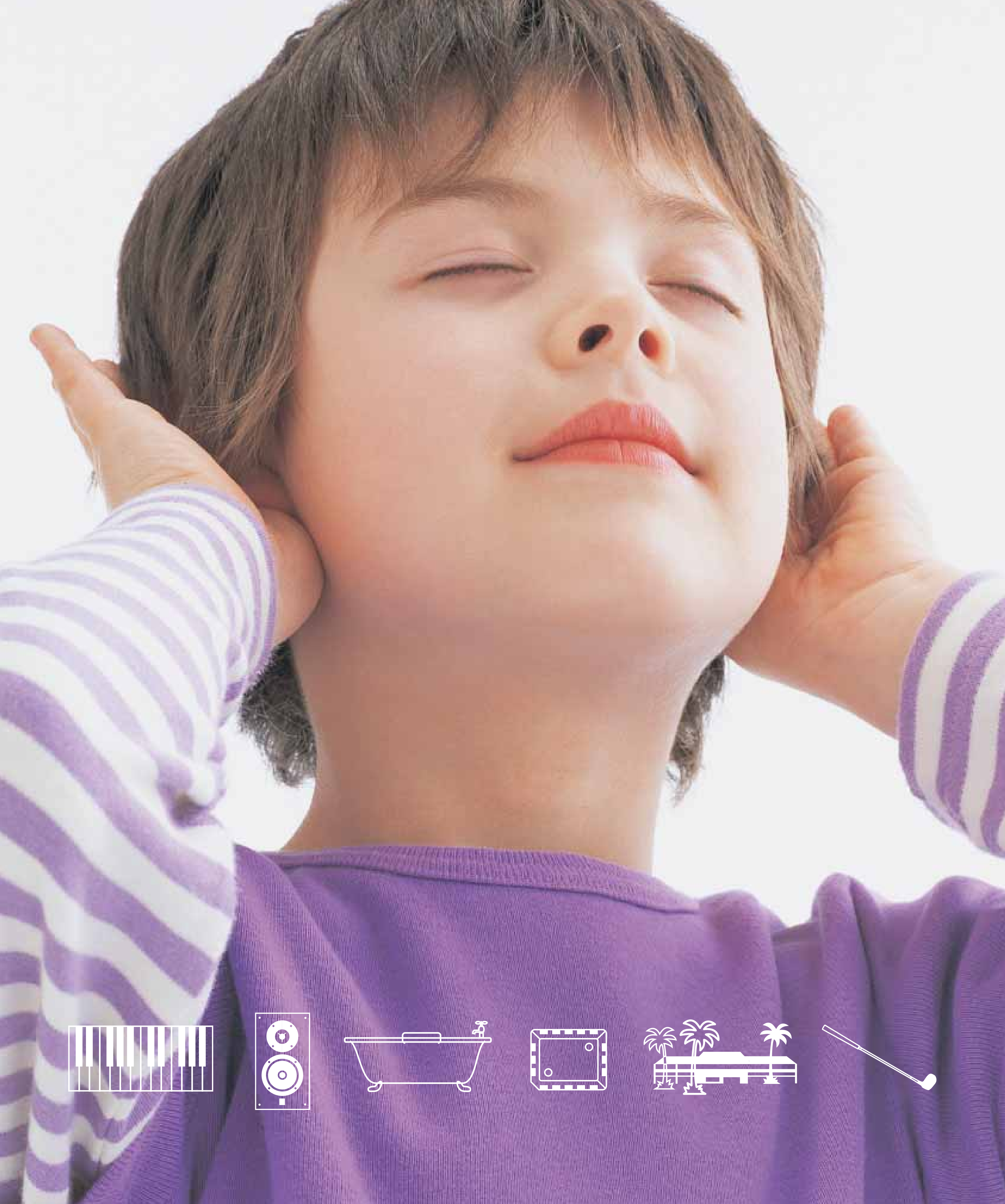
YAMAHA

ANNUAL REPORT 2004

Year ended March 31, 2004



CREATING ‘KANDO’ TOGETH

Profile

Since its founding in 1887, Yamaha Corporation has grown to become one of the world’s leading manufacturers of musical instruments while also broadening its operational scope to include audio and video (AV) equipment, semiconductor products, and diverse other business fields.

To sustain its growth throughout the 21st century, the Yamaha Group is concertedly striving to become a truly global enterprise that helps enrich the quality of people’s lives worldwide.

Contents

Forward-looking statements

The plans and strategies regarding Yamaha’s future prospects presented in this annual report have been drawn up by the Company’s management based on information available at the current time and, therefore, are subject to risks and uncertainties.

Accordingly, our actual performance may differ significantly from our predictions depending on changes in the operating and economic environments, demand trends, and the value of key currencies, such as the U.S. dollar and the euro.

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Corporate Objective

Yamaha will continue to create ‘Kando’ and enrich culture with technology and passion born of sound and music, together with people all over the world.

‘Kando’ (is a Japanese word that) signifies an inspired state of mind.

●To Customers

Yamaha will fully satisfy the customer, by offering high quality products and services, which use new and traditional technologies, as well as creativity and artistry, and continue to be a known, trusted and loved brand.

●To Shareholders

Yamaha will increase the satisfaction and understanding of its shareholders by striving for healthy profits and returns, and by achieving productivity, using high quality, transparent management, and practicing disclosure.

●To those who work with Yamaha

Yamaha will develop relationships of mutual trust with all of those who work with Yamaha in accordance with fair rules based on social norms, and strive to be an organization in which individuals can demonstrate their abilities fully, have confidence, and have pride.

●To Society

Yamaha will give first priority to safety, and will care for the environment. Yamaha will be a good corporate citizen, and observe laws and work ethically, developing the economy, and contributing to local and global culture.

Message from the President

Fiscal 2004 Business Performance

As fiscal 2004, ended March 31, 2004, was the final year of our 'Kando'* Creation 21 medium-term business plan, we worked during the year to complete the plan's various elements through efforts to overcome diverse management challenges and thereby establish solid foundations for the growth of each of our businesses as well as further increase our operating efficiency. Consequently, on a consolidated basis, we recorded ¥539.5 billion in net sales, ¥45.1 billion in operating income, and ¥43.5 billion in net income. Compared with the performance targets set when the plan was drafted, **net sales did not reach the targeted level, but operating income and net income were considerably above the targets.**

Underlying our outstanding profitability gains were the expansion of business in LSI sound chips for mobile phones and other semiconductor operations. These operations grew faster than planned and contributed greatly to our profitability.

In addition, we have steadily implemented numerous measures to bolster the profitability of musical instrument and AV/IT operations, restructure unprofitable businesses, and apply supply chain management (SCM) techniques to the reform of our operations. The full-scale benefits of these measures have finally begun emerging, and our fiscal 2004 performance reflects those benefits.

* 'Kando' (is a Japanese word that) signifies an inspired state of mind.

Looking Back at 'Kando' Creation 21

During the past three fiscal years, Yamaha Corporation has striven to bring about concrete progress in line with the three corporate mottoes set forth in 'Kando' Creation 21: "Striving for Growth," "Consolidated Group Management," and "Value-Added Business, Sparkling Yamaha Brand." While results have not been precisely as planned in all our business fields, we are confident that **we have significantly augmented our overall profit-generating power.**

Our efforts to promote consolidated Group management have not been limited to shifting to the use of primarily consolidated accounting systems. The entire Group has worked concertedly to encourage a "consolidated consciousness," and

Financial Highlights

Yamaha Corporation
and Consolidated Subsidiaries
March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
For the year:			
Net sales	**¥539,506**	¥524,763	**$5,104,608**
Operating income	**45,056**	32,043	**426,303**
Net income	**43,541**	17,947	**411,969**
At year-end:			
Total assets	**¥508,731**	¥512,716	**$4,813,426**
Total shareholders' equity	**259,731**	214,471	**2,457,479**
	Yen		U.S. Dollars
Per share data:			
Net income	**¥ 210.63**	¥ 86.65	**$ 1.99**
Shareholders' equity	**1,259.28**	1,040.06	**11.91**
Dividends	**15.00**	10.00	**0.14**
Number of employees at year-end	**23,903**	23,563	
[Includes average number of temporary employees]	**[5,061]**	[5,016]	

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥105.69 =U.S.$1.00, the approximate rate prevailing on March 31, 2004.

I believe these efforts have already made it possible to consistently coordinate and harmonize the operations of Group business units.

In line with the brand strategy slogan, "Creating 'Kando' Together," we have simultaneously undertaken top-down brand-building measures within a Companywide framework along with bottom-up brand-building activities involving the proactive participation of personnel from throughout the Yamaha Group. I believe that this dual approach has brought about major positive changes in the way Group staff think of the Yamaha brand. Looking at the results of numerous customer surveys, however, one finds that although customers rate Yamaha highly regarding trustworthiness, venerable tradition, peace of mind, and prudent soundness, they do not give the Company particularly high marks for youthful vitality and dynamism, which are the kind of features we need to emphasize if we are to present an image of vigorous corporate growth.

A key emphasis in the future will be our brand-enhancement strategy.

The New YSD50 Medium-Term Business Plan

The current socioeconomic environment for corporate activities is extremely unstable owing to a rise in management risks, a transition to intellectual property-based economic systems, and the rising influence of China. To ensure that Yamaha can continue to pursue the corporate development of sustainable operations, we must **further bolster our profit base and steadily boost corporate value.** It was with these goals in mind that we drafted the new **YSD50 medium-term business plan, which covers the three years from April 2004 through March 2007** and is designed to create management and corporate structures capable of supporting sustained corporate development.

By fiscal 2007, YSD50 calls for increasing annual consolidated operating income to ¥50 billion while effectively reducing the balance of actual interest-bearing debt to zero.

It provides for these goals to be attained through the implementation of measures in line with three basic strategies: **"achieving sustainable development and stable, high earnings," "creating and developing innovative, high-quality products and businesses," and "emphasizing corporate social responsibility (CSR)."**

● Establishing a High-Profit Structure with Musical Instrument Operations as the Prime Pillar of Profit

Our current profit structure is quite dependent on semiconductor operations, but sudden changes associated with technological innovation can have a large impact on those operations and their profitability. In light of this, **establishing a profit structure in the medium term that is not excessively dependent on semiconductor operations** is an important element of our plans for establishing a sustainable and stable high-profit structure.

Yamaha is the world's top musical instrument company in terms of sales—with a full line of products ranging from pianos, wind instruments, and other acoustic instruments to electronic and digital products—and its diverse musical instrument offerings meet the various needs of amateur as well as professional musicians. Working through its network of music schools, which currently serve about 700,000 students (500,000 in Japan and 200,000 overseas), the Company is contributing to the popularity of music in various ways.

To substantially augment the profitability of the core musical instruments business, we are striving to strengthen our product planning, development, and marketing capabilities with an eye to developing high-value-added products. In the Chinese market, which is expected to grow greatly, we established a holding company in 2003. We are proceeding with a proactive brand strategy and establishing music schools in China while bolstering our marketing systems with the goal of expanding our local market share. We also established a new factory in China that will begin manufacturing pianos and guitars this autumn.

Another growth field we are focusing on is professional audio equipment, where we are seeking to steadily expand our operations by continuing to expand our array of mixers and other peripheral products. Conditions in the Japanese market remain harsh owing to the effects of the low birthrate and other factors, but we are proactively addressing the needs of so-called "active seniors," or the "baby-boom generation," and we hope to cultivate a significant amount of additional demand for adult music education services among that lively and growing group. By steadily implementing these measures while also cutting costs in manufacturing and other related operations, we are aiming to boost annual operating income in the musical instruments business to ¥30 billion by fiscal 2007, the final year of our medium-term business plan.

● Enhancing the Yamaha Brand by Launching Innovative Products

In recent years, the advent of broadband technologies has led to the increasingly extensive linkage between musical and video equipment and networks. To augment the value of the Yamaha brand amid this trend, we believe it crucial to dynamically increase the added value of our products while drawing on the Yamaha Group's broad range of capabilities to develop innovative new products and use those products to stimulate new demand. Thus, we will continue doing our utmost to develop products that reflect our superior expertise in high-quality sound

"We firmly believe that boosting the value of the Yamaha brand will ultimately lead to the maximization of shareholder value."

and instrumental performance, and at the same time we will seek to increase the network compatibility of our products. We are also emphasizing the improvement and expansion of distribution media software, the development of network-related hardware, and the augmentation and consolidation of content. In these ways, we will be **implementing a comprehensive digital media business strategy, and we expect this strategy to generate new businesses.**

Over the long term, we will strive to leverage our accumulated array of sound-production technologies and know-how to **reinforce our brand image as a corporate "sound specialist"** with superior capabilities regarding music as well as other sounds found in people's day-to-day lives.

● Building a Corporate Structure That Attracts Support from Local Communities and Society at Large

Because sustainable corporate development requires well balanced management policies that give due attention to the perspectives of all stakeholders, Yamaha is **conscientiously placing strong emphasis on the concept of CSR.**

The Company has proactively worked to create exemplary systems for corporate governance, compliance, and environmental preservation. Upon further consideration of the importance of these issues, however, we have decided to make **systematic CSR programs one of the principal strategic foci of YSD50** with the aim of ensuring that we consistently emphasize societal responsibilities throughout our operations.

This strategic emphasis means that we will systematically address environmental preservation and other societal issues, set clear policies and goals, and steadily implement those policies to attain the relevant goals. We will also systematically disclose to our stakeholders information on the rationale for our policies and our progress in the policies' execution. Ultimately, we expect that our emphasis on CSR will lead to excellent corporate governance and still-greater brand value. We are confident that local communities and society at large will highly appreciate our proactive and transparent CSR stance.

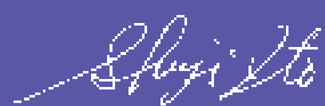
Looking Ahead

Although our operating environment remains harsh, we believe that our **business promoting the enjoyment of music and sound in people's daily lives has the potential for accelerating growth in an increasingly broad range of fields.** I am looking forward to better meeting the diverse needs of professional and amateur musicians as well as beginners by developing and supplying superior products and services that draw on our traditional expertise, accumulated manufacturing know-how, and ability to rapidly respond to the new opportunities presented by the networking era. Our plans call for Yamaha to distinguish itself as a company that is highly flexible and dynamically responsive.

Regarding our numerical performance targets, we are seeking to **maintain a return on equity of 10%.** However, we will not place excessive emphasis on short-term performance figures, as we firmly believe that **boosting the value of the Yamaha brand** will ultimately lead to the **maximization of shareholder value.** Thus, we will relentlessly work to ensure all Yamaha Group units work in concert to effectively and steadily implement the various strategies aimed at attaining the YSD50 numerical targets.

We hope for your continued understanding, support, and encouragement.

June 2004



President and Representative Director
Shuji Ito

● Supply Chain Management (SCM)
A corporate management method that seeks to use IT to comprehensively coordinate orders placed with and received from clients as well as other logistical processes ranging from raw materials procurement through product inventories and shipments. The unified information management methods are used to increase operational efficiency.

● Active Seniors
Active seniors are people who believe that retirement from one's job does not coincide with retirement from active lifestyles. They remain interested in work and other activities on behalf of themselves and society. Currently, this group is roughly equivalent to the baby-boom generation.

● Return on Equity (ROE)
An indicator of how effectively a company has employed the capital that shareholders have entrusted it with to generate profit.
ROE (%) = net income / ((shareholders' equity at previous fiscal year-end + shareholders' equity at year-end) / 2) x 100

The New Medium-Term Business Plan—YSD50*

Fundamental Stance:

The stable generation of high earnings—aiming to realize a business structure capable of sustained development

* YSD is an acronym for Yamaha Sustainable Development. The number 50 indicates the target of ¥50.0 billion in annual operating income and zero actual interest-bearing debt.

Three Main Policies

1. **Achieving sustained development and stable, high earnings**
2. **Creating and developing innovative, high-quality products and businesses**
3. **Emphasizing corporate social responsibility (CSR)**

1. Achieving Sustained Development and Stable, High Earnings

Musical Instruments

In addition to strengthening its capabilities for planning, developing, and marketing as well as augmenting its efforts to develop high-value-added products, Yamaha is seeking to greatly expand its professional audio equipment business in addition to the volume of its sales in China. In Japan, the Company is building a highly efficient marketing system while emphasizing the stimulation of demand for musical instruments through the proactive establishment of highly attractive sales points and music schools. We are also moving forward with manufacturing reforms, such as those aimed at creating optimal musical instrument manufacturing systems, revamping manufacturing processes, and reducing procurement costs.

AV/IT

In its AV/IT product development activities, Yamaha is striving to offer products that are highly differentiated thanks to the Company's traditional emphasis on superior sound quality while responding to the trend of growing demand for networked and digital products. By developing such products, Yamaha is seeking to further strengthen its home theater business. In its router business, the Company is taking measures designed to maintain the continued growth of its solutions business in the SOHO/enterprise router market. We are bolstering our manufacturing operations with particular attention to realizing improvements regarding quality, costs, and delivery time.

Lifestyle-Related Products

In addition to further augmenting profitability by effecting cost reductions and arranging alliances, Yamaha is establishing a business model for the remodeling-related market, which is projected to expand greatly.

Electronic Equipment and Metal Products

In the semiconductor business, Yamaha is upgrading its capabilities for the proposal-based marketing of highly differentiated products as well as its support systems for users of those products, thereby sustaining efforts to maintain and increase its share of the worldwide market for LSI mobile phone sound chips. The Company is also striving to increase the scale of other semiconductor operations. In addition, in metal product fields, it is placing special emphasis on expanding business centered on lead frames. Through this strategy and measures to continue reforming our manufacturing structure, we intend to strengthen our business base in this segment.

Recreation

Yamaha is working to build highly appealing recreation facilities while emphasizing strategies for being the No. 1 company in the recreation markets of specific regions and for the proposal-based marketing of highly differentiated hospitality services. We are striving to boost the profitability of these operations by attracting a greater number of customers and proceeding with operational rationalization measures.

Others

Regarding automobile interior wood components, Yamaha is augmenting manufacturing efficiency through various cost-cutting moves while seeking to develop relationships with new customers. In metallic molds and components, we are aiming to boost profitability by increasing manufacturing efficiency. In golf products, we are seeking to put our exclusive brand on a solid footing by expanding sales volume on the strength of proactive product development and marketing programs.

2. Creating and Developing Innovative, High-Quality Products and Businesses

Given the increasing severity of corporate operating environments, companies that hope to remain viable over the long term must aggressively implement strategies for augmenting corporate value and sustaining business growth. Yamaha's strategy calls for effectively leveraging the core sound- and music-related technologies it has developed over many years and using those technologies to launch innovative, high-quality products and create new businesses that stimulate additional demand. In these ways, we are striving to progressively increase the value of the Yamaha brand.

Proposing New Forms of Enjoyment

Responding to the diverse customer needs in the emerging era of full-scale networked systems, Yamaha is making the most of electronic media to propose new forms of enjoyment and develop new types of products, such as products featuring network connections that enable new types of music listening experiences and innovative musical instruments that anyone can enjoy playing.

● **Actual Interest-Bearing Debt**

An important indicator of the financial soundness of a company, interest-bearing debt is monetary debt requiring repayment as well as interest payments and includes borrowings from banks and funds procured directly from capital markets through such methods as the issuance of bonds that must be redeemed and require interest payments. The balance of actual interest-bearing debt is generally defined as equaling the sum of interest-bearing debt, less cash and bank deposits.

