YAMAHA

Annual Report 2018

Yamaha Philosophy

The Yamaha Philosophy expresses the philosophical framework of the Yamaha Group and consists of five elements: the Corporate Slogan, Corporate Philosophy, Customer Experience, Yamaha Way (mindset and manners), and Yamaha Quality (criteria for quality). We utilize the Yamaha Philosophy as a foundation to draw from, and try to think from the customer's viewpoint, and consistently provide high quality products and services that exceed the expectations of our customers, and to create excitement and cultural inspiration together with people around the world.

The Diagram of the Yamaha Philosophy

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Editorial Policy

The *Annual Report 2018* is published as a tool for communicating the medium- to long-term value creation of the Yamaha Group from both a financial and non-financial perspective. Through this report, the Yamaha Group hopes that its stakeholders, starting with its shareholders and other investors, are able to gain an understanding of the Group's efforts aimed at realizing a sustainable society as well as the corporate value the Group creates over the long term.

When editing this report, the Group referenced the International Integrated Reporting Council's "International Integrated Reporting Framework" as well as the Ministry of Economy, Trade and Industry's "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation." Additional comprehensive and detailed information can be viewed on Yamaha's website.

Scope of This Report

Information in this report covers 62 companies (as of March 31, 2018): Yamaha Corporation, its 59 consolidated subsidiaries, and its 2 equity-method affiliates. In cases where it is necessary to specify the scope of reporting, this report lists the applicable institution individually.

Reporting Period

This report primarily covers fiscal 2018 (April 1, 2017 to March 31, 2018). However, certain sections of this report include information from April 1, 2018, and onward.

Disclosure Structure

Overall Corporate Activities

Corporate website: https://www.yamaha.com/en/

Financial Information

IR activities
https://www.yamaha.com/en/ir/

Non-Financial Information

Sustainability activities
https://www.yamaha.com/en/csr/

Annual Report 2018 (This report)

Disclaimer on Forward-Looking Statements

The forward-looking statements such as data and forecasts included in this report are based on assumptions and information available at the time of publication and are subject to change due to various factors. These statements are not guarantees that Yamaha will achieve its targets and forecasts or realize its anticipated future business results. In addition, the content of this report may be changed without prior notice. Accordingly, Yamaha cautions readers not to place undue reliance on these forward-looking statements, which are valid only as of the date thereof, and undertakes no obligation for any negative impact caused by the use of this report.

I. Our Vision and Value Creation

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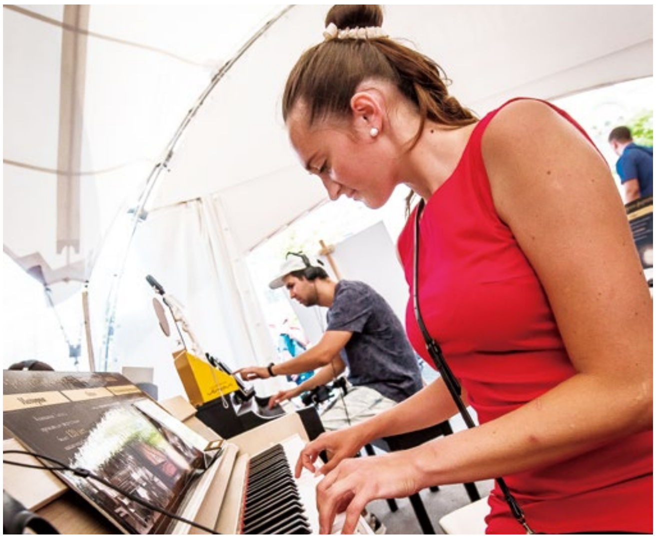
YAMAHA

Becoming an Indispensable, Brilliantly

Boosting brand power to become a highly profitable



Individual Company

enterprise

Our History

History of Growth

The origins of the Yamaha Group date back to 1887, when company founder Torakusu Yamaha repaired an imported reed organ. Since then, Yamaha has aimed to contribute to the enriched lifestyles of people while centering its business on sound and music. Guided by this aim, Yamaha has continued to move forward with a history that spans over 130 years and three centuries.

Founding Period and the Realization of Domestic Production

Company founder Torakusu Yamaha ventured into the domestic production of organs after being asked to repair an imported reed organ. Shortly thereafter, he began the production of pianos. In this way, Torakusu Yamaha laid the foundation for Yamaha's musical instruments business, which remains the Company's core business to this day.

1

2

3

- **1887** Manufactures first organ made in Japan 1
- **1897** Establishes Nippon Gakki Co., Ltd. (currently Yamaha Corporation)
- **1900** Begins production of upright pianos 2
- **1914** Begins production of harmonicas with trademark butterfly logo 3

Spread of Music Culture and Venture into New Businesses

With the desire to communicate the joy of music to a great number of people, Yamaha began efforts to popularize music. While spreading music culture, Yamaha began leveraging the technologies and sensitivities cultivated through the development of musical instruments to develop new products, thereby expanding its business domains.

1

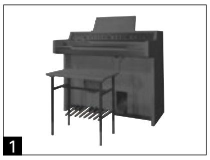
2

3

- **1954** Commences organ classes (predecessor of the Yamaha Music School) 1
  - Develops audio products 2
  - Creates prototype of the Yamaha YA-1 motorcycle 3
- **1955** Establishes Yamaha Motor Co., Ltd.
- **1958** Begins production of sports equipment using fiber-reinforced plastics (FRP)

Major Leap as a Comprehensive Musical Instrument Manufacturer

Yamaha expanded its product domains to extend from acoustic musical instruments to digital ones and encompass various instrument types, such as string instruments, wind instruments, and drums. By doing so, Yamaha became a globally unique and comprehensive musical instrument manufacturer involved in the production of a diverse range of musical instruments.



1

2

3

4

- **1959** Develops the world's first electronic organ with an all-transistor design (Electone™ D-1) 1
- **1965** Begins production of wind instruments 2
- **1966** Expands product domain to include guitars and drums 3
- **1967** Develops concert grand piano to compete with some of the world's most renowned musical instruments 4
- **1969** Begins composition contest (predecessor of Yamaha Popular Song Contest), led by young people, that helped popularize a new music culture

1887 | 1900 | 1950 | 1960 | 1970

Major Shifts in Global Expansion

Establishment of Overseas Sales Offices	**1958** Mexico ➡ First overseas subsidiary	**1960** U.S.A. **1966** Germany / Singapore	**1970** Canada **1971** The United Kingdom **1973** France / Brazil **1974** Malaysia **1975** Sweden / Panama
Establishment of Overseas Production Bases		**1969** Taiwan ➡ First overseas production base	**1975** Indonesia (pianos)
Acceleration of Growth through M&A, etc.			

Evolution of Technologies

Recognizing the need to develop electronic components on its own in order to improve the sound quality of digital musical instruments, Yamaha began the in-house manufacture of semiconductors. Yamaha's unique LSI helped the Company create a large number of original digital musical instruments and audio equipment, thereby driving a genuine trend of digitization. Also, Yamaha made use of its production technologies for musical instruments to commence its FA equipment and automobile interior wood components businesses.


1


2


3


4

- **1971** Begins production of semiconductors 1
- **1982** Launches Piano Player 2
- **1983** Launches DX7 digital synthesizer 3 and Clavinova digital piano
- **1986** Launches DSP-1 surround sound processor, a pioneer product for home theatre audio 4
- **1987** Launches DMP7 digital mixer, thereby driving the shift toward digital audio equipment
  Changes name to Yamaha Corporation

New Value Provision through the Integration of Diverse Technologies

Combining acoustic and electronic technologies, Yamaha is working to revitalize demand through the development of new product lineups that combine the strengths of both technologies. In addition, Yamaha has included overseas companies under its corporate umbrella through M&A that will contribute to the future growth of its businesses.


1


2


3


4

- **1993** Starts the development of the SILENT™ series through the integration of acoustic and digital technologies 1
- **2003** Launches VOCALOID™ singing synthesis software
- **2006** Launches the Projectphone IP audio conference system that combines audio and network technologies 2
- **2015** Launches MusicCast™ wireless audio system
  Develops and launches TransAcoustic™ Piano 3
  Launches RIVAGE™ PM10 flagship digital mixing system equipped with various cutting-edge technologies 4
- **2018** Constructs Innovation Center to accelerate efforts to spur innovation

1980 | 1990 | 2000 | 2010 | 2020

1980	1990	2000	2010
1986 Australia / Spain 1988 Austria 1989 Thailand	1990 Indonesia / Italy 1995 Netherlands 1996 Argentina / Taiwan 1997 UAE	2001 South Korea 2002 China 2004 Poland 2007 Russia 2008 India	2013 Vietnam / Turkey
1989 Tianjin, China (digital musical instruments) Indonesia (guitars)	1991 Malaysia (AV products) 1997 Hangzhou, China (wind instruments) Indonesia (digital musical instruments and wind instruments) 1999 Indonesia (AV products)	2002 Suzhou, China (AV products) 2003 Hangzhou, China (pianos and guitars)	2018 India (digital musical instruments and guitars) Indonesia (digital musical instruments and piano parts)
		2005 Acquires German-based Steinberg Media Technologies GmbH 2008 Acquires Austrian-based L. Bösendorfer Klavierfabrik GmbH Acquires French-based NEXO SA	2014 Acquires U.S.-based Line 6, Inc. Acquires U.S.-based Revolabs, Inc. 2018 Acquires Ampeg brand from U.S.-based LOUD Audio, LLC

Our Business

Yamaha’s Business

Yamaha develops businesses on a global scale in the three domains of musical instruments, audio equipment, and others.

Consolidated Performance (Fiscal 2018)

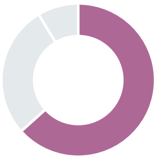
Net sales ¥433.0 billion   Operating income ¥48.8 billion

Musical Instruments Business

Please see page 28 for our strategies in the musical instruments business.

In the musical instruments business, our main focus is the manufacture and sale of musical instruments. In addition, we are involved in a diverse range of other activities, including the management of musical schools and the production and sale of music and video software.

Percentage of Overall Sales



63.4%
(¥274.5 billion)

Product and Service Categories

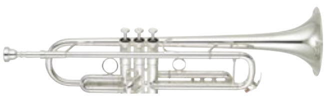
- Pianos
- Digital musical instruments (digital pianos, portable keyboards, etc.)
- Wind instruments and educational musical instruments
- String and percussion instruments (guitars, drums, violins, etc.)
- Music and English language schools
- Music-related software and content (publications, online music distribution, etc.)

Digital pianos

Grand pianos

Electronic violins

Guitars



Trumpets

Portable keyboards

Saxophones

Acoustic drums

Yamaha Music Schools

Audio Equipment Business

Please see page 30 for our strategies in the audio equipment business.

In the audio equipment business, we offer a wide range of products in both commercial and consumer domains.

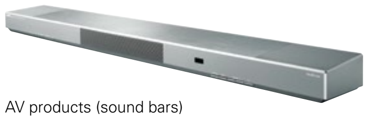
Percentage of Overall Sales

28.1%
(¥121.8 billion)

Product and Service Categories

- AV products
- PA equipment (commercial audio equipment, music production equipment, and software)
- Voice communication equipment
- Network devices

PA equipment (digital mixing systems)



AV products (sound bars)

AV products (wireless streaming speakers)

AV products (speakers)

Voice communication equipment (unified communication speakerphones)

Network devices (L3 switches)

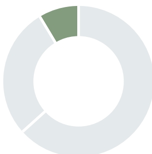
Network devices (routers)

Others (Industrial Machinery and Components Business, etc.)

Please see page 32 for our strategies in the industrial machinery and components business.

In our other businesses, we offer such products and services as electronic devices, centered on semiconductors, industrial machinery and components, and golf products.

Percentage of Overall Sales



8.5%
(¥36.7 billion)

Product and Service Categories

- Electronic devices
- Automobile interior wood components
- FA equipment
- Golf products
- Resort facilities

Electronic devices (audio and graphics LSI for amusement equipment)

Electronic devices (modules for in-vehicle, hands-free telephone calls)

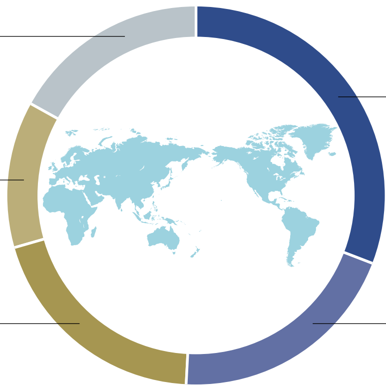
FA equipment (hydrogen detectors)

FA equipment (micro prober)

Automobile interior wood components

Golf products

Sales Composition and Employee Numbers by Region (Fiscal 2018)



Other regions
¥73.3 billion (16.9%)
7,173 employees

China
¥54.2 billion (12.5%)
5,335 employees

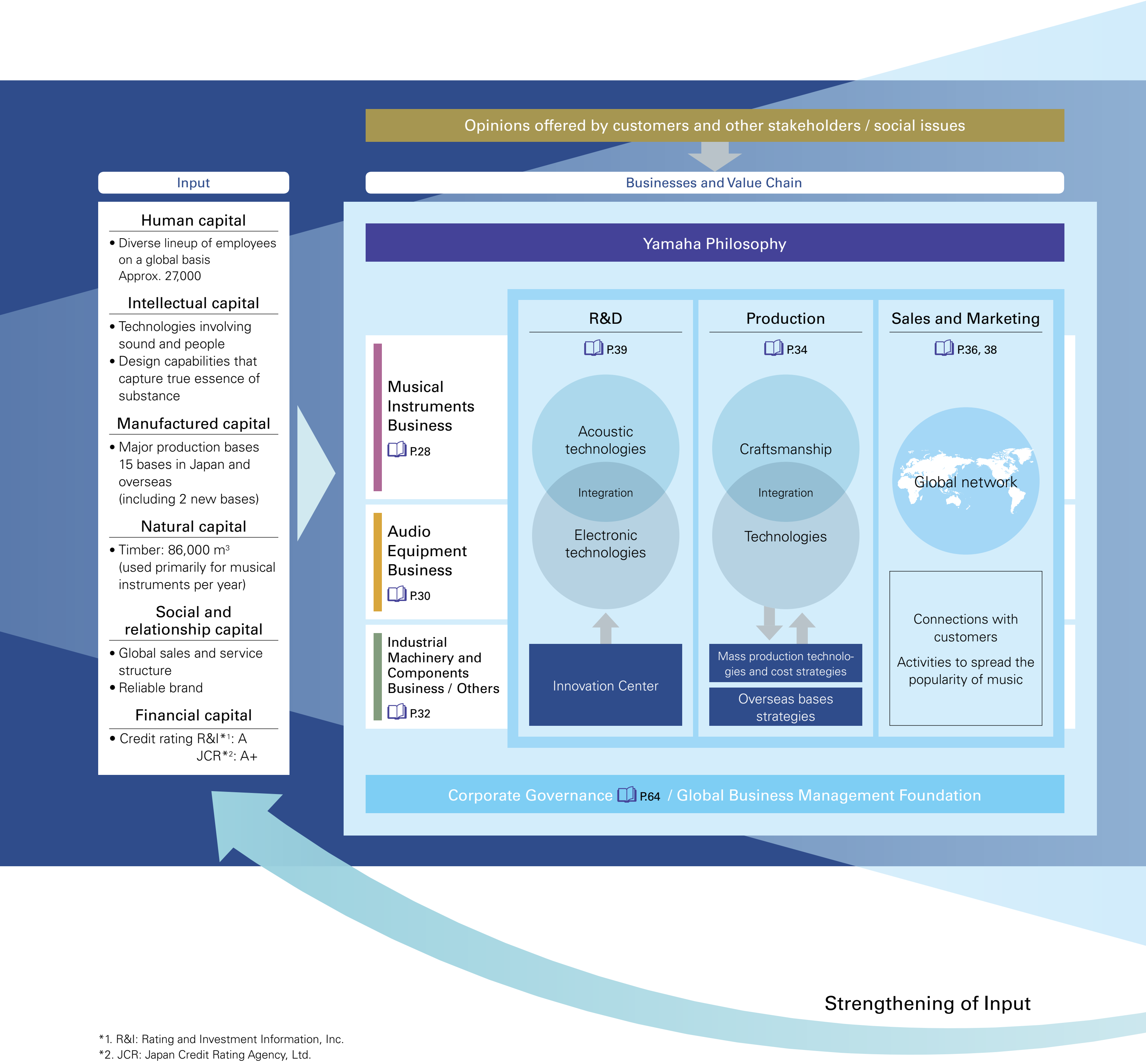
Europe
¥84.8 billion (19.6%)
1,086 employees

Japan
¥133.7 billion (30.9%)
5,845 employees

North America
¥86.9 billion (20.1%)
789 employees

Yamaha's Value Creation

At Yamaha, we have a passion for creating sound that has been cultivated since our founding. We also have a diverse range of technologies in acoustic and electronic domains. We provide customers with a passion toward sound and music as well as products and services that meld and make full use of our extensive lineup of technologies. In this way, we contribute to the realization of enriched lives and a comfortable society for people around the world. We firmly believe that by expanding our current business activities we will be able to provide new value to our customers and to society as a whole. Guided by this belief, we aim to realize sustainable growth and further improve our corporate value.



*1. R&I: Rating and Investment Information, Inc.
*2. JCR: Japan Credit Rating Agency, Ltd.

Output

Products and Services

P.08

Products and Services Centered on Sound and Music

Musical instruments

Audio equipment

Music schools

Other products and services

Outcome

Social Value Creation

Enriched Lives

Enriched lives through music

Diverse expressions and self-realization

Connections between people

Development of global music culture

Comfortable Society

Safe, secure, and convenient lifestyles

Corporate Value Improvement

Medium-Term Management Plan NEXT STAGE 12

Net sales: ¥465.0 billion

Operating income: ¥55.0 billion

Operating income ratio: 12%

ROE: 10% level

EPS: ¥200 level

Market capitalization improvement

Brand value enhancement

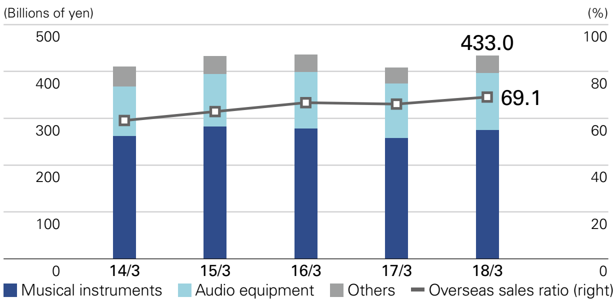
Yamaha's Vision

Becoming an Indispensable, Brilliantly Individual Company

Our Performance Highlights

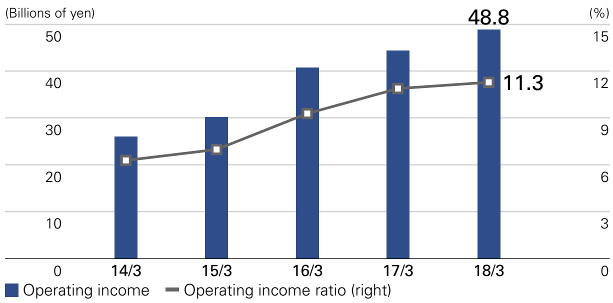
Financial Highlights (Fiscal 2018)

Net Sales / Percentage of Net Sales Overseas



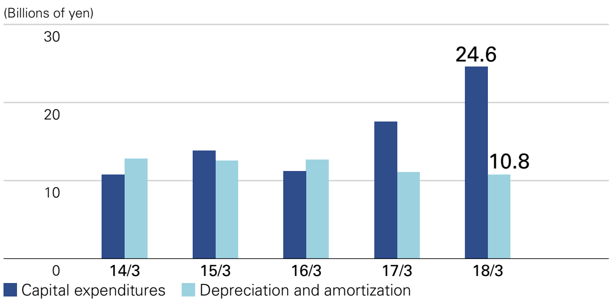
Net sales increased ¥24.7 billion year on year, to ¥433.0 billion, as sales were up in all segments.

Operating Income / Operating Income Ratio



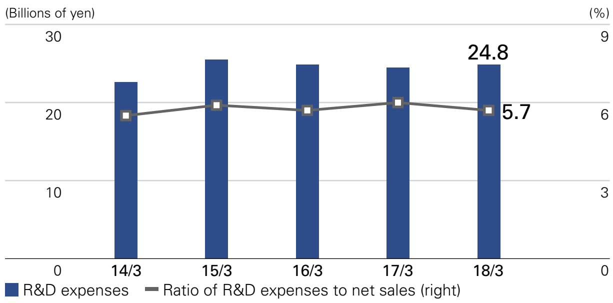
Operating income was up ¥4.5 billion, reaching a record high following increased profits in all segments. Operating income ratio edged up 0.4 of a percentage point, to 11.3%.

Capital Expenditures / Depreciation and Amortization



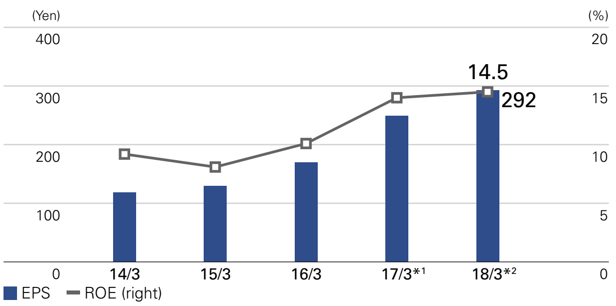
Capital expenditures came to ¥24.6 billion, up ¥7.1 billion, due to the construction of a new research and development building on the grounds of the Company's headquarters as well as the construction of new production plants overseas.

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



Under its current medium-term management plan, the Company has adopted "develop products with distinctive individuality" as a key strategy. Under this strategy, the Company strives to add original value to excellent basic functions and develop products that others cannot imitate. Accordingly, the Company continues to carry out a certain level of investment in R&D.

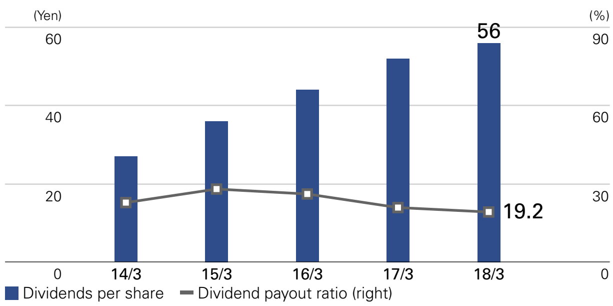
EPS / ROE



Return on equity (ROE) increased 0.5 of a percentage point, to 14.5%, owing in part to the gain on sales of investment securities. Earnings per share (EPS) rose ¥43, to ¥292.

*1. Including the recording of deferred tax assets
*2. Including gain on sales of a portion of shares in Yamaha Motor Co., Ltd.

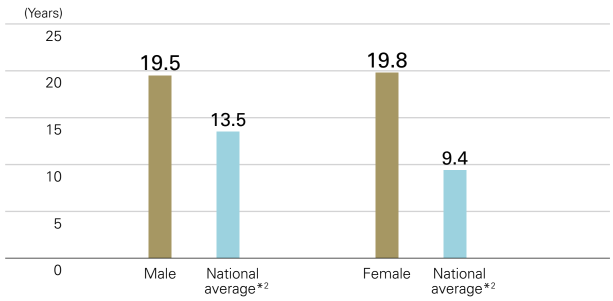
Dividends per Share / Dividend Payout Ratio



The annual dividend rose ¥4, to ¥56 per share, marking the fifth consecutive year of dividend increases. While the dividend payout ratio came to 19.2% due to a gain on sales of investment securities, the total dividend payout ratio, which includes the acquisition of treasury stock, stood at the high level of 65.0%.

Non-Financial Highlights (Fiscal 2018)

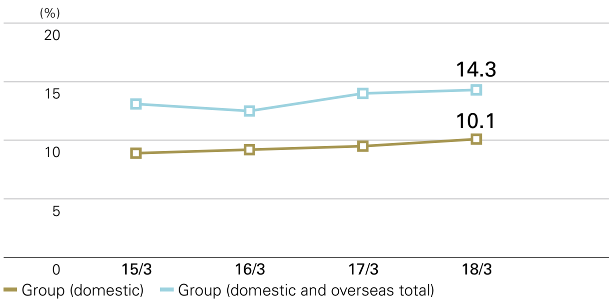
Average Term of Service*[1] (As of March 31, 2018)



As part of our efforts to promote diversity, we are working to establish a workplace environment where employees can realize a work-life balance and where women can play an active role. Not only is there no discrepancy between the average term of service of our male and female employees, our average term of service is higher than the national average.

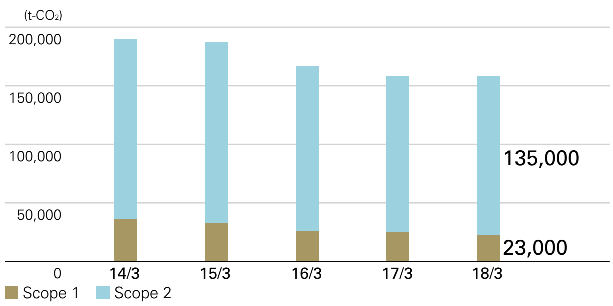
*1. Figures are for Yamaha Corporation on a non-consolidated basis.
*2. According to the results of the Basic Survey on Wage Structure published by the Ministry of Health, Labour and Welfare.

Female Manager Ratio



We have adopted the target of raising the female manager ratio to more than 17% by fiscal 2019. To this end, we are implementing a broad range of initiatives including enhancing our educational and training programs.

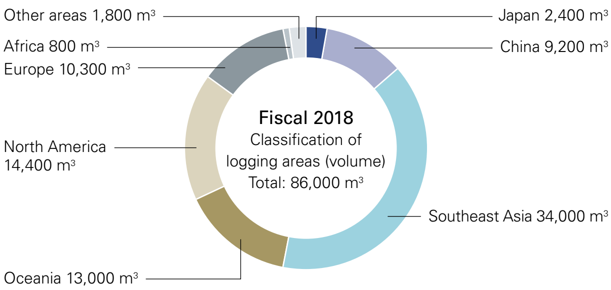
GHG Emissions (Scope 1 + 2)



We are working to reduce our greenhouse gas (GHG) emissions at our production plants through various energy-saving initiatives and fuel conversion. At the same time, we manage emissions in accordance with the GHG Protocol.*

* A standard for calculating and reporting GHG emissions

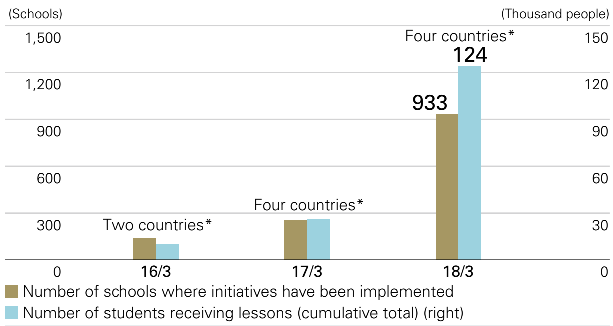
Production Area of Wood Resources*



To realize sustainable timber procurement that takes into account the preservation of forests and biodiversity, we conduct thorough surveys to confirm the legality and other matters regarding the wood resources we procure and stringently manage the production areas of those resources.

* Excluding products that are not the Yamaha brand and OEM/ODM products

Number of Music Education Initiatives ("School Project" Program) Implemented Overseas



Since 2015, we have been pursing initiatives to provide opportunities for children in emerging countries, who may not have access to musical instruments, to experience playing an instrument within their school education.

* Number of countries in which Yamaha offers the program

Brand Ranking

Interbrand Japan's Best Global Brands Top 40 (2018)*

27th

YAMAHA YAMAHA

Our brand ranking in Japan, which was determined using both the brand value of Yamaha Corporation and Yamaha Motor Co., Ltd., was 27th (29th in 2017 and 28th in 2016), with a brand value of US$998 million (US$900 million in 2017 and US$825 million in 2016).

* Brand value ranking for applicable Japanese brands performed by Interbrand Japan, Inc.

Ⅱ. Management Strategy

Contents

Achieving the Targets of the Medium-Term Management Plan and Reaching the Next Stage for Future Growth

Fiscal 2019 represents the last year of our current medium-term management plan NEXT STAGE 12. In this message, I will explain the actions we undertook and results we achieved during fiscal 2018 under the aim of strengthening our brand value and, by doing so, reaching our targets for improving profitability (operating income ratio of 12%, ROE at the 10% level, and EPS at the ¥200 level). I will also explain the policies and initiatives we will implement in the final year of the plan.
As well, I will give my opinions on the direction for which Yamaha should aim over the medium to long term, including in regard to the structure of the next medium-term management plan.

