Financial Review

Fiscal 2018 Performance

Analysis of Overall Performance in Fiscal 2018

Looking back on the economic environment in fiscal 2018, the world economy continued on a moderate recovery trend. By country and region, the United States showed steady growth along with improvement in the employment environment and incomes. In Europe, personal consumption and capital investment increased, with the economy continuing to perform steadily. In China, although there was continued economic expansion, the rate of that expansion began to slow. In Japan, consumer spending continued to recover.

Amid such an operating environment, the Yamaha Group entered into the second year of its medium-term management plan NEXT STAGE 12. Guided by this plan, the Group continued to pursue the key strategies of "develop products with distinctive individuality," "enhance customer interaction," "continually reduce costs," and "strengthen global business platforms."

Under NEXT STAGE 12, we have set a target of achieving an operating income ratio of 12% by fiscal 2019, the final year of the plan. In fiscal 2018, the plan's second year, operating income ratio was 11.3%, while ROE reached 14.5% and EPS came to ¥292, both exceeding the targets of the plan. In 2019, we forecast an operating income ratio of 12.4%.

In regard to "develop products with distinctive individuality," in the musical instruments business, we introduced a new series of Clavinova™ digital pianos and our Venova™ casual wind instrument, which won a Good Design Grand Award. In the audio equipment business, we released a new model of our AV sound bar, which has garnered high praise for its high quality and design. We also launched a compact speaker for background music (BGM) use in commercial facilities and an all-in-one camera/USB microphone speaker for use in corporate teleconferencing. These newly launched products allow customers to experience our new technologies and beautiful design.

For "enhance customer interaction," in the musical instruments business, we took steps to upgrade our sales network and far exceeded our target for increasing our number of sales outlets, especially in emerging countries. Additionally, in such countries, we are implementing music education support activities under our "School Project" program, and the number of students participating in this program has reached an aggregate total of 124,000, centered on emerging countries in Asia. In the audio equipment business, we worked to expand the number of customers among audio contractors. In Europe, a major market for AV products, we moved forward with upgrades to our Premium Y-island in-store display corners, which feature MusicCast™ compatible products. In the network domain, in addition to expanding LAN products, we made efforts to widen our customer base and attract different groups of customers, including educational institutions and retail stores. These efforts also included collaboration with surveillance camera manufactures.

Turning to "continually reduce costs," although there have been some increases in procurement costs mainly related to electronic devices, we are continuing to undertake initiatives such as redesigning our production processes, increasing production efficiency, and increasing productivity in administrative activities. Also, during the fiscal year under review, we began the construction of new production plants in Indonesia and India. At the same time, we made solid progress in boosting production capacity at existing factories.

As for "strengthen global business platforms," we are promoting human resources activities that transcend national boundaries. We are also moving ahead with initiatives in line with our plans, including improving IT security; strengthening our business support base by optimizing support functions globally, including the promotion of efficient logistics; and enhancing the efficiency of business processes.

Net Sales, Operating Income, and Net Income Attributable to Owners of Parent

Consolidated net sales was up 6.1% year on year, to ¥433.0 billion, as sales rose in all segments compared with the previous fiscal year (GRAPH 1).

By region, we achieved double-digit sales growth on a local currency basis in China, which helped contribute to overall sales growth together with the steady sales performance in other emerging countries (GRAPH 2).

With profits increasing across all segments, operating income grew for the sixth consecutive year, up 10.2%, to a record-high ¥48.8 billion (GRAPH 3). The primary factors behind this growth were improvement and increased production in the product model mix, reduced costs, and increased profits due to the impact of foreign currency exchange rates. These positive factors helped offset increased labor costs overseas, higher SG&A expenses, and other temporary negative factors, contributing to double-digit growth in operating income (GRAPH 4).

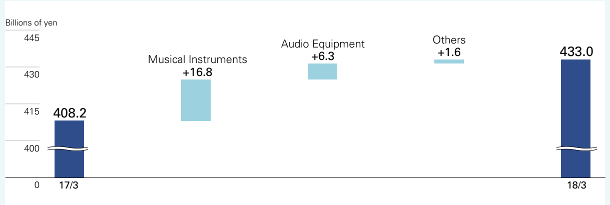
As result of not only increases in operating income and ordinary income but also the recording of a gain on sales of investment securities (sale of a portion of shares in Yamaha Motor Co., Ltd.: sales profit of ¥25.8 billion before tax and ¥18.0 billion after), net income attributable to owners of parent was up 16.4%, to ¥54.4 billion.

