YAMAHA




Annual Report 2006 | Year ended March 31, 2006

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Financial Highlights

Yamaha Corporation and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
For the year:			
Net sales	**¥ 534,084**	¥ 534,079	**$ 4,546,557**
Operating income	**24,135**	35,695	**205,457**
Net income	**28,123**	19,697	**239,406**
At year-end:			
Total assets	**¥ 519,977**	¥ 505,577	**$ 4,426,466**
Total shareholders' equity	**316,005**	275,200	**2,690,091**
	Yen		U.S. Dollars
Per share data:			
Net income	**¥ 136.04**	¥ 95.06	**$ 1.16**
Shareholders' equity	**1,532.62**	1,334.51	**13.05**
Cash dividends	**20.00**	20.00	**0.17**
Number of employees at year-end	**25,298**	23,828	

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥117.47 = U.S.$1.00, the approximate rate prevailing on March 31, 2006.

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, the value of key currencies, such as the U.S. dollar and the euro, technological advancements and developments in intellectual property litigation.

In our lives we are surrounded by many different sounds. For example, music soothes us at times, while at other times it can instill passion or excitement. Sound and music play a critical part in plays and movies. The voices of spectators at a baseball or soccer stadium can inspire us to get to our feet. And the sounds of mobile phone ringtones have become a part of our daily lives.

Yamaha's goal is to help people feel inspired or emotionally connected through sound and music, a concept that is expressed in the Japanese word 'kando.' The brand slogan "Creating 'Kando' Together" is one that all Yamaha employees take to heart and apply across a wide range of business activities.

Yamaha's origin and heritage is in the musical instruments business. Since manufacturing its first organ more than a century ago, Yamaha has grown into the acknowledged leading maker of musical instruments in the world. Yamaha supplies almost every type of acoustic instrument, and is also a leader in electronic and digital musical instruments and professional audio equipment. Yamaha boasts a broad, advanced technological base that supports sound/music-related businesses in areas ranging from home theater systems to LSI sound chips used in mobile phones.

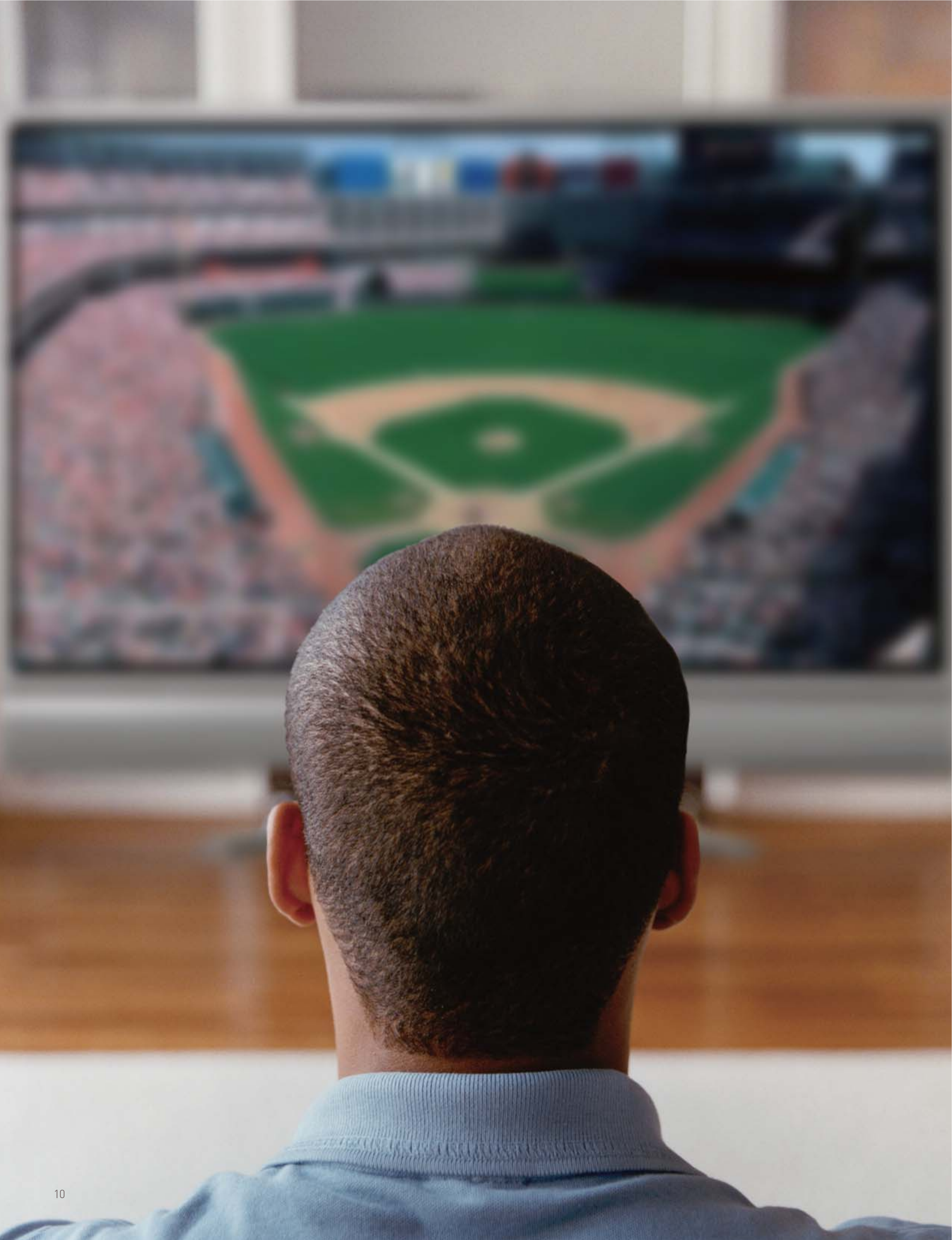
CREATING 'KANDO' TOGETHER

Sound and music are set to continue playing a major role in our lives in the 21st century. Over the coming years, Yamaha plans to evolve from the world's leading musical instrument maker into "the sound professional." The overall aim will remain the same: to create 'kando' together with as many people as possible by developing sound/music-related technologies and by supplying top-quality products and services.

Music is the ultimate expression of sound, filled with fun, beauty and excitement. It transcends boundaries of nationality and ethnicity, gender and generation. Yamaha is proud to be a manufacturer of musical instruments that can connect people through the magnificence of sound.

Rhythm and melody are emotional manifestations of music brought to life through an instrument. And there is nothing more beautiful than the expression of motion that resonates from a musical instrument. The goal of Yamaha is to create the medium that touches the human spirit.

The joy derived from hearing great music is something to be shared the world over. And outstanding audio technology is a must if the sound is to reach the audience in perfect form. Yamaha enables just that. When the crowd goes wild, so do we.



Your living room is transformed into another world with the push of a button. Yamaha's state-of-the-art digital sound technologies recreate the emotion of a concert, the serenity of a night at the opera or the excitement of a baseball match. Sit back and enjoy.

Business conditions for the Yamaha Group were challenging in fiscal 2006 (the year ended March 2006), the second year of our Yamaha Sustainable Development 50 (YSD50) medium-term business plan, which covers the three-year period from April 2004 to March 2007. Consolidated sales remained roughly on a par with the previous year, while operating income fell due to a considerable decline in income from electronic equipment and metal products and as income from musical instrument fell short of targets. As a result, the operating income target for the final year of the YSD50 medium-term business plan now looks unattainable. Nonetheless, we will stay true to the essential elements of the plan and concentrate energies into executing measures aimed at realizing objectives.

Enriching lifestyles through sound and music

Fiscal 2006 performance overview

During fiscal 2006, we worked to improve our earnings capability primarily by strengthening profitability in the musical instruments business to offset the downturn in the semiconductor business which occurred faster than we predicted in the YSD50 plan.

Nonetheless, consolidated sales during the year were virtually unchanged from the previous year, totaling ¥534.1 billion. Profits were dented by declining margins within our semiconductor operations and lower than expected income from musical instruments. Operating income declined 32.4% year on year, to ¥24.1 billion. Net income increased 42.8%, to ¥28.1 billion, due to an improvement in non-operating income in line with a gain on investment in equity method affiliates and as the effects of extraordinary losses posted in the previous year disappeared. In fiscal 2005, we recorded fixed asset impairment losses that were partly offset by gains arising from the return of pension assets to the Japanese government.

Please refer to the "Management's Discussion & Analysis" section (pp. 47-53) for further analysis of our financial performance. Here, we offer you the key points of that performance.

- In the musical instruments segment, sales increased as a result of strong performance in overseas markets, particularly North America, and increased sales of professional audio equipment. A significant decline in sales of Electone™ organs in the Japanese market, however, meant that the increase in overall segment sales was only slight. Operating income remained level with the previous year due to changes in the composition of sales and higher selling, general, and administrative expenses.

- In the AV/IT segment, the new product Digital Sound Projector™ YSP was a hit with customers, but overall sales in this audio equipment business declined because of lackluster conditions in key markets for home theater systems. In the IT equipment business, sales fell as a result of intensified competition and further declines in unit prices of routers. As a result, segment sales and income decreased year on year.

- In the electronic equipment and metal products segment, a drop in demand for LSI sound chips for mobile phones and a decrease in unit prices meant that segment results were lower than initially projected.

President and Representative Director
Shuji Ito

- In the lifestyle-related products segment, a considerable improvement in the financial situation led to the achievement of a turnaround to profitability from the loss recorded in fiscal 2005. This reflected the positive effects of restructuring efforts, bolstered home refurbishment business activities and strong expansion in sales of system kitchens featuring artificial marble sinks.

- Sales in the recreation segment continued to show loss despite a steady rise in lodging because of decreases in revenues from wedding-related and certain other activities.

The results for the year under review leave us in a difficult position to achieve the main YSD50 target of ¥50 billion in consolidated operating income in fiscal 2007. Nevertheless, we intend to leave the basic policies and gist of the plan intact. By accelerating the measures we have taken to date, we seek to achieve a good set of results in fiscal year 2007 and thereby prepare for the next phase of growth.

Progress towards stronger business foundations

The basic policy of our YSD50 plan calls for us to establish a stable, high-earnings structure that enables sustainable development. In the musical instruments segment, we are implementing measures to raise profitability. As part of our manufacturing structure reforms, we continue to strengthen bases in China that produce musical instruments for the Chinese domestic market, where growth is expected going forward. Also during the period, we committed to transferring our entire grand piano production from Hamamatsu to the upright piano production facility in Kakegawa. This process, which is already underway, aims to boost productivity in piano production to meet demand trends in the Japanese market and to develop personnel by assuring that specialized skills are passed on down the line.

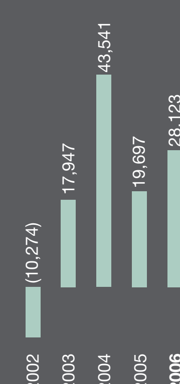
We also are working to increase manufacturing productivity under an internal program called YPM (Yamaha Productivity Management), which is based on the Toyota Production System. Introduced some time ago, YPM is generating positive results in wind instruments.

In the AV equipment business, we will continue to develop and expand sales of home theater systems. We focused in particular on the Digital Sound Projector™ series, which was launched to critical acclaim in 2004. We also catered to the global trend to listen to music on the move and launched small speaker systems with outstanding bass quality for mobile phones and digital audio players. As the leading maker of home theater audio systems, our goal is to respond to new growing markets as well as existing markets by offering consumers products with a superior sound.

With regard to the future direction of unprofitable operations, we plan to execute initiatives based on careful analysis of key factors from a medium- to long-term perspective.

Net Sales
(Millions of Yen)

Net Income (Loss)
(Millions of Yen)



Total Assets
(Millions of Yen)

"Yamaha is a company that has sound and music at its core. We continue to work to expand our business over the long term by making the best use of this major asset."

We plan to increase earnings quality in our core businesses, especially our musical instruments operations. Progress will be made in such a way so as not to damage the trust in the Yamaha name, and we will continue along this path as our relationships with customers and local communities are critical from the perspective of corporate social responsibility (CSR). In particular, we will keep on making a certain degree of investment in the recreation segment, which is facing difficult times, by employing a policy of selection and concentration in each facility. Our goal remains to make the segment profitable and we ask for your understanding as we move towards the attainment of our objective.

Expand business focus from music into sound

We are investing in the development of new businesses to expand operations while shifting our emphasis to sound, which also incorporates the field of music. On January 1, 2006, we set up the Sound Network Division to seek out business opportunities in sound and networks. The Division launched its first product, an IP conferencing system, in April 2006, as the entry into this growing market.

In fiscal 2006, we launched a Web-based e-learning site that allows people to learn music over the internet, with a particular focus on the expanding the music market for adults. We hope to cultivate new demand for instruments in this way, and will continue to make progress in developing new, profitable business models that are unique to Yamaha. I believe that the seeds that we are sowing today will ultimately help us reap higher profits.

Returning profits to shareholders

The Company's basic dividend policy is to pay stable dividends, taking into consideration the increase in the consolidated return on shareholders' equity, based on the level of consolidated net income in the medium term, and set aside an appropriate amount of retained earnings to strengthen the Company's management base, including investment in R&D and rationalization. We believe that this approach delivers profits to shareholders over the medium and long terms.

Rather than varying the dividend each year to directly reflect results, our basic policy is to pay a stable dividend. If performance warrants, we consider raising the dividend after factoring in future earnings variability. Our policy goals are to deliver steady gains in retained earnings based on steady management so that we can set a dividend that is affordable even in economically strained times.

We have also recently instituted formal takeover defenses to avoid large-scale tender offers for Yamaha shares that neglect the collective interests of shareholders and the Company. Our aim is to avoid any acquisition that would be prejudicial to the interests of shareholders or the Company. As a listed company whose shares are traded publicly, we respect that the final decision on whether to accept any takeover bid must rest with shareholders. Our new takeover defenses mandate that any bidder must supply sufficient information for shareholders to evaluate the bid, including its purpose, its details, and the basis for its proposed acquisition price. New large-scale purchase rules that we have put in place also demand that bidders respect a mandatory evaluation period before any bid can formally commence. We consider the institution of these rules a part of our wider efforts to increase corporate value. We will continue to practice management aimed at maximizing shareholder value.

Contributing to a sound and music culture

Yamaha is primarily a maker of instruments for generating sound and music. As expressed, however, by our brand slogan, "Creating 'Kando' Together," where the Japanese word 'kando' translates as an "inspired state of mind," our goal extends beyond merely manufacturing instruments, AV equipment, and other hardware. We seek, ultimately, to inspire people around the world and to generate emotional connections through the sounds and music yielded by our products.

To achieve this goal, we value communication with customers, beginning with artists, and hone technologies and know-how in the creation of musical instruments. Our activities also include running Yamaha music schools, sponsoring and supporting numerous and diverse musical competitions and events, and providing amateur bands with venues to perform. Our efforts confirm our belief in the necessity of establishing a sound and music culture through such activities.

People around the world love music, making it a common human asset. And Yamaha is a cultural company with sound and music at its core, boasting many unique strengths in these fields. I believe that each Yamaha employee takes pride in the Yamaha brand and in supplying original products and services that bring inspiration to many. By doing so, we can continually build corporate value.

I ask all shareholders for their continued support and understanding.

June 2006

Shuji Ito
President and Representative Director


Piano production process at Hangzhou Yamaha, China


Passing on skills for the production of pianos to the next generation


Yamaha Music School


Amateur Band Concert

Company Segments 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 language schools ● Content distribution services (Meloccha™, Utaccha™, etc.)
AV/IT	● Audio products (AV amplifiers and receivers, speaker systems, Digital Sound Projector™, etc.) ● Visual products (digital cinema projectors, etc.) ● Commercial network karaoke equipment ● Routers ● IP conferencing systems
Electronic Equipment and Metal Products	● Semiconductors ● Specialty metals
Lifestyle-Related Products	● System bathrooms ● System kitchens ● Washstands
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 ● Factory automation (FA) equipment ● Metallic molds and components

Breakdown of Net Sales	Year	Net Sales (Millions of yen)	Year	Operating Income (Loss) (Millions of yen)
58.8%	2002/3	286,920	2002/3	4,738
	2003/3	292,647	2003/3	9,792
	2004/3	293,430	2004/3	10,480
	2005/3	302,617	2005/3	14,183
	2006/3	**314,078**	**2006/3**	**14,132**
14.2%	2002/3	95,214 (CDR)	2002/3	3,037
	2003/3	83,670	2003/3	3,250
	2004/3	78,257	2004/3	4,418
	2005/3	77,720	2005/3	3,651
	2006/3	**75,939**	**2006/3**	**2,113**
10.5%	2002/3	36,628	2002/3	4,351
	2003/3	60,554	2003/3	19,282
	2004/3	76,892	2004/3	30,018
	2005/3	69,048	2005/3	19,970
	2006/3	**56,167**	**2006/3**	**7,927**
8.5%	2002/3	45,714	2002/3	1,046
	2003/3	46,031	2003/3	461
	2004/3	44,765	2004/3	1,462
	2005/3	42,844	2005/3	(24)
	2006/3	**45,214**	**2006/3**	**1,169**
3.4%	2002/3	21,590	2002/3	(1,741)
	2003/3	20,903	2003/3	(1,110)
	2004/3	20,100	2004/3	(1,110)
	2005/3	18,290	2005/3	(2,253)
	2006/3	**18,013**	**2006/3**	**(1,789)**
4.6%	2002/3	18,339	2002/3	(389)
	2003/3	20,956	2003/3	365
	2004/3	26,061	2004/3	(211)
	2005/3	23,557	2005/3	168
	2006/3	**24,671**	**2006/3**	**582**

STRIKING THE PERFECT PITCH

Besides musical instruments, this segment includes the manufacture and sale of professional audio equipment, the operation of music schools and English language schools, and content distribution services such as polyphonic ringtones for mobile phones. Yamaha also sells a variety of music-related products sourced from other manufacturers and accessories.

In broad terms, Yamaha's musical instrument categories span acoustic instruments and electronic and digital instruments. Yamaha has also carved out a new segment in hybrid instruments, which combine acoustic and digital qualities. The Company's expertise in acoustic and digital technologies makes it the world's only integrated manufacturer of a complete lineup of musical instruments, which are sold to professionals and beginners alike.

Fiscal 2006 performance

In the musical instruments segment, despite lower sales in Japan, higher sales were posted in North America and Europe. Elsewhere, sales growth was posted in Korea, South America and the Middle East. A double-digit increase in sales was achieved in China again, particularly for pianos, in line with efforts to boost production at the Hangzhou Plant.

In electronic instruments, demand for Electone™ "STAGEA™" peaked out and declined substantially, but sales of portable keyboards and synthesizers rose. Sales of professional audio equipment expanded over 20%, principally owing to robust performances in overseas markets, especially North America. Sales of pianos and wind instruments also grew, while lower-than-expected sales of guitars in North America pushed down overall sales of guitars.

Revenues expanded in the music school business as increased enrollment numbers for children and steady enrollments for adults led to higher overall enrollment numbers. Revenues from the English language school business also increased.

Sales of content distribution services grew along with the expansion of this business in the Japanese market.

Total segment sales rose 3.8% year on year, to ¥314.1 billion. The operating income derived from this higher sales and currency translation gains due to yen depreciation were offset by a combination of higher raw material prices, adverse changes in the product sales mix, and corrective inventory-related measures, which resulted in lower gross profit margins for the segment. As a result, the segment operating income remained largely unchanged, at ¥14.1 billion.