Yamaha's Mission, Value System, and Strengths That Support Growth

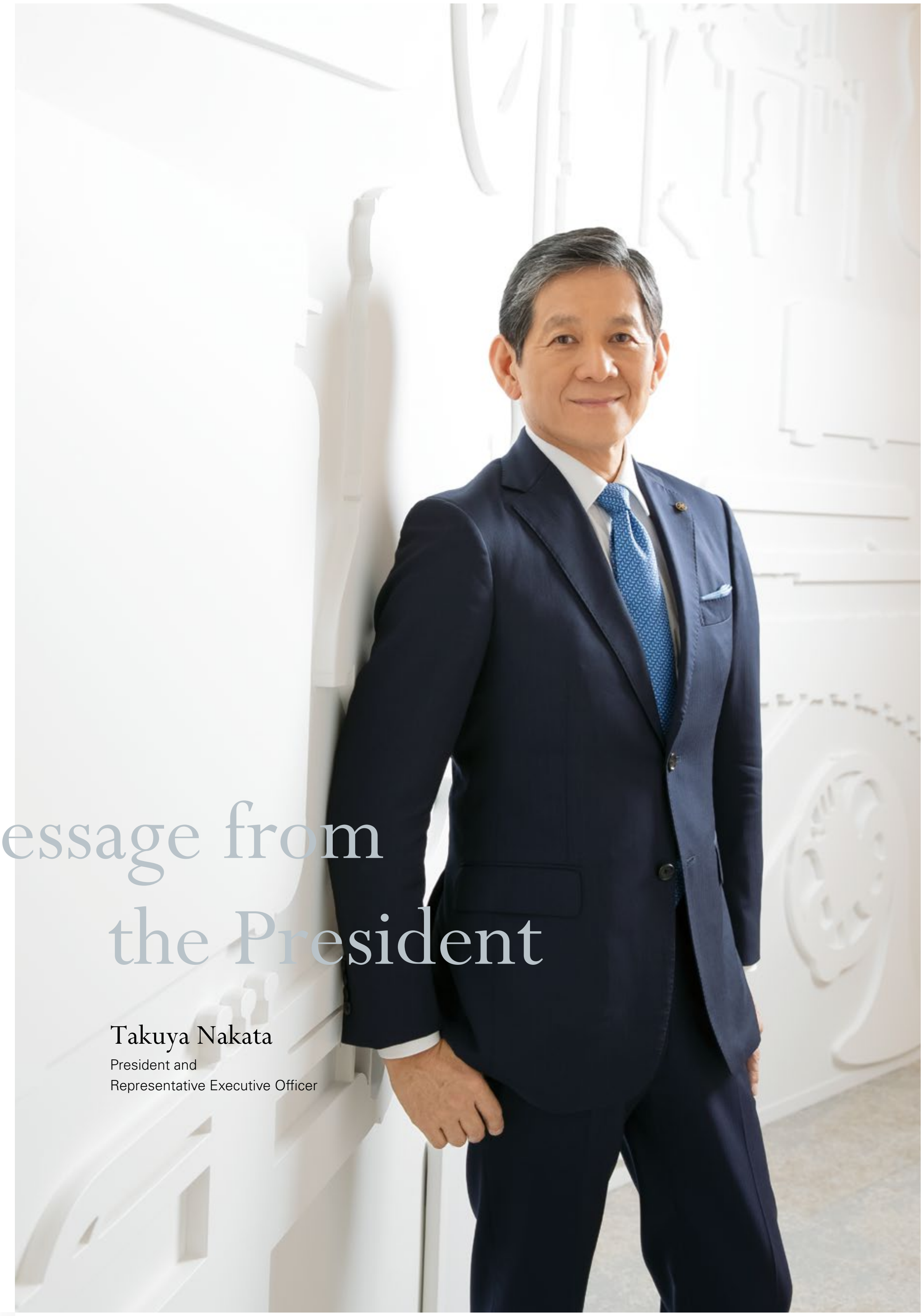
Creating Our Management and Business Strategies from the Perspective of Social Issues

Since its founding in 1887, the Yamaha Group has provided various products and services centered on sound and music and continued to meet a wide range of needs related to music, education, and culture. Music has the amazing power to warm people's hearts and can transcend language barriers to inspire people around the world. We therefore believe that music has the potential to resolve various social issues. Our unshaken faith in the power of music acts as the core of the Company's management. Conversely, products and businesses that do not help resolve social issues quickly become commoditized and are unable to establish a competitive position. Accordingly, companies with such products and businesses cease to grow. In addition, if a company is unable to offer a rewarding work experience to its employees, then in-house motivation levels will fall, and in time this will lead to the decline of that company. We are aware that creating management and business strategies from the perspective of social issues is extremely important for achieving the sustainable growth of the Yamaha Group, and we formulated the medium-term management plan NEXT STAGE 12 under this awareness. If you look at the smooth progress we have made toward achieving our key indicators for operating income ratio, return on equity (ROE), and earnings per share (EPS), then you can gain a sense of how the resolution of social issues through sound and music and the Group's profit growth are linked.

Based on our corporate slogan of "Sharing Passion & Performance," we will draw on the technologies, know-how, and sensitivities that we have cultivated throughout our long history to provide products and services that exceed customer expectations. By doing so, we will realize growth together with customers and society as a whole.

Our Strengths as a Comprehensive Musical Instruments Manufacturer in a Highly Competitive Environment

As the world's largest comprehensive musical instruments manufacturer, we handle a wide range of instruments such as keyboards, wind instruments, string instruments, and percussion instruments, which has enabled us to refine various kinds of technologies. One strength of ours that is particularly worth mentioning is the high level of technologies we possess in both the acoustic and electronic domains. In terms of musical instruments, there are acoustic instruments that make sound through the oscillations of such materials as strings and boards, and there are digital instruments that create oscillatory waves through electrical circuits and change these waves into sound. In 1959, we began the production of the Electone™ electronic organ, which means we have over 60 years of history in the development of digital musical instruments. In recent years, we have created unique new hybrid products that combine and leverage the strengths of our acoustic instrument and digital instrument



Message from the President

Takuya Nakata
President and
Representative Executive Officer

technologies. We have also conducted research on materials themselves through the creation process of these hybrid instruments, and we have used this research to evolve our technologies related to sound sources and audio. By handling a wide variety of materials, from the timber, wool, and metals needed to manufacture pianos and wind instruments to plastics used in the manufacture of moderately priced recorders, we have acquired technologies that can draw out the qualities of each individual material.

Our core technologies not only include our sound generation methods that use digital technologies, they also include technologies for processing sound and signals, and I am confident in the superior nature of these technologies. Through various kinds of processing, we can make sounds easier to listen to and also create new sounds. These processing technologies also make it more enjoyable to sing karaoke through the use of the echo effect. By enhancing sound processing technologies, we can improve the sound quality of musical instruments and create new products in the audio equipment business. We possess an extensive range of technologies related to sound, and one of our strengths is our ability to combine these technologies to create new products and services.

In addition, since commencing organ classes in 1954, which were the predecessor to the Yamaha Music School, we have expanded music education businesses in over 40 countries and regions, bringing more people the joy and excitement that music creates. Without limiting ourselves to simply being a musical instruments manufacturer, our mission is to spread music culture and contribute to its development around the world. Our ability to do so is also one of our strengths.

Performance in Fiscal 2018 and Achievement of the Current Medium-Term Management Plan

Realizing Record-High Profits Due to the Solid Sales of Each Product

Fiscal 2018 marked the second year of our current medium-term management plan. During the year, there were several factors that had a negative impact on performance, including an increase in procurement costs, the bringing forward of various expenses, and a decrease in production in light of inventory adjustments. However, these factors were offset by the favorable sales of each product, centered on musical instruments, the revision of selling prices (see page 37), and the further reduction of costs. As a result, we were able to realize year-on-year increases in terms of both sales and profits, with operating income reaching a record high. Also, our operating income ratio steadily improved, up 0.4 of a percentage point, to 11.3%, with ROE and EPS reaching 14.5% and ¥292, respectively. All of these results exceeded our targets under the medium-term management plan. In fiscal 2019, the final year of the plan, we anticipate that growth in sales will be held to the single digits. However, as we will focus our efforts more sharply on revising selling prices and reducing costs, especially in the musical instruments and audio equipment businesses, where profitability did not improve as much as we expected, we aim to achieve an operating income ratio of 12.0% and operating income of ¥55.0 billion.

Seeing Organizational Reforms Steadily Take Hold and Drive Further Growth

The first major initiative I was involved in after I assumed the role of president in June 2013 was the abolishment of the business unit structure we had adopted in the musical instruments and audio equipment businesses. With the abolishment of this structure, we transitioned from a vertically divided structure in which development, production, and sales functions were separated by business unit, to a function-specific structure that establishes production, development, and other functional units. By doing so, we were able to change over our production operations from factories that focused on one specific product category to factories with multi-functions to handle the manufacture of products from multiple categories. This allowed us standardized utilization rates and significantly reduced costs in such ways as curtailing procurement costs for components via centralized purchasing. At the moment, we are constructing new factories in India and Indonesia. The factory in India, which is slated to begin operations in January 2019, will serve as an integrated factory for production and sales that provides affordable products with high levels of cost competitiveness through planning, procurement, production, and distribution that is optimized for India. Accordingly, this factory reflects the positive impact brought about by transitioning to a function-specific structure.

Both of these factories will help us enhance our cost competitiveness through the reorganization of our production structure. In addition, as we expect further growth in the sales of all our products, these factories will help us prepare for future business opportunities by allowing us to raise our production capacity, which already has a tendency to tighten.

In terms of product development, we have developed a great number of products that provide higher levels of added value by working to transcend the boundaries of specific business domains and encouraging our employees to motivate each other. In this way, we have naturally broadened our perspective, which has allowed us to come up with development ideas that involve even larger investment sizes. In addition, based on the Yamaha Philosophy, which was newly adopted after I became president, we have been developing highly unique products that have embodied keywords essential to the customer experience, such as joy, beauty, confidence, and discovery. Our new product Venova™, which was developed as a casual wind instrument, is a symbolic example of these keywords. Starting with design, Venova™'s product concept and functionality have earned overwhelmingly high praise, with Venova™ receiving the highest award at the 2017 Good Design Awards—the Good Design Grand Award. Out of 4,495 products submitted to the competition, Venova™ was chosen to receive this prestigious award. I believe that winning this award is proof of our ability to develop unique products with high added value. By offering value from completely new perspectives, we are able to draw out latent needs and enhance our in-house motivation to take on the challenge of developing new products.

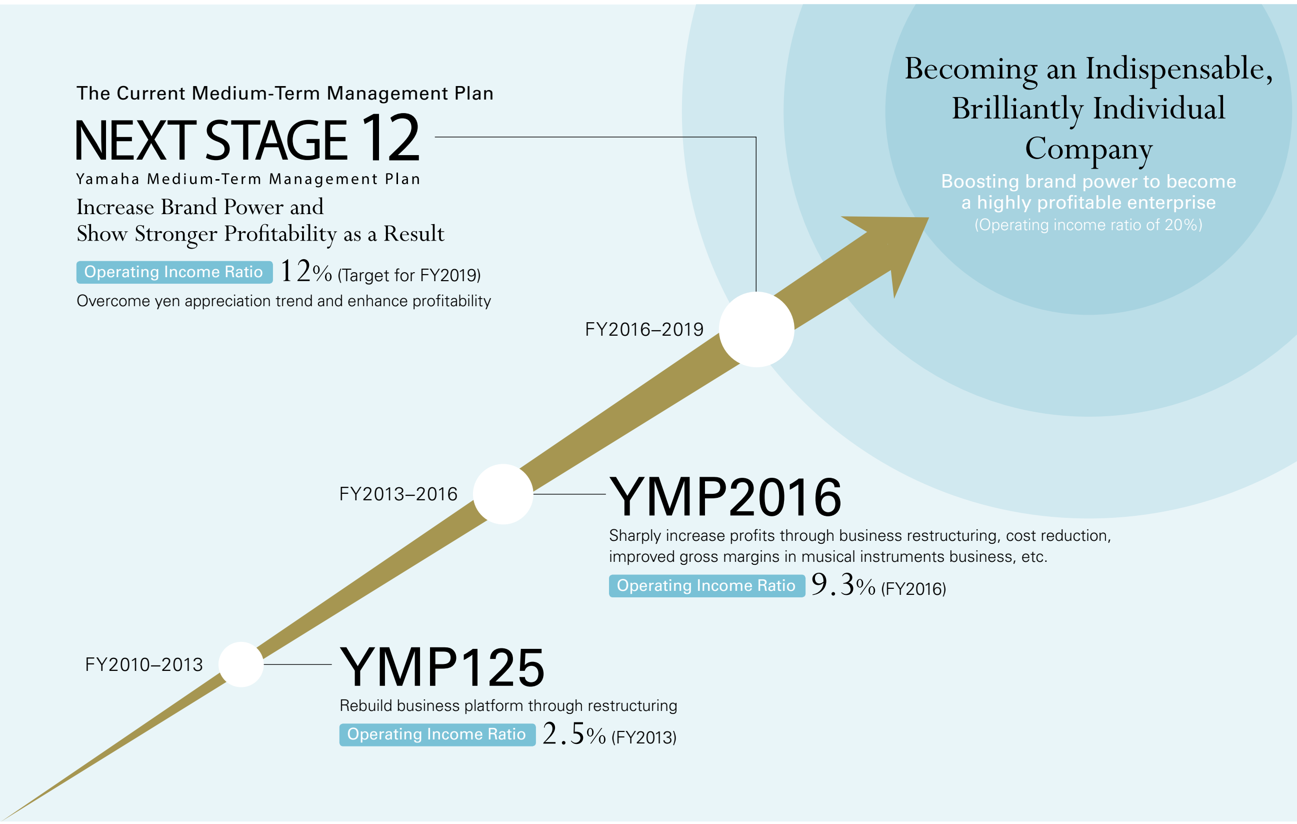
In July 2018, we commenced operations at our Innovation Center (see page 42), which brings together all of our research and development staff at one location in our head office. By shortening the physical distance between our researchers, we will further accelerate technological integration to create products and services that offer more value than ever before.

Maximizing Earning Power from Both the Top Line and the Bottom Line

In fiscal 2018, we continued to realize top-line growth by revising our selling prices and expanding our customer base while improving bottom-line growth by thoroughly reducing costs.

During the fiscal year under review, our efforts to revise selling prices did not improve profitability as much as we anticipated due to the impact of changing the terms and conditions for selling instruments in Europe in the musical instruments business and the inventory adjustments we carried out in the United States. With that said, when speaking with those involved in our frontline production operations regarding selling price

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



revisions, rather than a sense of uneasiness toward sales decreases that I have seen thus far, I received constructive opinions related to such matters as the timing for making revisions. To me, this shows that our commitment to revising selling prices has been firmly entrenched within the Company. Our issue going forward is deciding on the appropriate selling price at the time of a new product's launch and improving value. If we raise the price of a product without improving its value, then naturally sales will decline. I have communicated throughout the Company that to revise selling prices going forward, it is imperative we further raise our awareness toward maximizing value and work to communicate that value to the customers both at our Innovation Center and in our production operations, which we have continued to evolve.

One of the key strategies in our medium-term management plan is to "enhance customer interaction." Under this strategy, we have gained approximately 300 new customers in our musical instruments business, an increase of 16% over the past two years. Additionally, in the same period of time in the audio equipment business, we have achieved a 37% increase in the number of audio contractors. These increases have far surpassed our expectations. With the aim of bolstering the support we offer audio contractors, we added over 20 new members to our engineering and sales staff. Moving forward, we will continue to increase customers as we steadily aim to achieve the targets of the medium-term management plan.

Meanwhile, compared with fiscal 2016, we have reduced net costs by ¥3.6 billion over the two-year period from fiscal 2017 through fiscal 2018. While our plan was to reduce net costs by ¥5.2 billion over this period, we were unable to achieve our target for reductions in fiscal 2018 due to the rising costs for materials and other factors. However, we are currently working on a global basis to optimize our procurement operations. We are also transferring component production processes previously conducted at domestic factories to overseas ones, and are promoting automation at these overseas factories. Through these efforts, we will continue to aim for our target of reducing net costs by ¥8.0 billion over the three-year period of the plan.

Steadily Building a Profit Base for Our Third Business Pillar

We have positioned the three-year period of the medium-term management plan as a time in which we will lay the foundation for turning the industrial machinery and components business into our third business pillar. We planned on using the first two years to lay the groundwork for this foundation and aimed for this business to contribute to profits starting from the third year. However, we were able to establish a profit base in this business earlier than we anticipated. In all our other businesses, which include industrial machinery and components, we have seen growth in net sales and operating income ratio at a rate greater than expected. In particular, the operating income ratio in other businesses has risen significantly, up 4.6 points, to 9.5%.

In Russia and Europe, all new vehicles will soon be required to be fitted with emergency alert systems. Amid these circumstances, our modules for in-vehicle hands-free telephone calls were selected to be installed in new vehicles of multiple manufacturers. In particular, these modules were valued highly for their quality of sound during phone calls, which is necessary during times of emergency. As of the first quarter of fiscal 2019, we have commenced the mass production and sale of these modules. Additionally, we have continued to see double-digit sales growth in the golf business due to the positive impact of new products and efforts to improve our brand. We foresee that this favorable sales momentum will continue going forward.

Responding to Risk as We Aim to Achieve the Targets of the Medium-Term Management Plan

As I have previously stated, in fiscal 2019 we will steadily implement a broad range of initiatives. In this section, I will briefly comment on the risks that could impact our ability to reach the targets of the medium-term management plan.

The Yamaha Group carries out its operations on a global scale, with production bases and sales offices in countries and regions around the world. Out of the Group's 59 consolidated subsidiaries, 44 are based overseas, and 22 of these overseas subsidiaries are manufacturing and production companies primarily located in China, Indonesia, and Malaysia. Furthermore, overseas sales account for 69.1% of our overall sales, which means we are significantly affected by the macro economy and market conditions in each country and region around the world. Additionally, we use electronic components, metals, timber, resins, and other materials as components for our products. While one of the key strategies in our medium-term management plan is to continually reduce costs, there is a risk that increased manufacturing costs due to soaring material prices and procurement-related difficulties going forward may impact our progress in terms of profits under the plan. To respond to this risk, we are spearheading efforts at our head office to optimize suppliers and procurement processes at each factory on a global basis. By doing so, we are working to mitigate procurement-related risks. Moreover, we have thus far formulated risk maps and determined major risks Groupwide. We have also worked to visualize our activities to reduce risks and promote the establishment of PDCA cycles to improve our risk response capabilities. By continuing such efforts during fiscal 2019, we aim to steadily achieve our targets for the final year of the medium-term management plan.

Progress of the Four Key Strategies of the Current Medium-Term Management Plan

1 Develop Products with Distinctive Individuality

Musical Instruments Business

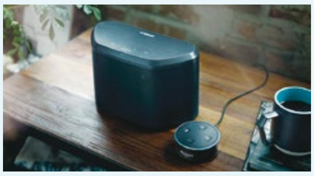
- Pianos for a new generation of continuous evolution
- Distinctive new product lineup that integrates a wide range of technologies

CSP Series Clavinova™ digital piano that links with tablet devices to enable automatic sheet music creation

REVSTAR series electric guitar

Audio Equipment Business

- New product lineup that fuses cutting-edge technologies to create new value



MusicCast™ products that respond to voice recognition technologies using AI

Note: Available for use in regions where Amazon's Alexa* has been launched

RIVAGE™ PM10 next-generation flagship digital mixing system

* Amazon Echo and Alexa are registered trademarks of Amazon.com, Inc. and its affiliates

Other Businesses

- Modules for in-vehicle hands-free telephone calls geared toward emergency alert systems

In-vehicle communication modules

2 Enhance Customer Interaction

Consumers

- **Expansion of Sales Network**

  Achieved a 16% increase in number of customers in emerging nations (approx. 300 new customers)

- **Strengthening Marketing Activities**
  - Gradually changed focus to sales promotion activities that reach end users and emphasize sell-through
  - Established new dedicated marketing division
  - Made solid progress with digital marketing that leveraged social media services, etc.

- **Enhancement of Store Displays for MusicCast™ Network Audio**

  Focused efforts on enhancing store product displays centered on key markets in Europe and North America

Corporate Customers and B2B

- **Expansion of Personnel Structure and Service Bases to Strengthen Support for Corporate and B2B Customers**
  - Increased the number of technicians by 20 compared with the previous fiscal year, primarily in Europe, North America, and emerging countries and regions; strengthened support for audio contractors, including enhancing content through online seminars and other means
  - Realized a 37% increase in accounts with audio contractors over a two-year period (target under the medium-term management plan: +50% over three years)

- **Decision by automakers to adopt our modules for in-vehicle hands-free telephone calls for emergency alert systems**

3 Continually Reduce Costs

Over the three-year period of the medium-term management plan, we intend to reduce net costs by ¥8.0 billion by realizing a decrease in manufacturing costs through such means as reestablishing production processes, reducing procurement costs, and determining new manufacturing methods. Over the past two years, while improved productivity led to a ¥5.7 billion cost reduction, the soaring price of materials such as electronic components and resins hindered our ability to reach our cost reduction targets for procurement. As a result, net cost reductions were held to ¥3.6 billion, which is ¥1.6 billion behind our two-year target for net cost reduction of ¥5.2 billion.

In the third year of the plan, we aim to realize a net cost reduction of ¥2.5 billion by further promoting global procurement led by our head office and improving productivity

4 Strengthen Global Business Platforms

- Introducing IFRS* (from the first quarter of the fiscal year ending March 31, 2020)

  * International Financial Reporting Standards

- Establishing efficient logistics systems
- Determined core positions and global grading system for Group personnel
- Formulating the organizational structure for global IT
- Established Yamaha Guitar Group, Inc. (U.S.A.)

Policies and Efforts to Achieve Growth Going Forward

Examining the Direction of the Next Medium-Term Management Plan Based on Three Guiding Principles

We are currently holding repeated discussions on the formulation of the next medium-term management plan based on three principles: making deeper connections with customers, creating new value, and contributing to society through our business. For making connections with customers, we are incorporating the general idea of "time" into our current strategy of "enhancing customer interaction." With this in mind, we will aim to deliver value to our customers at each life stage. In addition to expanding and deepening customer interaction, we view the perspective of lifetime value (page 38) itself as a type of contact point with our customers. By providing lifetime value, we will be able to further reinforce our three existing businesses and create new businesses.

In regard to creating new value, we will strive to create new value by combining a wide range of technologies, primarily at our Innovation Center, based on various needs. For technologies that are currently lacking from the perspective of customer and social needs, we will either create them in-house or work to complement existing technologies through M&A and open innovation. These efforts will be carried out in a well-balanced manner between these two options. We have currently passed the stage where we can simply enhance and apply one technology. Rather, now is the time to bring about chemical reactions through the combination of multiple technologies to expand value. We envision this process to be similar to how an amoeba grows.

Finally, for contributing to society through our business, as I stated at the beginning of my message, we are fully aware of how the resolution of social issues through our business is linked to our growth as a corporate group, and we will make this awareness clearer as we move forward with specific strategies. To address the issues pointed out by the Sustainable Development Goals (SDGs) (see page 49), which represent shared sustainability targets adopted by the international community, we will work to propose unique products and value as one of the key strategies of our next medium-term management plan. In the same manner as making connections with customers, accelerating our efforts to respond to the SDGs has the potential to give rise to a fourth business pillar, which will be positioned after the industrial machinery and components business. It will also help us reinforce our existing three businesses.

Elevating Yamaha into a Premium Brand and Implementing Marketing Activities with Brand Awareness

Until now, we have steadily improved profitability as intended by enhancing product value, revising selling prices in accordance with that value, and reducing costs. However, I believe the key to further increasing profitability is to elevate Yamaha into a premium brand and implement marketing activities with an awareness of that brand. The ideal way to do this is to have our brand send a strong message to the customers, a message that will give people an intuitive sense that a product or system is Yamaha's, even without writing the Yamaha name.

We generally divide our approach to improving brand value into two aspects: product development and information communication. To elevate Yamaha into a premium brand, we have to enhance both of these aspects at the same time. As an initiative to accomplish this task, we have incorporated our marketing divisions, the Design Laboratory, and our public relations divisions into our newly established Brand Strategy Division. Serving as Division Head, I intend to give my utmost effort in leading this division. Throughout Yamaha's history, there have been cases where, even though internally we felt that the efforts we were pursuing were meaningful, we were unable to properly convey that meaning externally. I firmly believe that many of our efforts are advanced in nature, including our efforts to expand and contribute to the development of music culture as well as our sustainability activities to ensure the sustainable procurement of timber. With the growing attention given to ESG investment and the SDGs, as well as the rising awareness toward society and the environment, one method to improve our corporate brand is to make the initiatives we are undertaking well known to a greater number of people.

Furthermore, from a marketing perspective, we established a new organization for our guitar business in the United States. While functions for formulating brand strategies for the Yamaha guitar brand and the Line 6 brand had previously been separated between Japan and the United States, we have now centralized those functions in the United States. While further accelerating planning, development, and marketing efforts for guitar-related products, we are working to develop new products that leverage the technologies and expertise of both brands. Additionally, our efforts to revise the term and conditions for sales through our sales network in Europe represent part of our marketing strategy to turn Yamaha into a premium brand. Revising our traditional sales method that focused on quantity, we transitioned to a sales method that gives our retailers an incentive to improve the Yamaha brand, and a large number of retail shops have agreed to adopt this method. In fiscal 2019, we commenced marketing activities under this new method. In China, we have been successful in carrying out digital marketing that utilizes social media services and the Internet, with numerous product categories recording double-digit sales growth. Going forward, we intend to draw on our success with digital marketing in China to extend these marketing activities to developed countries and other emerging countries.

Assessing Musical Instruments as a Meaningful and Cultural Item, Not Simply a Tool

While musical instruments are tools that give shape to sound, that is only one of their purposes. For example, if you use a tablet device to create the sounds of a piano through an app, you will not get the same feeling as if you were to play an actual piano. In other words, musical instruments differ from other tools in that they exist for reasons that go beyond their original purpose of producing sound. Playing a musical instrument has become a part of cultures around the world. So, in other words, musical instruments themselves represent an important part of culture. As long as musical instruments continue to provide this cultural value to people and society at large, then our business can continue in a stable manner well into the future. Conversely, if the purpose of musical instruments is no longer useful to society, then our business is at a great risk.

This is precisely why I feel that our "School Project" program (see page 37), which we are promoting in Asia and emerging nations, is an extremely important initiative. While this project does not directly contribute to profits, it helps increase the music-playing population by offering people a chance to experience the joy of music. Under the period of the current medium-term management plan, we set a target with this project to visit 1,000 public schools in Asia and offer music classes to a cumulative total of 100,000 students. As of the end of fiscal 2018, we have made solid progress toward this target, visiting 933 schools in Malaysia, Indonesia, Russia, and Vietnam, and offering classes to 124,000 students. We are also rapidly expanding efforts similar to the "School Project" in other countries around the world.

Furthermore, many of the products we produce use timber as their main raw material. To pass on an abundance of forests and ecosystems to the next generation, and to continue to sustainably create musical instruments, we have the responsibility to make use of timber in a sustainable manner. To this end, we confirm the traceability and ensure the legality of the timber we have procured. At the same time, in Tanzania, we are prompting a project to establish a business model under which we can sustainably use timber for the manufacture of musical instruments.

Addressing climate change is also a pressing issue. When we calculated the greenhouse gas emissions across our entire value chain, we discovered the emission levels were higher in places where our products are used compared with emission levels in our production activities. We therefore established the Yamaha Eco-Products Program (see page 51), which certifies products that have contributed significantly to the environmental quality targets that we have established as a company. We currently have a total of 320 models that have received this certification, and we will work to increase this number going forward, with a focus on energy conservation.

Fulfilling the Top Management's Role of Improving Corporate Value over the Medium to Long Term

While focusing our efforts on improving profitability, we are also fully aware of the importance of improving shareholder value. I have met a large number of investors, and through these meetings I have come to understand their strong interest in capital costs. To meet investor expectations while also improving corporate value over the medium to long term, our management approach has consistently been aware of capital costs. Specifically, from the perspective of assets and capital—the denominator, as well as expanding profits—the numerator, we have carried out repeated efforts to reduce inventories and revise investment securities held by the Company. Furthermore, in addition to Groupwide efforts to improve profitability and capital efficiency, the top executives in each business have pursued business management focused on return on invested capital (ROIC). By doing so, we have engaged in managerial efforts to raise profitability to a level higher than the weighted average cost of capital (WACC).

