FINANCIAL REVIEW

Fiscal 2019 Performance (J-GAAP)

Analysis of Overall Performance in Fiscal 2019

Looking back on the economic environment in fiscal 2019, the global economy continued to expand moderately, but uncertainties about the future increased on account of U.S.-China trade friction and the Brexit issue. In individual countries and regions, the U.S. economy continued to perform well, but economic growth lost momentum in Europe. The economy in China continued to expand, albeit at a slower pace. In Japan, consumer spending continued to improve at a moderate pace.

Amid such an operating environment, the Yamaha Group finished 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."

By fiscal 2019, the final year of the medium-term management plan NEXT STAGE 12, Yamaha had achieved its management targets for operating income ratio of 12%, ROE at the 10% level, and EPS at the ¥200 level.

In regard to "develop products with distinctive individuality," the Company opened the new Innovation Center with the aim of creating new value by fusing together technologies and bringing together its engineers that had been dispersed across business lines. As a result, in the musical instruments segment, Yamaha released the AvantGrand™ hybrid piano and new models of TransAcoustic™ guitars. In the audio equipment segment, we unveiled unique products that represent Yamaha, such as a networked turntable that leverages the advantages of analog and digital technologies, and a unified communications speakerphone that enables remote communications in crystal-clear audio.

For "enhance customer interaction," in the musical instruments business, we upgraded our sales network and our music schools with a focus on emerging countries in a bid to enhance our interactions with customers. In emerging countries, we made steady progress introducing musical instrument education programs through activities that support musical instrument education, and the cumulative number of students expanded to 260,000 people. In the audio equipment segment, we enhanced internal personnel systems while working to develop new customers, sharply increasing the number of PA equipment business partners.

Turning to "continually reduce costs," the Company was unable to achieve its goal for lowering costs, failing to offset rising costs as a result of higher procurement prices for electronic devices, for example. However, we carried out measures to redesign production processes and improve productivity in administrative work. Construction on our new plant in India progressed on schedule, and it began to produce portable keyboards for the Indian market.

As for "strengthen global business platforms," we upgraded our global personnel management system, established a three-region global structure for IT, and optimized our global distribution system. The Company advanced preparations to introduce International Financial Reporting Standards (IFRS), and adopted IFRS in fiscal 2020.

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

Consolidated net sales was up 1.0% year on year, to ¥437.4 billion, thanks to solid performance in the musical instruments segment (GRAPH 1).

By region, net sales was higher than the previous fiscal year in China and North America, contributing to overall growth (GRAPH 2).

Operating income expanded 14.7%, to ¥56.0 billion, with year-on-year growth in the musical instruments segment. Yamaha posted record-high profits for the seventh consecutive year of growth (GRAPH 3). This profit growth was primarily attributable to higher sales and production, lower costs, and the impact of foreign exchange rates. These positive factors offset negatives that included higher SG&A expenses and an increase in manufacturing costs, caused in part by higher labor costs at overseas production bases (GRAPH 4).

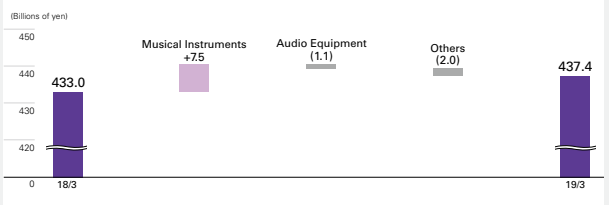
Even though operating income and ordinary income increased, net income attributable to owners of parent decreased 19.5%, to ¥43.8 billion, owing to the absence of a gain on sales of investment securities recorded in the previous fiscal year (sale of a portion of shares in Yamaha Motor Co., Ltd.: gain of ¥25.8 billion before tax and ¥18.0 billion after tax).