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● **Portal**

A website that acts as a gateway to an array of resources and services

Progressively Implementing a Comprehensive Media Strategy

Besides improving and expanding such new distribution media as electronic music download portals, Yamaha is proceeding with the development of hardware compatible with a variety of media channels. At the same time, the Company is seeking to increase the volume and variety of the content available for use through such media, including both Yamaha Group content and that of other collaborating companies. In these ways, we are steadily implementing a comprehensive strategy for creating new businesses.

Creating New Businesses Based on Yamaha's Core Competence in "Sound"

Against the backdrop of the rapid rise in networked systems, Yamaha will emphasize the proactive development of technologies for sound-rich lifestyles as well as component businesses that deftly address the subtleties of human beings' sound-related perceptions and tastes. Through such new business-creation initiatives, we are evolving, growing, and establishing an increasingly powerful brand image as a corporate "sound specialist" dealing with the sounds of the human voice and the natural environment as well as music.

Strengthening Development Technologies and Improving the Environment for Product Development Programs

Yamaha is determined to further enhance its core technologies, promote the dynamic development of its staff's technical skills through technology-sharing programs and other means, and maintain the sophisticated technological capabilities that form a crucial base for leading-edge product development and manufacturing operations. At the same time, the Company is striving to augment the value of its brand, intellectual property rights, and other intangible assets as well as to promote a further rise in its creation of innovation-based new value. To achieve these goals, we will boldly reevaluate our organizational structure and management assets when necessary, taking whatever steps are needed to build highly efficient development systems.

3. Emphasizing Corporate Social Responsibility (CSR)

While profitability remains a key indicator for appraising companies, there is an increasing trend toward also evaluating companies on the basis of such CSR factors as environmental preservation, hiring practices, human rights, compliance, and societal contributions. Having long understood that outstanding CSR performance is a key to attaining its objective of continually increasing its corporate and brand value, Yamaha has been proactive in its CSR efforts. Aiming to be an exemplary corporate citizen, the Company is committed to strongly emphasizing the types of economic, environmental, and societal responsibilities described in the following paragraphs.

Promoting Social Harmony and Cultural Enrichment

By increasing the rigor of its compliance systems (see page 9), Yamaha is aiming to further enhance its responsiveness to the expectations of customers, shareholders, employees, local communities, and society in general. In addition to making sustained efforts to increase the quality of its operations and the services it provides, the Company is augmenting measures designed to ensure the safety and health of personnel involved in manufacturing and marketing activities.

Furthermore, Yamaha maintains programs that provide numerous venues and opportunities for people to enjoy music through live performances and other activities. Besides directly promoting the widespread enjoyment of stirring music that enriches people's lives, we proactively contribute to society through such programs as those focused on donating musical instruments to worthy organizations and beautifying local communities.

Contributing to Environmental Preservation

Yamaha continues to do diverse things that contribute to environmental preservation, such as following green procurement programs and environment-friendly product design policies, promoting a zero emissions campaign, reducing emissions of chemicals targeted by Japan's Pollutant Release and Transfer Register (PRTR) system, and striving to lower CO_2 emissions. When undertaking such programs, we set concrete performance goals and work steadily to attain them (see page 10).

Proactively Disclosing Information to Shareholders and Society

Yamaha is taking the measures needed to realize the numerical targets set out in the YSD50 medium-term business plan. The Company will be proactively disclosing diverse management information related to progress made in implementing the plan as well as other important issues (see page 8), and it is doing its utmost to appropriately distribute shareholder returns. We also offer societal and environment-related information through environmental reports as well as our home page. In these ways, we strive to maintain good two-way communications with local communities and society at large.

● **Corporate Social Responsibility (CSR)**
A company's responsibility to ensure that it contributes to society by providing safe, high-quality products, works to increase the environment-friendliness of its operations and products, and builds systems to ensure that it rigorously complies with relevant laws and regulations

● **Compliance**
Conformance with public laws and regulations as well as corporate regulations

● **Green Procurement**
● **Zero Emissions**
● **PRTR**
See page 11.

Corporate Governance

● **Corporate Governance**
The systems and methods a company uses to manage and supervise its operations

● **Stakeholder**
A person who has a stake or interest in a company; in addition to shareholders, employees, and customers, stakeholders include the general population of regions where a company operates as well as government units, research facilities, financial institutions, and others associated with the company's operations.

● **Going Concern**
A business with sustained operational and performance momentum

● **Executive Officer System**
A system designed to expedite management decision making as well as to strengthen business execution capabilities; directors, as members of the Board of Directors, have responsibility for management decision making and overall Group management. This role is clearly separated from the role of executive officers, who focus on business execution within their respective departments and seek to maximize departmental performance.

Basic Policies>>>Strengthening corporate governance is one of Yamaha's most important management goals, and the Company is proactively working to attain this goal, which is expressed concisely as "appropriately considering the ideal balance of benefits for each corporate stakeholder and building systems that maintain the Company's momentum as a going concern while facilitating sound and efficient management activities, thereby promoting maximum shareholder benefits over the long term."

Measures for Enhancing Corporate Governance>>>In its efforts to enhance its corporate governance, Yamaha has recognized the importance of "maintaining accountability and transparent management systems," "strengthening capabilities for responding to changes in the operating environment," and "realizing stakeholder management." Accordingly, the Company has taken such principal reform steps as the introduction of an executive officer system, the reform of the format for general shareholder meetings, the augmentation and upgrading of investor relations activities, and the strengthening of compliance systems. During the fiscal year under review, we worked to strengthen our governance still further through the following measures.

● Strengthening the Executive Officer System and Auditing Capabilities

Based on consideration of the April 2003 revision of the Commercial Code of Japan and its own deliberations regarding the ideal form its governance system should take, Yamaha decided that, amid current circumstances, rather than adopting a company-with-committees system, it should strengthen its existing corporate governance system centered on the board of directors while taking steps to enhance business execution. In concrete terms, to enable directors and executive officers to perform their duties with maximum effectiveness, measures have been taken to further clarify their respective roles.

To increase the transparency and fairness of the corporate officer, uditor, and executive officer nomination process, Yamaha has established a Corporate Officer Personnel Affairs Committee consisting of all members of the Board of Directors. This committee is also considering a personnel development program for future corporate officer candidates as well as reviewing the corporate officer remuneration system.

● Upgrading the Information Disclosure System

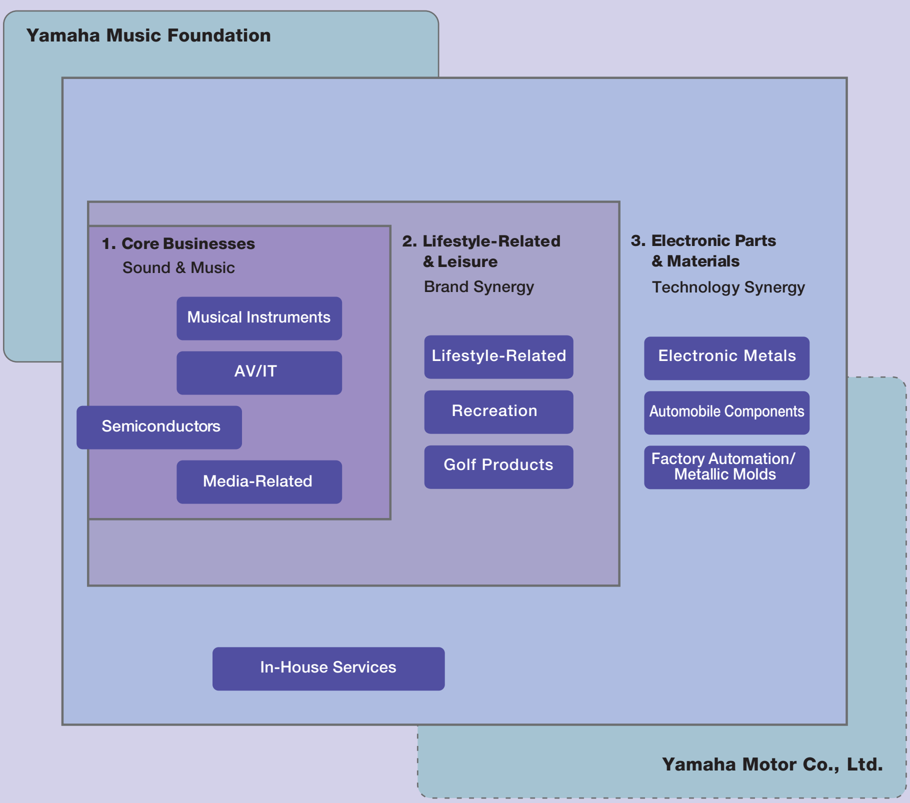
Amid the worldwide trend toward increasingly strict regulations related to corporate information disclosure, Yamaha believes it highly important to maintain information disclosure systems appropriate for a company that aims to realize transparent management processes, thereby promoting better understanding of its operations. In line with this goal, as well as to ensure the disclosure of appropriate management information to shareholders and investors in a timely and accurate manner, we are striving to promote a better understanding of our operations by proactively disseminating information related to issues that we view as being particularly important. During the fiscal year under review, the Tokyo Stock Exchange introduced a quarterly performance reporting system, and Yamaha began disclosing quarterly performance reports in line with this system. At the Company's briefing sessions for analysts and investors, top managers explain performance trends and other issues while actively seeking to promote dialogues. We intend to continue strengthening our investor relations activities and fulfilling our accountability to our stakeholders.

● Improving Group Management Systems

As the Yamaha Group increases the effectiveness of its Group management systems, it is becoming important to ensure that Group members operate in line with the same goals. To this end, we proceeded still further with the improvement of Group management systems and established Group Management Standards. The most fundamental standards governing the actions of each member of the Yamaha Group fall into three subgroups with the themes of "Realizing Management Goals," "Establishing Management Systems," and "Mutual Cooperation."

● Realizing Rigorous Compliance Management

In January 2003, Yamaha established the Compliance Committee and stepped up efforts to realize highly rigorous compliance management. In addition to establishing the action guidelines that form the foundation of rigorous compliance management, the committee has prepared and begun distributing to all Group employees its *Compliance Guide,* a booklet that contains rules for administering the action guidelines as well as related explanations. To ensure rigorous compliance performance throughout the Group, explanatory meetings have been organized for each workplace, and the Compliance Committee's homepage for employees has been equipped with a compliance help-line feature to handle consultations and information reports. While the scope of these Group compliance systems is currently limited to Japan, plans call for creating global Group compliance systems in the near future.



Structure of the Yamaha Group

Environmental Activities

Believing that environmental preservation is among the principal goals of its business operations, in 1994 the Yamaha Group established Yamaha's Policy on the Environment, which articulates the Group's fundamental approach to environmental preservation. Since then, the Group has taken every opportunity to implement educational and other programs to promote the permeation of environmental awareness throughout its workforce.

Moreover, in the "Promise to Society" section of its corporate principles, Yamaha promised to "give top priority to safety and environmental preservation considerations," thereby announcing its determination to maintain high ethical standards.

ISO certification promotion team of Xiaoshan Yamaha Musical Instruments Co., Ltd. (China)

Environmental Management Systems>>>The Yamaha Group has already obtained ISO 14001 certification for the environmental management systems of all its manufacturing facilities and is sustaining the implementation of proactive environmental preservation programs at each facility. In addition, the Group completed the ISO 14001 certification of all of its resort facilities during fiscal 2004.

Celebration of ISO 14001 certification at "Haimurubushi" resort

Helping Prevent Global Warming>>>As CO_2 is a factor contributing to global warming, the Yamaha Group has sustained efforts to reduce the volume of its CO_2 emissions. Having set itself the goal of lowering the CO_2 emissions of its manufacturing facilities by fiscal 2011 to 6% below the fiscal 1991 level, the Group is promoting such measures as those to increase and consistently maintain the efficiency of all types of manufacturing, air conditioning, and lighting equipment as well as to increase the utilization of biomass energy and photovoltaic power generation.

To reduce CO_2 emissions associated with the use of its products, the Group is seeking to lower the power consumption of its products while in operational and standby modes. During fiscal 2004, the standby power consumption of mass market model home theater products was reduced to 0.4W or lower, and the level for front projectors decreased to 0.1W.

● **Biomass Energy**
Energy that is obtained from such renewable energy sources as wood and other vegetable matter

Managing and Reducing the Use of Chemicals>>>To prevent incidents of chemical leakage, the Yamaha Group is promoting the use of double-walled and aboveground tanks. It also periodically conducts emergency response drills to ensure that effective responses will be implemented and proper notifications made in a timely manner.

Regenerative exhaust-gas heat treatment system

The Group is working to cut its emissions of chemicals covered by the PRTR system by fiscal 2007 to 20% below the fiscal 2003 level by installing a regenerative exhaust-gas heat treatment system, reducing the volume of chemicals used, and shifting to the use of materials with relatively low levels of environmental impact.

The Group is also proceeding with measures regarding chemicals contained in products. With the goal of ensuring its complete compliance with the EU's Restriction of Hazardous Substances (RoHS) by fiscal 2006, it is promoting green procurement and environment-friendly design programs.


Recycling of wood chips

Promoting Resource Recycling>>>The Yamaha Group is taking diverse steps to promote the efficient use of resources. In wind instrument manufacturing operations, for example, wastewater is processed and reused. Wood chips generated during the manufacture of pianos and construction materials are shipped to particleboard manufacturers for reuse as a raw material.

Yamaha Corporation is implementing a program aimed at approaching the goal of zero emissions by progressively lowering the volume of waste products generated in its manufacturing processes and ultimately disposed of in landfills. Diverse measures are being taken to achieve the zero emissions goal at all facilities with factories by December 2005.

Contributing to Society>>>The Yamaha Group supports victims of disasters and regularly donates musical instruments to children who live in poverty. Aiming to promote harmony with the societies of regions in which it operates, the Group discloses information on its environmental protection programs and participates in cleanup programs designed to protect the natural environment.


Donation of musical instruments


Cleanup campaign at a lake near a Company facility

For more detailed information, please refer to the *Yamaha Environmental Report 2003* at http://www.global.yamaha.com/about/environmental_report_2003.pdf.

● **Pollutant Release and Transfer Register (PRTR)**
A system used to calculate and control the extent to which the production, use, and storage of chemicals result in the release and transfer of those chemicals into the environment; in 1999, Japan enacted a PRTR Law to promote the systematic reduction of the amounts of chemical substances released or transferred.

● **Restriction of Hazardous Substances (RoHS)**
In line with EU regulations for limiting the period in which harmful substances can be incorporated in electric and electronic equipment, the use of lead and five other substances is to be discontinued for products sold in EU markets by July 1, 2006.

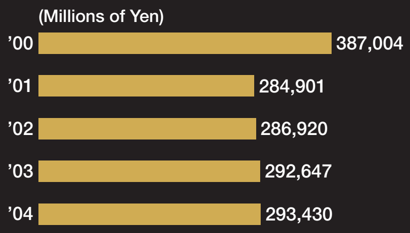
● **Green Procurement**
Corporate policies for the procurement of materials and components that give preference to the procurement of items that are more environment-friendly, such as those associated with lower pollutant levels or easier recycling as opposed to procurement that considers only quality, cost, and delivery (QCD) factors

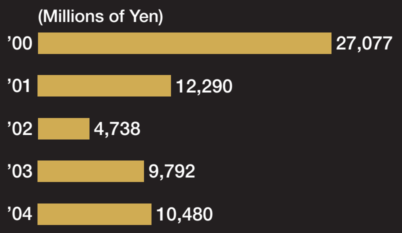
● **Zero Emissions**
A concept proposed by the United Nations University in 1994, it proposes that all of an industry's manufacturing-related waste products be used as raw materials by that or another industry.

At a Glance

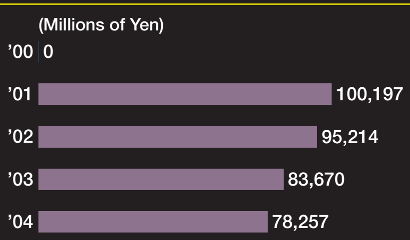
Segment	Major Products & Services
Musical Instruments	• Pianos • Electronic and digital musical instruments (electronic pianos, Electones™, portable keyboards, synthesizers, etc.) • Wind instruments (trumpets, flutes, saxophones, etc.) • String instruments (guitars, violins, etc.) • Percussion instruments (drums, vibraphones, etc.) • Educational musical instruments (recorders, Pianicas™, etc.) • Professional audio equipment (digital mixers, power amplifiers, etc.) • Soundproof rooms (AVITECS™) • Music schools, English schools • Content distribution service
AV/IT	• Audio products (AV amplifiers and receivers, speaker systems, etc.) • Visual products (digital cinema projectors, etc.) • Online karaoke • Routers
Lifestyle-Related Products	• System bathrooms • System kitchens • Washstands • Furniture • Parts for housing facilities
Electronic Equipment and Metal Products	• Semiconductors • Specialty metals
Recreation	• Comprehensive recreation facilities (Kiroro™, Tsumagoi™, Katsuragi-Kitanomaru™, Toba Hotel International™, Nemunosato™, Haimurubushi™) • Ski resort (Kiroro™) • Golf courses (Katsuragi Golf Club™, Nemunosato Golf Club™)
Others	• Golf products • Automobile interior wood components • Industrial robots • Metallic molds and components

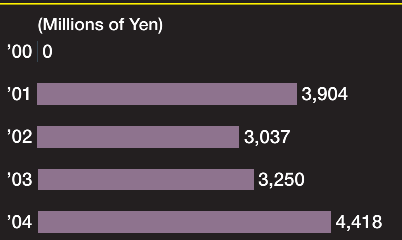
Sales	Operating Income (Loss)



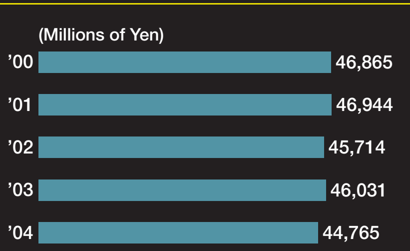


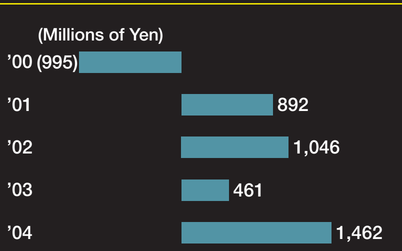
* Figures for '00 include AV/IT.

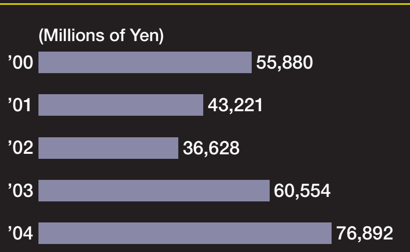


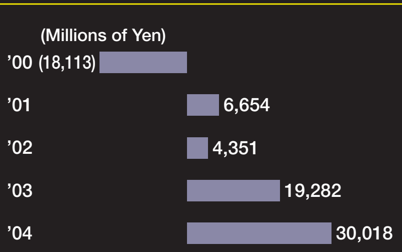


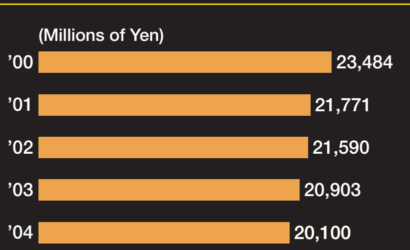
* Figures for '00 are included in musical instruments.

