Financial Section

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Management's Discussion and Analysis

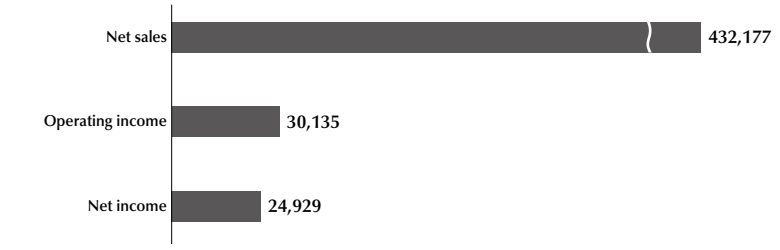
Fiscal 2016 Summary

- Year-on-year increases in both sales and earnings for the fourth consecutive year
- Substantial sales in the musical instruments segment despite lower revenue from music schools due to the impact of change in the schools' management
  Significant increase in earnings as a result of an improved product model mix and lower manufacturing costs
- Increased sales and earnings in the audio equipment segment due to a recovery in AV products and the continued growth of PA equipment
- Return to profitability in the electronic devices segment brought about by reduced fixed costs through fabless manufacturing

Fiscal 2015

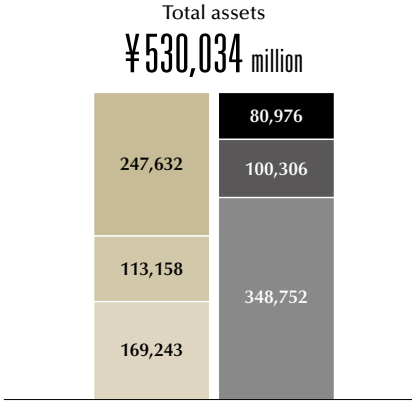
Consolidated Statement of Operations Summary

Millions of yen



Consolidated Balance Sheet Summary

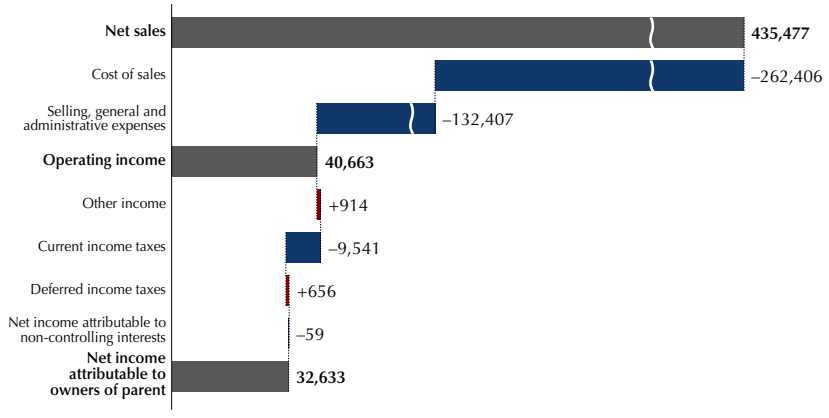
Millions of yen



Fiscal 2016

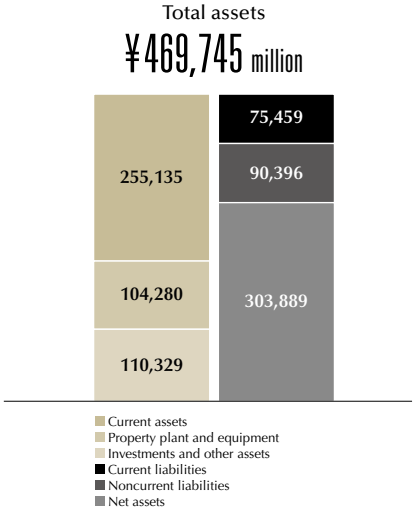
Consolidated Statement of Operations Summary

Millions of yen



Consolidated Balance Sheet Summary

Millions of yen



Eleven-Year Summary

Yamaha Corporation and consolidated subsidiaries

Years ended March 31	2006	2007	2008	2009	2010
For the year:					
Net sales	¥534,084	¥550,361	¥548,754	¥459,284	¥414,811
Cost of sales	341,816	352,382	343,686	290,381	268,380
Gross profit	192,267	197,980	205,066	168,902	146,431
Selling, general and administrative expenses	168,132	170,295	172,220	155,057	139,602
Operating income	24,135	27,685	32,845	13,845	6,828
Income (loss) before income taxes and minority interests	35,842	33,101	62,510	(12,159)	(201)
Net income (loss)*2	28,123	27,866	39,558	(20,615)	(4,921)
Capital expenditures	22,882	25,152	24,394	22,581	14,480
Depreciation expenses	18,944	19,956	20,289	17,912	14,139
R&D expenses	24,055	24,220	24,865	23,218	21,736
Cash flow from operating activities	25,510	39,732	37,225	(2,235)	39,870
Cash flow from investing activities	(18,104)	(22,427)	41,999	(25,999)	(12,711)
Free cash flow	7,406	17,305	79,225	(28,234)	27,159
At year-end:					
Total assets	¥519,977	¥559,031	¥540,347	¥408,974	¥402,152
Total current assets	209,381	231,033	275,754	202,097	193,260
Total current liabilities	117,047	136,656	120,174	90,050	75,182
Interest-bearing liabilities	28,474	25,551	21,036	19,192	15,017
Net assets*3	316,005	351,398	343,028	251,841	254,591
Per share:					
Net income (loss)	¥ 136.04	¥ 135.19	¥ 191.76	¥ (103.73)	¥ (24.95)
Net assets*3	1,532.62	1,680.91	1,646.44	1,262.42	1,276.35
Dividends*4	20.00	22.50	50.00	42.50	27.50
Key indicators:					
Operating income ratio	4.5	5.0	6.0	3.0	1.6
ROE (Return on equity)*3	9.5	8.4	11.5	(7.0)	(2.0)
ROA (Return on assets)	5.5	5.2	7.2	(4.3)	(1.2)
Equity ratio*3	60.8	62.0	62.9	60.9	62.6
Debt to equity ratio (Times)	0.09	0.07	0.06	0.08	0.06
Interest coverage (Times)	36.89	47.83	34.56	26.74	16.88
Current ratio	178.9	169.1	229.5	224.4	257.1
Dividend payout ratio	14.7	16.6	26.1	—	—

*1. U.S. dollar amounts are translated from yen at the rate of ¥112.68 = U.S.$1.00, the approximate rate prevailing on March 31, 2016.
*2. Net income (loss) for fiscal 2016 is presented as net income attributable to owners of parent on the consolidated financial statements.
*3. Net assets, ROE (return on equity), and equity ratio were classified as shareholders' equity, ROE (return on shareholders' equity), and shareholders' equity ratio, respectively, until the year ended March 31, 2006.
*4. The dividends per share from the years ended March 2008 to March 2010 include a ¥20 special dividend.

Millions of yen						%	Millions of U.S. dollars*1
2011	2012	2013	2014	2015	**2016**	**2015/2016**	**2016**
¥373,866	¥356,616	¥366,941	¥410,304	¥432,177	**¥435,477**	+0.8	**$3,864.72**
237,313	231,659	238,261	262,310	270,357	**262,406**	–2.9	**2,328.77**
136,553	124,957	128,680	147,994	161,820	**173,070**	+7.0	**1,535.94**
123,387	116,846	119,465	121,999	131,684	**132,407**	+0.5	**1,175.07**
13,165	8,110	9,215	25,994	30,135	**40,663**	+34.9	**360.87**
6,802	6,971	7,795	25,818	28,526	**41,578**	+45.8	**368.99**
5,078	(29,381)	4,122	22,898	24,929	**32,633**	+30.9	**289.61**
10,439	11,337	13,844	10,799	13,846	**11,220**	–19.0	**99.57**
12,814	11,973	11,613	12,759	12,597	**12,681**	+0.7	**112.54**
22,416	22,819	22,149	22,561	25,439	**24,793**	–2.5	**220.03**
22,646	10,880	7,755	33,213	31,729	**42,399**	+33.6	**376.28**
(9,740)	(9,004)	(12,617)	(22,950)	(11,700)	**591**	–105.1	**5.25**
12,906	1,875	(4,862)	10,263	20,029	**42,991**	+114.6	**381.53**
¥390,852	¥366,610	¥390,610	¥438,932	¥530,034	**¥469,745**	–11.4	**$4,168.84**
194,717	188,952	197,902	214,487	247,632	**255,135**	+3.0	**2,264.24**
74,836	72,829	71,550	73,145	80,976	**75,459**	–6.8	**669.68**
11,838	11,295	10,013	8,755	11,868	**8,510**	–28.3	**75.52**
245,002	206,832	229,636	274,843	348,752	**303,889**	–12.9	**2,696.92**
Yen							U.S. dollars*1
¥ 25.90	¥ (151.73)	¥ 21.79	¥ 118.26	¥ 128.75	**¥ 168.90**		**$ 1.50**
1,250.06	1,052.01	1,171.67	1,403.12	1,787.42	**1,601.55**		**14.21**
10.00	10.00	10.00	27.00	36.00	**44.00**		**0.39**
%							
3.5	2.3	2.5	6.3	7.0	**9.3**		
2.1	(13.2)	1.9	9.2	8.1	**10.1**		
1.3	(7.8)	1.1	5.5	5.1	**6.5**		
61.9	55.6	58.1	61.9	65.3	**64.2**		
0.05	0.05	0.04	0.03	0.03	**0.03**		
40.38	31.84	40.64	130.19	130.51	**129.41**		
260.2	259.4	276.6	293.2	305.8	**338.1**		
38.6	—	47.0	22.8	28.0	**26.1**		

