

YAMAHA CORPORATION

Flash Report Consolidated Basis (Japanese GAAP) Results through the Second Quarter of the Fiscal Year Ending March 31, 2019 (April 1, 2018–September 30, 2018)

November 1, 2018

Company name:	YAMAHA CORPORATION (URL https://www.yamaha.com/en/)
Code number:	7951
Stock listing:	Tokyo Stock Exchange (First Section)
Address of headquarters:	10-1, Nakazawa-cho, Naka-ku, Hamamatsu, Shizuoka 430-8650, Japan
Representative:	Takuya Nakata, President and Representative Executive Officer
For further information, please contact:	Yasushi Nishiyama, General Manager, Corporate Finance Division
Telephone:	+81-53-460-2158
Scheduled date to submit Quarterly Securities Report:	November 14, 2018
Scheduled date to begin dividend payments:	December 6, 2018
Supplementary materials to the quarterly financial statements have been prepared:	Yes
Presentation will be held to explain the quarterly financial results:	Yes (for securities analysts and institutional investors)

1. Results through the Second Quarter of FY2019.3 (April 1, 2018–September 30, 2018)

Figures of less than ¥1 million have been omitted.

(1) Consolidated Operating Results (Accumulation)

(Percentage figures are changes from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	% change from the previous year	Millions of yen	% change from the previous year	Millions of yen	% change from the previous year
Through the second quarter of FY2019.3	¥214,616	2.3%	¥28,505	19.1%	¥29,767	20.4%
Through the second quarter of FY2018.3	¥209,800	5.3%	¥23,927	(2.9)%	¥24,727	1.0%

Note: Comprehensive income: **Second quarter of FY2019.3** **¥26,331 million** (44.5)%
Second quarter of FY2018.3 ¥47,423 million 139.7 %

	Net income attributable to owners of parent		Net income per share	Net income per share after full dilution
	Millions of yen	% change from the previous year	Yen	Yen
Through the second quarter of FY2019.3	¥21,882	11.4%	¥120.34	—
Through the second quarter of FY2018.3	¥19,637	(27.8)%	¥104.75	—

(2) Consolidated Financial Data

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Second quarter of FY2019.3 (As of September 30, 2018)	¥565,679	¥408,169	72.0%	¥2,238.88
FY2018.3 (As of March 31, 2018)	¥552,309	¥388,345	70.0%	¥2,125.51

(For reference) Shareholders' equity: **Second quarter of FY2019.3** **¥407,133 million** FY2018.3 ¥386,519 million

As indicated in “1. Consolidated Financial Statements and Major Notes,” “(3) Notes to the Quarterly Financial Statements, Additional Information” on page 6, “Partial Amendments to Accounting Standards for Tax-Effect Accounting” have been applied, and the method of presentation has been revised. Figures shown for the period ended March 31, 2018 have been restated retroactively applying the revised method of presentation.

2. Dividends

	Dividends applicable to the fiscal year				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Full fiscal year
	Yen	Yen	Yen	Yen	Yen
FY2018.3	—	¥28.00	—	¥28.00	¥56.00
FY2019.3	—	¥30.00			
FY2019.3 (Forecast)			—	¥30.00	¥60.00

Note: Revisions from recently announced dividend forecast: None

3. Consolidated Financial Forecasts for FY2019.3 (April 1, 2018–March 31, 2019)

(Percentage figures for the full fiscal year are changes from the previous year.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	% change from the previous year	Millions of yen	% change from the previous year	Millions of yen	% change from the previous year
FY2019.3	¥442,000	2.1%	¥55,000	12.6%	¥55,000	11.7%

	Net income attributable to owners of parent		Net income per share
	Millions of yen	% change from the previous year	Yen
FY2019.3	¥40,000	(26.4)%	¥219.97

Note: Revisions from recently announced performance forecast: None

Footnote Items

- (1) Changes in the state of material subsidiaries during the period (Changes regarding significant subsidiaries accompanying changes in the scope of consolidation): None
- (2) The application of special accounting treatment for the preparation of the quarterly consolidated financial statements: None
- (3) Changes in accounting principles, changes in accounting estimates, and changes in presentation due to revisions
 - (a) Changes in accounting principles accompanying revisions in accounting standards: None
 - (b) Changes other than those in (a) above: None
 - (c) Changes in accounting estimates: None
 - (d) Changes in presentation due to revisions: None
- (4) Number of shares outstanding (common shares)

(a) Number of shares outstanding at the end of the period (including treasury stock)	Second quarter of FY2019.3	191,555,025 shares	FY2018.3	197,255,025 shares
(b) Number of treasury stock at the end of the period	Second quarter of FY2019.3	9,708,216 shares	FY2018.3	15,406,885 shares
(c) Average number of shares outstanding during the period (quarterly accumulation period)	Second quarter of FY2019.3	181,847,233 shares	Second quarter of FY2018.3	187,466,493 shares

Based on the May 1, 2018 decision of the Board of Directors, a portion of the Company's treasury stocks have been cancelled as of June 26, 2018, thus reducing the number of Company shares outstanding by 5,700,000.

