

Message from the President



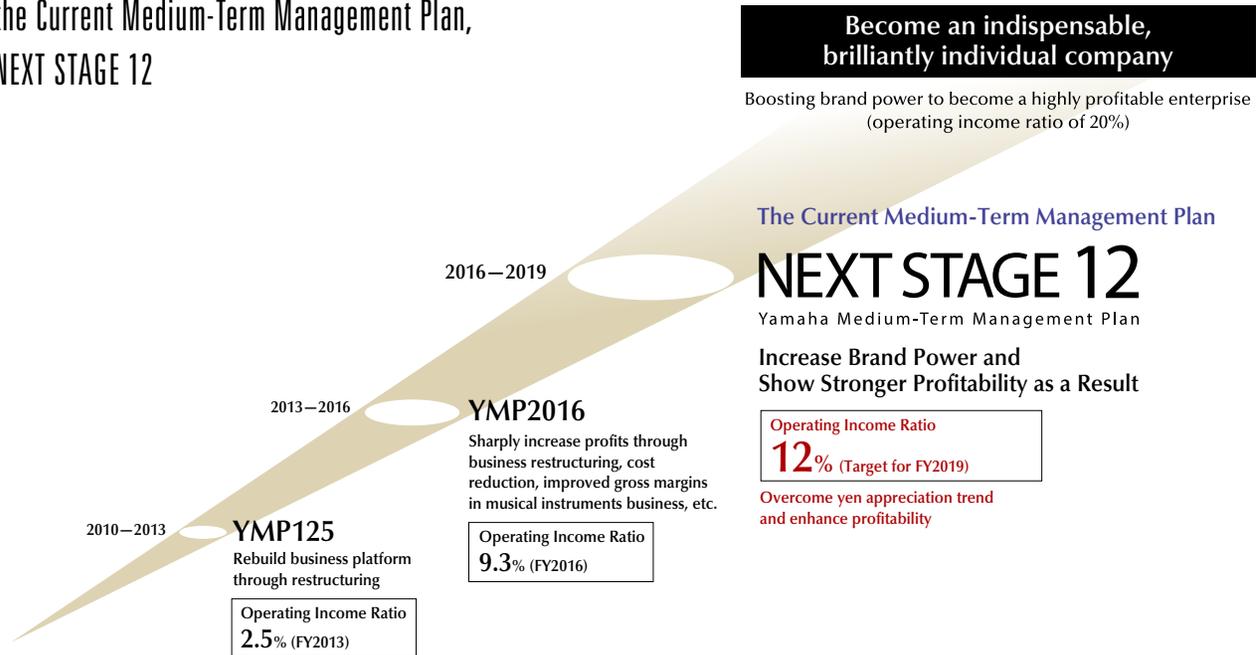
Under NEXT STAGE 12, our current medium-term management plan ending in fiscal 2019, we are drawing on the structural reforms we carried out in our two previous medium-term management plans—YMP125 and YMP2016—to further enhance our brand power. In doing so, we aim to become a highly profitable enterprise with an operating income of 12%, an ROE around the 10% level, and an EPS at the ¥200 level, even amid yen appreciation. In fiscal 2017, we were able to achieve significant results by enhancing profitability. In this section, I would like to talk about the progress we are making under NEXT STAGE 12 as well as the specific results we have achieved thus far.

Fiscal 2017—Making Steady Progress in the First Year of the Current Medium-Term Management Plan

In contrast to the favorable foreign exchange rates in the previous fiscal year, yen appreciation in the fiscal year under review led to a ¥33.4 billion decrease in net sales and also placed downward pressure on operating income to the extent of ¥11.1 billion. However, we were able to overcome the negative impact of yen appreciation and realize profit increases due to a rise in sales on an actual basis, primarily in the musical instruments and audio equipment businesses, as well as efforts to reduce costs and revise selling prices.

