

YAMAHA CORPORATION

Overview of Consolidated Performance in the Third Quarter of the Fiscal Year Ending March 31, 2006 (April 1, 2005, to December 31, 2005)

February 8, 2006

Company name: YAMAHA CORPORATION
(URL <http://www.global.yamaha.com/ir/report/>)

Code number: 7951

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Stock listings: Tokyo Stock Exchange (First Section)

1. ITEMS RELATED TO THE PREPARATION OF PERFORMANCE DATA FOR THE PERIOD

- (1) Whether the Company Has Adopted Simplified Accounting Procedures: Yes
(See attached documents for details.)
- (2) Difference in Accounting Policies from the Fiscal Year Ended March 31, 2005: No
- (3) Changes in the Status of Consolidated Companies and Companies Accounted for using the Equity Method: Yes

Consolidated companies:

- Number of companies newly consolidated: 8
Number of companies removed from consolidation: 1

Equity method:

- Number of companies newly accounted for using the equity method: 1
Number of companies removed from the equity method: —

2. OVERVIEW OF CONSOLIDATED PERFORMANCE IN THE THIRD QUARTER OF THE FISCAL YEAR ENDING MARCH 31, 2006 (April 1, 2005–December 31, 2005)

Figures of less than ¥1 million have been omitted.

(1) Consolidated Operating Results

	Net sales		Operating income		Recurring profit	
	Millions of yen	% change from the previous fiscal year	Millions of yen	% change from the previous fiscal year	Millions of yen	% change from the previous fiscal year
Third quarter of FY2006.3	¥406,426	(1.7)	¥25,848	(32.1)	¥35,503	(20.6)
Third quarter of FY2005.3	¥413,452	(0.5)	¥38,056	(15.6)	¥44,708	(12.8)
(Reference) FY2005.3	¥534,079		¥35,695		¥41,302	

	Net income		Net income per share	Net income per share after full dilution
	Millions of yen	% change from the previous fiscal year	Yen	Yen
Third quarter of FY2006.3	¥27,451	42.0	¥133.17	¥133.06
Third quarter of FY2005.3	¥19,326	(57.7)	¥ 93.75	¥ 92.57
(Reference) FY2005.3	¥19,697		¥ 95.06	¥ 93.88

Note: Percentages represent changes compared with the same quarter of the previous fiscal year.

(2) Consolidated Financial Data

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
Third quarter of FY2006.3	¥531,467	¥315,515	59.4	¥1,530.62
Third quarter of FY2005.3	¥520,591	¥277,242	53.3	¥1,344.88
(Reference) FY2005.3	¥505,577	¥275,200	54.4	¥1,334.51

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Third quarter of FY2006.3	¥(1,735)	¥(11,854)	¥(10,882)	¥29,033
Third quarter of FY2005.3	¥15,815	¥(15,604)	¥10,385	¥42,043
(Reference) FY2005.3	¥39,588	¥(12,896)	¥(8,306)	¥50,393

3. OUTLOOK OF RESULTS FOR FY2006.3 (April 1, 2005–March 31, 2006)

	Net sales	Recurring profit	Net income
	Millions of yen	Millions of yen	Millions of yen
FY2006.3	¥529,000	¥35,000	¥26,000

Reference: Net income per share for the fiscal year is forecast to be ¥126.13 on a consolidated basis.

For further information regarding forecasts, please see page 3.

4. OPERATING RESULTS AND FINANCIAL CONDITION**(1) Operating Results**

During the third quarter of the fiscal year (April 1, 2005, to December 31, 2005), sales by segment were as follows. The musical instruments and lifestyle-related segments reported increased sales compared with the same quarter of the previous fiscal year. However, the electronic equipment and metal products segment showed a substantial decline in sales. As a consequence, YAMAHA's net sales declined 1.7% from the same quarter of the previous fiscal year, to ¥406,426 million. Of this total, domestic sales declined 7.0%, to ¥224,297 million, and overseas sales posted a gain of 5.7%, rising to ¥182,129 million.

Regarding specific product categories by segment, the musical instruments segment recorded a sales increase thanks to higher piano and wind instrument sales and strong overseas sales of professional audio equipment, even though sales of Electones™ declined.

In the AV/IT segment, sales of AV equipment were down, and in the information and communications equipment segment, routers encountered more intense competition causing sales to fall.

Within the electronic equipment and metal product segment, sales of LSI sound chips for mobile phones recorded a substantial decline on the back of lower unit sales and price decreases.

In the lifestyle-related segment, sales increased thanks to strong sales of system kitchens.