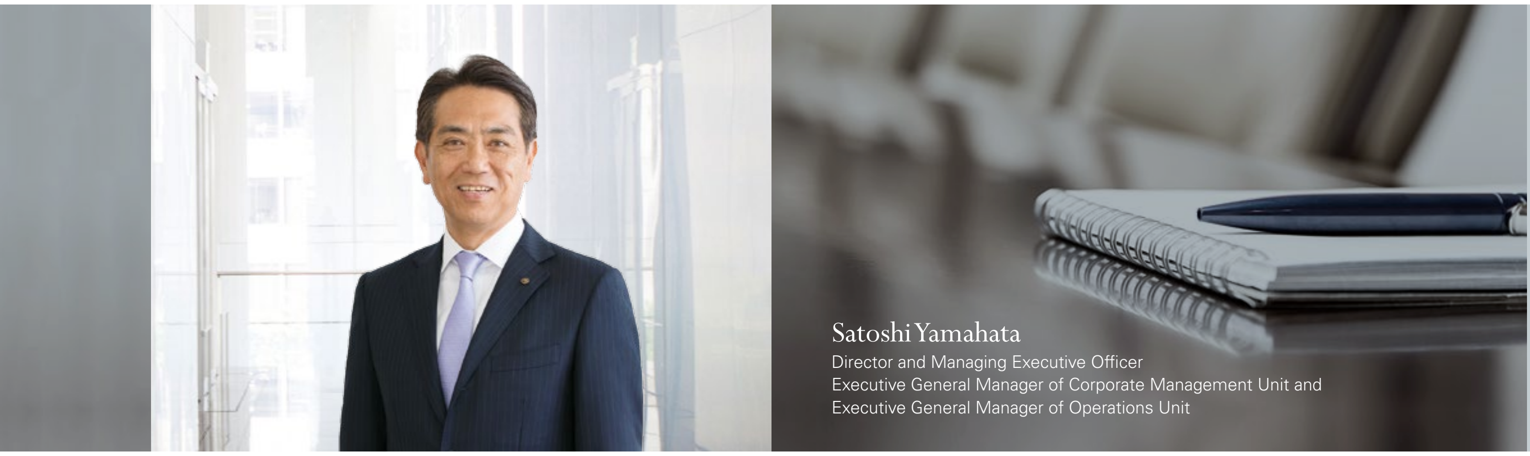
In the final year of the medium-term management plan, we have set a Companywide target of reaching the 10% level for ROE. While we as management must give first priority to improving profit rate and increasing profit, we are continuing to promote balance sheet management through such means as improving our asset turnover ratio, reducing inventories, and streamlining assets, including securities. The cash flow that we generate through this series of efforts will be set aside for allocation to our existing businesses and new businesses in order to enhance our earning power. This cash flow will also be utilized to continuously carry out stable shareholder returns. Furthermore, we will promote the appropriate disclosure of corporate information and increase the number of constructive dialogues we hold with investors.

In closing, during the second year of the medium-term management plan NEXT STAGE 12, we once again achieved a steady performance from both a financial and non-financial perspective. However, not being satisfied with these results, we will continue to leverage our cultivated and acquired strengths to their full potential as we take on a broad range of challenges with the aim of "Becoming an Indispensable, Brilliantly Individual Company." I would like to ask our stakeholders for their continued support as we pursue these endeavors going forward.

October 2018

Takuya Nakata
President and Representative Executive Officer

Financial Strategies



Satoshi Yamahata
Director and Managing Executive Officer
Executive General Manager of Corporate Management Unit and
Executive General Manager of Operations Unit

Through repeated dialogues with capital markets, we will take the lead from a financial perspective as we work to improve corporate value going forward.

Realizing a Solid Performance

Regarding our consolidated performance in fiscal 2018, we achieved net sales of ¥433.0 billion. We also achieved record highs for both operating income and net income attributable to owners of parent (hereinafter, net income), coming to ¥48.8 billion and ¥54.4 billion, respectively, marking the sixth consecutive year we achieved profit increases. I therefore believe we realized a solid performance as we enter into fiscal 2019, the final year of our medium-term management plan NEXT STAGE 12.

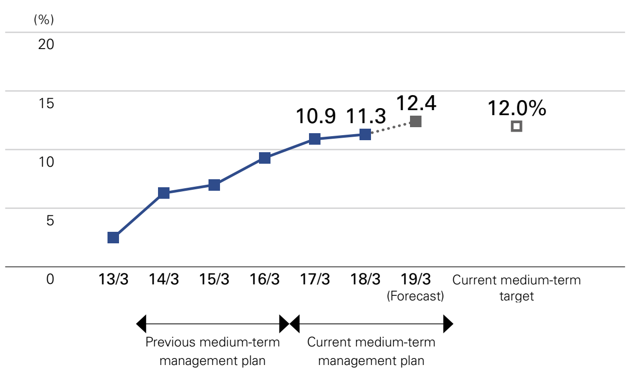
In terms of our top line, we recorded double-digit sales growth in China, a country we view as a key area. In addition, we realized a 9% year-on-year increase overall in emerging countries. For developed countries in Europe and North America, sales grew less than we expected in the second quarter due to temporary factors such as inventory adjustments. However, sales recovered from the third quarter on, returning on a course for growth.

Meanwhile, for profits and losses, despite negative factors such as a rise in the price of electronic components and other raw materials, the rise in sales and other positive factors allowed us to achieve profit increases even while actively carrying out strategic investments for future growth. I view this as an extremely positive accomplishment.

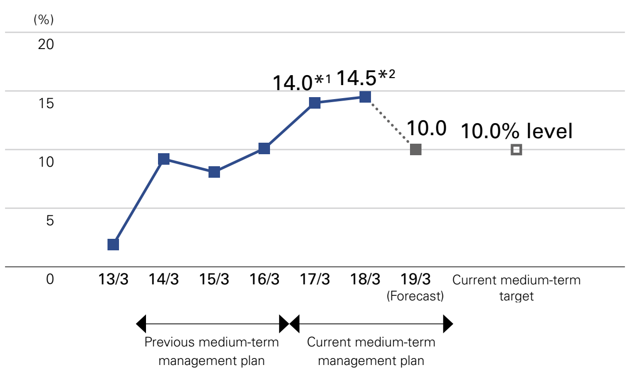
In fiscal 2019, the final year of the medium-term management plan, we expect to realize an operating income ratio of 12%, ROE at the 10% level, and EPS at the ¥200 level, thereby reaching the management targets adopted under the plan.

ROE has exceeded 14% over the past two years. However, this has been the result of a temporary expansion in net income due to the recording of deferred tax assets in fiscal 2017 and a gain on sales of a portion of shares in Yamaha Motor Co., Ltd. recorded in

Operating Income Ratio



ROE



*1. Including the recording of deferred tax assets
*2. Including gain on sales of a portion of shares in Yamaha Motor Co., Ltd.

fiscal 2018. With the absence of these extraordinary factors in fiscal 2019, we expect to achieve our target ROE of 10%.

Efforts to Strengthen Our Financial Foundation and Improve ROE

Through the various structural reforms we carried out from around the time of the global financial crisis, we made efforts to liquidate unprofitable businesses and bad assets to achieve an optimal balance between assets and liabilities, and we take pride in the extremely robust financial foundation we built as a result. Meanwhile, we have been working to achieve capital efficiency, carrying out acquisitions of treasury stock totaling ¥20.0 billion over the course of fiscal 2016 and into fiscal 2017, and ¥25.0 billion in fiscal 2018. As a result of improving our financial performance while enhancing our capital efficiency, ROE in recent years has exceeded the 10% level, improving substantially from 1.9% in fiscal 2013.

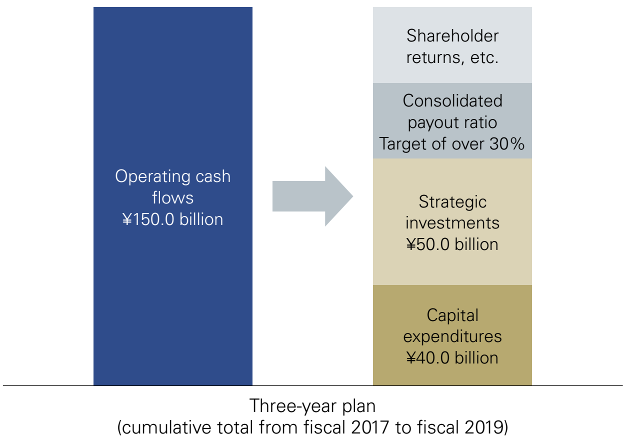
Well-Balanced Allocation of Funds to Growth Investments and Shareholder Returns

In the businesses that Yamaha engages in, a large amount of capital expenditures has never really been necessary. However, as we have strengthened our competitiveness and enhanced profitability through cost reductions, we have realized a tremendous ability to generate cash flow. Going forward, we will continue to steadily generate cash through our operating activities and use that cash to realize a healthy balance between strategic investments for future growth and shareholder returns.

In regard to shareholder returns, we implemented an annual dividend of ¥56 per share in fiscal 2018, up ¥4 compared with the previous fiscal year. In fiscal 2019, we intend to once again increase dividends by ¥4 to issue an annual dividend of ¥60 per share, with an expected payout ratio of 27.3%. Based on our policy of issuing continuous and stable dividends, we have consistently increased dividend amounts year by year. In addition to adhering to this policy, we are also making concerted efforts to implement an appropriate return to shareholders in a flexible manner with the aim of enhancing our capital efficiency. As I mentioned before, the acquisition of treasury stock, which we carried out two times in the past three years for a total of ¥45.0 billion, represents an effort to realize those kinds of shareholder returns. Going forward, we will continue to flexibly acquire treasury stock while giving proper consideration to timing. At the moment, we have yet to set a specific numerical target for our total dividend payout ratio. However, under the next medium-term management plan, we are giving consideration to establishing such a target. Our total dividend payout ratio in fiscal 2018 came to 65%, reflecting not only an annual dividend of ¥56 per share but also the acquisition of treasury stock totaling ¥25.0 billion.

Meanwhile, in terms of investments, as we have stated in our medium-term management plan, we will carry out ordinary capital expenditures of up to ¥40.0 billion and strategic growth investments of up to ¥50.0 billion over the plan's three-year

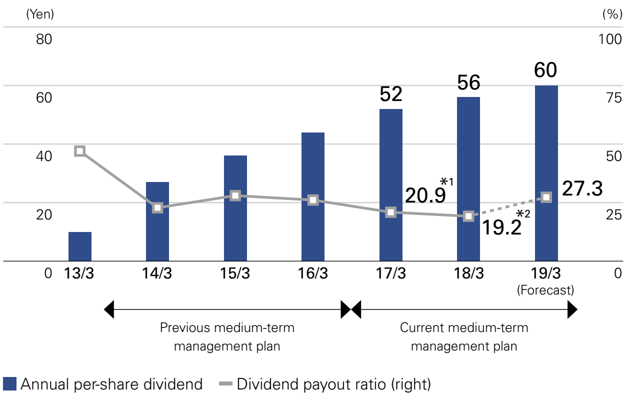
Plans for Cash Flows



Financial Strategy

period. For strategic investments, we constructed the Innovation Center research and development building at our headquarters, which opened its doors in June 2018. We are also currently constructing new production bases in India and Indonesia. The Innovation Center brings together previously separated R&D staff and is fitted with the latest technologies and equipment. Accordingly, the center serves as a base for the pursuit of new value creation and technological synergies. The new factory in India will function as a production base for musical instruments and audio products geared toward the Indian market, which is expected to become a growth market in the future next to the Chinese market. The new factory in Indonesia will be our sixth factory in the country, and we will position this factory as a supply base for digital piano and piano components to be used around the world. Accordingly, both of these new factories represent important production bases for driving future growth.

Returns to Shareholders



*1. Including the recording of deferred tax assets
*2. Including gain on sales of a portion of shares in Yamaha Motor Co., Ltd.

Introduction of International Financial Reporting Standards

We are currently making preparations to introduce the International Financial Reporting Standards (IFRS). With the adoption of IFRS, we aim to further enhance the level of our corporate management by integrating our accounting standards on a Groupwide basis. At the same time, we believe IFRS will help earn a higher level of trust and praise from investors around the world as it will improve the transparency and convenience of our financial reporting. For nearly 10 years we have been making preparations to introduce IFRS, and the specific accounting rules within our Group accounting standards, such as depreciation methods and standards for recording debt, have already been determined based on the IFRS. In addition, from a very long time ago, we turned all our subsidiaries into consolidated subsidiaries and unified their accounting periods, an issue that generally is the biggest hurdle in introducing IFRS. We intend to disclose our financial performance based on IFRS from the first quarter of fiscal 2020. By doing so, we believe that our growth potential and profitability can be more appropriately evaluated on a global basis by our shareholders and other investors, including investors from overseas.

In our basic approach to management systems, we place emphasis on establishing advanced and outstanding frameworks under various management themes that are well-balanced in all aspects, rather than focusing on making one area superior and letting another area fall behind. To this end, we believe it is essential to steadily make preparations to implement special frameworks rather than introducing them hastily. Furthermore, steady, honest, and repeated efforts are also imperative in improving our financial foundation. By establishing various frameworks that give proper attention to all aspects—from corporate governance and financial matters to sustainability initiatives—and producing solid results, we will further enhance the quality of our management going forward.

Realizing Our Vision for Yamaha as a Company

At the moment, we are holding repeated discussions internally aimed at the formulation of the next medium-term management plan. Previous plans had been formulated from the perspective of how we should tackle the issues we currently face over a three-year period. However, starting with our current medium-term management plan, we first gave consideration to our vision for the Company in 10 years' time and then used backcasting to determine the kinds of targets and policies we need to pursue in the upcoming three years to achieve that vision. I believe that the policies we formed in this manner, which adopt a medium- to long-term perspective rather than a short-term one, have provided the driving force behind the solid performance we have achieved. We view the period of the next medium-term management plan as a time in which we will further accelerate strategies toward realizing our vision. With the perspective of integrated thinking, we will incorporate into the plan the necessary elements for making our business model more sustainable and progressive. This business model will without a doubt be underpinned by our financial strategies. As I have stated before, it is essential that we steadily reinforce our financial strategies as they provide the foundation for all our other operations. Through repeated dialogues with capital markets, we will take the lead from a financial perspective as we work to improve corporate value going forward.

Strategies by Business

Musical Instruments Business

The musical instruments business is the Yamaha Group's core business in which it boasts the No. 1 share in the global musical instruments market. In this business, we aim to further increase profitability through technological development and marketing activities that take advantage of our business scale.

Kimiyasu Ito
Operating Officer
Executive General Manager of Musical Instruments Business Unit

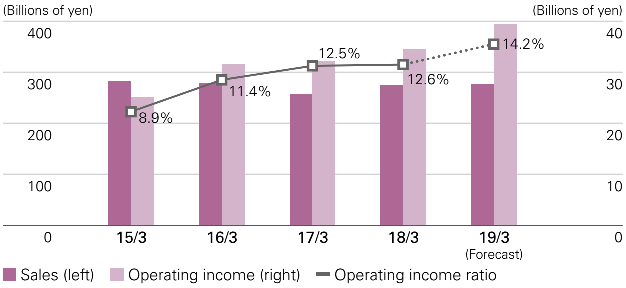
Business Overview

Since its establishment, the Yamaha Group's core business has been the musical instruments business. In this business, we possess numerous core technologies related to sound and music that we have cultivated over many years. We focus on the development of acoustic instruments, such as traditional pianos and wind, string, and percussion instruments, and digital musical instruments that leverage electronic technologies. In addition, we also place emphasis on the development of hybrid instruments that meld both acoustic and digital technologies. In recent years, we have been utilizing AI, *kansei* (emotional) engineering, and simulation technologies to take on challenges in the digital network environment and other new domains. Through our product lineup and global sales and service structure, which also includes the music school and software content businesses, we have secured a position as the world's leading comprehensive musical instruments manufacturer.

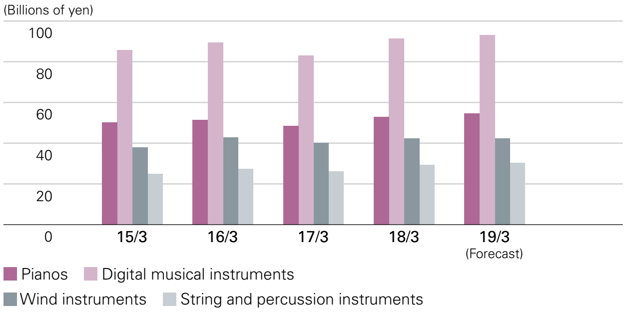
Operating Environment

In terms of the market environment for the musical instruments business, although the Japanese market is stagnating as the population continues to decline, we are realizing stable growth on a continuous basis in the markets of Europe and the United States. In addition, we have recently been achieving a high rate of growth in the Chinese market. In emerging countries and other markets, we recognize a strong potential for growth despite uncertain factors such as the impact of the macro economy. By product, in addition to stable growth in pianos and wind instruments, we anticipate the further growth of string and percussion instruments, centered on guitars, as well as digital musical instruments. While our competitors differ by instrument, we continue to compete against mostly the same companies in our mainstay product of keyboards, and we have been gradually expanding our market share for this product.

Sales / Operating Income / Operating Income Ratio



Sales of Major Products



Major Product Conditions and Primary Competitors

	Conditions of the Market and at Yamaha	Primary Competitors
Pianos	Continued high-level growth in the major market of China, with stable growth in the markets of developed countries. Also, sales of hybrid products increasing	Steinway & Sons (Germany and the U.S.); Guangzhou Pearl River Piano Group Co., Ltd. (China); Kawai Musical Instruments Manufacturing Co., Ltd. (Japan)
Digital musical instruments	Growth in each market for digital pianos supported by educational and hobby-related demand, with lineup for these products expanding	Casio Computer Co., Ltd., Roland Corporation, and Kawai Musical Instruments Manufacturing (Japan)
Wind instruments	Stable growth primarily in emerging countries supported by demand from schools and bands, anticipated growth in China going forward	Conn-Selmer, Inc (the U.S.); Buffet Crampon (France); Jupiter Band Instruments, Inc. (Taiwan)
String and percussion instruments	Expanding demand in China and emerging countries and favorable reputation of new concept guitars. Numerous competitors	Fender Musical Instruments Corporation, Gibson Brands, Inc., C.F. Martin & Co., and Taylor Guitars (the U.S.)

Our Business Strategy

Competitive Edge

- R&D and technological development that emphasizes dialogue with users
- Sales and service network that spans around the globe, product development and design that considers the characteristics of each market
- Deep understanding of music and instruments underpinned by our extensive track record

Business Opportunities

- Further development of music culture in emerging countries following a rise in the standard of living
- Diversifying consumer behavior and marketing activities resulting from the expansion of e-commerce
- Technological development such as digital networks, robotics, AI, and FA

Business Strategies under the Medium-Term Management Plan

- Improve profitability through growth in digital musical instruments, improvement in gross margin, and cost reduction
- Accelerate the enhancement of product competitiveness through pursuing the essence of musical instruments using Yamaha's original technology for "scientific evaluation of assessing human sensitivities"* and offering new value
  * Yamaha's original technology that quantitatively and qualitatively evaluates and analyzes the tacit relationship between human sensitivities and physical properties of a product
- Optimize marketing and points of contact with customers by region to promote brand power awareness and enhance customer interaction

Business Issues to Address

- Discover and incorporate potential music-related needs in emerging countries
- Adopt an accurate approach to diverse sales channels and consumer behavior
- Pursue market segmentation and thoroughly promote product value
- Apply the latest technologies to our products and services and provide more value
- Provide new musical experiences using AI technologies

Progress during Fiscal 2018

- Recorded sales that exceeded last year's levels in all product categories
- Realized significant growth in China and emerging countries
- Developed and sold products with distinctive individuality such as the casual wind instrument Venova™
- Gained approx. 300 new customers in emerging countries
- Accelerated digital marketing activities (with major success particularly in China)
- Deepened relationships with artists

Business Direction in Fiscal 2019

In fiscal 2019, we will steadily advance the development and launch of new product lineups in line with the medium-term management plan. At the same time, we will continue to develop products with distinctive individuality by pursuing the essence of musical instruments. We will also continue efforts to adjust sales prices and reduce costs. By doing so, we will expand our top line and improve profitability.

Creating Added Value and Improving Product Competitiveness

Looking from a global perspective, the countries for which we have a significant understanding of market characteristics are still limited to a certain number of developed countries. In addition, as the consumption behavior and needs of our customers diversify, the key to further growth will be to understand these changes while at the same time leveraging our strengths and technologies to create highly competitive and appealing products. In fiscal 2019, we will draw on the newly constructed Innovation Center, an R&D building that brings together our in-house expertise and technologies, to further pursue the essence of musical instruments and centralize our technologies and people. In these ways, we will work to create new customers.

Strengthening Marketing Activities

Although we have been promoting the development of new products that offer new value in each product category, there have been product-specific inconsistencies in our marketing efforts to promote the value of a product in each market. In regard to products for which we have yet to sufficiently reach the end users, we will work to discover potential needs and offer completely new customer experiences. In doing so, we will step up efforts to promote our unique added value and accelerate sales.

Initiatives to Resolve Social Issues

Topics

Supporting the Activities of Orchestras and Bands to Encourage Youth Development

4 QUALITY EDUCATION | 8 DECENT WORK AND ECONOMIC GROWTH | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

In the countries of Latin America, juvenile crime and delinquency are becoming more serious. In response to this issue, local governments are working to provide music education free of charge, and orchestras and bands have been formed to promote the healthy development of young people.

For many years, we have supported the activities of these governments to ensure that an even greater number of young people can participate in these orchestras and bands. In 2014, we commenced the "AMIGO Project" to further strengthen these activities. Under this project, we hold workshops to teach the young performers how to maintain their instruments in good condition by themselves. Also, to provide additional support for putting broken instruments back in working order, we are helping to train repair technicians. Through these activities, we are working to create better environments where young people are able to continue to play music.

Orchestra and band formed under youth development programs

Audio Equipment Business

In the audio equipment business, we offer a wide range of products in both commercial and consumer domains. Going forward, we will expand our business domains and accelerate growth through the combination of technological innovation and enhanced customer support.

Akira Iizuka
Executive Officer
Executive General Manager of Audio Products Business Unit

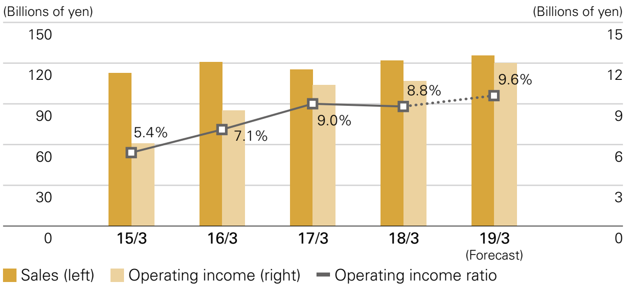
Business Overview

The audio equipment business acts as the second business pillar of Yamaha, a company that develops business centered on sound and music, after the musical instruments business. In this business, we offer AV products for consumers and PA equipment for industrial and facility use as well as for use by music enthusiasts. In addition, we provide ICT devices such as network devices and voice communication equipment. By leveraging not only our strengths in terms of audio networks but also our ICT technologies, we position the audio equipment business as a growth domain, centered on professional audio equipment.

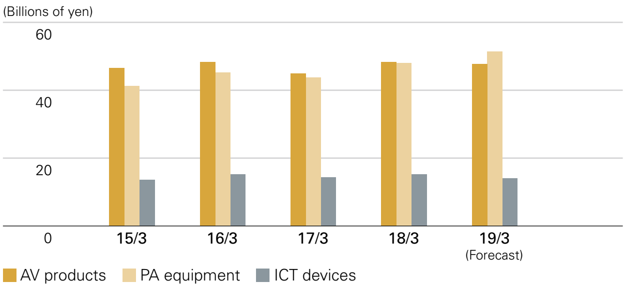
Operating Environment

In regard to AV products for consumers, there has been a rapid shift toward products that respond to streaming transmission, particularly in Europe and North America. Additionally, for PA equipment, the shift toward digitalization has continued, and there has been a greater need for a high level of affinity with IT networks. In light of these circumstances, it is now more important than ever to maintain a high level of reliability and enhance customer support structures. Moreover, we expect a continued expansion in demand for equipment used for remote conferences at corporations and institutions. Going forward, to gradually extend the strengths we have leveraged in the live show and concert hall domains to cover various other settings, we intend to pursue new product development while strengthening our customer support structure and accelerating global growth.

Sales / Operating Income / Operating Income Ratio



Sales of Major Products



Major Product Conditions and Primary Competitors

	Progress	Primary Competitors
AV products	Strengthened the proposal of value from development focused on home theaters to network audio equipment	Sonos, Bose Corporation (the U.S.); Sony Corporation (Japan), etc.
PA equipment	Bolstered amps and speakers, centered on digital mixers, as well as equipment for use in commercial facilities	Harman International Industries (the U.S.); Music Group (the Philippines); Robert Bosch GmbH (Germany), etc.
ICT devices	Expanded mainstay commercial-use routers as well as LAN products	Circo Systems, Inc., Polycom Inc., The Hewlett-Packard Company (the U.S.), etc.

Our Business Strategy

Competitive Edge

- Communications and signal processing technologies that enable support that caters to each market and product type
- Product lineup that covers both commercial and consumer domains, ability to propose solutions
- Thorough sales and customer support activities through our sales network

Business Opportunities

- Increasing demand in emerging countries following economic growth
- Expansion of sales channels through the introduction of new settings
- Growing demand for AV and PA equipment and ICT devices in North America
- Widespread use of smart devices and 5G

Business Strategies under the Medium-Term Management Plan

- Accelerate growth by expanding applications of PA equipment in various settings
- Pursue evolution of audio systems by progressing and fusing signal processing and network technologies
- Increase the number of audio contractors who partner with Yamaha by 50% through the reinforcement of our support system
- Propose unrestricted listening styles tailored to consumer needs

Business Issues to Address

- Steadily capture demand in the audio equipment market
- Secure and develop human resources with a high level of expertise regarding professional AV products
- Enhance brand strength for ICT devices
- Reestablish position of amateur AV products

Progress during Fiscal 2018

- Recorded sales that exceeded previous year's levels in all product categories
- Developed and sold new products that integrate cutting-edge technologies
- Held displays at stores for audio products, primarily in Europe and North America, and implemented related online campaigns
- Increased support staff for audio contractors, achieved a 37% increase in customers over the past two years

Business Direction in Fiscal 2019

In fiscal 2019, we will work on expanding settings where we offer professional audio equipment, which we position as a growth domain. At the same time, we aim to accelerate growth by boosting the recognition of the Yamaha brand in terms of reliability and peace of mind.

Expanding Settings by Leveraging the Strengths of Our Diverse Technologies

In the audio equipment business, we operate in three areas that vary in nature. While there are some areas where progress has been less than anticipated, we are steadily growing in all three areas. Particularly, to expand settings where we offer PA equipment, we will draw on our high level of fundamental technologies to enhance our product lineup and systems from the perspective of providing solutions that meet the needs of our customers. While the business environment remains difficult, we will work to achieve business growth by enhancing our proposal-making capabilities.

Boosting Brand Recognition

We understand that we have established a certain level of presence with our PA equipment both in Japan and overseas. On the other hand, when it comes to AV products and ICT devices, the Yamaha brand is not sufficiently known. We therefore need to foster a better awareness of the reliability and peace of mind our brand offers through not only initiatives to boost recognition by increasing our product volume but also through the reinforcement of customer support and provision of solutions. We will continue to focus our efforts on accomplishing this task as we work to capture new business opportunities.

Initiatives to Resolve Social Issues

Topics

Improving Working Styles by Offering a More Comfortable Environment for Remote Conferences

5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH | 13 CLIMATE ACTION

Since entering the online conference systems market in 2006, we have realized an expansive product lineup, strengthened customer support, and installed a large number of high-quality sound technologies, which we have cultivated over many years. These efforts have garnered a high level of praise from our customers, allowing us to secure the No. 1 share in the domestic market.* For example, the CS-700 video sound collaboration system for huddle rooms is a product we developed by focusing our attention on the expanded use of video and online conferences at numerous corporations and institutions as part of their efforts to improve working styles. Through an all-in-one USB device that integrates a high-quality microphone, speaker, and camera that is optimal for huddle rooms (conference rooms for small groups), CS-700 enables voice, video, and image sharing simply by connecting a USB cable to a PC. By doing so, CS-700 makes it easy to speak and hear and realizes communication without difficulties or stress for the participants. The system also contributes to the reduction of CO_2 emissions as it reduces the need for business trips and enables people to work from any location.

CS-700

* According to the 2016 Communications Related Marketing: Comprehensive Survey conducted by Fuji Chimera Research Institute

Industrial Machinery and Components Business

In the industrial machinery and components business, we leverage the technologies we have acquired through the manufacturing process for musical instruments to provide comfortable, safe, and secure solutions. We will realize growth in existing businesses and take on challenges in new domains as we work to establish this business as our third business pillar.