Grand piano S6B

Trumpet YTR-9445CHS

Clavinova™ CLP-F01

Silent Session Drum™ DTXPLORER™

Electric guitar RGX A2

Market trends and business strategy

Demand for musical instruments continues to shrink in Japan, while it is on an upward trend in North America and Europe. Demand is rising in China, other Asian markets, and the Middle East. Yamaha expects these trends to continue.

Customers' product needs, however, are changing significantly in Yamaha's three major markets of Japan, North America, and Europe. In addition, the ability to compare a variety of information online is driving major changes in purchasing patterns that, in turn, demand new distribution methods. Rather than using the traditional channels for musical instruments to sell electronic pianos, for instance, many of these products are being marketed through mass merchandise stores. This trend is contributing to greater price discounting even as global demand expands. Meanwhile, consumers are placing more of a premium on the design and functionality of products fitting their lifestyles.

In response, Yamaha has adopted a medium-term business plan whose fundamental stance is the stable generation of high earnings, aiming to realize a business structure capable of sustained development. The strategy for the musical instruments business emphasizes six key goals: revitalizing the Japanese market, expanding the sales of high-value-added products, achieving growth in China and the professional audio equipment market, reforming manufacturing processes, developing human resources, and reforming business processes.

Japanese market revitalization

Japanese consumer lifestyles are changing extensively, due to low birthrates, a fast-aging population, market maturation, and the rapid shift to a network society. A renewed interest in musical activities among baby boomers and other middle-aged or older people is one of the resulting market trends. Yamaha is responding by improving its music schools for adults. Efforts are under way to meet market needs by expanding services at Yamaha's music schools and by developing instrument rental operations. Yamaha is also upgrading its retail shops to be more appealing to customers and is building more music teaching facilities in suburban locations to provide venues for concerts and other musical events. The broad aim of these moves is to expand Japan's population of musicians and performers.

Expanded sales of high-value-added products and services

In acoustic musical instruments, Yamaha's basic philosophy is that making musical instruments in response to requests from the worlds' top artists in terms of timbre, expressiveness, and other performance qualities leads to further improvement in the instruments, including those for beginners. Based on this recognition, the Company communicates closely with artists to develop and improve its instruments. A prime example is a development program for trumpets with the Chicago Symphony Orchestra that has resulted in the "Chicago" models. Sales of these models are rising because of positive evaluations worldwide. During the year under review, Yamaha created bases to strengthen relationships with top artists across various genres and to develop even better instruments, including new centers offering artist services for pianos and wind instruments in Taipei and Seoul.

Yamaha's offerings in electronic and digital instruments encompass a wide range of electronic pianos, portable keyboards, and Electones™ to

Digital workstation Tyros™ 2

Silent Cello™ SVC-200

Music production synthesizer MO8

cater from children's lessons to adult hobbies. Yamaha synthesizers are rated highly by artists worldwide. As a world leader in sound-generation technology, Yamaha manufactures products that excel in quality of sound, functionality, and operability. In fiscal 2006, Yamaha launched Tyros™ 2, a high-end portable keyboard, to favorable market response in Germany and other European markets. Sales of the MO series of synthesizers also expanded steadily. The CLP-F01 model in the Clavinova™ range, launched in December 2004, continued to sell well, most notably in Europe, based on its novel and attractive design. The high-end Electone™ model, STAGEA™, which was introduced in March 2004 suffered from a drop in demand, despite making a strong contribution to sales in the previous year.

Hybrid instruments are expected to create an entirely new market by combining the best qualities of acoustic and digital instruments. In this sense, these products are the category that makes the most of Yamaha's technology and know-how. The Disklavier™ Mark IV series of player pianos continues to sell well in the United States. But competition is set to intensify in this high-end segment as the market for introductory models grows. By enhancing the network capabilities of such products, Yamaha hopes to expand their sales based on their enhanced teaching possibilities, such as music lessons over a network. Also, in fiscal 2006 Yamaha added a moderately-priced "Silent Piano™" to the "Silent™ Series" to make the range more accessible to consumers. These instruments use advanced sound muting technology to allow players to enjoy them anywhere without worrying about time or place.

Music school and English language school operations

Yamaha operates music schools in more than 40 countries. Its aim is to expose as many people as possible to the joy of music. Global enrollment at Yamaha music schools is nearly 700,000 students. In Japan, the number of children enrolled in Yamaha music schools grew for the second consecutive year in fiscal 2006. Adult enrollments were also strong, which led to an overall increase in enrollment numbers. Major factors have included the development of the Unistyle™ range of music schools offering various high-quality services in suburban locations that match changing needs and lifestyles and television commercials targeting student recruitment. Another reason is that Yamaha is in the process of forming 100 music schools specifically for adults.

In line with the increasing need for English-speaking ability, the Company's English language schools, which are only in Japan, are also recording steady growth in student numbers despite fierce competition.

Sales growth in China

The market for musical instruments in China continues to expand. This is largely because of that country's high economic growth rates and the effects of various national projects such as the Beijing Olympics (2008) and the World Exposition in Shanghai (2010). The market has huge potential next to Japan, North America and Europe. Yamaha is developing its business in China by targeting the medium and upper end of the market, focusing primarily on pianos, wind instruments, portable keyboards, and professional audio equipment.

To compete more effectively with the low-priced models made by Chinese piano manufacturers, Yamaha began manufacturing operations at a local subsidiary in Hangzhou in autumn 2004. This factory supplies pianos for the Chinese market and has seen its production and sales levels rise steadily. A second plant is due to come onstream in spring 2007 and will double Yamaha's annual piano production capacity in the subsidiary to 40,000 units. Yamaha is working to bolster productivity by reducing costs to strengthen price competitiveness.

In addition to upgrading production facilities, Yamaha has focused on enhancing its retail sales network in China by promoting new Yamaha piano retailers, including the establishment of Yamaha corners, during the period. The number of Yamaha piano retailers now stands at 40. And to elevate its brand image in China, Yamaha started a television advertising campaign in summer last year, and participated in an international exhibition of musical instruments in Shanghai.

A local Yamaha subsidiary commenced music school operations in Shanghai during the year under review. In China, where private lessons are the norm, the introduction of the Yamaha system in which children are accompanied by their parents for group lessons has major significance. Plans call for expanding the school network within Shanghai, followed by investment in a national chain. As in other markets, the development of the music school business promises to have a major positive effect on brand image, thereby enhancing the growth of Yamaha's China operations overall.

Portable PA System
STAGEPAS™ 300

Digital mixing console M7CL-48

Utaccha™, true tone content distribution service

Professional audio equipment business

Yamaha commercial audio equipment is used in many of the world-renowned theaters, concert halls, churches, television stations, and other venues. The Company offers a broad range of mixers, amplifiers, and speakers that blend accumulated know-how in sound and music with human interfaces that meet user needs. Of these products, Yamaha digital mixers, such as the PM1D and PM5D models, are establishing themselves as global standards, reinforcing Yamaha's leading share of world markets for digital mixers.

In fiscal 2006, Yamaha concluded a strategic alliance with speaker manufacturer NEXO S.A., of France. This is part of the Company's plan to expand its presence in markets worldwide as a solution provider with comprehensive abilities in such sectors as speakers and amplifiers.

In January 2006, Yamaha also established a new sales subsidiary, Yamaha Commercial Audio Systems, Inc. (YCAS), in Los Angeles. This is a move to expand Yamaha's professional audio equipment business in North America, the leading market for such products. YCAS will work to reinforce Yamaha's sales network in North America by providing training and technical and engineering support for customers and Yamaha dealers.

Manufacturing reforms and business structure reforms

Yamaha has pursued a variety of initiatives for business process reforms to improve the profitability of its musical instrument operations. Initiatives have included developing supply chain management systems, and forging stronger links among production sites and business divisions to heighten the sharing of information. Production line processes have also been modified to allow standardization of processes and components. Yamaha has, as a result, successfully reduced inventories and shortened lead times for the production of pianos, by two to three months, and, with the introduction of a cell-based production system, of electronic musical instruments. Despite improved efficiency, however, reductions in manufacturing costs and increases in productivity due to systemic reforms have not yet yielded improved profitability in line with projections. Further, there was a discrepancy in production levels due to aggressive sales plans at overseas subsidiaries. But going forward, Yamaha plans to focus on recovering lost time in boosting profits, including the use of more-centralized inventory controls where feasible.

A crucial decision made in fiscal 2006 was to integrate Yamaha's two piano production facilities in Japan. Besides making the production of grand pianos and upright pianos more efficient in light of piano production volume trends, this move aims to create an environment that facilitates the intergenerational transfer of key manufacturing techniques and skills. Efforts to restructure the core musical instruments business continue apace, ahead of the formulation of Yamaha's next medium-term business plan in fiscal 2007.

Contents business

The contents business derives revenue from the distribution of polyphonic ringtones and true tones, for mobile phones and from music distribution via computer. Although sales of polyphonic ringtones have been on a downward trend, this has been compensated for by an increase in sales of true tones.

Yamaha's polyphonic ringtone distribution services were launched in March 2000 and now span from the mainstay "Meloccha™" website to other specialized websites for melodies using specific instruments, including piano, guitar and Electone™. The true tone site "Utaccha™" has been a hit with the market with its rich and diverse array of true tone format contents that include tunes unique to Yamaha.

In the "GORGONZOLA" site, which primarily targets junior and senior high school students, contents including high-sound-quality polyphonic ringtones have proven popular among 10-20 year olds. Further, Yamaha has extended its ringtone distribution services overseas to Taiwan, China, the United States, Europe and Australia, among others.

As part of efforts to enter new territories during the period, Yamaha started an internet-based music distribution service called "MySound™" especially for broadband users. The contents business does not merely gain revenue from music downloads but also provides music information through various specialized websites categorized by music genre and lifestyle.

Going forward, Yamaha intends to launch a site that offers information on various music genres and cultures. At the same time, plans are to enhance the range of music distribution services to meet diversified customer needs. One example is to sell the songs of amateur musicians and return the profits to the artists.

OUT OF SIGHT AND SOUND

The AV/IT segment comprises audio and visual equipment (including amplifiers and receivers, speaker systems, and Digital Sound Projector™ products), commercial network karaoke equipment, routers, and IP conferencing systems. Yamaha is a leader in markets driven by music, sound and networks where it exploits its technical expertise in music, sound, and networks to develop and supply high-quality products that meet customer expectations.

Fiscal 2006 performance

Shipments of the Company's newly launched YSP series of Digital Sound Projector™ were favorable. Overall sales of home theater systems, though, declined amid a depressed market among certain other factors. By geographic area, sales rose in the U.S. market because Yamaha broadened its distribution through such sales channels as mass merchandisers, but sales dropped in Japan and Europe. Sales of home theater systems in China, meanwhile, were poorer than expected, the result of delays in the development of a local sales network. The segment's sales of virtual private network (VPN) routers to small and medium-sized enterprises likewise suffered, amid fierce price competition.

Segment sales thus fell 2.3% year on year, to ¥75.9 billion, while operating income declined from ¥3.7 billion to ¥2.1 billion. Although ongoing efforts to cut production costs were successful, a reduction in gross profit margins caused by fierce competition served to compound the effect of lower sales.

Digital Sound Projector™ YSP-1000

Natural sound speaker system NX-A01


Speaker system NS-525 series

Market trends and business strategy

AV equipment

Rapid technological progress characterizes the market for AV equipment, which is gradually shifting toward large flat-panel TVs, high-definition picture, and high-quality sound. Terrestrial digital broadcasting illustrates this ongoing evolution toward digital content. Consumers are also increasingly downloading music for iPods and mobile phones, a trend that is exerting a marked effect on the way that people enjoy music.

The existing market for consumer audio equipment in Japan is shrinking. But falling prices continue to raise demand for flat-panel TVs, which, in turn, stimulates demand for video playback equipment and peripheral sound systems for televisions. The market is also fragmenting with the popularity of portable audio players and a revival in demand for HiFi audios. In overseas markets, such as the United States and Europe, fierce competition continues to push prices down, and growth has slackened for AV receivers and home theater systems.

In Yamaha's view, the key to securing the support of customers and markets and to generating business growth is to understand diverse user requirements and to develop products that meet those needs in a timely manner. Yamaha also believes in the necessity of offering consumers a total package of products and services for the enjoyment of sound, music, and pictures. In the year ended March 2006, Yamaha introduced a variety of products that aim to take advantage of the expanding markets for flat-panel TVs and portable audio players.

Launched to critical acclaim in fiscal 2005 was the YSP series of Digital Sound Projector™, which offers flat-panel TV viewers exceptionally realistic sound. YSP home theater systems represent a new concept in true 5.1-channel surround sound. Using a single, compact, front-mounted unit, this system reflects five beams of sound off the walls of the viewer's room. This eliminates the need for surround-sound speakers and the inconvenience of speaker wires. Ease of installation, moreover, has helped to make the YSP series extremely popular.

In fiscal 2006, Yamaha extended the YSP series by introducing the YSP-800 and YSP-1000 models, which suit different sizes of television screen. YSP series sales rose significantly as a result of the new models, because of a doubling of the number of retail outlets handling the range, and on account of an aggressive promotional campaign that also encompassed distinctive selling and merchandising methods. Yamaha plans to focus on penetrating more markets around the world and to cooperate with TV manufacturers to develop YSP system and television combinations to target the distribution sector. The intent is to expose as many consumers as possible to the product.

In AV receivers, Yamaha launched its RX-V659 and RX-V559 models during the year under review. Both are compatible with iPod. Equipped with Yamaha's original Compressed Music Enhancer function, these receivers are capable of the high-quality sound of digital music in compressed formats. Yamaha is also upgrading other of its AV receivers by incorporating this function.

In Japan, Yamaha launched its NX-A01 speaker in a joint campaign with a major mobile carrier. This compact cubic speaker features

CinemaStation™ AVX-S30

Digital home theater receiver DSP-AX759

Swing Radiator Bass™, an original playback enhancement technology for low-pitched sounds developed by Yamaha to appeal to new generations of people listening to music on the move. Despite its compact size, the NX-A01 delivers surprisingly rich bass playback. It works with portable music players and mobile phones.

Yamaha has been working on the cutting edge of sound production for more than 100 years. The Company continually pursues the latest technology to enhance listening pleasure and to provide customers with new and enjoyable listening experiences. A prime example of this is CINEMA DSP™ (Digital Sound Field Processing), a technology that is based on an analytical database of the sound characteristics of the world's leading theaters and concert venues collected over more than 20 years. CINEMA DSP™ is also a product of Yamaha's design expertise in venue acoustics and wealth of experience in PAs and mixing desks. By recreating the sounds of world-famous venues, this technology ensures a grippingly realistic audio experience that enhances video playback. CINEMA DSP™ continues to underpin Yamaha's leading position in the markets for consumer audio equipment.

Elsewhere, efforts are progressing to promote the further integration of design, development, materials purchasing, manufacturing, sales, and customer service functions within the AV business. Using supply chain management (SCM) initiatives that forge more efficient linkages from planning to sales, Yamaha is focusing on cutting product delivery lead times in this segment based on its network of production bases across Japan, Malaysia, Indonesia, and China.

Commercial network karaoke equipment

Yamaha develops and manufactures network karaoke equipment for the Japanese market in conjunction with a leading network karaoke provider. Sales of these products declined amid a stagnating market and an ensuing downward movement in price. Widespread adoption of broadband has enabled users to take advantage of uplink networking capabilities to upload singing data, creating possibilities for new content-based services such as auditioning or singing performance evaluation. By adding ideas and outstanding features such as these, Yamaha intends to be the frontrunner in the market.

Routers

Yamaha entered this business in 1995 and since then has been a leading provider of routers in Japan, with a key turning point being development of the Internet. Amid increasing broadband penetration within the commercial sector in Japan, Yamaha offers home-based businesses and small to medium-sized enterprises (SMEs) with multiple operating bases a range of multifunctional all-in-one routers such as the RT57i. Yamaha routers are centered on technologies such as VPN, which offer a reliable platform for secure communications. Yamaha's RTX1100 VPN router and other models have been accepted as the industry standard for SMEs.

Price-based competition in the market for VPN routers intensified during fiscal 2006 with the entry of new suppliers. Yamaha's strategy remains to develop this business steadily by introducing more high-value-added models featuring QoS* technologies to achieve effective bandwidth utilization. Yamaha is also planning to extend its business into the Chinese market.

IP conferencing systems

The market for IP conferencing systems continues to grow at a double-digit pace as companies seek tools that can lower travel and other meeting-related expenses while helping to improve inter-operational communications and productivity. Demand for such products is forecast to more than double over the next few years, particularly in China. As the size of handled data increases in IP conferencing systems, the market is also progressively shifting from analog and ISDN-based products to digital IP conferencing systems that can realize smoother communications for meeting purposes.

Today's audio quality for IP conferencing systems still tend to suffer from problems related to network quality and bandwidth control, often resulting in degraded speech quality and lack of connection stability. There is plenty of scope to improve the sound processing aspects of these products. Yamaha has decided to enter this market and is developing new IP conferencing systems that will solve such problems. By combining the expertise in professional audio equipment accumulated over many years in developing DSP technology, speakers, microphones and other products with the network technology cultivated from router, business Yamaha aims to supply new IP conferencing systems that deliver and play stable sound, which are just some of the benefits of IP.

Although more firms began to enter the IP conferencing systems market from late 2005, there are few products on the market that use advanced network technology. Yamaha's IP conferencing systems have been evaluated highly for their sound quality achieved through original sound processing technology, and because they offer optimized solutions due to the incorporation of the router. The full launch of the multiple product lines is scheduled for the second half of fiscal 2007. Yamaha plans to generate maximum growth by coordinating sales of IP conferencing systems with router business.

Technical glossary

*QoS (Quality of Service):
QoS is the general term for technologies that are used to control the quality of the communications over a network. They work by guaranteeing communications quality in specific applications and stabilizing operation, based on key indicators such as bandwidth, delay and packet loss.