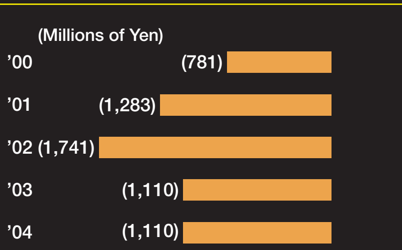


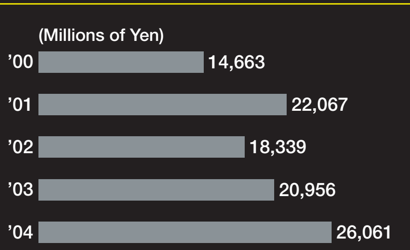


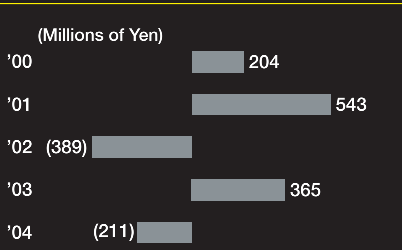






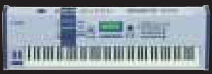






Major Products

Grand piano “CFIIIS”



Synthesizer “MOTIF™ ES8”

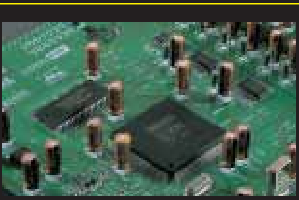
Home music network system “MusicCAST™”

Digital home theater receiver “DSP-Z9,”
DVD player “DVD-S540,”
Speaker systems “MCII” series

System bathroom “Beaut™”

System kitchen “Dolce™”

Sound chip for mobile phone



Sound signal processor LSI chip for AV amplifiers

“Kiroro™”

“Tsumagoi™”

Golf club “New inpres™ V-MX”

Automobile interior wood components

Digital production console
“DM2000”

Music schools

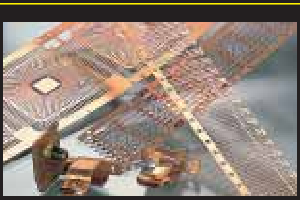
Ringing melody
distribution service

Digital cinema projector
“DPX-1100”

Home theater system
CinemaStation™ “DVX-S200”

Router “RTX1000”

Wooden door
“REGARD™”



Lead frames and alloys used
in connectors

“Toba Hotel International™”

“Nemunosato™”

“Haimurubushi™”

Bare board tester
Micro prober “M504”

Magnesium parts used in
mobile phones

Musical Instruments

Yamaha has more than a century of history and experience in the musical instrument business field. The Company offers a broad lineup of musical instruments ranging from pianos to wind, string, and percussion instruments. These products and their high quality are highly evaluated by diverse customers. Currently, we develop and manufacture acoustic instruments as well as electronic and digital musical instruments that integrate traditional craftsmanship and leading-edge technologies; professional audio equipment; and network-compatible musical instruments. Moreover, we are seeking to realize the great potentials of content and Internet-related service businesses.

Through our domestic and overseas music schools serving roughly 700,000 students, we are striving to promote a greater appreciation of music worldwide.

Musical instruments segment sales amounted to ¥293.4 billion, a 0.3% increase year on year, and operating income totaled ¥10.5 billion, up 7.0%.

Sales increased smoothly in North America and Europe and were also up in Korea and the Middle East. While considerable growth had been expected in China, the expansion of the Company's marketing programs was delayed owing to the effects of the SARS crisis early in the year, and realizing strong performance was difficult. In Japan, although a general trend of declining sales was halted, a cyclical hiatus in Electone™ electronic organ model changes caused sales to fall short of the level recorded in the previous year.

Sales of such electronic musical instruments as portable keyboards and electronic pianos (Clavinova™) continued to be strong. Regarding professional audio equipment, large mixers and other fundamental products contributed to performance, and sales exceeded projections, particularly in the United States. Sales of wind instruments, guitars, and drums were robust. Although the rise in sales had a positive effect on operating income, the actual rise in operating income was relatively small due to Yamaha's efforts to strengthen its operations by reducing inventory levels and the Company's proactive investments aimed at promoting future growth. With fiscal 2004 marking the 10th anniversary of the announcement of the Silent Piano™ line, we launched two limited production models—the "YS10" and "YS30"—during the year. In addition, we further bolstered the Silent™ series of products by introducing additional color variations for the Silent Guitar™ "SLG-100S" and "SLG-100N" models and launching the "DTXPRESS™III" Silent Session Drum™ and "SVC50" Silent Cello™. We are anticipating considerable business growth in the Chinese market

and have begun full-scale efforts to ensure this growth through the marketing programs of Yamaha Music & Electronics (China) Co., Ltd., which was established in May 2002.

In the field of music schools, Yamaha worked proactively to provide elderly people and other adults with some musical experience or wishing to begin learning with facilities and opportunities for musical instrument performances, and these efforts supported steady growth in the number of adults enrolled in its music schools in Japan. The Company's establishment of introductory musical instrument lesson programs for people in the 50 and over age-group elicited a particularly positive response. In April 2003, we began the full-scale nationwide development of instrument rental services, and the initial performance target of 2,000 rental contracts in the first year was greatly exceeded. The pace of growth in rental contracts has continued to be high, and we began accepting rental applications via the Internet beginning in October 2003.

Regarding the mobile phone ringing melody distribution service business, in Japan the number of subscribers reached a plateau and competition intensified. However, we began offering such services in 12 countries outside Japan and therefore expect further growth in this field. From January 2004, we began operating the Japanese-language "Utaccha™" site, featuring Yamaha-affiliated musicians and composers as well as others. This site has earned a positive response among users.


Via its "MUSIC eCLUB™" music portal, which is working to promote the popularity of music in the Internet sphere, Yamaha launched its "Net Lesson" services and thereby became the first company to begin the full-scale provision of music lessons over the Internet. Our "Otona wo, Yasumu Hi" website has focused primarily on promoting musical and other active leisure activities among adults.

Regarding fiscal 2005, Yamaha has noted the emergence of some positive economic trends in Japan and overseas and therefore will be striving to maintain steady growth in North America and Europe while expanding its operations in China by proceeding with the organizational strengthening of its China-based subsidiaries as well as the creation of a solid base for marketing operations. In particular, the new factory of Hangzhou Yamaha Musical Instruments Co., Ltd., is scheduled to begin manufacturing pianos and guitars from autumn 2004, and this is expected to promote greater market penetration. In Japan, we will work to bolster and augment our bases in new music distribution modes and step up our investments in promotional and marketing bases while concurrently reforming our marketing methodologies and systems with an eye to effectively stimulating the market. We are endeavoring to increase the vitality of our Electone™ business by promoting sales of the "STAGEA™," which

Musical Instruments

can connect directly to the Internet and offers other new functions, and by striving to attract new customers, particularly young customers.

Aiming to realize substantial growth in its professional audio equipment business, Yamaha is strengthening its marketing programs while emphasizing mixers and other equipment for small and medium-sized live-performance facilities.

Regarding Yamaha's mobile phone ringing melody distribution services, the Company will undertake additional cost reduction measures, seek to sustain the number of domestic subscribers by upgrading websites, and proceed further with business expansion steps overseas.

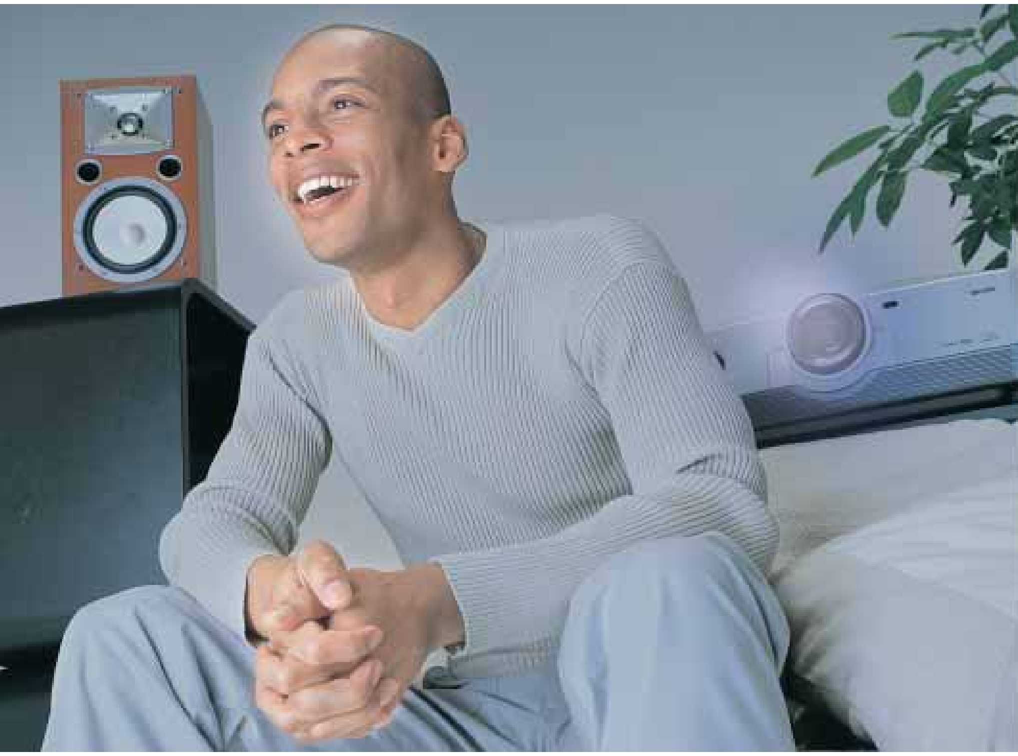
As fiscal 2005 is the first year of the medium-term business plan covering the three years through fiscal 2007, Yamaha believes it important to steadily progress with the establishment of business structures and capabilities that will enable the sustained stability of its musical instrument operations. Our strategy calls for augmenting our ability to develop high-value-added products by strengthening planning and development as well as marketing capabilities while upgrading our strategies for addressing the needs of artists and specialists.

AV/IT

Drawing on its Cinema DSP™ digital sound field processing (DSP) technology, Yamaha has earned a strong position as a leader in the digital home theater sound system market, supported by a constantly expanding and evolving line-up of home theater sound products and systems. The Company has striven to meet diversifying needs by developing digital cinema projectors and other video equipment that integrate home theater solutions. Using such technologies as virtual private networks (VPNs) and firewalls to effectively prevent unauthorized access and thus ensure stable and safe Internet-based communications, Yamaha develops and supplies SOHO and enterprise customers with dependable, high-performance routers that are well suited for the broadband era.

Mainly owing to the discontinuation of business involving CD-R/RW drives, AV/IT segment sales decreased 6.5%, to ¥78.3 billion, but operating income surged 35.9%, to ¥4.4 billion.

Although worldwide demand for home theater products continued to grow during the fiscal year, Yamaha's performance in this field suffered somewhat during the first half owing to a general trend of falling prices and stronger market preference for integrated products. However, our launch of new products during the latter half of the fiscal year resulted in a slight increase in home theater sales for the year as a whole. The reasonably priced HTiB (Home Theater in a Box, providing speakers and a receiver in one package) manufactured at our factory in Suzhou, China, generated robust sales in North American and European markets. Particularly popular in Japan and overseas was the "CinemaStation™" home theater system, which allows users to easily enjoy realistic surround sound when watching movies or listening to music at home. In August 2003, the "RX-V440" AV receiver and "DPX-1000" digital cinema projector won awards in two categories of the European Imaging and Sound Association's European Home Theatre Awards 2003–2004, which are considered to be among the world's most prestigious awards of their type. Among new products launched during the year were the home music network system "MusicCAST™," which attracted considerable attention as it allows users to enjoy the music they like throughout their homes. Yamaha proceeded with the consolidation of its



manufacturing systems through measures including the liquidation of France-based Yamaha Electronique Alsace S.A., an AV equipment production subsidiary that had completed its mission. Sales of online karaoke products continued to be strong, reflecting the popularity of newly launched products.

Regarding routers, Yamaha's new business model focused on router-related business solutions aimed at meeting the needs of SOHO and enterprise customers. As a result, the Company's products have received high evaluations for reliability, and related sales were up. In particular, the "RTX1000" won considerable kudos within the industry as the benchmark Internet VPN router for its superior performance and features.

The profitability of the AV/IT segment increased, reflecting such factors as cost reductions achieved through such measures as the use of cellular manufacturing methods, efforts to increase productivity, and the discontinuation of business in CD-R/RW drives for PCs.

AV/IT

In fiscal 2005, the home theater market is expected to realize a surge of growth owing to such factors as the growing popularity of DVDs, digital broadcasting, and large flat-panel displays. Yamaha intends to sustain the expansion of its associated business by proactively developing new home theater and speaker products that meet market needs and broadening the scope of its video products.

The growing pervasiveness of broadband technologies in corporate networks is affecting the router business, and Yamaha plans to launch VPN-compatible products to expand its business with SOHO and enterprise customers. Particular growth is anticipated in China and other Asian countries, and further steady expansion is projected in North America, Europe, and Japan.

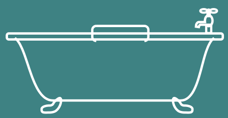
● **Digital Sound field Processing (DSP)**
Yamaha's own unique digital signal processing technology, DSP uses actual acoustic measurement data from world-famous concert halls, theaters, churches, jazz clubs, and other musical venues, which enables its audio reproduction products to give listeners the sense of actually being in those venues.

● **Small Office/Home Office (SOHO)**
Businesses that are based in small offices or homes, made possible by the use of the Internet as a business tool

● **Virtual Private Network (VPN)**
VPN technologies use the Internet and other public networks in conjunction with security technologies for authentication and encoding, thereby creating something almost the same as a private network.

● **Firewall**
Firewalls are systems that protect the internal networks of enterprises, Internet providers, and others by preventing unauthorized intrusion from outside.

● **Cellular Manufacturing**
A manufacturing system based on small groups of workers performing a full array of tasks ranging from component assembly through finishing and inspection. The group and each member of the group perform multiple tasks.



Lifestyle-Related Products

Having developed technologies for the processing and coating of the wood components of pianos, Yamaha is using these technologies and its leading-edge technologies in plastic component manufacturing and functional component development to create diverse lifestyle-related products based on its "Life Resort" concept. Aiming to provide the world with new lifestyle-related value in line with the latest social trends, the Company also supplies kitchen island units as well as ergonomically designed system bathroom products with added value related to sound, water, steam, and light factors.

During fiscal 2004, lifestyle-related products segment sales totaled ¥44.8 billion, down 2.8%, while operating income surged 217.1%, to ¥1.5 billion.

A temporary rise in demand associated with the revision of Japan's building code and tax incentives to promote housing purchases caused a small increase in Japanese housing construction starts during 2003, but product price decreases reflecting intensified competition and deflationary trends caused Yamaha's lifestyle-related product sales to decline. However, the Company greatly improved its profitability in this sector by introducing SCM and cellular manufacturing systems and taking other steps, such as those involving the restructuring of manufacturing operations and materials procurement cost-reduction measures. Profitability was also positively affected by benefits of an operational tie-up with Air Water Emoto Inc. (previously Air Water Living Inc.)

In February 2004, the first cooperatively developed fruit of this operational tie-up, a new series of system bath products, was launched and well received by the market. Yamaha anticipates that this alliance will generate increasing benefits in the future.

In fiscal 2005, conditions in lifestyle-related product markets are expected to remain harsh. Yamaha will endeavor to overcome these conditions by further reducing manufacturing costs and reaping the benefits of the alliance with Air Water Emoto as well as by developing highly differentiated new products, primarily bathroom and system kitchen products, that increase the appeal of the Yamaha brand. As demand associated with the housing remodeling market is projected to increase, we are augmenting our showroom network and seeking to make greater use of the Internet and other media for directly promoting our products to customers, thereby expanding our presence in the housing renovation industry.

Electronic Equipment and Metal Products

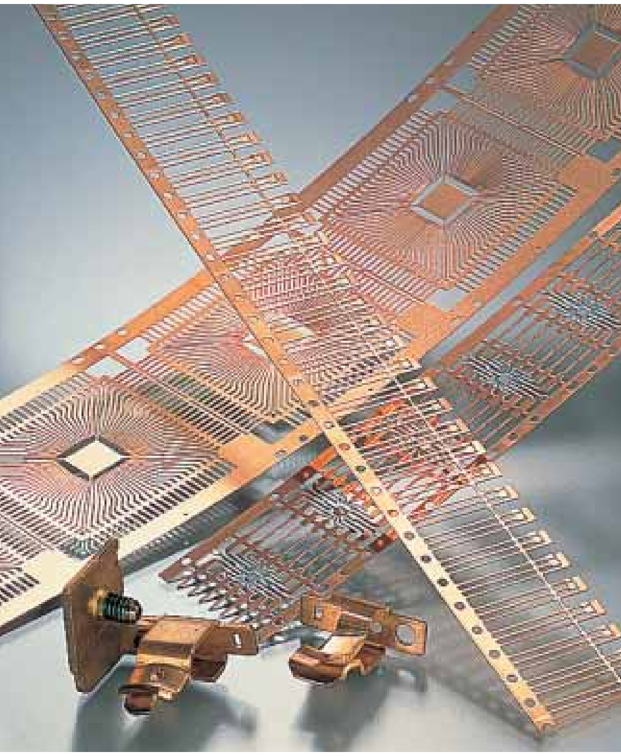
Since developing its own LSI sound chips for electronic musical instruments, Yamaha has accumulated considerable LSI-related technologies and know-how that currently enable it to supply LSI sound chips for mobile phones and PCs as well as for diverse other products associated with sound and networks, such as home theater-use amplifiers and communications equipment.

In electronic metals products operations, the Company uses high-performance copper- and nickel-based alloys to manufacture high-end IC lead frame materials as well as materials for such varying applications as connectors, batteries, and condensers. Using know-how related to the shaping and heat treatment of metal materials, we manufacture processed metal parts for use in mobile phone components, automobile electrical components, and other products.

Electronic equipment and metal products segment sales surged 27.0%, to ¥76.9 billion, and operating income amounted to ¥30.0 billion, up 55.7%.

Within semiconductor operations, sales of sound chips for mobile phones continued to be robust, reflecting the general rise in mobile phone ownership and functionality. Yamaha has begun developing and marketing products with 64-note polyphony capabilities that have been highly evaluated by users. Demand for mobile phone sound chips was firm in Japan and overseas shipments rose, particularly to Korea and China. Consequently, during the latter half of the fiscal year, the Company expanded its manufacturing arrangements with outside foundries to further increase its product supply capabilities and took measures to reduce manufacturing unit costs. Sales of LSI chips for amusement and communications equipment were also strong throughout the year.

Yamaha discontinued its unprofitable business manufacturing invar materials at the end of July 2003. Against the backdrop of expansion in the semiconductor market owing to a considerable increase in the manufacture of digital household electric appliances, the Company resumed the augmentation of manufacturing volume for mainstay lead frame materials as well as spring materials. However, intensified competition leading to decreases in mobile phone component prices as well as other factors caused a decline in sales of processed metal parts. As demand for thermoelectric modules is not projected to recover in the near future, we took steps to reduce the scale of our thermoelectric module business units.



In fiscal 2005, the worldwide surge in mobile phone sales is projected to continue. In light of this, Yamaha intends to continue working to increase its sales of mobile phone sound LSI chips and strengthen its capabilities for rapidly responding to changes in market demand. The Company is also striving to sustain growth in other semiconductor business fields.

As the semiconductor market is projected to sustain its vitality, Yamaha will expand its electronic metals product sales by increasing the production of copper-alloy materials, other lead frame materials, and alloys used in connectors. At the same time, we will sustain our total productive maintenance (TPM) program and further upgrade our quality-cost-delivery systems with an eye to boosting profitability.