The recreation segment recorded a decline in sales, but sales were up in the others segment.

Turning to profits, operating income decreased 32.1% from the same quarter of the previous year, to ¥25,848 million and recurring profit declined 20.6%, to ¥35,503 million. As a result, net income for the quarter was ¥27,451 million, up 42% from the same quarter of the previous fiscal year.

(2) Financial Condition

Regarding cash flows during the third quarter (April 1, 2005, to December 31, 2005), among cash flows from operations, income before taxes and minority interests amounted to ¥36,204 million, but cash used in operations amounted to ¥1,735 million.

Among cash flows used in investment activities, the Company used ¥11,854 million to implement capital investments and other investment-related activities.

Among cash flows used in financing activities, the Company used ¥10,882 million for the repayment of long-term debt and other finance related activities.

As a result of these movements in cash flows, cash and cash equivalents at the end of the quarter amounted to ¥29,033 million, ¥23,045 million lower than at the beginning of the period.

(3) Qualitative Comments on the Outlook for Consolidated Performance

For the full fiscal year ending March 31, 2006, compared with the previous forecasts we have lowered our profit forecast for the musical instruments segment due to inventory adjustments and have lowered our sales and profit forecasts for the AV/IT segment as a result of intensifying competition.

Revision of Full-Year Earnings Forecast for FY2006.3 (April 1, 2005 to March 31, 2006)**(1) Consolidated**

	Net sales	Recurring profit	Net income
	Millions of yen	Millions of yen	Millions of yen
Previous forecast (A)	¥536,500	¥41,500	¥29,000
Revised forecast (B)	¥529,000	¥35,000	¥26,000
Increase (decrease) (B-A)	¥ (7,500)	¥ (6,500)	¥ (3,000)
Change (%)	(1.4)	(15.7)	(10.3)
Fiscal 2005 (fiscal year ended March 31, 2005) results	¥534,079	¥41,302	¥19,697

(2) Non-Consolidated

	Net sales	Recurring profit	Net income
	Millions of yen	Millions of yen	Millions of yen
Previous forecast (A)	¥325,000	¥19,500	¥13,000
Revised forecast (B)	¥318,000	¥14,500	¥10,000
Increase (decrease) (B-A)	¥ (7,000)	¥ (5,000)	¥ (3,000)
Change (%)	(2.2)	(25.6)	(23.1)
Fiscal 2005 (fiscal year ended March 31, 2005) results	¥341,546	¥25,145	¥ 264

Some portions of the content of this document are forward-looking statements that are based on forecasts and plans regarding future developments. Accordingly, actual results and performance may differ from the outlook presented here, depending on risk and uncertainty factors.

(Supplementary Data)

1. SUMMARY OF CONSOLIDATED BALANCE SHEETS

	Third quarter of FY2006.3 (as of Dec. 31, 2005)	Third quarter of FY2005.3 (as of Dec. 31, 2004)	Increase (decrease)		FY2005.3 (as of Mar. 31, 2005)
	Millions of yen	Millions of yen	Millions of yen	%	Millions of yen
ASSETS					
Current assets:					
Cash and bank deposits	¥ 30,028	¥ 42,771	¥(12,743)	(29.8)	¥ 51,205
Notes and accounts receivable	90,803	91,577	(774)	(0.8)	73,688
Inventories	84,654	82,848	1,806	2.2	78,434
Other current assets	22,722	23,108	(386)	(1.7)	22,251
Total current assets	228,209	240,306	(12,097)	(5.0)	225,581
Fixed assets:					
Tangible assets	148,386	144,635	3,751	2.6	146,428
Intangible assets	3,699	1,023	2,676	261.6	1,026
Investments and other assets	151,170	134,626	16,544	12.3	132,541
Total fixed assets	303,257	280,234	22,973	8.2	279,996
Total assets	¥531,467	¥520,591	¥ 10,876	2.1	¥505,577
LIABILITIES					
Current liabilities:					
Notes and accounts payable	¥ 40,388	¥ 40,684	¥ (296)	(0.7)	¥ 37,686
Short-term loans	32,176	33,572	(1,396)	(4.2)	17,825
Current portion of long-term debt	599	27,290	(26,691)	(97.8)	22,259
Accrued expenses	36,312	34,891	1,421	4.1	45,167
Other current liabilities	18,312	25,839	(7,527)	(29.1)	22,882
Total current liabilities	127,789	162,278	(34,489)	(21.3)	145,820
Long-term liabilities:					
Long-term debt	10,834	3,934	6,900	175.4	6,514
Accrued employees' retirement benefits	28,226	27,296	930	3.4	28,269
Other fixed liabilities	44,721	46,139	(1,418)	(3.1)	45,938
Total long-term liabilities	83,782	77,370	6,412	8.3	80,722
Total liabilities	211,571	239,649	(28,078)	(11.7)	226,542
MINORITY INTERESTS	4,379	3,699	680	18.4	3,834
SHAREHOLDERS' EQUITY					
Common stock	28,534	28,534	—	—	28,534
Capital surplus	40,054	40,054	—	—	40,054
Earned surplus	236,220	212,404	23,816	11.2	212,340
Reserve for land revaluation	22,045	22,018	27	0.1	22,453
Net unrealized holding gains on other securities	14,261	11,022	3,239	29.4	7,364
Translation adjustments	(25,304)	(36,517)	11,213	—	(35,267)
Treasury stock, at cost	(296)	(275)	(21)	—	(279)
Total shareholders' equity	315,515	277,242	38,273	13.8	275,200
Total liabilities, minority interests and shareholders' equity	¥531,467	¥520,591	¥ 10,876	2.1	¥505,577