Overview

Economic Environment

During fiscal 2016, ended March 31, 2016, the U.S. economy continued on a course of gradual recovery as consumer spending increased due to improved employment and income, although concerns of an economic slowdown are beginning to appear. In Europe, there was a gradual economic recovery due to a rebound in consumer spending that accompanied a decrease in the unemployment rate, and solid retail sales during the Christmas shopping season. The economic slowdown in China worsened as consumption was sluggish following poor business performance in the manufacturing industry. In other emerging countries, while conditions varied from country to country, there was a strong sense of economic stagnation due to such factors as the decline in resource prices, including crude oil, the falling value of their currencies against the U.S. dollar, and the economic slowdown in China. In Japan, despite signs of an economic recovery due to changes in monetary policy, a strong sense of uncertainty about the future of the economy emerged due to falling stock prices beginning from the start of 2016 and appreciation of the yen.

Performance Review

With regard to sales in fiscal 2016, in the musical instruments segment, sales of pianos in Japan and other markets failed to reach last year's levels and sales in North America were poor. On the other hand, sales in China were solid, resulting in an overall sales level that was on par with the previous fiscal year. For digital musical instruments, while sales of Electone™ electronic organs decreased year on year as the positive impact of releasing new products in the previous year faded, digital pianos achieved double-digit growth in sales thanks to favorable sales in all markets. As a result, digital musical instruments, including portable keyboards, recorded solid sales overall. Sales of wind instruments rose due to favorable sales in all markets, especially North America and Europe, and double-digit guitar sales helped drive increases in sales of string and percussion instruments. As for results by market for the musical instruments business, sales were strong in Europe and China, with firm sales in North America as well.

In the audio equipment segment, while sales of audio products were poor in the beginning of the fiscal year following the sluggish conditions in the market for AV receivers—Yamaha's mainstay product—sales for the entire fiscal year rose due to such factors as the introduction of new network audio products.

In the professional audio equipment business, sales for new digital mixers, in addition to sales of analog mixers and speakers through musical instrument sales routes, were favorable, achieving double-digit growth in all markets except for North America, where sales were poor due to a delay in establishing a sales structure.

In the electronic devices segment, while sales of large-scale integrated (LSI) for amusement equipment rose, sales of audio devices such as digital amplifiers fell, resulting in a year-on-year sales decrease overall.

As for the others segment, strong sales of factory automation (FA) equipment, in addition to favorable sales in golf products and the resort business, offset a decline in sales of automobile interior wood components. As a result, overall sales were on par with the previous fiscal year.

Turning to profit and loss, the musical instruments segment saw a significant increase in profits due to the positive effects from continuous reductions in manufacturing costs as well as sales increases in highly profitable products, primarily digital musical instruments. In addition, profits rose in nearly every product category for the audio equipment segment, including audio products, professional audio equipment, and information and communications technology (ICT) devices. While profits in the others segment fell slightly, the electronic devices segment realized a return to profitability as reductions in fixed costs due to the effects of restructuring efforts substantially improved the profit and loss situation.

As a result of the abovementioned factors, net sales in fiscal 2016 increased 0.8%, to ¥435,477 million, and operating income was up 34.9%, to ¥40,663 million. Ordinary income rose 31.0%, to ¥40,907 million, and net income attributable to owners of parent increased 30.9%, to ¥32,633 million.

Analysis of Management Performance

Net Sales

¥435,477 million

+0.8%

Net Sales

Net sales in fiscal 2016 climbed ¥3,299 million, or 0.8%, to ¥435,477 million. While sales in the audio equipment segment were up, the actual sales increase in the musical instruments segment could not offset the impact of a ¥12,400 million decrease in sales caused by the transfer of music school management to the Yamaha Music Foundation. Sales in the electronic devices and others segments decreased, albeit only slightly.

Sales by Region

In Japan, sales in fiscal 2016 declined ¥15,340 million, or 9.6%, to ¥145,033 million. This decline was primarily attributable to the impact of the transfer of music school management to the Yamaha Music Foundation. In the musical instruments business, although piano sales fell and sales of Electone™, which were strong in the previous fiscal year, decreased significantly, product sales remained at about the same level as last year as digital pianos, portable keyboards, wind instruments, and guitars all posted favorable sales. However, overall sales for the musical instruments business fell sharply due to such factors as the substantial impact of the sales decline that accompanied the change in the management of the Company's music schools as well as the decline in sales of the music software business.

In audio equipment, sales conditions were favorable thanks to the recovery in AV products from last year's sluggish results as well as solid sales of professional audio equipment. Furthermore, installation sales of commercial audio equipment rose significantly due to the special demand that accompanied the frequency modifications in wireless microphones.

In the electronic devices business, sales were down due to the sharp fall in sales for audio devices, despite rising sales of audio and graphics LSI for amusement equipment. As for the others business, while sales of automobile interior wood components were down year on year, sales in FA equipment, golf products, and resort businesses were up.

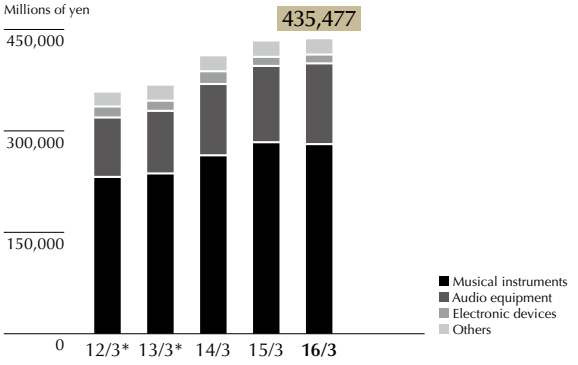
Turning to outside Japan, sales climbed ¥18,640 million, or 6.9%, to ¥290,443 million. On a local currency basis, sales in Europe and China were extremely strong, and sales in North America and other markets surpassed those of the previous fiscal year. The ratio of overseas sales to net sales edged up 3.8 points, from 62.9% to 66.7%.

By region, sales in North America were up ¥8,487 million, or 10.6%, to ¥88,234 million. In the musical instruments business, nearly every product aside from pianos recorded strong sales. As for audio equipment, sales of AV products showed signs of recovery as sales of Yamaha products by mass merchandisers increased, while sales of professional audio equipment fell due to a delay in establishing a sales structure. As a result, overall sales were up year on year in North America.

In Europe, sales increased ¥1,927 million, or 2.4%, to ¥82,205 million. In the musical instruments business, sales of pianos remained at the same level as the previous fiscal year, while sales of digital musical instruments rose due to solid sales of digital pianos. In addition, wind instruments recorded firm sales, and healthy sales of guitars led to higher sales of string and percussion instruments. Sales of both AV products and professional audio equipment rose in the audio equipment business as the introduction of new products into the market progressed smoothly. As a result, sales in Europe increased overall.