Shigeki Fujii
Executive Officer
Executive General Manager of IMC Business Unit and Technology Unit

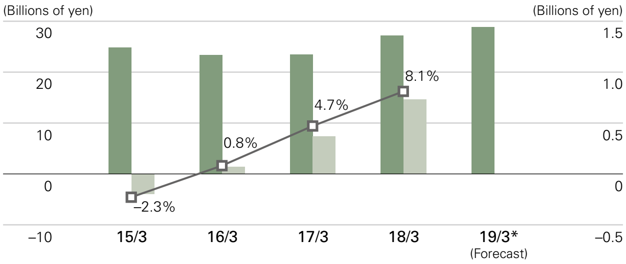
Business Overview

The industrial machinery and components business covers a broad range of fields, such as electronic devices, which started with the development of LSI for musical instruments; automobile interior wood components for luxury automobiles, which started from the integration of our lumber processing and coating technologies; and factory automation (FA) equipment, which originated in our musical instruments manufacturing facilities. In these diverse areas, we offer comfortable, safe, and secure solutions.

Operating Environment

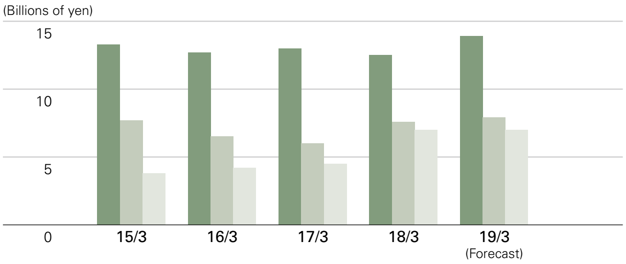
For electronic devices, we were able to pursue business expansion focused on product development following the transfer of manufacturing facilities, thereby making significant improvements on the existing deficit. Rather than simply supplying semiconductors, we promoted a shift toward component modules related to sound, an area in which the Company excels. We also promoted efforts to expand the application of our electronic devices in automobiles, and these efforts have begun to produce results. In the domain of thermoelectric devices, which convert heat and electricity, we are developing not only products for ICT equipment but also products for automobiles. In these ways, we are focusing our efforts to establish a foundation to position the industrial machinery and components business as our third business pillar in the future, alongside the musical instruments and audio equipment businesses.

Sales / Operating Income (Loss) / Operating Income Ratio



* Individual fiscal 2019 forecasts for operating income and operating income ratio are not disclosed for the individual businesses comprising the others segment.

Sales of Major Products



Major Products

Electronic devices	Graphic LSI for amusement equipment, semiconductors for sound generation, magnetic sensors, thermoelectric devices, modules for in-vehicle, hands-free telephone calls, etc.
Automobile interior wood components	Interior wood components for luxury cars of both Japanese and overseas automotive manufacturers that leverage the lumber processing and coating technologies used for pianos
FA equipment	Flexible printed circuit manufacturing and detection equipment, polishing robots, and leak detectors

Our Business Strategy

Competitive Edge

- Knowledge and expertise in sound and music
- Knowledge and technology in voice quality, vibration, and noise

Business Opportunities

- Automated driving leading to an increased need for value in automobile interiors
- Growth in processing and testing equipment to meet the widespread use of smart devices
- Expansion of voice recognition technology and devices
- Expansion of healthcare needs in Japan and overseas in conjunction with the growing middle income bracket

Business Strategies under the Medium-Term Management Plan

- Transform the business from a semiconductor manufacturer to a solutions vendor, and thereby build a foundation for growth through expansion in product lineups and customer base
  - → Expand product lineups and customer base, and enhance customer support system in onboard device market
  - → Develop products for home healthcare market
  - → Launch new products in the industrial machinery market

Business Issues to Address

- Shift toward use of modules and expand the scope of solutions
- Improve voice recognition technology
- Develop new customer base in the growing electronic components category
- Apply wealth of knowledge and tech to develop healthcare products

Progress during Fiscal 2018

- Recorded double-digit growth in the industrial machinery and components business, reflecting strong sales of automobile interior components and FA equipment
- Increased overseas orders of automobile interior components, despite concentration on domestic manufacturing
- Continued to perform well with FA equipment due to taking advantage of the need for high precision and sophistication in light of stabilized smartphone-related demand
- Produced an onboard emergency calling system module mandated in Russia and Europe and adopted by multiple manufacturers

Business Direction in Fiscal 2019

In addition to strong sales of semiconductors for voice and audio processing in vehicles, we will also begin mass production of an onboard emergency calling system module. Sales of electronic devices are projected to grow by double digits compared with the previous fiscal year.

We anticipate that automobile interior components will continue to perform well due to the expansion of shipments to overseas manufacturers, and FA equipment is also expected to continue its strong performance from the previous fiscal year.

Modules for In-Vehicle Hands-Free Telephone Calls Geared Toward Emergency Alert Systems

Mass production of an in-vehicle communication module mandated in Russia and Europe began in the first quarter of fiscal 2019. The modules have been adopted by several manufacturers in recognition of the clear voice quality that is required in emergency situations. Since our voice communication technology can be used not only for emergency call systems but also for hands-free communication and voice recognition inside the car, we believe that it will be utilized by various products in the future.

Healthcare Product Development

We are continuing the development of healthcare products that capitalize on the strengths of the Company, including sound and vibration sensor technology and digital signal processing technology. We are collaborating with Tokyo Medical and Dental University to communicate with the medical community directly in order to ensure that our development efforts follow the direction of their needs and opinions.

Initiatives to Resolve Social Issues

Topics

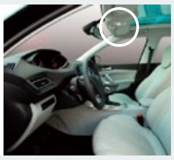
Reducing Traffic Accident Casualties with Our In-Vehicle Communication Module

3 GOOD HEALTH AND WELL-BEING

Yamaha has developed a module for in-vehicle hands-free telephone calls with an emergency call function for vehicles amid growing mandates in Europe and other regions and has introduced it into the vehicle-related equipment market.

This emergency call system automatically contacts the fire department and other emergency services when the airbag triggers during an accident. This system contributes to SDG target 3.6, to "halve the number of global deaths and injuries from road traffic accidents by 2020." Our in-vehicle communication module features automatic notification in times of emergency, a hands-free mobile calling function, and an integrated microphone and speaker. This module also offers the benefit of being compatible with all types of vehicles. In addition, this module realizes differentiation from the products of other companies as it offers a quality of sound that only a musical instrument manufacturer such as Yamaha can provide.

Emergency calling system


In-vehicle communication module

Production

By intricately melding our strengths of craftsmanship and technologies and advancing our industry-leading production capabilities on a global scale, we aim to realize an overwhelmingly dominant position in terms of quality, cost, and delivery (QCD).

Shinobu Kawase
Managing Executive Officer
Executive General Manager of Musical Instruments & Audio Products Production Unit

Basic Approach

Throughout our many years of involvement in the production of musical instruments, we have fine-tuned our craftsmanship capabilities to create even better musical instruments. At the same time, we have amassed industry-leading technologies by scientifically researching each step of the production process and making use of cutting-edge techniques. We maintain both these strengths at a high level and take steps to intricately meld them, and this represents the most important aspect of our production activities.

From an early stage, we have established production bases overseas. These bases primarily span across Japan, China, Indonesia, and Malaysia, thereby putting in place an optimal global production structure for the business domains in which we are involved. In addition, we are currently constructing new factories in India and Indonesia. Upon the commencement of operations at these factories in 2019, we intend to enhance our global production structure even further.

Production Structure

Transitioning to a Function-Specific Organizational Structure (Integration of Production Structures)

In 2013, we abolished our business-unit structure and subsequently integrated the production structures that had been divided by business unit. By combining the frameworks and processes that had differed by product and business, we took a significant first step toward transitioning from individual optimization to overall optimization. As a result of standardizing these frameworks and processes, we were able to share best practices and maximize our production output by applying these best practices to other products and businesses.

Furthermore, our efforts to promote standardization also enabled us to produce multiple product categories at factories that traditionally only produced a single product category. Also, by combining production at multiple factories, we took steps to level out production throughout the year and were able to significantly reduce costs.

Competitive Edge

Craftsmanship and Technologies

The greatest strength in our production structure is that our products are finished using the eyes and hands of actual people. This technique is what we refer to as craftsmanship. Since our establishment, we have continued to fine-tune our craftsmanship, and this has become a significant element in allowing us to differentiate ourselves from our competitors. In addition, if we can form linkages between this craftsmanship with our technologies for the scientific evaluation of assessing human sensitivities—for which we are currently pursuing in research—we believe we can achieve further differentiation going forward.

At the same time, we are taking steps to make our production technologies more sophisticated. These include not only promoting the automation of our production processes and incorporating network and ICT technologies but also evolving our supply chain and production management systems. Through the melding of craftsmanship and technologies at an even higher level, we will further enhance our product quality and reduce costs. In these ways, we will aim to realize an overwhelmingly dominant position in terms of QCD.

Yamaha Technical Skills Training

Putting the finishing touches on a musical instrument is a kind of craftsmanship that represents both an art and a technique. By working to visualize and enhance knowledge on this kind of craftsmanship, we established the Yamaha Technical Skills Training, thereby raising awareness of this craftsmanship across the Company. In this way, we made it easier for our young technicians to inherit the exceptional skills of their predecessors and pass those skills down to the future generations.

In our efforts to establish a global production structure, the Yamaha Technical Skills Training has been playing a key role in cultivating personnel responsible for production at each production base.

Our Production Strategy

Expanding and Enhancing Our Global Production Structure

We are working to expand and enhance our global production structure in accordance with the changes in the demand and the level of growth in the global market. At the moment, we have in operation three factories in Japan, five in Indonesia, four in China, and one in Malaysia. We are also currently constructing new factories in India and Indonesia.

In the past, it was often the case that we would assemble products at overseas factories using parts that were made in Japan. However, due to the level of production at our overseas factories increasing substantially, we are now able to produce products at overseas factories with parts that have been made locally. In addition, we have been successful in reducing costs by using parts made at overseas factories in our Japanese factories.

In future, we will work to ensure that each of our factories captures local needs and establish a framework so that these factories can supply products locally. By sharing the highly competitive products created through this process on a global scale, we will further optimize and evolve our global production structure.

New India Factory (Chennai)
Production slated to begin in January 2019

Local Provision of Products Optimized for the Massive Market of India (Totaling 1.3 billion people)

This factory aims to realize integrated production and sales operations while providing affordable products with high levels of cost competitiveness through planning, procurement, production, and distribution that is optimized for India.

New Indonesia Factory (Suburban Jakarta)
Production slated to begin in July 2019

Production of Digital Instruments and Piano Parts for Sale around the World

This factory aims to achieve world-leading levels of cost competitiveness for wood coating by sharing production resources for both pianos and digital pianos.

Reducing Production Costs and Establishing a Global Procurement Structure

While personnel costs are increasing annually in China and Southeast Asia, we have been continuously reducing our overall production costs through various means, including the shift toward automation, improvement of productivity via the development of new production methods, enhancement of production capacity, and the reduction of procurement costs.

In terms of procurement costs, we have established a new global procurement structure. Transitioning from our old structure where procurement was carried out by each factory, this new structure designates items to be primarily procured by our head office and items to be procured by area, thereby realizing cost reductions. For electronic devices, timber, and other materials, our headquarters discovers suppliers and comprehensively negotiates prices in an effort to enhance procurement efficiency and reduce costs. Meanwhile, in regard to parts and molds that are made by suppliers after we provide them with diagrams, we determine responsible personnel in each area of operations in Europe and Southeast Asia who negotiate prices and hold technology-related meetings with suppliers. Through these efforts, not only will we further reduce procurement costs, we will also improve overall costs by streamlining procurement functions.

Evolving Our Production through Technology

We continue to evolve our production areas through the use of the latest technologies.

In the production of traditional musical instruments, there is still room for us to improve our production processes and develop new production methods. We are therefore making efforts to promote automation. To this end, we are accelerating the use of IT by integrating our production structures and working to standardize and optimize these structures. This in turn is having a major positive impact on our production management systems, including our systems to manage our supply chains and collect information on production processes.

Furthermore, at our new factories currently under construction, we are moving forward with the introduction of new production equipment that incorporates our network devices. By establishing a framework for the seamless acquisition of various data by production process, we are working to further enhance the productivity levels at these new factories.

Initiatives to Resolve Social Issues

Topics

Sustainable Procurement of Wood Resources

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
15 LIFE ON LAND

We use a wide range of wood resources in our business activities, primarily for the manufacturing of musical instruments. Accordingly, we are promoting efforts to control, maintain, and sustainably utilize these resources as they are crucial to our operations.

In recent years, the sustainability of African Blackwood—a wood resource that has been used to manufacture woodwind instruments for many years—has become a concern. We therefore carried out an investigation to confirm the amount of resources and forest management status in the Republic of Tanzania in an effort to conserve and steadily procure African Blackwood. In addition, we have been supporting the management of local forests in Tanzania through forestation activities and other efforts carried out in collaboration with local community members. These efforts are being promoted with the aim of not only fostering an understanding regarding the distribution and planting conditions of African Blackwood but also effectively utilizing existing resources and securing resource amounts for the future through systematic forest management and tree planting.

Investigation of African Blackwood in the Republic of Tanzania

Production | **Sales** | Marketing | R&D | Design

Sales

The business domains in which we operate center on sound and music. In these domains, we will expand and optimize our points of contact with customers and work to accurately understand market trends and customer needs. At the same time, we will aim to expand sales by promoting the value of our products and services to the greatest extent possible.

Seiichi Yamaguchi
Executive Officer
Executive General Manager of Musical Instruments & Audio Products Sales Unit

Basic Approach

We position the markets of China and emerging countries as "growth markets" as they are experiencing remarkable economic growth. We are also formulating sales measures specific to each market, including determining markets where we should focus on creating demand and markets where we should accelerate the expansion of sales channels.

In mature markets, which center on developed countries, new demand is being created through digitalization, increased use of networks, and changing musical tastes. Furthermore, populations are increasing due to the impact of immigration. As a result of such factors, we are continuing to realize stable growth in almost all regions. Taking into account the regional trends, we are promoting sales initiatives in accordance with the circumstances in each region.

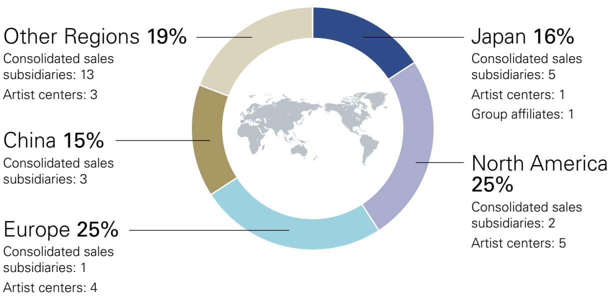
Additionally, through our sales network—which has helped us form deep and long-lasting connections with our customers—and marketing initiatives, we are focusing our efforts on fostering a love for the Yamaha brand.

Competitive Edge

In markets other than major ones, many of our competitors conclude contracts with local importers and retailers. However, we possess a large number of companies that handle sales on their own. By cultivating local personnel and directly ascertaining the mindset and needs of local consumers, we are able to draft and execute sales strategies that are deeply rooted in local communities. Also, one significant feature of the marketing structure we have in place is that, in addition to sales, it covers everything from creating opportunities and future demand, including School Projects, to providing follow-up care such as maintenance so that our customers can use our products for many years.

Sales Composition for Musical Instruments and Audio Products by Region / Number of Service Bases

(Fiscal 2018)



Year-On-Year Comparisons for Sales Growth by Region

	Japan	North America	Europe	China	Other Regions
Musical instruments	–3.5%	+0.3%	+0.1%	+17.3%	+8.7%
Audio equipment	–3.8%	+0.9%	+3.2%	+2.1%	+6.0%

Music Schools (As of June 2018)

Domestic

	Number of locations	Number of students
Yamaha Music School (Children)	2,900	262,000
Yamaha Music Lessons for Adults	1,200	105,000

Overseas

	Number of locations	Number of students
Music schools	1,450	225,000

Expansion of School Projects in Regions Where the Number of People Playing Instruments Is Increasing

(Fiscal 2018)

2015~ Introduction of the Program

	Number of schools	Total participants
Malaysia	211	7,200
Indonesia	630	115,400
Russia	17	500

2016~ Start of Efforts to Introduce and Establish Education That Uses Musical Instruments

Vietnam	75	1,600

Our Production Strategy

Expand Our Points of Contact with Customers

We have adopted "enhance customer interaction" as one of our key strategies. Under this strategy, we are working to expand sales channels, promote music popularization activities to suit local needs, strengthen personnel and service bases to improve customer support, and expand products and services to meet customer needs.

In terms of expanding our sales channels, we have realized significant growth in musical instrument accounts, particularly in emerging countries (created approximately 300 new accounts).

Regarding music popularization activities to suit local needs, we are promoting the "School Project" program and have now held this program at a total of 933 schools in four countries, with 124,000 students participating, making solid progress on our target adopted in the medium-term management plan (1,000 schools with a total of 100,000 students participating). We are also working to extend this program to different countries.

Regarding strengthening personnel and service bases to improve customer support, we are increasing our number of technical and other staff in Europe, North America, and emerging countries and regions and have achieved a 37% increase in audio contractor accounts over the past two years, working steadily toward our three-year target of increasing accounts by 50%.

Revision of Selling Prices

To secure an appropriate level of profits, we have been carefully examining such aspects as market conditions, our relationship with competitors, and product characteristics as we move forward with measures to revise our selling prices. In addition to revising the prices for existing products, we are also placing emphasis on establishing appropriate prices when launching new products by promoting the added value they offer.

Approach to Growth Markets

For the musical instruments business, we believe there is still room for growth in the markets of China, ASEAN countries, and Latin America. In the audio equipment business, we believe there is significant potential for growth in the commercial space and facilities market.

Particularly, regarding growth in China, we have the business scale and leverage to support growth for the Company overall. As the middle and upper class are expected to continue to grow, we are enhancing our local management resources to capitalize on this growth. In addition, we have numerous growth drivers already in place in the country, including effective strategies that integrate production and sales, a reliable and premium brand that has been built up over many years, room for sales price revisions, a robust sales network, and an established position that allows us to utilize a large number of human resources.

Innovating Our Sales Frameworks

To reach an even greater number of customers going forward, we need to spur innovation that can help us offer products and services that better satisfy our customers.

In addition to outstanding development and production, we have possessed global sales companies and import/distribution networks for many years. Leveraging this framework, we will flexibly revise and change the content of our sales activities so that we can form more extensive, deeper, and longer relationships with our customers.

Meanwhile, we now find ourselves in an era where we can have direct contact with our customers, and this kind of contact is becoming commonplace with the younger generation. Amid these circumstances, we aim to not only establish a website for direct e-commerce sales but also make efforts to build a framework for thoroughly incorporating ways to form connections with customers. By doing so, we believe we can increase customer numbers, raise unit prices, and boost sales.

Efforts to Establish Stronger Relationships with Artists

We are working to expand our foundation for establishing stronger relationships with artists on a global scale.

By expanding our collaboration with the world's top artists and institutions specializing in music education, we believe we can accelerate the development of even more attractive products and services. At the moment, we are beginning to see results from such collaboration in the field of brass instruments in particular.

Furthermore, as digitalization and the shift toward using networks is advancing and the way people enjoy music and musical tastes are changing, new markets are being created. Amid these circumstances, we will strengthen our approach to millennial artists who show promise for the future.

Initiatives to Resolve Social Issues

Topics

School Project

From 2015, we have been promoting the "School Project" program primarily in emerging countries to offer opportunities to play instruments and allow as many children as possible to experience the joy of musical instruments. Music education programs teaching children how to play instruments have been adopted on a large scale in schools worldwide in light of their educational effectiveness. However, due to a lack of equipment and instructors, as well as curriculum issues, instrumental music education is not provided, or is of insufficient quality, in music classes in some countries.

We provide instruments, educational materials, and instructional know-how to public elementary schools in a packaged format to support the creation of an environment where children can study a musical instrument within their school education. By providing opportunities for children around the world to play instruments, we aim to contribute to the widespread use of musical instruments and the development of music education in each country while supporting the growth of children around the world.

Trial music class with recorders at an elementary school in Vietnam

Marketing

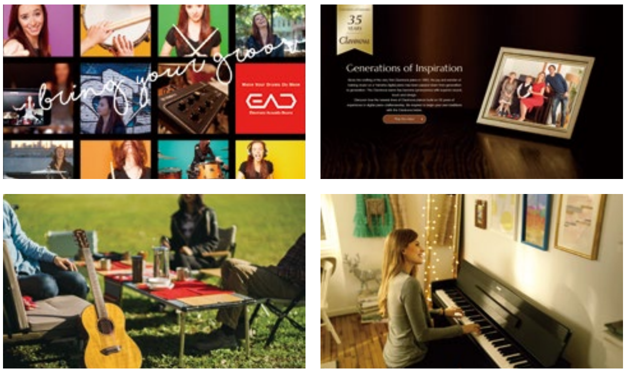
To realize our management vision of "becoming an indispensable, brilliantly individual company," we believe that it is important to enhance our brand strength and to ensure that Yamaha continues to be the choice of consumers.
In 2016, we established the Marketing Division as a specialized marketing unit that plays a fundamental role in our brand strategy. In April 2018, we established the Brand Development Unit, which consolidates the functions related to brand enhancement and related communications inside and outside the Company. On this basis, we are advancing new initiatives to enhance brand value.

Cultivating a Unified Brand Image by Bolstering Marketing

To ensure that customers have a solid understanding of our brand, we are taking steps to realize globally integrated communications, such as education for marketing staff and unification of customer points of contact. In addition, we are implementing initiatives to actively communicate the customer experience, such as promoting our brand story.

Unifying Customer Points of Contact

To provide a consistent customer experience, we need to manage our points of contact with customers in a unified manner, including our SNS accounts, websites, and stores. In 2017, we had more than 200 SNS accounts around the world, and we enhanced the global coordination system for the management of these accounts. In this way, we are working to share important information in real time.



Actively communicating the customer experience on product websites

Communicating Our Products and Brand Story

We are working to communicate the customer experience for each of our products and to tell the overall story of our business activities. In March 2018, we released The Passion for Music video, which shows the daily lives and work styles of employees involved in development, production, and other areas. Five employees involved in development, production, and other areas from Europe, the U.S., Japan, and China appear in the video.


A scene from The Passion for Music

Strengthening Internal Branding

To foster the sharing of brand values by employees and to promote ideas and actions that enhance our brand, we are communicating our brand story through our internal newsletter and implementing activities to generate ideas from the customer's viewpoint.


Talk My Drama (article in internal newsletter)

ASEAN region internal newsletter

China region internal newsletter

Enhancing Customer Lifetime Value

To foster more positive customer experiences that extend over a lifetime, we will strive to understand each individual customer and to provide new products and services that meet customer needs.

Providing a range of value that extends beyond the point of purchase (customer experience)

Research and Development

Yamaha strives to further advance "technology that crosses over sound and people," which is a strength that we have cultivated. In this way, we develop products and services with a competitive edge, and create new customer value in ways that transcend our existing fields of business. These initiatives support our business growth.

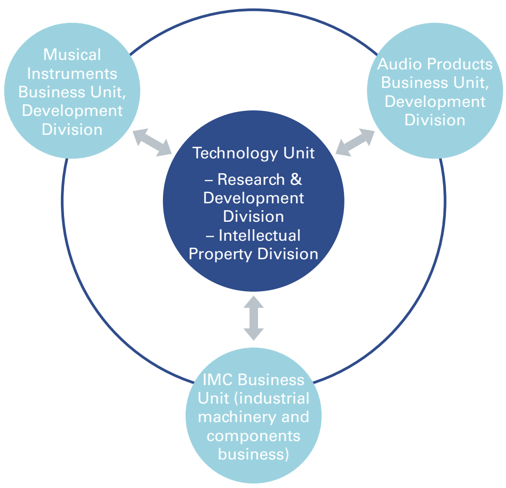
Basic Policy

Guided by the craftsmanship passed on from generation to generation and a sensitivity toward sound creation, Yamaha has accumulated a vast array of original technologies over its long history of manufacturing acoustic instruments. Furthermore, Yamaha has also developed groundbreaking electronics technologies in the field of digital musical instruments and audio equipment. By leveraging and integrating these acoustic and digital technologies, we develop new products and services that only Yamaha can create.

Research and Development System

Under Yamaha's R&D structure, the Technology Unit oversees R&D and the overall intellectual property strategy and advances fundamental technology research. The Technology Unit works closely with the technology development departments in each business field, such as the Musical Instruments Business Unit, the Audio Products Business Unit, and the IMC Business Unit (industrial machinery and components business). Under this system, we will advance the following initiatives moving forward.

- Development of higher-level fundamental technologies and applied technologies
- Development of products that cannot be imitated by other companies
- Creation of innovative customer value

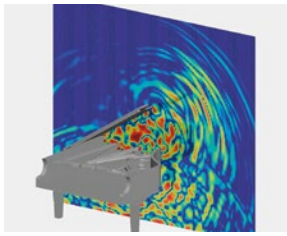


Competitive Edge

Yamaha has established and strengthened a competitive edge by maintaining and leveraging industry-leading technologies supporting acoustic instruments as well as electronics technologies.

Technologies Supporting Acoustic Instruments

Yamaha started with the repair of a single organ, and we subsequently expanded our lineup to include pianos, guitars, percussion instruments, and wind instruments. At the same time, we acquired and strengthened a wide range of technologies, including technologies related to wood, metal, keyboard actions, and production. Today, we are further advancing these technologies through the introduction of the latest scientific methods in such areas as measurement, analysis, and modeling.


Piano physical model simulation technology

Electronics Technologies

Our electronics technologies, which started with the development of an electronic organ, are not limited to musical instruments. We have expanded the application of these technologies to include audio equipment and ICT devices. These include sound source and signal processing technologies, which have recorded rapid development due to digitalization and have supported the Company's subsequent strong growth. In addition, we are implementing a range of initiatives in the field of acoustic technology, from sound radiating products to the design of spaces that can make sound reverberate. For example, these initiatives include the design of concert halls as well as speakers.

Develop Products with Distinctive Individuality

Add original value to excellent basic functions and develop products others cannot imitate

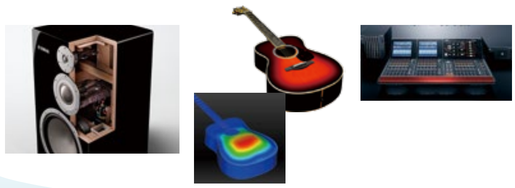
Joy

Beauty

Confidence

Discovery

Fusion of Technology



Evaluation technology
to scientifically assess human sensitivities and sound recognition

Yamaha is working to scientifically research and clarify the characteristics of objects and human sensitivity toward sound and music. By applying these evaluation technologies to product development, we are aiming to develop products with a competitive edge and to create new customer value that cannot be imitated by other companies.

Technology that Crosses Over Sound and People

Mechatronics technologies
to express minute movements

Through the fusion of craftsmanship cultivated through musical instrument manufacturing and leading-edge technologies, we are working to realize advanced levels of functionality, such as high speed, high precision, and high reliability.

Network technologies
with high quality, easy to operate

Since we entered the router market in 1995, for over a period of more than 20 years, we have accumulated and strengthened network technologies. In addition to network devices, our advanced network technologies are also included in other products, such as musical instruments, AV products, and PA equipment. Accordingly, we are developing products with high added value that cannot be imitated by other companies.

Sensing technologies
to accurately track motion

Sensing technologies are utilized to accurately sense interface movements, such as keyboard actions, to facilitate varying tone color and performance. These technologies have been enhanced and are now implemented in products, centered on musical instruments.

Signal processing technologies
for rich sound processing

Signal processing technologies play the most important role in enabling Yamaha to differentiate itself from other companies. Through the use of advanced digital signal processing technologies, we have achieved convenience only possible in the digital era, including high-quality performance expression and sound reproducibility.

Materials/analysis technologies
to bring out the best qualities in raw materials

Design factors, such as musical instrument materials, forms, and structures, have a major influence on tone color. In addition to research into wood, metal, and other materials and the development of processing technologies, we have also significantly advanced measurement technologies and simulation technologies for the analysis of the influence of design factor differences and the movement of each part. These initiatives are contributing to the development of products and services.

Sound generator technologies
enabling diverse expression

Since the launch of the D-1, the first Electone™ electronic organ in 1959, we have facilitated rich performance expression through the introduction of products with advanced sound sources, such as the SY-1, the first Yamaha synthesizer, in 1974; the DX7 digital synthesizer, which took the world by storm, in 1983; the MOTIF™ in 2001; and the MONTAGE™ in 2016.

R&D Achievements

Musical Instruments Business

Venova™ —A Rich Tone in a Compact Size Realized Through New Technologies

A rich saxophone-like sound that was previously not feasible in this compact size, made possible by Yamaha's original branched pipe structure and meandering pipe design

The most distinctive feature of the Venova™ is the branched pipe structure. Yamaha was able to realize this feature by applying the branched pipe theory, which was used in the virtual acoustic sound source in the VL1 Synthesizer, launched in 1993. This theory has made possible such features as a rich tone and easy fingering with the simple structure.