Looking at each business segment, sales declined in the musical instruments segment due to unfavorable foreign exchange rates and the negative effect of the transfer of musical school management. However, excluding the impact of foreign exchange rates, double-digit sales growth was recorded in China on an actual basis and a strong performance was realized in each market aside from Japan. In addition to our mainstay pianos and digital musical instruments, nearly every product group, including guitars, enjoyed healthy sales. Turning to the audio equipment segment, while foreign exchange rates had a negative impact, we achieved double-digit sales growth in Japan and North America on an actual basis that excludes this impact, in addition to realizing solid sales in Europe. By securing sales increases on an actual basis and working to further reduce costs and revise selling prices, operating income in the

Positioning of the Current Medium-Term Management Plan, NEXT STAGE 12



audio equipment segment exceeded ¥10.0 billion and the operating income ratio reached 9%. This means that we have already achieved our fiscal 2019 target for this segment's operating income ratio under NEXT STAGE 12. In the others segment, the golf business performed strongly, with profits increasing significantly compared with the previous fiscal year. While we had initially anticipated a profit decrease in this segment, solid sales of new golf products and a recovery in the gross margin of the electronic devices business allowed us to realize significant improvement in profitability.

To provide an overview from the perspective of our major products, sales steadily grew in all product categories. Among these, sales of digital musical instruments returned to a course for growth at the beginning of the calendar year after recording negative growth in 2016 from fall to winter, confirming once again the underlying strength of these products. In addition, while we consistently aim for

10% growth in sales of PA equipment, sales in fiscal 2017 increased only 8%. Although this represents a slightly unsatisfactory result numerically, if we break down this growth, we see that commercial audio equipment—a mainstay product for PA equipment—recorded double-digit sales growth, up 12%. I therefore believe that PA equipment performed extremely well.

Seeing Significant Results from Initiatives to Strengthen Profitability

Over the three years of NEXT STAGE 12, we aim for a gross reduction in costs totaling ¥14.0 billion. This reduction will more than offset the increase in labor costs, representing a net reduction of ¥8.0 billion. In fiscal 2017, we worked to improve production efficiency through such means as switching to in-house production of components, promoting new production methods, and shifting to mechanization.

Furthermore, we reduced procurement and administrative costs by integrating purchasing and procurement operations by area, rather than conducting these operations by factory, as we have done in the past. As a result of these efforts, we realized cost reductions totaling ¥4.9 billion.

Another major result we achieved was the revisions we made to selling prices. In fiscal 2017 alone, selling price revisions helped improve profits by ¥3.5 billion. Selling price revisions are not a measure we carry out with the purpose of raising prices. For example, after thoroughly examining the strengths of a product, if we believe that lowering its selling price will lead to higher sales volumes and, in turn, higher profits, then we will lower the price. However, I have repeatedly called for raising the selling price of products that have a relatively inexpensive price in comparison with their quality and demand. Moreover, we are currently carrying out thorough selling price revisions in conjunction with the launch of new products. In the past, when introducing a new product into the market, we often kept the selling price of a product at the same level as existing products even if said product had better performance. However, I have stressed the importance of selecting an appropriate selling price commensurate with the value of a product. As this idea takes hold, I believe profitability will naturally rise each time we improve the strength of a product.

Revising Our Organization and Accelerating the Development of Highly Competitive Products

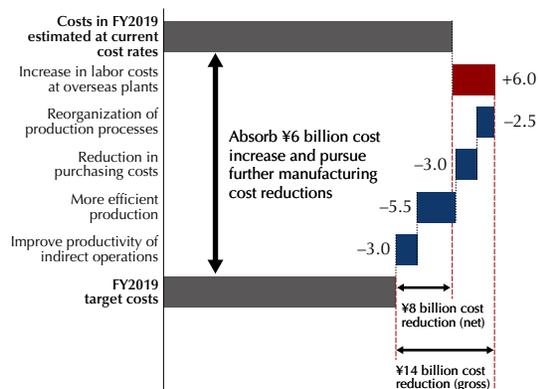
By revising product development structure by business and centralizing the expertise and technological capabilities that were previously scattered throughout the Company, we are now able to provide products with even higher added value. For example, in terms of IoT, which has become a keyword recently, we have developed a product that combines hybrid pianos with network technologies. The technological capabilities of this product were highly praised when the product was on display at a trade show. As for the combination of audio products and network technologies, in January 2017, we announced the release of an audio product that is compatible with Amazon Echo, Amazon's audio assistant device that is equipped with the voice recognition function Alexa. This announcement was met with an extremely positive response, and we are looking forward to commencing sales of this equipment in the fall. We hope to accelerate these kinds of technological combinations after the construction of our Innovation Center, which is scheduled to be completed in spring 2018.