● **Large-Scale Integration (LSI)**
LSI is a technology for creating integrated circuit chips featuring large-scale integrated circuits containing from 1,000 to 10,000 electronic components.

● **Invar Materials**
Invar materials are alloys comprising primarily nickel (36%) and iron that are distinguished by their low thermal expansion ratios. These materials are used in such products as cathode ray tube shadow masks, which are sheets of invar with tiny perforations that guide electron beams onto pixels of fluorescent material.

● **Lead Frames**
Chips cut from silicon wafers are mounted on metal lead frames, which include a base for the chip as well as electrical connection leads.

● **Thermoelectric Modules**
When electrical current is passed through a point where two different metals meet, one of the metals will transfer heat to the other metal. This is called the Peltier effect. Yamaha's thermoelectric modules, which utilize this effect, are incorporated in refrigeration and heating equipment as well as precision temperature control equipment.

● **Total Productive Maintenance (TPM)**
TPM is a method for comprehensively increasing the efficiency of manufacturing systems. It entails reducing loss through systematic efforts to totally preclude disasters, accidents, and the incidence of quality-related problems in manufacturing operations as well as product development, marketing, administrative, and other operations. TPM is designed to promote concerted efforts by all employees—from top executives to front-line employees—to realize the goal of zero loss.

Recreation


Yamaha has been in the business of creating and operating innovative and highly appealing resort facilities since 1962. The Company operates six recreation facilities in Japan, each of which works to highlight the special features of the natural environment of its region. These include “Kiroro™,” where customers can enjoy the natural wonders of Hokkaido and outdoor sports year-round; “Tsumagoi™,” which is a comprehensive resort surrounded by greenery; and “Haimurubushi™,” which is an island-style resort in the southernmost reaches of the Japanese archipelego. We take pride in creating comprehensive recreation facilities that effectively promote customers’ physical and spiritual relaxation and refreshment.

Recreation segment sales totaled ¥20.1 billion, down 3.8%, and an operating loss of ¥1.1 billion was recorded, approximately the same level as in the previous year.

During fiscal 2004, Yamaha worked to improve the profitability of recreation operations by progressively implementing a series of rationalization measures and steps to attract a greater number of customers, but the size of the segment’s operating loss remained approximately the same, largely due to unseasonably warm winter weather with little snow that depressed the number of skiers visiting the “Kiroro™” resort.

Also during the year, “Haimurubushi™” benefited from the ongoing boom in popularity of Okinawa and the Yaeyama island group and attracted a rising number of customers, and the revenue of “Katsuragi-Kitanomaru™” continued to be robust. However, revenue flows from other facilities were sluggish, and a number of measures were taken during the year to boost segment profitability. The “Sunza Villa™” resort by Lake Hamana was closed in view of the difficulty of restoring a positive cash-flow balance at that facility, and the “Kiroro™” golf course was closed on October 31 as that facility also had no prospect of profitability.

In fiscal 2005, personal consumption in Japan is projected to remain weak. Yamaha’s recreation facilities will strive to operate in harmony with their regions, further upgrade their services, strongly emphasize safety in a manner that inspires confidence on the parts of guests, and provide those guests with even better hospitality. We will also continue reevaluating our operations and take effective steps to boost operational efficiency and profitability.

As a means of boosting operational efficiency through management consolidation, the Kiroro Development Corporation will be absorbed by Yamaha Corporation as of July 1, 2004.

Others

Having been engaged in the golf-related business for more than 20 years, Yamaha uses its considerable experience and know-how in this field to offer clubs that meet the needs of a broad range of golfers.

In its automobile interior wood component operations, the Company leverages its accumulated technologies for the processing and coating of the wood components of pianos to manufacture items that highlight the natural beauty of wood.

We also employ our 3D manufacturing methods for metallic molds and component production to create integrated systems—including all processes from development through final molding and coating—for manufacturing magnesium and plastic components used by the home electric appliance, communications, and precision products industries. In the FA business, we develop and manufacture such products as precision machines, leak testers, and robot systems and make proposals regarding the use of such equipment to build optimal manufacturing systems.

Segment sales grew 24.4%, to ¥26.1 billion. However, an operating loss of ¥0.2 billion was recorded, compared with operating income of ¥0.4 billion in the previous year.

Sales of automobile interior wood components were considerably boosted by changes in major models implemented by the automobile industry during the year. In the FA business, sales of Yamaha's precision machines for the processing and


inspection of electronic circuit boards were robust in an active market, and the performance of the Company's leak testers was also strong, particularly regarding automobile-related applications. Moreover, the benefits of a business tie-up with FANUC LTD. are gradually being realized. Business in metallic molds and components expanded, largely owing to customers' high evaluations of the quality of magnesium products incorporated in mobile phones and other products. In addition, Yamaha's "inpres™" series of golf clubs was well received in the market.

The profitability of business in automobile interior wood components and golf products was generally strong, but that of metallic molds and components deteriorated.

In fiscal 2005, Yamaha will strive to further reduce unit costs in its automobile interior wood component operations and take other measures to improve its capabilities for flexibly responding to customer requirements and increasing product diversity. The Company will also strive to expand its customer base for automobile interior wood component operations and thereby promote more-stable profitability. In FA operations, we are endeavoring to strengthen our product lineup, and metallic molds and components business units are seeking to increase their profitability by focusing on such goals as the rationalization of manufacturing and the development of technologies for increasing product differentiation. In golf-related operations, we are emphasizing measures to reinforce the presence of our brand by bolstering our product lineup and the "New inpres™" series.

● **Factory Automation (FA)**
FA involves the automation of factory operations through the use of computer-control technologies and automated equipment.

● **Precision Machines**
Yamaha uses the term "precision machines" primarily with respect to machines used to process and inspect flexible printed circuit boards.

● **Leak Testers**
Leak testers are machines that detect tiny amounts of helium that escape from components or finished products put in a vacuum chamber.

Board of Directors, Corporate Auditors, and Executive Officers

Board of Directors

Chairman and Representative Director

Katsuhiko Kishida

Born: November 19, 1941

April 1966	Entered Nippon Gakki Co., Ltd. (currently Yamaha Corporation)
April 1992	General Manager, Piano Division
June 1994	Director
June 1998	Managing Director
April 2000	Senior Managing Director
June 2004	Chairman and Representative Director

President and Representative Director

Shuji Ito

Born: November 1, 1942

April 1965	Entered Nippon Gakki Co., Ltd. (currently Yamaha Corporation)
July 1984	President, Yamaha-Kemble Music (U.K.) Ltd.
June 1988	Director
July 1993	Managing Director
June 1997	Senior Managing Director
April 2000	President and Representative Director

Managing Director

Kunihiro Maejima

Born: September 12, 1940

April 1965	Entered Nippon Gakki Co., Ltd. (currently Yamaha Corporation)
April 1992	General Manager, Audio Video Division
June 1995	Director
June 2000	Managing Director

Managing Director

Hirokazu Kato

Born: March 8, 1944

April 1966	Entered Nippon Gakki Co., Ltd. (currently Yamaha Corporation)
March 1996	General Manager, Electronics Development Center
June 1998	Director
June 2003	Managing Director

Director

Toru Hasegawa

Born: May 15, 1936

April 1960	Entered Yamaha Motor Co., Ltd.
July 1985	Director
June 1997	Managing Director
June 2000	Senior Managing Director
April 2001	President and Representative Director
June 2003	Director, Yamaha Corporation

Director

Shinya Hanamoto

Born: June 18, 1946

April 1970	Entered Nippon Gakki Co., Ltd. (currently Yamaha Corporation)
March 1996	General Manager, Domestic Sales and Marketing Division
June 1997	Director

Director

Tsuneo Kuroe

Born: February 2, 1946

April 1968	Entered Nippon Gakki Co., Ltd. (currently Yamaha Corporation)
July 1999	General Manager, Corporate Planning Division
June 2000	Director

Director

Tokihisa Makino

Born: February 20, 1950

April 1968	Entered Nippon Gakki Co., Ltd. (currently Yamaha Corporation)
April 2000	General Manager, Accounting and Finance Division
February 2001	Executive Officer
June 2003	Director

Corporate Auditors

Naomoto Ota (Full-Time)
Michio Horikoshi (Full-Time)
Kunio Miura
Haruhiko Wakuda

Executive Officers

Senior Executive Officer

Mitsuru Umemura
General Manager, Musical Instruments Group

Executive Officers

Katsuhiro Tokuda
General Manager, Pro Audio & Digital Musical Instruments Division

Hajime Hayashida
General Manager, Piano Division

Yoshikazu Tobe
General Manager, Public Relations Division

Motoki Takahashi
General Manager (Europe), Yamaha Corporation, President, Yamaha Music Holding Europe G.m.b.H.

Hiroshi Sekiguchi
General Manager, AV & IT Business Group

Takuya Tamaru
General Manager, Sound Life Marketing & Development Laboratory

Kosuke Kamo
General Manager, Legal & Intellectual Property Division

Koji Niimi
General Manager, Technology Group

Hiroo Okabe
Deputy General Manager, Musical Instruments Group

Yasuhiro Kira
General Manager, Product Design Laboratory

Yasushi Yahata
General Manager, Production Engineering Division

As of June 25, 2004

Financial Section

Contents

Executive Summary

Amid a sustained gradual recovery in the global economy during fiscal 2004, the Japanese economy gradually began showing such positive signs of recovery as improvement in corporate performances, a rise in private-sector capital investment, and growth in exports. Against this backdrop, Yamaha strove to establish solid foundations for business expansion in each operational sector, realize further increases in operating efficiency, and attain other targets specified in its medium-term business plan, which covered the three years through the fiscal year under review.

As a result, net sales grew 2.8% from the previous year, to ¥539.5 billion. The main factor promoting sales growth was strong performance in the electronic equipment and metal products segment that reflected growth in sales of LSI sound chips for mobile phones. This enabled a second consecutive year of growth in net sales.

The rise in sales of LSI sound chips for mobile phones, the discontinuation of unprofitable operations, and thorough measures to lower manufacturing unit costs led to a second consecutive year of increased profitability. Operating income was up 40.6%, to ¥45.1 billion. Increases in profitability were recorded by the electronic equipment and metal products, musical instruments, AV/IT, and lifestyle-related products segments. The recreation segment implemented cost rationalization measures but was unable to compensate for the effects of lower revenues and therefore continued to record an operating loss. Reflecting such major changes in nonoperating income and expenses as a ¥2.8 billion rise in equity in earnings of unconsolidated subsidiaries and affiliates, from ¥7.6 billion to ¥10.4 billion, and the considerably lower loss on revaluation of investment securities, at ¥0.1 billion, compared with ¥7.7 billion in the previous fiscal year, net income amounted to ¥43.5 billion, up 142.6%.

Regarding the Company's financial position, total assets edged down 0.8%, or ¥4.0 billion, to ¥508.7 billion. The bulk of the decline was attributable to changes in current assets, with particularly noteworthy decreases recorded in cash and bank deposits and inventories, which reflected the Company's progressive repayment of borrowings as well as its use of SCM systems to optimize inventory levels. Regarding investments and other assets, the value of investment securities grew considerably as the recovery in stock prices boosted the value of the Company's stockholdings and the net assets of Group companies accounted for by the equity method rose.

With respect to liabilities, the Company redeemed ¥24.3 billion in convertible bonds at the end of March 2004 and used a portion of the net cash provided by operating activities to progressively repay borrowings. As a result, the balance of interest-bearing debt at the end of the year, at ¥48.9 billion, was down ¥41.6 billion, from ¥90.4 billion at the previous year-end.

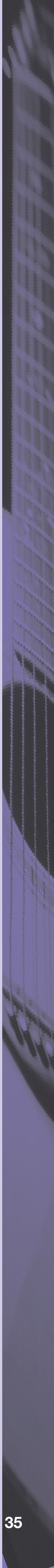
Shareholders' equity rose ¥45.3 billion, from ¥214.5 billion to ¥259.7 billion, boosted by the rise in net income and in the net unrealized holding gain on other securities as well as the positive effect of the yen's depreciation against the euro.

As a result, the shareholders' equity ratio improved 9.3 percentage points, from 41.8% to 51.1%, and the debt-to-equity ratio (balance of actual interest-bearing debt/shareholders' equity) improved 14.9 percentage points, from 21.4% to 6.5%. ROE also improved, rising 9.8 percentage points, from 8.6% to 18.4%.

Six-Year Summary

Yamaha Corporation and Consolidated Subsidiaries
March 31, 2004, 2003, 2002, 2001, 2000 and 1999

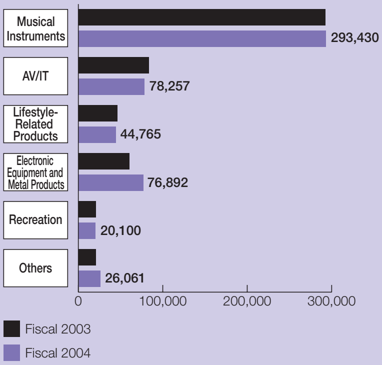
	Millions of Yen					
	2004	2003	2002	2001	2000	1999
For the year:						
Net sales	**¥539,506**	¥524,763	¥504,406	¥519,104	¥527,897	¥563,751
Cost of sales	**337,813**	338,307	340,411	346,200	371,758	402,239
Gross profit	**201,693**	186,456	163,994	172,904	156,140	161,511
Selling, general and administrative expenses	**156,637**	154,413	152,951	149,902	148,057	161,608
Operating income (loss)	**45,056**	32,043	11,043	23,001	8,082	(97)
Income (loss) before income taxes and minority interests	**47,456**	22,612	(5,784)	23,491	(47,601)	(6,532)
Net income (loss)	**43,541**	17,947	(10,274)	13,320	(40,777)	(15,879)
At year-end:						
Total assets	**¥508,731**	¥512,716	¥509,663	¥522,486	¥543,088	¥532,852
Total shareholders' equity, net	**259,731**	214,471	201,965	196,733	221,750	214,896
Total current assets	**201,704**	221,089	211,140	231,872	205,979	212,911
Total current liabilities	**123,596**	158,148	144,498	175,371	178,281	189,386
	Yen					
Amounts per share:						
Net income (loss)	**¥ 210.63**	¥ 86.65	¥ (49.75)	¥ 64.50	¥ (197.45)	¥ (76.89)
Shareholders' equity	**1,259.28**	1,040.06	978.15	952.62	1,073.75	1,040.56
	%					
Ratios:						
Current ratio	**163.2%**	139.8%	146.1%	132.2%	115.5%	112.4%
Shareholders' equity ratio	**51.1**	41.8	39.6	37.7	40.8	40.3
Return on assets	**8.5**	3.5	(2.0)	2.5	(7.6)	(2.9)
Return on equity	**18.4**	8.6	(5.2)	6.4	(18.7)	(7.1)



Management's Discussion and Analysis

Net Sales by Business Segment

(Millions of Yen)



Business Results

Net Sales by Business Segment

Net sales grew 2.8% from the previous year, to ¥539.5 billion, a second consecutive year of increase. The rise reflected strong semiconductor performance owing to growth in sales of LSI sound chips for mobile phones.

Sales in the musical instruments segment edged up 0.3%, or ¥0.8 billion, to ¥293.4 billion, despite a ¥1.8 billion decline that reflected changes in currency exchange rates. On a real basis, excluding the effects of changes in exchange rates, segment sales would have risen 0.9%, or ¥2.6 billion.

Sales of pianos grew in European markets but decreased in Japan and North America. Sales of digital musical instruments were strong overall, and those of professional audio equipment grew in the U.S. market. Sales of "Custom Model" wind instruments grew significantly, and sales of string instruments also rose. Revenue from Yamaha's mobile phone ringing melody distribution services declined owing to market saturation in Japan and intensifying competition. In music school operations, Yamaha expanded its revenue from schools for adult students, but the shrinking population of children in Japan continued to depress enrollment numbers and, in turn, overall revenue from music schools.

In the AV/IT segment, sales of home theater products and medium-to-top-level amplifier-receivers grew, and sales of enterprise-use routers were strong. Owing to the Company's withdrawal from the PC-use CD-R/RW drive business, however, segment sales dropped 6.5%, or ¥5.4 billion, to ¥78.3 billion. Segment sales, excluding the CD-R/RW drive business, grew 2.5%.

In the lifestyle-related products segment, sales of system bathroom products were strong, reflecting customers' high evaluations of newly launched products, but those of system kitchen products were weak due to intensified competition. Segment sales declined 2.8%, or ¥1.3 billion, to ¥44.8 billion.

In the electronic equipment and metal products segment, the Company launched new 64-note polyphony LSI sound chips for mobile phones, and sales in Korea and China grew considerably owing to strong demand. As a result, segment sales surged 27.0%, or ¥16.3 billion, from ¥60.6 billion to ¥76.9 billion. The Company withdrew from business in invar materials used for PC shadow masks, discontinuing related manufacturing operations in July 2003.

In the recreation segment, the closure of "Sunza Villa™" at the end of June 2003 and a decline in the number of skiers at our "Kiroro™" resort due to lack of snow drove down sales 3.8%, or ¥0.8 billion, to ¥20.1 billion.

In the others segment, domestic sales of golf products grew smoothly, supported by the launch of new products, but overseas sales dropped. Sales of automobile wood interior components, FA products, and metallic molds increased. Thus, segment sales surged 24.4%, or ¥5.1 billion, to ¥26.1 billion.

Sales by Geographical Area

Domestic sales totaled ¥320.8 billion, up 2.8%. The operating environment for musical instruments, lifestyle-related products, recreation, and other consumer-oriented products and services continued to be severe, but this was offset by a large rise in sales of semiconductors.

The Company’s overseas sales in North America decreased 3.4%, to ¥86.7 billion, reflecting the reduced value in yen terms of regional sales owing to the depreciation of the dollar against the yen. However, the dollar-denominated value of sales was up.

In Europe, sales increased 8.1%, to ¥83.5 billion, as demand for musical instruments and AV products was generally robust and the euro appreciated against the yen.

In Asia, Oceania and other areas, sales grew 6.2%, to ¥48.6 billion. This reflected higher musical instrument sales in such markets as Korea and the Middle East, which compensated for a weaker than expected performance in China owing to the effects of SARS.

Costs, Expenses, and Earnings

Despite the rise in net sales, the cost of sales for the period under review decreased ¥0.5 billion from the previous fiscal year. Thus, gross profit rose ¥15.2 billion, to ¥201.7 billion, and the gross profit ratio increased 1.9 percentage points, to 37.4%. Among the principal reasons for this improvement were a ¥5.0 billion net gain on foreign exchange principally from the appreciation of the euro against the yen as well as a rise in sales in the semiconductor sector, which has a relatively low cost of sales ratio.

Selling, general, and administrative (SG&A) expenses were ¥156.6 billion, up ¥2.2 billion from the previous fiscal year owing to a rise in personnel expenses, including retirement payments, as well as an increase in advertising and promotional expenses. The ratio of SG&A expenses to net sales decreased 0.4 percentage point, from 29.4% to 29.0%.

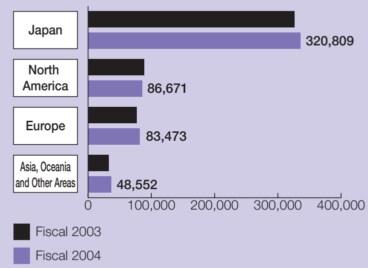
As a result, operating income grew ¥13.0 billion, to ¥45.1 billion. This was the second consecutive year the Company attained new record-high operating income levels.