Branched pipe structure

The meandering pipe design made possible easy fingering like that of a recorder.

Audio Equipment Business

RIVAGE™ PM10 Next-Generation Flagship Digital Mixing System

A flagship mixing system that offers a range of thoroughly refined elements, including sound quality, operation, functionality, reliability, and expandability

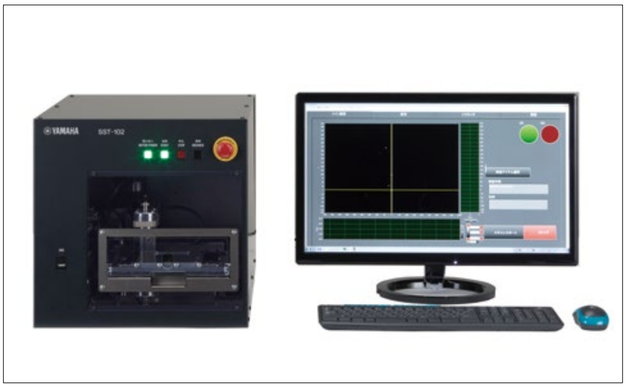
After the launch of the PM-1000 full-fledged concert mixer in 1974, we introduced the DMP7 digital mixing system in 1987 and the PM1D digital mixer in 2001. Due to their excellent sound processing technologies and their high-level functionality and reliability, they have brought about a major revolution in sound systems. The RIVAGE™ PM10 leverages the technologies in those products while also incorporating new cutting-edge technologies. This next-generation flagship digital mixing system offers flexibility in the configuration of systems through various combinations with sound system components as well as a massive mixing capacity.

Industrial Machinery and Components Business / Others

SST-102 Desktop Ultrasound Scanner

Inspection equipment that uses ultrasound to facilitate simple measurement of internal defects in products

Yamaha's utilization of sound has expanded to the fields of safety and security. Through the use of aerial ultrasound, it is possible to measure defects inside products without touching or destroying the object being measured. The SST-102 has been made compact so that it can be installed on a desktop. It can be used to measure the welded state of tabs in lithium ion batteries and connectors.



Base for the Generation of New Innovation

Opening of the Innovation Center

In June 2018, we completed a new building within the headquarters complex that features the latest research and testing equipment. The objective of this initiative was to create new value by consolidating our current technologies and the latest technologies and by fostering exchange inside and outside the Company. To that end, the new center brings together the Company's R&D staff, who had previously been scattered over multiple bases.
This new building and the adjacent existing development buildings are together known as the Innovation Center.

Innovation Road

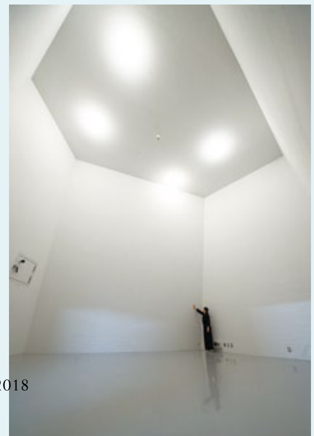
On the first floor of the new development building, we established Innovation Road, a Company museum that enables visitors to experience—through sight, sound, and touch—the history of Yamaha's product development and businesses and our initiatives for the future. This facility, which was opened to the public in July 2018, displays approximately 800 products and fosters knowledge about the Company's history of taking on challenges and technologies, from our founding to today.

Special Laboratories

The Innovation Center has advanced laboratories in three fields for several development stages—sound engineering; sound physical data measurement; and human data measurement, such as of performers and audiences. The facilities include a variety of studios, including session and recording studios; rooms for testing out acoustic instruments; an anechoic chamber and a reverberation chamber; and a vibration laboratory.

Anechoic chamber
This laboratory is a special measurement room in which sound absorption wedges have been installed on the surface of the walls and echoes within the room have been reduced as much as possible. Because there are no echoes in the room, it is possible to measure with fidelity only the sound that originates from the object being measured. This is one of the largest anechoic chambers in Japan, and it can be used for the measurement of large-scale products, such as grand pianos and line array speakers.

Reverberation chamber
This laboratory is used for measuring the absorption coefficient of building interior finishing materials and measuring sound source sound power levels. It is one of Japan's largest asymmetric reverberation chambers. In addition to measurement, this facility can also be used as an echo chamber to record reverberant sounds with high-density reflections.



Recording studio
There are four recording booths, with large and small sizes, and three control rooms. The floor has a floating-floor structure to control unwanted vibration, and the walls have variable reverberation units that can change the room acoustics. These facilities have the same functions as studios used by professional artists. They can be used for a wide range of operations, such as audio equipment evaluations needed for product development, sampling musical instrument sounds, and creating content for electronic musical instruments.

Intellectual Property

We are advancing a global intellectual property strategy and working to create, protect, manage, and utilize intellectual property. In these ways, we are taking steps to maintain and enhance corporate value and brand value.

Yamaha founder Torakusu Yamaha himself made many inventions and acquired patents for these inventions. Since the Company's founding, in coordination with our business activities, we have taken steps to create, protect, manage, and utilize intellectual property.

Over many years of R&D and business activities, the Company has accumulated a range of intellectual property, such as ideas, designs, trademarks, and copyright-protected works. Through the use of patents, design rights, trademark rights, copyrights, etc., we will continue to appropriately protect, manage, and utilize this intellectual property, thereby contributing to the Company's business operations.

Moreover, to maintain and enhance brand value, we are taking steps to acquire intellectual property rights in a variety of fields in countries around the world. We are also aggressively implementing countermeasures to counterfeit products.

Patents

To differentiate itself from its competitors, gain a business advantage, ensure greater business flexibility, and enable licensing to third parties, Yamaha has formulated patent strategies tailored to its operations in specific business segments. These strategies include establishing target technical fields for patent acquisition, such as core technologies, new businesses, and new technologies, and building a strong patent portfolio by identifying and focusing on its core competencies.

As of March 31, 2018, the Yamaha Group had a total of approximately 4,000 patents in Japan. Outside of Japan, the Group also held a total of roughly 4,000 patents, mainly in the United States, Europe, and China.

Trademark Rights

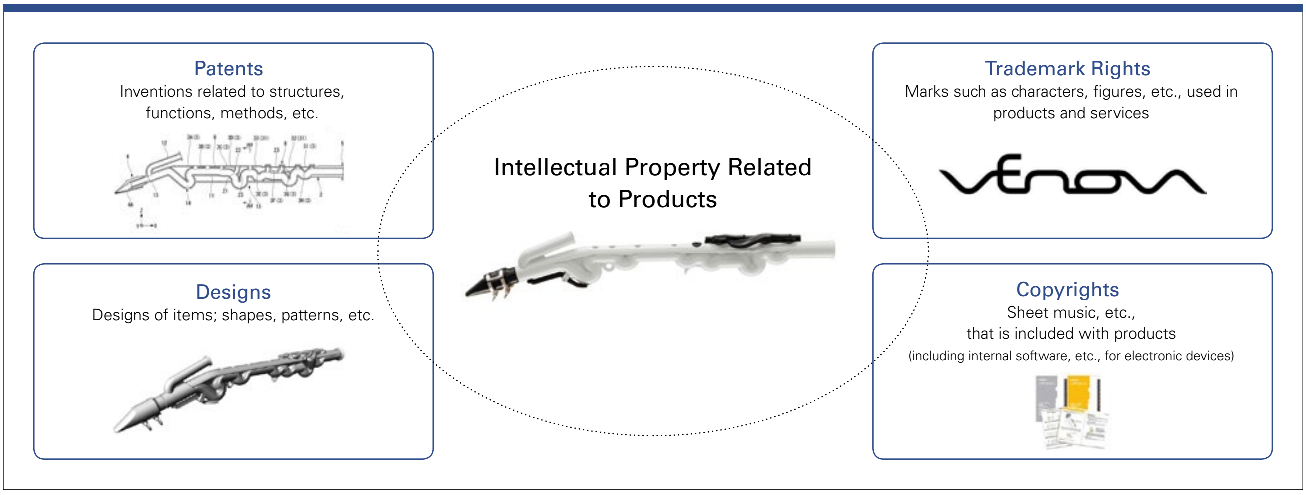
In 1986, Yamaha formulated management regulations for the Yamaha brand, and we have established Companywide management organizations (committees). We are working to sustain and enhance brand value by taking steps to realize the proper use of trademarks. As one part of those efforts, Yamaha has widely trademarked its brand in almost every part of the world. Furthermore, for product and service brands, which are positioned as sub-brands, the Company works to appropriately conduct preliminary investigations into product and service names and to acquire trademarks.

Designs

Yamaha views design as a critical element in setting its products apart from other offerings in the market, and consequently the Company makes every effort to properly safeguard and utilize these assets. As one part of those initiatives, Yamaha has strengthened its efforts to acquire design rights in countries and regions where there are frequent issues with counterfeit products. As of March 31, 2018, the Yamaha Group held a total of approximately 1,170 design rights, roughly 400 in Japan and 770 overseas.

Copyrights

In addition to industrial property rights, such as patents, designs, and trademarks, the Yamaha Group produces numerous copyright-protected works, primarily in the fields of sound and music. Music-related copyrights are of particular importance to Yamaha in terms of its overall intellectual property policy. The Company takes steps to ensure their proper management and use, including undertaking legal action when necessary.



Anti-Counterfeiting Measures

In recent years, the number of cases of unauthorized third parties manufacturing and selling products under the Yamaha brand or reproducing counterfeit Yamaha product designs has been increasing. In response, we are taking steps to eliminate economic disadvantages and secure safety for consumers, and in turn to maintain trust in the Yamaha brand. To that end, we continue to monitor the use of intellectual property rights and implement aggressive countermeasures through administrative and legal routes. At the same time, we are also focusing on countermeasures to prevent counterfeit product sales through the Internet and social media. Going forward, Yamaha will implement aggressive legal measures, including lawsuits, to protect the Company's brands, consumer trust in the Yamaha brand, and the Company's businesses.

Design

Design is extremely important to a company that engages in business domains that center on sound and music. Accordingly, Yamaha has established the Design Laboratory, which serves as a specialized organization. The Design Laboratory contributes to the realization of products and services that exceed customer expectations. In addition, the laboratory supports Yamaha's growth by enhancing brand value from a design-based perspective, helping the Company win multiple design awards that are globally significant.

The Five Elements of Our Design Philosophy

INTEGRITY: Design that respects the essence of the object

The moment a design transforms something that seems outrageous into something that makes perfect sense is when the design captures the true essence of an object. Design with integrity cannot be achieved without a deep understanding of tools, culture, and people, as well as one's own unique perspective.

INNOVATIVE: Creative design

Traditional tools such as musical instruments that are deeply rooted in culture and possess a long history tend to evolve at a conservative pace. However, even traditional objects may have seemed outrageous when they were first created. Respecting and maintaining tradition also means constantly exploring new possibilities.

AESTHETIC: Beautiful design

Beauty is an extremely important element in design. We therefore pursue beauty from all perspectives, including the beauty of handcrafted objects or a more modern beauty; a sense of presence that inspires the musician; beauty that captivates the audience; an elegant presence in space; a harmony of materials; the rhythm of form; passion and silence; line and surface; and color, mass, and weight.

UNOBTRUSIVE: Restrained design

The player is always the main actor in a performance, and we believe that excessively conspicuous designs have no place in musical instruments. This is because a musical instrument is an imperfect tool that is only perfected through the power of human creativity; an object that is incomplete, yet lies just short of completion. A design that never grows old even after long years of use—that is the sort of design we pursue.

SOCIAL RESPONSIBILITY: Design that meets the needs of today's society

Something that grows in value the more it is used, or a tool that grows into your indispensable companion through long years of use—that is the kind of design we strive to achieve. At Yamaha, we believe design should help create a society where people with a diversity of values recognize each other's individuality and work together under the idea of "Sharing Passion & Performance."

NS-5000 Premium Bookshelf Speaker

The NS-5000 is a Hi-Fi bookshelf speaker crafted with the mindset of a master craftsman shaping a musical instrument. The speaker was created based on the idea of "feel the emotion and joy of a performance just as it is, with a new speaker that achieves the ideal in Hi-Fi playback." Rather than being satisfied with an industrial item, we created the NS-5000 based on an awareness that it would require the delicate subtlety of a product that performs music.

iF Design Award 2018 (Germany)
GOOD DESIGN AWARD 2016 (Japan)

Genos™ Digital Workstation

Genos™ is a new series of digital workstations in the category of ultimate performance keyboards. It is also the successor to the Tyros series of digital workstations, which belongs to the same category and has been rolled out primarily in Europe and the Americas. The functional control panel design of the Genos™ digital workstation is elegantly contrasted with the smooth and dynamic shape of the workstation's back and underside, which face the audience, and this shape is reminiscent of the body of an aircraft. In addition, the upper and lower casings of the Genos™ digital workstation have a bold color contrast. This color contrast between black and off-white takes on a curved shape, making the Genos™ digital workstation highly distinctive.

iF Design Award 2018 and iF Gold Award (Germany)
Red Dot Design Award 2018 (Germany)

Fully Leveraging the Power of Design to Support Yamaha's Growth

Venova™ Casual Wind Instrument

As indicated by its name—combining "Ventus," Latin for wind, and "Nova," Latin for new—the Venova™ is a new kind of wind instrument that allows players to enjoy the genuine expressive sound of a wind instrument such as a saxophone using simple fingering, similar to the way a recorder is played. Based on the concept of exemplifying the qualities of an acoustic instrument, the design of the Venova™ captures the essence of a wind instrument while also being innovative.

Good Design Grand Award 2017
JIDA Design Museum Selection 2017

RIVAGE™ PM10 Digital Mixing System

Intended to replace the PM1D which has helped lead the way for promoting the widespread use of digital live performance consoles around the world, the RIVAGE™ PM10 is our flagship console. Designed under the key concept of "innovative design for the next standard," the RIVAGE™ PM10 balances outstanding functionality with an attractive appearance that allows sound engineers to control the acoustics at live venues in a more reliable and comfortable manner and with higher levels of quality.

SX Series of Grand Pianos

The SX series of grand pianos evolves and modernizes the appearance of Yamaha's S series in the pursuit of simplicity while inheriting the traditional characteristics of grand pianos. Modeled under the concept of "soaring vertical curves," the SX series features controlled, gentle curves in areas ranging from the legs and the keybed arms to the music stand and pedal support, taking on a form that is both elegant and reliable.

III. Foundation for Growth

Contents


Resonated Yamaha

Sustainability

The Yamaha Group is guided by its corporate philosophy: "With our unique expertise and sensibilities, gained from our devotion to sound and music, we are committed to creating excitement and cultural inspiration together with people around the world." To put this philosophy into practice, Yamaha is working to understand the impact of its business activities on the environment and society and to pursue dialogue with stakeholders, while solving challenges to help create a sustainable society.

Yamaha Group Sustainability Policy

Our aim is "Sharing Passion & Performance"

The Corporate Philosophy of the Yamaha Group is, "With our unique expertise and sensibilities, gained from our devotion to sound and music, we are committed to creating excitement and cultural inspiration together with people around the world."

Based on the Corporate Philosophy, Yamaha conducts its sustainability activities according to the following guidelines, seeking to contribute to the sustainable development of society and to further strengthen the bond of trust with its stakeholders through sound, transparent management methods, and corporate activities that balance social and environmental concerns.

1. By creating new values through products and services focused on social and environmental issues, Yamaha contributes to the sustainable development of society.
2. Through business development and social contributions based in each region of the globe, Yamaha contributes to the promotion and popularization of music, and to the development of communities.
3. By understanding the significance of protecting the natural environment and maintaining biodiversity, and by promoting the reduction of environmental burden through measures such as sustainable procurement of timber and lowering greenhouse gas emissions, Yamaha works to maintain a healthy global environment.
4. Yamaha observes laws, ordinances, and social norms, and moreover, conducts business in a fair and impartial manner throughout the entire value chain, including activities such as socially responsible procurement carried out in cooperation with business partners.
5. Yamaha endeavors to prevent abuses of human rights, responding appropriately to the effect of its business activities as well as to any attendant risks to human rights, with the goal of achieving a society that safeguards the dignity of all.
6. Yamaha works to create an atmosphere that holds in high regard the employee diversity that is a source of the new values created within the company, and which allows each person to fully demonstrate their sensibilities and creativity through training and use, without regard to race, nationality, gender, or age.

Formulated in February 2010 and revised in July 2018

Sustainability Management

By offering products and services and implementing business processes and corporate activities in local communities, the Yamaha Group continues to address a variety of sustainability issues while engaging in dialogue with stakeholders. To manage the promotion, planning, and progress of our initiatives, we utilize the ISO 26000 standard, which provides international guidance related to social responsibility.

Establishment of Sustainability Priorities

Taking into account the influence of our business activities on the environment and society, as well as the expectations of stakeholders and social requirements, we have formulated sustainability priorities and are implementing initiatives to address those themes (see page 50). In selecting themes, we made sure that we understood the opinions of our customers, the local communities in which we work, NPOs and NGOs, our employees, and others, as well as the priority items in ESG evaluations. We also listened to external experts. In these ways, we identified the themes that required further promotion. With consideration of our medium- and long-term management strategies, senior executives discussed and made decisions about the themes. We are working to manage progress and promotion by monitoring the implementation plans and initiatives for each theme and by conducting reviews in the Managing Council, which is overseen by the president and representative executive officer.

Participation in the UN Global Compact

With a commitment to cooperating and forming ties with global society as we work toward building a sustainable society, Yamaha signed the Global Compact in June 2011, and is working to adhere to the 10 Principles, which cover the four areas of human rights, labor, the environment, and anti-corruption. In addition, as a member of the Global Compact Network Japan, we are also actively participating in subcommittees.

Initiatives for Sustainable Development Goals (SDGs)

Through its business activities, the Yamaha Group intends to contribute to the attainment of the Sustainable Development Goals (SDGs), which have been established as common global goals. Moving forward, Yamaha will work to implement product and service development and business process improvement with an awareness of the goals and targets for each SDG. These efforts will reflect our sustainability priorities, such as music promotion activities to address Goal 4, "Quality Education," and sustainable procurement of timber to address Goal 12, "Responsible Consumption and Production" and Goal 15, "Life on Land."

In fiscal 2018, to ensure that each person at the Yamaha Group linked the SDGs to their own work, we took steps to deepen understanding of the SDGs, such as through the use of our Intranet, Group newsletter, posters, and in-house seminars. We are working to link our businesses and the sustainability-related themes that we are implementing with the SDG goals and targets. In addition, with the aim of realizing our management vision of "becoming an indispensable, brilliantly individual company," senior executives are discussing further contributions to the SDGs under the next medium-term management plan.

SDGs educational poster

Progress of Sustainability Priorities

Sustainability Priorities	Major Initiatives	Progress	Future Issues and Activity Targets	Major related SDGs
Development of products and services with a focus on social/environmental issues	Response to social issues	**Universal design** • Established a consortium with the aim of promoting universal design in the sound field (*Omotenashi* Guide) **Educational solutions** • Developed and released a variety of educational materials using PC and tablet for alto recorder, chorus, etc. (Smart Education System; SES) **Health/safety solutions** • Developed in-vehicle communication modules for emergency call systems	**Universal design** • Advancing consortium member support and technical standardization • Formulating systems and standards for the promotion of universal design for Yamaha products **Educational solutions** • Considering comprehensive solutions for next-generation music education **Health/safety solutions** • Starting market supply of in-vehicle communication modules, expanding suppliers	3 GOOD HEALTH AND WELL-BEING 4 QUALITY EDUCATION 10 REDUCED INEQUALITIES 11 SUSTAINABLE CITIES AND COMMUNITIES
	Response to environmental issues	• Certified 16 models of Yamaha Eco-Products*1 (cumulative total of 320 models) • Developed and established production system of thermoelectric power generation modules that can use waste heat	• Yamaha Eco-Products*1 certification: 40 models/year • Verifying market provision of thermoelectric power generation modules	7 AFFORDABLE AND CLEAN ENERGY 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION
Development of regional community-based business and social contribution activities	Extending instrumental music education to schools	• Southeast Asia/Russia (School Project): Implemented classes for a total of 124,000 students at 933 schools in 4 countries • Africa/Middle East: Implemented classes for 3,300 students at 33 schools in 5 countries	• Southeast Asia/Russia (School Project): Implementing classes for a total of 240,000 students at 1,350 schools in 5 countries • Africa/Middle East: Implementing classes for 7,000 students at 60 schools in 8 countries	4 QUALITY EDUCATION
	Supporting youth development orchestras and bands	• Latin America (AMIGO Project): Held musical instrument maintenance seminars; systematized and rolled out wind, string, and percussion instrument repair technicians development program	• Latin America (AMIGO Project): Expanding target countries and organizations	4 QUALITY EDUCATION 8 DECENT WORK AND ECONOMIC GROWTH 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
	Community support	• Promoted Creating Community through Music (*Oto-Machi*) project	• Bolstering promotion of *Oto-Machi* project	11 SUSTAINABLE CITIES AND COMMUNITIES
Lowering of greenhouse gas emissions	Building system for calculating greenhouse gas emissions throughout the value chain	• Calculated and disclosed scope 3 greenhouse gas emissions	• Third-party verification of greenhouse gas emissions	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
	Reducing greenhouse gas emissions from business activities	• Studied establishment of medium- to long-term reduction targets in conformity with scientific knowledge (SBT)	• Establishing SBT and emissions reduction measures	
Sustainable procurement of timber	Avoiding illegally logged timber, expanding use of certified timber	• Established due diligence procedures to avoid illegally logged timber • Confirmed legality in tree logging (including on-site investigation)	• Implementing due diligence and enhancing procedures • Implementing 100% legality based on in-house standards	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 15 LIFE ON LAND
	Timber procurement with consideration for sustainable forest conservation	• Completed survey in Tanzania for production of high-quality materials, started forestation pilot project (African Blackwood)	• Reflecting survey results, expanding forestation project, starting procurement (African Blackwood)	
Systematic initiatives for the respect of human rights	Establishing systems and frameworks	• Formulated Yamaha Group Human Rights Policy in January 2018 • Promoted human rights due diligence (established items to be managed)	• Promoting education based on human rights policy • Promoting human rights due diligence (monitoring of items to be managed)	8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES
	Supply chain management	• Requested and implemented self-assessment for 79 supplier companies at the start of transactions	• Increasing effectiveness through improvement of supplier assessment framework • Promoting education for people in charge of procurement and suppliers	
Promotion of diversity and human resources development	Global human resources management	• Established Group standard grading and fostering system, implemented on a trial basis	• Promoting human resources management based on Group standard grading and fostering system	5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES
	Assisting women's careers, addressing diverse working styles	• Enhanced the work-life balance support system, implemented trials of work-style improvement, started female managerial candidate selection and development program • Ratio of female managers, end of March 2018, Group (domestic and overseas combined): 14.3%	• Promoting use of work-life balance support system and identifying needs for enhancement, sharing results of work-style improvement trials and confirming issues, promoting female managerial candidate selection and development program and implementing Groupwide • Ratio of female managers, Group (domestic and overseas combined): 17%	

*1. Yamaha Eco-Products are evaluated as the environmentally friendly products that meet the standards of the Yamaha Eco-Products Program.

Specific Examples of Initiatives

Initiatives for the Environment

The Yamaha Group considers measures to address environmental problems to be an important management issue. Based on the Yamaha Group Environmental Policy, we are working to reduce the environmental burden from our business activities.

We use a variety of wood in our business activities, and accordingly we are working to implement rigorous confirmation of the sustainability and legality of the timber that we procure in order to better conserve this precious resource as well as ensure its availability for continued use. In addition, in Tanzania we are implementing a project to build a business model for the sustainable use of timber for musical instruments (see page 35). Regarding climate change countermeasures, we are taking steps to reduce greenhouse gas emissions, such as implementing a wide range of energy-saving measures and fuel-changing initiatives at production sites. Emissions are managed in accordance with the GHG Protocol*1, and from fiscal 2017 we commenced calculation and management for the entire value chain (scope 3). For scope 1 and scope 2 greenhouse gas emissions, we have formulated a medium- to long-term reduction plan using industry-specific calculation rules under the SBT*2 international initiative.

We launched the Yamaha Eco-Products Program to promote the creation of environmentally friendly products. A Yamaha Eco-Label is affixed to those products that are certified as meeting our own original standards for environmentally friendly products. Through this process, we aim to provide easy-to-understand environmental information to customers and to support them when they are selecting a product. As of the end of March 2018, the number of certified models was 320.

*1. GHG Protocol: International standard for the calculation and reporting of greenhouse gas emissions
*2. SBT (Science Based Targets): Greenhouse gas emissions reduction targets established in line with scientific knowledge, for the achievement of the 2 degree Celsius target determined in the Paris Agreement at COP 21 (United Nations Framework Convention on Climate Change).

Yamaha Eco-Label

Example of certified products
AV Receiver RX-V585
Reason for certification: reduction of network-standby power consumption

Initiatives for Human Rights

In accordance with the UN's "Guiding Principles on Business and Human Rights," we are working to rigorously observe international standards related to human rights, such as the International Bill of Human Rights and the United Nations Global Compact. In order to identify the effects on human rights of our own activities and to respond appropriately, we take such steps as engaging in dialogue and communication with stakeholders, implementing supplier personnel assessments, and establishing and operating help lines.

In fiscal 2018, we formulated the Yamaha Group Human Rights Policy, which expresses the Group's approach and responsibilities in regard to respect for human rights. In addition, based on this policy and international standards, we established items to be managed in the area of human rights due diligence. Moving forward, we will establish a framework for the monitoring of items to be managed and advance measures to prevent human rights violations and address risks.

Human Resources

Yamaha is working to establish an environment that allows the people who work together to fully demonstrate their sensibilities and creativity. To that end, we are demonstrating respect for the diversity of our human resources, promoting work-life balance through labor-management communications, and implementing a variety of human resources training programs.

Basic Policy

Yamaha considers human resources to be the source of corporate value creation. Accordingly, we strive to leverage the diversity of our human resources, which includes such employment-related factors as age, gender, nationality, and lifestyles that involve time constraints due to childcare or nursing care responsibilities. We believe that this approach will help reinforce the Company's competitiveness and lead to further growth and development.

In addition to ensuring fairness in the Company's hiring and employment, Yamaha also strives to see that all employees are able to demonstrate their abilities to the fullest and develop professionally while working toward self-fulfillment, without regard to age, gender, nationality, etc. At the same time, the Company has established human resources development programs to help employees grow as professionals. In these ways, Yamaha is working to create a pleasant work environment supported by active dialogue with its employees.

Focus Policies

- Promotion of Diversity
- Human Resources Development
- Promotion of Work-Life Balance

Fiscal 2018 Results and Issues

Promotion of Diversity

As one facet of diversity management, we are advancing the creation of work environments that support active careers for women, and we are aggressively advancing initiatives to increase the ratio of female managers. For example, we are taking steps to expand career opportunities for women, such as establishing a work-life balance support system and implementing a program to select and develop female managerial candidates.

In addition, as a company engaged in global business operations, we are focusing on our global human resources development. In order to enhance the roles of diverse personnel regardless of nationality, we will strive to establish key positions and identify the core talent in each region. At the same time, the Company will promote fair evaluations and development based on the use of unified standards that extend across countries and organizations as well as the cross-border deployment of human resources.

Human Resources Development

In accordance with the concept of supporting people who work with motivation, strive to fulfill their roles, and always aim one step ahead, the Group works to create education and training programs that are equally focused on skill improvement and career development as the basis for nurturing human resources that can act globally. Our human resources training programs

Human Resources Development Programs (Yamaha Corporation)

Program	Targets / Details	Annual Number of Participants	Training Hours per Employee	Total Number of Lecture Attendees
Stratified Training	Enhancement of skills of employees in accordance with their respective career turning points	400	15 to 30 hours a year	2,000 (most recent 5 years)
Senior Specialist Institute	Cultivation of human resources (production base managers, supervisors, etc.) involved in production management	15	50 days a year	89
Yamaha Sales Company Executive College	Cultivation of human resources (sales office directors and managers, etc.) involved in sales management	8	12 days a year	17 (most recent 2 years)
Yamaha Advanced Skill School	Cultivation of managers at domestic Group production plants	16	260 hours	716
Yamaha Technology Training Center	Cultivation of human resources at domestic Group production plants	30	230 hours	1,530
From–To Program	Passing down core technologies relating to musical instrument manufacturing	12	—	512
Function-Specific Training	International training, core technology training (signal processing, acoustic vibration engineering, materials engineering, quality engineering), etc.	International training: 269	20 hours	1,209 (most recent 5 years)
		Core technology training: 196	24 hours	1,241 (most recent 5 years)
Overseas/Language study	Studying abroad to acquire and improve foreign language skills	3	14 months	32
Yamaha Business School	Supporting autonomous learning by employees (training by correspondence)	257	Autonomous learning	1,600 (most recent 5 years)
English-Language Learning Method Seminars	In-house seminars by outside lecturers	700	4 hours	700
Female Selective Development Program	Training for female employees who are managerial candidates, including mindset training and development plan formulation skill training for supervisors	42	7 hours	42

Note: Total annual training hours related to human resources development: Approximately 1,500 hours per person, total of approximately 39,000 hours (multiplied by person)
(Scope: Yamaha Corporation)

are tailored to specific objectives and groups of employees. In tandem with these initiatives, the Group also supports employees' autonomous learning projects and lifestyle design activities.