Emphasizing the Importance of Marketing Strategies

As Yamaha has traditionally been a manufacturer, we have had a tendency to adhere to a "product out" approach that focused on the idea that products will sell if they are high quality. Accordingly, we did not place importance on sales strategies that emphasize marketing. As a result, I believe that there have been many instances in which we were unable to leverage the full potential of the Yamaha brand. If we want to expand our lineup of premium products that have a significant difference between manufacturing cost and selling price, strong brand power is a must. To establish such brand power, we have decided to more thoroughly incorporate marketing in our business strategies, and we established the Company's first-ever marketing division in 2016. In collaboration with local subsidiaries, we are currently realizing solid results in new product planning and development that place the needs of customers first. In addition, we have established specific KPI and are moving forward with discussions on how to further enhance our marketing activities. On average, we develop and launch over 200 product models a year. By putting the needs of the market and our customers first, we have shortened the time

Continually Reduce Costs

Billions of yen

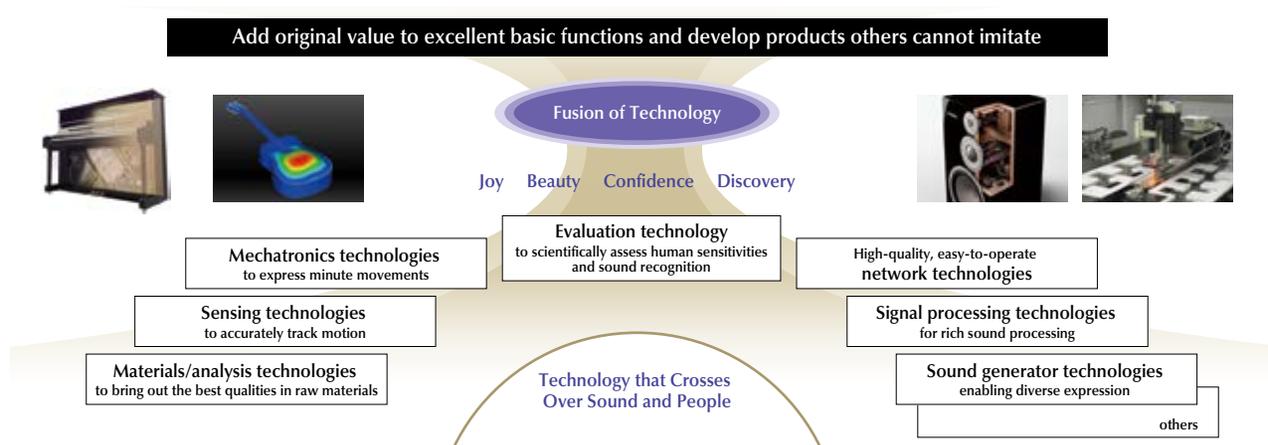


between product design and product launch, which, in conjunction with our technological capabilities, has allowed us to hammer out highly competitive products that can secure solid profits. I believe this is an extremely significant accomplishment.

Our tasks going forward are to enhance the Yamaha brand itself and promote well-balanced marketing strategies. In terms of enhancing the Yamaha brand, investigations we have carried out have shown us that Yamaha's brand image differs greatly by country and region. We therefore plan to enhance our corporate brand by investing a certain amount of funds to customize and promote the appeal of the Yamaha brand by country. Meanwhile, for marketing

strategies, we will focus our efforts on newly developed network audio products. At the same time, we will invest funds to promote the capabilities of our guitars, a product category that has faced various issues. Demand for guitars has been rising in China, and our guitar marketing efforts in the country have enjoyed great success. As a result, we are now able to sell not only low-end guitars but also medium- to high-end guitars. Without limiting ourselves to China, we will pursue marketing strategies in a variety of countries and regions that focus on a solid balance between the sale of affordable products that customers can easily enjoy and the sale of high-class products that give customers a sense of satisfaction in owning.