*This quarterly flash report is exempt from the quarterly review procedures by certified public accountants or accounting auditors.

***Explanation of the Appropriate Use of Performance Forecasts and Other Related Items**

Consolidated financial forecasts were prepared based on information available at the time of the announcement and do not represent promises by the Company or its management that these performance figures will be attained. Actual consolidated results may differ from forecasts owing to a wide range of factors.

For commentary information regarding the closing of accounts through the second quarter of FY2019.3, please refer to "Outline of the Yamaha Consolidated Financial Results through the Second Quarter (Six Months) of the Fiscal Year Ending March 31, 2019 (FY2019.3) and Outlook for Consolidated Performance in FY2019.3," which was released today (November 1, 2018).

The materials to be distributed for this earnings presentation and other materials will be posted on the Company's website immediately after the presentation is concluded.

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1. Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	Second quarter of FY2019.3 (as of September 30, 2018)	FY2018.3 (as of March 31, 2018)
ASSETS		
Current assets		
Cash and deposits	¥117,142	¥122,731
Notes and accounts receivable–trade	59,037	56,499
Merchandise and finished goods	74,330	65,064
Work in process	14,427	13,339
Raw materials and supplies	18,394	15,721
Other	16,355	17,352
Allowance for doubtful accounts	(1,332)	(1,216)
Total current assets	<u>298,354</u>	<u>289,493</u>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	41,303	32,431
Machinery, equipment and vehicles, net	14,671	14,405
Tools, furniture and fixtures, net	11,175	10,459
Land	43,899	43,880
Lease assets, net	431	240
Construction in progress	6,674	14,400
Total property, plant and equipment	<u>118,155</u>	<u>115,817</u>
Intangible assets	7,541	6,167
Investments and other assets		
Investment securities	130,448	130,341
Other	11,309	10,610
Allowance for doubtful accounts	(130)	(120)
Total investments and other assets	<u>141,627</u>	<u>140,831</u>
Total noncurrent assets	<u>267,324</u>	<u>262,816</u>
Total assets	<u>¥565,679</u>	<u>¥552,309</u>

Note: Figures of less than ¥1 million have been omitted.

(Millions of yen)

	Second quarter of FY2019.3 (as of September 30, 2018)	FY2018.3 (as of March 31, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable–trade	¥ 22,541	¥ 19,946
Short-term loans payable	20,211	11,131
Current portion of long-term loans payable	—	41
Accounts payable–other and accrued expenses	40,999	45,527
Income taxes payable	4,742	16,325
Provision	1,860	1,876
Other	7,408	7,069
Total current liabilities	97,763	101,919
Noncurrent liabilities		
Net defined benefit liabilities	21,095	21,098
Other	38,651	40,944
Total noncurrent liabilities	59,746	62,043
Total liabilities	157,509	163,963
NET ASSETS		
Shareholders' equity		
Capital stock	28,534	28,534
Capital surplus	21,565	40,165
Retained earnings	311,695	294,904
Treasury stock	(30,592)	(48,556)
Total shareholders' equity	331,202	315,048
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	80,241	79,729
Deferred gains or losses on hedges	(169)	109
Revaluation reserve for land	17,369	16,095
Foreign currency translation adjustment	(21,289)	(23,862)
Remeasurements of defined benefit plans	(220)	(600)
Total accumulated other comprehensive income	75,930	71,470
Non-controlling interests	1,036	1,826
Total net assets	408,169	388,345
Total liabilities and net assets	¥565,679	¥552,309

Note: Figures of less than ¥1 million have been omitted.