In production divisions, we are promoting the development of human resources who support manufacturing so that we can maintain and enhance "Made in Yamaha" quality. Positioning each plant in Japan as a manufacturing base for high-value-added products, we are focusing on the development of manufacturing technologies that are highly competitive in global markets, while ensuring that the core skills required to manufacture musical instruments are passed on. Plants in China and Indonesia are designated as key manufacturing bases for moderately-priced products, and we dispatch many technicians and supervisors from Japan to provide support and guidance at these sites. In these ways, we are working to achieve further increases in quality and productivity.

Promotion of Work-Life Balance

The Company is actively taking steps to promote employees' work-life balance. These include establishing the Work-Life Balance (WLB) Promotion Committee, which is jointly run by the labor union and management; striving to shorten overall working hours; and creating and improving support systems for work-life balance.

Yamaha Corporation is implementing measures to reduce total working hours and prevent excessive work. These include the introduction of a flexible working hour system; an "All Go Home at the Same Time Day" program, which encourages all employees to leave work on time; and programs to urge employees to fully use their paid leave days. In these ways, we are promoting awareness and building frameworks for self-directed, highly productive work styles. In fiscal 2018, we implemented trials of work-style improvements with the participation of worksites on a voluntary basis. Managers took the lead in promoting these trials, and together with team members who support the work-style improvements vision, each team established themes and implemented activities to work toward the realization of the vision.

External Evaluations

Acquisition of "Platinum *Kurumin*" Certification

Yamaha Corporation has formulated and carried out an action plan in accordance with the Act for Measures to Support the Development of the Next Generation. On that basis, we have advanced initiatives such as extending the childcare leave period and introducing mandatory paid leave. As a result, we acquired "*Kurumin**" certification in 2008 and 2014. Subsequently, we took additional steps, such as encouraging men to take paternity leave, shortening working hours, etc., and we acquired "Platinum *Kurumin**" certification in 2016.

* A Ministry of Health, Labour and Welfare system for certifying companies that provide support for developing future generations. Company action plans are reviewed in accordance with the Act for Measures to Support the Development of the Next Generation. Certified companies are allowed to carry the "*Kurumin*" mark. "Platinum *Kurumin*" is a system that certifies, among the companies that have acquired the *Kurumin* mark, companies that conduct initiatives to support work-life balance at or above a specific standard.

Craftsmanship that Creates the Finest Sound

The CFX is the pinnacle of Yamaha pianos. Drawing on all of the know-how, skills, and experience cultivated over more than a century, the CFX Yamaha concert grand piano is the culmination of our efforts in pursuit of the ideal sound. The concert grand piano is itself called a work of art, and the reason is that each individual piano is meticulously created by the hands of master craftsmen, without relying on machines. These craftsmen work each day to enhance the skills and know-how that have been passed down to them, and to ensure that those skills and know-how are in turn passed on to the next generation, from hand to hand.

Craftsmanship

The Capabilities of Our Human Resources

Supporting Yamaha's Growth by Fully Leveraging the Capabilities of Individuals

Yamaha believes that the strengths of "individuals" support growth for the Company and enhance its brand.
At each worksite, diverse employees strive to master skills and specialized knowledge, to demonstrate their potential, and to create unique Yamaha value.

Design

Designs that Support the Yamaha Brand

The designs of major Yamaha products are created by our in-house designers. Musical instruments reflect deep cultural ties and long histories, and in designing these instruments it is necessary to respect and carry on the traditional forms that have been established over time while also continuously taking on the challenge of exploring new possibilities.

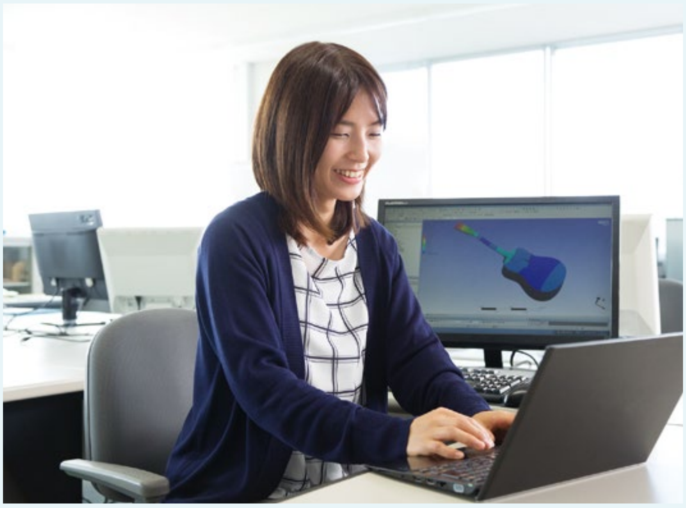
Yamaha products are created through a process that marshals the ideas of our designers, who offer tremendous individuality. We believe that we can further enhance the Yamaha brand by pursuing designs that are easy to use, beautiful, and innovative and by creating products that are treasured for long periods of time. Yamaha products have received a wide range of globally authoritative design awards. These products are supported by our designers, who share common design policies.

Music Promotion Activities with Close Ties to Local Communities

Around the world, there are regions where instrumental music education is not yet a part of school-based educational programs. Some children have never had access to musical instruments. Through the "School Project" program, Yamaha is working to offer those children the chance to experience the joy of playing musical instruments and to support their development.

Yamaha has worked to help enrich the development of children through music education. To that end, we have developed music education business operations, including the Yamaha Music School, which has a history of more than 60 years. Based on that corporate DNA, our employees have a strong commitment to contributing to the development of a society in which more people can experience and widely share the joy and delight of music. Moving forward, these employees will strive to contribute to the creation of musical culture throughout the world in a variety of forms.

Education



Research and Development in Pursuit of Superior Sound

Over its long history of manufacturing acoustic instruments, Yamaha has cultivated a broad array of original technologies, guided by the expertise passed on from generation to generation and our keen sensitivity about sound creation. In addition, in the field of digital instruments and audio equipment, Yamaha has developed groundbreaking electronics technology.

By leveraging and fusing these technologies, our technicians, who possess abundant expertise in a variety of fields, work each day to pursue new value that is unique to Yamaha.

R&D

Dialogue between the President and an Outside Director

Promoting Efforts to Improve Corporate Value through Innovative and Effective Corporate Governance Structure

Throughout its long history, Yamaha has continuously pursued the ideal structure for corporate governance to meet the needs of the times and improve its corporate value in the future.
In this section, outside director Yoshimi Nakajima and Yamaha president and representative executive officer Takuya Nakata look back on how the Company's corporate governance structure has transitioned thus far and exchange opinions regarding governance-related initiatives going forward.

Yoshimi Nakajima
Outside Director

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Takuya Nakata
Director, President and Representative Executive Officer

Transitioning to a Company with Three Committees (Nominating, Audit, and Compensation) and Introducing a New Role for Executive Officers

In June 2017, Yamaha significantly revised its governance structure. Could you please explain the events leading up to this transition and the aim behind it?

Nakata: To make a clear separation between the oversight and execution of management, thereby strengthening management oversight functions and accelerating management execution, the Company transitioned from a Company with a Board of Auditors to a Company with Three Committees (Nominating, Audit, and Compensation) after receiving approval at the Ordinary General Shareholders' Meeting held in June 2017. By establishing a highly transparent organizational structure with a legally designated Nominating Committee, Audit Committee, and Compensation Committee, we aim to further strengthen our overall corporate governance and realize continuous improvement in corporate value.

We have held numerous internal discussions and implemented various initiatives related to governance, not limited to the transition we recently carried out. For example, to further enhance debate at Board of Directors' meetings, which have a tendency to focus too heavily on internal affairs, we have been inviting outside directors to join the Board since the early 2000s. In addition, even during our time as a company with a board of auditors, we had in place the Corporate Directors Personnel Committee, which functioned as a voluntary Nomination and Compensation Committee. Through efforts such as these, we have been actively incorporating frameworks to enhance the transparency of management.

In addition, following this transition, we newly established the executive officer role. Acting as an official function under the Companies Act, the executive officers now bear direct responsibility for the shareholders. Under this new role, executive officers have been delegated major authority from the Board of Directors to oversee important decision making pertaining to business execution. With this new executive officer role, we will strengthen the oversight function of the Board of Directors while working to accelerate business execution. By having their role and responsibilities made clear, I feel that the executive officers are steadily increasing their awareness toward being proactive in reaching an agreement through the decision-making process and approaching this process with a high level of responsibility.

Nakajima: This is my first time assuming a role as a director at a company that adopts a three committee structure. The transition to this structure is the result of numerous discussions that took into account the approach the Company has taken toward corporate governance thus far. I strongly feel that with this transition, the Company has developed an attitude and awareness toward enhancing the effectiveness of its governance to a level higher than ever before with the aim of realizing corporate value improvement for the next 100 to 200 years. This is the second year for the Company under this new organizational structure, and looking back on the previous year, I feel that the Board of Directors has carried out effective oversight of the executive side and that each committee has been sufficiently leveraging the expertise of its members. Accordingly, I believe Yamaha is off to a solid start. Moving forward, while continuing to make evaluations on various aspects, I hope that Yamaha can continue to pursue its aim of strengthening corporate governance and improve corporate value.

Additionally, I have gotten a sense of the advanced nature of the Board's management, which I believe functions better than many other companies. To give you an example, the Company has enhanced the sharing of information by digitizing various documents. While digitalization itself is nothing extraordinary, Yamaha's case is unique in that agenda items of the Board are disclosed in a timely and appropriate fashion, allowing the outside directors to view and confirm these agenda items at the same time as the full-time directors. In addition to enhancing the Board's effectiveness, this enables the timely sharing of information with the outside directors and provides us with a means for gaining a sense of the intricate connections within the Company. I therefore give Yamaha a very high evaluation for enacting this system of sharing information digitally without any time lag.

Nakata: In addition to the tendency for Board discussions to become too internally focused, the amount of time needed to execute business has also been an issue for the Board of Directors. As we expand our business globally, delays in responding to the rapidly changing business environment can have serious adverse impacts. To address this issue, we established a system where the details of discussions at meetings of the Managing Council, which are held separately from the Board of Directors, are shared between both inside and outside directors, thereby strengthening the functions for monitoring business execution. Going forward, we intend to regularly revise this system to enhance its overall effectiveness.

As Ms. Nakajima has said, by leveraging recent technologies in the sharing of information, we have been able to deepen the discussions at Board of Directors' meetings and further reduce the time it takes to make decisions. In addition, for items that were previously decided by the Board of Directors but are now decided by the executive officers via the recent transfer of authority, the executive officers report such items to the Board of Directors, which allows the Board to secure its oversight function regarding business execution.

I strongly feel that the Company has developed an attitude and awareness toward enhancing the effectiveness of its governance to a level higher than ever before with the aim of realizing corporate value improvement.

Yoshimi Nakajima
Outside Director

Nakajima: My role as an outside director is to take every opportunity I can to verify various aspects pertaining to the Company's decision making and business execution. For example, I verify whether or not the executive officers have made a decision based on a sufficient understanding and thorough examination of risks, or if the execution process is moving forward appropriately after a decision has been reached. My mission is also to provide follow-up support for risk analysis and the decision-making process. To fulfill these roles, I need to have a clear understanding of the background details, in addition to the Company's opinions on risk analysis results and the reasons behind the judgments it has made. Thankfully, Yamaha has an atmosphere in which I am able to ask questions and offer my opinion without reserve. Furthermore, everyone is open to hearing what I have to say and answers my questions very thoroughly, which greatly assists me in my role as an outside officer.

Realizing Corporate Management Appropriate for the Next Stage of Growth as a Global Company

The Company has decided to introduce a new system for officer compensation. What kind of impact will this system have?

Nakajima: In conjunction with the change in organizational structure, the Company introduced a restricted stock compensation system* in which Company shares are transferred to officers on the condition that management targets are achieved. In actuality, very few companies in Japan have adopted this system. Accordingly, Yamaha's introduction of this system not only indicates the desire of management to align itself with the Company's shareholders and other investors, it also conveys a strong message that Yamaha is a company with leading-edge management and decision-making execution capabilities. I have spent many years working at foreign-owned companies where shareholder value is consistently held in high regard. So from my perspective, I believe that the management of Yamaha, starting with President Nakata, has a clear understanding and positive approach toward constructive dialogue with capital markets.

Nakata: The introduction of restricted stock compensation is the result of our consistent desire to further underscore the responsibility of corporate officers to improve shareholder value while boosting the motivation of management to commit to the Company's future. Leading up to the introduction of this compensation system, we held countless discussions on the ideal system for officer compensation.

Yamaha has a long and rich history. Throughout this history, we have been a company that has often made unprecedented accomplishments and pursued innovations even from the perspective of management. These accomplishments are not limited to restricted stock compensation. For example, at one time, we were the first company in Japan to issue shares at market price. While the main aim of our organizational structure change was

* Introduction of Restricted Stock Compensation
As part of its efforts to strengthen the corporate governance of corporations with the aim of improving profitability and enhancing corporate value over the medium to long term, the Ministry of Economy, Trade and Industry published the "Guidebook for Introducing Incentive Plans for Sustainable Corporate Growth as Board Members' Compensation to Encourage Companies to Promote Proactive Business Management" in April 2017. Prior to the publication of this guidebook, Yamaha had been holding repeated discussions on introducing an incentive plan. In order to promote management from the shareholders' perspective and improve corporate value over the medium to long term, Yamaha introduced the restricted stock compensation system in conjunction with the transition to a company with three committees.

to allow us to focus better on the Company's future, we also had an aim to transform our management style on our own initiative to achieve further growth and convey to our stakeholders, both inside and outside the Company, our desire to boldly pursue new challenges.

Nakajima: Yamaha has over 100 years of history as a Japanese-based global company. This history also includes Yamaha's concerted efforts to thoroughly understand people's emotions and feelings so that it can deliver excitement around the world that is deeply rooted in local cultures. Through such efforts, Yamaha has fostered a corporate culture that embraces diversity and encourages both an understanding and true enjoyment of the unique cultures and customs of each country and region. Furthermore, I feel that another attractive element of the Company's culture is its active stance on embracing new things, rather than being passive about them.

Going forward, I believe an issue for management will be to see if the Company can use its innovative DNA and diversity-loving culture as a foundation for swiftly investing management resources in seeds for future growth drivers, while also adhering to strict financial discipline.

Nakata: Music is something that intricately reflects the culture of a country or region, and our businesses cannot exist without an understanding of that culture. We are a company that offers excitement to the world through our businesses and, as such, we have naturally been focusing our efforts on creating social value long before such matters as ESG and the SDGs became popular topics. As we move forward, we will maintain an awareness of not only understanding a culture but also considering how we can contribute to the progression of that culture through our business. In doing so, we will provide our customers with even more attractive products and services.

Thanks to the support of our customers, we have already achieved a very high level of brand recognition. To raise this level even further, we will formulate strategic measures for providing appealing products and services that better satisfy our customers. As an example of such measures, we are pursuing collaborative efforts to enhance brand value with Yamaha Motor Company, a company that shares the same name as ours and also places passion at the center of its corporate philosophy. Under the slogan of "Two Yamahas, One Passion," we have established a joint Brand Committee with Yamaha Motor and have been promoting various projects related to such matters as product design. For example, we are working to generate synergistic effects between our two brands in such ways as promoting our brands to consumers in emerging countries, who are already well aware of the Yamaha Motor brand. By doing so, we will realize the mutual enhancement of corporate value.

Nakajima: ESG and the SDGs have given rise to more opportunities to pursue sustainability. Accordingly, the efforts that Yamaha has engaged in thus far have become more prominent. In addition, by thoroughly analyzing various social issues, ESG and the SDGs have shed light on issues that need to be addressed. I therefore believe that ESG and the SDGs are providing Yamaha, a company whose source of growth is social value creation, with favorable conditions to pursue efforts to further enhance its corporate value.

Nakata: In April 2018, we established the Brand Development Unit. The establishment of this division has helped us renew our approach to systematically enhance brand value with the aim of establishing and implementing Companywide brand and marketing strategies. While the results of our approach may take some time to appear, we would like to ask our stakeholders to look forward in anticipation to the progress we will make in the future.

Recently, innovation has been progressing at a remarkable pace, making it possible to accomplish tasks that took ten years in the past in the period of just one to two years. While it will not be easy, we will strive to not just keep up with the pace of change but actually lead that pace. With this ambition, we will aim to simultaneously enhance our corporate value and create social value going forward.

Giving consideration to how we can contribute to the progression of culture through our business, we will provide our customers with even more attractive products and services.

Takuya Nakata
Director, President and Representative Executive Officer

Directors (As of June 26, 2018)

Takuya Nakata
Director, President and Representative Executive Officer

1981	Joined the Company
2005	General Manager of Pro Audio & Digital Musical Instruments Division
2006	Executive Officer
2009	Director and Executive Officer
2010	President and Director of Yamaha Corporation of America Senior Executive Officer of the Company
2013	President and Representative Director
2014	Director of Yamaha Motor Co., Ltd. (Outside Director) (to the present)
2015	President of Yamaha Music Foundation (to the present)
2017	Director, President and Representative Executive Officer (to the present)

Satoshi Yamahata
Director and Managing Executive Officer

1988	Joined the Company
2009	General Manager of Accounting and Finance Division
2013	Executive Officer and General Manager of Corporate Planning Division
2015	Executive General Manager of Operations Unit (to the present) Director and Senior Executive Officer
2016	Executive General Manager of Corporate Management Unit (to the present)
2017	Director and Managing Executive Officer (to the present)

Masahito Hosoi
Director

1978	Joined the Company
2005	General Manager of Human Resources Division
2009	Executive Officer
2013	Senior Executive Officer and Executive General Manager of Corporate Administration Unit
2014	Full-Time Corporate Auditor
2017	Director (to the present)

Shigeru Nosaka
Outside Director

1976	Joined Marubeni Corporation
1989	Joined Apple Computer KK
1996	Joined Allergan, Inc. Joined Japan Communications Inc. as Senior Executive Officer
2002	Joined Oracle Corporation Japan, and became Director and Managing Executive Officer
2004	Director and Senior Managing Executive Officer of Oracle Corporation Japan
2005	Retired from Oracle Corporation Japan
2007	Joined again as Senior Managing Executive Officer of Oracle Corporation Japan
2008	Director and Senior Managing Executive Officer of Oracle Corporation Japan
2011	Director and Executive Vice President of Oracle Corporation Japan (to the present)
2015	Outside Director of Yamaha Corporation (to the present)

Masatoshi Ito
Outside Director

1971	Joined Ajinomoto Co., Inc.
1999	Member of the Board and General Manager of Food Products Business Unit of Ajinomoto Co., Inc.
2003	Member of the Board of Ajinomoto Co., Inc. and President of Ajinomoto Frozen Foods Co., Inc.
2006	Representative Director and Corporate Senior Vice President, and President of Food Products Company of Ajinomoto Co., Inc.
2009	Representative Director, President and Chief Executive Officer of Ajinomoto Co., Inc.
2015	Representative Director and Chairman of the Board of Ajinomoto Co., Inc. (to the present)
2016	Outside Director of Yamaha Corporation (to the present) Outside Director of Japan Airlines Co., Ltd. (to the present)

Junya Hakoda
Outside Director

1974	Joined Mitsubishi Rayon Co., Ltd.
1980	Joined Pricewaterhouse CPA Office
1983	Joined Aoyama Audit Corporation
1984	Registered as a Certified Public Accountant
2006	Representative of Arata Audit Corporation
2014	Corporate Auditor (Part-Time) of Schroder Investment Management (Japan) Limited (to the present)
2015	Outside Corporate Auditor of Yamaha Corporation Outside Director of AEON Financial Service Co., Ltd. (to the present)
2017	Outside Director of Yamaha Corporation (to the present)

Yoshimi Nakajima
Outside Director

1980	Joined The Yasuda Trust and Banking Co., Ltd. (currently Mizuho Trust & Banking Co., Ltd.)
1982	Joined AVON PRODUCTS Co., Ltd.
1997	Joined Citibank N.A. as Vice President of Consumer Banking Headquarters
2000	Joined Societe Generale Securities Japan Limited as Senior General Manager
2002	Joined American Express International, Inc., Head of Global Travelers Cheques and Prepaid Services, Japan
2011	Country Manager (President) of Singapore branch of American Express International, Inc.
2014	President and Representative Director of American Express Japan Co., Ltd.
2017	Outside Director of Yamaha Corporation (to the present) Outside Director of AEON Financial Service Co., Ltd. (to the present)
2018	Outside Director of Japan Freight Railway Company (to the present)

Taku Fukui
Outside Director

1987	Registered as an attorney Joined Kashiwagi Sogo Law Offices
2004	Professor of Keio University Law School (to the present)
2005	Outside Audit & Supervisory Board Member of Shin-Etsu Chemical Co., Ltd. (to the present)
2009	Managing Partner of Kashiwagi Sogo Law Offices (to the present)
2017	Outside Director of Yamaha Corporation (to the present)

Yoshihiro Hidaka
Outside Director

1987	Joined Yamaha Motor Co., Ltd.
2010	Vice President of Yamaha Motor Corporation, U.S.A.
2013	Executive General Manager of 3rd Business Unit, MC Business Operations of Yamaha Motor Co., Ltd.
2014	Executive Officer of Yamaha Motor Co., Ltd.
2015	Executive General Manager of 2nd Business Unit, MC Business Operations of Yamaha Motor Co., Ltd.
2016	Executive General Manager of 1st Business Unit, MC Business Operations, and General Manager of Southeast & East Asia Sales Division, 1st Business Unit, MC Business Operations of Yamaha Motor Co., Ltd.
2017	Executive General Manager of Corporate Planning & Finance Center of Yamaha Motor Co., Ltd. Senior Executive Officer and Director of Yamaha Motor Co., Ltd.
2018	President, Chief Executive Officer, and Representative Director of Yamaha Motor Co., Ltd. (to the present) Outside Director of Yamaha Corporation (to the present)

Taku Fukui
Outside Director

Masatoshi Ito
Outside Director

Shigeru Nosaka
Outside Director

Junya Hakoda
Outside Director

Yoshihiro Hidaka
Outside Director

Masahito Hosoi
Director

Satoshi Yamahata
Director and
Managing Executive Officer

Takuya Nakata
Director, President and
Representative Executive Officer

Yoshimi Nakajima
Outside Director

Reasons for Director Appointment

Name	Appointed Committee Members	Reasons for Appointment
Director, President and Representative Executive Officer Takuya Nakata	Nominating Committee Compensation Committee	In terms of both personality and insight, Mr. Nakata is extremely well suited to be a member of the Board. He has a wealth of experience and achievements, having served as General Manager of our Pro Audio & Digital Musical Instruments Division, President and Director of Yamaha Corporation of America, and Director, President and Representative Executive Officer of Yamaha Corporation. He has been appointed as a director with the expectation that he will help strengthen the supervisory function of the Board of Directors.
Director and Managing Executive Officer Satoshi Yamahata	—	In terms of both personality and insight, Mr. Yamahata is extremely well suited to be a member of the Board, with an abundance of experience and accomplishments. In addition to his work experience at an overseas subsidiary, he has served as General Manager of the Accounting and Finance Division and as General Manager of the Corporate Planning Division, and is now Executive General Manager of the Operations Unit and Executive General Manager of the Corporate Management Unit. He has been appointed as a director in the expectation that he will help strengthen the supervisory function of the Board of Directors.
Director Masahito Hosoi	Audit Committee	In terms of both personality and insight, Mr. Hosoi is extremely well suited to be a member of the Board, with a wealth of experience and a strong track record. In addition to his work experience at an overseas subsidiary, he has served as General Manager of the Human Resources Division, General Manager of the Corporate Administration Group, and as a Standing Corporate Auditor. He has been appointed as a director with the expectation that he will help strengthen the supervisory function of the Board of Directors.
Independent Outside Director Shigeru Nosaka	Nominating Committee Compensation Committee	In terms of both personality and insight, Mr. Nosaka is extremely well suited to be a member of the Board, with a proven management track record in other industries. He has been appointed as a director based on expectations that he will help strengthen the supervisory function of the Board of Directors and offer appropriate advice from an objective standpoint. With regard to independence, there are no significant transaction relationships* between the Company and Oracle Corporation Japan, where Mr. Nosaka serves as Director and Executive Vice President, and neither party is classified as a major shareholder of the other. The Company files documentation with the Tokyo Stock Exchange to establish that Mr. Nosaka is an independent director under the provisions set forth by the Tokyo Stock Exchange. * Transaction amounts between the Company and Oracle Corporation Japan are less than ¥10 million
Independent Outside Director Masatoshi Ito	Nominating Committee Compensation Committee	In terms of both personality and insight, Mr. Ito is extremely well suited to be a member of the Board, with extensive management experience in other industries. He has been appointed as a director based on expectations that he will help strengthen the supervisory function of the Board of Directors and offer appropriate advice from an objective standpoint. As for independence, there are no transaction relationships between the Company and Ajinomoto Co., Inc., where Mr. Ito serves as Representative Director and Chairman of the Board, and neither party is classified as a major shareholder of the other. The Company files documentation with the Tokyo Stock Exchange to establish that Mr. Ito is an independent director under the provisions set forth by the Tokyo Stock Exchange.
Independent Outside Director Junya Hakoda	Audit Committee	In terms of both personality and insight, Mr. Hakoda is extremely well suited to be a member of the Board, with specialist knowledge and experience developed through his history of accounting auditing at many companies as a Certified Public Accountant. In addition, Mr. Hakoda has a wealth of knowledge regarding internal controls. He has been appointed as a director based on expectations that he will help strengthen the supervisory function of the Board of Directors and offer appropriate advice from an objective standpoint. The Company files documentation with the Tokyo Stock Exchange to establish that Mr. Hakoda is an independent director under the provisions set forth by the Tokyo Stock Exchange.
Independent Outside Director Yoshimi Nakajima	Audit Committee	In terms of both personality and insight, Ms. Nakajima is extremely well suited to be a member of the Board, with extensive management experience in other industries. She has been appointed as a director based on expectations that she will help strengthen the supervisory function of the Board of Directors and offer appropriate advice from an objective standpoint. The Company files documentation with the Tokyo Stock Exchange to establish that Ms. Nakajima is an independent director under the provisions set forth by the Tokyo Stock Exchange.
Independent Outside Director Taku Fukui	Audit Committee	In terms of both personality and insight, Mr. Fukui is extremely well suited to be a member of the Board, with expertise and experience developed as an attorney, including knowledge of corporate law in Japan and overseas and extensive insight in corporate governance. He has been appointed as a director based on expectations that he will help strengthen the supervisory function of the Board of Directors and offer appropriate advice from an objective standpoint There are no transaction relationships between the Company and Kashiwagi Sogo Law Offices, where Mr. Fukui serves as a Managing Partner. The Company files documentation with the Tokyo Stock Exchange to establish that Mr. Fukui is an independent director under the provisions set forth by the Tokyo Stock Exchange.
Independent Outside Director Yoshihiro Hidaka	Nominating Committee Compensation Committee	In terms of both personality and insight, Mr. Hidaka is extremely well suited to be a member of the Board and is recognized for his achievements as President and Representative Director of Yamaha Motor Co., Ltd. He has been appointed as a director based on expectations that he will help strengthen the supervisory function of the Board of Directors, enhance the value of the brand, and offer appropriate advice from an objective standpoint. As the Company and Yamaha Motor Co., Ltd.—where Mr. Hidaka serves as President and Representative Director—share the Yamaha brand, the two companies are in a relationship such that enhancements to the brand value via the sustainable growth of one company also provides a positive effect on the other company's corporate value, while damage to the brand due to violations of laws and regulations or deficient governance of one company will have a negative effect on the other company's corporate value. Mr. Hidaka is a person with an extremely deep understanding of the Yamaha brand, which is the source of the Company's corporate value, and he shares an interest with our ordinary shareholders regarding improvement of the Company's brand value. Furthermore, not only are there no significant transaction relationships* between the Company and Yamaha Motor Co., Ltd., there are also no concerns that Mr. Hidaka will have conflicts of interest with ordinary shareholders, as the Company is no longer a major shareholder of said company since last year. Accordingly, the Company believes that he can fulfill his duty regarding such matters as management supervision from an independent standpoint in order to maximize profits for shareholders of the Company. The Company files documentation with the Tokyo Stock Exchange to establish that Mr. Hidaka is an independent director under the provisions set forth by the Tokyo Stock Exchange. * Transaction amounts between the Company and Yamaha Motor Co., Ltd. are less than 0.1% of consolidated net sales of both companies

Executive Officers and Operating Officers (As of June 26, 2018)

President and Representative Executive Officer

Takuya Nakata
Executive General Manager of Brand Development Unit

Please refer to page 60 for career summary

Managing Executive Officers

Shinobu Kawase
Executive General Manager of Musical Instruments & Audio Products Production Unit

1983	Joined the Company
2004	President of Yamaha Fine Technologies Co., Ltd.
2011	General Manager of Wind, String & Percussion Instruments Division
2013	General Manager of Acoustic Musical Instruments Production Division, Musical Instruments & Audio Products Production Unit
2014	Executive Officer
2015	Senior Executive Officer Executive General Manager of Musical Instruments & Audio Products Production Unit (to the present)
2016	Managing Executive Officer
2017	Managing Executive Officer* (to the present)

Satoshi Yamahata
Executive General Manager of Corporate Management Unit and Operations Unit

Please refer to page 60 for career summary

Executive Officers

Shigeki Fujii
Executive General Manager of IMC Business Unit and Technology Unit

1983	Joined the Company
2005	General Manager of Advanced System Division Center
2009	General Manager of Semiconductor Division
2013	Executive Officer Executive General Manager of IMC Business Unit (to the present)
2015	Senior Executive Officer
2017	Executive Officer* (to the present)
2018	Executive General Manager of Technology Unit (to the present)

Akira Iizuka
Executive General Manager of Audio Products Business Unit

1980	Joined the Company
2005	General Manager of Pro Audio & Digital Musical Instruments Division
2007	General Manager of INFO-Sound Division
2009	Executive Officer
2013	General Manager of Research & Development Division, Musical Instruments & Audio Products Development Unit
2015	Executive General Manager of Technology Unit
2016	Senior Executive Officer
2017	Executive Officer* (to the present)
2018	Executive General Manager of Audio Products Business Unit (to the present)

Seiichi Yamaguchi
Executive General Manager of Musical Instruments & Audio Products Sales Unit

1985	Joined the Company
2006	Director and President of Yamaha Scandinavia AB
2010	Chairman and President of Yamaha Music & Electronics (China) Co., Ltd.
2013	Executive Officer
2014	General Manager of Business Planning Division, Musical Instruments & Audio Products Sales & Marketing Unit
2015	Executive General Manager of Service Business Unit
2016	Senior Executive Officer
2017	Executive General Manager of Musical Instruments & Audio Products Sales Unit (to the present) Executive Officer* (to the present)

Takashi Dairokuno
In charge of internal audits

1982	Joined the Company
2002	Director and President of Yamaha Electronique Alsace S.A.
2005	General Manager of Planning and Management Department of the Pro Audio & Digital Musical Instruments Division
2011	General Manager of Human Resources Division
2012	General Manager of Human Resources & General Administration Division
2014	General Manager of Internal Auditing Division
2015	Full-Time Corporate Auditor
2017	Executive Officer* (to the present)

Operating Officers

Hirofumi Osawa
Senior General Manager of Audio Products Business Division, Audio Products Business Unit

Hitoshi Fukutome
Senior General Manager of Asia-Pacific Sales Division, Musical Instruments & Audio Products Sales Unit

Teruhiko Tsurumi
Chairman and President of Yamaha Music & Electronics (China) Co., Ltd.