Develop Products with Distinctive Individuality



Adopting a New Perspective in Expanding Our Customer Network

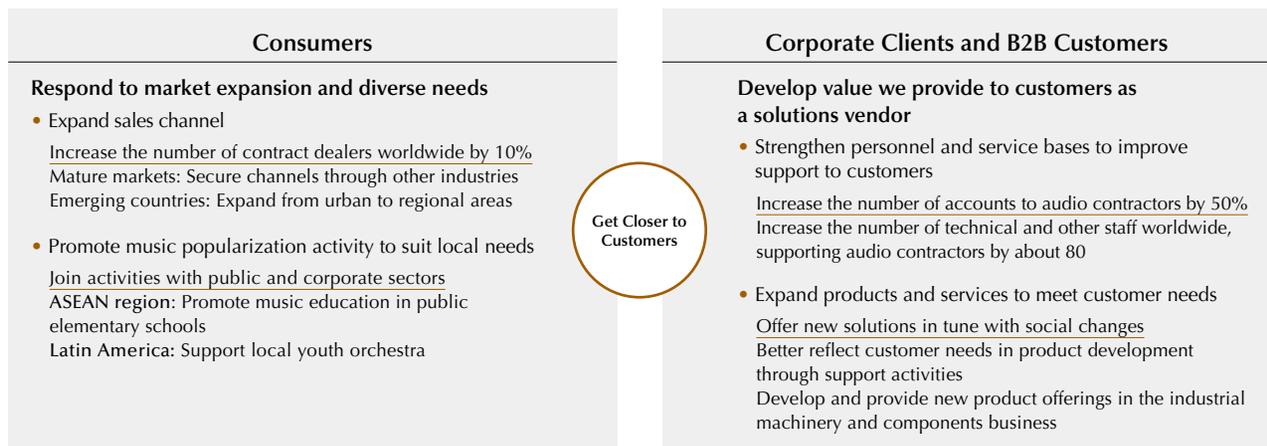
Focusing on customers in domains in which we have yet to do business, we have divided our customer network into two categories—consumers, and corporate clients and B2B customers—and are promoting initiatives in each. For consumers, we are steadily expanding our sales network and pursuing activities to popularize music based on local needs. In fiscal 2017, we held events in Vietnam, Indonesia, Malaysia, Russia, and other countries targeting people who

have yet to have the opportunity to play and enjoy musical instruments. In Vietnam, we worked together with public elementary schools to create educational music programs that also worked to nurture music teachers. Held after school, these programs use musical instruments provided by the Company to communicate the appeal of musical instruments to both students and teachers alike. As of March 2017, these programs have been held at 250 elementary schools in Vietnam. We hope that efforts such as these lead to increased enrollment in our musical schools and purchases of our musical instruments.

For our corporate clients and B2B customers, we are working to establish audio contractors as a new sales route. When selling audio equipment, we have been realizing solid results by having our sales staff and specialized technicians expand their focus by approaching not only audio technicians but also other parties such as electrical

equipment companies. Furthermore, the need for connection with information networks is rising alongside the need for audio networks. As we possess routers and other communications equipment, we hope to increase sales by establishing a support structure that can sufficiently respond to the need for both audio and information networks.

Forge Stronger, Broader Ties with Customers



Establishing a Structure for Nurturing Global Human Resources

Overseas sales already account for two-thirds, or 66%, of the Company's total sales, and we have 53 overseas locations located in 31 different countries and regions. Under NEXT STAGE 12, we aim to strengthen our global marketing capabilities and reduce costs. To do so, we believe it is essential to transfer authority to the local personnel in each country and develop human resources that are active on a global scale. Based on this belief, we are promoting a global grading system for professional positions in each country as well as the cross-border stationing of personnel. As part of such efforts, we established a global human resources division in 2016 and worked to improve motivation by clarifying the position, role, and career plan of each employee at our overseas locations. For example, top management positions at overseas subsidiaries have traditionally been given to Japanese employees. However, in 2016, we appointed a German national to the top management role at our European subsidiary. In doing so, we conveyed to local staff that anyone can have the opportunity of being in a top management role. As such, the attitude of these employees has

changed and they have been carrying out their work duties with an even higher level of earnestness. While the top management roles at our U.S. subsidiaries are still held by Japanese employees, the example set by our European subsidiaries has changed the way our American staff approach their work. In all areas of operations, there has been a heightened awareness toward budget attainment and a significant change in employee behavior and expression. This is something that I am extremely pleased with. Additionally, there has been an increase in overseas hires taking on positions at our headquarters in Japan. This has naturally led to our Japanese staff developing a more diverse, global perspective, in addition to many other synergistic effects.

Steadily Planting Seeds in Our Industrial Machinery and Components Business

In NEXT STAGE 12, we have positioned the industrial machinery and components business as our third key domain. As such, we aim to establish a solid foundation for this business during the three-year period of the plan. Due to the fact that this business will not offer products to consumers, we do not expect to promptly realize results.