GRAPH 1

Net sales (by business)

Billions of yen

	2017/3	2018/3
Net sales	408.2	433.0
Musical Instruments	257.7	274.5
Audio Equipment	115.5	121.8
Others	35.1	36.7

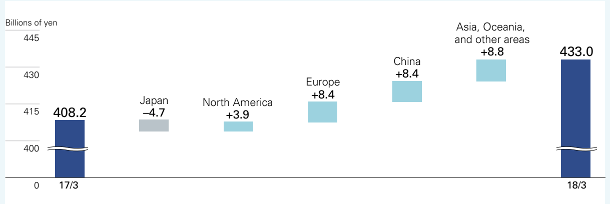


GRAPH 2

Net sales (by region)

Billions of yen

	2017/3	2018/3
Net sales	408.2	433.0
Japan	138.4	133.7
North America	83.0	86.9
Europe	76.5	84.8
China	45.8	54.2
Asia, Oceania, and other areas	64.5	73.3

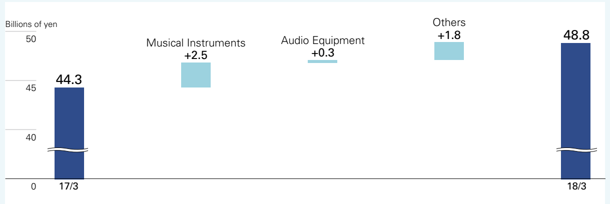


GRAPH 3

Operating income (by business)

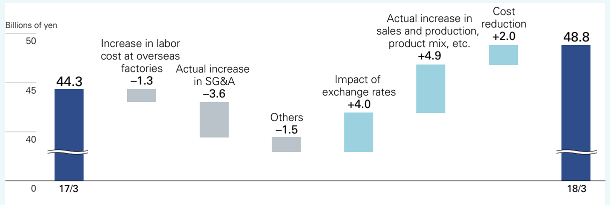
Billions of yen

	2017/3	2018/3
Operating income	44.3	48.8
Musical Instruments	32.1	34.6
Audio Equipment	10.4	10.7
Others	1.7	3.5



GRAPH 4

Operating income (by factor)



Results by Segment

Musical Instruments

Sales in the musical instruments segment rose 6.5%, to ¥274.5 billion, with operating income increasing 7.8%, to ¥34.6 billion.

By product, sales in all product categories were up over the previous fiscal year. Sales of acoustic pianos increased, driven by the solid performance in China. Sales of digital pianos grew due the positive impact of new products. Sales of portable keyboards rose on the back of the strong performance of high-priced models in Europe and mass market priced products in emerging countries. Wind instruments saw healthy sales in North America, while guitar sales rose in China and emerging countries.

By region, sales in North America throughout the year remained on a par with those of the previous fiscal year, reflecting the impact of natural disasters and a transition in our sales network. In Europe, the brisk performance of digital musical instruments allowed us to maintain sales at around the same level as the previous fiscal year. Meanwhile, sales in China continued to grow in the double digits, and sales in emerging countries increased. Particularly, in China, we expanded our sales network and promoted a variety of marketing initiatives. As a result, sales of acoustic and digital pianos, as well as guitars, rose significantly, allowing us to realize sales growth that outpaced the rate of growth in the overall Chinese market.

Audio Equipment

Sales in the audio equipment segment increased 5.5%, to ¥121.8 billion, and operating income rose 2.6%, to ¥10.7 billion.

By product, sales were up across all product categories.

For AV products, sales remained steady in North America and Europe as we continued to penetrate the market for connected audio. As a result, sales of AV products were up in all regions.

In regard to PA equipment, sales of the upgraded RIVAGE™ PM10, our flagship model for digital mixers, and new products such as RIVAGE™ PM7 were steady. In addition, we enhanced our personnel structure for supporting corporate and B2B clients and steadily increased our number of accounts with audio contractors. By region, PA equipment saw double-digit sales growth in China and emerging countries.

For ICT devices, sales of voice communication equipment in Japan were solid.

Others (Industrial Machinery and Components Business, etc.)

Sales in the others segment rose 4.5%, to ¥36.7 billion, with operating income rising 102.4%, to ¥3.5 billion.

In addition to the significant sales increase of factory automation (FA) equipment, sales grew for automobile interior wood components in Japan and North America. As a result, the industrial machinery and components business realized double-digit sales growth.

Sales increases were in the double digits in the golf business as well, due in part to the impact of new products and successful initiatives to promote the Yamaha brand.

Analysis of Financial Position

Total assets as of March 31, 2018, came to ¥560.2 billion, up ¥37.8 billion, or 7.2% from the previous fiscal year-end figure of ¥522.4 billion. This result reflected such factors as an increase in property, plant and equipment and intangible assets due to investments in further growth, which entailed the construction of a new research and development building on the grounds of the Company's headquarters and the construction of new production plants overseas (India and Indonesia), as well as a rise in cash and deposits. (GRAPH 5)

Total liabilities stood at ¥171.8 billion, up ¥16.9 billion, or 10.9%, from the previous fiscal year-end figure of ¥154.9 billion, due mainly to an increase in income taxes payable.