(2) Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income
Consolidated Statements of Operations

(Millions of yen)

	Second quarter of FY2019.3 (April 1, 2018–September 30, 2018)	Second quarter of FY2018.3 (April 1, 2017–September 30, 2017)
Net sales	¥214,616	¥209,800
Cost of sales	124,671	125,712
Gross profit	89,945	84,088
Selling, general and administrative expenses	61,440	60,160
Operating income	28,505	23,927
Non-operating income		
Interest income	425	313
Dividends income	1,981	1,972
Foreign exchange gains	533	—
Other	419	374
Total non-operating income	3,361	2,659
Non-operating expenses		
Sales discounts	1,579	1,304
Foreign exchange losses	—	239
Other	519	315
Total non-operating expenses	2,098	1,859
Ordinary income	29,767	24,727
Extraordinary income		
Gain on sales of noncurrent assets	62	27
Gain on sales of investment securities	384	—
Total extraordinary income	447	27
Extraordinary losses		
Loss on retirement of noncurrent assets	90	131
Loss on valuation of investment securities	—	6
Loss on sales of investment securities	0	—
Impairment loss	231	23
Loss due to transition to a defined contribution pension plan	—	148
Tariff assessment from previous periods, etc.	—	176
Total extraordinary losses	322	485
Income before income taxes	29,892	24,269
Income taxes—current	8,141	7,411
Income taxes—deferred	(153)	(2,828)
Total income taxes	7,987	4,583
Net income for the period	21,904	19,686
Net income attributable to non-controlling interests	21	48
Net income attributable to owners of parent	¥ 21,882	¥ 19,637

Note: Figures of less than ¥1 million have been omitted.

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second quarter of FY2019.3 (April 1, 2018–September 30, 2018)	Second quarter of FY2018.3 (April 1, 2017–September 30, 2017)
Net income for the period	¥21,904	¥19,686
Other comprehensive income		
Valuation difference on available-for-sale securities	509	21,690
Deferred gains or losses on hedges	(278)	(372)
Revaluation reserve for land	1,273	—
Foreign currency translation adjustments	2,540	5,467
Remeasurements of defined benefit plans	379	935
Share of other comprehensive income of affiliates accounted for using equity method	3	16
Total other comprehensive income	<u>4,427</u>	<u>27,737</u>
Comprehensive income	<u>26,331</u>	<u>47,423</u>
(Composition)		
Comprehensive income attributable to owners of parent	26,342	47,282
Comprehensive income attributable to non-controlling interests	<u>¥ (10)</u>	<u>¥ 141</u>

Note: Figures of less than ¥1 million have been omitted.

(3) Notes to the Quarterly Financial Statements

Notes Regarding Assumptions as a Going Concern

None

Notes Regarding Any Major Change in the Amount of Consolidated Shareholders' Equity

None

Additional Information

“Partial Amendments to Accounting Standards for Tax-Effect Accounting (Accounting Standards Board of Japan (ASBJ)) Statement No. 28, February 16, 2018” have been applied from the first quarter of the fiscal year ending March 31, 2019. As a result, on the consolidated balance sheets for the previous fiscal year, “Other” under “Current assets” was reduced ¥10,279 million, “Other” under “Current liabilities” was reduced ¥33 million, and “Other” under “Noncurrent liabilities” was reduced ¥7,841 million, respectively. Also, “Other” under “Investments and other assets” was increased ¥2,404 million.

Notes Regarding Consolidated Balance Sheets

(Contingent Liabilities)

At the end of the second quarter, four of the Company's consolidated subsidiaries in Indonesia (hereinafter, Consolidated Subsidiaries), including PT. Yamaha Musical Products Indonesia (hereinafter, YMPI), received notices of tax liability reassessments from the Indonesian tax authorities to pay a total of US\$39,228 thousand, including additional taxes, etc. (which amounts to ¥4,455 million when converted at the exchange rate prevailing at the end of the second quarter) related to tax returns filed from FY2008.3 through FY2017.3.

Since the Company and its Consolidated Subsidiaries cannot agree with the content of the points raised by the tax authorities, they are proceeding with filing objections with the tax authorities, taking the matter to tax courts, and requesting mutual agreement procedures, and other related action. Note that depending on the results of filing of a formal objection, the Company may be liable for tax surcharges.

The main contents of this matter are as follows.

In August 2017, YMPI received a notice of tax liability reassessment from the Indonesian tax authorities to pay taxes of US\$12,953 thousand, including additional taxes, etc. (which amounts to ¥1,471 million when converted at the exchange rate prevailing at the end of the second quarter) in connection with sales prices, etc., during the fiscal year ended March 31, 2016.

