**	**$67,374**
Securities whose acquisition cost exceeds their carrying value:						
Stocks	**¥795**	**¥692**	**¥(103)**	**$6,744**	**$5,870**	**$(874)**
Bonds	**18**	**18**	—	**153**	**153**	—
Others	**500**	**415**	**(85)**	**4,242**	**3,521**	**(721)**
Subtotal	**¥1,313**	**¥1,125**	**¥(188)**	**$11,139**	**$9,544**	**$(1,595)**
Total	**¥8,565**	**¥16,319**	**¥7,754**	**$72,659**	**$138,438**	**$65,779**

	20th March, 2006		
	Acquisition Cost	Carrying Value	Difference
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Stocks	¥6,209	¥14,537	¥8,328
Bonds	20	21	1
Others	39	60	21
Subtotal	¥6,268	¥14,618	¥8,350
Securities whose acquisition cost exceeds their carrying value:			
Stocks	¥1,765	¥1,527	¥(238)
Bonds	18	18	—
Others	500	429	(71)
Subtotal	¥2,283	¥1,974	¥(309)
Total	¥8,551	¥16,592	¥8,041

b) Sales of securities classified as other securities for the years ended 20th March, 2007 and 2006 is summarised as follows:

	2007	2006	**2007**
	(Millions of yen)		(Thousands of U.S. dollars)
Proceeds from sales	**¥199**	¥106	**$1,688**
Gains on sales	**120**	81	**1,018**
Losses on sales	**(217)**	–	**(1,841)**

c) The redemption schedule for securities with maturity dates classified as other securities as of 20th March, 2007 is summarised as follows:

	20th March, 2007							
	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
	(Millions of yen)				(Thousands of U.S. dollars)			
Bonds	—	—	**¥18**	—	—	—	**$153**	—
Others	**¥27**	—	–	—	**$229**	—	—	—
Total	**¥27**	—	**¥18**	—	**$229**	—	**$153**	—

6. Inventories

Inventories at 20th March, 2007 and 2006 consisted of the following:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Finished products	**¥27,442**	¥26,003	**$232,796**
Semifinished products and work in process	**12,815**	14,351	**108,712**
Raw materials	**17,880**	17,823	**151,680**
	¥58,137	¥58,177	**$493,188**

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

Short-term bank loans at 20th March, 2007 and 2006 consisted of following:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Secured	**¥295**	¥556	**$2,503**
Unsecured	**17,981**	23,750	**152,536**
	¥18,276	¥24,306	**$155,039**

Long-term debt at 20th March, 2007 and 2006 consisted of the following:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Unsecured 0.0% bonds in yen due 2009 with stock acquisition rights	**¥6,200**	¥14,368	**$52,596**
Unsecured 1.66% bonds in yen due 2008	**10,000**	10,000	**84,832**
Bank loans with interest rates ranging from 0.70% to 7.07%, due, in installments, through 2013:			
Secured	**2,022**	2,204	**17,153**
Unsecured	**10,254**	11,680	**86,987**
	28,476	38,252	**241,568**
Current portion of long-term debt	**(14,836)**	(5,969)	**(125,857)**
	¥13,640	¥32,283	**$115,711**

At 20th March, 2007, 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, 2007, if all the outstanding stock acquisition rights had been exercised at the then current conversion price, 8,378 thousand new shares of common stock would have been issuable.

The aggregate annual maturities of long-term debt subsequent to 20th March, 2007 are summarised as follows:

Year ending 20th March,	(Millions of yen)	(Thousands of U.S. dollars)
2008	**¥14,836**	**$125,857**
2009	**10,020**	**85,002**
2010	**2,073**	**17,586**
2011	**832**	**7,058**
2012	**466**	**3,953**
2013 and thereafter	**249**	**2,112**
	¥28,476	**$241,568**

The assets pledged as collateral for short-term bank loans and long-term bank loans at 20th March, 2007 and 2006 were as follows:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Accounts receivable	**¥ 3,687**	¥ 3,637	**$31,278**
Inventories	**3,629**	4,703	**30,785**
Property, plant and equipment, at net book value	**3,016**	2,299	**25,585**
	¥10,332	¥10,639	**$87,648**

8. 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, 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation	**¥(75,868)**	¥(77,114)	**$(643,604)**
Plan assets at fair value	**29,868**	27,653	**253,377**
Unfunded retirement benefit obligation	**(46,000)**	(49,461)	**(390,227)**
Unrecognized actuarial loss	**15,225**	18,006	**129,156**
Unrecognized prior service cost	**(4,011)**	(4,320)	**(34,026)**
Net amount	**(34,786)**	(35,775)	**(295,097)**
Prepaid pension expenses	**(126)**	—	**(1,069)**
Accrued retirement benefits for employees	**¥(34,912)**	¥(35,775)	**$(296,166)**