VPN router RTX3000

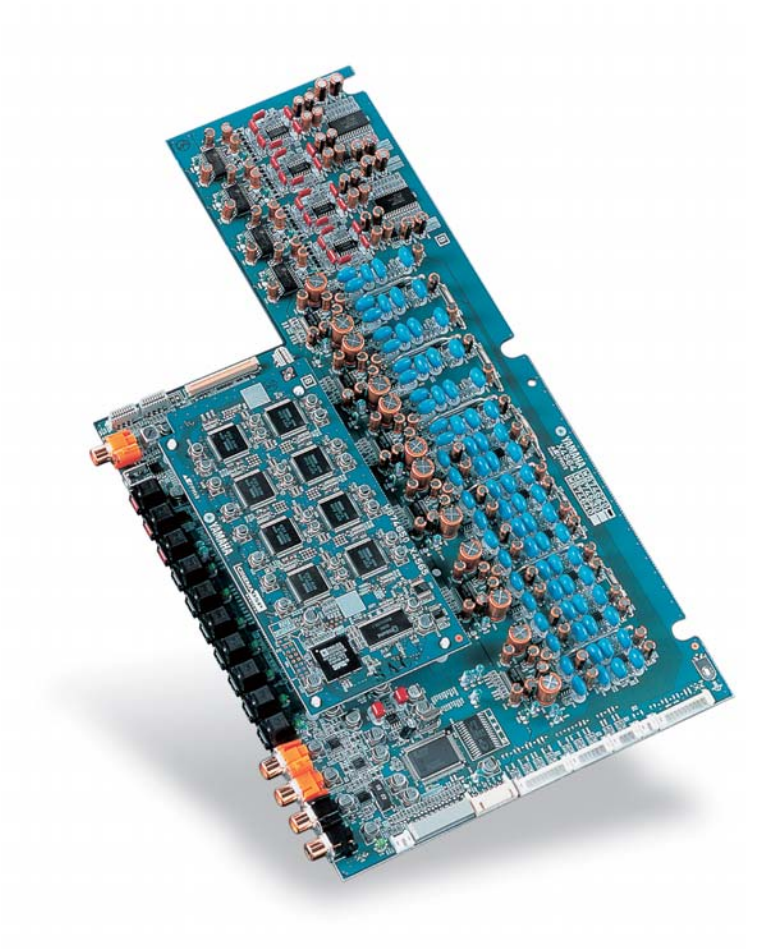
Project Phone™ PJP-100H

VITAL TECHNOLOGIES

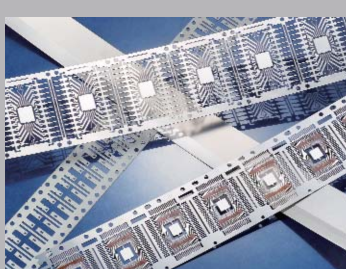
The electronic equipment and metal products segment mainly comprises the semiconductor business centered around LSI sound chips run by the Yamaha Semiconductor Division and its manufacturing subsidiary Yamaha Kagoshima Semiconductor Inc. It also includes the high-performance copper and nickel alloys and related processed parts supplied by Yamaha Metanix Corporation. Semiconductor products find applications in Yamaha's areas of comparative strength—music and networks—including mobile phones, amusement and automotive equipment, consumer products such as televisions and communications equipment. Electronic metal products, meanwhile, have broad application in PCs, mobile phones, and automotive electronics.

Fiscal 2006 performance

Segment sales fell ¥12.9 billion, or 18.7%, compared with the previous year, to ¥56.2 billion. Lower market demand for LSI sound chips for mobile phones was compounded by unit sales price erosion. Sales, however, of electronic metal products began to recover slightly in the second half of the year along with digital consumer electronics markets. Segment operating income nonetheless fell a significant 60.3%, to ¥7.9 billion, reflecting the drop in demand and the associated price erosion of LSI sound chips for mobile phones.



Sound chip for mobile phone



Alloys for lead frame

Market trends and business strategy

Electronic equipment (semiconductors)

As anticipated, business conditions were particularly harsh during the year under review. Although the global mobile handset market expanded almost 20% in shipment volume terms during the year, most of the growth was concentrated in emerging markets where handsets do not typically contain LSI sound chips, including those made by Yamaha. In addition, despite strong underlying demand from users and handset makers for greater sound and music functionality, the value of ringtones has declined amid the proliferation of high-performance multifunctional handsets.

Yamaha's strategy is to shift steadily to higher-value LSIs that incorporate digital amplifier or compressed music playback functions, as well as conventional ringtone functions. While striving to maintain market share of LSI sound chips for mobile handsets, Yamaha will work to expand business by leveraging its know-how in sound and by supporting various handset makers.

In the amusement equipment sector, pachinko and pachislot machines continue to become ever-more complex. This has brought about the need for advanced functionality and performance for devices for these machines, such as sound source and graphics processors. Shipments of a new graphics LSI for next-generation machines began in the second half of the year, and results have been promising thus far. Going forward, Yamaha aims to drive continuous growth in this area by promoting product development through active communication with and proposals to equipment makers.

Yamaha continues to actively develop products for new applications to offset slower demand for LSI sound chips for mobile phones. Besides amusement equipment, Yamaha is targeting markets and applications in the automotive, consumer electronics, and communications equipment sectors. Plans are to make timely launch of new products that befit needs.

Electronic metal products

Yamaha's subsidiary Yamaha Metanix Corporation manufactures and sells copper-based and nickel-based lead frame materials, copper-based connector materials, and related processed parts.

An inventory correction in the first half of the fiscal year under review was conducted, mainly for digital consumer electronics market. Demand, however, began to pick up in the second half of the year, and the market gradually recovered. Although demand continues to rise, fierce competition persists in this market. And that, combined with steep increases in raw material prices, means that the market outlook warrants little optimism at present.

Amid these trying market conditions, Yamaha continued to employ total production management (TPM) activities during the year to raise and stabilize earnings by boosting productivity and reducing costs. Yamaha expects its copper-based connector material business to contribute to growth in the year ending March 2007 with the shift of that business to full-scale production. Other efforts to raise profits in this segment include a focus on expansion within the sector of materials for automotive components.

ENHANCING LIFESTYLES

This segment of business utilizes core Yamaha Group technologies in artificial marble, piano coating and wood processing and presents system products to help implement a comfortable and joyful home life. Yamaha Livingtec Corporation is the segment's major consolidated subsidiary and focuses its business resources on plumbing products such as system kitchens, system bathrooms and vanity units that demonstrate distinctive characteristics of style and functions of Yamaha.

Fiscal 2006 performance

Segment sales increased 5.5% year on year, to ¥45.2 billion. This growth was mainly due to the greater emphasis on the home remodeling business and to the rising popularity of system kitchens featuring artificial marble countertop and sink. The segment returned to profit at the operating level because of sales growth and reductions in manufacturing and fixed costs. Operating income was ¥1.2 billion, compared with a loss of ¥24 million in the previous year.

System kitchen Dolce™

(Top two images) System kitchen Dolce™ and berry™
(Lower two images) System bathroom Beaut™

Market trends and business strategy

The market for products in Japan is divided into two sectors; the new construction and remodeling sectors. In each sector, requirements differ between stand-alone houses and condominium apartments. During the year under review, the market for stand-alone houses in the moderately-priced range constructed by so-called power builders (strong regional base house providers) and the remodeling market posted the strongest growth. Traditionally, Yamaha has mainly developed and marketed products for stand-alone houses. However, Yamaha products in the medium-to-upper price range where the company's expertise lies did not necessarily fit the market. Yamaha was also late in responding to needs in the remodeling market and was also lacking brand awareness, notably among first-time buyers.

In view of the past year's operating loss, Yamaha Livingtec reviewed the medium-term business plan aiming to restore segment profitability through corporate restructuring and to establish a business model that brings profits. This process of review included a thorough analysis of market trends, assessment of Yamaha resources and challenges, organizational changes, formulation of a new ground design of business and the resulting actions to strengthen corporate management foundations.

Organizationally, a vertical multi-layered structure was replaced with a flat and web-like management system to enable Yamaha to respond more quickly to market trends. A new strategic task force was established in April 2005 to actively develop business in the remodeling market sector, where growth in demand is expected to outpace that of the stand-alone houses.

Further improvements included the formation of a strategic task force to revitalize Yamaha showroom operations. Yamaha showrooms are Yamaha's important contact points with customers and have now been defined and positioned as Yamaha business centers for area marketing where demand of potential customers be turned into actual demand. Yamaha opened a few showrooms, relocated some to enhance their functions and renovated them to have a consistent store image throughout Japan and help customers to get ideas for living scenes. All these changes have been favorably commented upon by customers.

In the field of products and technology development, Yamaha has continued to pursue refinement in the cutting edge technologies for artificial marble materials and injection molding, piano coating, wood processing as well as artistic cosmetic design. Based upon the technology, Yamaha efforts are focused on the development of highly customer-oriented products that consist of impressive appearance and ease of use with such functional benefits as excellent storage capacity and easy maintenance. More female staff have been recruited and assigned to the jobs of product development to reflect female customers' point of view for products. As for advertising, an approach of market segmentation advertising for targeted potential customers has been adopted and proven effective in boosting sales.

For the year ending March 2007, Yamaha aims to strengthen foundations of customer-oriented business for sustainable growth. Yamaha continues to implement further business process renovation to increase productivity and to establish a profitable business structure. While continuing to develop new products that leverage Yamaha's core technology, the company ensures further reduction in its operational costs and reinforcement in the home remodeling sector.

RELAXING ENVIRONMENTS

Yamaha owns and operates six resorts in Japan stretching from Hokkaido to Okinawa, with each facility run by a separate operating company. Although this business has been faced with difficult times in terms of profitability recently, the nearly two million annual visitors to the resort operations contribute to the enhancement of the Yamaha brand image.

Fiscal 2006 performance

Accommodation revenue grew steadily during fiscal 2006. A drop in revenue from wedding functions, however, among others, led to an overall decline in sales. Segment profitability improved due to a major fall in depreciation costs, which pushed down SG&A expenses. Total segment sales declined 1.5% year on year, to ¥18.0 billion, and the segment posted an operating loss of ¥1.8 billion, compared with a loss of ¥2.3 billion in fiscal 2005.

Kiroro™

Market trends and business strategy

In recent years, a consumer spending slowdown in Japan has negatively impacted recreation operations. Exacerbated by lower skier numbers, resulting in lower sales, Yamaha adopted Japanese asset-impairment accounting standards in fiscal 2005, which helped to reduce depreciation costs. Yamaha plans to keep all resorts in operation while selectively rationalizing those facilities. Restoring profitability remains key.

Kiroro™

The Kiroro™ resort, located near Otaru in Hokkaido, comprises skiing facilities and two hotels. The environment surrounding the ski market has been changing in recent times on account of Japan's low birthrate, aging population, modifications to equipment, and fewer skiers and snowboarders. Yamaha considerably remodeled one of the resort's ski runs during the year, converting a steep, twisting course into a more comfortable, cruising slope ideal for families. This helped attract 5% more day skiers from Hokkaido. The number of hotel guests declined slightly because of unusually early snowfalls on the mainland. The focus for Kiroro™ remains to boost hotel occupancy levels by promoting off-season stays, raising the resort's profile with travel agencies, and attracting more conference and seminar business. Other efforts target boosting ski-related visitor traffic in the winter through more convenient facilities and more attractive ski runs.


Tsumagoi™


Katsuragi Golf Club™


Toba Hotel International™


Nemunosato™


Haimurubushi™

Tsumagoi™

Tsumagoi™ offers music, sports, and other leisure pursuits in a 1.7 million m^2 haven of greenery located in Kakegawa, Shizuoka Prefecture, in central Japan. The fiscal year featured two concerts by leading domestic artists, both of which attracted large audiences. The year also saw the improvement of the Tsumagoi™ Music Garden, a facility used to train Yamaha music school teachers and university music students and for musical production auditions. Yamaha also has conference and corporate training facilities. Corporate bookings are up due to a recovery in companies' earnings.

Attracting more individual visitors, though, remains an issue. Efforts are underway to offer more walking trails and promotional events, while Yamaha has proactively sought to improve spa facilities and upgrade restaurant menus to raise customer satisfaction and boost the number of repeat customers.

Katsuragi-Kitanomaru™ and Katsuragi Golf Club™

The Katsuragi Golf Club™ is situated in Fukuroi, Shizuoka Prefecture, a town with a mild year-round climate. The club boasts a championship course by famous designer Seiichi Inoue. Corporate demand for the facilities rose during the year due to a recovery in companies' earnings.

Yamaha will celebrate the club's 30th anniversary in September, 2006 with a program to improve course quality, including tree pruning, bunker renovations, and new approach area installations. Ladies' tees were added to raise the appeal of the course for females. Yamaha is currently upgrading Katsuragi-Kitanomaru™, the hotel adjacent to the course, which recreates a Japanese Castle, with facilities for disabled guests, new spa facilities and remodeled rooms and kitchen for a more refined feel.

Toba Hotel International™

The Toba Hotel International™ is a tourist resort featuring a high-class hotel in the picturesque Ise Shima National Park in mid-western Japan. There was an increase in visitor numbers from areas that previously provided few visitors, such as the northern parts of Japan, because of the 2005 World Exposition in Aichi and the opening of Central Japan International Airport.

In addition, the Mie prefectural government is shifting emphasis from attracting high-tech firms to tourist industry. Another positive factor is the relocation of the Ise Jingu (Ise Shrine), the spiritual center of Shinto, in 2013. Besides planning tour-related events and participating in special shrine festivals, Yamaha will upgrade the resort's restaurant menus, adding more local delicacies like abalone and shrimp.

Nemunosato™ and Nemunosato Golf Club™

Nemunosato™ is a spacious, 3 million m^2 resort in the beautiful Ise Shima National Park. Yamaha undertook renovation work on the resort's villas and restaurant facilities in fiscal 2005, making it attractive to lodging guests all the year round. Yamaha intends to expand the range of activities to create a facility that matches customer desires so that day-trip visitors can also enjoy themselves.

Club members at the nearby Nemunosato Golf Club™ appreciated restoration work on the course from korai green to bent green in fiscal 2006. They also applauded the closure of the facility on certain days to improve course maintenance.

Haimurubushi™

The Haimurubushi™ resort is located on Kohamajima in the Yaeyama Islands south of Okinawa. Haimurubushi™ has a subtropical climate, making it popular as a year-round destination, including for health-conscious reasons, which Okinawa is famous for. New hotel facilities, ocean-view villas and a poolside restaurant, completed in February 2005, are popular with visitors. Besides customers of mature years, Haimurubushi™ attracts many younger tourists as people seek out more isolated vacation spots. Results here have been very positive.

VARIETY BREEDS SUCCESS

Our others segment consists of golf products and wood components for automobile interiors from Yamaha Corporation and of factory automation (FA) equipment and metallic molds and components from Yamaha Fine Technologies Co., Ltd.

Fiscal 2006 performance

Segment sales rose 4.7% year on year, to ¥24.7 billion. This reflected a good performance in automobile interior wood components and golf products. The FA equipment business continued to progress steadily, while demand for metallic molds and components increased on a recovery in magnesium parts used in mobile handsets and digital cameras. Segment operating income was ¥0.6 billion, an increase of ¥0.4 billion over the previous year.

Golf club inpres™ X 445D

Automobile interior wood components

Magnesium parts used in mobile phones

Precision Machine (Trim Puncher)

Market trends and business strategy

Golf products

Yamaha uses its ownership of the championship course at the Katsuragi Golf Club™ as a point of contact to large numbers of golfers. The development and manufacture of these products exploit the materials processing technology that the Company has cultivated over its many years in the production of musical instruments.

Amid a depressed market for golf equipment in Japan in fiscal 2006, Yamaha launched the latest fruit of that technology: its inpres™ X range of clubs. These clubs conform to the new standards limiting the allowable coefficient of restitution for driving clubs that are due to come into force in 2008. Yamaha expects high replacement demand for clubs in 2006 and 2007 ahead of the introduction of the new standards. The impending retirement of the baby boom generation is also forecast to boost the number of people who can enjoy golf in their leisure time. Yamaha aims to raise brand awareness while expanding market share so that it can exploit replacement demand and tap new users.

Automobile interior wood components

Yamaha's business in wood components for automobile interiors, like its business in golf products, involves the application of technologies developed in musical instrument production, such as wood processing, fabrication, bonding, and staining. Yamaha supplies interior components for luxury automobiles to automakers in Japan and abroad. Amid fierce global competition and downward pressure on prices during fiscal 2006, Yamaha found its wood components in strong demand for their superior technology. Included in that demand were inquiries from Europe.

To meet rising demand, Yamaha invested in new manufacturing processes and higher capacity ahead of the launch of luxury models by Japanese automakers from mid-2006 onward. Yamaha plans continued investment to upgrade its product development, manufacturing, and supply capabilities to maintain its competitive edge in the market for automobile interior wood components and to ensure stable earnings from this product line.

Metallic molds and components and FA equipment

Yamaha has utilized its long-standing original design concept to develop a design and production system for metallic molds using 3-D solid models. A system that realizes the rationalization of the press line enables production to be tailored to customer needs.

Yamaha anticipates that demand for magnesium parts will remain buoyant due to rising demand from the mobile phone sector and as demand for single-lens reflex digital cameras increases along with the customer base of makers of these cameras.

Yamaha's FA equipment operations supply precision machines for fabricating and testing electronic circuit boards. Shipment levels have recorded steady growth as a result of favorable conditions in the flexible printed circuit industry. Such circuits are used in many digital consumer electronic products, including flat-screen televisions, mobile phones, digital cameras, and portable audio players. Strong demand in the automobile parts industry has also supported sales of other of the Company's FA equipment products, such as leak testers and finishing robots. Yamaha, however, expects competition to intensify. Efforts are under way to reinforce the competitiveness of the Company's operations in FA equipment.

Technological expertise underpins the Yamaha Group's broad base of operations. Yamaha invests substantially in research and development (R&D) activities that support its progress in advanced technology. Securing, protecting, and utilizing related intellectual property is another prime aim at Yamaha to ensure that the Company retains its competitive technical edge.

R&D contribution to brand and technology developments

Yamaha leverages the core technological expertise that it has acquired over many years in sound and music to increase the value of the Yamaha brand and to stimulate new demand by developing innovative, high-quality products and services. The Company has cultivated an excellent global reputation for original design. This attracts customers worldwide while boosting the competitiveness of the product range and raising the Yamaha brand profile. Core technical expertise and innovative product design constitute important intellectual property for Yamaha.

The next stage in the Yamaha brand evolution is to produce sound-related technologies to support lifestyles enhanced by network-based sound. It also involves developing materials and devices connected with human senses and emotions. Yamaha is focused on generating new business opportunities using its expertise in sound, including the sounds of human voices and environments. The Company is working, for instance, on blending acoustic, digital signal processing, and network technologies to enable sound to become the basis for important aspects of home life, such as conveying information or security. Yamaha also is looking at other potential business in light of the rapid aging of Japanese society. The Company has established a studio in Tokyo to develop original systems that emphasize the positive social role of music in health maintenance.

To further its use of core technologies to support future business, Yamaha invests in employee training to ensure that core skills are passed on and nurtured within its workforce. Other key aspects of R&D at Yamaha include programs to maintain and upgrade technologies for product development and manufacturing. These efforts strengthen the Yamaha brand and boost the value of the Company's intellectual property and other intangible assets.

R&D organization

R&D at Yamaha comprises three elements. First, technical divisions attached to each business segment work on product development.

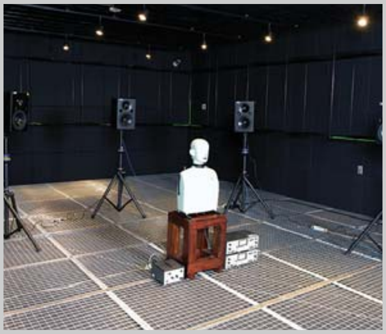
Design Studio London opened in December 2005
Design Studio London stimulates collaboration between personnel from different cultures in Hamamatsu, Tokyo and London with an eye on advanced product design for both the near future and several years down the line.

Second, a central Innovative Technology Group focuses on new research and technical development projects spanning the entire Company. Third, separate companywide project teams work on specific strategic research and product development themes.

Within Innovative Technology Group are separate R&D centers—the Center for Advanced Sound Technologies for musical instruments, audio equipment, and electronic equipment and software and the Center for Materials & Components Technologies for new materials and devices. The companywide project teams, meanwhile, include *e* Yamaha Division that promotes Yamaha's digital media business development strategy and the Productive Technology Business Development Division which aims to foster new commercial businesses founded on creative, high-productivity manufacturing.