GRAPH 1

(Billions of yen)

	2018/3	2019/3
Net sales	433.0	437.4
Musical Instruments	274.5	282.0
Audio Equipment	121.8	120.7
Others	36.7	34.7

Net sales (change by business segment)

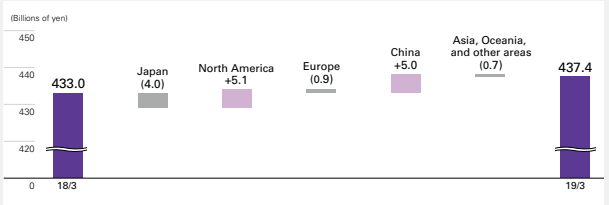


GRAPH 2

(Billions of yen)

	2018/3	2019/3
Net sales	433.0	437.4
Japan	133.7	129.7
North America	86.9	92.0
Europe	84.8	83.9
China	54.2	59.2
Asia, Oceania, and other areas	73.3	72.6

Net sales (change by region)

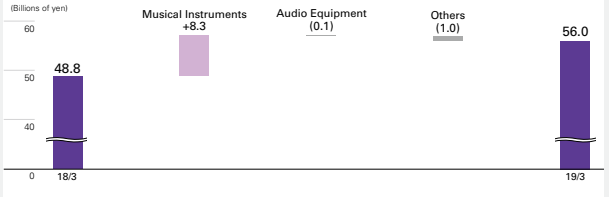


GRAPH 3

(Billions of yen)

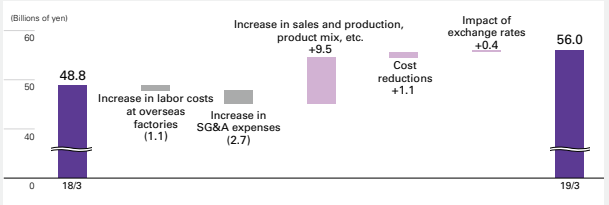
	2018/3	2019/3
Operating income	48.8	56.0
Musical Instruments	34.6	42.9
Audio Equipment	10.7	10.6
Others	3.5	2.5

Operating income (change by business segment)



GRAPH 4

Operating income (change by factor)



Results by Segment

Musical Instruments

Sales in the musical instruments segment rose 2.7%, to ¥282.0 billion, with operating income increasing 24.0%, to ¥42.9 billion.

By product, sales in all product categories, including pianos, digital musical instruments, wind instruments, and string and percussion instruments, were up over the previous fiscal year. In addition to strong growth in entry level pianos, sales of high-priced pianos were also brisk. Sales of digital pianos were also firm, driven by entry-level models. Sales of wind instruments were healthy, with growth in sales of mid-range acoustic guitars in China and North America.

By region, sales in China grew in the double digits in all product categories. Although sales of high-priced pianos decelerated, sales of entry level models increased sharply. Sales of mid-range guitars were solid. In North America, sales increased in all product categories. Digital pianos and guitars saw double-digit growth, while sales of pianos and wind instruments were also firm. Sales expanded year on year in emerging markets.

Audio Equipment

Sales in the audio equipment segment decreased 0.9%, to ¥120.7 billion, and operating income declined 0.9%, to ¥10.6 billion.

By product, compared with the previous fiscal year, sales were up in professional audio equipment, but down for AV products and ICT devices.

In AV products, sales decreased in North America and elsewhere, owing in part to a slow response to changing demand on markets. For professional audio equipment, sales were up in all regions, with brisk sales of CA equipment and audio installations in Japan. In ICT devices, sales of network equipment were strong, but OEM product sales declined, resulting in a year-on-year decrease in sales overall.

Others
(Industrial Machinery and Components Business, etc.)

Sales in the others segment decreased 5.4%, to ¥34.7 billion, with operating income down 29.0%, to ¥2.5 billion.

In the industrial machinery and components business, electronic devices saw sales decline year on year on a slowdown for amusement equipment in China. For factory automation (FA) equipment, sales grew for precision machines and leak detectors.

Analysis of Financial Position

Total assets as of March 31, 2019, stood at ¥514.8 billion, a decrease of ¥37.5 billion (–6.8%) from the year-earlier ¥552.3 billion, owing mainly to a decline in investment securities, while property, plant and equipment as well as intangible assets increased as a result of strategic investments in growth (GRAPH 5).

Total liabilities were ¥132.0 billion, down ¥32.0 billion (–19.5%) from the previous fiscal year-end figure of ¥164.0 billion, owing to decreases in income taxes payable and deferred tax liabilities.