The components of retirement benefit expenses for the years ended 20th March, 2007 and 2006 are outlined as follows:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	**¥2,322**	¥2,248	**$19,698**
Interest cost	**1,902**	1,913	**16,135**
Expected return on plan assets	**(685)**	(560)	**(5,811)**
Amortization of net retirement benefit obligation at transition	**—**	3,576	**—**
Amortization of net actuarial loss	**1,470**	1,705	**12,470**
Amortization of prior service cost	**(309)**	(309)	**(2,621)**
Total	**¥4,700**	¥8,573	**$39,871**

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

	2007	2006
Discount rate	**2.5%**	2.5%
Expected return on plan assets	**2.5%**	2.5%

9. 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 a statutory tax rate of approximately 40.4% for both the years ended 20th March, 2007 and 2006. 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 statement of income for the year ended 20th March, 2007 differs from the statutory tax rate for the following reasons:

	2007
Statutory tax rate	**40.4%**
Effect of:	
Expenses not deductible for income tax purposes	**1.3**
Elimination of dividend income from overseas subsidiaries	**6.4**
Equity in earnings or losses of unconsolidated subsidiaries and affiliates	**(0.7)**
Changes in valuation allowance	**(5.0)**
Tax credits	**(5.3)**
Difference between the Company's and its subsidiaries' tax rates	**(3.1)**
Other, net	**(0.1)**
Effective tax rate	**33.9%**

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, 2007 and 2006 were as follows:

	2007	2006	**2007**
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Allowance for doubtful accounts	**¥114**	¥239	**$967**
Accrued bonus	**2,695**	2,438	**22,862**
Accrued retirement benefits for employees	**13,851**	13,843	**117,501**
Accrued directors' retirement benefits	**283**	–	**2,401**
Investment securities	**935**	581	**7,932**
Constructive dividend	**241**	241	**2,044**
Inventories	**1,105**	1,376	**9,374**
Goodwill	**—**	1,454	**—**
Impairment losses on fixed assets	**791**	—	**6,710**
Tax loss carryforwards	**334**	2,135	**2,833**
Other	**5,056**	4,576	**42,892**
Total gross deferred tax assets	**25,405**	26,883	**215,516**
Valuation allowance	**(3,400)**	(5,408)	**(28,843)**
Total deferred tax assets	**22,005**	21,475	**186,673**
Deferred tax liabilities:			
Net unrealised holding gain on securities	**(3,110)**	(3,248)	**(26,383)**
Other	**(205)**	(65)	**(1,739)**
Total deferred tax liabilities	**(3,315)**	(3,313)	**(28,122)**
Net deferred tax assets	**¥18,690**	¥18,162	**$158,551**

10. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at 20th March, 2007:

	(Millions of yen)	(Thousands of U.S. dollars)
Trade notes receivable discounted with banks	**¥467**	**$3,962**
Beneficiary certificates of notes receivable trusts transferred	**8,860**	**75,161**
Guarantor of indebtedness of employees	**177**	**1,502**
Guarantor of indebtedness of Yaskawa Electrico do Brasil	**272**	**2,307**
Guarantor of indebtedness of others	**137**	**1,162**

11. Capital surplus and Retained Earnings

The Corporation Law of Japan (the "Law") 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, 2007 and 2006.

The Law 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 Law 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.

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.

12. Research and Development Expenses

Research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended 20th March, 2007 and 2006 amounted to ¥8,417 million ($71,403 thousand) and ¥8,073 million, respectively.

13. Other Income (Expenses)

Other income (expenses) – other, net for the years ended 20th March, 2007 and 2006 consisted of the following:

	2007	2006	**2007**
	(Millions of yen)		(Thousands of U.S. dollars)
Gain on sales of investment securities	**¥120**	¥81	**$1,018**
Gain on sales of investments in affiliates	**1,857**	—	**15,753**
Foreign exchange gain	—	273	—
Equity in earnings of affiliates	**524**	874	**4,445**
Gain on sales of property, plant and equipment	**974**	204	**8,263**
Loss on devaluation of investment securities	**(728)**	(13)	**(6,176)**
Amortisation of net retirement benefit obligation at transition	–	(3,576)	—
Impairment losses on fixed assets	**(2,168)**	—	**(18,392)**
Business restructuring costs	**(1,846)**	(2,649)	**(15,660)**
Loss on sales of trade receivables	**(248)**	(399)	**(2,103)**
Reversal of allowance for doubtful accounts	—	88	—
Other, net	**(1,381)**	(907)	**(11,715)**
	¥(2,896)	¥(6,024)	**$(24,567)**