Develop Human Resources to Support Global Business Operations and Reinforce Infrastructure

Facilitate international careers

- Establish global core positions (approx. 200) to implement global grading system
- Promote cross-border personnel assignment
- Select candidates for core positions of the next generation and promote development program

Optimize IT, logistics, finance, and administrative functions on a global scale

- Establish regional IT headquarters in three regions: Europe, U.S., and Japan (Asia)
 - Establish 24-hour surveillance and service system using resources in the three regions
- Build efficient logistics system
 - Aim for logistics cost reductions through optimizing distribution network, improving efficiency of packing and lading, centralizing procurement distribution, and promoting application of preferential tariffs
- Prepare for introduction of International Financial Reporting Standards (IFRS)*
 - * Consider introduction of IFRS in fiscal 2020
 - Aim for improvement in possibilities for international comparability of financial information and uniformity in Group financial information
- Strengthen global support systems of HQ corporate staff
 - Improve management level of regional offices in all countries

Proportion of total sales made overseas

66%

(As of April 2017)

Overseas business bases

53 in 31 countries

(As of April 2017)

However, we plan to plant seeds in the first one to two years of this business that will allow it to contribute to profits from its third year and onward.

To develop the industrial machinery and components business into a third business pillar, we will leverage the technology and know-how we possess in our musical instruments and audio equipment businesses. For industrial machinery and components, we will transform from a semiconductor manufacturer to a solutions vendor that provides added value by offering modules in a packaged format that include signal processors, microphones, and speakers. The diverse range of technologies that we possess includes sound processing and recognition technologies, and, for signal processing, we have a solid track record in terms of devices and software. With these technologies, we are setting our sights on the onboard device market. There are various noises that occur inside a vehicle, and, by their very nature, automobiles make for a rather poor sound environment. Accordingly, we intend to offer automobile and other manufacturers a package of products—including semiconductors—that provide solutions to counter this. As equipment for automobiles needs to be highly reliable, it is necessary to carry out extensive verification tests for these products over and over again. We are currently getting involved in such tests and hope to gradually transition to the phase of launching products in the near future. At the same time, we

are working to develop thermoelectric solutions that address issues related to exhaust gas and fuel consumption with the aim of realizing a more eco-friendly motorized society.

Aiming for Record-High Operating Income in Fiscal 2018

While there are many uncertain elements in the business environment in fiscal 2018, we anticipate an increase in sales and profit as our most recent forecasts indicate an exchange rate of ¥110 per US\$1 and ¥120 per €1. We expect operating income to rise ¥4.2 billion, to ¥48.5 billion. While SG&A expenses will be higher due to strategic investments in marketing, new product development, and other areas, we aim to continue the steady profit increases that occurred in fiscal 2017 through higher sales and production volumes, selling price revisions, and cost reductions.

In the musical instruments segment, we forecast an increase in both sales and profits, driven by double-digit sales growth in the Chinese market. For markets that experienced stagnant growth in fiscal 2017, we anticipate high levels of growth through the introduction of new products. In the audio equipment segment, not only do we expect PA equipment to act as a major growth driver, we also anticipate higher sales and profits based on the continued healthy

Industrial Machinery and Components

Establish the third platform of Yamaha's business as provider of solutions offering comfort, safe, and security

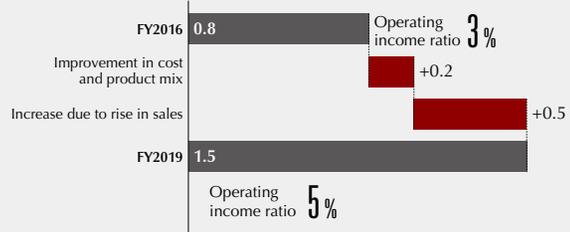
Net Sales

Billions of yen



Operating Income

Billions of yen



Transform the business from a semiconductor manufacturer to a solutions vendor, thereby building a foundation for growth through expansion in product lineups and customer base

Expanding product lineups and customer base and enhancing customer support system in onboard device market

- Offer total sound solutions achieving pleasant and comfortable sound targeted at the trend toward vehicles becoming living spaces as connected cars become commonplace
- Develop thermoelectric solutions with a view to creating eco-friendly motorized societies
- Assign design personnel to strengthen response to customers in the U.S.