In the musical instruments segment, operating income edged up ¥0.7 billion, to ¥10.5 billion. This reflected such positive factors as a foreign exchange gain owing to the aforementioned appreciation of the euro as well as a rise in net sales. Partially offsetting those factors were inventory and manufacturing volume reductions associated with the introduction of SCM systems as well as increased spending on advertising, including television commercials, aimed at promoting greater future growth in the domestic market.

In the AV/IT segment, benefits from the discontinuation of CD-R/RW drive business, foreign exchange gain, lower manufacturing unit costs, and other factors pushed up operating income ¥1.2 billion, to ¥4.4 billion.

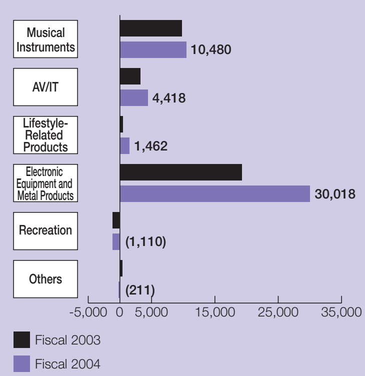
Net Sales by Geographical Area

(Millions of Yen)



Operating Income (Loss) by Business Segment

(Millions of Yen)



In the lifestyle-related products segment, operating income surged to ¥1.5 billion despite a decrease in sales. This reflected a reduction of manufacturing unit costs associated with lower materials procurement costs and the restructuring of manufacturing lines as well as benefits stemming from an operational tie-up with Air Water Emoto Inc.

In the electronic equipment and metal products segment, operating income rose to ¥30.0 billion, up considerably from ¥19.3 billion in the previous year. This resulted from a large increase in the profitability of semiconductor operations as well as the discontinuation of unprofitable operations in invar materials.

In the recreation segment, benefits from progress in restructuring and efficiency-raising programs were insufficient to compensate for the effect of lower net sales, and an operating loss of ¥1.1 billion was recorded, approximately the same level as in the previous year.

In the others segment, an operating loss of ¥0.2 billion was recorded, compared with ¥0.4 billion in operating income in the previous fiscal year. This mainly resulted from a decrease in the profitability of FA and metallic molds operations owing to such factors as a rise in manufacturing unit costs. Despite an increase in sales of automobile interior wood components, pressures from automobile manufacturers to reduce prices kept profitability approximately unchanged, and the profitability of golf-related operations was also roughly unchanged.

In other income (expenses), the Company recorded income of ¥2.4 billion, compared with a loss of ¥9.4 billion in the previous year, principally because equity in earnings of unconsolidated subsidiaries and affiliates rose ¥2.8 billion, from ¥7.6 billion to ¥10.4 billion, and a drop in structural reform expenses and a substantial fall in loss on revaluation of investment securities, primarily related to bank stocks, to ¥0.1 billion, from ¥7.7 billion in the previous year. The balance of other income and expenses also reflected such factors as the payment of social insurance fees for previous years payable upon the shift to a comprehensive remuneration system and the payment of fines to the European Commission.

As a result, income before income taxes and minority interests increased ¥24.8 billion, from ¥22.6 billion to ¥47.5 billion. Consequently, net income for the fiscal year under review rose to ¥43.5 billion, from ¥17.9 billion in the previous year. This was the second consecutive year the Company attained record net income levels.

Currency Exchange Rate Changes and Risk Hedging

Foreign currency denominated sales are recorded based on the average level of exchange rates during the year. The average level of the yen-U.S. dollar rate during fiscal 2004 was ¥113=$1, down ¥9 from fiscal 2003 and effectively reducing net sales during fiscal 2004 by ¥6.9 billion. In contrast, the average level of the yen-euro rate during fiscal 2004 was ¥133=€1, up ¥12 from fiscal 2003, and this had the effect of increasing net sales during fiscal 2004 by ¥5.4 billion. The overall effect of average exchange rate changes, including those related to such currencies as the Australian dollar and other currencies, was to reduce fiscal 2004 net sales by ¥1.2 billion.

Regarding profitability, the average level of the yen-dollar settlement rate during fiscal 2004 was ¥114=$1, down ¥8 from fiscal 2003, and as a result operating income during fiscal 2004 was reduced by ¥0.6 billion. The average level of the yen-euro settlement rate during fiscal 2004 was ¥129=€1, up ¥12 from fiscal 2003, and this had the effect of increasing operating income during fiscal 2004 by ¥5.1 billion. The overall effect of settlement exchange rate changes, including those related to other currencies, was to augment fiscal 2004 operating income by ¥5.0 billion.

The Company hedges its U.S. dollar-related currency fluctuation risks by offsetting risk associated with dollar receipts from exports with risk associated with dollar payments for imported products. It hedges the value of risks associated with the euro, Australian dollar, and Canadian dollar by projecting relevant export revenues and purchasing forward exchange contracts three months in advance.

Financial Condition

Assets, Liabilities, and Shareholders' Equity

Assets

Total assets at March 31, 2004, amounted to ¥508.7 billion, down ¥4.0 billion from the previous year-end. Current assets decreased ¥19.4 billion. Reflecting the introduction of SCM systems and the Group's concerted measures to further reduce inventory levels, the value of inventories decreased ¥8.0 billion, to ¥72.1 billion, and the bulk of this drop was associated with musical instrument and AV/IT operations. Thus, inventories were reduced to a level close to the original target level. Moreover, the balance of cash and bank deposits was decreased ¥12.4 billion, to ¥32.1 billion. Total investments and other assets grew ¥15.5 billion owing to such factors as a rise in stock prices that boosted the value of stockholdings as well as a rise in the net assets of companies accounted for by the equity method.

Liabilities

Utilizing an increase in net cash inflow, the Company repaid resort membership deposits, redeemed convertible bonds at the end of the fiscal year, and reduced its short- and long-term debt. These measures resulted in a ¥48.8 billion decrease in the balance of total liabilities.

Interest-Bearing Debt

Owing to such factors as the rise in profitability and reduction of inventories, the balance of actual interest-bearing debt,* on a real basis that accounts for cash and bank deposits, was ¥16.8 billion (¥48.9 billion in borrowings and ¥32.1 billion in cash and bank deposits) at the end of fiscal 2004, a decrease of ¥29.1 billion from the previous year-end. On March 31, 2004, the Company redeemed ¥24.3 billion in convertible bonds.

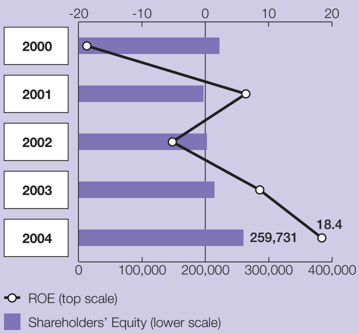
* The balance of actual interest-bearing debt is defined as equaling the sum of borrowings and convertible bonds, less cash and bank deposits.

Change in Balance of Actual Interest-Bearing Debt

	Millions of Yen				
	2004	2003	2002	2001	2000
Short-term loans	**¥16,711**	¥27,078	¥47,871	¥58,349	¥42,638
Convertible bonds scheduled for redemption within one year	**—**	24,317	—	—	—
Current portion of long-term debt	**7,388**	10,090	4,363	10,160	11,527
Convertible bonds	**—**	—	24,317	24,317	24,317
Long-term debt	**24,772**	28,951	19,615	10,478	9,685
Total interest-bearing debt	**48,871**	90,436	96,166	103,304	88,167
Cash and bank deposits	**32,053**	44,485	41,074	32,885	33,796
Balance of actual interest-bearing debt	**¥16,818**	¥45,951	¥55,092	¥70,419	¥54,371

Shareholders' Equity and ROE

(Millions of Yen, %)



Shareholders' Equity

Reflecting such factors as the increases in business profitability and in the net unrealized holding gain on other securities, the balance of shareholders' equity at the end of fiscal 2004 was ¥259.7 billion, up ¥45.3 billion from the previous year-end. As a result, the shareholders' equity ratio rose to 51.1%. ROE was 18.4%.

Cash Flows

Net cash provided by operating activities totaled ¥58.3 billion, up ¥25.3 billion from the previous year, owing to such factors as a rise in profitability and a decrease in inventories.

Net cash used in investing activities, primarily for capital investments, amounted to ¥18.8 billion, down ¥2.9 billion from the previous year. The decrease was largely the result of a drop in purchases of investment securities.

Net cash used in financing activities totaled ¥50.1 billion, up ¥41.6 billion from the previous year. This reflected ¥24.3 billion used for the redemption of convertible bonds, ¥6.0 billion used for the refunds of resort membership deposits, and to repay short- and long-term debt.

Thus, including an increase arising from the inclusion of additional subsidiaries in consolidation and a ¥1.6 billion drop owing to the effect of exchange rate changes, cash and cash equivalents at the end of the year were down ¥11.7 billion from the previous year-end, to ¥31.2 billion.

Summary of Cash Flows

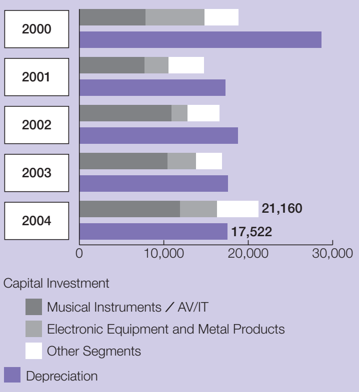
	Millions of Yen	
	2004	2003
Net cash provided by operating activities	**¥58,349**	¥33,052
Net cash used in investing activities	**(18,775)**	(21,645)
Net cash used in financing activities	**(50,141)**	(8,582)
Effect of exchange rate changes on cash and cash equivalents	**(1,599)**	(504)
Net increase (decrease) in cash and cash equivalents	**(12,167)**	2,319
Cash and cash equivalents at beginning of the year	**42,976**	40,571
Cash and cash equivalents at end of the year	**¥31,245**	¥42,976

Capital Investment

Capital investment amounted to ¥21.2 billion in fiscal 2004, up 25.3% from the previous year. Investment in the musical instruments segment grew ¥1.0 billion, to ¥10.1 billion, reflecting investment in molds and dies for new products as well as such investment as that in new music schools. Investment in the lifestyle-related products segment roughly doubled, to ¥1.7 billion, also reflecting investment in molds and dies for new products as well as investment in new showrooms in line with the Company's strategy for expanding business associated with building renovation. Investment in the electronic equipment and metal products segment grew ¥1.1 billion, to ¥4.4 billion, largely owing to the investment in the Company's Kagoshima semiconductor factory. Capital investment in the AV/IT segment and the others segment totaled ¥1.8 billion and ¥2.4 billion, respectively. Depreciation and amortization expense during the year amounted to ¥17.7 billion, approximately the same level as in the previous year.

Capital Investment and Depreciation

(Millions of Yen)

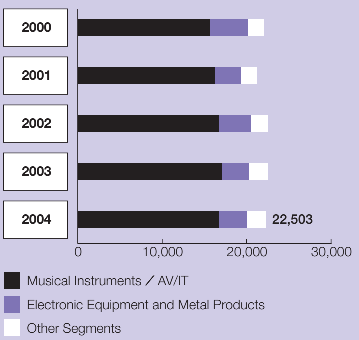


R&D

R&D expenses amounted to ¥22.5 billion in fiscal 2004, up 0.3% from the previous year. The ratio of R&D expenses to net sales was 4.2%, roughly unchanged. The bulk of R&D expenses were associated with new product development, primarily related to digital musical instruments, AV/IT, and semiconductors. The Company is also engaged in programs to develop new technologies and components in the fields of optical information transmission, sound reproduction, and digital sound field processing (DSP).

R&D Expenses

(Millions of Yen)



Consolidated Balance Sheets

Yamaha Corporation and Consolidated Subsidiaries
At March 31, 2004 and 2003

ASSETS	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 2) 2004
Current assets:			
Cash and bank deposits (Notes 5 and 19)	**¥ 32,053**	¥ 44,485	**$ 303,274**
Marketable securities (Notes 5 and 18)	**1,150**	1,370	**10,881**
Notes and accounts receivable—trade	**81,114**	81,755	**767,471**
Less: Allowance for doubtful accounts	**(2,389)**	(2,625)	**(22,604)**
Inventories	**72,146**	80,144	**682,619**
Deferred income taxes (Note 12)	**12,291**	10,489	**116,293**
Prepaid expenses and other current assets (Note 6)	**5,337**	5,469	**50,497**
Total current assets	**201,704**	221,089	**1,908,449**
Property, plant and equipment, net of accumulated depreciation (Notes 4 and 5):			
Land (Note 7)	**75,362**	76,835	**713,048**
Buildings and structures	**66,524**	67,166	**629,426**
Machinery and equipment	**33,802**	33,639	**319,822**
Construction in progress	**2,978**	1,082	**28,177**
Property, plant and equipment, net of accumulated depreciation	**178,667**	178,724	**1,690,482**
Investments and other assets:			
Investment securities (Notes 3, 5 and 18)	**101,017**	77,622	**955,786**
Long-term loans receivable	**193**	694	**1,826**
Lease deposits	**5,146**	5,013	**48,690**
Deferred income taxes (Note 12)	**17,379**	24,663	**164,434**
Excess of cost over net assets acquired	**234**	107	**2,214**
Other assets	**4,388**	4,800	**41,518**
Total investments and other assets	**128,359**	112,902	**1,214,486**
Total assets	**¥508,731**	¥512,716	**$4,813,426**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 2) 2004
Current liabilities:			
Short-term loans (Note 5)	**¥ 16,711**	¥ 27,078	**$ 158,113**
Convertible bonds scheduled for redemption within one year (Note 5)	**—**	24,317	**—**
Current portion of long-term debt (Note 5)	**7,388**	10,090	**69,903**
Notes and accounts payable—trade	**39,947**	39,462	**377,964**
Accrued expenses	**45,888**	42,501	**434,175**
Income taxes payable	**2,492**	3,101	**23,578**
Advances received	**3,333**	3,428	**31,536**
Deferred income taxes (Note 12)	**94**	92	**889**
Other current liabilities (Note 6)	**7,737**	8,074	**73,205**
Total current liabilities	**123,596**	158,148	**1,169,420**
Long-term liabilities:			
Long-term debt (Note 5)	**24,772**	28,951	**234,384**
Deferred income taxes (Note 12)	**198**	266	**1,873**
Deferred income taxes on land revaluation (Notes 1 (p) and 7)	**13,569**	13,577	**128,385**
Accrued employees' retirement benefits (Note 14)	**50,012**	53,988	**473,195**
Directors' retirement benefits	**939**	965	**8,884**
Long-term deposits received	**30,799**	36,848	**291,409**
Other long-term liabilities	**1,600**	1,572	**15,139**
Total long-term liabilities	**121,891**	136,171	**1,153,288**
Minority interests	**3,511**	3,925	**33,220**
Contingent liabilities (Note 15)			
Shareholders' equity (Note 13):			
Common stock:			
Authorized—700,000,000 shares;			
Issued 2004—206,524,626 shares			
2003—206,523,263 shares	**28,534**	28,533	**269,978**
Capital surplus	**40,054**	40,052	**378,976**
Earned surplus	**203,485**	162,344	**1,925,300**
Reserve for land revaluation (Notes 1 (p) and 7)	**15,866**	16,152	**150,118**
Net unrealized holding gain on other securities	**10,979**	378	**103,879**
Translation adjustments	**(38,937)**	(32,753)	**(368,408)**
Treasury stock, at cost	**(252)**	(236)	**(2,384)**
Total shareholders' equity, net	**259,731**	214,471	**2,457,479**
Total liabilities and shareholders' equity	**¥508,731**	¥512,716	**$4,813,426**