14. 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, 2007 and 2006 were as follows:

	20th March, 2007					
	Contract amount	Fair value	Unrealised gains (losses)	Contract amount	Fair value	Unrealised gains (losses)
	(Millions of yen)			(Thousands of U.S. dollars)		
Forward foreign exchange contracts:						
Sell						
U.S. dollars	**¥5,878**	**¥5,879**	**¥(1)**	**$49,864**	**$49,872**	**$(8)**
Euro	**1,296**	**1,293**	**3**	**10,994**	**10,969**	**25**
Won	**180**	**179**	**1**	**1,527**	**1,519**	**8**
Total	**¥7,354**	**¥7,351**	**¥3**	**$62,385**	**$62,360**	**$25**
Buy						
U.S. dollars	**¥2,341**	**¥2,301**	**¥(40)**	**$19,859**	**$19,520**	**$(339)**
Euro	**3,192**	**3,199**	**7**	**27,078**	**27,137**	**59**
Yen	**350**	**349**	**(1)**	**2,969**	**2,961**	**(8)**
Total	**¥5,883**	**¥5,849**	**¥(34)**	**$49,906**	**$49,618**	**$(288)**
Currency options:						
Sell call options						
Euro	**¥2,613**			**$22,167**		
(Premium)	**(44)**	**¥107**	**¥(63)**	**(373)**	**$908**	**$(535)**
Buy put options						
Euro	**2,613**			**22,167**		
(Premium)	**(44)**	**(58)**	**14**	**(373)**	**(492)**	**119**
Total	**¥5,226**			**$44,334**		
(Premium)	**—**	**49**	**¥(49)**	**—**	**$416**	**$(416)**

	20th March, 2006		
	Contract amount	Fair value	Unrealised gains (losses)
	(Millions of yen)		
Forward foreign exchange contracts:			
Sell			
U.S. dollars	¥2,668	¥2,666	¥2
Euro	3,911	3,935	(24)
Total	¥6,579	¥6,601	¥(22)
Buy			
U.S. dollars	¥1,412	¥1,397	¥(15)
Euro	1,575	1,581	6
Yen	107	108	1
Total	¥3,094	¥3,086	¥(8)
Currency options:			
Sell call options			
Euro	¥183	¥(1)	¥2
(Premium)	(3)		
Buy put options			
Euro	183	1	(1)
(Premium)	(2)		
Total	¥366	–	¥1
(Premium)	(1)		

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, disclosure of fair value of derivatives accounted for as hedges has been omitted.

15. 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, 2007 and 2006:

	2007	2006	**2007**
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs:			
Tools, furniture and fixtures	**¥265**	¥268	**$2,248**
Accumulated depreciation:			
Tools, furniture and fixtures	**138**	129	**1,171**
Net book value:			
Tools, furniture and fixtures	**¥127**	¥139	**$1,077**

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥40 million ($339 thousand) and ¥42 million for the years ended 20th March, 2007 and 2006, respectively. Depreciation of the assets leased under finance leases accounted for as operating leases amounted to ¥40 million ($339 thousand) and ¥42 million for the years ended 20th March, 2007 and 2006, respectively.

Future minimum lease income subsequent to 20th March, 2007 from finance leases accounted for as operating leases is summarised as follows:

Year ending 20th March,	(Millions of yen)	(Thousands of U.S. dollars)
2008	¥42	$356
2009 and thereafter	86	730
Total	¥128	$1,086

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, 2007 and 2006 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:

	2007	2006	**2007**
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs:			
Tools, furniture and fixtures	**¥4,063**	¥3,920	**$34,467**
Software	**936**	1,136	**7,940**
Other	**440**	263	**3,733**
	¥5,439	¥5,319	**$46,140**
Accumulated depreciation:			
Tools, furniture and fixtures	**¥2,004**	¥2,019	**$17,000**
Software	**484**	693	**4,106**
Other	**228**	134	**1,934**
	¥2,716	¥2,846	**$23,040**
Net book value:			
Tools, furniture and fixtures	**¥2,059**	¥1,901	**$17,467**
Software	**452**	443	**3,834**
Other	**212**	129	**1,799**
	¥2,723	¥2,473	**$23,100**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,030 million ($8,738 thousand) and ¥1,010 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, 2007 and 2006, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to 20th March, 2007 on non-cancelable operating leases and finance leases accounted for as operating leases are summarised as follows:

Year ending 20th March,	Finance leases	Operating leases	Finance leases	Operating leases
	(Millions of yen)		(Thousands of U.S. dollars)	
2008	¥943	¥782	$8,000	$6,634
2009 and thereafter	1,780	3,131	15,100	26,561
Total	¥2,723	¥3,913	$23,100	$33,195