In addition, Yamaha conducts most of its product design in-house at Yamaha Product Design Laboratory which holds two Design Studios in Tokyo and London. Yamaha continually invests in systems to fulfill its aim of being a leader in high-quality product design that has a fresh, cutting-edge feel to it.

Measurement of physical characteristics of materials
Material and device R&D at Yamaha targets the development of various new materials and devices with applications in sound and music. The fruits of such efforts provide the basis for new businesses.



Measurement of acoustic characteristics using dummy heads in an anechoic room
Researchers at Yamaha's Center for Advanced Sound Technologies are scientifically examining sound in its totality, including music, words, and noise. Research themes conducted in parallel include the emotional or healing impact of music and sound diffusion analysis. This work seeks to tap into the unknown potential that sound can derive.

Intellectual Property

Patents

The graphs at right illustrate the number of Yamaha patent applications published in Japan and the number of patents owned at the end of March 2006 by Yamaha business segments. The musical instruments business accounts for over 40% of Yamaha's published patent applications in Japan and for more than 60% of all the patents owned by the Company. Recently, growth in the number of patent applications filed by the Company in China has contributed to the number of Yamaha-owned patents.

Patent strategy

Patent acquisition

Yamaha makes every effort to ensure that its patent strategies are coherent with its business development plans. In this respect, Yamaha has formulated patent strategies which contribute to two of the three policies central to its YSD50 medium-term business plan, namely, "achieving sustainable, stable, and high earnings" and "creating and developing innovative, high-quality products and businesses." Yamaha seeks to meet the objective of the first policy by continually obtaining patents in Japan and abroad that help to protect its existing businesses. To meet the objective of its second policy, Yamaha is heightening efforts to foster innovation and to promote patent acquisition with respect to the innovation.

Yamaha has also identified priority themes for patent acquisition in each business segment with the intention of establishing a strong patent portfolio. These target themes are summarized below.

Musical instruments

Network-related technologies, new-concept musical instruments, professional audio-related technologies

AV/IT

Sound field control technologies, network-related technologies

Electronic equipment and metal products

Sound-related devices

Lifestyle-related products

Kitchen and bathroom-related technologies

Yamaha promotes patent filings and rights acquisition in its others business segment as well. The aim is to achieve filings and acquisitions commensurate in number with the scale of each business.

Companywide R&D focuses on patent filings in areas related to audio signal processing technology. Yamaha is aggressive in its approach to making patent filings for all key development milestones, especially for the priority themes of R&D.

Patent use

Patents are regarded by all Yamaha business segments as fundamental to commercial differentiation and to securing and maintaining an advantageous business position. Yamaha's AV and electronic equipment/metal products segments make use of cross-licensing arrangements to augment their operational freedom. The Company also engages in patent licensing to third parties. In its AV business, for example, Yamaha is participating in a joint licensing consortium for optical disk recording technology patents that is led by Philips and Sony.

Yamaha also aims to maintain its intellectual property assets in the most appropriate manner. An annual review of all company-owned patent rights in Japan and elsewhere is conducted to determine current and future uses of respective patents. Patents to be maintained are then selected and a maintenance fee paid, thereby ensuring the appropriateness of intellectual property assets owned by the Company.

Patent management systems and methods

A corporate Legal and Intellectual Property Division oversees Yamaha's patent strategy and the integrated management of all patents held by the Yamaha Group. Specific personnel at each business and R&D division are assigned to intellectual property roles to ensure the Company's patent strategy is coherent with business and R&D strategies. Yamaha has also established a Patent Committee, chaired by the managing director in charge of technology and development, that is tasked with promoting an integrated patent strategy at the group level.

Respect for intellectual property and the securing of confidentiality are also key concepts in Yamaha's internal compliance guidelines. Those guidelines form part of the code of conduct for Yamaha Group personnel and member firms.

Internal incentives for inventions and patents

Yamaha has formulated internal regulations on patent rewards in line with Article 35 of Japanese Patent Law, which was revised in 2005. The Company remunerates inventors at the various stages of patent acquisition and use, including filing, registration, practice, and any outward licensing. The payments are to reward inventors and to provide an incentive for invention. In the course of amending corporate regulations on patent rewards, Yamaha has incorporated steps required by the Patent Law for reward payments, and carried out an increase in reward payments.

To encourage increased patent applications and registrations, Yamaha also strives to cultivate a dynamic corporate culture that values innovation and that honors the achievements of inventors. The inaugural Yamaha annual patent awards were held in fiscal 2005 March to recognize inventors who have made efforts aggressively to create inventions, patent filings, and patent registrations, and to recognize inventions with significant potential and their originators. Yamaha will continue with this patent award system in the future.

Designs

The graph bottom right shows the number of registered designs owned by Yamaha at the end of March 2006. The musical instruments business accounts for about 70% of the total. Yamaha has boosted the number of product design applications made to the Chinese patent office in recent years as part of countermeasures against counterfeit products.

Copyright and other rights

Besides industrial property rights, such as patents, designs, and trademarks, the Yamaha Group generates numerous intellectual property in the form of copyright works, mostly in sound and music fields. Yamaha applies the same degree of care to ensure the proper management and use of music-related copyright as it does with other forms of intellectual property, such as patents, designs and trademarks.

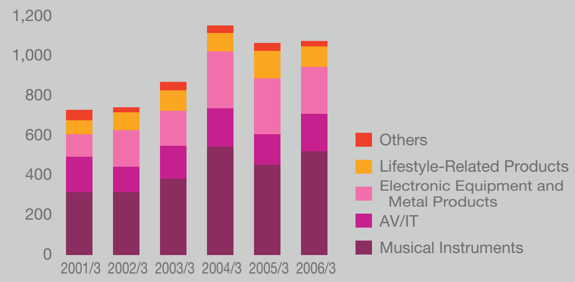
Anti-counterfeiting measures

Yamaha has pursued a proactive policy against the counterfeiting of its products for more than 10 years. By using bureaucratic and legal routes, Yamaha seeks actively to expose and stop such counterfeiting practices, with some success. Cases of other firms seeking to copy Yamaha-branded goods have become more frequent in recent years. Going forward, Yamaha plans to adopt a more-aggressive legal posture, including filing lawsuits against infringers, to preserve its brand value and to retain consumer trust in the Yamaha brand. Yamaha also takes anti-counterfeiting measures in alliance with other companies in diverse industries.

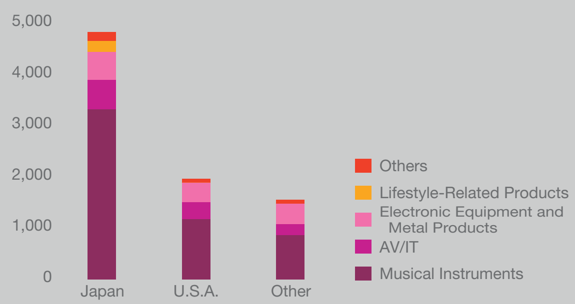
Intellectual property risk

At the time of this report's publication, the Yamaha Group was not involved in any intellectual property dispute with the potential to have a significant impact on the Company's business.

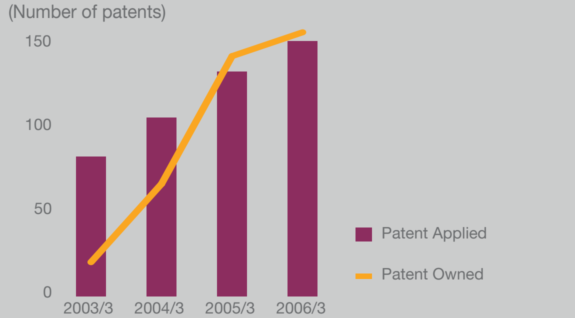
Yamaha Patent Applications Published in Japan
(Number of patents)



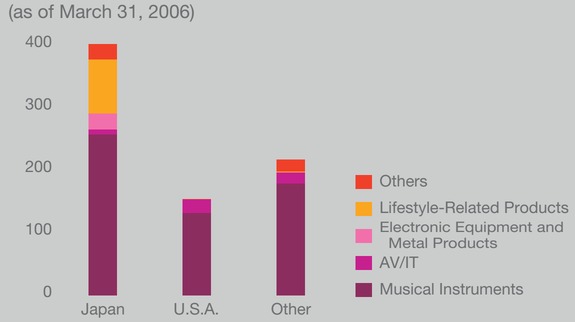
Patents Owned by Yamaha (as of March 31, 2006)



Patents Applied and Owned by Yamaha in China
(Number of patents)



Registered Designs Owned by Yamaha
(as of March 31, 2006)



Yamaha strives for transparent and high-quality management able to respond to the trust and expectations of a wide range of stakeholders. Diverse CSR activities are undertaken so that Yamaha grows into a company that is warmly received by its customers, shareholders, employees, business partners and society in general.

Yamaha aims to strike a balance between the needs of different stakeholders, based on the recognition that the Company's long-term sustainable growth is contingent on fulfillment of its corporate social responsibility (CSR). This belief is reflected in one of the three basic policies contained in the YSD50 medium-term business plan, and commits the Yamaha Group to emphasize the importance of CSR. Yamaha adopted the slogan "Creating 'Kando' Together" as an expression of the corporate philosophy of the Yamaha Group. This principle states clearly how Yamaha aims to fulfill its responsibilities as a corporate citizen to four key sets of stakeholders—customers, shareholders, those who work with Yamaha and society.

This section provides an overview of CSR activities within the Yamaha Group. For more details, please refer to Yamaha's homepage.

URL http://www.global.yamaha.com/about/environmental_activities.html

Yamaha's corporate philosophy

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.

Commitment 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.

Commitment 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.

Commitment 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.

Commitment 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.

Brand Slogan
CREATING 'KANDO' TOGETHER

Enhancing corporate governance

Yamaha regards strengthening its corporate governance systems to be one of its most important issues to realize transparent, high-quality management. To achieve this, Yamaha introduced the Executive Officer System and set up a Companywide Governance Committee and an internal auditing system. Yamaha has also adopted the corporate auditor system to ensure the necessary environment for effective daily business auditing and to increase the effectiveness of corporate governance systems.

Yamaha's Board of Directors has overall responsibility for formulating strategies of the Yamaha Group, monitoring of and providing guidance on business execution in each division, and performing other managerial functions.

On June 27, 2006, Yamaha shifted to a system in which five directors manage groupings of business divisions and staff divisions. The director in charge of each group is responsible for its performance and for evaluating the results of the divisions under his/her control. Having directors in charge of each group enables the effective sharing of information on each group via Board of Directors Meetings and Management Meetings, thereby ensuring swift response to management issues. As a general rule, executive officers have been appointed to divisions responsible for undertaking key management initiatives in order to strengthen consolidated group management and enhance business execution. This helps clarify operating responsibilities for each division and improve business efficiency.

Yamaha has formed the Companywide Governance Committee, comprising the Compliance Committee, the CSR Committee and the Corporate Officer Personnel Committee, to promote consistent practices across-the-board.

The Compliance Committee deliberates and decides on items concerning compliance with laws, social norms and internal regulations in business activities and enhancement of ethics. The CSR Committee promotes voluntary activities that contribute to society with the objective of pursuing achievement of autonomously established standards beyond those required by law. The Corporate Officer Personnel Committee is responsible for discussing the selection of candidates for the positions of director, auditor and executive officer and thereby increasing the transparency and fairness of the process for selection. It is also responsible for considering programs for nurturing future candidates for management positions and management compensation system.

Developing internal control systems

Yamaha pursues the optimum in corporate governance in order to enhance corporate and brand value. At the same time, efforts are made to improve the quality of internal control systems as a means to enhancing the effectiveness of business activities, the reliability of accounting and financial information, and compliance with laws and regulations, as well as safeguarding assets and strengthening risk management. The internal control project was inaugurated in April 2006 to investigate the effectiveness of existing internal control systems and promote their systematic redevelopment.

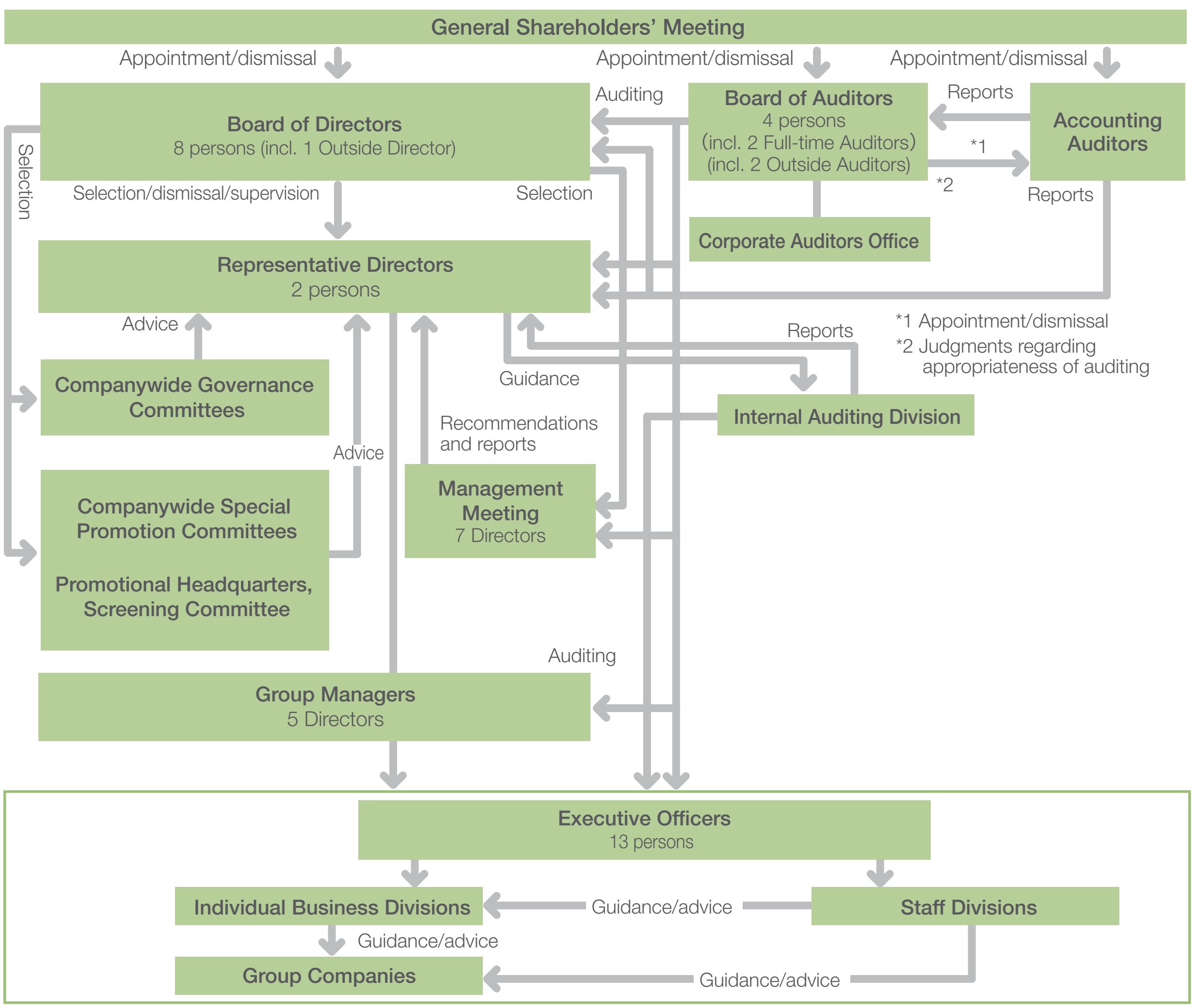
Compliance

The Compliance Committee was established in 2003 not only to enforce compliance but also to set standards of behavior in line with social norms, corporate ethics and internal regulations. A Compliance Guide has been created to define and explain operating rules. Yamaha also conducts compliance training to convey its stance on compliance to all employees. A Compliance Help Line has been created to further ensure compliance. A Compliance Code of Conduct was revised in April 2006 to further strengthen compliance throughout the group, in both directors and employees.

Risk management systems

Yamaha has established a flexible and optimum structure to facilitate timely response to risk based on the potential degree of business impact. Individual departments, central committees and a group-wide risk management system each deals with the various risks that occur in business execution. The central committees involved with risk management are the Compliance Committee, the Brand Management Committee, the Quality Committee, the Environment Committee, the Export Screening Committee, the Personal Information Protection Promotion Committee and the Health and Safety Promotion Committee.

The chart below illustrates corporate governance structures and internal control systems at Yamaha as of June 27, 2006.



Policy on large purchases of Company shares

At the Board of Directors' Meeting held on April 28, 2006, Yamaha established a policy pertaining to large purchases of the Company's shares (anti-takeover measure). This policy provides rules for large scale purchases, warning the purchaser of possible anti-takeover measures that may be taken.

The following outlines the rules pertaining to any potential purchase of the Company's shares that will result in the acquisition of a 20%-or-greater share of voting rights in the Company.

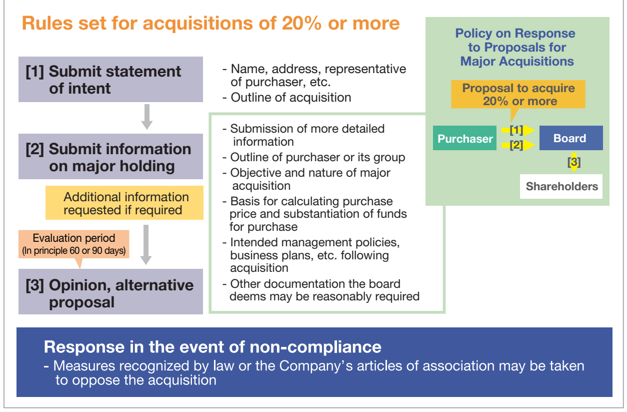
i) Sufficient information regarding the purchase must be provided.

ii) An assessment period shall be given for the Board of Directors to evaluate and deliberate on the given information, negotiate, and if necessary formulate alternative plans.

Should a large-share purchaser fail to comply with these rules, Yamaha's Board of Directors may take countermeasures against the purchaser.

The purpose of the rules is to ensure the large share purchaser provides necessary and sufficient information to enable shareholders to make a decision as to whether a large share purchase offer from any specific party is beneficial or not to the Company and its shareholders. The rules are not designed as a deterrent to large share purchases so long as the bid, even if it is deemed a hostile one, is in the best interests of the Company and its shareholders in terms of corporate value.

Establishment of Rules for Major Acquisitions



Please refer to Yamaha's homepage for further details.

(http://www.global.yamaha.com/news/2006/20060428c.html)

Concrete action aimed at realizing CSR-focused management

The CSR Committee defines the priority and status of themes Yamaha chooses to adopt from the various issues related to corporate social responsibility. The following outlines the action taken for each theme.

Major CSR themes in fiscal 2006

Safety	Guarantee safety of facilities
Quality	Enhance Quality Management System
	Promote customer satisfaction activities
Environment	Achieve Zero Emissions of industrial waste
	Help prevent global warming
	Protect forests
Labor	Promote occupational health and safety
	Promote success of female employees
IR	Promote timely disclosure of relevant information
Risk management	Strengthen risk management responsiveness

Details of activities

Promoting the success of female employees

Yamaha introduced a Diversity Planning Department into its Human Resources Division in March 2006 aimed at further promoting the career success of female employees.