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

2. SUMMARY OF CONSOLIDATED STATEMENTS OF OPERATIONS

	Third quarter of FY2006.3 (Apr. 1, 2005– Dec. 31, 2005)	Third quarter of FY2005.3 (Apr. 1, 2004– Dec. 31, 2004)	Increase (decrease)		FY2005.3 (Apr. 1, 2004– Mar. 31, 2005)
	Millions of yen	Millions of yen	Millions of yen	%	Millions of yen
Net sales	¥406,426	¥413,452	¥(7,026)	(1.7)	¥534,079
Cost of sales	257,828	255,475	2,353	0.9	335,705
Unrealized profit	59	179			221
Total gross profit	148,657	158,155	(9,498)	(6.0)	198,595
Selling, general and administrative expenses	122,808	120,099	2,709	2.3	162,899
Operating income	25,848	38,056	(12,208)	(32.1)	35,695
Non-operating income	14,201	11,301	2,900	25.7	12,155
Non-operating expenses	4,546	4,648	(102)	(2.2)	6,548
Recurring profit	35,503	44,708	(9,205)	(20.6)	41,302
Other profit					
Gain on return of substitutional portion of employee welfare pension fund	—	19,790			19,927
Other	1,365	612			7,464
Total other profit	1,365	20,403	(19,038)	(93.3)	27,391
Other loss:					
Impairment loss	—	32,549			32,703
Other	663	821			2,475
Total other loss	663	33,370	(32,707)	(98.0)	35,178
Income before income taxes and minority interests	36,204	31,741	4,463	14.1	33,516
Current income taxes	9,964	13,958	(3,994)	(28.6)	14,497
Deferred income taxes (benefit)	(1,650)	(1,915)	265	—	(1,088)
Minority interests	439	372	67	18.2	409
Net income	¥ 27,451	¥ 19,326	¥ 8,125	42.0	¥ 19,697

3. SUMMARY OF CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Millions of yen				
	Third quarter of FY2006.3 (Apr. 1, 2005–Dec. 31, 2005)	Third quarter of FY2005.3 (Apr. 1, 2004–Dec. 31, 2004)	FY2005.3 (Apr. 1, 2004–Mar. 31, 2005)		
CAPITAL SURPLUS					
Balance at beginning of period	¥ 40,054		¥ 40,054		¥ 40,054
Balance at end of period	40,054		40,054		40,054
EARNED SURPLUS					
Balance at beginning of period	212,340		203,485		203,485
Additional earned surplus:					
Net income	¥27,451		¥19,326		¥19,697
Effect of change in scope of consolidation	827		—		—
Effect of change in interests in subsidiaries	106		—		—
Reversal of reserve for land revaluation	274		—		—
Reversal of reserve for land revaluation resulting from change of interest in subsidiaries	77	28,737	188	19,515	188
Deduction from earned surplus:					
Cash dividends paid	4,642		3,611		3,611
Bonuses to directors and statutory auditors	100		121		121
Effect of change in scope of consolidation	115		36		36
Effect of change in interests in subsidiaries	—		371		371
Reversal of reserve for land evaluation	—	4,857	6,455	10,596	6,890
Balance at end of period	¥236,220		¥212,404		¥212,340