Developing products for home healthcare market

- Develop new solutions that contribute to healthy everyday living by applying Yamaha's sound and sensor technologies

Launching new products into industrial machinery market

- Lead the industry in FPC testing equipment with further enhanced testing capability
- Launch hydrogen-based leak testing equipment
- Expand customer support system in China and Taiwan



performance of new AV products. As I mentioned earlier, we have already achieved our fiscal 2019 target of 9% for this segment's operating income ratio. However, we expect that the effect of higher sales will boost the ratio to 9.3%. In the others segment, we forecast that structural reforms will lead to higher profits. For sales, we anticipate similar levels as those of fiscal 2017 as growth in the industrial machinery and components business as well as the golf business will help offset the negative impact on sales totaling ¥2.0 billion that will accompany the transfer of resort facilities.

Raising Awareness and Accelerating Product Development at Local Subsidiaries

While there are areas of operations that are experiencing stagnant sales growth, including certain countries and regions in Asia, Central and South America, and the Near and Middle East, we aim to achieve solid sales growth in all regions without using sluggish economic conditions as an excuse. Accordingly, we have provided instruction to our local subsidiaries to actively increase new accounts by revising sales activities that have relied on traditional sales routes.

Forecast for Performance in Fiscal 2018

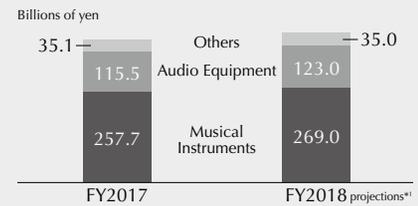
(Billions of yen)	FY2017	FY2018 projections*1	Changes from the previous year	Year-on-year percentage change
Net Sales	408.2	427	+18.8	+4.6%
Operating Income	44.3	48.5	+4.2	+9.5%
(Operating Income Ratio)	(10.9%)	(11.4%)		
Ordinary Income	44.9	48.5	+3.6	+8.0%
(Ordinary Income Ratio)	(11.0%)	(11.4%)		
Net Income**2	46.7	39	-7.7	-16.5%
(Net Income Ratio)	(11.4%)	(9.1%)		

Exchange Rate (Yen)		FY2017	FY2018
Net Sales (Average rate during the period)	US\$	108	110
	EUR	119	120
Operating Income (Settlement rate)	US\$	108	110
	EUR	121	120

*1 Announced on May 1, 2017

**2 Net income is presented as net income attributable to owners of parent on the consolidated financial statements.

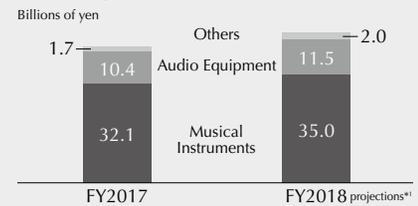
Net Sales



Impact of Exchange Rates (Billions of yen)

Year on year	+3.7	Musical Instruments +2.4
		Audio Equipment +1.2
		Others +0.1

Operating Income



Impact of Exchange Rates (Billions of yen)

Year on year	-0.5	Musical Instruments -0.2
		Audio Equipment -0.3

By transitioning from a business-specific product development structure to a function-specific organizational structure, we have already achieved a remarkable increase in the speed of product development. However, considering the recent pace of technological innovations, we have yet to reach sufficient results. With the aim of enhancing our product development and marketing capabilities, we have been making reforms to our conventional organizational structure since April, establishing a new organization that integrates product development and marketing divisions. Under this new organization, we will further strengthen and accelerate product development going forward.

Creating ESG Value Unique to Yamaha

We recognize that a company that lacks awareness toward ESG is a company that will no longer be accepted by society. Based on this recognition, we are promoting a wide variety of ESG-related initiatives within NEXT STAGE 12.

We believe that, as a company, we should work to resolve social issues through the products and services we provide. For example, we have been promoting activities to popularize music in regions with poor public safety for

over 10 years. These efforts have helped play a role in reducing misconduct and improving public safety in such regions. While this is only one example of our many social initiatives, we believe that the resolution of social issues helps create business opportunities for the Company over the medium to long term.