In May 2004, Yamaha inaugurated the Positive Action* Project that lasted approximately one year and consisted of members chosen from in-house recruiting. In accord with the proposal of this project, Yamaha continues to implement measures to help women get promoted and to create a working environment that allows women to work comfortably.

* Positive Action is defined as voluntary and aggressive activities by a company to eliminate any disparities between men and women in the workplace caused by rigid views about gender-specific roles and past history.

Achieving Zero Emissions*

The Yamaha Group strives to achieve Zero Emissions to ensure that waste is effectively used as a resource and because there is a shortage of waste repositories. All Yamaha Corporation factories achieved Zero Emissions in 2005, while all group-wide factories aim to realize this goal by the end of March 2007.

* Zero Emissions: The Yamaha Group defines this as "restricting the volume of final disposal to landfill to 1% of the waste generated or less."

Preventing global warming through energy conservation

To prevent global warming, the Yamaha Group makes every effort to reduce CO_2 emissions via energy conservation by setting specific programs at each business site in Japan and overseas. Yamaha aims to reduce CO_2 emissions from production sites by 6% relative to fiscal 1991 levels by fiscal 2011.

During this period, Yamaha Livingtec Corporation introduced a cogeneration system as a means to reduce primary energy consumption and CO_2 emissions. The system became operational in March. In addition, on February 1, 2006 Yamaha Kagoshima Semiconductor Inc. won the Director General's Prize for energy conservation in the 16th Energy Conservation Award held by the Ministry of Economy, Trade and Industry.

Fiscal 2006 topics

Award from Ministry of Health, Labor and Welfare

Yamaha was awarded the Ministry of Health, Labor and Welfare Prize at the Family Friendly Company Awards in recognition of programs such as the child-care leave system, family-care leave system and measures to shorten work hours introduced to make returning to work easier.

Inclusion in socially responsible investment (SRI) indices

Yamaha has been listed as a constituent of the FTSE4Good Global Index, a leading SRI index, every year since March 2002, and of the Ethibel Sustainability Index (ESI) since April 2005. In addition, Yamaha has been a constituent of the Morningstar SRI Index since its launch in July 2003. Many SRI funds in Japan include Yamaha. The Company aims to maintain its efforts regarding CSR-oriented activities.

Notes: 1. Socially Responsible Investment (SRI): Socially responsible investment is a process that takes social, ethical and environmental criteria into account when evaluating and selecting companies to invest in aimed at generating stable profits. Such criteria include legal compliance, employment and personnel issues, consumer response and contribution to society and the community, which complement conventional financial criteria.

2. FTSE: Joint venture between the Financial Times Ltd. (U.K.) and the London Stock Exchange.

3. Ethibel: Based in Belgium, is an independent consultancy agency for socially responsible investment that advises banks, brokers and institutional investors.

Social contribution activities

Activities to spread the joy of music

Yamaha supports a variety of events that range from concerts and exchanges with top artists to the provision of technical seminars, for people that want to share their inspiration and time through music. Yamaha will continue to provide venues and opportunities to hold such events as the Hamamatsu International Wind Instrument Academy & Festival, Hamamatsu Jazz Week, Amateur Band Concert, Free Participation Concert and New Talents of the Piano.

Yamaha Europe Scholarship Program

The Yamaha Europe Scholarship Program has been set up to provide opportunities to youngsters in Europe to study music. During the year under review, a total of 492 applications were received from students of brass & woodwind from 31 different countries. Of that amount, 55 successful candidates were awarded scholarships. The number of applicants has been increasing annually along with awareness of the program. Besides the grant, Yamaha sponsors concerts to demonstrate the talent of the youngsters to the world. In fiscal 2007, scholarships will be given to students specializing in vocal.

Supporting hurricane victims

Yamaha Corporation of America (YCA) runs a philanthropic program called Yamaha Cares. One of the recent activities of the program was to provide support to areas affected by Hurricane Katrina through the American Red Cross. Charitable donations as well as aid supplies in the form of everyday necessities, food and drink were distributed to provide relief to people in the states of Louisiana, Mississippi, Alabama and Florida.

In Thomaston, Georgia, at the Yamaha Music Manufacturing (YMM) plant, a company tractor-trailer was loaded with supplies and necessities donated by employees for delivery into the disaster zone.

Reforestation activity "Yamaha Forests" in Indonesia

Yamaha and Yamaha Motor Co., Ltd. launched a tree-planting project in Indonesia, a country with which both companies have a strong relationship, aimed at preserving the environment and contributing to society. The activity was conducted mainly by the affiliates and subsidiaries of the two companies, with the cooperation of local communities and organizations. The project, which also benefited from the support of the NGO, OISCA-International, aims to reforest about 120 hectares of land by planting between 150,000 and 200,000 mahogany, teak, Sengon laut and other young trees over five years. The area is expected to closely resemble a natural forest once completed.

Yamaha Jazz Festival in Hamamatsu 2005

Scholars of YMFE (Yamaha Music Foundation of Europe) Scholarship Program

YMM tractor-trailer loaded with supplies donated by Yamaha employees

Reforestation activity in Indonesia

Board of Directors

Katsuhiko Kishida
Chairman and Representative Director

Shuji Ito
President and Representative Director

Hirokazu Kato
Managing Director
Sound and IT Business Group
Research and Development Group

Tsuneo Kuroe
Managing Director
Finance and Administration Group

Mitsuru Umemura
Managing Director
Musical Instruments and Software Business Group

Toru Hasegawa
Director
Chairman and Director of Yamaha Motor Co., Ltd.

Yasushi Yahata
Director
Productive Technology Business Group
Process Management Group
Golf Products Division

Hiroo Okabe
Director
Deputy Group Manager of Musical Instruments and Software Business
General Manager, Piano Division

Corporate Auditors

Naomoto Ota (Full-Time)

Michio Horikoshi (Full-Time)

Kunio Miura (Lawyer)

Yasuharu Terai (President, Yamaha Motor Solutions Corp.)

Executive Officers

Hajime Hayashida
General Manager, High Grade Piano Development Division

Yoshikazu Tobe
General Manager, Public Relations Division

Motoki Takahashi
General Manager, Corporate Planning Division

Hiroshi Sekiguchi
General Manager, AV Products Division

Takuya Tamaru
General Manager, Sound Network Division

Kosuke Kamo
General Manager, Legal & Intellectual Property Division

Koji Niimi
General Manager, Innovative Technology Group

Yasuhiro Kira
General Manager, Product Design Laboratory

Tatsumi Ohara
General Manager, Semiconductor Division

Tsutomu Sasaki
General Manager, Purchasing & Logistics Division

Masaaki Koshiba
President, Yamaha Music & Electronics (China) Co., Ltd.

Yoshihiro Doi
President, Yamaha Corporation of America

Takuya Nakata
General Manager, Pro Audio & Digital Musical Instruments Division

(June 27, 2006)

Yamaha Corporation and Consolidated Subsidiaries
March 31, 2006, 2005, 2004, 2003, 2002 and 2001

	Millions of Yen					
	2006	2005	2004	2003	2002	2001
For the year:						
Net sales	**¥ 534,084**	¥ 534,079	¥ 539,506	¥ 524,763	¥ 504,406	¥ 519,104
Cost of sales	**341,816**	335,483	337,813	338,307	340,411	346,200
Gross profit	**192,267**	198,595	201,693	186,456	163,994	172,904
Selling, general and administrative expenses	**168,132**	162,899	156,637	154,413	152,951	149,902
Operating income	**24,135**	35,695	45,056	32,043	11,043	23,001
Income (loss) before income taxes and minority interests	**35,842**	33,516	47,456	22,612	(5,784)	23,491
Net income (loss)	**28,123**	19,697	43,541	17,947	(10,274)	13,320
At year-end:						
Total assets	**¥ 519,977**	¥ 505,577	¥ 508,731	¥ 512,716	¥ 509,663	¥ 522,486
Total shareholders' equity, net	**316,005**	275,200	259,731	214,471	201,965	196,733
Total current assets	**209,381**	225,581	201,704	221,089	211,140	231,872
Total current liabilities	**117,047**	145,820	123,596	158,148	144,498	175,371

	Yen					
Amounts per share:						
Net income (loss)	**¥ 136.04**	¥ 95.06	¥ 210.63	¥ 86.65	¥ (49.75)	¥ 64.50
Shareholders' equity	**1,532.62**	1,334.51	1,259.28	1,040.06	978.15	952.62

	%					
Ratios:						
Current ratio	**178.9**	154.7 %	163.2%	139.8%	146.1%	132.2%
Shareholders' equity ratio	**60.8**	54.4	51.1	41.8	39.6	37.7
Return on assets	**5.5**	3.9	8.5	3.5	(2.0)	2.5
Return on equity	**9.5**	7.4	18.4	8.6	(5.2)	6.4

Contents

Business Results

Sales by Business Segment

Sales increased on a year-on-year basis in the musical instruments and lifestyle-related products businesses. But sales from electronic equipment and metal products fell sharply because of lower demand for the LSI sound chips used in mobile phones and as a result of continued price erosion. Sales also fell in the AV/IT and recreation segments. Net sales amounted to ¥534.1 billion, on a par with the previous year.

Sales of the musical instruments segment increased ¥11.5 billion, or 3.8%, compared with fiscal 2005, to ¥314.1 billion. Positive currency translation effects due to yen depreciation accounted for ¥8.3 billion of the increase in sales posted by this core segment. Excluding such effects, the real year-on-year increase in musical instrument sales was ¥3.2 billion, or 1.1%.

Sales in the Japanese market declined after demand for STAGEA™, a new Electone™ model, settled down following that product's launch in 2004. Sales in the North American market, conversely, rose on the growth in sales of pianos, professional audio equipment, and wind instruments. Sales were also brisk in Europe, reflecting strong demand for electronic musical instruments and for professional audio equipment. Sales in both of these markets increased compared with fiscal 2005. Other markets where sales increased over the previous year included South Korea, South America, and the Middle East. Double-digit sales growth was posted in China once again, spurred by strong piano sales supported by increased piano production at the Yamaha plant in Hangzhou.

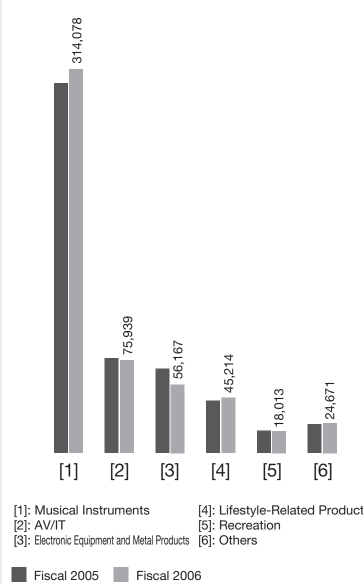
By product category, sales of Electones™ fell sharply in fiscal 2006. Professional audio equipment sales, though, increased more than 20% over the previous year due primarily to sales growth overseas, especially in North America. Other product categories posting year-on-year gains in sales included pianos and wind instruments. However, sales of guitars in North America were lower than expected, which led to an overall decrease in sales of guitars.

The company continued its efforts to make its music schools appeal to modern consumer lifestyles through new concepts and facilities, while also striving to boost student enrollment numbers. As a result, overall students numbers expanded as both children and adult enrollments increased compared with fiscal 2005, leading to higher sales. Music school operations also commenced in China.

Sales in the AV/IT segment fell ¥1.8 billion, or 2.3%, compared with the previous year, to ¥75.9 billion. In audio products, although shipments of the new Digital Sound Projector™ YSP range of products were favorable, overall sales of audio products were poor because of a depressed home theater market. By market, sales rose in the U.S. market, led by medium- and high-end amplifiers and receivers, but sales fell in Japan and Europe amid fierce competition. Sales of routers to small and medium-sized firms also declined on account of intense competition and the effects of price erosion.

Electronic equipment and metal products segment sales fell ¥12.9 billion, or 18.7%, compared with the previous year, to ¥56.2 billion. A drop in demand in the market for the LSI

Sales by Business Segment
(Millions of Yen)



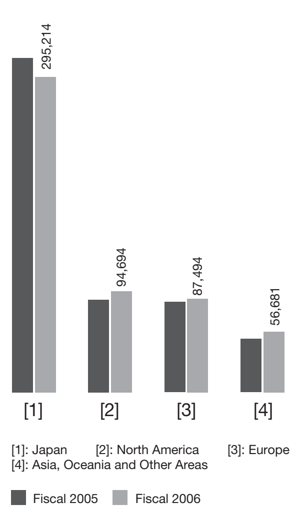
sound chips used in mobile phones was compounded by unit sales price erosion, resulting in a substantial decline in the sales of these chips compared with fiscal 2005. Sales of electronic metal materials rose gradually beginning in the second half of fiscal 2006, based on a recovery in markets for digital consumer electronics.

Sales in the lifestyle-related products segment increased ¥2.4 billion, or 5.5%, compared with the previous year, to ¥45.2 billion. This rise was mainly due to a shift in operational emphasis toward the home remodeling sector as housing starts in Japan stalled. The popularity of system kitchens featuring sinks made of artificial marble was another factor boosting sales throughout the year.

A drop in sales revenue from wedding functions had a negative impact on the business of the recreation segment. As a result, despite a recovery in accommodation occupancy rates, overall segment sales declined ¥0.3 billion, or 1.5%, compared with fiscal 2005, to ¥18.0 billion.

In others segment, sales of automobile interior wood components rose on the success of client development efforts, offsetting effects related to clients' lack of model changes. The launch of improved golf club models conforming to new standards that reduce the spring-like energy transfer from clubface to ball met with the approval of golfers in Japan and abroad. The factory automation (FA) business likewise continued to expand steadily. Sales of metallic molds and components also rose, reflecting a recovery in demand in the second half of the year for magnesium parts used in mobile handsets and digital cameras. Total sales in the others segment increased ¥1.1 billion, or 4.7%, compared with the previous year, to ¥24.7 billion.

Sales by Geographical Area
(Millions of Yen)



Sales by Geographical Area

In Japan, sales of lifestyle-related products increased over the previous year, but sales of semiconductors fell sharply, particularly for the LSI sound chips used in mobile phones. Likewise, domestic demand for a new model of Electone™, STAGEA™, dipped in its post-launch year, dragging down overall musical instrument sales. Sales in Japan thus fell ¥17.7 billion, or 5.7%, year on year, to ¥295.2 billion.

Sales in North America increased ¥8.0 billion, or 9.2%, year on year, to ¥94.7 billion. This reflected generally strong sales of musical instruments and AV equipment and gains due to the yen's depreciation against the dollar.

In Europe, sales advanced ¥3.0 billion, or 3.6% year on year, to ¥87.5 billion. Higher sales of musical instruments and increased shipments of automobile interior wood components helped to offset a decline in AV equipment sales.

In Asia, Oceania and other areas, higher sales of musical instruments in South Korea, South America, the Middle East, and other parts of the world contributed to a ¥6.7 billion, or 13.4%, growth in sales, to ¥56.7 billion. Although sales dipped below target levels, a double-digit gain was still posted in China.

Cost of Sales and SG&A Expenses

Ongoing cost reduction only partially offset an increase in material costs caused by factors such as yen depreciation and higher crude oil prices. The overall cost of sales increased ¥6.2 billion, or 1.8%, compared with fiscal 2005. Gross profit declined ¥6.3 billion, or 3.2%, to ¥192.3 billion, with sales remaining basically on par with the previous year. The gross profit margin declined 1.2 percentage points, from 37.2% to 36.0%.

Selling, general and administrative (SG&A) expenses increased ¥5.2 billion, or 3.2%, over fiscal 2005, to ¥168.1 billion. The increase reflected a rise in expenses associated with yen depreciation, a hike in costs related to newly consolidated subsidiaries, and a surge in distribution costs. The ratio of SG&A expenses to sales rose 1.0 percentage point, from 30.5% to 31.5%.

Operating Income

Operating income fell ¥11.6 billion, or 32.4%, from a year earlier, to ¥24.1 billion. Despite a foreign exchange gain due to depreciation of the yen, there was a change in sales composition, notably with a decline in the proportion of high-profit-margin semiconductors, while rising raw materials prices, especially for crude oil, and higher transportation costs, also had a negative effect.

Operating income in the musical instruments segment was largely unchanged, at ¥14.1 billion. The segment's higher sales and currency translation gains were offset by a combination of higher raw material prices; adverse changes in the product sales mix; and corrective inventory-related measures, which resulted in lower gross profit margins for the segment.

Operating income also declined in the AV/IT segment, by ¥1.5 billion, or 42.1%, to ¥2.1 billion, due to the effects of lower sales and of reduced gross profit margins as competition intensified, despite continued efforts to cut production costs.

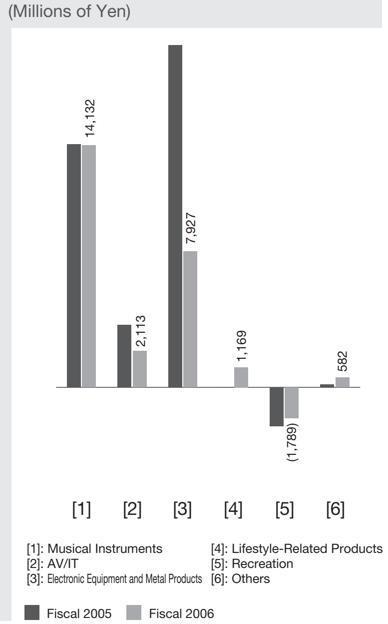
The electronic equipment and metal products segment recorded a second consecutive substantial drop in operating income of ¥12.0 billion, or 60.3%, from ¥20.0 billion to ¥7.9 billion. This mirrored a significant fall in sales caused by lower demand for the LSI sound chips used in mobile phones and by further price erosion.

Profitability, meanwhile, was restored at the operating level to the lifestyle-related products segment. This was due to a combination of increased sales and reduced manufacturing and fixed costs.

Depreciation expenses were reduced in the recreation segment after the adoption of asset-impairment accounting standards in the previous year resulted in a decline in depreciable assets. Although this helped to curtail losses, the business still recorded an operating loss of ¥1.8 billion due to difficulties in stemming the decline in sales.

Operating income from others segment amounted to ¥0.6 billion, an increase of ¥0.4 billion, or 245.4%, compared with the previous year. The improvement came as a result of higher sales and a lowering of manufacturing costs across the automobile interior wood components, FA, and metallic molds and components businesses.

Operating Income (Loss) by Business Segment
(Millions of Yen)



Other Income and Expenses

Net non-operating income recorded a year-on-year improvement of ¥5.5 billion, rising from ¥5.6 billion to ¥11.1 billion. This gain mainly came as a result of an increase of ¥5.7 billion, or 62.9%, in the equity in earnings of unconsolidated subsidiaries and affiliates, from ¥9.1 billion to ¥14.8 billion.

An extraordinary gain of ¥0.6 billion was recorded as a result of gains on sales of investment securities, among others. Compared with fiscal 2005's net extraordinary loss of ¥7.8 billion, the extraordinary gain in fiscal 2006 represented an improvement of ¥8.4 billion. There were no special factors this year as in fiscal 2005, which included asset impairment losses and extraordinary gains from the return of the substitutional portion of welfare pension fund plans to the government.