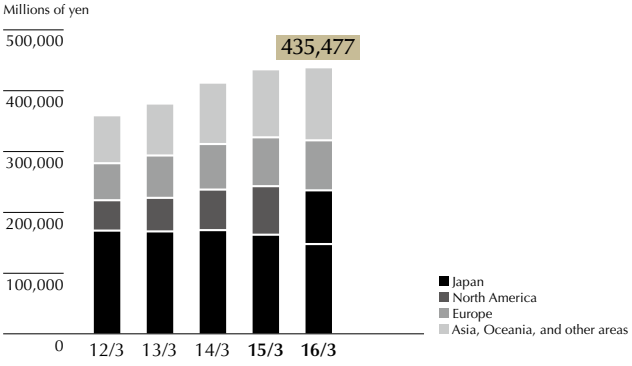
Sales in Asia, Oceania, and other areas rose ¥8,225 million, or 7.4%, to ¥120,003 million. In the musical instruments business in China, sales of pianos, which post the largest sales volumes compared to any other musical instrument, rose significantly, and sales of digital musical instruments, wind instruments, and guitars were solid. In the audio equipment business, AV products and professional audio equipment both recorded double-digit sales growth, resulting in healthy overall sales amid a worsening economic slowdown. Overall, sales in China saw double-digit growth. In other areas, while conditions vary by country and region, sales of musical instruments maintained similar levels as the previous fiscal year, and the audio equipment business saw firm sales of AV products and professional audio equipment, which resulted in an increase in overall sales.

Sales by Segment



* Figures for fiscal 2012 and 2013 have been adjusted to reflect segment composition changes effective from fiscal 2014.

Sales by Region



Cost of Sales and Selling, General and Administrative Expenses

Cost of sales decreased ¥7,950 million, or 2.9%, to ¥262,406 million. The cost of sales ratio improved 2.3 percentage points, to 60.3%.

Gross profit was up ¥11,250 million, or 7.0%, to ¥173,070 million. The gross profit ratio improved 2.3 percentage points, to 39.7%.

Selling, general and administrative (SG&A) expenses rose ¥722 million, or 0.5%, to ¥132,407 million. The ratio of SG&A expenses to net sales declined 0.1 percentage point, to 30.4%.

Major Items Included in Selling, General and Administrative Expenses

	Millions of yen		%
	2015	2016	Change
Sales commissions	¥ 1,516	**¥ 1,396**	–7.9
Transport expenses	12,813	**13,407**	+4.6
Advertising expenses and sales promotion expenses	18,671	**19,183**	+2.7
Allowance for doubtful accounts	214	**69**	-67.8
Provision for product warranties	606	**974**	+60.7
Retirement benefit expenses	3,063	**2,921**	–4.6
Provision for directors' bonuses	77	**—**	—
Salaries and benefits	54,116	**54,806**	+1.3
Rent	3,910	**4,017**	+2.7
Depreciation and amortization	2,461	**2,440**	–0.9

Operating Income

¥40,663 million +34.9%

Operating income in fiscal 2016 increased ¥10,527 million, or 34.9%, to ¥40,663 million.

By segment, operating income in the musical instruments segment rose ¥6,466 million, or 25.8%, from ¥25,064 million to ¥31,530 million, reflecting the fact that a higher sales composition ratio of highly profitable products and improvement in manufacturing costs offset a decline in sales in musical instruments businesses. In the audio equipment segment, operating income increased ¥2,559 million, or 41.7%, from ¥6,133 million to ¥8,693 million. This increase was attributable to a recovery in sales from the introduction of new AV products and an increase in sales in professional audio equipment. Operating income in the electronic devices segment improved ¥1,553 million from the previous year's operating loss of ¥1,446 million due to the positive impact of lower fixed costs that accompanied structural forms. As a result, the segment recorded operating income of ¥107 million. In the others segment, operating income decreased ¥51 million, or 13.5%, from ¥384 million to ¥332 million, as profits from FA equipment and automobile interior wood components declined.

The primary reasons behind the significant increase in year-on-year earnings were such factors as higher profits due to increased sales and production (¥9.3 billion), improved manufacturing costs (¥4.4 billion), and a recovery in the profit and loss situation in the electronic devices segment due to business restructuring (¥1.9 billion). These positive factors outweighed such negative factors as the increase in manufacturing costs due to rising labor costs at overseas productions bases (¥1.8 billion), the negative impact of foreign currency translations (¥1.7 billion), and an increase in SG&A expenses (¥1.5 billion).

Non-Operating Income and Expenses

In fiscal 2016, non-operating income rose ¥189 million, or 4.0%, from ¥4,687 million to ¥4,876 million. Of this amount, dividend income was up ¥186 million, or 8.5%, from ¥2,191 million to ¥2,377 million, reflecting a higher dividend from Yamaha Motor Co., Ltd. In addition, the Company recorded ¥693 million in a tariff refund at a U.S.-based sales subsidiary.

Non-operating expenses were up ¥1,040 million, or 29.0%, from ¥3,591 million to ¥4,632 million. Of this amount, sales discounts increased ¥268 million, or 10.1%, from ¥2,641 million to ¥2,909 million, and foreign exchange loss rose ¥514 million, from ¥84 million to ¥598 million.

Extraordinary Income and Loss

Extraordinary income in fiscal 2016 climbed ¥8,811 million, from ¥168 million to ¥8,979 million, reflecting the sale of old stores, residential facilities, and idle land.

Extraordinary loss was up ¥5,435 million, from ¥2,874 million to ¥8,309 million. Of this amount, an impairment loss of ¥882 million on fixed assets was recorded in connection with the expected disposal of property and other assets. The Company also posted ¥6,759 million in amortization of goodwill. This represented the immediate amortization of goodwill that accompanied an impairment loss on the shares of consolidated subsidiaries. Specifically, the Company recorded ¥4,457 million in goodwill related to Line 6, Inc., a U.S. subsidiary of the Company and its subsidiaries, and ¥2,302 million in a portion of goodwill related to Revolabs, Inc., which is also a U.S. subsidiary of the Company and its subsidiaries.

Income before Income Taxes

In fiscal 2016, income before income taxes rose ¥13,052 million, or 45.8%, from ¥28,526 million to ¥41,578 million. The ratio of income before income taxes to net sales improved 2.9 points, from 6.6% to 9.5%.

Current Income Taxes and Deferred Income Taxes

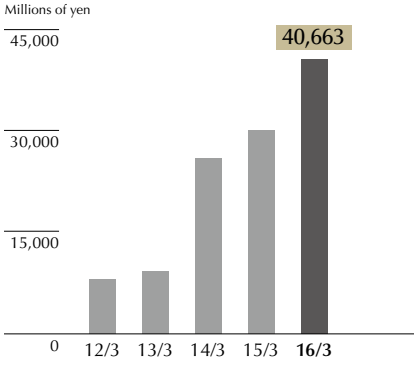
Current income taxes in fiscal 2016 increased ¥2,224 million, or 30.4%, from ¥7,317 million to ¥9,541 million, reflecting higher income before income taxes.

Deferred income taxes decreased ¥3,240 million, from ¥3,896 million to ¥656 million, reflecting the recording of a deferred tax liability following the disposal of reduction entry for the gain on sales of fixed assets that occurred during the period under review.

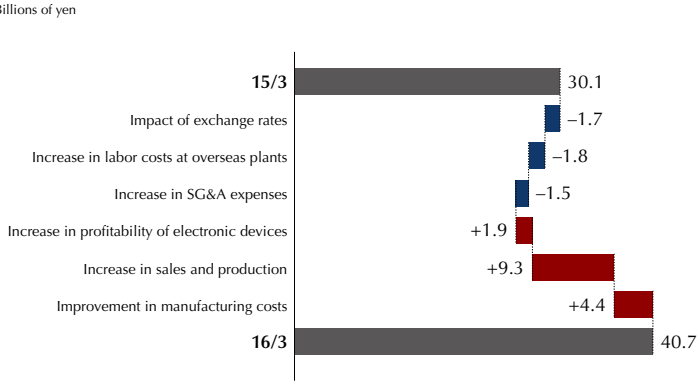
Net Income Attributable to Non-Controlling Interests

In fiscal 2016, net income attributable to non-controlling interests decreased ¥117 million, or 66.4%, from ¥176 million to ¥59 million.