16. Supplementary Cash Flow Information

The following is a summary of the transferred assets and liabilities, relevant selling prices and net cash inflows resulting from the sales of stock in a major subsidiary for the year ended 20th March, 2007:

	2007	**2007**
	(Millions of yen)	(Thousands of U.S. dollars)
Current assets	**¥2,343**	**$ 19,876**
Non-current assets	**815**	**6,913**
Current liabilities	**(4,425)**	**(37,538)**
Non-current liabilities	**(30)**	**(254)**
Translation adjustments	**(50)**	**(424)**
Unrealised profits, etc.	**(255)**	**(2,163)**
Increase in retained earnings due to exclusion from consolidation	**1,602**	**13,590**
Gain on sales of subsidiary's stock	**1,857**	**15,753**
Proceeds from sales of stock	**1,857**	**15,753**
Cash and cash equivalents held by subsidiary	**(75)**	**(636)**
Net cash inflows	**¥1,782**	**$ 15,117**

17. Segment Information

Business segments

The business segment information for the Company and its consolidated subsidiaries for the years ended 20th March, 2007 and 2006 is outlined as follows:

	Year ended 20th March, 2007							
	Motion Control	Robotics	System Engineering	Information Technologies	Other	Total	Eliminations or Corporate	Consoli-dated
	(Millions of yen)							
Net sales								
Sales to third parties	**¥159,601**	**¥126,724**	**¥49,487**	**¥26,472**	**¥6,687**	**¥368,971**	**¥ —**	**¥368,971**
Inter-segment sales and transfers	**18,331**	**433**	**2,682**	**3,364**	**18,559**	**43,369**	**(43,369)**	**—**
Total sales	**177,932**	**127,157**	**52,169**	**29,836**	**25,246**	**412,340**	**(43,369)**	**368,971**
Operating costs and expenses	**158,100**	**118,173**	**50,355**	**28,644**	**23,371**	**378,643**	**(43,236)**	**335,407**
Operating income	**¥19,832**	**¥8,984**	**¥1,814**	**¥1,192**	**¥1,875**	**¥33,697**	**¥(133)**	**¥33,564**
Total assets	**¥104,022**	**¥84,053**	**¥35,125**	**¥22,754**	**¥13,260**	**¥259,214**	**¥13,967**	**¥273,181**
Depreciation	**4,301**	**1,567**	**793**	**215**	**196**	**7,072**	**(109)**	**6,963**
Impairment losses	**—**	**—**	**—**	**—**	**—**	**—**	**2,168**	**2,168**
Capital expenditures	**5,658**	**1,776**	**757**	**281**	**150**	**8,622**	**(169)**	**8,453**

	Year ended 20th March, 2007							
	Motion Control	Robotics	System Engineering	Information Technologies	Other	Total	Eliminations or Corporate	Consoli-dated
	(Thousands of U.S. dollars)							
Net sales								
Sales to third parties	**$1,353,928**	**$1,075,026**	**$419,808**	**$224,567**	**$56,727**	**$3,130,056**	**$ —**	**$3,130,056**
Inter-segment sales and transfers	**155,506**	**3,673**	**22,752**	**28,537**	**157,440**	**367,908**	**(367,908)**	**—**
Total sales	**1,509,434**	**1,078,699**	**442,560**	**253,104**	**214,167**	**3,497,964**	**(367,908)**	**3,130,056**
Operating costs and expenses	**1,341,194**	**1,002,486**	**427,172**	**242,993**	**198,261**	**3,212,106**	**(366,780)**	**2,845,326**
Operating income	**$168,240**	**$76,213**	**$15,388**	**$10,111**	**$15,906**	**$285,858**	**$(1,128)**	**$284,730**
Total assets	**$882,439**	**$713,039**	**$297,973**	**$193,027**	**$112,487**	**$2,198,965**	**$118,485**	**$2,317,450**
Depreciation	**36,487**	**13,293**	**6,727**	**1,824**	**1,663**	**59,994**	**(925)**	**59,069**
Impairment losses	**—**	**—**	**—**	**—**	**—**	**—**	**18,392**	**18,392**
Capital expenditures	**47,998**	**15,066**	**6,422**	**2,384**	**1,272**	**73,142**	**(1,434)**	**71,708**

	Year ended 20th March, 2006							
	Motion Control	Robotics Automation	System Engineering	Information Technologies	Other	Total	Eliminations or Corporate	Consoli-dated
	(Millions of yen)							
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

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, 2007 and 2006 amounted to ¥26,817 million ($227,494 thousand) and ¥29,331 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.