Net Income

Income before income taxes and minority interests increased ¥2.3 billion, or 6.9%, year on year, rising from ¥33.5 billion to ¥35.8 billion. Reflecting the increase in the nontaxable equity in earnings of unconsolidated subsidiaries and affiliates, net income for the year increased ¥8.4 billion, or 42.8%, from ¥19.7 billion to ¥28.1 billion.

Foreign Exchange Rate Fluctuations and Risk Hedging

Sales at overseas consolidated subsidiaries are calculated using average exchange rates recorded during the year, in which the yen fell ¥5 against the U.S. dollar compared with the previous year, to ¥113 per $1. The year-on-year effect of this change was an increase of ¥5.0 billion in sales at overseas consolidated subsidiaries. The yen also depreciated against the euro by ¥3 compared with the previous year, for an average exchange rate of ¥138 to €1. This resulted in a year-on-year gain in sales of ¥1.3 billion. The net effect on sales of foreign exchange rate fluctuations, including fluctuations of the yen against such other currencies as the Australian and Canadian dollars, was a gain of ¥10.7 billion over fiscal 2005.

Profits, meanwhile, also were affected by foreign exchange rate fluctuations. The average yen-U.S. dollar settlement rate was ¥113 to $1, representing depreciation of ¥5, and the average settlement rate for the euro was ¥135 to €1, representing depreciation of ¥2. The effects on profits were gains of ¥0.2 billion and ¥0.8 billion, respectively. Including the effects of other currencies, the net effect on profits of foreign exchange rate fluctuations was a gain of ¥1.9 billion over fiscal 2005.

The Company undertakes most of its hedging operations against currency risks in Japan. U.S. dollar-related currency fluctuation risks are hedged by marrying risk associated with dollar receipts from exports with risk associated with dollar payments for imported products. The Company hedges the value of risks associated with the euro and the Australian and Canadian dollars by projecting related export revenues and purchasing relevant three-month currency forwards.

Financial Condition

Assets, Liabilities and Shareholders’ Equity

Assets

Total assets at March 31, 2006, amounted to ¥520.0 billion, an increase of ¥14.4 billion, or 2.8%, compared with the previous year-end. Current assets decreased ¥16.2 billion, or 7.2%. Cash and bank deposits fell ¥14.8 billion, or 28.9%, to ¥36.4 billion, from ¥51.2 billion at the previous year-end. Notes and accounts receivable and inventories also declined.

The total value of fixed assets increased ¥30.6 billion, or 10.9%, from ¥280.0 billion to ¥310.6 billion. This was due mainly to an increase in the value of shares in Yamaha Motor Co., Ltd., an equity-method affiliate, and an appreciation in the market value of the equity holdings of financial institutions and other stocks, which led to growth of ¥31.9 billion, or 31.6%, in investment securities compared with the previous year-end.

Liabilities

Total liabilities at March 31, 2006, amounted to ¥199.5 billion, a drop of ¥27.0 billion, or 11.9%, from the ¥226.5 billion recorded on the same date in 2005. Contributory factors included a reduction in long- and short-term debt due to a continued emphasis on debt repayments and lower income taxes payable.

Actual Interest-Bearing Debt

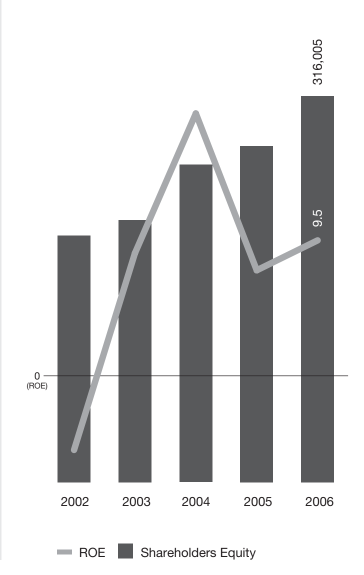
One of the goals of the YSD50 medium-term business plan is to improve the Company’s financial health by reducing actual interest-bearing debt—borrowings, less cash and bank deposits—to zero. Following fiscal 2005, the Company again recorded a negative real balance of interest-bearing debt at the end of fiscal 2006. Borrowings amounted to ¥28.5 billion, and cash and bank deposits totaled ¥36.4 billion. Going forward, the Company plans to strike a balance between returning profits to shareholders and investing for future growth.

Shareholders’ Equity

Shareholders’ equity increased ¥40.8 billion, or 14.8%, compared with the previous year-end, to ¥316.0 billion. This reflected a combination of higher net income, higher net unrealized holding gains on other securities in line with an increase in share value, and a net gain on translation adjustments due to yen depreciation. The shareholders’ equity ratio was 60.8% as of March 31, 2006, an increase of 6.4 percentage points over the 54.4% posted at the previous year-end.

Return on equity (ROE) was 9.5%.

Shareholders’ Equity and ROE
(Millions of Yen, %)



Cash Flows

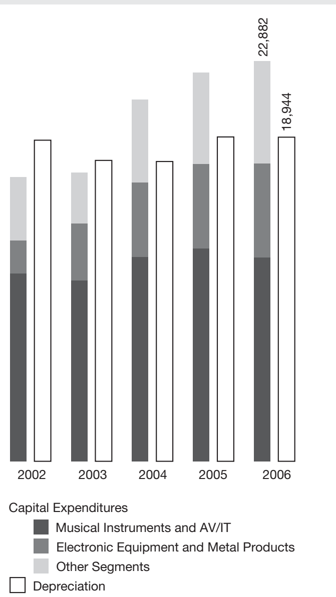
Net cash provided by operating activities in fiscal 2006 totaled ¥25.5 billion. The ¥14.1 billion, or 35.6%, decline from the previous year came despite higher income before income taxes and minority interests. Significant factors depressing operating cash flow included an absence of the impairment losses recorded in fiscal 2005 and higher equity in the earnings of unconsolidated subsidiaries and affiliates.

Net cash used in investing activities totaled ¥18.1 billion, compared with ¥12.9 billion the year before. The ¥5.2 billion, or 40.4%, increase in cash outflow was mainly the result of lower proceeds from sales of investment securities, even though the decline was partially offset by reduced payments for capital investments associated with acquisitions and business alliances during the period.

Net cash used in financing activities rose to ¥25.8 billion, primarily because of the repayment of long- and short-term debt and increased cash dividend payments to shareholders. The rise represented increased cash outflow of ¥17.5 billion, or 211.0%, compared with the previous year.

The fiscal 2006 year-end balance of cash and cash equivalents totaled ¥35.4 billion, a year-on-year decline of ¥15.0 billion, or 29.7%. This amount includes a net positive effect of ¥1.8 billion due to exchange rate fluctuations and a net cash gain arising from an increase in the number of subsidiaries included in the scope of consolidation.

Capital Expenditures and Depreciation
(Millions of Yen)



Capital Expenditures and Depreciation

Capital expenditures of ¥22.9 billion in fiscal 2006 were roughly equal to the previous year's total. The musical instruments business increased its capital expenditures by ¥0.6 billion, or 5.0%, to ¥11.9 billion. This included heightened investment in molds for new products; in the establishment of new Yamaha music schools in Japan; and in the expansion of musical instrument assets for rental purposes in line with growth in musical instrument rental operations.

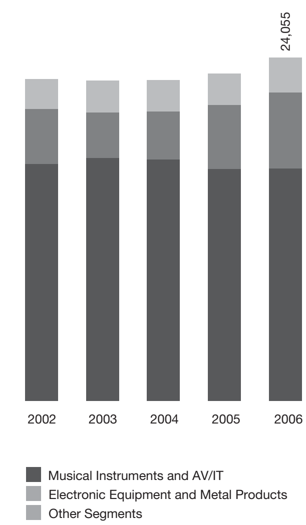
Capital expenditures in the electronic equipment and metal products business increased ¥0.5 billion, or 10.8%, to ¥5.5 billion, reflecting investment in new semiconductor production equipment at Yamaha Kagoshima Semiconductor Inc. aimed at miniaturization (0.18μm). In the recreation segment, capital expenditures declined ¥1.6 billion, or 66.8%, to ¥0.8 billion, with the conclusion of a guest room expansion program undertaken in the previous year.

The Company's depreciation and amortization expense amounted to ¥18.9 billion.

R&D Expenses

R&D expenses increased ¥1.1 billion, or 4.8%, from ¥23.0 billion a year earlier, to ¥24.1 billion. The ratio of R&D expenses to net sales was 4.5%, an increase of 0.2 percentage points compared with fiscal 2005. Most of this spending was directed at product development in electronic and digital musical instruments and in the AV/IT and semiconductor businesses. R&D budgets also funded programs to develop basic sound-related technologies in speakers, sound field control, voice synthesis, sound sources, and DSP; innovations in HIC (Human Interface Components), such as actuators and sensors; materials for professional audio equipment; and technologies related to the environment.

R&D Expenses
(Millions of Yen)



Performance Forecasts

The Company anticipates virtually flat profits on higher sales in the year ending March 2007, projecting sales of ¥546.0 billion, up 2.2% over fiscal 2006; operating income of ¥25.0 billion, up 3.6%; and net income of ¥28.0 billion, down 0.4%. Although the Company does not expect the fiscal 2007 results to match all of the performance targets set out in the YSD50 medium-term business plan, its emphasis in the final year of the plan will remain firmly on the plan's three core policies: achieving sustainable development and stable, high earnings; creating and developing innovative, high-quality products and services; and emphasizing corporate social responsibility (CSR).

In the musical instruments business, the Company will pursue growth in domestic and overseas markets by achieving higher sales of professional audio equipment and other high-value-added products while aiming to increase sales and profits through the continued implementation of measures to raise profitability. In the lifestyle-related products segment, although sales are expected to decline due to intensifying competition, the Company forecasts an increase in profits through the reduction of manufacturing costs. The aim for the recreation segment, meanwhile, is to further limit its losses. In contrast, the Company expects profits to decline in the AV/IT segment and in the electronic equipment and metal products business as a result of further adverse shifts in market conditions.

Profit Distribution Policy

The Company's basic dividend policy is to pay stable dividends, taking into consideration the increase in the consolidated return on shareholders' equity, based on the level of consolidated net income and set aside an appropriate amount of retained earnings to strengthen the Company's management base, including investment in facilities to drive corporate growth.

Consolidated Balance Sheets

Yamaha Corporation and Consolidated Subsidiaries
At March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
ASSETS	**2006**	2005	**2006**
Current assets:			
Cash and bank deposits (Note 19)	**¥ 36,429**	¥ 51,205	**$ 310,113**
Marketable securities (Notes 6 and 18)	**520**	457	**4,427**
Notes and accounts receivable — trade	**72,613**	73,688	**618,141**
Less: Allowance for doubtful accounts	**(2,333)**	(2,114)	**(19,860)**
Inventories	**77,943**	78,434	**663,514**
Deferred income taxes (Note 12)	**16,922**	16,495	**144,054**
Prepaid expenses and other current assets (Note 7)	**7,286**	7,412	**62,024**
Total current assets	**209,381**	225,581	**1,782,421**
Property, plant and equipment, net of accumulated depreciation (Notes 5, 6 and 9):			
Land (Note 8)	**63,772**	64,050	**542,879**
Buildings and structures	**45,953**	45,370	**391,189**
Machinery and equipment	**38,801**	35,607	**330,306**
Construction in progress	**2,462**	1,399	**20,959**
Property, plant and equipment, net of accumulated depreciation	**150,990**	146,428	**1,285,349**
Investments and other assets:			
Investment securities (Notes 4, 6 and 18)	**132,902**	101,015	**1,131,370**
Long-term loans receivable	**688**	924	**5,857**
Lease deposits	**5,891**	5,309	**50,149**
Deferred income taxes (Note 12)	**14,087**	17,425	**119,920**
Excess of cost over net assets acquired	**2,028**	148	**17,264**
Other assets	**4,007**	8,743	**34,111**
Total investments and other assets	**159,605**	133,567	**1,358,687**
Total assets	**¥ 519,977**	¥ 505,577	**$4,426,466**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 3) 2006
Current liabilities:			
Short-term loans (Note 6)	**¥ 17,147**	¥ 17,825	**$ 145,969**
Current portion of long-term debt (Note 6)	**5,132**	22,259	**43,688**
Notes and accounts payable — trade	**37,153**	37,686	**316,276**
Accrued expenses	**43,098**	45,167	**366,885**
Income taxes payable	**3,758**	12,603	**31,991**
Advances received	**2,548**	2,775	**21,691**
Deferred income taxes (Note 12)	**4**	4	**34**
Other current liabilities (Note 7)	**8,204**	7,498	**69,839**
Total current liabilities	**117,047**	145,820	**996,399**
Long-term liabilities:			
Long-term debt (Note 6)	**6,195**	6,514	**52,737**
Deferred income taxes (Note 12)	**303**	200	**2,579**
Deferred income taxes on land revaluation (Note 8)	**17,742**	14,346	**151,034**
Accrued employees' retirement benefits (Note 14)	**27,978**	28,269	**238,171**
Directors' retirement benefits	**891**	950	**7,585**
Long-term deposits received	**27,577**	28,917	**234,758**
Other long-term liabilities	**1,763**	1,522	**15,008**
Total long-term liabilities	**82,452**	80,722	**701,898**
Minority interests	**4,472**	3,834	**38,069**
Contingent liabilities (Note 15)			
Shareholders' equity (Note 13):			
Common stock:			
Authorized—700,000,000 shares;			
Issued 2006—206,524,626 shares			
2005—206,524,626 shares	**28,534**	28,534	**242,905**
Capital surplus	**40,054**	40,054	**340,972**
Earned surplus	**236,913**	212,340	**2,016,796**
Reserve for land revaluation (Note 8)	**18,426**	22,453	**156,857**
Net unrealized holding gain on other securities	**15,470**	7,364	**131,693**
Translation adjustments	**(23,091)**	(35,267)	**(196,569)**
Treasury stock, at cost	**(302)**	(279)	**(2,571)**
Total shareholders' equity, net	**316,005**	275,200	**2,690,091**
Total liabilities and shareholders' equity	**¥ 519,977**	¥ 505,577	**$ 4,426,466**

Consolidated Statements of Income

Yamaha Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Net sales	**¥ 534,084**	¥ 534,079	**$4,546,557**
Cost of sales (Note 10)	**341,816**	335,483	**2,909,815**
Gross profit	**192,267**	198,595	**1,636,733**
Selling, general and administrative expenses (Note 10)	**168,132**	162,899	**1,431,276**
Operating income	**24,135**	35,695	**205,457**
Other income (expenses):			
Interest and dividend income	**907**	708	**7,721**
Interest expense	**(1,081)**	(1,020)	**(9,202)**
Sales rebates	**(4,467)**	(4,327)	**(38,027)**
Loss on sale or disposal of property, net	**(181)**	(1,129)	**(1,541)**
Equity in earnings of unconsolidated subsidiaries and affiliates	**14,838**	9,110	**126,313**
Gain on sales of investment securities	**605**	6,534	**5,150**
Gain on transfer of substitutional portion of retirement benefit obligation and related pension plan assets	**—**	19,927	**—**
Loss on impairment of fixed assets (Note 9)	**—**	(32,703)	**—**
Other, net (Note 11)	**1,085**	722	**9,236**
	11,706	(2,179)	**99,651**
Income before income taxes and minority interests	**35,842**	33,516	**305,116**
Income taxes (Note 12):			
Current	**8,922**	14,497	**75,951**
Deferred	**(1,736)**	(1,088)	**(14,778)**
	7,186	13,408	**61,173**
Income before minority interests	**28,656**	20,107	**243,943**
Minority interests	**532**	409	**4,529**
Net income	**¥ 28,123**	¥ 19,697	**$ 239,406**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Yamaha Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Common stock:			
Balance at beginning of year			
(2006—206,524,626 shares; 2005—206,524,626 shares)	**¥ 28,534**	¥ 28,534	**$ 242,905**
Balance at end of year			
(2006 and 2005—206,524,626 shares)	**¥ 28,534**	¥ 28,534	**$ 242,905**
Capital surplus:			
Balance at beginning of year	**¥ 40,054**	¥ 40,054	**$ 340,972**
Balance at end of year	**¥ 40,054**	¥ 40,054	**$ 340,972**
Earned surplus:			
Balance at beginning of year	**¥ 212,340**	¥ 203,485	**$1,807,610**
Add:			
Net income	**28,123**	19,697	**239,406**
Effect of changes in scope of consolidation	**827**	—	**7,040**
Effect of changes in interest in consolidated subsidiaries	**99**	—	**843**
Reversal of reserve for land revaluation	**282**	—	**2,401**
Reversal of reserve for land revaluation arising from change in interest in an affiliate	**97**	188	**826**
Deduct:			
Cash dividends paid	**4,642**	3,611	**39,516**
Bonuses to directors and statutory auditors	**100**	121	**851**
Effect of changes in scope of consolidation	**115**	36	**979**
Effect of changes in interest in consolidated subsidiaries	**—**	371	**—**
Reversal of reserve for land revaluation	**—**	6,890	**—**
Balance at end of year	**¥ 236,913**	¥ 212,340	**$2,016,796**
Reserve for land revaluation:			
Balance at beginning of year	**¥ 22,453**	¥ 15,866	**$ 191,138**
Net change during the year	**(4,027)**	6,587	**(34,281)**
Balance at end of year	**¥ 18,426**	¥ 22,453	**$ 156,857**
Unrealized holding gain on other securities:			
Balance at beginning of year	**¥ 7,364**	¥ 10,979	**$ 62,688**
Net change during the year	**8,105**	(3,615)	**68,996**
Balance at end of year	**¥ 15,470**	¥ 7,364	**$ 131,693**
Translation adjustments:			
Balance at beginning of year	**¥ (35,267)**	¥ (38,937)	**$ (300,221)**
Net change during the year	**12,176**	3,670	**103,652**
Balance at end of year	**¥ (23,091)**	¥ (35,267)	**$ (196,569)**
Treasury stock, at cost:			
Balance at beginning of year			
(2006—380,610 shares; 2005—368,014 shares)	**¥ (279)**	¥ (252)	**$ (2,375)**
Net change during the year	**(22)**	(27)	**(187)**
Balance at end of year			
(2006—390,902 shares; 2005—380,610 shares)	**¥ (302)**	¥ (279)	**$ (2,571)**