Consolidated Statements of Income

Yamaha Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2004	2003	**2004**
Net sales	**¥539,506**	¥524,763	**$5,104,608**
Cost of sales (Note 8)	**337,813**	338,307	**3,196,263**
Gross profit	**201,693**	186,456	**1,908,345**
Selling, general and administrative expenses (Note 8)	**156,637**	154,413	**1,482,042**
Operating income	**45,056**	32,043	**426,303**
Other income (expenses):			
Interest and dividend income	**539**	583	**5,100**
Interest expense	**(1,535)**	(2,015)	**(14,524)**
Sales rebates	**(4,378)**	(4,347)	**(41,423)**
Loss on revaluation of investment securities	**(110)**	(7,746)	**(1,041)**
Loss on sale or disposal of property, net	**(2,297)**	(974)	**(21,733)**
Equity in earnings of unconsolidated subsidiaries and affiliates	**10,447**	7,608	**98,846**
Structural reform expenses (Note 9)	**(6)**	(2,271)	**(57)**
Other, net (Notes 10 and 11)	**(261)**	(266)	**(2,469)**
	2,400	(9,429)	**22,708**
Income before income taxes and minority interests	**47,456**	22,612	**449,011**
Income taxes (Note 12):			
Current	**4,769**	3,962	**45,123**
Deferred	**(1,387)**	65	**(13,123)**
	3,382	4,027	**31,999**
Income before minority interests	**44,074**	18,585	**417,012**
Minority interests	**532**	636	**5,034**
Net income	**¥ 43,541**	¥ 17,947	**$ 411,969**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Yamaha Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2004	2003	2004
Common stock:			
Balance at beginning of year (2004 and 2003—206,523,263 shares)	¥ 28,533	¥ 28,533	$ 269,969
Add:			
Conversion of convertible bonds	1	—	9
Balance at end of year (2004—206,524,626 shares; 2003—206,523,263 shares)	¥ 28,534	¥ 28,533	$ 269,978
Capital surplus:			
Balance at beginning of year	¥ 40,052	¥ 26,924	$ 378,957
Add:			
Capital surplus arising from mergers	—	13,127	—
Conversion of convertible bonds	1	—	9
Balance at end of year	¥ 40,054	¥ 40,052	$ 378,976
Earned surplus:			
Balance at beginning of year	¥162,344	¥157,589	$1,536,039
Add:			
Net income	43,541	17,947	411,969
Effect of changes in scope of consolidation	545	849	5,157
Reversal of reserve for land revaluation	—	869	—
Reversal of reserve for land revaluation arising from change in interest in an affiliate	569	88	5,384
Effect of changes in financial periods of subsidiaries	64	—	606
Deduct:			
Effect of changes in scope of consolidation	116	—	1,098
Effect of changes in interests in consolidated subsidiaries	95	13	899
Cash dividends paid	2,063	1,857	19,519
Bonuses to directors and statutory auditors	82	0	776
Reversal of reserve for land revaluation	1,220	—	11,543
Decrease due to merger	—	13,127	—
Balance at end of year	¥203,485	¥162,344	$1,925,300
Reserve for land revaluation:			
Balance at beginning of year	¥ 16,152	¥ 16,482	$ 152,824
Add:			
Reversal of reserve for land revaluation	1,220	—	11,543
Gain on land revaluation resulting from change in statutory tax rate	—	627	—
Deduct:			
Reversal of reserve for land revaluation	937	869	8,866
Reversal of reserve for land revaluation resulting from change in interest in an affiliate	569	88	5,384
Balance at end of year	¥ 15,866	¥ 16,152	$ 150,118
Unrealized holding gains on other securities:			
Balance at beginning of year	¥ 378	¥ 766	$ 3,576
Net change during the year	10,601	(388)	100,303
Balance at end of year	¥ 10,979	¥ 378	$ 103,879
Translation adjustments:			
Balance at beginning of year	¥ (32,753)	¥ (28,280)	$ (309,897)
Net change during the year	(6,184)	(4,473)	(58,511)
Balance at end of year	¥ (38,937)	¥ (32,753)	$ (368,408)
Treasury stock, at cost:			
Balance at beginning of year (2004—391,160 shares; 2003—46,038 shares)	¥ (236)	¥ (49)	$ (2,233)
Net change during the year	(16)	(187)	(151)
Balance at end of year (2004—368,014 shares; 2003—391,160 shares)	¥ (252)	¥ (236)	$ (2,384)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Yamaha Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2004	2003	**2004**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥47,456**	¥22,612	**$449,011**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**17,695**	17,699	**167,424**
Allowance for doubtful accounts	**(407)**	395	**(3,851)**
Loss on revaluation of investment securities	**110**	7,746	**1,041**
Loss on revaluation of investment in affiliates	**393**	—	**3,718**
Employees' retirement benefits, net of payments	**(3,983)**	(5,150)	**(37,686)**
Interest and dividend income	**(539)**	(583)	**(5,100)**
Interest expense	**1,535**	2,015	**14,524**
Equity in earnings of unconsolidated subsidiaries and affiliates	**(10,447)**	(7,608)	**(98,846)**
Gain on sale of investment securities other than those of subsidiaries	**(5)**	—	**(47)**
Gain on sale of investments in subsidiaries	**(14)**	—	**(132)**
Gain on liquidation of subsidiaries	**(126)**	—	**(1,192)**
Loss on sale or disposal of property, net	**2,297**	974	**21,733**
Foreign exchange loss, net	**217**	242	**2,053**
Structural reform expenses	**6**	1,509	**57**
Fines and penalties	**339**	—	**3,207**
Changes in operating assets and liabilities:			
Accounts and notes receivable—trade	**(698)**	(8,509)	**(6,604)**
Inventories	**6,346**	3,233	**60,044**
Accounts and notes payable—trade	**1,283**	2,894	**12,139**
Other, net	**2,791**	(1,413)	**26,407**
Subtotal	**64,248**	36,061	**607,891**
Interest and dividends received	**1,301**	1,181	**12,310**
Interest paid	**(1,582)**	(2,067)	**(14,968)**
Fines and penalties paid	**(339)**	—	**(3,207)**
Income taxes, net of payments	**(5,278)**	(2,123)	**(49,938)**
Net cash provided by operating activities	**58,349**	33,052	**552,077**
Cash flows from investing activities:			
Proceeds from (purchases of) time deposits, net	**697**	(1,125)	**6,595**
Purchases of property	**(18,721)**	(15,730)	**(177,131)**
Proceeds from sale of property	**552**	2,674	**5,223**
Purchases of investment securities	**(266)**	(6,541)	**(2,517)**
Proceeds from sale of investment securities	**371**	187	**3,510**
Other, net	**(1,408)**	(1,110)	**(13,322)**
Net cash used in investing activities	**(18,775)**	(21,645)	**(177,642)**
Cash flows from financing activities:			
Decrease in short-term loans	**(11,179)**	(20,887)	**(105,772)**
Proceeds from long-term debt	**2,651**	18,908	**25,083**
Repayment of long-term debt	**(8,778)**	(3,065)	**(83,054)**
Redemption of convertible bonds	**(24,314)**	—	**(230,050)**
Cash dividends paid	**(2,063)**	(1,857)	**(19,519)**
Refunds of resort membership deposits	**(6,049)**	(1,297)	**(57,233)**
Cash dividends paid to minority shareholders	**(384)**	(268)	**(3,633)**
Other, net	**(23)**	(114)	**(218)**
Net cash used in financing activities	**(50,141)**	(8,582)	**(474,416)**
Effect of exchange rate changes on cash and cash equivalents	**(1,599)**	(504)	**(15,129)**
Net (decrease) increase in cash and cash equivalents	**(12,167)**	2,319	**(115,120)**
Cash and cash equivalents at beginning of the year	**42,976**	40,571	**406,623**
Increase due to inclusion in consolidation	**1,150**	85	**10,881**
Decrease due to exclusion from consolidation	**(127)**	—	**(1,202)**
Decrease in cash and cash equivalents arising from changes in financial periods of subsidiaries	**(587)**	—	**(5,554)**
Cash and cash equivalents at end of the year (Note 19)	**¥31,245**	¥42,976	**$295,629**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Yamaha Corporation and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

Yamaha Corporation (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The Company and all consolidated subsidiaries are herein referred to as the "Yamaha Group." The accompanying consolidated financial statements are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated statements prepared by the Company as required by the Securities and Exchange Law of Japan. For the purposes of this document, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

(b) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The consolidated financial statements include the accounts of the parent company and all its subsidiaries over which it exerts substantial control either through majority ownership of voting stock and/or by other means. As a result, the accompanying consolidated financial statements include the accounts of the Company and 89 and 84 consolidated subsidiaries for the years ended March 31, 2004 and 2003, respectively.

All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates (other than subsidiaries as defined above) whose decision-making and control over their own operations is significantly affected by the consolidated group in various ways are accounted for by the equity method. Investments in two affiliates have been accounted for by the equity method for the years ended March 31, 2004 and 2003.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

Certain foreign subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differ from that of the Company; however, the necessary adjustments are made when the effect of this difference is material.

All assets and liabilities of the subsidiaries are revalued at fair value on acquisition, if applicable, and the excess of cost over underlying net assets at the dates of acquisition is amortized over a period of five years on a straight-line basis.

Change in Method of Accounting

Effective April 1, 2002, Yamaha Motor Co., Ltd. ("Yamaha Motor"), an affiliate of the Company, changed its method of amortization of the excess of cost over net assets acquired for its subsidiaries, from amortizing this over a 20-year period by the straight-line method, to charging this amount to income as incurred. This change was made in order to facilitate Yamaha Motor's implementation of its new three-year medium-term management plan (from April 2002 to March 2005), which focuses on such management issues as "improving the profitability of existing businesses" and "solidifying the foundation of businesses in Asian countries." Furthermore, this change corresponds to similar changes in Yamaha Motor's market structure in response to the intensifying global competition in the motorcycle business and other businesses. In addition, this change was made in order to avoid any future risk arising from fluctuation in the investment market, particularly in strategically targeted areas. In this way, Yamaha Motor aims to further strengthen its financial position.

The effect of this change was to decrease equity in earnings of unconsolidated subsidiaries and affiliates, income before income taxes and minority interests, and net income by ¥2,360 million from the corresponding amounts which would have been recorded if the method applied in the previous year had been followed.

(c) Foreign currency translation

Monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the exchange rates in effect at each balance sheet date if not hedged by forward exchange contracts, or at the contracted rates of exchange when hedged by forward exchange contracts. The resulting foreign exchange gain or loss is recognized as other income or expense.

Assets and liabilities of the foreign consolidated subsidiaries are translated at the exchange rates in effect at each balance sheet date and revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation adjustments are presented as components of both minority interests and shareholders' equity in the accompanying consolidated financial statements.

(d) Cash and cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(e) Securities

Securities owned by the Yamaha Group have been classified into two categories, held-to-maturity and other, in accordance with the accounting standard for financial instruments. Under this standard, held-to-maturity debt securities are either amortized or accumulated to face value by the straight-line method. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. If the market value of the marketable securities classified as other securities has declined significantly, such securities are written down to fair value, thus establishing a new cost basis. The amount of each write-down is charged to income as an impairment loss unless the fair value is deemed recoverable. The Company has established a policy for the recognition of an impairment loss if the market value at the year-end has declined more than 30% unless the fair value is considered to be recoverable.

Cost of securities sold is determined by the weighted average method.

(f) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the last-in, first-out method. Inventories of the Company's foreign consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the moving average method.

(g) Depreciation and amortization

Depreciation of property, plant and equipment is calculated mainly by the declining-balance method (except that certain of the Company's facilities related to its recreation business and certain consolidated subsidiaries employ the straight-line method) at rates based on the estimated useful lives of the respective assets.

Estimated useful lives:	Buildings	31–50 years	(Leasehold improvements: 15 years)
	Structures	10–30	
	Machinery and equipment	4–11	
	Tools, furniture and fixtures	5–6	(Molds: 2 years)

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on the collection of receivables. The amount of the allowance is determined based on the historical experience with write-offs plus an estimate of specific probable doubtful accounts based on a review of the collectibility of the individual receivables.

(i) Retirement benefits

Accrued employees' retirement benefits: Accrued employees' retirement benefits have been provided based on the projected retirement benefit obligation and the pension fund assets.

Prior service cost is being amortized as incurred by the straight-line method over a period (10 years) which is shorter than the average remaining years of service of the employees participating in the plans.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized, primarily by the straight-line method, over a period (10 years) which is shorter than the average remaining years of service of the employees participating in the plans.

Directors' and statutory auditors' retirement benefits: The Company's directors and statutory auditors are customarily entitled to receive lump-sum retirement payments based on the Company's internal bylaws. The Company provides a 100% allowance for retirement benefits for its directors and statutory auditors based on its own internal regulations.

(j) Warranty reserve

A warranty reserve is provided to cover the cost of customers' claims relating to after-sales service and repairs. The amount of this reserve is estimated based on a percentage of the amount or volume of sales and after considering historical experience with repairs of products under warranty.

(k) Leases

Non-cancelable leases are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases, except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(l) Income taxes

Deferred income taxes are recognized by the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(m) Derivative financial instruments

Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which the unrealized gain or loss is deferred as an asset or a liability. Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method, which is utilized to hedge against risk arising from fluctuation in foreign exchange rates.

The Yamaha Group does not make assessments of the effectiveness of its hedging activities because the relationship between the anticipated cash flows fixed by the hedging activities and the avoidance of market risk is so clear that there is no need to evaluate the effectiveness of each hedge against the respective underlying hedged item.

(n) Accounting standard for treasury stock and reduction of legal reserve

Effective the year ended March 31, 2003, the Company and consolidated subsidiaries adopted a new accounting standard for treasury stock and the reduction of the legal reserve (Accounting Standard No. 1 issued by the Accounting Standards Board of Japan; "ASBJ") which took effect on April 1, 2002. The effect of the adoption of this new standard was immaterial.

(o) Appropriation of retained earnings

Under the Commercial Code of Japan (the "Code"), the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation.

(p) Land revaluation

Pursuant to the "Law Concerning the Revaluation of Land," land used for the business operations of the Company, two consolidated subsidiaries and an affiliate was revalued. The excess of the revalued carrying amount over the book value before revaluation has been included in shareholders' equity.

This land revaluation was determined based on the official standard notice prices. It was conducted in accordance with the relevant regulations of the Corporation Tax Law of Japan with certain necessary adjustments.

2. U.S. DOLLAR AMOUNTS

Solely for the convenience of the reader, the accompanying financial statements for the year ended March 31, 2004 have been presented in U.S. dollars by translating all yen amounts at ¥105.69=U.S.$1.00, the exchange rate prevailing on March 31, 2004. This 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.

3. INVESTMENT SECURITIES

Investment securities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Investments in and advances to unconsolidated subsidiaries and affiliates	**¥ 62,522**	¥55,563	**$591,560**
Other	**38,495**	22,059	**364,226**
Investment securities	**¥101,017**	¥77,622	**$955,786**

4. ACCUMULATED DEPRECIATION

Accumulated depreciation at March 31, 2004 and 2003 amounted to ¥227,779 million ($2,155,161 thousand) and ¥221,380 million, respectively.

5. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans consisted of unsecured loans payable to banks at weighted average interest rates of 1.9% and 1.5% per annum at March 31, 2004 and 2003, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Loans from banks, due through 2018 at average rates of 1.9% and 1.3% for the current and noncurrent portions, respectively	**¥32,160**	¥39,041	**$304,286**
1.9% unsecured convertible bonds, due 2004	**—**	24,317	**—**
Total long-term debt	**32,160**	63,358	**304,286**
Less: Current portion and convertible bonds scheduled for redemption	**7,388**	34,407	**69,903**
	¥24,772	¥28,951	**$234,384**

The 1.9% unsecured convertible bonds due 2004 were redeemed on March 31, 2004.

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
March 31,	**2004**	2003	**2004**
Bank deposits	**¥ —**	¥ 30	**$ —**
Marketable securities	**1,100**	1,112	**10,408**
Property, plant and equipment, net of accumulated depreciation	**2,577**	2,440	**24,383**
Investment securities	**929**	1,315	**8,790**
	¥4,607	¥4,898	**$43,590**

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 7,388	$ 69,903
2006	22,065	208,771
2007	1,369	12,953
2008	32	303
2009 and thereafter	1,304	12,338
	¥32,160	$304,286

6. DEFERRED GAIN OR LOSS ON HEDGES

Deferred gain or loss on hedges at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Deferred gain on hedges	**¥811**	¥ 16	**$7,673**
Deferred loss on hedges	**(5)**	(649)	**(47)**
Deferred gain (loss) on hedges, net	**¥805**	¥(632)	**$7,617**

7. LAND REVALUATION

The Company, two consolidated subsidiaries and an affiliate have carried over the revaluation of landholdings at the following dates in accordance with the “Law Concerning the Revaluation of Land” (Law No. 34, published on March 31, 1998).

	Dates of revaluation
A consolidated subsidiary and an affiliate	March 31, 2000
The Company and a consolidated subsidiary	March 31, 2002

The Company and two consolidated subsidiaries determined the value of their land based on the respective value registered in the land tax list or the supplementary land tax list specified in No. 10 or No. 11 of Article 341 of the Local Tax Law governed by Item 3 of Article 2 of the Enforcement Order for the “Law Concerning the Revaluation of Land” (Cabinet Order No. 119, published on March 31, 1998). An affiliate determined the value of its land based on a reasonable adjustment to the value determined by the method which the Commissioner of the National Tax Administration established and published in order to determine the land value, which is the underlying basis for the assessment of land tax specified in Article 16 of the Local Tax Law governed by Item 4 of Article 2 of the Enforcement Order for the Land Revaluation Law.

The excess of the revalued carrying amounts over the market value at the balance sheet dates was as follows:

	Millions of Yen		Thousands of U.S. Dollars
March 31,	**2004**	2003	**2004**
The excess of revalued carrying amounts over the market value	**¥(13,834)**	¥(7,924)	**$(130,892)**

8. R&D EXPENSES

R&D expenses, included in selling, general and administrative expenses and cost of sales for the years ended March 31, 2004 and 2003 amounted to ¥22,503 million ($212,915 thousand) and ¥22,441 million, respectively.

9. STRUCTURAL REFORM EXPENSES

Structural reform expenses for the year ended March 31, 2004 consisted of the termination costs related to the cessation of Yamaha Electronique Alsace S.A., an overseas AV equipment production subsidiary.

Structural reform expenses for the year ended March 31, 2003 consisted of losses on disposition of inventories of ¥734 million resulting from the discontinuation of the CD-R/RW drive business and of ¥1,537 million from the termination of operations at the Sunza Villa and Kiroro golf course.

10. FINES AND PENALTIES

The European Commission (“EC”) fined four of Yamaha’s European musical marketing subsidiaries for alleged breaches of EC fair competition laws.

11. OTHER INCOME (EXPENSES)

The components of “Other, net” in “Other income (expenses)” for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Premiums paid for social security benefits arising from a revision of the overall salary system	**¥ (922)**	¥ —	**$(8,724)**
Fines and penalties for violations of EC fair competition laws by four regional entities (Note 10)	**(339)**	—	**(3,207)**
Loss on revaluation of investments in unconsolidated subsidiaries and affiliates	**(393)**	(242)	**(3,718)**
Loss on sales of shares of common stock of affiliates	**—**	(222)	**—**
Other, net	**1,393**	198	**13,180**
	¥ (261)	¥(266)	**$(2,469)**

12. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 40.9% for the years ended March 31, 2004 and 2003. Effective the year ended March 31, 2003, the Company and its domestic subsidiaries amended statutory tax rates from approximately 40.9% to 39.5%. The effect of this change in the tax rate was to decrease deferred tax assets, net of deferred tax liabilities, by ¥792 million at March 31, 2003 and to increase income taxes by ¥802 million and net unrealized holding gain on other securities by ¥9 million over the amount which would have been recorded if the tax rate of the previous year had been applied in that year. The increase in income taxes referred to above was computed by multiplying the total balance of temporary differences at March 31, 2003 by the difference between the new and the former tax rates.

Income taxes of the foreign consolidated subsidiaries are, in general, based on the tax rates applicable in their countries of incorporation.

The major components of deferred tax assets and liabilities as of March 31, 2004 and 2003 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Deferred tax assets:			
Write-downs of inventories	**¥ 1,612**	¥ 2,357	**$ 15,252**
Allowance for doubtful receivables	**1,066**	1,244	**10,086**
Depreciation	**9,597**	9,215	**90,803**
Unrealized loss on investment securities	**2,298**	7,289	**21,743**
Accrued employees' bonuses	**4,690**	3,609	**44,375**
Warranty reserve	**867**	827	**8,203**
Retirement benefits	**17,667**	18,686	**167,159**
Tax loss carried forward	**9,240**	21,387	**87,425**
Other	**9,999**	8,465	**94,607**
	57,039	73,084	**539,682**
Valuation allowance	**(18,305)**	(35,499)	**(173,195)**
Total deferred tax assets	**38,734**	37,584	**366,487**
Deferred tax liabilities:			
Reserve for deferred gain on properties	**(1,617)**	(1,460)	**(15,299)**
Reserve for asset replacement	**—**	(283)	**—**
Reserve for special depreciation	**(159)**	(85)	**(1,504)**
Unrealized gain on securities	**(6,957)**	(299)	**(65,825)**
Other	**(621)**	(663)	**(5,876)**
Total deferred tax liabilities	**(9,355)**	(2,790)	**(88,514)**
Net deferred tax assets	**¥29,378**	¥34,793	**$277,964**

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2004 is as follows:

	Year ended March 31, 2004
Statutory tax rate	40.9%
Equity in earnings of unconsolidated subsidiaries and affiliates and non-temporary differences not deductible for tax purposes	(7.5)
Inhabitants' per capita taxes and other	0.4
Effect of change in statutory tax rate	1.6
Change in valuation allowance	(25.4)
Tax-rate variances of overseas subsidiaries and other	(2.9)
Effective tax rate	7.1%

13. LEGAL RESERVE AND ADDITIONAL PAID-IN CAPITAL

The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also provides that, to the extent that the sum of additional paid-in capital and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriations by resolution of the shareholders.

14. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans (WPFPs), tax-qualified 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 at March 31, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Retirement benefit obligation	**¥(210,069)**	¥(194,003)	**$(1,987,596)**
Plan assets at fair value	**112,990**	91,778	**1,069,070**
Unfunded retirement benefit obligation	**(97,078)**	(102,225)	**(918,516)**
Unrecognized actuarial gain or loss	**49,554**	47,055	**468,862**
Unrecognized past service cost (2)	**(2,487)**	1,181	**(23,531)**
Net retirement benefit obligation	**¥ (50,012)**	¥ (53,988)	**$ (473,195)**
Accrued retirement benefits	**¥ (50,012)**	¥ (53,988)	**$ (473,195)**

Notes: (1) The government-sponsored portion of the WPFP benefits has been included in the amounts shown in the above table.