From the perspective of the environment, a company's approach can be categorized as "defensive" or "offensive." As an example of a "defensive" approach, we are increasing our utilization of timber from certified forests where wood materials are managed in an appropriate and legal manner. As a corporate group that makes use of timber, we view the sustainable procurement of resources as a high-priority issue. Meanwhile, to improve our product strength and enhance our competitiveness, we are conducting research on raw wood materials within the research process for sound, as one of our "offensive" approaches. We believe that we can utilize the expertise we have gained through such research to develop a substitute material for timber in the event that its use becomes restricted under environmental regulations in the future. These kinds of environmentally conscious initiatives provide us with a sharp competitive edge.

E Environmental

Promote activities to create a sustainable society by reducing environmental impact

(1) Reduce environmental impact in business processes

- Use timber sustainably
- Reduce greenhouse gas emissions



Yamaha Forest reforestation activity in Indonesia

(2) Enhance development of environmentally friendly products and technologies

- Develop environmentally friendly materials (develop alternative materials for rare wood, etc.)
- Encourage Yamaha Eco-Products Program*



* Program to promote environmentally friendly products certified in accordance with original Yamaha standards

- Develop technologies for reducing greenhouse gas emissions (thermoelectric devices, hydrogen sensors, etc.)



S Social

Promote activities to create a sustainable society through responding to social issues, enhancing employment policies, etc.

(1) Enhance development of products and services that address issues facing society

- Apply sound-related knowledge and technology, and introduce more universal design products



Wearable Sensors for Healthcare field

(2) Develop regional community-based business (music popularization activities, cultural events, and corporate citizenship activities)

- Resolve social issues through music and contribute to community development



El Sistema (Photo: Provided by Fundamusical)

(3) Take systematic initiatives to promote diversity, socially responsible procurement, and respect for human rights

- Carry out activities in line with the United Nations Global Compact*

* Signed by Yamaha in 2011

G Governance

Continue to improve organizational structures and mechanisms to maintain and advance transparent, highly effective management that operates in an appropriate and prompt manner

(1) Corporate Governance Initiatives

Yamaha transitioned to a Company with Three Committees (Nominating, Audit, and Compensation) on June 22, 2017.

- **Enhance the overall management oversight function**
 - Board of Directors to consist of 9 members (two-thirds of whom will be outside directors)
 - Nominating Committee, Audit Committee, and Compensation Committee to be established as provided for by law (Each Committee includes a majority of outside directors)
- **Speed up the execution of management**
 - New executive officer structure: 7 executive officers Board of Directors to delegate extensive authority to executive officers

(2) Initiatives for Strengthening Internal Controls

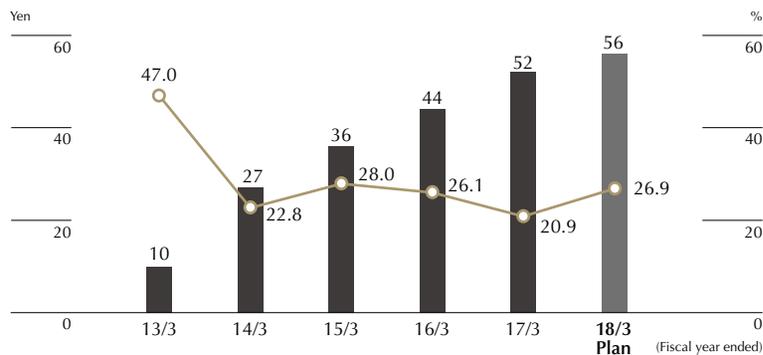
- Receive a higher appraisal from external specialists for Yamaha's internal auditing systems and methods
- Improve Yamaha Group corporate governance, including overseas Group companies, as a result of further improvements in quality of internal control systems
- In addition to an existing corporate culture with a strong sense of ethics, improve capabilities for dealing with risks by introducing more advanced risk management structure



Plans for Returns to Shareholders

During the three-year period of NEXT STAGE 12, we intend to generate ¥150 billion in cash flows from operating activities. In doing so, we plan to carry out shareholder returns in a flexible manner with the purpose of improving capital efficiency after first giving consideration to maintaining a balance with an appropriate amount of internal reserves for future growth investments. We also aim for a consolidated payout ratio of 30% or more.

Returns to Shareholders



- The annual dividend for fiscal 2017 is ¥52, representing an increase for the fourth consecutive year.
- The annual dividend for fiscal 2018 is forecast to be ¥56.