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Yamaha Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2006	2005	**2006**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 35,842**	¥ 33,516	**$ 305,116**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**18,944**	18,958	**161,267**
Loss on impairment of fixed assets	**—**	32,703	**—**
Amortization for excess of cost over net assets acquired	**507**	80	**4,316**
Allowance for doubtful accounts	**(177)**	(233)	**(1,507)**
Loss on revaluation of investment securities	**83**	70	**707**
Loss on revaluation of investments in affiliates	**118**	70	**1,005**
Employees' retirement benefits, net of payments	**(379)**	(21,786)	**(3,226)**
Interest and dividend income	**(907)**	(708)	**(7,721)**
Interest expense	**1,081**	1,020	**9,202**
Equity in earnings of unconsolidated subsidiaries and affiliates	**(14,838)**	(9,110)	**(126,313)**
Gain on sales of investment securities other than those of subsidiaries	**(605)**	(6,529)	**(5,150)**
Gain on liquidation of subsidiaries	**—**	(4)	**—**
Loss on sales or disposal of property, net	**181**	1,129	**1,541**
Foreign exchange gain	**(107)**	(180)	**(911)**
Changes in operating assets and liabilities:			
Accounts and notes receivable — trade	**3,008**	8,636	**25,607**
Inventories	**4,944**	(4,654)	**42,087**
Accounts and notes payable — trade	**(1,716)**	(2,798)	**(14,608)**
Other, net	**(5,135)**	(6,144)	**(43,713)**
Subtotal	**40,843**	44,033	**347,689**
Interest and dividends received	**2,730**	2,081	**23,240**
Interest paid	**(1,084)**	(1,024)	**(9,228)**
Income taxes, net of payments	**(16,979)**	(5,501)	**(144,539)**
Net cash provided by operating activities	**25,510**	39,588	**217,162**
Cash flows from investing activities:			
(Purchases of) proceeds from time deposits	**(77)**	9	**(655)**
Purchases of property	**(20,401)**	(21,450)	**(173,670)**
Proceeds from sales of property	**2,327**	2,527	**19,809**
Purchases of investment securities	**(732)**	(113)	**(6,231)**
Proceeds from sales and redemption of investment securities	**619**	9,416	**5,269**
Other, net	**160**	(3,285)	**1,362**
Net cash used in investing activities	**(18,104)**	(12,896)	**(154,116)**
Cash flows from financing activities:			
(Decrease) increase in short-term loans	**(1,753)**	902	**(14,923)**
Proceeds from long-term debt	**4,556**	5,373	**38,784**
Repayment of long-term debt	**(22,404)**	(8,851)	**(190,721)**
Cash dividends paid	**(4,642)**	(3,611)	**(39,516)**
Resort membership deposits received	**10**	7	**85**
Refund of resort membership deposits	**(1,352)**	(1,889)	**(11,509)**
Cash dividends paid to minority shareholders	**(223)**	(211)	**(1,898)**
Other, net	**(23)**	(28)	**(196)**
Net cash used in financing activities	**(25,834)**	(8,306)	**(219,920)**
Effect of exchange rate changes on cash and cash equivalents	**1,783**	1,099	**15,178**
Net (decrease) increase in cash and cash equivalents	**(16,644)**	19,485	**(141,687)**
Cash and cash equivalents at beginning of the year	**50,393**	31,245	**428,986**
Increase due to inclusion in consolidation	**1,685**	—	**14,344**
Decrease due to exclusion from consolidation	**—**	(337)	**—**
Cash and cash equivalents at end of the year (Note 19)	**¥ 35,434**	¥ 50,393	**$ 301,643**

See notes to consolidated financial statements

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 overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile. The Company and all consolidated subsidiaries are referred to herein 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 the 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. 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 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 86 and 93 consolidated subsidiaries for the years ended March 31, 2005 and 2006, 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 in various ways by the consolidated group are accounted for by the equity method. Investments in three (Yamaha Motor Co., Ltd., Korg Inc. and one overseas affiliate) and two (Yamaha Motor Co., Ltd. and Korg Inc.) affiliates have been accounted for by the equity method for the years ended March 31, 2006 and 2005.

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

Certain overseas subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differs from the balance sheet data of the Company; however all necessary adjustments between the fiscal year end of there overseas subsidiaries and that of the Company have been made, thus enabling them to report financial results equivalent to those as of and for the fiscal year end.

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

(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 foreign exchange contracts, or at the contracted rates of exchange when hedged by forward foreign exchange contracts. The resulting exchange gain or loss is recognized as other income or expense.

Assets and liabilities of the overseas 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 a component of shareholders' equity and minority interests in the 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% and a recovery to fair value is not anticipated.

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 overseas 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 principally by the declining-balance method (except that 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)

Effective April 1, 2004, the Company and its consolidated subsidiaries changed their method of depreciation of certain recreation facilities from the straight-line method to the declining-balance method due to a deterioration in their economic value as a result of recent unfavorable conditions in the recreation segment. With this change, depreciation expense increased by ¥1,274 million and income before income taxes and minority interests decreased by ¥1,274 million for the year ended March 31, 2005.

The effect of this change on segment information is disclosed in Note 21 (3).

(h) Allowance for doubtful accounts

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

(i) Retirement benefits

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

Prior service cost is 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.

See Note 14 for the method of accounting for the separation of the substitutional portion from the corporate portion of the benefit obligation under the Welfare Pension Fund Plan.

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 the 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 bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(m) 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 conduct an assessment 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 performance of each hedge against that of the underlying hedged item.

(n) 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 adjustments as deemed necessary.

(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 appropriations. On May 1, 2006 the new Corporation Law of Japan ("the Law"), which superseded the Commercial Code, went into effect. Under the Code, the Company was permitted to declare an annual dividend as well as an interim dividend. Under the Law, flexible payment of dividends is permissable subject to certain limits on appropriation of retaired earnings as well as to approval by resolution of the shareholders. Refer to Note 22.

2. CHANGE IN METHOD OF ACCOUNTING

A new Japanese accounting standard for Impairment of Fixed Assets was issued in August 2002 and went into effect for financial years beginning on or after April 1, 2005. Early adoption was permissible for the financial year beginning on or after April 1, 2004. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies are required to recognize an impairment loss in their income statement or if certain indicators of assets impairment exist and if the book value of the fixed assets exceeds the undiscounted sum of their future cash flows.

Effective April 1, 2004, the Company and its consolidated subsidiaries opted for early adoption of the new accounting standard for the impairment of fixed assets. The effect of the adoption of this standard was to recognize an impairment loss of ¥32,703 million and to decrease depreciation expense by ¥1,238 million for the year ended March 31, 2005. As a result, income before income taxes and minority interests decreased by ¥31,464 million for the year ended March 31, 2005.

After recognition of an impairment loss, "fixed assets" represents the total recoverable amount which is stated at the carrying amount less the accumulated impairment loss. See Note 21 for loss on impairment of fixed assets and the related effects on segment information.

3. U.S. DOLLAR AMOUNTS

Solely for the convenience of the reader, the accompanying financial statements for the year ended March 31, 2006 have been presented in U.S. dollars by translating all yen amounts at ¥117.47 = U.S.$1.00, the exchange rate prevailing on March 31, 2006. 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.

4. INVESTMENT SECURITIES

Investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Investments in and advances to unconsolidated subsidiaries and affiliates	**¥ 90,094**	¥ 70,859	**$ 766,953**
Other	**42,807**	30,155	**364,408**
Investment securities	**¥ 132,902**	¥ 101,015	**$1,131,370**

5. ACCUMULATED DEPRECIATION

Accumulated depreciation at March 31, 2006 and 2005 amounted to ¥243,211 million ($2,070,409 thousand) and ¥234,910 million, respectively.

6. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans consisted of unsecured loans payable to banks at weighted-average interest rates of 2.7% and 2.0% per annum at March 31, 2006 and 2005, nespecitively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Loans from banks, due through 2008 at average rates of 2.2% and 2.6% for current and noncurrent portions, respectively	**¥ 11,328**	¥ 28,773	**$ 96,433**
Total long-term debt	**11,328**	28,773	**96,433**
Less: Current portion	**5,132**	22,259	**43,688**
	¥ 6,195	¥ 6,514	**$ 52,737**

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
March 31,	**2006**	2005	**2006**
Marketable securities	**¥ 378**	¥ 250	**$ 3,218**
Property, plant and equipment, net of accumulated depreciation	**369**	378	**3,141**
Investment securities	**1,235**	1,514	**10,513**
	¥ 1,984	¥ 2,143	**$ 16,889**

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 5,132	$ 43,688
2008	4,012	34,153
2009	2,182	18,575
2010	—	—
2011 and thereafter	—	—
	¥ 11,328	$ 96,433

7. DEFERRED GAIN OR LOSS ON HEDGES

Deferred gain or loss on hedges at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Deferred gain on hedges	**¥ 36**	¥ 24	**$ 306**
Deferred loss on hedges	**(399)**	(496)	**(3,397)**
Deferred loss on hedges, net	**¥ (363)**	¥ (472)	**$ (3,090)**

8. LAND REVALUATION

The Company, two consolidated subsidiaries and an affiliate have carried over the revaluation of their 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
One consolidated subsidiary and one 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 as 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 its value as determined by a method which the Commissioner of the National Tax Administration established and published in order to standardize the determination of land value. Land value is the underlying basis for the assessment of land tax as specified in Article 16 of the Local Tax Law which is governed by Item 4 of Article 2 of the Enforcement Order for the "Law Concerning the Revaluation of Land."

The excess of the revalued carrying amount of such land over its market value at the balance sheet dates is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
March 31,	**2006**	2005	**2006**
Excess of revalued carrying amount of land over market value	**¥ (18,203)**	¥ (15,042)	**$ (154,959)**

9. IMPAIRMENT LOSS ON FIXED ASSETS

The following table summarizes loss on the impairment of fixed assets for the year ended March 31, 2005:

		Millions of Yen
Group of Fixed Assets	Impaired Assets	2005
Assets in recreation business	Buildings and structures	¥ 22,321
	Land	9,666
	Total	¥ 31,988
Unused assets	Buildings and structures	¥ 71
	Land	532
	Other	111
	Total	¥ 715
Total	Buildings and structures	¥ 22,392
	Land	10,199
	Other	111
	Total	¥ 32,703

a) Grouping of assets into cash-generating units
Assets, based on their business segment, are classified into cash-generating units defined as the smallest identifiable groups of assets which generate cash inflows and which are largely independent of the cash inflows from other assets or groups of assets.
b) Recognition of impairment loss
An impairment loss on assets in the recreation business was recognized due to unfavorable results which resulted in operating losses. An impairment loss on unused assets was also recognized as a recovery to market value is not anticipated and because certain of these assets are scheduled for disposal.
c) Determination of recoverable amount
The recoverable amount of the assets in the recreation business was measured at their value in use and by their estimated future cash flows discounted by 9.4%. The recoverable amount of the unused assets was measured at their the net realizable value based on a valuation under the current tax regulations unless other market-based evidence was available.

Loss on impairment of fixed assets for the year ended March 31, 2006 was immaterial and has thus been omitted from disclosure.

10. R&D EXPENSES

R&D expenses, included in selling, general and administrative expenses and cost of sales for the years ended March 31, 2006 and 2005, amounted to ¥24,055 million ($204,776 thousand) and ¥22,953 million, respectively.

11. OTHER INCOME (EXPENSES)

The components of "Other, net" in "Other income (expenses)" for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31	**2006**	2005	**2006**
Additional lump-sum early retirement incentive program payments	**¥ —**	¥ (755)	**$ —**
Loss on revaluation of investments in unconsolidated subsidiaries and affiliates	**(118)**	(70)	**(1,005)**
Loss on revaluation of investment securities	**(83)**	(70)	**(707)**
Structural reform expenses	**—**	(52)	**—**
Other, net	**1,287**	1,669	**10,956**
	¥ 1,085	¥ 722	**$ 9,236**

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 39.5% for the years ended March 31, 2006 and 2005.

Income taxes of the overseas 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, 2006 and 2005 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Deferred tax assets:			
Write-downs of inventories	**¥ 2,171**	¥ 1,827	**$ 18,481**
Unrealized gain on inventories and PP&E	**3,251**	3,303	**27,675**
Allowance for doubtful receivables	**1,048**	976	**8,921**
Depreciation	**13,333**	12,328	**113,501**
Impairment loss	**17,122**	17,646	**145,756**
Unrealized loss on investment securities	**2,064**	2,038	**17,570**
Accrued employees' bonuses	**3,657**	4,117	**31,131**
Warranty reserve	**1,185**	992	**10,088**
Retirement benefits	**10,105**	9,550	**86,022**
Tax loss carryforward	**3,648**	3,778	**31,055**
Other	**9,952**	10,076	**84,720**
	67,541	66,635	**574,964**
Valuation allowance	**(24,860)**	(25,688)	**(211,629)**
Total deferred tax assets	**¥ 42,681**	¥ 40,946	**$ 363,335**
Deferred tax liabilities:			
Reserve for deferred gain on property	**(1,593)**	(1,507)	**(13,561)**
Reserve for asset replacement	**(203)**	(369)	**(1,728)**
Reserve for special depreciation	**(366)**	(283)	**(3,116)**
Unrealized gain on securities	**(9,354)**	(4,541)	**(79,629)**
Other	**(462)**	(529)	**(3,933)**
Total deferred tax liabilities	**(11,979)**	(7,230)	**(101,975)**
Net deferred tax assets	**¥ 30,702**	¥ 33,716	**$ 261,360**

A reconciliation of the statutory and effective tax rates for the year ended March 31, 2005 has been omitted as the difference between these tax rates was immaterial.

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2006 is as follows:

	Year ended March 31, 2006
Statutory tax rate	39.5 %
Equity in earnings of unconsolidated subsidiaries and affiliates and non-temporary differences not deductible for tax purposes	(14.9)
Inhabitants' per capita taxes and other	0.6
R&D expenses not deductible for tax purposes and others	(3.1)
Change in valuation allowance	2.6
Tax-rate variances of overseas subsidiaries and other	(4.7)
Effective tax rate	20.0 %

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 appropriation by resolution of the shareholders.

14. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., the welfare pension fund plan (WPFP), tax-qualified pension plans and lump-sum payment plans which substantially cover all employees who are entitled upon retirement to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rate of pay, length of service, and the conditions under which termination occurs. Certain employees may be entitled to additional special retirement benefits which have not been provided for based on the conditions under which termination occurs. In addition, certain overseas consolidated subsidiaries have defined benefit and contribution plans.

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, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Retirement benefit obligation	**¥ (161,027)**	¥ (160,761)	**$(1,370,793)**
Plan assets at fair value	**118,746**	100,340	**1,010,862**
Unfunded retirement benefit obligation	**(42,280)**	(60,421)	**(359,922)**
Unrecognized actuarial gain or loss	**14,536**	32,861	**123,742**
Unrecognized past service cost	**1,727**	1,992	**14,702**
Net retirement benefit obligation at transition	**(26,016)**	(25,567)	**$ (221,469)**
Prepaid pension expenses	**¥ 1,961**	¥ 2,702	**$ 16,694**
Accrued retirement benefits	**¥ (27,978)**	¥ (28,269)	**$ (238,171)**

Note: (1) On December 1, 2004, the Company and certain domestic subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to the separation of the substitutional portion from the corporate portion of the benefit obligation under its WPFP. On March 29, 2005, the Company completed the transfer of the related pension plan assets to the Japanese government.

In accordance with "Practical Guidelines for Accounting for Retirement Benefits," the Company recognized a gain on the transfer of the substitutional portion of the benefit obligation and the related pension plan assets of ¥19,927 million for the year ended March 31, 2005.

The components of retirement benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Service cost	**¥ 5,699**	¥ 5,808	**$ 48,515**
Interest cost	**3,117**	3,774	**26,534**
Expected return on plan assets	**(3,949)**	(4,152)	**(33,617)**
Amortization of past service cost	**265**	(99)	**2,256**
Amortization of actuarial gain or loss	**4,475**	5,423	**38,095**
Additional retirement benefit expenses	**779**	2,307	**6,631**
	10,387	13,062	**88,423**
Gain on transfer of substitutional portion of benefit obligation and related pension assets	**—**	19,927	**—**
Total	**¥ 10,387**	¥ (6,864)	**$ 88,423**

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

	2006	2005
Discount rate	**2.0%**	2.0%
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 and its consolidated subsidiaries had the following contingent liabilities at March 31, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Export bills discounted with banks	¥ 884	$ 7,525
Guarantees of indebtedness of others	608	5,176

16. AMOUNTS PER SHARE

	Yen		U.S. Dollars
Years ended March 31	**2006**	2005	**2006**
Net income:			
Basic	**¥ 136.04**	¥ 95.06	**$ 1.16**
Diluted	**135.92**	93.88	**1.16**

	Yen		U.S. Dollars
At March 31	**2006**	2005	**2006**
Net assets	**¥ 1,532.62**	¥ 1,334.51	**$ 13.05**

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

Net assets per share are based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each balance sheet date.

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

Years ended March 31	**2006**	2005
Basic net income per share:		
Net income	**¥ 28,123 million**	¥ 19,697 million
Amounts not attributable to shareholders of common stock	**80**	100
Directors' bonuses appropriated from retained earnings	**80**	100
Amounts attributable to shareholders of common stock	**28,043**	19,597
Weighted-average number of shares outstanding	**206,139 thousand shares**	206,151 thousand shares
Diluted net income per share:		
Adjustments arising from dilution	**¥ (24) million**	¥ (243) million
Equity in earnings of unconsolidated subsidiaries and affiliates	**(24)**	(243)
Increase in number of shares outstanding	**—**	—
Dilution arising from conversion of convertible bonds	**—**	—

17. LEASES

Lessees' accounting

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2006 and 2005 which would have been reflected in the consolidated balance sheets if the finance leases currently accounted for as operating leases had been capitalized:

	Millions of Yen			Thousands of U.S. Dollars		
Year ended March 31, 2006	Tools and equipment	Other	Total	Tools and equipment	Other	Total
Acquisition costs	**¥ 2,171**	**¥ 604**	**¥ 2,775**	**$ 18,481**	**$ 5,142**	**$ 23,623**
Accumulated depreciation	**1,192**	**346**	**1,539**	**10,147**	**2,945**	**13,101**
Net book value	**¥ 978**	**¥ 258**	**¥ 1,236**	**$ 8,326**	**$ 2,196**	**$ 10,522**

	Millions of Yen		
Year ended March 31, 2005	Tools and equipment	Other	Total
Acquisition costs	¥ 2,430	¥ 610	¥ 3,041
Accumulated depreciation	1,243	289	1,532
Net book value	¥ 1,187	¥ 321	¥ 1,508

Lease expenses relating to finance leases accounted for as operating leases amounted to ¥725 million ($6,172 thousand) and ¥795 million for the years ended March 31, 2006 and 2005, respectively.

Depreciation of 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, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 593	$ 5,048
2008 and thereafter	643	5,474
Total	¥ 1,236	$ 10,522

Lessors' accounting

The following amounts represent the acquisition costs, accumulated depreciation and the net book value of leased assets relating to finance leases accounted for as operating leases at March 31, 2006 and 2005:

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31	**2006**	2005	**2006**
Acquisition costs	**¥ 5,887**	¥ 6,242	**$ 50,115**
Accumulated depreciation	**4,333**	4,231	**36,886**
Net book value	**¥ 1,554**	¥ 2,011	**$ 13,229**

Lease income and depreciation expenses relating to finance leases accounted for as operating leases amounted to ¥1,452 million ($12,361 thousand) and ¥968 million ($8,240 thousand), and ¥1,197 million and ¥663 million, respectively, for the years ended March 31, 2006 and 2005.