(2) Effective the year ended March 31, 2003, the Company and certain domestic subsidiaries amended the basis of calculation of their employees' retirement benefits from basing these on basic salary level and years of service, to adopting a system under which points are awarded based on an assessment of each employee's performance. As a result, additional past service cost was incurred and the related liability increased. On November 1, 2003, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the obligation for benefits related to future employee services under the substitutional portion of the WPFP. In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company expects to account for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under its WPFP as of the date of approval of its exemption assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and the related pension plan assets had been completed as of that date. In this connection, unrealized past service cost was decreased. Consequently, the Company estimates transferable pension assets of ¥23,512 million ($222,462 thousand) at March 31, 2004 and a gain of ¥18,343 million ($173,555 thousand) for the year ending March 31, 2005.

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Service cost	**¥ 7,022**	¥ 7,900	**$ 66,440**
Interest cost	**4,774**	4,595	**45,170**
Expected return on plan assets	**(3,645)**	(3,540)	**(34,488)**
Amortization of past service cost	**(63)**	(45)	**(596)**
Amortization of actuarial gain or loss	**5,229**	4,110	**49,475**
Additional retirement benefit expenses	**1,643**	1,311	**15,545**
Total	**¥14,961**	¥14,332	**$141,555**

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

	2004	2003
Discount rates	**2.0%**	2.5%
Expected rate of return on plan assets	**4.0%**	4.0%
Amortization of past service cost	**10 years (straight-line method)**	10 years (straight-line method)
Amortization of actuarial gain or loss	**10 years (straight-line method)**	10 years (straight-line method)

15. CONTINGENT LIABILITIES

The Company had the following contingent liabilities at March 31, 2004:

	Millions of Yen	Thousands of U.S. Dollars
Export bills discounted with banks	¥1,138	$10,767
As guarantors of indebtedness of others	314	2,971

16. AMOUNTS PER SHARE

Basic net income per share shown below is based on the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is based on the weighted-average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the conversion of convertible bonds.

Net assets per share are based on the number of shares of common stock outstanding at each balance sheet date.

	Yen		U.S. Dollars
Years ended March 31	**2004**	2003	**2004**
Net income:			
Basic	**¥210.63**	¥86.65	**$1.99**
Diluted	**196.01**	77.32	**1.85**

	Yen		U.S. Dollars
March 31	**2004**	2003	**2004**
Net assets	**¥1,259.28**	¥1,040.06	**$11.91**

Note: The calculation of basic net income per share and diluted net income per share was determined as follows:

Years ended March 31	**2004**	2003
Basic net income per share:		
Net income	**¥43,541 million**	¥17,947 million
Amounts not attributable to shareholders of common stock	**121**	82
Directors' bonuses appropriated from retained earnings	**121**	82
Amounts attributable to shareholders of common stock	**43,419**	17,864
Weighted-average number of shares outstanding	**206,146 thousand shares**	206,177 thousand shares
Diluted net income per share:		
Adjustments arising from dilution	**¥ (846) million**	¥(1,069) thousand
Interest on corporate bonds, net of taxes	**273**	273
Equity in earnings of unconsolidated subsidiaries and affiliates	**(1,120)**	(1,342)
Increase in number of shares outstanding	**11,052 thousand shares**	11,053 thousand shares
Dilution arising from conversion of convertible bonds	**11,052**	11,053

17. LEASES

Lessees' accounting

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2004 and 2003 which would have been reflected in the balance sheets if finance leases currently accounted for as operating leases had been capitalized.

	Millions of Yen			Thousands of U.S. Dollars		
Year ended March 31, 2004	Tools and equipment	Other	Total	Tools and equipment	Other	Total
Acquisition costs	**¥2,593**	**¥606**	**¥3,200**	**$24,534**	**$5,734**	**$30,277**
Accumulated depreciation	**1,413**	**219**	**1,633**	**13,369**	**2,072**	**15,451**
Net book value	**¥1,179**	**¥387**	**¥1,567**	**$11,155**	**$3,662**	**$14,826**

	Millions of Yen		
Year ended March 31, 2003	Tools and equipment	Other	Total
Acquisition costs	¥2,801	¥1,261	¥4,062
Accumulated depreciation	1,478	815	2,293
Net book value	¥1,322	¥ 446	¥1,768

Lease expenses relating to finance leases accounted for as operating leases amounted to ¥853 million ($8,071 thousand) and ¥959 million for the years ended March 31, 2004 and 2003, respectively.

Depreciation of the leased assets is computed by the straight-line method over the respective lease terms and the interest portion is included in the lease payments.

Future minimum lease payments subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 702	$ 6,642
2006 and thereafter	864	8,175
Total	¥1,567	$14,826

Lessors' accounting

The following amounts represent the acquisition costs, accumulated depreciation and the net book value of the leased assets relating to finance leases accounted for as operating leases as of March 31, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
Years ending March 31,	**2004**	2003	**2004**
Acquisition costs	**¥5,752**	¥5,328	**$54,423**
Accumulated depreciation	**4,135**	3,643	**39,124**
Net book value	**¥1,616**	¥1,685	**$15,290**

Lease income and depreciation expenses relating to finance leases accounted for as operating leases amounted to ¥1,082 million ($10,237 thousand) and ¥638 million ($6,037 thousand), and ¥1,136 million and ¥612 million, respectively, for the years ended March 31, 2004 and 2003.

Depreciation of the leased assets is computed by the straight-line method over the respective lease terms and the interest portion is included in the lease income.

Future minimum lease income subsequent to March 31, 2004 for finance leases accounted for as operating leases is summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 872	$ 8,251
2006 and thereafter	1,615	15,281
Total	¥2,487	$23,531

18. SECURITIES

(a) Held-to-maturity debt securities with determinable market value

	Millions of Yen			Thousands of U.S. Dollars		
Year ended March 31, 2004	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Government and municipal bonds	**¥ 260**	**¥ 262**	**¥ 2**	**$ 2,460**	**$ 2,479**	**$ 19**
Corporate bonds	**390**	**392**	**2**	**3,690**	**3,709**	**19**
Other	**1,950**	**1,968**	**17**	**18,450**	**18,620**	**161**
	2,600	**2,623**	**23**	**24,600**	**24,818**	**218**
Securities whose carrying value does not exceed their fair value:						
Government and municipal bonds	**—**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	**100**	**100**	**(0)**	**946**	**946**	**(0)**
Other	**299**	**296**	**(3)**	**2,829**	**2,801**	**(28)**
	399	**396**	**(3)**	**3,775**	**3,747**	**(28)**
Total	**¥3,000**	**¥3,020**	**¥20**	**$28,385**	**$28,574**	**$189**

	Millions of Yen		
Year ended March 31, 2003	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government and municipal bonds	¥ 270	¥ 274	¥ 4
Corporate bonds	1,540	1,549	8
Other	1,750	1,778	28
	3,561	3,602	41
Securities whose carrying value does not exceed their fair value:			
Government and municipal bonds	—	—	—
Corporate bonds	100	100	—
Other	—	—	—
	100	100	—
Total	¥3,661	¥3,702	¥41

(b) Other securities with determinable market value

Year ended March 31, 2004	Millions of Yen Acquisition costs	Millions of Yen Carrying value	Millions of Yen Unrealized gain (loss)	Thousands of U.S. Dollars Acquisition costs	Thousands of U.S. Dollars Carrying value	Thousands of U.S. Dollars Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Stock	**¥11,927**	**¥29,533**	**¥17,606**	**$112,849**	**$279,430**	**$166,582**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**51**	**51**	**0**	**483**	**483**	**0**
	11,978	**29,584**	**17,606**	**113,331**	**279,913**	**166,582**
Securities whose carrying value does not exceed their acquisition costs:						
Stock	**10**	**9**	**(0)**	**95**	**85**	**(0)**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
	10	**9**	**(0)**	**95**	**85**	**(0)**
Total	**¥11,988**	**¥29,594**	**¥17,605**	**$113,426**	**$280,008**	**$166,572**

Year ended March 31, 2003	Millions of Yen Acquisition costs	Millions of Yen Carrying value	Millions of Yen Unrealized gain (loss
Securities whose carrying value exceeds their acquisition costs:			
Stock	¥ 3,195	¥ 4,491	¥1,296
Bonds	—	—	—
Other	—	—	—
	3,195	4,491	1,296
Securities whose carrying value does not exceed their acquisition costs:			
Stock	8,741	8,277	(463)
Bonds	—	—	—
Other	51	37	(13)
	8,792	8,315	(477)
Total	¥11,988	¥12,806	¥ 818

(c) Other securities sold during the year ended March 31, 2004 and 2003

	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars 2004
Sales of other securities	**¥6**	¥—	**$57**
Profit on sales	**5**	—	**47**

(d) Securities without determinable value

	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars 2004
Other securities:			
Unlisted securities (other than securities traded over-the-counter)	**¥7,050**	¥6,929	**$66,705**

(e) Schedule for redemption of other securities with maturities and held-to-maturity debt securities at March 31, 2004 and 2003

Year ended March 31, 2004	Millions of Yen Due in one year or less	Millions of Yen Due after one year through five years	Thousands of U.S. Dollars Due in one year or less	Thousands of U.S. Dollars Due after one year through five years
Bonds:				
Government and municipal bonds	**¥ —**	**¥ 260**	**$ —**	**$ 2,460**
Corporate bonds	**150**	**340**	**1,419**	**3,217**
Other	**1,000**	**1,249**	**9,462**	**11,818**
Total	**¥1,150**	**¥1,850**	**$10,881**	**$17,504**

Year ended March 31, 2003	Millions of Yen: Due in one year or less	Millions of Yen: Due after one year through five years
Bonds:		
Government and municipal bonds	¥ —	¥ 270
Corporate bonds	1,170	470
Others	200	1,550
Total	¥1,370	¥2,290

Losses on revaluation of marketable securities classified as other securities as a result of their permanent decline in value totaled nil and ¥7,672 million for the years ended March 31, 2004 and 2003, respectively.

19. SUPPLEMENTARY CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents at March 31, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Cash and bank deposits	**¥32,053**	¥44,485	**$303,274**
Time deposits with a maturity of more than three months	**(808)**	(1,509)	**(7,645)**
Cash and cash equivalents	**¥31,245**	¥42,976	**$295,629**

20. DERIVATIVES AND HEDGING ACTIVITIES

The Yamaha Group utilizes derivative financial instruments such as forward foreign exchange contracts and currency options for the purpose of hedging its exposure to adverse fluctuation in foreign currency exchange rates, but does not enter into such transactions for speculative or trading purposes.

The Yamaha Group may from time to time enter into foreign forward exchange agreements in order to manage certain risks arising from adverse fluctuation in foreign exchange transactions. The Yamaha Group has implemented internal regulations under which any significant foreign exchange risks will be hedged.

No specific disclosure for derivatives has been made as the Yamaha Group principally holds only derivatives positions which meet the criteria for deferral hedge accounting.

21. SEGMENT INFORMATION

The business and geographical segments and overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 are outlined as follows:

Business Segments

	Millions of Yen								
Year ended March 31, 2004	Musical instruments	AV/IT	Lifestyle-related products	Electronic equipment and metal products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income (loss)									
Sales to external customers	**¥293,430**	**¥78,257**	**¥44,765**	**¥76,892**	**¥20,100**	**¥26,061**	**¥539,506**	**¥ —**	**¥539,506**
Intersegment sales or transfers	**—**	**—**	**—**	**2,131**	**—**	**—**	**2,131**	**(2,131)**	**—**
Total sales	**293,430**	**78,257**	**44,765**	**79,023**	**20,100**	**26,061**	**541,638**	**(2,131)**	**539,506**
Operating expenses	**282,950**	**73,839**	**43,303**	**49,005**	**21,211**	**26,272**	**496,581**	**(2,131)**	**494,450**
Operating income (loss)	**¥ 10,480**	**¥ 4,418**	**¥ 1,462**	**¥30,018**	**¥ (1,110)**	**¥ (211)**	**¥ 45,056**	**¥ —**	**¥ 45,056**
II. Total assets, depreciation and capital expenditures									
Total assets	**¥247,863**	**¥42,075**	**¥19,011**	**¥51,978**	**¥53,843**	**¥93,958**	**¥508,731**	**¥ —**	**¥508,731**
Depreciation	**7,447**	**1,694**	**969**	**3,388**	**2,853**	**1,167**	**17,522**	**—**	**17,522**
Capital expenditures	**10,099**	**1,827**	**1,678**	**4,358**	**774**	**2,420**	**21,160**	**—**	**21,160**

Year ended March 31, 2004	Musical instruments	AV/IT	Lifestyle-related products	Electronic equipment and metal products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
	Thousands of U.S. Dollars								
I. Sales and operating income (loss)									
Sales to external customers	**$2,776,327**	**$740,439**	**$423,550**	**$727,524**	**$190,179**	**$246,580**	**$5,104,608**	**$ —**	**$5,104,608**
Intersegment sales or transfers	**—**	**—**	**—**	**20,163**	**—**	**—**	**20,163**	**(20,163)**	**—**
Total sales	**2,776,327**	**740,439**	**423,550**	**747,687**	**190,179**	**246,580**	**5,124,780**	**(20,163)**	**5,104,608**
Operating expenses	**2,677,169**	**698,638**	**409,717**	**463,667**	**200,691**	**248,576**	**4,698,467**	**(20,163)**	**4,678,304**
Operating income (loss)	**$ 99,158**	**$ 41,801**	**$ 13,833**	**$284,019**	**$ (10,502)**	**$ (1,996)**	**$ 426,303**	**$ —**	**$ 426,303**
II. Total assets, depreciation and capital expenditures									
Total assets	**$2,345,189**	**$398,098**	**$179,875**	**$491,797**	**$509,443**	**$888,996**	**$4,813,426**	**$ —**	**$4,813,426**
Depreciation	**70,461**	**16,028**	**9,168**	**32,056**	**26,994**	**11,042**	**165,787**	**—**	**165,787**
Capital expenditures	**95,553**	**17,286**	**15,877**	**41,234**	**7,323**	**22,897**	**200,208**	**—**	**200,208**

Year ended March 31, 2003	Musical instruments	AV/IT	Lifestyle-related products	Electronic equipment and metal products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
	Millions of Yen								
I. Sales and operating income (loss)									
Sales to external customers	¥292,647	¥83,670	¥46,031	¥60,554	¥20,903	¥20,956	¥524,763	¥ —	¥524,763
Intersegment sales or transfers	—	—	—	2,599	—	—	2,599	(2,599)	—
Total sales	292,647	83,670	46,031	63,153	20,903	20,956	527,363	(2,599)	524,763
Operating expenses	282,854	80,419	45,569	43,870	22,013	20,591	495,320	(2,599)	492,720
Operating income (loss)	¥ 9,792	¥ 3,250	¥ 461	¥19,282	¥ (1,110)	¥ 365	¥ 32,043	¥ —	¥ 32,043
II. Total assets, depreciation and capital expenditures									
Total assets	¥255,247	¥42,922	¥18,909	¥53,011	¥58,849	¥83,775	¥512,716	¥ —	¥512,716
Depreciation	8,001	1,807	1,002	2,845	2,932	996	17,586	—	17,586
Capital expenditures	9,067	1,503	911	3,320	728	1,352	16,883	—	16,883

Notes: (1) The business segments have been determined based on the application or nature of each product in the market.
(2) Major products in each business segment:

Business segment	Major products & services
Musical instruments	Pianos, digital musical instruments, wind instruments, string instruments, percussion instruments, educational musical instruments, professional audio equipment, soundproof rooms, music schools, English schools, ringing melody distribution service
AV/IT	Audio products, visual products, routers
Lifestyle-related products	System bathrooms, system kitchens, washstands, parts for housing facilities, wooden doors
Electronic equipment and metal products	Semiconductors, special metals
Recreation	Sightseeing facilities and accommodation facilities, ski resort, golf courses
Others	Golf products, automobile interior wood components, industrial robots, molds and magnesium parts

The major products are described in the accompanying "Review of Operations."

Geographical Segments

Year ended March 31, 2004	Japan	North America	Europe	Asia, Oceania and other areas	Total	Eliminations or unallocated amounts	Consolidated
	Millions of Yen						
I. Sales and operating income							
Sales to external customers	**¥336,008**	**¥85,483**	**¥81,685**	**¥36,329**	**¥539,506**	**¥ —**	**¥539,506**
Intersegment sales or transfers	**137,091**	**1,439**	**514**	**58,995**	**198,041**	**(198,041)**	**—**
Total sales	**473,100**	**86,922**	**82,199**	**95,325**	**737,548**	**(198,041)**	**539,506**
Operating expenses	**441,685**	**82,240**	**77,645**	**92,103**	**693,674**	**(199,224)**	**494,450**
Operating income	**¥ 31,415**	**¥ 4,682**	**¥ 4,554**	**¥ 3,221**	**¥ 43,873**	**¥ 1,183**	**¥ 45,056**
II. Total assets	**¥413,059**	**¥31,380**	**¥33,089**	**¥47,949**	**¥525,479**	**¥ (16,747)**	**¥508,731**

Year ended March 31, 2004	Japan	North America	Europe	Asia, Oceania and other areas	Total	Eliminations or unallocated amounts	Consolidated
	Thousands of U.S. Dollars						
I. Sales and operating income							
Sales to external customers	**$3,179,184**	**$808,809**	**$772,873**	**$343,732**	**$5,104,608**	**$ —**	**$5,104,608**
Intersegment sales or transfers	**1,297,105**	**13,615**	**4,863**	**558,189**	**1,873,791**	**(1,873,791)**	**—**
Total sales	**4,476,299**	**822,424**	**777,737**	**901,930**	**6,978,409**	**(1,873,791)**	**5,104,608**
Operating expenses	**4,179,061**	**778,125**	**734,649**	**871,445**	**6,563,289**	**(1,884,984)**	**4,678,304**
Operating income	**$ 297,237**	**$ 44,299**	**$ 43,088**	**$ 30,476**	**$ 415,110**	**$ 11,193**	**$ 426,303**
II. Total assets	**$3,908,213**	**$296,906**	**$313,076**	**$453,676**	**$4,971,889**	**$ (158,454)**	**$4,813,426**

Year ended March 31, 2003	Japan	North America	Europe	Asia, Oceania and other areas	Total	Eliminations or unallocated amounts	Consolidated
	Millions of Yen						
I. Sales and operating income							
Sales to external customers	¥326,769	¥88,512	¥76,620	¥ 32,861	¥524,763	¥ —	¥524,763
Intersegment sales or transfers	137,734	1,675	610	69,090	209,110	(209,110)	—
Total sales	464,503	90,188	77,230	101,951	733,874	(209,110)	524,763
Operating expenses	441,129	86,892	74,801	98,542	701,365	(208,645)	492,720
Operating income	¥ 23,374	¥ 3,295	¥ 2,429	¥ 3,409	¥ 32,508	¥ (465)	¥ 32,043
II. Total assets	¥412,904	¥35,620	¥32,100	¥ 50,354	¥530,979	¥ (18,263)	¥512,716

Notes: (1) Geographical segments are divided into categories based on their geographical proximity.
(2) Major nations or regions included in each geographical segment are as follows:
(a) North America—U.S.A., Canada
(b) Europe—Germany, England
(c) Asia, Oceania and other areas—Singapore, Australia

Overseas Sales

Year ended March 31, 2004	North America	Europe	Asia, Oceania and other areas	Total
	Millions of Yen			
Overseas sales:				
Overseas sales	**¥86,671**	**¥83,473**	**¥48,552**	**¥218,697**
Consolidated net sales	**—**	**—**	**—**	**539,506**
% of consolidated net sales	**16.1%**	**15.5%**	**9.0%**	**40.5%**

Year ended March 31, 2004	North America	Europe	Asia, Oceania and other areas	Total
	Thousands of U.S. Dollars			
Overseas sales:				
Overseas sales	**$820,049**	**$789,791**	**$459,381**	**$2,069,231**
Consolidated net sales	**—**	**—**	**—**	**5,104,608**
% of consolidated net sales	**16.1%**	**15.5%**	**9.0%**	**40.5%**

Year ended March 31, 2003	North America	Europe	Asia, Oceania and other areas	Total
	Millions of Yen			
Overseas sales:				
Overseas sales	¥89,728	¥77,185	¥45,721	¥212,634
Consolidated net sales	—	—	—	524,763
% of consolidated net sales	17.1%	14.7%	8.7%	40.5%

22. SUBSEQUENT EVENT

Appropriations of retained earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved at a general meeting of the shareholders of the Company held on June 25, 2004:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥2,063	$19,519

Report of Independent Auditors

Shin Nihon & Co.