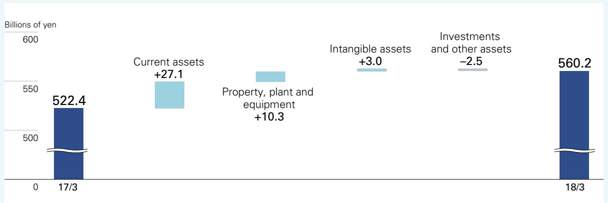
Total net assets were ¥388.3 billion, an increase of ¥20.9 billion, or 5.7%, from ¥367.4 billion at the end of the previous fiscal year. This increase was due to shareholder returns in the form of dividend payments totaling ¥10.1 billion and the purchase of treasury stock totaling ¥25.0 billion (including odd-lot share purchases), which resulted from recording net income attributable to owners of parent of ¥54.4 billion. (GRAPH 6)

GRAPH 5

Billions of yen

	2017/3	2018/3
Total assets	522.4	560.2
Current assets	272.7	299.8
Property, plant and equipment	105.5	115.8
Intangible assets	3.2	6.2
Investments and other assets	141.0	138.4

Total assets

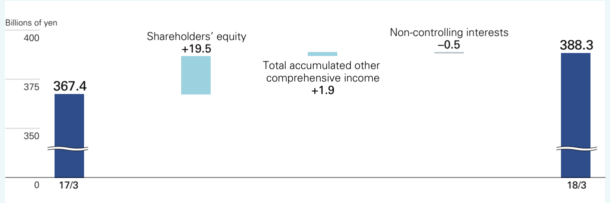


GRAPH 6

Billions of yen

	2017/3	2018/3
Total net assets	367.4	388.3
Shareholders' equity	295.5	315.0
Total accumulated other comprehensive income	69.6	71.5
Non-controlling interests	2.3	1.8

Total net assets



Analysis of Cash Flows

Cash and cash equivalents (hereinafter, cash) at the end of the fiscal year ended March 31, 2018, stood at ¥117.4 billion, an increase of ¥16.7 billion compared with an increase of ¥15.7 billion in the previous fiscal year.

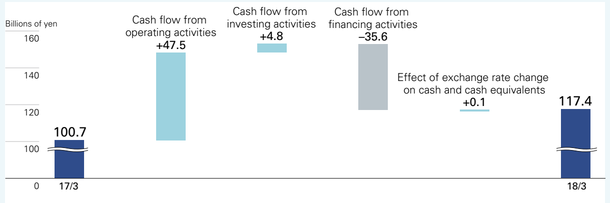
Net cash provided by operating activities in fiscal 2018 was ¥47.5 billion, compared with net cash of ¥39.1 billion provided in the previous fiscal year, due mainly to the contribution of income before income taxes.

Net cash provided by investment activities amounted to ¥4.8 billion, compared with net cash used in investment activities of ¥9.7 billion in the previous fiscal year. This result was due mainly to proceeds from sales and redemption of investment securities.

Net cash used in financing activities was ¥35.6 billion, compared with ¥12.6 billion used in the previous fiscal year, owing in part to proceeds from the purchase of treasury stock and cash dividends paid (GRAPH 7).

GRAPH 7

Cash flows



Forecast for Fiscal 2019 (As of May 1, 2018)

While gradual economic recovery is expected to continue in the overall global economy, the future outlook remains uncertain due to government policy trends in the United States and Europe as well as the state of affairs in such regions as North Korea and the Middle East. For the business environment in which Yamaha is involved, the Company is expecting gradual growth to continue in the markets of Europe and the Americas. The Company is also expecting continued double-digit growth in China and an overall solid performance in emerging markets. In the Japanese market, the Company anticipates conditions to remain relatively unchanged due in part to the impact of the declining birthrate.

In fiscal 2019, the final year of the three-year medium-term management plan NEXT STAGE 12 formulated in fiscal 2016, the Company forecasts net sales of ¥442.0 billion, up 2.1% from the previous year, operating income of ¥55.0 billion, up 12.6%, and an operating income ratio of 12.4%.

Net Sales and Operating Income

The Company anticipates consolidated net sales of ¥442.0 billion, up ¥9.0 billion, or 2.1%, following sales increase in all segments. By region, the Company expects continued double-digit sales growth in China and a solid sales performance in emerging countries. In such countries, the Company forecasts year-on-year sales growth on an actual basis that excludes the impact of foreign exchange rates.

The Company expects to once again realize record-high operating income due to the anticipated increase in both sales and profit in the musical instruments and audio equipment segments. Specifically, the Company forecasts double-digit growth in operating income, as negative factors such as increase in overseas labor costs, a rise in SG&A expenses, and foreign exchange rates will likely be offset by increases in sales and production and higher profits due to efforts to reduce costs.