4) Effective the year ended 20th March, 2007, the business segment “Robotics Automation ” has been changed to the “Robotics”.

The change had no effect on the business segment information for the year ended 20th March, 2007.

5) As described in Note 3(a), effective the year ended 20th March, 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for directors’ bonuses.

As a result, operating expenses of the respective business segments increased by the following amounts and their operating income decrease by the same amounts for the year ended 20th March, 2007, compared with the corresponding amounts which would have been recorded under the previous method:

Motion Control	¥67 million ($568 thousand)
Robotics	¥35 million ($297 thousand)
System Engineering	¥19 million ($161 thousand)
Information Technologies	¥14 million ($119 thousand)
Other	¥21 million ($178 thousand)

6) As described in Note 3(b), effective the year ended 20th March, 2007, the Company and some of its domestic consolidated subsidiaries changed their method of accounting for directors’ retirement benefits from a cash basis to an accrual basis.

As a result of this change, operating expenses of the respective business segments increased by the following amounts and their operating income decreased by the same amounts for the year ended 20th March, 2007, compared with the corresponding amounts which would have been reported under the previous method:

Motion Control	¥57 million ($484 thousand)
Robotics	¥36 million ($305 thousand)
System Engineering	¥25 million ($212 thousand)
Other	¥7 million ($ 59 thousand)

7) As described in Note 3(c), effective the year ended 20th March, 2007, the revenue and expense accounts of the foreign subsidiaries have been translated into yen at the average rates of exchange in effect during the year instead of the exchange rates prevailing at the balance sheet dates.
As a result of this change, sales, operating expenses and operating income of some of the business segments decreased by the following amounts for the year ended 20th March, 2007 from the corresponding amounts which would have been recorded under the previous method:

	Sales	Operating expenses	Operating income	Sales	Operating expenses	Operating income
	(Millions of yen)			(Thousands of U.S. dollars)		
Motion Control	**¥2,760**	**¥2,479**	**¥281**	**$23,414**	**$21,030**	**$2,384**
Robotics	**¥1,486**	**¥1,454**	**¥32**	**$12,606**	**$12,335**	**$272**
Information Technologies	**¥5**	**¥4**	**¥1**	**$42**	**$34**	**$8**

Geographical areas

The geographical segment information for the Company and its consolidated subsidiaries for the years ended 20th March, 2007 and 2006 is outlined as follows:

	Year ended 20th March, 2007						
	Japan	The Americas	Europe	Asia	Total	Eliminations & Corporate	Consoli- dated
	(Millions of yen)						
Net sales							
Sales to third parties	**¥243,128**	**¥50,635**	**¥45,505**	**¥29,703**	**¥368,971**	**¥ —**	**¥368,971**
Inter-segment sales and transfers	**53,816**	**515**	**289**	**10,717**	**65,337**	**(65,337)**	**—**
Total sales	**296,944**	**51,150**	**45,794**	**40,420**	**434,308**	**(65,337)**	**368,971**
Operating costs and expenses	**274,481**	**46,192**	**43,350**	**36,482**	**400,505**	**(65,098)**	**335,407**
Operating income	**¥22,463**	**¥4,958**	**¥2,444**	**¥3,938**	**¥33,803**	**¥(239)**	**¥33,564**
Total assets	**¥195,476**	**¥22,479**	**¥27,929**	**¥22,902**	**¥268,786**	**¥4,395**	**¥273,181**

	Year ended 20th March, 2007						
	Japan	The Americas	Europe	Asia	Total	Eliminations & Corporate	Consoli- dated
	(Thousands of U.S. dollars)						
Net sales							
Sales to third parties	**$2,062,504**	**$429,547**	**$386,028**	**$251,977**	**$3,130,056**	**$ —**	**$3,130,056**
Inter-segment sales and transfers	**456,532**	**4,369**	**2,452**	**90,914**	**554,267**	**(554,267)**	**—**
Total sales	**2,519,036**	**433,916**	**388,480**	**342,891**	**3,684,323**	**(554,267)**	**3,130,056**
Operating costs and expenses	**2,328,478**	**391,856**	**367,747**	**309,484**	**3,397,565**	**(552,239)**	**2,845,326**
Operating income	**$190,558**	**$42,060**	**$20,733**	**$33,407**	**$286,758**	**$(2,028)**	**$284,730**
Total assets	**$1,658,263**	**$190,694**	**$236,927**	**$194,282**	**$2,280,166**	**$37,284**	**$2,317,450**

	Year ended 20th March, 2006						
	Japan	The Americas	Europe	Asia	Total	Eliminations & Corporate	Consoli- dated
	(Millions of yen)						
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