Certified Public Accountants
Nihon Seimei Hamamatsu Center Bldg.
319-28, Kajimachi, Hamamatsu City
Shizuoka 430-0933, Japan

Phone: (053) 453-0390
Fax: (053) 452-2257

Report of Independent Auditors

The Board of Directors
YAMAHA CORPORATION

We have audited the accompanying consolidated balance sheets of YAMAHA CORPORATION and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of YAMAHA CORPORATION and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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 2.

June 28, 2004

Shin Nihon & Co.

History

1800 –

1887
Torakusu Yamaha builds his first reed organ

1897
Nippon Gakki Co., Ltd. (currently Yamaha Corporation), is established on October 12 with capital of ¥100,000 and Torakusu Yamaha as president

1898
Corporate emblem of tuning fork and trademark logo of a pheonix holding a tuning fork in its beak are adopted

1900 –

1900
Production of upright pianos begins

1902
Yamaha produces its first grand piano

1903
Yamaha makes use of its woodworking expertise to begin building high-quality furniture

1914
Production of Butterfly Brand harmonicas begins

1921
Yokohama factory is established (Nishikawa Gakki Seizo Kabushiki Kaisha is absorbed)

1922
Production of high-quality hand-wound phonographs begins

1926
Labor dispute causes a 105-day-long strike

1930
Yamaha opens its audio laboratory

1932
Yamaha succeeds in developing its first pipe organ

1935
Magna Organ, an electronic instrument, debuts

1937
Tenryu factory is established

1950 –

1954
Yamaha Music school is established and pilot classes are held

Yamaha produces its first Yamaha motorcycle "YA-1"

Yamaha produces its first Hi-Fi Player

1955
Yamaha Motor Co., Ltd., is established

1958
Yamaha de México, S.A. de C.V. (Mexico City), is established

1959
Yamaha Technical Laboratories open

Electone™ "D-1" electronic organ is launched

1960 –

1960
Yamaha boat production begins (later shifted to Yamaha Motor Co., Ltd.)

Yamaha International Corporation (currently Yamaha Corporation of America, California) is established

1964
Toba Hotel International™ is opened

Production of fiber-reinforced-plastic bathtubs begins

1965
Production of wind instruments ("YTR-1" trumpet) begins

1966
Yamaha's first electric guitars ("SG" series) and drums are launched

The Yamaha Music Foundation is founded

Yamaha Music (Asia) Pte., Ltd. (Singapore), is established

Yamaha Europe G.m.b.H. (currently Yamaha Music Central Europe G.m.b.H., Rellingen, Germany) is established

1967
The first Light Music Contest is held

"CF" concert grand piano debuts

Nemunosato™ resort opens

1968
Issue of shares at market price is made (first such issuance in Japan)

1969
Taiwan Yamaha Musical Inst. Mfg. Co., Ltd. (Taoyuan Hsien), is established

Yamaha stages the first composition contest (later Popular Song Contest)

1970 –

1970
Kaohsiung Yamaha Co., Ltd. (Taiwan), is established

Yamaha Canada Music Ltd. (Toronto) is established

Company takes over Nippon Wind Instrument Co., Ltd.

Yamaha stages the first Tokyo International Popular Song Festival

1971
Production of semiconductors begins

1972
Production of IC lead frames begins

Yamaha sponsors the first Junior Original Concert™

Yamaha Exporting, Inc. (California), is established

1973
Yamaha Musique France S.A.S. (Croissy-Beaubourg) is established

Yamaha Musical do Brasil Ltda. (São Paulo) is established

Yamaha Musical Products, Inc. (Michigan, U.S.A.), is established

1974
"CSY-1" synthesizer debuts

Tsumagoi™ resort opens

Yamaha Music (Malaysia) Sdn. Bhd. (Kuala Lumpur) is established

1975
Yamaha Svenska AB (currently Yamaha Scandinavia AB, Sweden) is established

Yamaha de Panamá (currently Yamaha Music Latin America, S.A.) is established

Electone™ "GX-1" is launched

PT. Yamaha Indonesia (Jakarta) is established

1976
Second semiconductor factory (currently Yamaha Kagoshima Semiconductor Inc.) opens

System kitchens are launched

Katsuragi Golf Course™ opens

1979
Yamaha Music Manufacturing, Inc. (Georgia, U.S.A.), is established

Haimurubushi™ resort opens

Yamaha Kyohan Co., Ltd. (currently Yamaha Music Trading Corporation), is established

1980
PortaSound™, a portable keyboard, is launched

1981
Yamaha Electronics Corporation, U.S.A. (California), is established

Yamaha Elektronik Europa G.m.b.H. (Rellingen, Germany) is established

Production of manufacturing-use robots begins

1982
Yamaha's first Disklavier™ is launched

Yamaha develops a line of carbon composite golf clubs

1987
YSK (currently Yamaha Fine Technologies Co., Ltd.) is established

Yamaha Kagoshima Semiconductor Inc. is incorporated

Yamaha English School operations begin

The Company name is officially changed to "Yamaha Corporation"

1990
Yamaha Musica Italia S.p.A. (Milan) is established

1991
Yamaha Electronics Manufacturing Malaysia Sdn. Bhd. (Ipoh) is established

The Museum of Modern Art, New York, selects the "YST-SD90" active servo speaker for its permanent collection

Yamaha Livingtec Corporation is established

Yamaha Metanix Corporation is established

Kiroro™ resort opens

1993
Silent Piano™ debuts

Online karaoke developed with Daiichikosho Co., Ltd.

1997
Silent Violin™ is launched

Stanford University and Yamaha unveil the SONDIUS-XG™ joint licensing program

Yamaha Music Gulf FZE (U.A.E.) is established

Xiaoshan Yamaha Musical Instruments Co., Ltd. (China), is established

PT. Yamaha Musical Products Indonesia (East Java Province) is established

PT. Yamaha Music Manufacturing Asia (Indonesia) is established

Yamaha Business Support Corporation is established

2000
Mobile phone ringing melody distribution service begins

Record company, Yamaha Music Communications Co., Ltd., is established

MusicFront™ service for discovering new artists and distributing music over the Internet begins

Bravìol™, an acoustic violin, is launched

Yamaha Music InterActive Inc. (New York) is established

2001
Yamaha Electronics Trading (Shanghai) Ltd. is established

All Yamaha production sites achieve ISO14001 certification

Yamaha Music Korea Ltd. (Seoul) is established

Silent Guitar™ is launched

2002
Management subsidiaries for each of Yamaha's resorts are established

Yamaha Music & Electronics (China) Co., Ltd. (Beijing), is established

1980 –

1990 –

2000 –

1983
Clavinova™, an electronic piano, is launched

"CFIII" concert grand piano debuts

"DX7" and "DX9" digital synthesizers are launched

Production of custom-made LSIs begins

1984
LSI chips for FM sound sources and for image processing are developed

1986
Yamaha Music Australia Pty., Ltd. (Melbourne), is established

Yamaha Electronics (U.K.) Ltd. (Watford) is established

Yamaha-Hazen Electronica Musical S.A. (currently Yamaha-Hazen Música S.A., Madrid) is established

1988
Yamaha Electronique France S.A.S. (Croissy-Beaubourg) is established

YST active servo technology is launched

1989
AVITECS™ soundproof room is launched

The Museum of Modern Art, New York, selects the wind MIDI controller "WX7" for its permanent collection

Production of automobile interior wood components begins

PT. Yamaha Music Manufacturing Indonesia (Jakarta) is established

Tianjin Yamaha Electronic Musical Instruments, Inc. (China), is established

1994
Yamaha Music Media Corporation is established

1995
Theater sound system is launched

Guangzhou Yamaha-Pearl River Piano Inc. (China) is established

ISDN remote router is launched

Silent Brass™ system is launched

1996
"DTX™" Silent Session Drum™ is launched

Yamaha Trading (Shanghai) Co., Ltd. (China), is established

Yamaha KHS Music Co., Ltd. (Taiwan), is established

Yamaha Electronics Asia Pte., Ltd. (Singapore), is established

1998
Silent Cello™ is launched

1999
Shipments of LSI sound chips for mobile phones begin

PT. Yamaha Electronics Manufacturing Indonesia (East Java Province) is established

Yamaha Electronics (Suzhou) Co., Ltd. (China), is established

Yamaha Music Holding Europe G.m.b.H. (Rellingen, Germany) is established

"NEW CFIIIS" is used at the 12th "Tchaikovsky International Competition" (Piano section winner: Ayako Uehara)

2003
Yamaha Instrument Rental system is launched

Level 1 American Depositary Receipt program is initiated

Yamaha Electronics Marketing Corporation begins operations

Hangzhou Yamaha Musical Instruments Co., Ltd. (China), is established

2004
STAGEA™, an electronic organ, is launched

Overseas Network

The Americas

Yamaha Corporation of America

Yamaha Electronics Corporation, U.S.A.

Yamaha Music Manufacturing, Inc.

Yamaha Exporting, Inc.

Yamaha Musical Products, Inc.

Yamaha Music InterActive Inc.*

Yamaha Canada Music Ltd.

Yamaha de México, S.A. de C.V.

Yamaha Music Latin America, S.A.

Yamaha Musical do Brasil Ltda.*

Europe

Yamaha Music Holding Europe G.m.b.H.

Yamaha Music Central Europe G.m.b.H.

Yamaha Elektronik Europa G.m.b.H.

Yamaha Scandinavia AB

Yamaha Musique France S.A.S.

Yamaha Electronique France S.A.S.

Yamaha-Kemble Music (U.K.) Ltd.

Kemble & Company Ltd.

Yamaha Electronics (U.K.) Ltd.

Yamaha-Hazen Música S.A.

Yamaha Musica Italia S.p.A.

Kemble Music Ltd.*

Asia/Oceania

Taiwan Yamaha Musical Inst. Mfg. Co., Ltd.

Kaohsiung Yamaha Co., Ltd.

Yamaha KHS Music Co., Ltd.

Yamaha Music & Electronics (China) Co., Ltd.

Tianjin Yamaha Electronic Musical Instruments, Inc.

Guangzhou Yamaha-Pearl River Piano Inc.

Xiaoshan Yamaha Musical Instruments Co., Ltd.

Yamaha Electronics (Suzhou) Co., Ltd.

Hangzhou Yamaha Musical Instruments Co., Ltd. *

Yamaha Trading (Shanghai) Co., Ltd.*

Yamaha Electronics Trading (Shanghai) Ltd.*

PT. Yamaha Indonesia

PT. Yamaha Music Manufacturing Indonesia

PT. Yamaha Music Indonesia (Distributor)

PT. Yamaha Music Manufacturing Asia

PT. Yamaha Musical Products Indonesia

PT. Yamaha Electronics Manufacturing Indonesia

Yamaha Music (Asia) Pte., Ltd.

Yamaha Electronics Asia Pte., Ltd.

Yamaha Music (Malaysia) Sdn. Bhd.

Audio-Visual Land (Malaysia) Sdn. Bhd.

Consolidated Music Sdn. Bhd.

S.P. Music Centre Sdn. Bhd.

Yamaha Electronics Manufacturing Malaysia Sdn. Bhd.

Yamaha Music Korea Ltd.

Yamaha Music Australia Pty., Ltd.

Yamaha Music Gulf FZE

Siam Music Yamaha Co., Ltd.*

* Non-consolidated subsidiary or affiliate
As of June 2004

Domestic Network

Musical Instruments

Yamaha Music Tokyo Co., Ltd.
Yamaha Music Nishi-Tokyo Co., Ltd.
Yamaha Music Yokohama Co., Ltd.
Yamaha Music Kanto Co., Ltd.
Yamaha Music Osaka Co., Ltd.
Yamaha Music Kobe Co., Ltd.
Yamaha Music Setouchi Co., Ltd.
Yamaha Music Tokai Co., Ltd.
Yamaha Music Kyushu Co., Ltd.
Yamaha Music Hokkaido Co., Ltd.
Yamaha Music Tohoku Co., Ltd.
Yamaha Music Trading Corporation
Yamaha Music Media Corporation
Yamaha Music Craft Corporation
Yamaha Sound Technologies Inc.
Yamaha Music Communications Co., Ltd.
Music Lease Corporation
Yamanashi Kogei Co., Ltd.
Sakuraba Mokuzai Co., Ltd.
YP Winds Corporation
Yamaha Hall Co., Ltd.
Yamaha Piano Service Co., Ltd.*

AV/IT

Yamaha Electronics Marketing Corporation
D.S. Corporation

Lifestyle-Related Products

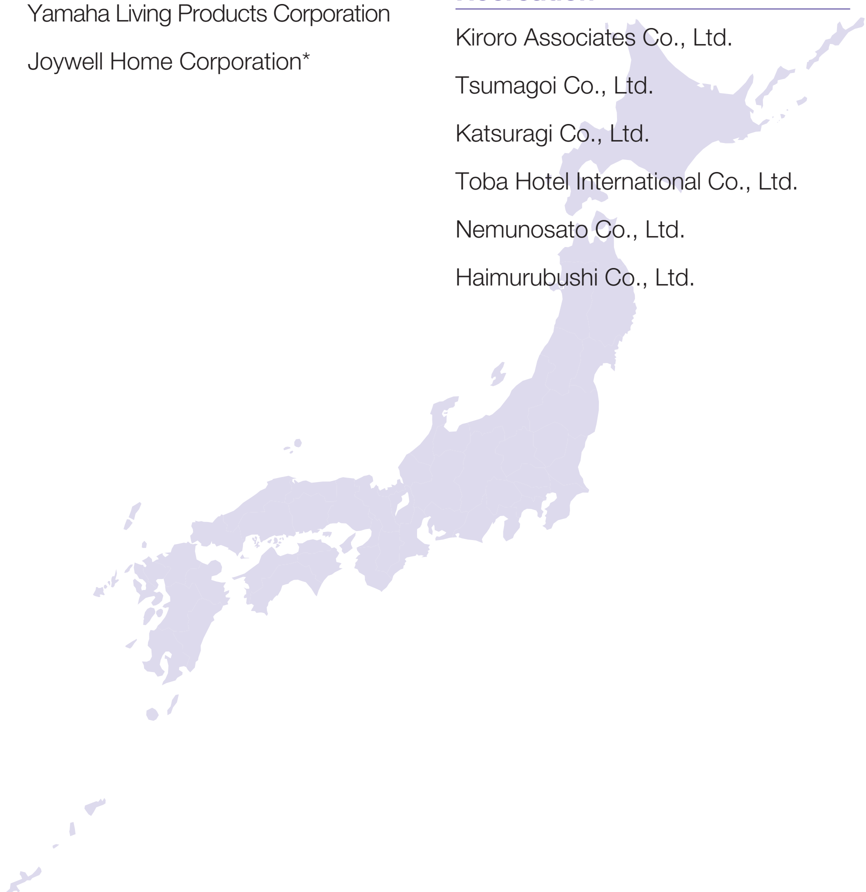
Yamaha Livingtec Corporation
Yamaha Living Products Corporation
Joywell Home Corporation*

Electronic Equipment and Metal Products

Yamaha Kagoshima Semiconductor Inc.
Yamaha Hi-Tech Design Corporation
Yamaha Metanix Corporation

Recreation

Kiroro Associates Co., Ltd.
Tsumagoi Co., Ltd.
Katsuragi Co., Ltd.
Toba Hotel International Co., Ltd.
Nemunosato Co., Ltd.
Haimurubushi Co., Ltd.



Others

Yamaha Credit Corporation
Yamaha Insurance Service Co., Ltd.
Yamaha Fine Technologies Co., Ltd.
YP Engineering Corporation
Yamaha Travel Service Co., Ltd.
Nihon Jimu Center Co., Ltd.
YP Video Corporation
Yamaha Business Support Corporation*

Companies Accounted for Using the Equity Method

Yamaha Motor Co., Ltd.
Korg Inc.

* Non-consolidated subsidiary or affiliate
As of June 2004

Investor Information

Head Office
10-1, Nakazawa-cho, Hamamatsu, Shizuoka 430-8650, Japan

General Administration Division
Tel: +81 53 460-2800
Fax: +81 53 460-2802

Accounting & Finance Division
Tel: +81 53 460-2141
Fax: +81 53 464-8554

Fiscal Year-end Date
March 31

Dividends
Year-end: To the shareholders of record on March 31
Interim: To the shareholders of record on September 30

Date of Establishment
October 12, 1897

Stated Capital
¥28,534 million

Number of Common Stock
Authorized: 700,000,000 shares
Issued: 206,524,626 shares

Number of Shareholders
17,551

Number of Employees
23,903
(Includes average number of temporary employees: 5,061)

Number of Consolidated Subsidiaries
89

Number of Companies Accounted for by the Equity Method
2

Stock Exchange Listings
Tokyo
First Section, Code No. 7951

Transfer Agent and Registrar
The Chuo Mitsui Trust and Banking Co., Ltd.
Nagoya Branch
Stock Transfer Agency Department
Address: 3-15-33, Sakae, Naka-ku, Nagoya 460-8685, Japan
Tel: +81 52 262-1520

Depositary for American Depositary Receipts
Deutsche Bank Trust Company Americas
Ratio: 1 ADR = 1 share of common stock
Type: Level 1 with sponsor bank
Symbol: YAMCY
U.S. Securities Code: 984627109

Newspaper for Official Notice
Nihon Keizai Shimbun

Annual General Meeting of Shareholders
June

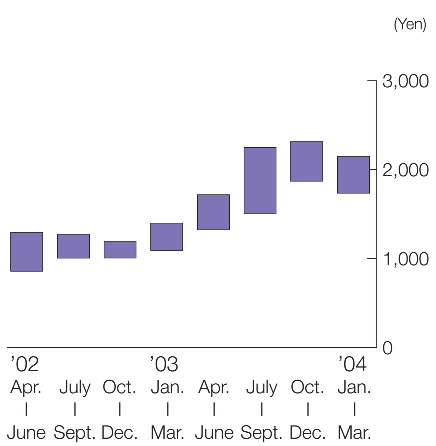
Auditor
Shin Nihon & Co.

Main Shareholders

The Master Trust Bank of Japan, Ltd. (Trust Account)	8.77%
Japan Trustee Service Bank, Ltd. (Trust Account)	6.00%
Mizuho Corporate Bank, Ltd.	4.50%
Mitsui Sumitomo Insurance Co., Ltd.	4.33%
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	4.26%
The Shizuoka Bank, Ltd.	4.05%
Sumitomo Life Insurance Company	3.54%
Nippon Life Insurance Company	3.38%
Sumitomo Mitsui Banking Corporation	2.52%
State Street Bank & Trust Co., Ltd.	2.40%

(As of March 31, 2004)

Stock Price Movement



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YAMAHA

CREATING 'KANDO' TOGETHER

YAMAHA CORPORATION
Public Relations Division

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