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

4. SUMMARY OF CONSOLIDATED STATEMENTS OF CASH FLOWS

	Millions of yen		
	Third quarter of FY2006.3 (Apr. 1, 2005–Dec. 31, 2005)	Third quarter of FY2005.3 (Apr. 1, 2004–Dec. 31, 2004)	FY2005.3 (Apr. 1, 2004–Mar. 31, 2005)
Cash flows from operating activities:			
Income before income taxes and minority interests	¥36,204	¥31,741	¥33,516
Depreciation and amortization	14,316	14,703	18,958
Impairment loss	—	32,549	32,703
Accrued employees retirement benefits	(127)	(22,731)	(21,786)
(Increase) decrease in accounts and notes receivable—trade	(14,722)	(9,461)	8,636
(Increase) decrease in inventories	(1,553)	(9,775)	(4,654)
Increase (decrease) in accounts and notes payable	1,475	523	(2,798)
Income taxes paid and refunded	(15,544)	(3,902)	(5,501)
Other, net	(21,784)	(17,832)	(19,484)
Net cash provided by operating activities	(1,735)	15,815	39,588
Cash flows from investing activities:			
Purchases of fixed assets	(13,861)	(17,744)	(21,450)
Proceeds from sale of fixed assets	2,080	2,231	2,527
Other, net	(73)	(90)	6,026
Net cash used in investing activities	(11,854)	(15,604)	(12,896)
Cash flows from financing activities:			
Increase (decrease) in short-term loans	12,791	16,699	902
(Decrease) increase in long-term loans	(17,766)	(909)	(3,477)
Cash dividends paid	(4,642)	(3,611)	(3,611)
Other, net	(1,265)	(1,793)	(2,121)
Net cash provided by (used in) financing activities	(10,882)	10,385	(8,306)
Effect of exchange rate changes on cash and cash equivalents	1,427	538	1,099
Net (decrease) increase in cash and cash equivalents	(23,045)	11,135	19,485
Cash and cash equivalents at beginning of period	50,393	31,245	31,245
Increase in cash and cash equivalents arising from inclusion of subsidiaries in consolidation	1,685	—	—
Decrease in cash and cash equivalents arising from exclusion of subsidiaries in consolidation at beginning of period	—	(337)	(337)
Cash and cash equivalents at end of period	¥29,033	¥42,043	¥50,393

5. BASIC ITEMS FOR THE PREPARATION OF THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Whether the Company Has Adopted Simplified Accounting Procedures

The following simplified accounting procedures are based on the standards used in the Company's interim consolidated financial statements and will help investors and other stakeholders make sound decisions.

Simplified Procedures

1. Depreciation expenses represent the portion for total planned annual depreciation as of the end of the third quarter.
2. A simplified method is used to calculate tax expenses.

6. SEGMENT INFORMATION

(1) Business Segments

(Third quarter of FY2006.3 (April 1, 2005–December 31, 2005))

(Millions of yen)

	Musical instruments	AV/IT	Electronic equipment and metal products	Lifestyle-related products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
Sales to external customers	¥237,015	¥60,842	¥42,566	¥35,113	¥13,185	¥17,704	¥406,426	¥ —	¥406,426
Intersegment sales or transfers	—	—	1,351	—	—	—	1,351	(1,351)	—
Total sales	237,015	60,842	43,917	35,113	13,185	17,704	407,777	(1,351)	406,426
Operating expenses	221,361	58,249	37,061	33,249	14,768	17,240	381,929	(1,351)	380,577
Operating income (loss)	¥ 15,654	¥ 2,593	¥ 6,856	¥ 1,863	¥ (1,583)	¥ 463	¥ 25,848	¥ —	¥ 25,848

Note: Business sectors: Divided into the categories of musical instruments, AV/IT, lifestyle-related products, electronic equipment and metal products, recreation and others based on consideration of similarities of product type, characteristics and market, etc.

(Third quarter of FY2005.3 (April 1, 2004–December 31, 2004))

(Millions of yen)

	Musical instruments	AV/IT	Electronic equipment and metal products	Lifestyle-related products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
Sales to external customers	¥232,642	¥61,928	¥54,867	¥33,164	¥13,446	¥17,402	¥413,452	¥ —	¥413,452
Intersegment sales or transfers	—	—	1,783	—	—	—	1,783	(1,783)	—
Total sales	232,642	61,928	56,651	33,164	13,446	17,402	415,235	(1,783)	413,452
Operating expenses	215,346	57,155	38,817	32,981	15,469	17,408	377,179	(1,783)	375,395
Operating income (loss)	¥ 17,296	¥ 4,773	¥17,833	¥ 182	¥ (2,022)	¥ (6)	¥ 38,056	¥ —	¥ 38,056

(FY2005.3 (April 1, 2004–March 31, 2005))

(Millions of yen)