Operating Income



Operating Income Analysis

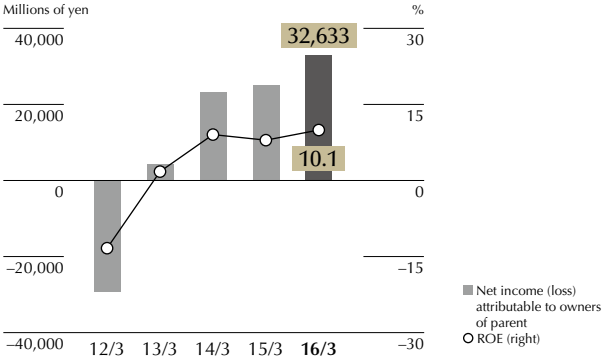


Net Income Attributable to Owners of Parent

¥32,633 million **+30.9%**

As a result of the aforementioned factors, net income attributable to owners of parent climbed ¥7,704 million, or 30.9%, from ¥24,929 million to ¥32,633 million. Net income per share was ¥168.90, compared to ¥128.75 in the previous fiscal year.

Net Income (Loss) Attributable to Owners of Parent / ROE



* Net income (loss) attributable to owners of parent was presented as net income on the consolidated financial statements in fiscal 2012, 2013, 2014, and 2015.

Fluctuations in Foreign Currency Exchange Rates and Risk Hedging

Yamaha conducts business on a global scale with a focus on musical instruments. As such, the Company's business structure is vulnerable to the effects of fluctuations in foreign currency exchange rates. The Company's consolidated financial statements are influenced by foreign currency exchange rate effects stemming from risks associated with currency exchange rates and transactions denominated in those currencies, including the U.S. dollar, the euro, the Canadian dollar, the Australian dollar, and the Chinese yuan. Of these risks, currency exchange rate risks are incurred when overseas consolidated subsidiaries translate their financial statements for a specified period or on a specified date into Japanese yen. Transaction-related risks are incurred when earnings and expenses and/or assets and liabilities are denominated in different currencies. For this reason, transaction-related risks are subject to risk hedges.

Specifically, U.S. dollar-related currency fluctuation risks are hedged by marrying risk associated with dollar receipts from export sales with risk associated with dollar payments for imported products. The Company hedges the value of risks associated with the euro and the Canadian and Australian dollars by projecting related export revenues and purchasing relevant three-month currency forward contracts.

Sales at overseas consolidated subsidiaries are calculated using the average exchange rates recorded during the year. On this basis, in fiscal 2016 the yen depreciated ¥10 against the U.S. dollar, for an average exchange rate of ¥120 to US$1. The year-on-year effect of this change was an increase of approximately ¥9,100 million in sales. Furthermore, the yen appreciated ¥6 against the euro, for an average exchange rate of ¥133 to €1, resulting in a decrease of roughly ¥4,000 million in sales. Overall, the net effect on sales of foreign exchange rate movements, including the downward effect of approximately ¥800 million in fluctuations of the yen against such other currencies as the Canadian and Australian dollars, was an increase of approximately ¥4,400 million.

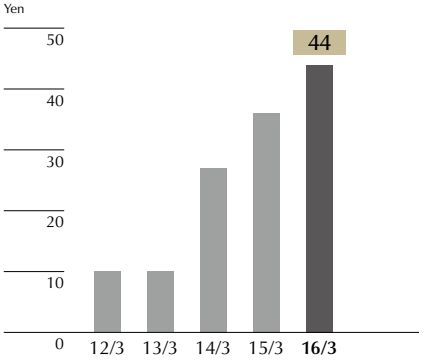
In terms of operating income, for the U.S. dollar, benefits from the aforementioned marriage of risks related to the currency enabled the Company to largely hedge the effects of currency exchange rates stemming from fluctuations in settlement rates. However, the U.S. dollar translation of operating income figures of overseas consolidated subsidiaries to Japanese yen caused income to decrease roughly ¥100 million. The average settlement rate against the euro was ¥134 to €1, an appreciation of ¥7, resulting in a decrease of approximately ¥2,800 million in operating income. The net effect on operating income of exchange rate movements, including other currencies, was a decrease of roughly ¥1,700 million compared with the previous fiscal year.

Dividends per Share

¥44

In fiscal 2016, a regular dividend of ¥44 per share (a 26.1% payout ratio) was paid. This was an increase of ¥8 year on year, and due largely to sales and income increases.

Dividends per Share



Review of Operations

Musical Instruments

Sales
¥278,872 million
–1.0%

Operating Income
¥31,530 million
+25.8%

Fiscal 2016 Performance Overview

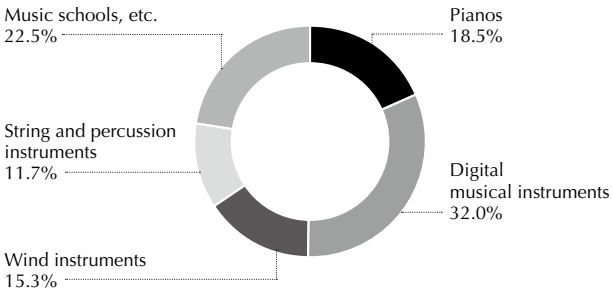
Sales in fiscal 2016 fell ¥2,794 million, or 1.0%, to ¥278,872 million. Operating income was up ¥6,466 million, or 25.8%, from ¥25,064 million to ¥31,530 million.

Review by Major Products

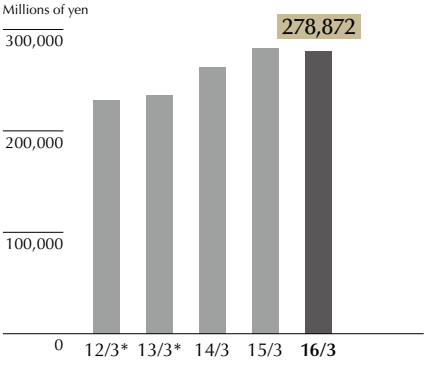
Sales of pianos in Japan for the entire fiscal year under review were slightly below the previous fiscal year's level. Sales in North America were poor as store inventories were high following strong sales at the end of the previous fiscal year. Piano sales in China were solid against a backdrop of stable demand from the increased use of pianos for educational purposes, and bids for orders from music colleges and other institutions increased. Overall piano sales maintained similar levels as the previous fiscal year.

As for digital music instruments, the diminishing impact of new product releases in the electronic organ Electone™ series, for which the Company carried out a model change during the previous fiscal year for the first time in 10 years, resulted in a decline in sales. However, in addition to the healthy sales in portable keyboards, digital pianos achieved double-digit sales growth as sales increased in every region due to model changes for mainstay products. As a result, overall sales for digital instruments were favorable. North America helped drive sales of wind instruments, which also saw favorable sales in Japan. In addition, the speed of popularization for wind instruments in China accelerated, resulting in solid sales overall. For string and percussion instruments, guitar sales were strong in Europe, China, and Japan, and other string instruments, as well as percussion instruments, recorded double-digit sales growth, resulting in solid sales overall. Revenue from Yamaha's music and English language schools fell sharply as management of the music schools was transferred to Yamaha Music Foundation from the second quarter of the year under review. While sales of school course materials increased after being negatively affected by the reactionary downturn following the demand rush that accompanied the consumption tax rate increase in the previous fiscal year, sales in the Company's music software business declined.

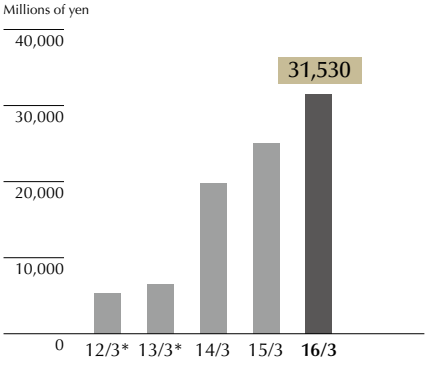
Sales by Product Category



Sales



Operating Income

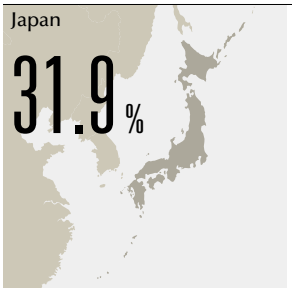


* As of fiscal 2014, the AV/IT segment changed its name to the audio equipment segment and the PA equipment business, which was previously reported as part of the musical instruments segment, was included in the audio equipment segment. Accordingly, figures for fiscal 2012 and 2013 have been adjusted to reflect these segment composition changes.