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

Future minimum lease income subsequent to March 31, 2006 for finance leases accounted for as operating leases is summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 1,367	$ 11,637
2008 and thereafter	2,236	19,035
Total	¥ 3,604	30,680

18. SECURITIES

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

	Millions of Yen			Thousands of U.S. Dollars		
Year ended March 31, 2006	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	**¥ 200**	**¥ 200**	**¥ 0**	**$ 1,703**	**$ 1,703**	**$ 0**
Corporate bonds	**20**	**20**	**0**	**170**	**170**	**0**
Other	**399**	**401**	**1**	**3,397**	**3,414**	**9**
	620	**622**	**2**	**5,278**	**5,295**	**17**
Securities whose carrying value does not exceed their fair value:						
Government and municipal bonds	**299**	**292**	**(7)**	**2,545**	**2,486**	**(60)**
Corporate bonds	**519**	**513**	**(6)**	**4,418**	**4,367**	**(51)**
Other	**1,299**	**1,286**	**(13)**	**11,058**	**10,947**	**(111)**
	2,119	**2,092**	**(26)**	**18,039**	**17,809**	**(221)**
Total	**¥ 2,739**	**¥ 2,715**	**¥ (24)**	**$ 23,317**	**$ 23,112**	**$ (204)**

Year ended March 31, 2005	Millions of Yen Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government and municipal bonds	¥ 459	¥ 462	¥ 2
Corporate bonds	639	643	3
Other	1,549	1,566	16
	2,649	2,672	22
Securities whose carrying value does not exceed their fair value:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Other	199	199	(0)
	199	199	(0)
Total	¥ 2,849	¥ 2,871	¥ 22

(b) Other securities with determinable market value

Year ended March 31, 2006	Millions of Yen			Thousands of U.S. Dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Stock	**¥ 9,196**	**¥ 33,025**	**¥ 23,829**	**$ 78,284**	**$ 281,136**	**$ 202,852**
Other	**53**	**77**	**24**	**451**	**655**	**204**
	9,249	**33,103**	**23,854**	**78,735**	**281,800**	**203,065**
Securities whose carrying value does not exceed their acquisition costs:						
Stock	**595**	**388**	**(206)**	**5,065**	**3,303**	**(1,754)**
Other	**—**	**—**	**—**	**—**	**—**	**—**
	595	**388**	**(206)**	**5,065**	**3,303**	**(1,754)**
Total	**¥ 9,844**	**¥ 33,492**	**¥ 23,647**	**$ 83,800**	**$ 285,111**	**$ 201,302**

Year ended March 31, 2005	Millions of Yen Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Stock	¥ 9,184	¥ 20,671	¥ 11,486
Other	52	54	2
	9,236	20,725	11,488
Securities whose carrying value does not exceed their acquisition costs:			
Stock	0	0	(0)
Other	—	—	—
	0	0	(0)
Total	¥ 9,237	¥ 20,725	¥ 11,488

(c) Other securities sold during the years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Sales of other securities	**¥ 616**	¥ 9,402	**$ 5,244**
Profit on sales	**605**	6,534	**5,150**
Loss on sales	**—**	4	**—**

(d) Securities without determinable value

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Other securities:			
Unlisted securities	**¥ 6,921**	¥ 6,990	**$ 58,917**

(e) Schedule for redemption of other securities with maturities and held-to-maturity debt securities at March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars	
Year ended March 31, 2006	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Bonds:				
Government and municipal bonds	**¥ 200**	**¥ 299**	**$ 1,703**	**$ 2,545**
Corporate bonds	**120**	**419**	**1,022**	**3,567**
Other	**199**	**1,499**	**1,694**	**12,761**
Total	**¥ 520**	**¥ 2,219**	**$ 4,427**	**$ 18,890**

	Millions of Yen	
Year ended March 31, 2005	Due in one year or less	Due after one year through five years
Bonds:		
Government and municipal bonds	¥ 59	¥ 399
Corporate bonds	200	439
Other	150	1,599
Total	¥ 410	¥ 2,439

19. SUPPLEMENTARY CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents at March 31, 2006 and 2005:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Cash and bank deposits	**¥ 36,429**	¥ 51,205	**$ 310,113**
Time deposits with a maturity of more than three months	**(995)**	(812)	**(8,470)**
Cash and cash equivalents	**¥ 35,434**	¥ 50,393	**$ 301,643**

20. DERIVATIVES AND HEDGING ACTIVITIES

The Yamaha Group utilizes derivative financial instruments such as forward foreign exchange contracts and foreign 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 risk arising from adverse fluctuation in foreign exchange transactions. The Yamaha Group has implemented internal regulations under which any significant foreign exchange risk will be hedged.

No specific disclosure for derivatives has been made as the Yamaha Group, as a matter of principle, holds only derivative 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, 2006 and 2005 are outlined as follows:

Business Segments

	Millions of Yen								
Year ended March 31, 2006	Musical instruments	AV/IT	Electronic equipment and metal products	Lifestyle-related products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income (loss)									
Sales to external customers	**¥ 314,078**	**¥ 75,939**	**¥ 56,167**	**¥ 45,214**	**¥ 18,013**	**¥ 24,671**	**¥ 534,084**	**¥**	**¥ 534,084**
Intersegment sales or transfers			**1,668**				**1,668**	**(1,668)**	
Total sales	**314,078**	**75,939**	**57,836**	**45,214**	**18,013**	**24,671**	**535,753**	**(1,668)**	**534,084**
Operating expenses	**299,946**	**73,825**	**49,908**	**44,045**	**19,802**	**24,089**	**511,617**	**(1,668)**	**509,949**
Operating income (loss)	**¥ 14,132**	**¥ 2,113**	**¥ 7,927**	**¥ 1,169**	**¥ (1,789)**	**¥ 582**	**¥ 24,135**	**¥**	**¥ 24,135**
II. Total assets, depreciation and capital expenditures									
Total assets	**¥ 268,635**	**¥ 40,523**	**¥ 47,065**	**¥ 21,291**	**¥ 18,344**	**¥ 124,117**	**¥ 519,977**	**¥**	**¥ 519,977**
Depreciation	**8,632**	**1,542**	**4,471**	**1,062**	**1,845**	**1,390**	**18,944**		**18,944**
Capital expenditures	**11,877**	**1,129**	**5,488**	**1,245**	**771**	**2,370**	**22,882**		**22,882**

	Thousands of U.S. Dollars								
Year ended March 31, 2006	Musical instruments	AV/IT	Electronic equipment and metal products	Lifestyle-related products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income (loss)									
Sales to external customers	**$ 2,673,687**	**$ 646,454**	**$ 478,139**	**$ 384,898**	**$ 153,341**	**$ 210,020**	**$ 4,546,557**	**$**	**$ 4,546,557**
Intersegment sales or transfers			**14,199**				**14,199**	**(14,199)**	
Total sales	**2,673,687**	**646,454**	**492,347**	**384,898**	**153,341**	**210,020**	**4,560,764**	**(14,199)**	**4,546,557**
Operating expenses	**2,553,384**	**628,458**	**424,857**	**374,947**	**168,571**	**205,065**	**4,355,299**	**(14,199)**	**4,341,100**
Operating income (loss)	**$ 120,303**	**$ 17,988**	**$ 67,481**	**$ 9,951**	**$ (15,229)**	**$ 4,954**	**$ 205,457**	**$**	**$ 205,457**
II. Total assets, depreciation and capital expenditures									
Total assets	**$ 2,286,839**	**$ 344,965**	**$ 400,655**	**$ 181,246**	**$ 156,159**	**$ 1,056,585**	**$ 4,426,466**	**$**	**$ 4,426,466**
Depreciation	**73,483**	**13,127**	**38,061**	**9,041**	**15,706**	**11,833**	**161,267**		**161,267**
Capital expenditures	**101,107**	**9,611**	**46,718**	**10,598**	**6,563**	**20,175**	**194,790**		**194,790**

Year ended 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
I. Sales and operating income (loss)									
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
II. Total assets, depreciation and capital expenditures									
Total assets	¥ 266,750	¥ 41,855	¥ 50,533	¥ 22,382	¥ 19,805	¥ 104,250	¥ 505,577	¥	¥ 505,577
Depreciation	7,819	1,492	4,183	1,518	2,621	1,322	18,958		18,958
Impairment loss	379	46	60	155	31,988	72	32,703		32,703
Capital expenditures	11,311	1,111	4,955	1,195	2,323	1,804	22,702		22,702

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, stringed instruments, percussion instruments, educational musical instruments, professional audio equipment, soundproof rooms, music schools, English schools, ring tone distribution service
AV/IT	Audio products, visual products, routers
Lifestyle-related products	System bathrooms, system kitchens, washstands
Electronic equipment and metal products	Semiconductors, special metals
Recreation	Sightseeing and accommodation facilities, ski resorts, 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."

(3) Accounting changes: Effective April 1, 2004, the Company opted for early adoption of a new accounting standard for the impairment of fixed assets. The effect of this adoption was to decrease depreciation (operating expenses) by ¥1,238 million in the recreation segment. In addition, the effect of a change in the method of accounting for depreciation from the straight-line method to the declining-balance method for certain recreational facilities was to increase depreciation (operating expenses) by ¥1,274 million in the recreation segment. As a result of these changes, operating loss in the recreation segment increased by ¥35 million for the year ended March 31, 2005.

(4) Total assets of Yamaha Motor Co., Ltd. included in the Others segment were as follows:

2006 ¥85,724 million ($729,752 thousand)

2005 ¥66,538 million

Geographical Segments

Year ended March 31, 2006	Millions of Yen Japan	North America	Europe	Asia, Oceania and other areas	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income							
Sales to external customers	**¥ 306,813**	**¥ 94,311**	**¥ 85,570**	**¥ 47,389**	**¥ 534,084**	**¥**	**¥ 534,084**
Intersegment sales or transfers	**143,667**	**1,525**	**862**	**63,234**	**209,290**	**(209,290)**	
Total sales	**450,481**	**95,837**	**86,433**	**110,623**	**743,375**	**(209,290)**	**534,084**
Operating expenses	**438,564**	**92,164**	**83,021**	**106,103**	**719,853**	**(209,904)**	**509,949**
Operating income	**¥ 11,916**	**¥ 3,673**	**¥ 3,412**	**¥ 4,519**	**¥ 23,522**	**¥ 613**	**¥ 24,135**
Total assets	**¥ 402,684**	**¥ 38,819**	**¥ 38,422**	**¥ 59,040**	**¥ 538,968**	**¥ (18,990)**	**¥ 519,977**

Year ended March 31, 2006	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	**$ 2,611,841**	**$ 802,852**	**$ 728,441**	**$ 403,414**	**$ 4,546,557**	**$**	**$ 4,546,557**
Intersegment sales or transfers	**1,223,010**	**12,982**	**7,338**	**538,299**	**1,781,646**	**(1,781,646)**	
Total sales	**3,834,860**	**815,842**	**735,788**	**941,713**	**6,328,211**	**(1,781,646)**	**4,546,557**
Operating expenses	**3,733,413**	**784,575**	**706,742**	**903,235**	**6,127,973**	**(1,786,873)**	**4,341,100**
Operating income	**$ 101,439**	**$ 31,268**	**$ 29,046**	**$ 38,469**	**$ 200,238**	**$ 5,218**	**$ 205,457**
Total assets	**$ 3,427,973**	**$ 330,459**	**$ 327,079**	**$ 502,596**	**$ 4,588,133**	**$ (161,658)**	**$ 4,426,466**

Year ended March 31, 2005	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	¥ 327,895	¥ 85,465	¥ 83,289	¥ 37,429	¥ 534,079	¥ —	¥ 534,079
Intersegment sales or transfers	139,933	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
Total assets	¥ 401,298	¥ 36,354	¥ 35,395	¥ 50,752	¥ 523,800	¥ (18,222)	¥ 505,577

Notes: (1) Geographical segments are divided into categories based on their geographical proximity.
(2) The 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 — China, Singapore, Australia

Overseas Sales

Year ended March 31, 2006	North America	Europe	Asia, Oceania and other areas	Total
	Million of Yen			
Overseas sales:				
Overseas sales	**¥ 94,694**	**¥ 87,494**	**¥ 56,681**	**¥ 238,870**
Consolidated net sales				**534,084**
Overseas sales as a percentage of consolidated net sales	**17.7%**	**16.4%**	**10.6%**	**44.7%**

Year ended March 31, 2006	North America	Europe	Asia, Oceania and other areas	Total
	Thousands of U.S. Dollars			
Overseas sales:				
Overseas sales	**$ 806,112**	**$ 744,820**	**$ 482,515**	**$ 2,033,455**
Consolidated net sales				**4,546,557**
Overseas sales as a percentage of consolidated net sales	**17.7%**	**16.4%**	**10.6%**	**44.7%**

Year ended March 31, 2005	North America	Europe	Asia, Oceania and other areas	Total
	Millions of Yen			
Overseas sales:				
Overseas sales	¥ 86,717	¥ 84,483	¥ 49,971	¥ 221,173
Consolidated net sales	—	—	—	534,079
Overseas sales as a percentage of consolidated net sales	16.2%	15.8%	9.4%	41.4%

Note: The 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—China, Singapore, Australia

22. SUBSEQUENT EVENT

Appropriation of retained earnings

The following appropriation of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, were approved at a general meeting of the shareholders of the Company held on June 27, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥ 2,063	$ 17,562

ERNST & YOUNG SHINNIHON

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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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of YAMAHA CORPORATION and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information:

As disclosed in Note 2, effective April 1, 2004, the Company adopted a new accounting standard entitled "Impairment of Fixed Assets."

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young Shin Nihon

June 27, 2006

History

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	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
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	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 fiberreinforced-plastic bathtubs begins
1965	Production of wind instruments (“YTR-1” trumpet) begins
1966	Yamaha’s first electric guitars (“SG” series) and drums are launched
	Yamaha Music Foundation is founded
	Yamaha Music (Asia) Pte., Ltd. (Singapore), is established
	Yamaha Europe GmbH (currently Yamaha Music Central Europe GmbH, 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	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 GmbH (Rellingen, Germany), is established
	Production of industial robots begins
1982	Yamaha’s first Disklavier™ is launched
	Yamaha develops a line of carbon composite golf clubs
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

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”
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
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
	Network karaoke developed with Daiichikosho Co., Ltd.
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
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
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
2000	Polyphonic ringtone distribution service for mobile phone begins
	Record company, Yamaha Music Communications Co., Ltd., is established
	MusicFront™ service for discovering new artists and distributing music over the Internet begins
	Braviol™, 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
	Yamaha Electronics (Suzhou) Co., Ltd. (China), is established
	Yamaha Music Holding Europe GmbH (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
	Yamaha Artist Services Inc. (New York), is established
	Artida™, an acoustic violin is launched
	Business alliance with Klipsch Audio Technologies (USA)
	Easy trumpet EZ-TP™ is launched
	Digital Sound Projector™ technology is jointly developed with 1 Ltd. (UK)
	Digital Sound Projector™ “YSP-1” is launched
2005	Portable PA system STAGEPAS™300 is launched
	Steinberg Media Technologies GmbH (Germany) is acquired Ten millionth wind instrument is produced
	Zero Emissions is achieved at all domestic production sites
	Agreement on strategic alliance with NEXO S.A. (France) in professional audio business is reached
	Yamaha Music Technical Shanghai Co., Ltd. (China), is established
	Music School in China is launched
	Reforestation activities started in Indonesia
2006	Yamaha Commercial Audio Systems, Inc. is established in California, USA
	IP conferencing system Project Phone™ is launched

Network

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 Artist Services Inc.
Yamaha Music InterActive Inc. (Companies Accounted for Using the Equity Method: YMH Digital Music Publishing LLC)
Yamaha Commercial Audio Systems, 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 GmbH
Yamaha Music Central Europe GmbH
Yamaha Elektronik Europa GmbH
Steinberg Media Technologies GmbH
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.
Kemble Music Ltd.*
Yamaha-Hazen Música S.A.
Yamaha Musica Italia S.p.A.

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) Co., Ltd.
Yamaha Music Technical Shanghai Co., Ltd.*
PT. Yamaha Indonesia
PT. Yamaha Music Manufacturing Indonesia
PT. Yamaha Musik 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.*

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.
Yamaha Music Lease Corporation
Yamanashi Kogei Co., Ltd.
Sakuraba Mokuzai Co., Ltd.
YP Winds Corporation
Yamaha Hall Co., Ltd.
Yamaha Piano Service Co., Ltd.
Seikindo Music Co., Ltd.*

AV/IT
D.S. Corporation
Yamaha Electronics Marketing Corporation

Electronic Equipment and Metal Products
Yamaha Kagoshima Semiconductor Inc.
Yamaha Metanix Corporation
Yamaha Hi-Tech Design Corporation
Yamaha-Olin Metal Corporation*

Lifestyle-Related Products
Yamaha Livingtec Corporation
Yamaha Living Products Corporation
Joywell Home Co., Ltd.

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 Co., Ltd.
Yamaha Travel Service Co., Ltd.
Nihon Jimu Center Co., Ltd.
YP Video Corporation
Yamaha Business Suport Corporation

Companies Accounted for Using the Equity Method
Yamaha Motor Co., Ltd.
Korg Inc.

*Non-consolidated subsidiary or affiliate
As of April 2006

Investor Information

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

Public Relations Division
Tel: +81 3 5488-6602   Fax: +81 3 5488-5060

Business Year
From April 1 to March 31 of the following year

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
16,803

Number of Employees
25,298
(Includes average number of temporary employees: 5,677)

Number of Consolidated Subsidiaries
93

Number of Companies Accounted for by the Equity Method
3

Stock Exchange Listings
Tokyo
First Section, Code No. 7951

Administrator of Shareholders' Registry and its business office
The Chuo Mitsui Trust and Banking Co., Ltd.
Nagoya Branch
Stock Transfer Agency Department
Address: 3-15-33, Sakae, Naka-ku, Nagoya, Aichi 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

Public Notices
Shall be issued electronically at http://www.yamaha.co.jp/about/publicnotices/ (only in Japanese), except when accident or other unavoidable occurrence prevents this, in which case they shall be released in the Nihon Keizai Shimbun business daily released in Tokyo.

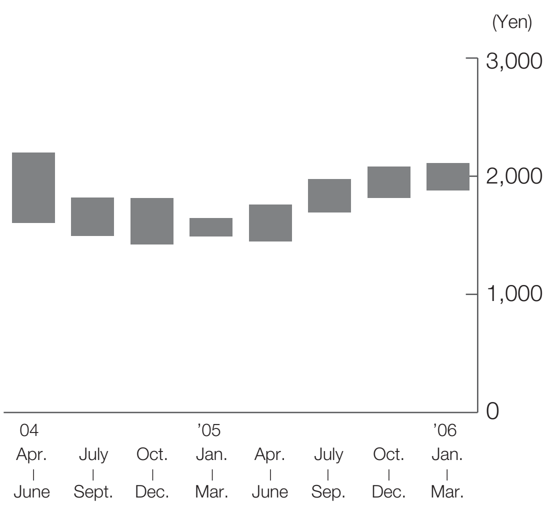
Ordinary General Shareholders' Meeting
June

Auditor
Ernst & Young ShinNihon

Main Shareholders

State Street Bank and Trust Company	9.24%
The Master Trust Bank of Japan, Ltd. (Trust Account)	8.11%
Japan Trustee Service Bank, Ltd. (Trust Account)	5.49%
Mitsui Sumitomo Insurance Co., Ltd.	4.32%
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	4.25%
The Shizuoka Bank, Ltd.	4.04%
Sumitomo Life Insurance Company	3.53%
Nippon Life Insurance Company	3.14%
Mizuho Corporate Bank, Ltd.	2.80%
Northern Trust Company (AVFC) Sub-account American Clients	2.09%

Stock Price Movement



(As of March 31, 2006)

YAMAHA

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