Kimiyasu Ito
Executive General Manager of Musical Instruments Business Unit and Senior General Manager of Musical Instruments Business Unit

Masato Takai
Executive General Manager of Human Resources and General Administration Unit

Shinichi Takenaga
President and Director of PT. Yamaha Musik Indonesia (Distributor)

Masato Oshiki
President of Yamaha Music Japan Co., Ltd.

Thomas Schöpe
President of Yamaha Music Europe GmbH

Takashi Haga
Corporate Managing Director of Yamaha Music India Pvt. Ltd.

Koichi Morita
Senior General Manager of Research and Development Division, Technology Unit

* The role of Executive Officer has changed from June 2017 following the transition to a Company with Three Committees (Nominating, Audit, and Compensation)

Corporate Governance

The Yamaha Group has adopted the Yamaha Philosophy and the Promises to Stakeholders, which apply to shareholders and all other related parties. We are working to secure a high level of profitability based on global competitiveness and increased management efficiency, and we are also striving to fulfill our social responsibilities in such areas as compliance, the environment, safety, and social contributions. In these ways, we are working to realize sustainable growth and to improve corporate value over the medium to long term.

To that end, in accordance with the "Basic Policies for Corporate Governance" presented below, we have established institutional designs for management—in addition to an organizational structure and systems—and we are implementing a range of initiatives and appropriate disclosure of information. In these ways, we are working to conduct transparent, high-quality business management.

Basic Policies for Corporate Governance

- From a shareholder's perspective, ensure the rights and equal treatment of shareholders
- Taking into consideration our relationships with all stakeholders, proactively fulfill the Company's social responsibilities
- Ensure that information is disclosed appropriately and that management is transparent
- By separating the oversight and executive functions and strengthening the oversight function, ensure that the Board of Directors is highly effective while at the same time executing decisions appropriately and with a sense of urgency
- Proactively engage in dialogue with shareholders

Yamaha Philosophy

Please see inside the front cover.

Corporate Slogan	Sharing Passion & Performance
Corporate Philosophy	With our unique expertise and sensibilities, gained from our devotion to sound and music, we are committed to creating excitement and cultural inspiration together with people around the world.
Customer Experience*1	Joy, Beauty, Confidence, Discovery
Yamaha Quality*2	Excellence, Authenticity, Innovation
Yamaha Way*3	Embrace Your Will, Stand on Integrity, Take Proactive Actions, Go Beyond the Limits, Stick to the Goals

*1. The Customer Experience exemplifies the meaning of "Sharing Passion & Performance" from the customer's viewpoint. When customers experience, use, or own Yamaha products and services, they should experience a profound response that will stimulate both their emotions and senses.
*2. Yamaha Quality is a set of criteria that supports Yamaha's insistence on quality in products and services and our dedication to excellence in manufacturing. These criteria assist in making the Corporate Philosophy a reality.
*3. The Yamaha Way explains the mindset that all employees of the Yamaha Group should adopt, and the manner in which they should act on a daily basis, in order to put the Corporate Philosophy into practice.

Promises to Stakeholders

Customer-Oriented and Quality-Conscious Management	Yamaha fully satisfies its customers by offering quality products and services that incorporate new and traditional technologies as well as refined creativity and artistry.
Transparent and Sound Management	Yamaha delivers proper returns to shareholders by ensuring a solid business performance and achieves lasting development through transparent and sound management.
Valuing People	Yamaha strives to be an organization where each person's individuality and creativity are respected and all can demonstrate their full potential through their work.
Harmony with Society	Yamaha is a good corporate citizen that contributes to the development of society, culture, and the economy by observing laws, demonstrating high ethical standards, and endeavoring to protect the environment.

Initiatives to Strengthen Corporate Governance

Yamaha has consistently taken steps to strengthen corporate governance, such as introducing an operating officer system in 2001; appointing an outside director and establishing the nominating and compensation committees on a voluntary basis in 2003; reducing the number of inside directors and appointing multiple outside directors in 2010; and formulating the Corporate Governance Policies in 2015. To further strengthen corporate governance, in June 2017 the Company transitioned to a Company with Three Committees (Nominating, Audit, and Compensation) structure.

Changes to Strengthen the Corporate Governance System

	1999 to 2009	2010 to 2016	2017–
Separation of management oversight and execution	2001 Adopted an operating officer system 2003 Appointed an outside director Established officer personnel committees (nominating, compensation)	2010 Appointed multiple outside directors Decreased the number of inside directors (8 to 3)	2017 Transitioned to a Company with Three Committees (Nominating, Audit, and Compensation)
Initiatives to increase effectiveness	2005 Reduced the term of directors from two years to one year	2015 Formulated Corporate Governance Policies 2016 Started evaluations of the effectiveness of the Board of Directors 2016 Transitioned operating officers from employment contracts to delegation contracts	2018 Aligned the terms of executive officers/operating officers with the fiscal year
Officer compensation system	2001 Changed monthly compensation to performance-linked (based on consolidated results, varying within a range of ±20%) 2006 Completely eliminated retirement bonuses for officers	2011 Completely linked officer bonuses to consolidated net income 2015 Introduced stock purchase compensation (mandatory contribution of a portion of fixed compensation to the Director Shareholding Association for the acquisition of treasury stock)	2017 Completely revised officer compensation system Introduced compensation in the form of restricted stock (please refer to P.69)

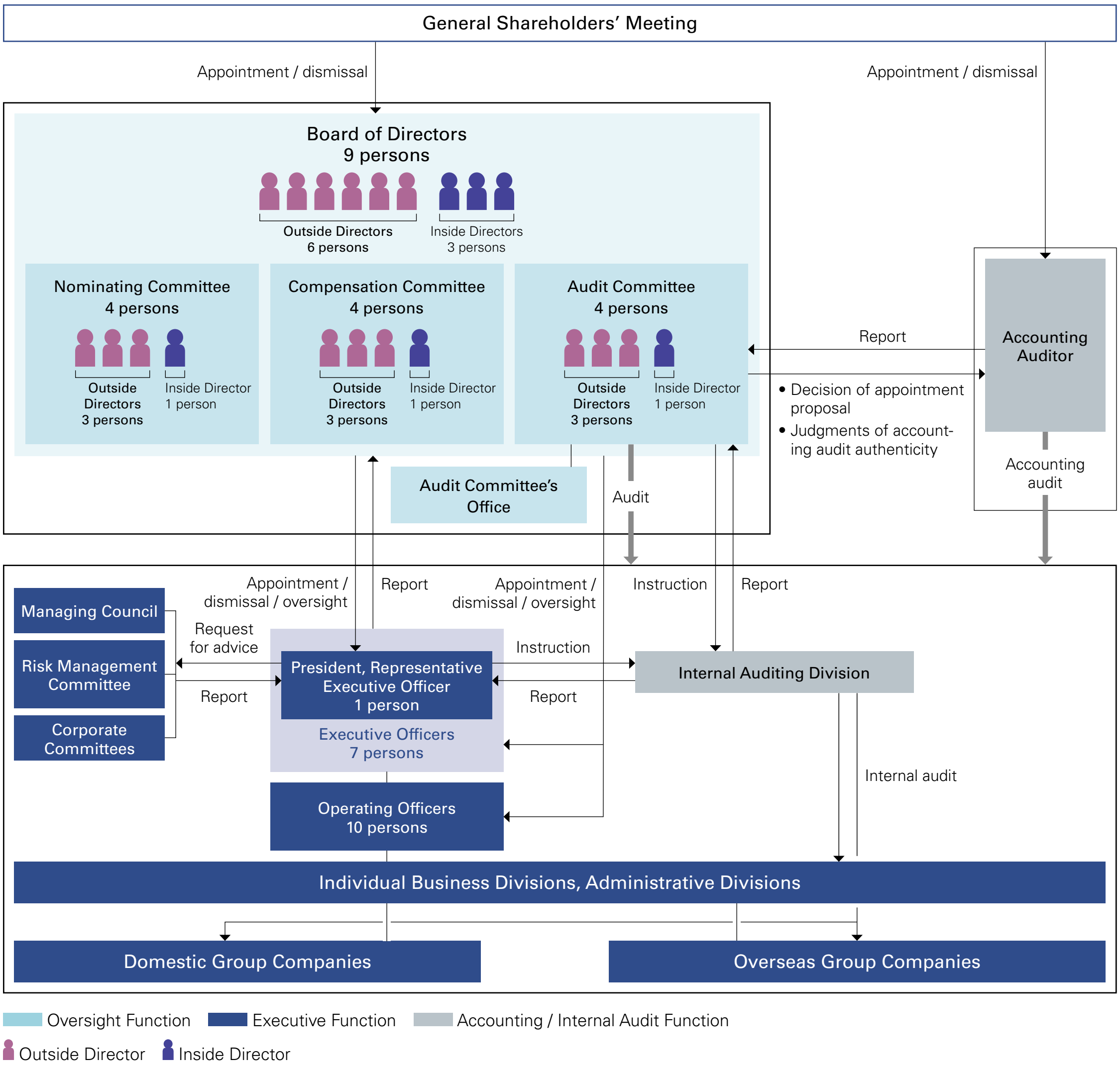
Change in number of directors	1999	2000	2001	2002	2003	2004	2005–2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of inside directors	16	13	9	→	8	→	→	→	3	→	→	→	4	3	→	→	3
Number of outside directors					1	→	→	→	2	→	3	→	→	→	→	6	6
Of which, number of independent outside directors									1	→	2	→	→	→	→	5	6
Total number of directors	16	13	9	→	→	→	→	→	5	→	6	→	7	6	→	9	9
Of which, number of female directors																1	1

Corporate Governance Structure (as of June 26, 2018)

Yamaha has selected the Company with Three Committees (Nominating, Audit, and Compensation) governance structure. The reason is that from the Company's viewpoint, this structure is optimal for clearly separating the management oversight function and execution of business. Also, by strengthening the oversight function, this structure ensures a high level of effectiveness of the Board of Directors and realizes execution of business appropriately and with a sense of urgency.

The structure, together with the formation of a Board of Directors with a significant proportion of independent outside directors and establishment of the Nominating Committee, Audit Committee, and Compensation Committee, each with a majority of outside directors as provided by law, allows exercise of the oversight function with transparency and objectivity.

In addition, having the Executive Officers, who bear direct responsibility to the shareholders and have been delegated authority by the Board of Directors to make major decisions for business, realizes the appropriate conduct of business with a sense of urgency.



Composition of the Three Committees

Nominating Committee	Takuya Nakata / Shigeru Nosaka / Masatoshi Ito / Yoshihiro Hidaka
Compensation Committee	Takuya Nakata / Shigeru Nosaka / Masatoshi Ito / Yoshihiro Hidaka
Audit Committee	Masahito Hosoi / Junya Hakoda / Yoshimi Nakajima / Taku Fukui

Oversight Function

Directors and Board of Directors

As of June 26, 2018, there were nine members on the Board of Directors (including six outside directors). As a general rule, the Board meeting is held monthly. Based on its fiduciary responsibilities, the Board of Directors promotes the Group's sustainable growth and corporate value improvement over the medium to long term. The Board of Directors also oversees the performance of the executive officers and directors. At the same time, the Board determines important matters, such as basic management policies, required by laws and ordinances, the articles of incorporation, and the rules of the Board of Directors. In addition, the Board of Directors supervises the overall management of the Company by overseeing the succession plan for the chief executive officer and other officers; selecting the members and the chairs of the Nominating Committee, Audit Committee, and Compensation Committee; appointing executive officers and operating officers; approving transactions with related parties; and supervising the structure and operation of internal control systems.

In light of its fiduciary responsibilities, the Board of Directors works to realize sustainable growth for the Company and improve corporate value over the medium to long term while giving consideration to relationships with all of the Company's stakeholders. The directors understand relevant laws and ordinances, the articles of incorporation, etc., and take steps to gather sufficient information. On that basis, the directors actively exchange opinions and engage in constructive discussions at meetings of the Board of Directors.

In keeping with their independent status, the independent outside directors perform a management oversight function, advisory function, and a conflict of interest oversight function. These directors also work to appropriately reflect the views of the stakeholders within the Board of Directors.

■ Yamaha's Standards for Independence

In addition to the requirements for independence established by the Companies Act and the Tokyo Stock Exchange, the Company has established its own independence standards.

For further information about the independence standards, please refer to the Corporate Governance Report
https://www.yamaha.com/en/ir/governance/pdf/governance_report.pdf

■ Analyzing and Evaluating the Effectiveness of the Board of Directors for Fiscal 2018

Evaluation Process

Yamaha carried out evaluations, including evaluations by outside specialists, using the following processes.

- Implementation of a survey of directors regarding the transition to a Company with Three Committees (Nominating, Audit, and Compensation), the roles and responsibilities of the Board of Directors, the structure of the Board of Directors, the roles and qualities of directors, the management of the Board of Directors, and the management of each committee
- Evaluation and analyses, including by outside specialists, based on survey answers and individual interviews
- Based on the results of these analyses, evaluation of the effectiveness of the Board of Directors, deliberation on issues, and realization of improvements

Summary of the Evaluation

- The transition to a Company with Three Committees (Nominating, Audit, and Compensation) has been positively evaluated.
- The Board of Directors comprises directors with diverse viewpoints and experience, including multiple independent outside directors. Both the scale of the Board of Directors and the ratio of outside directors are evaluated as appropriate.
- Oversight of the management team from an independent and objective standpoint is conducted in a highly effective manner.
- Sincere and constructive discussions are being held regarding major management issues.
- Regarding awareness of those issues related to effectiveness in the previous evaluation, steps are being taken toward improvement.

On the other hand, regarding the further strengthening of the oversight functions of the Board of Directors and the management of each Committee, constructive opinions were expressed. In view of these results, the Company will continue to take initiatives toward further improvement to increase the effectiveness of the Board of Directors.

Nominating Committee

As of June 26, 2018, the Nominating Committee consisted of four members (three of whom were outside directors). The Nominating Committee decides on the content of proposals regarding the appointment and dismissal of directors, which are submitted at the General Shareholders' Meeting. The committee also determines the content of proposals for the appointment and dismissal of executive officers and operating officers, which are submitted to the Board of Directors. The Nominating Committee also implements the succession plan for the chief executive officer and other officers through the development of human resources to serve as directors, executive officers, and operating officers.

Audit Committee

As of June 26, 2018, the Audit Committee had four members (three of whom were outside directors). The chair of the Audit Committee is chosen from among the independent outside directors. The Audit Committee, either working in collaboration with the Internal Auditing Division or directly on its own, audits the structure and operation of the internal control systems of the Company and other Group companies. Based on the results of these audits, the Audit Committee conducts audits to determine the legality and appropriateness of the conduct of duties by the Executive Officers and Directors. When deemed necessary, members of the Audit Committee report to or express their opinions to the Board of Directors, or may issue cease and desist orders to executive officers and/or directors. In addition, the Audit Committee may decide on proposals to be considered in the General Shareholders' Meeting, including the selection/dismissal of the Accounting Auditor.

■ Securing the Effectiveness of the Audit Committee

One full-time member is appointed to the Audit Committee in order to enhance the committee's ability to gather internal information. In addition, to assist the committee with its work, the Audit Committee's Office has been established as a full-time organization under the direct jurisdiction of the Audit Committee. To ensure the Audit Committee's Office's independence from the executive officers and other people responsible for business execution, the approval of the Audit Committee is required for personnel evaluations, personnel reassignments, and disciplinary actions for the Audit Committee's Office's personnel.

■ Collaboration between the Accounting Auditor and the Internal Auditing Division

In regard to items necessary in auditing the conduct of duties by the executive officers and directors, the Audit Committee has secured a system that facilitates the implementation of sufficient and appropriate audits, including collaboration and sharing information with the accounting auditor and the Internal Auditing Division. The Audit Committee works to improve audit quality and to realize efficient audits. The Internal Auditing Division must report the results of its audits to the Audit Committee periodically and at other times when appropriate. In addition, the Division must make reports to the Audit Committee whenever the committee requests such reports.

The Audit Committee is allowed to provide instructions regarding audits to the Internal Auditing Division when necessary. In the event that instructions provided to the Internal Auditing Division by the Audit Committee conflict with instructions provided by the President and Representative Executive Officer, the instructions of the Audit Committee will take precedence. In regard to the general manager reassignment of the Internal Auditing Division, the opinions of the Audit Committee will be heard in advance.

Compensation Committee

As of June 26, 2018, the Compensation Committee had four members (three of whom were outside directors). The Compensation Committee has formulated the policy for determining director, executive officer, and operating officer compensation and decides on individual compensation amounts based on this policy.

■ Compensation System

The compensation of directors, excluding outside directors and members of the Audit Committee, and compensation of executive officers, excluding the executive officer in charge of the internal audit, consists of (1) fixed compensation, (2) performance-linked bonuses, and (3) compensation in the form of restricted stock. The approximate breakdown of total compensation of (1), (2), and (3) is 5:3:2.

(2) Performance-linked bonuses vary according to the Company's consolidated net income attributable to owners of parent and return on equity (ROE) in the previous fiscal year, and these bonuses are calculated with consideration for the individual's record of performance. The evaluation of individual performance is based on indicators of performance set by business and function in each area the individual is responsible for.

(3) The restricted stock compensation system has been introduced with the intent of motivating the directors and executive officers to enhance corporate value sustainably and having them share a common interest with shareholders. Compensation based on Company performance has also been introduced to provide a motivation for reaching performance goals in the medium term, therefore two-thirds of the total amount is linked to Company performance. Performance conditions are measured with an indicator, which is contained in the medium-term management plan, that gives equal weight to return on consolidated net sales (ROS), earnings per share (EPS), and return on equity (ROE). The restricted period is 10 years (or until the retirement of the director or executive officer) for the purpose of aligning the interests of the corporate officers with those of the shareholders over a long period after the end of the medium-term management plan. In addition, in the event of serious cases of accounting fraud or major losses, depending on the responsibility of the officers in charge, a claw-back clause is included that will require the return of all or a portion of restricted shares transferred to officers on an accumulated basis to date.

Outside directors and directors who are members of the Audit Committee as well as the executive officer in charge of the internal audit receive only the fixed compensation.

Breakdown of Compensation (fiscal 2018)

Classification	Total Compensation (Millions of yen)	Compensation by Type (Millions of yen)				Number of People
		Fixed compensation	Performance-linked compensation	Performance-linked bonuses	Compensation in the form of restricted stock	
Directors (Including outside directors)	115 (45)	103 (45)	11 (—)	— (—)	— (—)	10 (6)
Executive Officers	413	189	—	140	83	7
Corporate Auditors (Including outside corporate auditors)	19 (4)	19 (4)	— (—)	— (—)	— (—)	4 (2)

Notes: 1. The Company made the transition from a Company with Board of Corporate Auditors to a Company with Three Committees (Nominating, Audit, and Compensation), in accordance with a resolution of the Ordinary General Shareholders' Meeting held on June 22, 2017. Therefore, with regard to the above amounts of compensation, etc. paid to corporate auditors and the number of corporate auditors, these are the amounts of compensation, etc. and the number of persons related to corporate auditors who were in office from April 1, 2017 to June 22, 2017.
2. The above numbers of directors and corporate auditors include one director and four corporate auditors (including two outside corporate auditors) who retired at the conclusion of the Ordinary General Shareholders' Meeting held on June 22, 2017.
3. With regard to the number of directors, executive officers, and corporate auditors stated above, (a) persons who retired as corporate auditor and were appointed as director at the time of transition to a Company with Three Committees (Nominating, Audit, and Compensation), (b) a person who retired as a corporate auditor and was appointed as an executive officer at the time of transition to a Company with Three Committees (Nominating, Audit, and Compensation), and (c) persons concurrently serving as director and executive officer, are respectively counted for each.
4. The total amount of compensation, etc., paid to the executive officers concurrently serving as directors is described in the section for executive officers.
5. The compensation system was changed at the Compensation Committee meeting held on June 22, 2017. The performance-linked compensation in the directors' compensation column shows the total amount of compensation paid in line with performance prior to the change in the compensation system.

Attendance Status of Outside Directors (fiscal 2018)

Name		Board of Directors	Nominating Committee	Audit Committee	Compensation Committee
Total number of attendances		13 times	5 times	15 times	1 time
Hiroyuki Yanagi	Number of attendances	12 times	5 times	—	1 time
	Attendance rate*1	92.3%	100%	—	100%
Shigeru Nosaka	Number of attendances	13 times	5 times	—	1 time
	Attendance rate*1	100%	100%	—	100%
Masatoshi Ito	Number of attendances	13 times	5 times	—	1 time
	Attendance rate*1	100%	100%	—	100%
Junya Hakoda*2	Number of attendances	13 times	—	15 times	—
	Attendance rate*1	100%	—	100%	—
Yoshimi Nakajima	Number of attendances	10 times	—	15 times	—
	Attendance rate*1	100%	—	100%	—
Taku Fukui	Number of attendances	9 times	—	14 times	—
	Attendance rate*1	90%	—	93.3%	—

*1. The denominator for the attendance rate is the total number of meetings held during the period in which each person was in office.
*2. Up to June 22, 2017, when the Company transitioned to a Company with Three Committees (Nominating, Audit, and Compensation), the Board of Corporate Auditors met four times in fiscal 2018. Outside Director Junya Hakoda attended all four meetings of the Board of Corporate Auditors.

Executive Function

Representative Executive Officer

The Company had one representative executive officer as of June 26, 2018 (president and representative executive officer). The representative executive officer represents the Company as the chief executive for Company matters and is in overall charge of business under the basic policies set by the Board of Directors.

Executive Officers

The Company had seven executive officers as of June 26, 2018 (including one representative executive officer and two managing executive officers). The executive officers are responsible for the execution of business. With a Companywide perspective, they make important decisions on matters related to the execution of business matters that have been delegated to them by the Board of Directors, and they implement business execution, subject to the oversight of the Board of Directors.

Managing Council

Yamaha has established the Managing Council, which is composed of executive officers, as an advisory body to the president and representative executive officer. In principle, the Managing Council holds meetings twice a month to engage in debate on important management issues.

Corporate Committees

The Company has established corporate committees that act as advisory bodies to the president and representative executive officer. These committees hold discussions on the direction and important themes of examinations and initiatives that are continuously carried out on a cross-organizational and management level basis. The committees report the results of these discussions to the president and representative executive officer.

Risk Management Committee

As an advisory body to the president and representative executive officer, the Risk Management Committee discusses risk management-related matters from a Companywide perspective and reports the results of these discussions to the president and representative executive officer.

Operating Officers

As of June 26, 2018, Yamaha had 10 operating officers. With a Companywide perspective, the operating officers conduct the work they are responsible for under the supervision of the executive officers and in accordance with important decisions regarding business execution made by the Board of Directors and the executive officers.

Internal Control System, Internal Audits, Accounting Audits

Internal Control System

In order to ensure appropriate business operations, the Company has established an internal control system pursuant to Japan's Companies Act and the Enforcement Regulations of the Companies Act. This system aims to improve the efficiency of the Company's business activities, ensure reporting reliability and thorough compliance with laws and regulations, preserve the value of Company assets, and strengthen risk management.

For further information about the internal control system, please refer to the Corporate Governance Report.
https://www.yamaha.com/en/ir/governance/pdf/governance_report.pdf

Internal Audits

Yamaha established the Internal Auditing Division under the direct control of the president and representative executive officer. The Division's role is to closely examine and evaluate management and operations systems, as well as operational execution, for all management activities undertaken by the Company and Group companies, from the standpoint of legality, effectiveness, and efficiency. Based on the results of these examinations and evaluations, the Division provides information and offers advice and proposals for improvement.

The Company selects an executive officer to be in overall charge of internal audits, with the objective of improving internal auditing functions. In addition, based on policies aimed at assuring the effectiveness of the audits of the Audit Committee, which are decided on by vote of the Board of Directors, the Internal Auditing Division has in place a structure for close collaboration with the Audit Committee. At the same time, the Division keeps in close contact and conducts precise adjustments with the accounting auditor. In these ways, the Company works to increase audit efficiency.

Accounting Audits

Yamaha has appointed Ernst & Young ShinNihon LLC as its accounting auditor, and certified public accountants from Ernst & Young ShinNihon conduct the accounting audits of the Company. Ernst & Young ShinNihon has voluntarily adopted a rotating system for its managing partners in order to ensure that the number of continuous years of auditing service does not exceed a fixed period of time.

In addition, for commissioning auditing operations, the Company, in principle, employs Ernst and Young ShinNihon LLC as its accounting auditor in order to ensure speed and reliability in the consolidated settlement.

Initiatives to Engage in Dialogue with Shareholders and Investors

In order to have constructive dialogue with shareholders and investors, the Board of Directors appoints a director in charge of these initiatives. If necessary, due to a request for dialogue from a shareholder or investor, the director in charge, other directors, executive officers, or operating officers will appear in person to explain matters such as the capital policy or medium-term management plan to shareholders or investors in a clear and easy-to-understand manner. The Legal Division, IR Department, and Corporate Finance Division cooperate and assist the director in charge to ensure that dialogue with shareholders and investors is conducted in a reasonable and orderly manner.

In addition to the respective dialogue with shareholders and investors, the Company offers presentations on its medium-term management plan and quarterly earnings presentations as well as business briefings, facilities tours, and presentations for private investors. Presentation materials, etc., are continuously made available on the Company website.