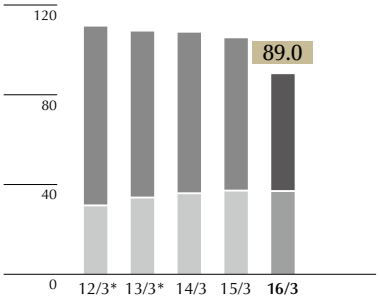
Review by Region

Percentage of Sales by Region | Market Trends and Fiscal 2016 Performance | Sales by Region (Billions of yen)

Japan

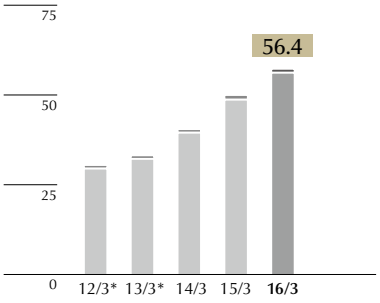


- Overall demand for musical instruments in Japan has been declining steadily. An example of this trend is the drastic contraction of the market for acoustic pianos over the past three decades. The high piano ownership rate and low birthrate are both responsible for this trend.
- While signs of a gradual recovery were seen, the outlook for the Japanese economy was uncertain due to the impact of yen appreciation on exchange rates and falling stock prices. Amid these circumstances, sales of digital musical instruments, wind instruments, and guitars were healthy, resulting in product sales levels that were on par with those of the previous fiscal year.

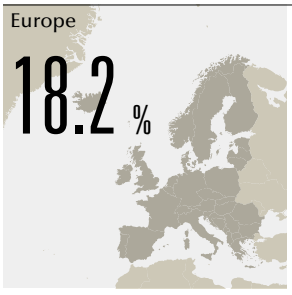


North America

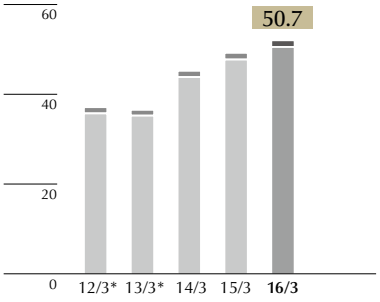
- The U.S. musical instruments market, showing no bias toward any particular instrument category, is clearly oriented toward hobbies and entertainment, where a wide range of musical instruments are used. Favorable business conditions continued amid higher consumer spending.
- By product category, while piano sales fell below the previous fiscal year's level, digital pianos and wind instruments recorded double-digit sales growth.



Europe

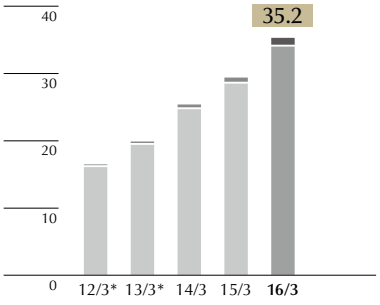


- In Europe, musical tastes and musical instrument use vary by country. Market conditions showed signs of gradual recovery thanks to a rebound in consumer spending amid growing concerns from the impact of the terrorist attacks in France and Belgium as well as the refugee crisis.
- By country and region, in addition to the strong economic performance in Germany—a core European market—Spain, Italy, France, and other countries in southern Europe continued to enjoy a moderate economic recovery. By product, although piano sales remained at about the same level as the previous fiscal year, sales of digital pianos, wind instruments, and string and percussion instruments, primarily guitars, were strong, resulting in favorable sales overall.



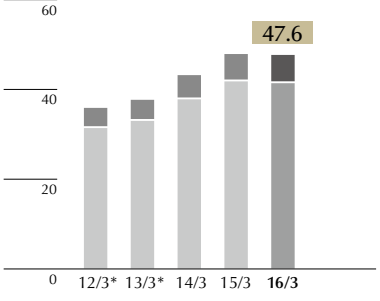
China

- China's musical instruments market is distinctive, with acoustic piano sales accounting for more than half of the market. However, with sales for digital musical instruments, wind instruments, and guitars showing high growth rates, the demand structure of the market will become increasingly similar to that of developed countries.
- Despite the worsening economic slowdown, sales of the Company's musical instruments were favorable. The percentage of participation in and acquisition of bids for pianos increased, backed by a strong demand for pianos in music education for children. In addition, digital pianos, wind instruments, and guitars achieved double-digit sales growth, resulting in an overall sales increase year on year.



Other Areas

- Influenced by various factors, such as the decline in resource prices, including crude oil, and the depreciation of local currencies, tough economic conditions continue to prevail in key emerging countries. However, while conditions vary by country, a trend of gradual economic recovery has been seen.
- By product, sales of digital musical instruments and wind instruments rose year on year. However, overall sales were held to roughly the same level as the previous fiscal year as the momentum of recovery in sales lacked strength.



Yamaha musical instruments hardware products
Music schools, etc.

* As of fiscal 2014, the AV/IT segment changed its name to the audio equipment segment and the PA equipment business, which was previously reported as part of the musical instruments segment, was included in the audio equipment segment. Accordingly, figures for fiscal 2012 and 2013 have been adjusted to reflect these segment composition changes.

Audio Equipment

Sales	
¥119,378 million	+5.8%

Operating Income	
¥8,693 million	+41.7%

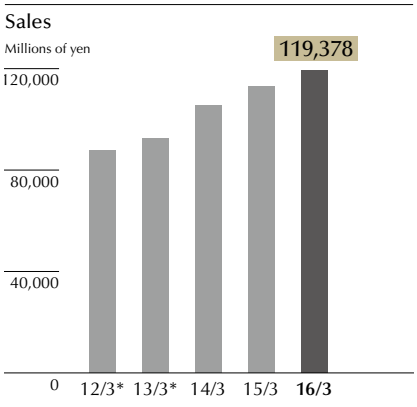
Fiscal 2016 Performance Overview

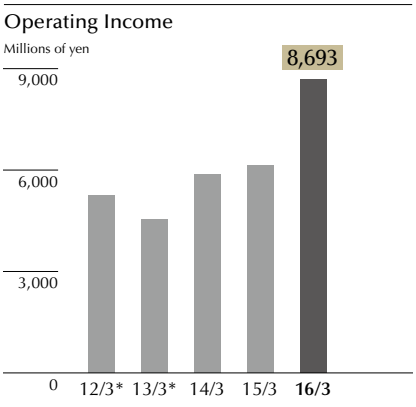
Sales in fiscal 2016 rose ¥6,538 million, or 5.8%, to ¥119,378 million.

For AV products, the Company made proactive efforts to release new products in response to last year's market contraction for existing product domains, such as AV receivers, as well as changes in consumer preferences, such as the increased demand for network devices. As a result, sales levels recovered compared to the previous fiscal year.

As for professional audio equipment, sales grew primarily from the introduction of flagship model digital mixers and digital mixers in affordable price ranges. Leveraging musical instrument sales routes, sales of analog mixers, amplifiers, and speakers increased as well. In Europe, both AV products and professional audio equipment sales were strong. While sales of commercial online karaoke equipment fell following revisions made in the supply method to customers, ICT devices such as routers and conference systems achieved higher year-on-year sales.

Operating income rose ¥2,559 million, or 41.7%, from ¥6,133 million to ¥8,693 million.





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Electronic Devices

Sales	
¥13,068 million	–2.7%

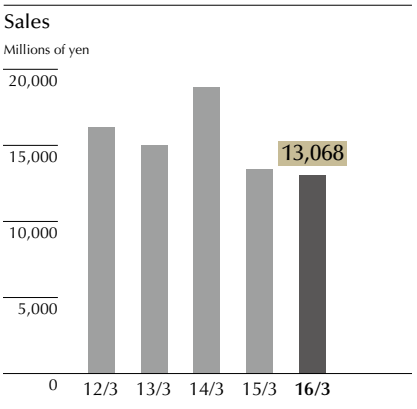
Operating Income	
¥107 million	–

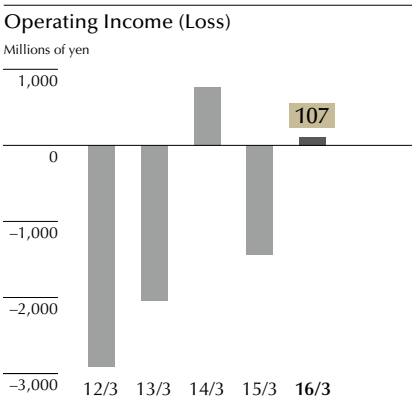
Fiscal 2016 Performance Overview

Sales in fiscal 2016 were down ¥366 million, or 2.7%, to ¥13,068 million.