However, the points raised by the Indonesian tax authorities are unreasonable, including a requirement for YMPI, which functions only as a manufacturing subcontractor, to report an extremely high level of operating profit of about 40%. The Company and YMPI, therefore, cannot agree with the points raised by the tax authorities and filed formal objections in November 2017. In addition, from the perspective of preventing double taxation, the Company has filed a request with Japan's National Tax Agency for mutual agreement procedures based on tax treaties in March 2018.

Also, in February 2018, YMPI received a notice of tax liability reassessment from the Indonesian tax authorities to pay taxes of US\$13,999 thousand, including additional taxes, etc. (which amounts to ¥1,589 million when converted at the exchange rate prevailing at the end of the second quarter) in connection with sales prices, etc., during the fiscal year ended March 31, 2013.

However, the points raised by the Indonesian tax authorities are unreasonable, including a requirement for YMPI, which functions only as a manufacturing subcontractor, to report an extremely high level of operating profit of about 40%. The Company and YMPI, therefore, cannot agree with the points raised by the tax authorities and filed a formal objection in May 2018.

Segment Information, Etc.**(Segment Information)****Accumulated through the second quarter of FY2019.3 (April 1, 2018–September 30, 2018)**

1. Sales and Income by Reportable Segment

(Millions of yen)

	Reportable segment			Others	Total	Adjustments	Consolidated
	Musical instruments	Audio equipment	Total				
Sales to external customers	¥138,980	¥56,505	¥195,485	¥19,131	¥214,616		¥214,616
Intersegment sales or transfers				175	175	¥(175)	
Total sales	¥138,980	¥56,505	¥195,485	¥19,306	¥214,792	¥(175)	¥214,616
Segment income	¥ 21,608	¥ 4,660	¥ 26,268	¥ 2,236	¥ 28,505		¥ 28,505

Notes: 1. The item “Adjustments” contains the following:

The sales adjustment item of ¥(175) million, which comprises eliminations of transactions among the Company’s reportable segments

2. “Segment income” means the operating income of the segment as presented in the Consolidated Statements of Operations.

Accumulated through the second quarter of FY2018.3 (April 1, 2017–September 30, 2017)

1. Sales and Income by Reportable Segment

(Millions of yen)

	Reportable segment			Others	Total	Adjustments	Consolidated
	Musical instruments	Audio equipment	Total				
Sales to external customers	¥134,173	¥57,563	¥191,737	¥18,063	¥209,800		¥209,800
Intersegment sales or transfers				205	205	¥(205)	
Total sales	¥134,173	¥57,563	¥191,737	¥18,269	¥210,006	¥(205)	¥209,800
Segment income	¥ 16,639	¥ 5,179	¥ 21,818	¥ 2,109	¥ 23,927		¥ 23,927

Notes: 1. The item “Adjustments” contains the following:

The sales adjustment item of ¥(205) million, which comprises eliminations of transactions among the Company’s reportable segments

2. “Segment income” means the operating income of the segment as presented in the Consolidated Statements of Operations.

Reference Information

(Sales Information Based on the Geographical Location of the Customers)

Accumulated through the second quarter of FY2019.3 (April 1, 2018–September 30, 2018)

(Millions of yen)

	Japan	Overseas					Consolidated	
		North America	Europe	China	Asia, Oceania, and other areas	Total		
								U.S.A.
Net sales	¥64,043	¥43,003	¥37,036	¥39,587	¥32,386	¥35,596	¥150,573	¥214,616
% of net sales	29.8%	20.0%	17.3%	18.4%	15.1%	16.7%	70.2%	100.0%

Notes: 1. Sales information is based on the geographical location of the customers, and it is classified by country or region.

2. Main country and regional divisions:

North America: U.S.A., Canada

Europe: Germany, France, U.K.

Asia, Oceania, and other areas: Republic of Korea, Australia

Accumulated through the second quarter of FY2018.3 (April 1, 2017–September 30, 2017)

(Millions of yen)

	Japan	Overseas					Consolidated	
		North America	Europe	China	Asia, Oceania, and other areas	Total		
								U.S.A.
Net sales	¥66,721	¥41,013	¥35,770	¥38,853	¥27,868	¥35,343	¥143,079	¥209,800
% of net sales	31.8%	19.5%	17.0%	18.5%	13.3%	16.9%	68.2%	100.0%

Notes: 1. Sales information is based on the geographical location of the customers, and it is classified by country or region.

2. Main country and regional divisions:

North America: U.S.A., Canada

Europe: Germany, France, U.K.

Asia, Oceania, and other areas: Republic of Korea, Australia