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) Corporate assets included in "Eliminations or Corporate" at 20th March, 2007 and 2006 amounted to ¥26,817 million ($227,494 thousand) and ¥29,331 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) As described in Note 3(a), effective the year ended 20th March, 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for directors' bonuses.
As a result, operating expenses of the "Japan" segment increased by ¥156 million ($1,323 thousand) and its operating income decreased by the same amount for the year ended 20th March, 2007, compared with the corresponding amounts which would have been recorded under the previous method.
5) As described in Note 3(b), effective the year ended 20th March 2007, the Company and some of its domestic consolidated subsidiaries changed their method of accounting for directors' retirement benefits from a cash basis to an accrual basis.
As a result of this change, operating expenses of the "Japan" segment increased ¥125 million ($1,060 thousand) and its operating income decreased by the same amount for the year ended 20th March, 2007, compared with the corresponding amounts which would have been recorded under the previous method.
6) As described in Note 3(c), effective the year ended 20th March 2007, the revenue and expense accounts of the foreign subsidiaries have been translated into yen at the average rates of exchange in effect during the year instead of the exchange rates prevailing at the balance sheet dates.
As a result of this change, sales, operating expenses and operating income of the geographical segments indicated below decreased by the following amounts for the year ended 20th March, 2007 from the corresponding amounts which would have been recorded under the previous method:

	The Americas	Europe	Asia
		(Millions of yen)	
Sales	**¥642**	**¥2,436**	**¥1,334**
Operating expenses	**¥580**	**¥2,298**	**¥1,220**
Operating income	**¥62**	**¥138**	**¥114**
		(Thousands of U.S. dollars)	
Sales	**$5,446**	**$20,665**	**$11,317**
Operating expenses	**$4,920**	**$19,494**	**$10,350**
Operating income	**$526**	**$1,171**	**$967**

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, 2007 and 2006 are summarised as follows:

	Year ended 20th March, 2007				
	The Americas	Europe	Asia	Other	Total
			(Millions of yen)		
Overseas sales	**¥55,344**	**¥46,567**	**¥65,249**	**¥1,539**	**¥168,699**
Consolidated net sales	—	—	—	—	**368,971**
			(Thousands of U.S. dollars)		
Overseas sales	**$469,494**	**$395,037**	**$553,521**	**$13,056**	**$1,431,108**
Consolidated net sales	—	—	—	—	**3,130,056**
Overseas sales as a percentage of consolidated net sales	**15.0%**	**12.6%**	**17.7%**	**0.4%**	**45.7%**

	Year ended 20th March, 2006				
	The Americas	Europe	Asia	Other	Total
			(Millions of yen)		
Overseas sales	¥51,287	¥39,767	¥58,310	¥1,985	¥151,349
Consolidated net sales	—	—	—	—	322,917
Overseas sales as a percentage of consolidated net sales	15.9%	12.3%	18.1%	0.6%	46.9%

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
(4) Other – Australia
3) As described in Note 3(c), effective the year ended 20th March 2007, the revenue and expense accounts of the foreign subsidiaries have been translated into yen at the average rates of exchange in effect during the year instead of the exchange rates prevailing at the balance sheet dates.
As a result of this change, overseas sales decreased by the following amounts for the year ended 20th March 2007, from the corresponding amounts which would have been recorded under the previous method:

The Americas	¥614 million ($5,209 thousand)
Europe	¥2,372 million ($20,122 thousand)
Asia	¥1,096 million ($9,298 thousand)
Other	¥30 million ($254 thousand)

Consolidated net sales also decreased by ¥4,115 million ($34,908 thousand) from the corresponding amount which would have been recorded under the previous method.
The effect of this change on overseas sales as a percentage of consolidated net sales was immaterial.

18. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended 20th March, 2007, was approved by the shareholders at a meeting held on 19th June, 2007:

	(Millions of yen)	(Thousands of U.S. dollars)
Year-end cash dividends (¥3=U.S.$0.025 per share)	**¥731**	**$6,201**

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, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of YASKAWA ELECTRIC CORPORATION and consolidated subsidiaries at 20th March, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 3(d), effective the year ended 20th March, 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for the impairment of fixed assets.

As described in Note 3(b), effective the year ended 20th March, 2007, the Company and some of its domestic consolidated subsidiaries changed their method of accounting for directors' retirement benefits from a cash basis to an accrual basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 20th March, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

Ernst & Young ShinNihon

Ernst & Young ShinNihon.

Fukuoka, Japan
19th June, 2007

Yaskawa Group in Japan

YASKAWA INFORMATION SYSTEMS CO., LTD.
(Fukuoka)
TEL.093-622-6111 FAX.093-622-6121
http://www.ysknet.co.jp/
Information processing, software development, and sales of system equipment.