Despite sales increases in LSI for amusement equipment and geomagnetic sensors (electronic compasses) for smartphones, sales for audio devices such as audio codecs decreased, resulting in a year-on-year decline in overall sales.

Operating income stood at ¥107 million, an improvement of ¥1,553 million from the operating loss of ¥1,446 million recorded in the previous fiscal year due to the positive impact of lower fixed costs that accompanied structural reforms.





Others

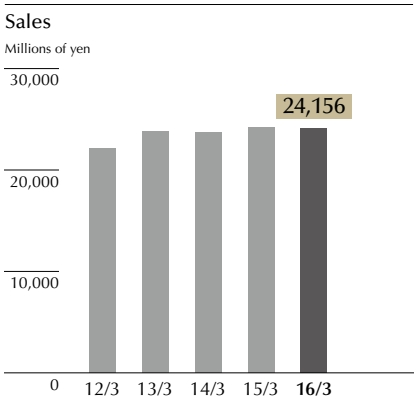
Sales
¥24,156 million **–0.3%**

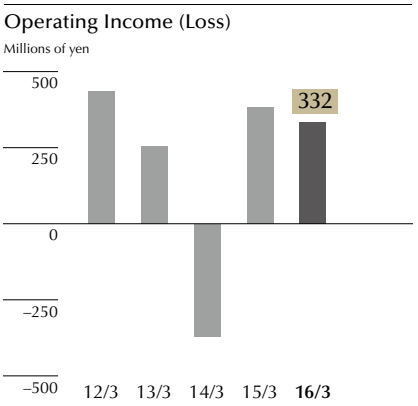
Operating Income
¥332 million **–13.5%**

Sales in fiscal 2016 decreased ¥78 million, or 0.3%, to ¥24,156 million.

For golf products, the positive effects of launching new products in Japan offset a decrease in sales overseas, resulting in a year-on-year increase in overall sales. Sales in the resort business also rose slightly year on year. While sales in FA equipment were firm thanks to healthy sales of precision machines, sales declined sharply for automobile interior wood components due to the impact of the new vehicle plans of customers. As a result, overall sales were more or less on par with the previous fiscal year.

Operating income decreased ¥51 million, or 13.5%, from ¥384 million to ¥332 million.





Key Business Indicators

	Millions of yen					Millions of U.S. dollars
	2012/3*	2013/3*	2014/3	2015/3	**2016/3**	**2016/3**
Sales						
Musical Instruments	¥230,356	¥235,507	¥262,310	¥281,667	**¥278,872**	**$2,474.90**
Audio Equipment	87,898	92,571	105,485	112,839	**119,378**	**1,059.44**
Electronic Devices	16,233	15,038	18,828	13,435	**13,068**	**115.97**
Others	22,128	23,823	23,679	24,235	**24,156**	**214.38**
Operating income (loss)						
Musical Instruments	¥ 5,337	¥ 6,451	¥ 19,728	¥ 25,064	**¥ 31,530**	**$ 279.82**
Audio Equipment	5,248	4,553	5,866	6,133	**8,693**	**77.15**
Electronic Devices	(2,913)	(2,044)	770	(1,446)	**107**	**0.95**
Others	437	254	(370)	384	**332**	**2.95**
Capital expenditures						
Musical Instruments	¥ 7,982	¥ 8,928	¥ 6,621	¥ 9,534	**¥ 6,700**	**$ 59.46**
Audio Equipment	1,328	2,467	2,788	2,840	**3,102**	**27.53**
Electronic Devices	736	1,381	216	639	**617**	**5.48**
Others	1,290	1,068	1,172	832	**801**	**7.11**
Depreciation expenses						
Musical Instruments	¥ 8,737	¥ 8,597	¥ 8,519	¥ 8,238	**¥ 8,390**	**$ 74.46**
Audio Equipment	1,576	1,592	2,647	2,857	**3,075**	**27.29**
Electronic Devices	976	669	761	706	**464**	**4.12**
Others	684	754	830	795	**750**	**6.66**
R&D expenses						
Musical Instruments	¥ 9,242	¥ 8,088	¥ 8,078	¥ 9,580	**¥ 9,291**	**$ 82.45**
Audio Equipment	8,360	9,219	10,011	11,025	**11,461**	**101.71**
Electronic Devices	3,979	3,374	3,094	3,429	**2,162**	**19.19**
Others	1,237	1,466	1,376	1,403	**1,879**	**16.68**

U.S. dollar amounts are translated from yen at the rate of ¥112.68 = U.S.$1.00, the approximate rate prevailing on March 31, 2016.
For more-detailed information, please refer to Financial Data 2016.
* As of fiscal 2014, the AV/IT segment changed its name to the audio equipment segment and the PA equipment business, which was previously reported as part of the musical instruments segment, was included in the audio equipment segment. Accordingly, figures for fiscal 2012 and 2013 have been adjusted to reflect these segment composition changes.

Analysis of Financial Position

Financing Policy

The Yamaha Group obtains working capital to fund its business activities and finances its business expansion primarily from cash on hand, operating cash flows, and bank loans.

Yamaha's basic financing policy is to procure stable, low-cost funding while preserving an appropriate amount of liquidity.

In fiscal 2016, the Company maintained a sufficient level of liquidity on hand, with cash and deposits totaling ¥88,166 million.

Group finance is carried out to promote efficient fund utilization for the entire Group.

Furthermore, the Company commissions long-term preferred debt rating assessments from credit rating agencies each year to facilitate smooth fund procurement in capital markets. The latest published ratings are shown below.

Credit Ratings

Rating agency	Long-term preferred debt rating*
Rating and Investment Information, Inc. (R&I)	A (stable)
Japan Credit Rating Agency, Ltd. (JCR)	A+ (stable)

* As of March 31, 2016

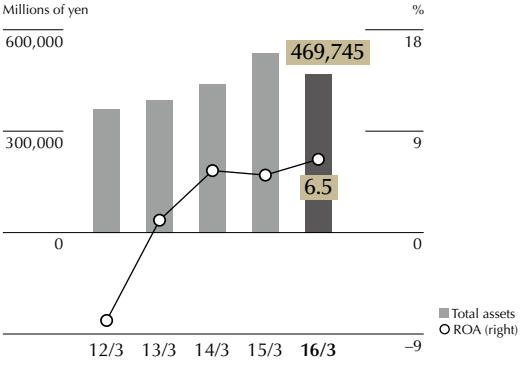
Total Assets

¥469,745 million

–11.4%

Total assets as of March 31, 2016, amounted to ¥469,745 million, a decrease of ¥60,289 million, or 11.4%, from the previous fiscal year-end figure of ¥530,034 million. Of this amount, total current assets totaled ¥255,135 million, a rise of ¥7,503 million, or 3.0%, from ¥247,632 million at the end of the previous fiscal year. Noncurrent assets came to ¥214,610 million, down ¥67,792 million, or 24.0%, from the previous year-end figure of ¥282,402 million.

Total Assets / ROA



Total Current Assets

Total current assets totaled ¥255,135 million, up ¥7,503 million, or 3.0%. This rise was attributable to increases in cash and deposits as well as inventories.

Cash and deposits were up ¥8,865 million, or 11.2%, to ¥88,166 million. Notes and accounts receivable–trade decreased ¥12,637 million, or 20.5%, to ¥49,026 million, resulting from a fall in accounts receivable–trade that accompanied the change in music school management. Inventories rose ¥4,083 million, or 4.7%, to ¥91,866 million. Deferred tax assets climbed ¥855 million, or 10.8%, to ¥8,802 million. Other current assets increased ¥6,228 million, or 50.7%, to ¥18,521 million, following the increase in payments made to trust account for purchase of treasury stock. The ratio of total current assets to total current liabilities at fiscal year-end was 338%, compared with 306% from a year earlier, indicating the Company continued to sustain a high level of liquidity during fiscal 2016.

Total Property, Plant and Equipment

Total property, plant and equipment as of March 31, 2016, stood at ¥104,280 million, a fall of ¥8,878 million, or 7.8%. Construction in progress was ¥1,544 million, a decrease of ¥2,594 million, or 62.7%, reflecting the completion of construction of the Yamaha Osaka Building.