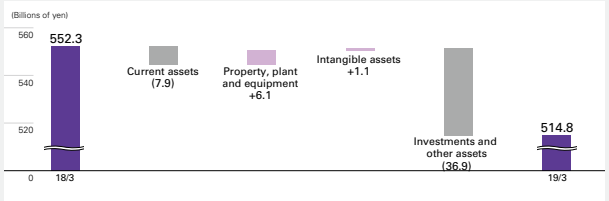
Total net assets amounted to ¥382.8 billion, a decrease of ¥5.6 billion (–1.4%), from ¥388.3 billion at the end of the previous fiscal year. This reflected shareholder returns in the form of dividend payments totaling ¥10.5 billion and the purchase of treasury stock totaling ¥11.9 billion, along with ¥43.8 billion in net income attributable to owners of parent. Additionally, there was a decline of ¥24.9 billion for the valuation difference on other available-for-sale securities (GRAPH 6).

GRAPH 5

(Billions of yen)

	2018/3	2019/3
Total assets	552.3	514.8
Current assets	289.5	281.6
Property, plant and equipment	115.8	121.9
Intangible assets	6.2	7.3
Investments and other assets	140.8	103.9

Total assets

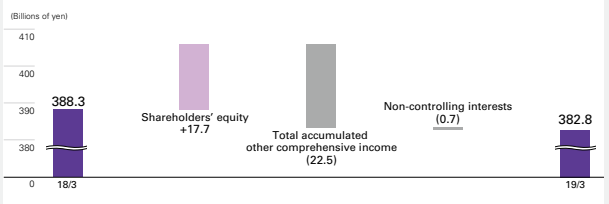


GRAPH 6

(Billions of yen)

	2018/3	2019/3
Total net assets	388.3	382.8
Shareholders' equity	315.0	332.7
Total accumulated other comprehensive income	71.5	49.0
Non-controlling interests	1.8	1.1

Total net assets



Analysis of Cash Flows

Cash and cash equivalents (hereinafter, cash) at the end of the fiscal year ended March 31, 2019, stood at ¥95.8 billion, a decrease of ¥21.6 billion compared with the end of the previous fiscal year (cash was up ¥16.7 billion at the end of previous fiscal year).

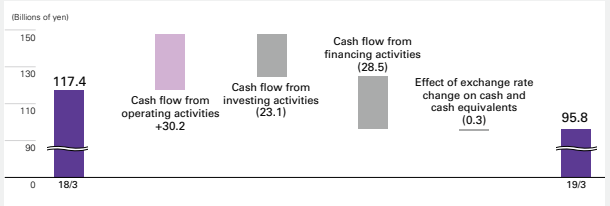
Net cash provided by operating activities in fiscal 2019 was ¥30.2 billion, compared with net cash of ¥47.5 billion provided in the previous fiscal year, owing mainly to the contribution of income before income taxes.

Net cash used in investment activities amounted to ¥23.1 billion, compared with net cash provided by investment activities of ¥4.8 billion in the previous fiscal year, owing primarily to the acquisition of tangible and intangible fixed assets.

Net cash used in financing activities was ¥28.5 billion, compared with ¥35.6 billion used in the previous fiscal year, owing in part to expenditures for the purchase of treasury stock and cash dividends paid (GRAPH 7).

GRAPH 7

Cash flows



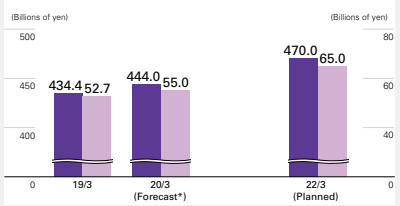
Forecast for Fiscal 2020

Under its new medium-term management plan Make Waves 1.0, which was unveiled in April 2019, Yamaha targets net revenue of ¥470.0 billion and core operating profit of ¥65.0 billion by fiscal 2022.

For fiscal 2020, the first fiscal year of the management plan, the Company forecasts year-on-year growth in net revenue in all business segments. By region, the Company expects double-digit growth to continue for musical instruments in China, on top of continued brisk sales in emerging markets. For the markets of North America and Europe, we project year-on-year growth on an underlying basis that excludes the impact from changes in accounting standards and foreign exchange rates. In fiscal 2020, Yamaha forecasts higher core operating profit in the musical instruments segment and the audio equipment segment (GRAPH 8).

GRAPH 8

Growth projections under new medium-term management plan Make Waves 1.0 (IFRS)



* Forecast announced in March 2019