YASKAWA ELECTRIC ENGINEERING CORPORATION
(Fukuoka)
TEL.093-521-4301 FAX.093-521-4302
http://www.yaskawa-eng.co.jp/
Maintenance, test run,and adjustment of electrical equipment as well as technical training

YASKAWA CONTROLS CO., LTD.
(Fukuoka)
TEL.0930-24-4601 FAX.0930-24-7131
http://www.yaskawa-control.co.jp
Manufacturing and sales of electrical equipment and related instruments and parts

OJI ELECTRIC CO., LTD.
(Saitama)
TEL.048-291-2860 FAX.048-298-8650
http://www.ojielectric.co.jp
Manufacturing and sales of electrical equipment

YASKAWA SIEMENS AUTOMATION & DRIVES CORPORATION
(Tokyo)
TEL.03-3570-3023 FAX.03-3570-3061
http://www.ysad.co.jp/
Design, sales, maintenance, and modification of industrial electrical equipment and systems

YASKAWA MOTOR CORPORATION
(Fukuoka)
TEL.093-288-4440 FAX.093-288-4452
http://www.yaskawa.co.jp/subsidia/ym/
Design, manufacturing, sales, maintenance,and modification of motors, generators, and motor applications

YE DATA INC.
(Saitama)
TEL.04-2932-9850 FAX.04-2932-9881
http://www.yedata.co.jp/
Manufacturing and sales of computer peripheral and terminal equipment as well as Ontrack Data Recovery services.

YASKAWA LOGISTEC CORPORATION
(Fukuoka)
TEL.093-512-0882 FAX.093-512-0885
http://www.ylnet.co.jp/
General distribution

YASKAWA OBVIOUS COMMUNICATIONS INC.
(Fukuoka)
TEL.093-662-8700 FAX.093-662-8711
http://www.y-obvious.com/
Public-relations planning, advertisement and publications; production of catalogs and technical documents

YASKAWA BUSINESS STAFF CORPORATION.
(Fukuoka)
TEL.093-645-5886 FAX.093-645-5309
http://www.ybstaff.com/
Temporary employment staffing specialists

YASKAWA MECATREC CORPORATION
(Tokyo)
TEL.03-5441-5980 FAX.03-5441-5961
http://www.ym-c.co.jp/
Sales of electrical equipment and other machines and instruments

YASKAWA BROOKS AUTOMATION, INC.
(Kanagawa)
TEL.045-478-7370 FAX.045-478-7371
http://www.yaskawabrooks.co.jp/
Sales and service of semiconductor wafer handling robots and related products.

Main Subsidiaries Overseas

The Americas

1 YASKAWA ELECTRIC AMERICA, INC. (Illinois, 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

2 MOTOMAN, INC. (Ohio, 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

3 YASKAWA ELÉTRICO DO BRASIL LTDA. (São Paulo, 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

4 YASKAWA ELECTRIC EUROPE GMBH (Schwalbach, 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

5 MOTOMAN ROBOTEC GMBH (Allershausen, Germany)
TEL.+49-8166-90100 FAX.+49-8166-90103
http://www.motoman.de/
Manufacturing, sales, and after-sales service of robots and robotic systems

6 MOTOMAN ROBOTICS EUROPE AB (Kalmar, Sweden)
TEL.+46-480-417800 FAX.+46-480-417999
http://www.motoman.se/
Manufacturing, sales, and after-sales service of robots and robotic systems

7 YASKAWA ELECTRIC UK LTD. (Cumbernauld, U.K.)
TEL.+44-1236-735000 FAX.+44-1236-458182
Production of inverter, sales and service

8 OMRON YASKAWA MOTION CONTROL B.V. (Hoofddorp, The Netherlands)
TEL.+31-23-568-7400 FAX.+31-23-568-7488
Sales, technical support and customer service of motion control and related products

9 YASKAWA ESHED TECHNOLOGY LTD. (Rosh Ha'ayin, Israel)
TEL.+972-3-900-4114 FAX.+972-3-903-0412
http://www.yetmotion.com/
Development and manufacturing of motion-control products

Asia

10 YASKAWA ELECTRIC (SHANGHAI) CO., LTD. (Shanghai, 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

11 SHANGHAI YASKAWA DRIVE CO., LTD. (Shanghai, China)
TEL.+86-21-5990-3067 FAX.+86-21-5990-3467
Manufacturing and sales of electrical equipment and devices