Total Investments and Other Assets

Total investments and other assets as of March 31, 2016, amounted to ¥110,329 million, a year-on-year decrease of ¥58,913 million, or 34.8%.

Investment securities decreased ¥47,925 million, or 33.1%, to ¥96,911 million. This decrease was due primarily to a fall in the market value of securities held by the Company. Deferred tax assets were up ¥102 million, or 5.1%, to ¥2,123 million. Goodwill declined ¥9,723 million, or 79.8%, to ¥2,456 million, reflecting an immediate amortization of goodwill related to two of the Company's U.S. subsidiaries.

Total Liabilities

¥165,856 million

–8.5%

Total liabilities as of March 31, 2016, came to ¥165,856 million, a decrease of ¥15,426 million, or 8.5%, from the previous year-end figure of ¥181,282 million. Total current liabilities amounted to ¥75,459 million, a fall of ¥5,516 million, or 6.8%, from ¥80,976 million at the end of the previous fiscal year. Total noncurrent liabilities totaled ¥90,396 million, a decrease of ¥9,909 million, or 9.9%, from the previous fiscal year-end figure of ¥100,306 million.

Total Current Liabilities

Total current liabilities stood at ¥75,459 million, down ¥5,516 million, or 6.8%. While accounts payable–other and accrued expenses and income taxes payable increased, notes and accounts payable–trade and short-term loans payable decreased. Specifically, notes and accounts payable–trade decreased ¥3,841 million, or 16.6%, to ¥19,353 million. Short-term loans payable declined ¥3,338 million, or 28.4%, to ¥8,409 million. On the other hand, accounts payable–other and accrued expenses rose ¥2,320 million, or 6.6%, to ¥37,222 million, and income taxes payable climbed ¥150 million, or 7.0%, to ¥2,307 million.

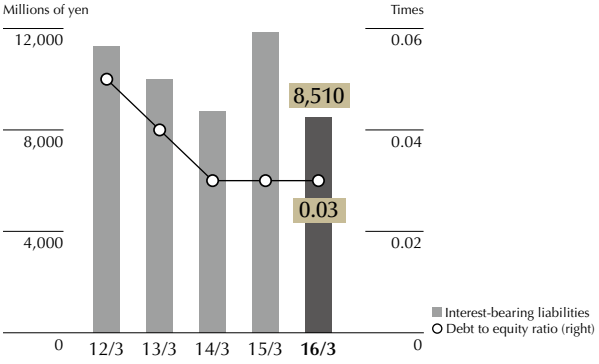
Total Noncurrent Liabilities

Total noncurrent liabilities as of March 31, 2016, decreased ¥9,909 million, or 9.9%, to ¥90,396 million. While net defined benefit liabilities were up, deferred tax liabilities and deferred tax liabilities for land revaluation decreased. Specifically, deferred tax liabilities fell ¥14,672 million, or 37.2%, to ¥24,750 million, due mainly to a fall in the market value of securities held by the Company and revisions to the effective tax rate. In addition, deferred tax liabilities for land revaluation decreased ¥1,254 million, or 11.3%, to ¥9,878 million, following the sale of land of old stores and revisions to the effective tax rate. Meanwhile, net defined benefit liabilities increased ¥6,311 million, or 19.9%, to ¥38,024 million, due to a declining discount rate that accompanied a return on pension plan assets and a decrease in interest rates on long-term government bonds.

Net Interest-Bearing Liabilities

As of March 31, 2016, short- and long-term loans payable, which constitute interest-bearing liabilities, totaled ¥8,510 million. Cash and deposits were ¥88,166 million, resulting in net cash and deposits, less short- and long-term loans payable, of ¥79,655 million, an increase of ¥12,223 million compared with ¥67,431 million at the previous fiscal year-end.

Interest-Bearing Liabilities / Debt to Equity Ratio



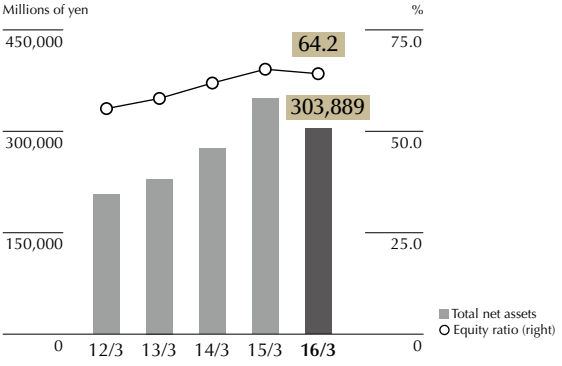
Total Net Assets

¥303,889 million **–12.9%**

Total net assets as of March 31, 2016, amounted to ¥303,889 million, down ¥44,862 million, or 12.9%, from the previous fiscal year-end figure of ¥348,752 million. While retained earnings increased due to a rise in net income attributable to owners of parent, there was a lower unrealized holding gain on securities, an acquisition of treasury stock, changes in foreign currency translation adjustments, and a decrease in remeasurements of defined benefit plans, and a decline in land revaluations, resulting in the decline in net assets.

Specifically, retained earnings increased ¥26,613 million, or 14.3%, to ¥213,050 million, reflecting net income attributable to owners of parent of ¥32,633 million and dividend payments of ¥7,841 million. Unrealized holding gain on securities decreased ¥32,150 million, or 36.9%, to ¥55,038 million, due to a fall in the market value of securities held by the Company. Treasury stock rose ¥17,234 million, to ¥20,945 million, following a decision made at the Board of Directors' meeting held on February 4, 2016, to acquire treasury stock. In addition, the negative balance of foreign currency translation adjustments expanded ¥10,406 million. Remeasurements of defined benefit plans increased ¥9,708 million, to ¥11,320 million, due to the declining discount rate that accompanied a return on pension plan assets and a decrease in interest rates on long-term government bonds. Revaluation reserve for land fell ¥1,341 million, or 7.4%, to ¥16,743 million, reflecting the sale of land of old stores. Non-controlling interests decreased ¥321 million, or 12.1%, to ¥2,344 million. The equity ratio fell 1.1 points, from 65.3% to 64.2%, and return on equity (ROE) rose 2.0 points, from 8.1% to 10.1%.

Total Net Assets / Equity Ratio



Cash Flows

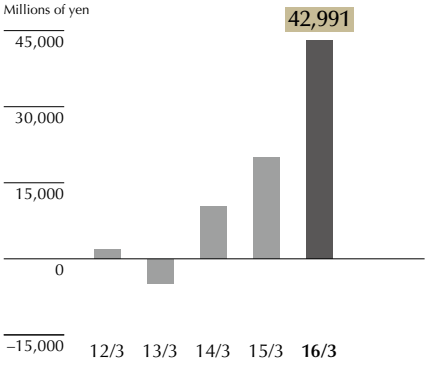
Net cash provided by operating activities in fiscal 2016 was ¥42,399 million, compared to net cash of ¥31,729 million provided in the previous fiscal year. This constituted a ¥10,670 million increase in cash provided.

Net cash provided by investing activities was ¥591 million, in contrast to net cash of ¥11,700 million used in the previous fiscal year. This increase was due to ¥12,811 million in proceeds from sales of property, plant and equipment.

Net cash used in financing activities was ¥30,349 million, compared to ¥5,909 million used in the previous fiscal year. This increase, which represents a ¥24,439 million increase in cash used year on year, was attributable to an increase in outflow due to the acquisition of treasury stock, the use of cash to repay short-term loans, and the increase in dividend payments.

As a result of the above factors, the fiscal 2016 year-end balance of cash and cash equivalents increased ¥8,858 million, to ¥85,018 million.

Free Cash Flow



Capital Expenditures / Depreciation and Amortization

Capital expenditures in fiscal 2016 came to ¥11,220 million, a decrease of ¥2,625 million, or 19.0%, from ¥13,846 million in the previous fiscal year. Capital expenditures in the musical instruments segment totaled ¥6,700 million, down ¥2,834 million, or 29.7%, from ¥9,534 million. In the audio equipment segment, capital expenditures increased ¥261 million, or 9.2%, from ¥2,840 million to ¥3,102 million. Moreover, in the electronic devices segment, capital expenditures declined ¥21 million, or 3.4%, from ¥639 million to ¥617 million. Capital expenditures in the others segment decreased ¥31 million, or 3.7%, from ¥832 million to ¥801 million.