	Musical instruments	AV/IT	Electronic equipment and metal products	Lifestyle-related products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
Sales to external customers	¥302,617	¥77,720	¥69,048	¥42,844	¥18,290	¥23,557	¥534,079	¥ —	¥534,079
Intersegment sales or transfers	—	—	2,143	—	—	—	2,143	(2,143)	—
Total sales	302,617	77,720	71,192	42,844	18,290	23,557	536,222	(2,143)	534,079
Operating expenses	288,434	74,069	51,221	42,869	20,543	23,388	500,527	(2,143)	498,383
Operating income (loss)	¥ 14,183	¥ 3,651	¥19,970	¥ (24)	¥ (2,253)	¥ 168	¥ 35,695	¥ —	¥ 35,695

(2) Geographical Segments

(Third quarter of FY2006.3 (April 1, 2005–December 31, 2005))

(Millions of yen)

	Japan	North America	Europe	Asia, Oceania and other areas	Total	Eliminations or unallocated amounts	Consolidated
Sales to external customers	¥232,806	¥70,782	¥67,228	¥35,608	¥406,426	¥ —	¥406,426
Intersegment sales or transfers	118,894	1,170	714	51,861	172,641	(172,641)	
Total sales	351,700	71,953	67,943	87,470	579,067	(172,641)	406,426
Operating expenses	335,102	69,000	63,937	83,300	551,340	(170,762)	380,577
Operating income	¥ 16,598	¥ 2,952	¥ 4,006	¥ 4,169	¥ 27,727	¥ (1,878)	¥ 25,848

Notes: 1. Division by country or region is based on geographical proximity.

2. Main country and regional divisions other than Japan:

North America: U.S.A., Canada

Europe: Germany, U.K.

Asia, Oceania and other areas: China, Australia

(Third quarter of FY2005.3 (April 1, 2004–December 31, 2004))

(Millions of yen)

	Japan	North America	Europe	Asia, Oceania and other areas	Total	Eliminations or unallocated amounts	Consolidated
Sales to external customers	¥252,541	¥65,439	¥66,551	¥28,918	¥413,452	¥ —	¥413,452
Intersegment sales or transfers	117,261	1,084	444	49,433	168,224	(168,224)	
Total sales	369,803	66,524	66,996	78,352	581,676	(168,224)	413,452
Operating expenses	339,282	63,285	62,425	74,239	539,232	(163,837)	375,395
Operating income	¥ 30,520	¥ 3,238	¥ 4,571	¥ 4,113	¥ 42,443	¥ (4,387)	¥ 38,056

(FY2005.3 (April 1, 2004–March 31, 2005))

(Millions of yen)

	Japan	North America	Europe	Asia, Oceania and other areas	Total	Eliminations or unallocated amounts	Consolidated
Sales to external customers	¥327,895	¥85,465	¥83,289	¥37,429	¥534,079	¥ —	¥534,079
Intersegment sales or transfers	139,938	1,428	526	59,410	201,299	(201,299)	—
Total sales	467,828	86,894	83,815	96,840	735,379	(201,299)	534,079
Operating expenses	442,131	82,692	79,913	93,061	697,799	(199,415)	498,383
Operating income	¥ 25,697	¥ 4,202	¥ 3,901	¥ 3,779	¥ 37,580	¥ (1,884)	¥ 35,695

(3) Overseas Sales

(Third quarter of FY2006.3 (April 1, 2005–December 31, 2005))

(Millions of yen)

	North America	Europe	Asia, Oceania and other areas	Total
Overseas sales	¥71,127	¥68,543	¥42,459	¥182,129
Net sales	—	—	—	406,426
% of net sales	17.5%	16.9%	10.4%	44.8%

Notes: 1. Division by country or region is based on geographical proximity.

2. Main country and regional divisions other than Japan:

North America: U.S.A., Canada

Europe: Germany, U.K.

Asia, Oceania and other areas: China, Australia

(Third quarter of FY2005.3 (April 1, 2004–December 31, 2004))

(Millions of yen)

	North America	Europe	Asia, Oceania and other areas	Total
Overseas sales	¥66,543	¥67,314	¥38,495	¥172,354
Net sales	—	—	—	413,452
% of net sales	16.1%	16.3%	9.3%	41.7%

(FY2005.3 (April 1, 2004–March 31, 2005))

(Millions of yen)

	North America	Europe	Asia, Oceania and other areas	Total
Overseas sales	¥86,717	¥84,483	¥49,971	¥221,173
Net sales	—	—	—	534,079
% of net sales	16.2%	15.8%	9.4%	41.4%