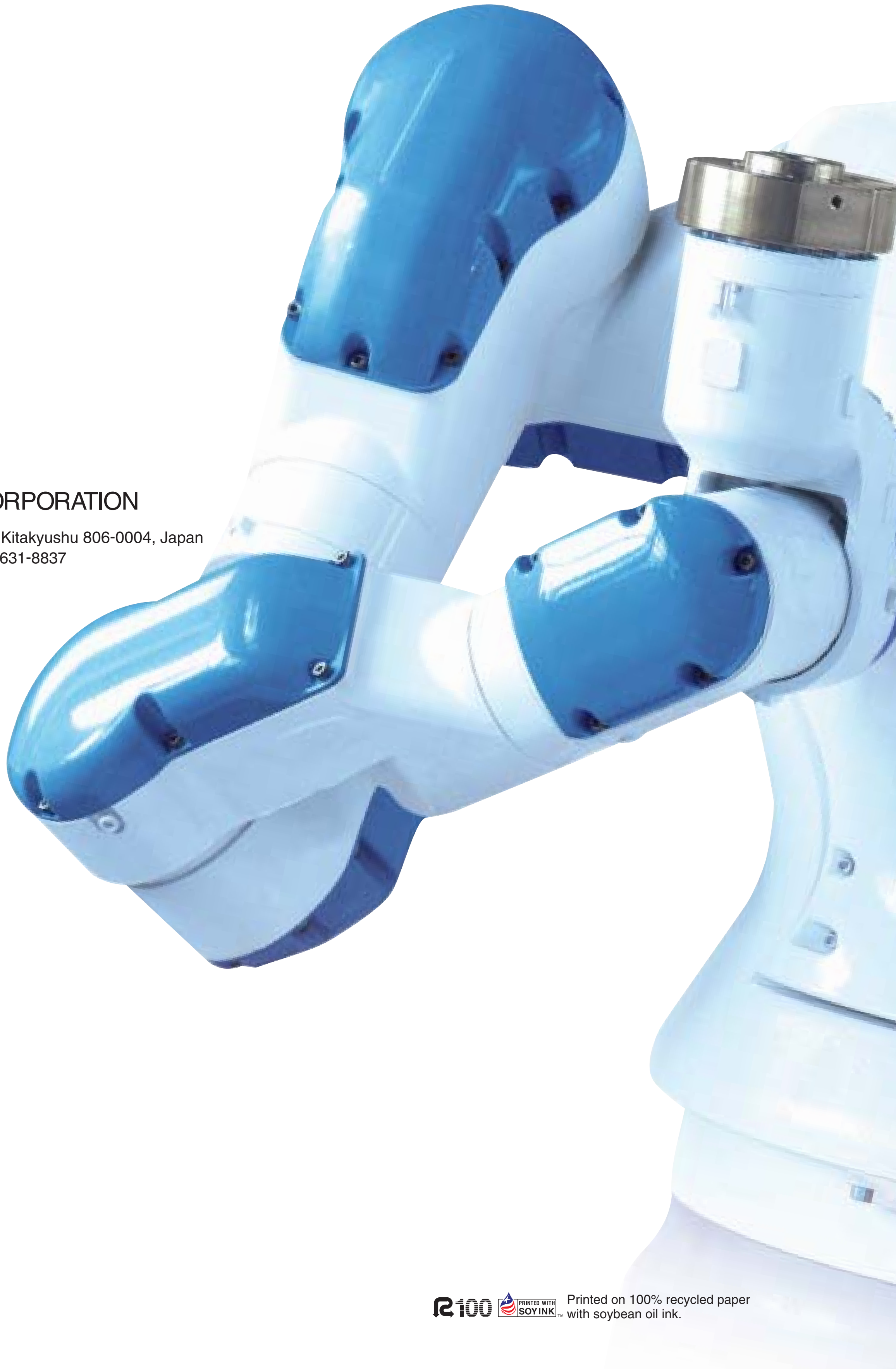
12 YASKAWA ELECTRIC (SINGAPORE) PTE. LTD. (Singapore)
TEL.+65-6282-3003 FAX.+65-6289-3003
http://www.yaskawa.com.sg/
Import, sales, and after-sales service of electrical equipment

13 YASKAWA ELECTRIC KOREA CORPORATION (Seoul, 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

14 YASKAWA ELECTRIC TAIWAN CORPORATION (Taipei, Taiwan)
TEL.+886-2-2502-5003 FAX.+886-2-2505-1280
Sales, technical support, and after-sales service of mechatronic products

15 SHOUGANG MOTOMAN ROBOT CO., LTD. (Beijing, China)
TEL.+86-10-67880551 FAX.+86-10-67882878
http://www.sg-motoman.com.cn/
Manufacturing, and sales of robots and robotic systems

16 MOTOMAN MOTHERSON ROBOTICS LTD. (Gurgaon, India)
TEL.+91-124-5148514 FAX.+91-124-5148515
Sales and after-sales service of robots and robot systems



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