Depreciation and amortization amounted to ¥12,681 million, an increase of ¥84 million, or 0.7%, from ¥12,597 million in fiscal 2015.

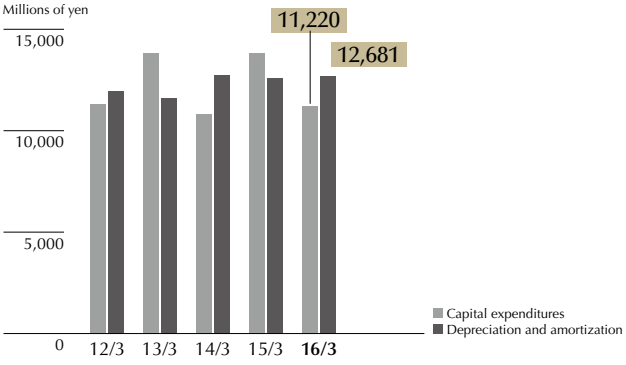
R&D Expenses

R&D expenses in fiscal 2016 were down ¥646 million, or 2.5%, from ¥25,439 million to ¥24,793 million. The ratio of R&D expenses to net sales fell 0.2 percentage point, from 5.9% to 5.7%.

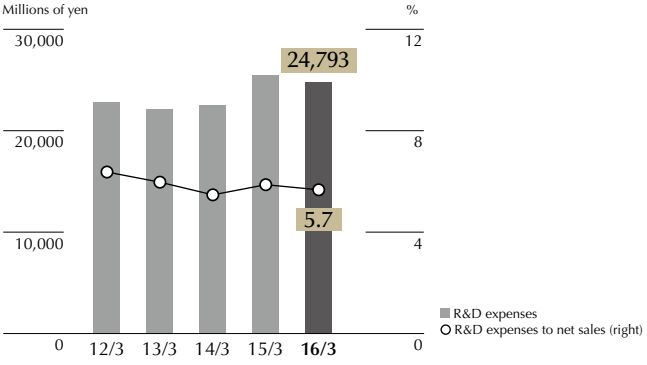
Most of the Company's R&D spending was directed at product development, primarily in digital musical instruments, professional audio equipment, communications equipment, and semiconductor businesses. Specifically, the spending supported elemental technology research and product development for hybrid products that meld acoustic and digital technologies, development efforts to raise the competitiveness of digital musical instruments, and the development of new commercial audio equipment to respond to the expansion of digital networks. Spending also supported product development aimed at expanding the category of AV products and new product development, including online karaoke equipment and routers. In the semiconductor business, spending was used to develop high-value-added analog and hybrid semiconductors and to advance the development of geomagnetic sensors (electronic compasses) for smartphones, and new amusement equipment.

R&D budgets also funded programs to research and develop basic sound- and music-related technologies (sound sources, voice synthesis, architectural acoustics, etc.). Such new devices as speakers, sensors, and interfaces were also researched, in addition to acoustic materials.

Capital Expenditures / Depreciation and Amortization



R&D Expenses / R&D Expenses to Net Sales



Forecast for Fiscal 2017

Net Sales	¥420,000 million	–3.6%
Operating Income	¥42,000 million	+3.3%
Net Income Attributable to Owners of Parent	¥45,500 million	+39.4%

Performance forecast

Fiscal 2017 represents the first year of the new medium-term management plan, NEXT STAGE 12.

Steady economic recovery is expected to continue in North America. In Europe, although economic uncertainty remains, signs of recovery have emerged and a solid performance is anticipated. With expected stagnation in the rate of economic growth, the future of the Chinese economy is becoming increasingly more opaque. Despite this, the Company is expecting stable performance due to steady growth in piano sales and the genuine rise

in popularity of other musical instruments, although the rate of growth will most likely be more gradual compared to the previous fiscal year. Other emerging countries appear to need more time to fully recover, although the situation differs depending on the region, but they are expected to show steady growth overall.

By business segment, in the musical instruments segment the Company will aggressively widen its business through continuing efforts to expand and upgrade its sales networks in China and other emerging countries. Particularly in China, the Company will respond flexibly to the changing market, which is beginning to show steady sales growth for various products, including digital musical instruments, wind instruments, and guitars. Also, in such developed markets as North America we aim to expand sales by taking a flexible approach to market changes while maximizing the impact of new product launches. We will also bolster efforts to create synergies with Line 6, Inc., a manufacturer of guitar peripherals, and its subsidiaries. Overall, in the musical instruments segment the Company expects decreased sales, despite substantive sales increases, as a significant decline in revenues is expected due to the impact of exchange rates, which has been worsening since the previous fiscal year. Income is expected to increase.

In the audio equipment segment, we aim to achieve sales growth for AV products by steadily promoting the network-based products that were launched in the previous fiscal year. In professional audio equipment, we expect to record higher sales by expanding our product lineup for digital mixers and making our full-scale entry into the commercial installed sound market. In the markets of the United States and ASEAN regions, we will streamline our sales structures, which in turn will lead to a steady increase in the rate of growth.

In the commercial router business, we will take advantage of our excellent reputation in the market and expand our product domain for switches, access points, and other products. In doing so, we plan to increase sales of ICT devices as a whole by integrating microphone speakers for Web conferencing into the audio communication device business. Moreover, we have brought Revolabs, Inc., a manufacturer of conference microphones with advanced technology in the area of digital wireless communications, under our corporate umbrella. This move will help us expand sales by effectively sharing product lines and leveraging sales channels while pursuing synergistic effects in product development.

In the others segment, for golf products, with adverse conditions continuing in Japan we will work to expand sales by launching new products. In parallel with these efforts, we will endeavor to expand further into overseas markets, such as South Korea, which we have continuously focused on, and China. In the automobile interior wood components business, with the aim of enhancing our manufacturing capabilities by reducing lead time, we will work to deliver a stable supply to customers. In the electronic devices business, amid estimations for sales to be on par with the previous fiscal year, we will improve our model mix and promote cost reductions. Through proposals for modules that fuse the various technologies the Company possesses, we will contribute to the profit growth of client companies. For FA equipment, the Company will continue to set its sights on higher sales through the expansion of its customer base and initiatives to reinforce customer support by increasing the number of development staff. In the resort business, we expect to increase revenue by further strengthening measures to attract customers during the winter season. Overall, sales are expected to increase year on year in the others segment.

In addition, the electronic devices segment will be abolished in fiscal 2017. The results of the electronic devices business will be combined with the industrial machinery and components business and listed in the others segment.

Exchange rate assumptions for fiscal 2017 are: ¥110 per US$1, ¥125 per €1, ¥83 per AUS$1, ¥85 per CAN$1, and ¥17 per CNY¥1. In fiscal 2017, we forecast a decrease in sales and an increase in operating income compared with fiscal 2016.

Capital Expenditures Forecast

In fiscal 2017, capital expenditures are expected to increase compared to fiscal 2016. In addition to regular investment in molds for the production of new products, investment for facility upgrade and refurbishment, investment related to sales and marketing, R&D investment, and expenses related to plant rationalization, the Company plans to make investments to develop new facilities in the area surrounding its headquarters as well as to establish additional overseas production facilities.

Depreciation and amortization expenses are expected to be on par with the previous fiscal year as these expenses will not increase to the extent of capital expenditures following the Groupwide integration of a straight-line depreciation method.

Profit Distribution Policy

With due consideration given to raising ROE, Yamaha adheres to a basic policy of actively providing returns to its shareholders while carrying out growth investments in areas such as R&D, sales, and capital expenditures, based on prospective levels of medium-term consolidated earnings. For shareholder returns, the Company adopts a policy of providing a continuous and stable dividend. However, giving consideration to the balance between returns and an appropriate amount of retained earnings for future growth investments, the Company will provide returns in a flexible and appropriate manner with the aim of improving capital efficiency. In addition, the Company has set a goal for a consolidated payout ratio of 30% or more.

In fiscal 2017, Yamaha plans to pay a total dividend of ¥52.0 per share, including an interim dividend payment of ¥26.0 per share. Furthermore, as part of our shareholder return policy, the Company has purchased treasury stocks totaling ¥20,000 million between the period starting from February 5, 2016, to April 8, 2016, based on a resolution passed at the Board of Directors' meeting held on February 4, 2016.