The results of the dialogue with shareholders and investors are reported to the Board of Directors by the director in charge, executive officers, or operating officers on a timely basis, and they are appropriately reflected in the management of the Company, leading to the Group's sustainable growth and enhancing corporate value over the medium to long term. Additionally, the voting is analyzed for each resolution at the Ordinary General Shareholders' Meeting, and this is reported to the Board of Directors.

Regarding measures to control insider information, pursuant to the Company's Disclosure Policy, due consideration is given to controlling insider information, and we endeavor to disclose information in a fair, prompt, and timely manner. When meeting with shareholders and investors, information is provided after verifying that the information provided does not constitute insider information. The time between the day after the end of each quarter and the date of the earnings release is a "quiet period" during which we refrain from discussing earnings information.

Major IR Activities

Major IR activities in fiscal 2018 were as follows.

Target	Activity	Frequency	Content
For analysts and institutional investors	Financial results briefings	4	Quarterly briefings
	Conferences held by securities companies	2	Interviews with officer in charge
	Acceptance of requests for interviews / information	Approx. 260	IR interviews
For domestic and international institutional investors	Management plan / IR briefings	5	Visits by president and representative executive officer, officers in charge (Japan, North America, Europe, Asia)
For private investors	Company briefings for private investors	5	Tokyo, Yokohama, Osaka, Kobe

General Shareholders' Meetings

Yamaha endeavors to establish an environment that ensures that there is adequate time for shareholders to exercise their voting rights for a General Shareholders' Meeting, so that they can properly exercise their voting rights.

In addition to sending the notice for the Ordinary General Shareholders' Meetings at least three weeks in advance of the meeting date, we create an environment in which every shareholder can properly exercise his or her voting rights by disclosing the content of the notice on our website in both Japanese and English as soon as possible, holding the Ordinary General Shareholders' Meeting on a date that avoids the concentration of shareholders' meetings, and ensuring that it is convenient to exercise voting rights by using an electronic proxy voting platform.

Items Voted On at the Ordinary General Shareholders' Meeting

The following items were voted on at the 194th Ordinary General Shareholders' Meeting on June 25, 2018.

Proposal	Number of votes for	Number of votes against	Number of abstained votes	Approval percentage	Results
Proposal 1. Appropriation of surplus	1,601,804	6,755	425	99.2	Approved
Proposal 2. Reduction in capital reserve	1,608,238	321	425	99.6	Approved
Proposal 3. Partial amendments to articles of incorporation	1,608,325	233	425	99.6	Approved
Proposal 4. Election of nine directors					
Takuya Nakata	1,565,024	43,577	425	96.9	Approved
Satoshi Yamahata	1,598,639	9,970	425	99.0	Approved
Masahito Hosoi	1,575,028	33,575	425	97.6	Approved
Shigeru Nosaka	1,607,988	621	425	99.6	Approved
Masatoshi Ito	1,586,925	21,682	425	98.3	Approved
Junya Hakoda	1,599,666	8,943	425	99.1	Approved
Yoshimi Nakajima	1,599,613	8,996	425	99.1	Approved
Taku Fukui	1,599,678	8,931	425	99.1	Approved
Yoshihiro Hidaka	1,431,847	176,753	425	88.7	Approved

Notes: 1. Necessary conditions for the approval of each proposal were as follows.
(1) Proposal 1 and Proposal 2: Approval of the majority of shareholders in attendance
(2) Proposal 3: Attendance of shareholders holding one-third or more of the voting rights of the shareholders who can exercise their voting rights, and approval of two-thirds or more of the approval rights of the shareholders in attendance.
(3) Proposal 4: Attendance of shareholders holding one-third or more of the voting rights of the shareholders who can exercise their voting rights, and approval of a majority of the approval rights of the shareholders in attendance.
2. Reason for not including some of the number of voting rights of the shareholders in attendance in the number of voting rights: By calculating the total of the number of voting rights exercised by the date immediately before the date of the meeting and the number of voting rights of some of the shareholders present, whose intentions regarding approval or disapproval of each proposal were confirmed, the necessary conditions for the approval of each proposal were satisfied and the resolutions were legally passed pursuant to the Companies Act. Therefore, among those shareholders in attendance on the day of the meeting, the calculation did not include the number of voting rights for which intentions regarding approval, disapproval, or abstention were not confirmed.

Cross-Holdings

Basic Policy

It is Yamaha's basic policy to have cross-holdings only to the extent that this is reasonable because it contributes to the Company's sustainable growth and the enhancement of corporate value over the medium to long term. This refers to enhancing the value of our brand, supporting sustainable growth, and ensuring a strong financial base by maintaining stable relationships with companies with which we have important cooperative relationships, business partners, and financial institutions.

Basic Policy Concerning Reduction of Cross-Holdings

In regard to the reasonableness of individual cross-holdings, the Board of Directors regularly and continuously verifies whether the purposes for such shareholdings are appropriate, whether the benefits accruing from these holdings and the risks associated with them cover the cost of capital, etc., and based on the results of those verifications the Board works to reduce cross-holdings.

Standards for the Exercise of Voting Rights Associated with Cross-Holdings

In exercising the voting rights associated with cross-holdings, the decision of how to vote is made comprehensively from the standpoint of whether the resolution enhances the corporate value of the company in question over the medium to long term, whether it is in accordance with our basic policy concerning cross-holdings, and whether it leads to the enhancement of our corporate value over the medium to long term.

Status of Shareholdings

■ Investments in equity securities held for other than pure investment

Book value ¥128,582 million (fiscal 2018)

■ Specified equity securities

Among investments in equity securities held for other than pure investment, listed holdings in fiscal 2018 were as follows.

Security name	Number of shares held (shares)	Book value (millions of yen)
Yamaha Motor Co., Ltd.*1	34,642,790	110,164
MS&AD Insurance Group Holdings, Inc.*2	1,303,723	4,373
The Shizuoka Bank, Ltd.*2	3,486,678	3,507
Toyota Motor Corporation*2	501,300	3,421
Sumitomo Mitsui Financial Group, Inc.*2	445,402	1,985
Mizuho Financial Group, Inc.*2	10,123,816	1,937
Audinate Group Limited*2	6,289,308	1,648
DAIICHIKOSHO CO., LTD.*2	50,000	282
Mitsubishi UFJ Financial Group, Inc.*2	226,480	157
Sumitomo Mitsui Trust Holdings, Inc.*2	40,900	176
TDK Corporation*3	100	0
Kao Corporation*3	100	0
Shiseido Company, Limited*3	100	0
AGC Inc.*3	100	0
Kirin Holdings Company, Limited*3	100	0

*1. Yamaha Motor Co., Ltd. uses the same Yamaha brand as the Company. Yamaha Motor Co., Ltd. and the Company have established the Joint Brand Committee, YAMAHA Brand Charter, and Joint Brand Regulations. Along with carrying out various initiatives together, initiatives in furtherance of each other's sustainable growth are monitored appropriately through shareholdings and the assignment of directors. By building this kind of relationship of monitoring and cooperation, the Company aims to maintain and enhance the value of the Yamaha brand, thereby contributing to the enhancement of the Company's corporate value over the medium to long term. To that end, we hold shares of Yamaha Motor Co., Ltd. (Percentage of voting rights held: 9.93%)
*2. The Company holds the shares for the purpose of maintaining and continuing a smooth transaction relationship.
*3. The Company holds the shares for the purpose of gathering information about information provision methods, etc., for shareholders.

Risk Management

The Yamaha Group is working to establish and enhance risk management promotion systems and frameworks to improve our capability to respond to risk and to implement sound, highly transparent management.

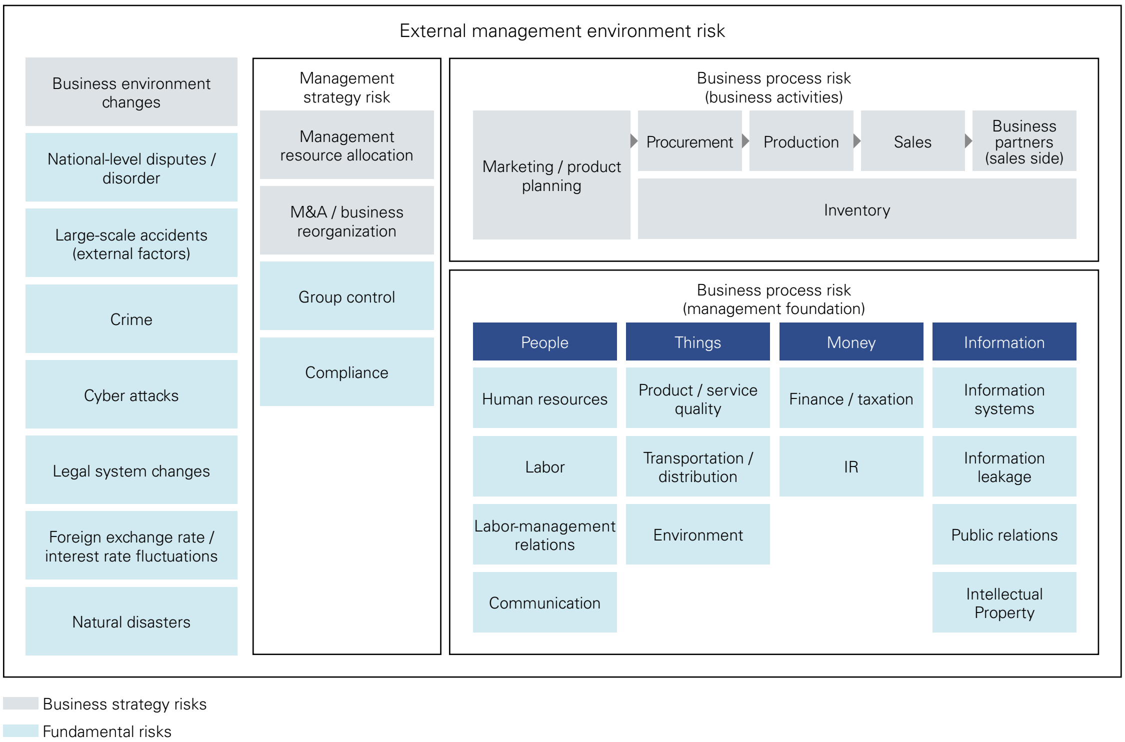
Basic Policy

The Yamaha Group implements risk management based on the following policy.

1. We shall establish a structure and framework for risk management and work to enhance responsiveness to risk and maximize corporate value.
2. We shall identify, evaluate, and reduce risk through risk management activities during ordinary times, conduct awareness-raising activities such as education and training, and instill a greater awareness of risk, fostering a greater sensitivity to risk.
3. We shall prioritize people's safety when risks manifest themselves as crises, and coordinate with the local community to ensure sincere, appropriate, and speedy response as a means to minimize all adverse impact. In addition, we shall strive to ensure the stable supply of products and services, continue business to the greatest extent possible, and contribute to the sustainable development of society.
4. After addressing risks, we shall analyze the reasons they occurred and how they were addressed in order to ensure they do not occur again.

Classification of Risk

The Yamaha Group classifies the various types of risks related to its business in the following manner and is working on measures to counter each type.

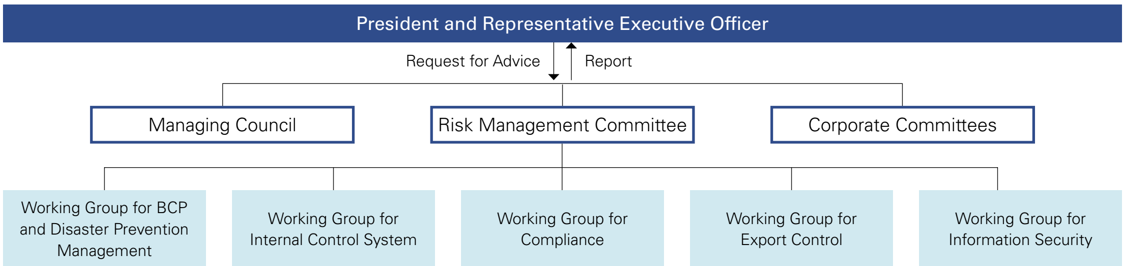


Promotion System

Yamaha Corporation has established the Risk Management Committee as an advisory body to the president and representative executive officer. The committee discusses risk management-related matters from a Companywide perspective and reports the results of these discussions to the president and representative executive officer.

In addition, the Working Group for BCP and Disaster Prevention Management, Working Group for Internal Control System, Working Group for Compliance, Working Group for Export Control, and Working Group for Information Security have been established under the Risk Management Committee. These working groups deliberate on important Companywide issues.

Risk Management System



Working Group for BCP (Business Continuity Plan) and Disaster Prevention Management:
In preparation for large-scale natural disasters, fires, infectious disease outbreaks, and other emergency situations, the Yamaha Group has made a number of business continuity management efforts, including the formulation of a BCP. In addition, the Group BCP Regulations establish basic policies, duties, etc., to minimize the effect on business when a risk event occurs, such as a natural disaster, through the rapid implementation of appropriate countermeasures.

Working Group for Internal Control System: This working group is striving to globally advance internal control activities, such as Groupwide business process standardization. The working group confirms that business administration is being conducted in accordance with the Group Management Charter and various regulations.

Working Group for Compliance: This working group serves as the organization with primary responsibility over the setting of policy and consideration of items concerning compliance. In addition to formulating policies for ensuring compliance within the Yamaha Group, this subcommittee monitors every department and Group company to ensure that business is being done ethically and according to the law. The working group also implements measures aimed at maintaining sound business activities. These measures include providing training and education to employees, conducting questionnaires, and setting up help lines for internal reporting and consulting.

Working Group for Export Control: Provisions for national security related trade control have been established in the Compliance Code of Conduct as rules pertaining to international trading. In addition, the Working Group for Export Control has been established, and export control regulations, regulations for import and export procedures, etc., have been formulated. We have established a work process related to export control.

Working Group for Information Security: The leakage of personal information and other important information held by a company has the potential to not only damage third parties but also become a case of gross negligence that can harm the company's reputation. The Yamaha Group perceives information security as a critical aspect of risk management. The Working Group for Information Security has determined a policy on information management and is working to enhance the quality of this management by keeping track of the current management system while identifying vulnerabilities and guiding efforts to address them.

Ⅳ. Financial and Corporate Information

Contents


YAMAHA
Business a

11-Year Summary

Yamaha Corporation and consolidated subsidiaries

Years ended March 31	2008/3	2009/3	2010/3	2011/3
For the year:				
Net sales	¥548,754	¥459,284	¥414,811	¥373,866
Cost of sales	343,686	290,381	268,380	237,313
Gross profit	205,066	168,902	146,431	136,553
Selling, general and administrative expenses	172,220	155,057	139,602	123,387
Operating income	32,845	13,845	6,828	13,165
Income (loss) before income taxes and minority interests	62,510	(12,159)	(201)	6,802
Net income (loss)*1	39,558	(20,615)	(4,921)	5,078
Capital expenditures	24,394	22,581	14,480	10,439
Depreciation expenses	20,289	17,912	14,139	12,814
R&D expenses	24,865	23,218	21,736	22,416
Cash flow from operating activities	37,225	(2,235)	39,870	22,646
Cash flow from investing activities	41,999	(25,999)	(12,711)	(9,740)
Free cash flow	79,225	(28,234)	27,159	12,906
Cash flows from financing activities	(19,314)	(31,041)	(9,867)	(10,080)
At year-end:				
Total assets	¥540,347	¥408,974	¥402,152	¥390,852
Total current assets	275,754	202,097	193,260	194,717
Total current liabilities	120,174	90,050	75,182	74,836
Interest-bearing liabilities	21,036	19,192	15,017	11,838
Net assets	343,028	251,841	254,591	245,002

Per share:				
Net income (loss)	¥ 191.76	¥ (103.73)	¥ (24.95)	¥ 25.90
Net assets	1,646.44	1,262.42	1,276.35	1,250.06
Dividends*2	50.00	42.50	27.50	10.00

Key indicators:				
Operating income ratio	6.0%	3.0%	1.6%	3.5%
ROE (Return on equity)	11.5	(7.0)	(2.0)	2.1
ROA (Return on assets)	7.2	(4.3)	(1.2)	1.3
Equity ratio	62.9	60.9	62.6	61.9
Debt to equity ratio (Times)	0.06	0.08	0.06	0.05
Interest coverage (Times)	34.56	26.74	16.88	40.38
Current ratio	229.5	224.4	257.1	260.2
Dividend payout ratio	26.1	—	—	38.6

*1. Net income (loss) has been presented as net income attributable to owners of parent on the consolidated financial statements since the fiscal year ended March 31, 2016 (fiscal 2016).
*2. A special dividend of ¥20 is included in the dividends per share from fiscal 2008 to fiscal 2010.

Millions of yen

2012/3	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3
¥356,616	¥366,941	¥410,304	¥432,177	¥435,477	¥408,248	**¥432,967**
231,659	238,261	262,310	270,357	262,406	242,451	**258,465**
124,957	128,680	147,994	161,820	173,070	165,796	**174,501**
116,846	119,465	121,999	131,684	132,407	121,493	**125,668**
8,110	9,215	25,994	30,135	40,663	44,302	**48,833**
6,971	7,795	25,818	28,526	41,578	42,898	**74,471**
(29,381)	4,122	22,898	24,929	32,633	46,719	**54,378**
11,337	13,844	10,799	13,846	11,220	17,542	**24,600**
11,973	11,613	12,759	12,597	12,681	11,145	**10,777**
22,819	22,149	22,561	25,439	24,793	24,415	**24,797**
10,880	7,755	33,213	31,729	42,399	39,142	**47,498**
(9,004)	(12,617)	(22,950)	(11,700)	591	(9,663)	**4,766**
1,875	(4,862)	10,263	20,029	42,991	29,478	**52,264**
(3,247)	(5,536)	(4,745)	(5,909)	(30,349)	(12,588)	**(35,584)**
¥366,610	¥390,610	¥438,932	¥530,034	¥469,745	¥522,362	**¥560,184**
188,952	197,902	214,487	247,632	255,135	272,720	**299,772**
72,829	71,550	73,145	80,976	75,459	82,565	**101,953**
11,295	10,013	8,755	11,868	8,510	11,241	**11,173**
206,832	229,636	274,843	348,752	303,889	367,437	**388,345**
						Yen
¥ (151.73)	¥ 21.29	¥ 118.26	¥ 128.75	¥ 168.90	¥ 249.17	**¥ 291.81**
1,052.01	1,171.67	1,403.12	1,787.42	1,601.55	1,948.01	**2,125.51**
10.00	10.00	27.00	36.00	44.00	52.00	**56.00**
						%
2.3%	2.5%	6.3%	7.0%	9.3%	10.9%	**11.3%**
(13.2)	1.9	9.2	8.1	10.1	14.0	**14.5**
(7.8)	1.1	5.5	5.1	6.5	9.4	**10.0**
55.6	58.1	61.9	65.3	64.2	69.9	**69.0**
0.05	0.04	0.03	0.03	0.03	0.03	**0.03**
31.84	40.64	130.19	130.51	129.41	165.40	**149.08**
259.4	276.6	293.2	305.8	338.1	330.3	**294.0**
—	47.0	22.8	28.0	26.1	20.9	**19.2**

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).

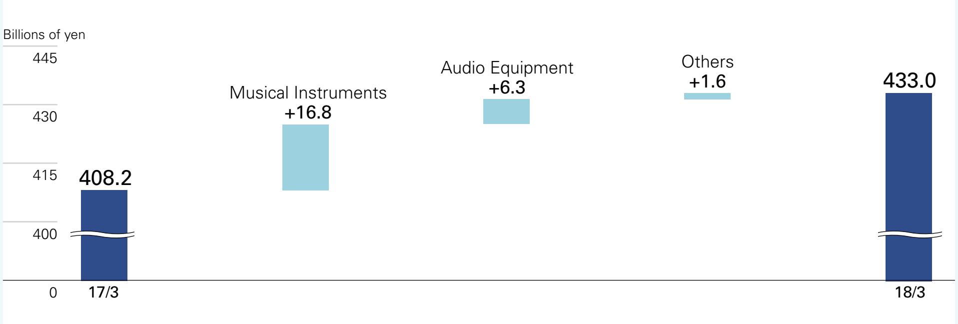
As result of not only increases in operating income and ordinary income but also the recording of a gain on sales of investment securities (sale of a portion of shares in Yamaha Motor Co., Ltd.: sales profit of ¥25.8 billion before tax and ¥18.0 billion after), net income attributable to owners of parent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

GRAPH 1

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

Net sales (by business)

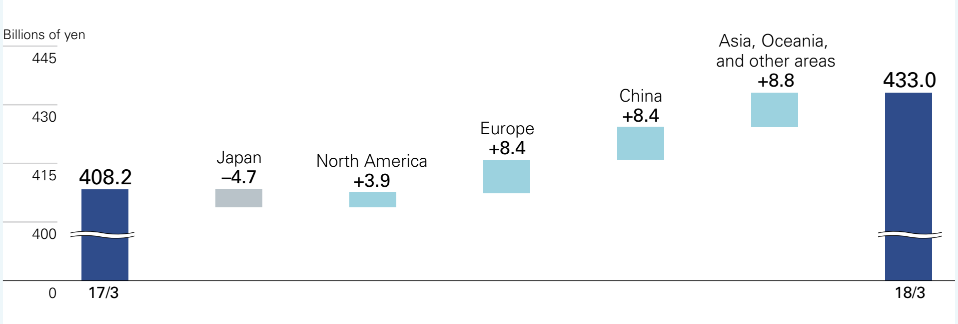


GRAPH 2

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

Net sales (by region)

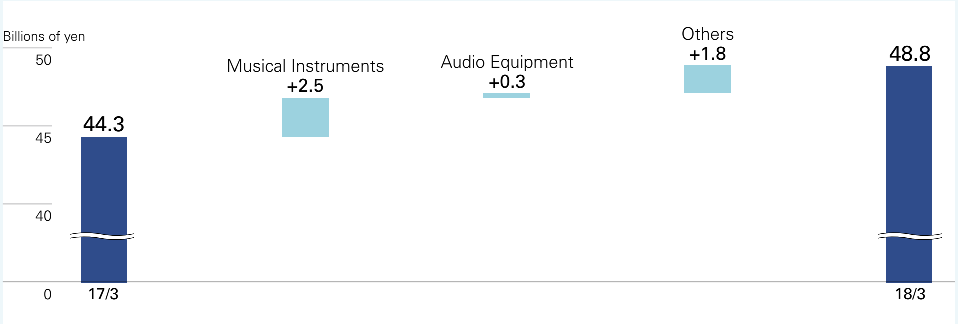


GRAPH 3

Billions of yen

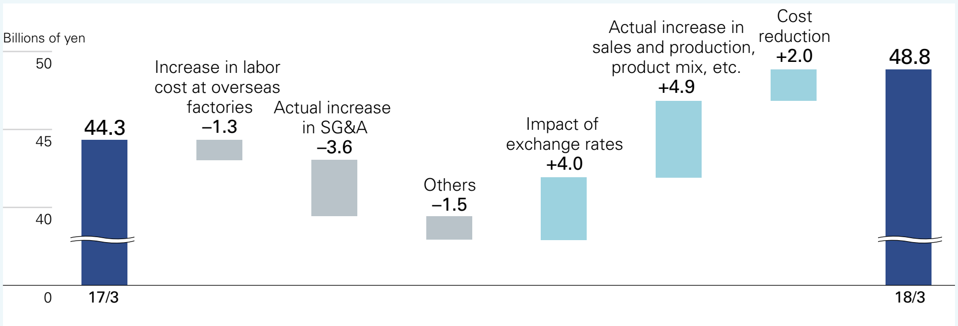
	2017/3	2018/3
Operating income	44.3	48.8
Musical Instruments	32.1	34.6
Audio Equipment	10.4	10.7
Others	1.7	3.5

Operating income (by business)



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.

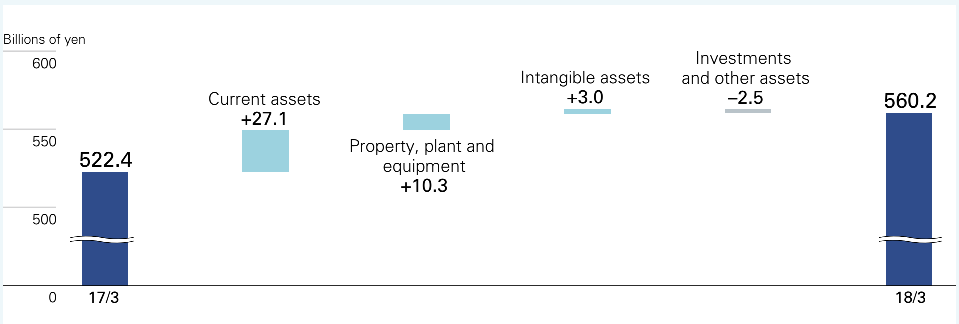
Total net assets were ¥388.3 billion, an increase of ¥20.9 billion, or 5.7%, from ¥367.4 billion at the end of the previous fiscal year. This increase was due to shareholder returns in the form of dividend payments totaling ¥10.1 billion and the purchase of treasury stock totaling ¥25.0 billion (including 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

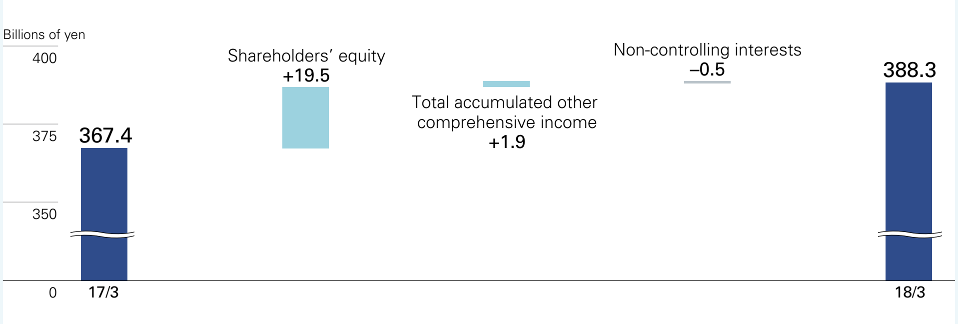
Total assets



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.

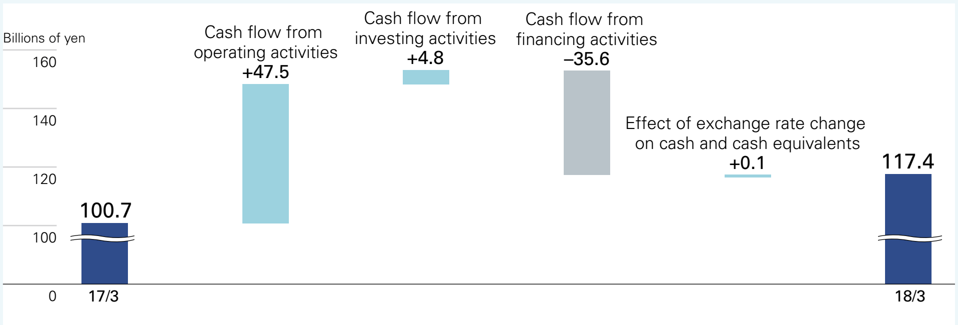
Net cash provided by operating activities in fiscal 2018 was ¥47.5 billion, compared with net cash of ¥39.1 billion provided in the previous fiscal year, due mainly to the contribution of income before income taxes.

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.

Consolidated Financial Statements and Notes

Consolidated Balance Sheet

Yamaha Corporation and its consolidated subsidiaries
As of March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Assets			
Current assets:			
Cash and deposits (Notes 21 and 23)	¥122,731	¥105,859	$1,155,224
Notes and accounts receivable—trade (Note 23)	56,499	50,995	531,805
Inventories (Note 9)	94,126	93,127	885,975
Deferred tax assets (Note 27)	10,279	8,579	96,753
Other	17,352	15,397	163,328
Allowance for doubtful accounts	(1,216)	(1,239)	(11,446)
Total current assets	299,772	272,720	2,821,649
Property, plant and equipment, net of accumulated depreciation (Notes 5 and 15):			
Buildings and structures, net	32,431	31,034	305,262
Machinery, vehicles, tools, furniture and fixtures, net	24,864	23,006	234,036
Land (Note 8)	43,880	43,851	413,027
Leased assets, net	240	294	2,259
Construction in progress	14,400	7,287	135,542
Total property, plant and equipment, net of accumulated depreciation	115,817	105,475	1,090,145
Investments and other assets:			
Investment securities (Notes 6, 23 and 24)	130,341	132,771	1,226,854
Long-term loans receivable	93	108	875
Net defined benefit assets (Note 26)	276	254	2,598
Deferred tax assets (Note 27)	2,295	2,261	21,602
Lease and guarantee deposits	4,087	4,108	38,470
Goodwill	—	60	—
Other (Note 6)	7,619	4,726	71,715
Allowance for doubtful accounts	(120)	(126)	(1,130)
Total investments and other assets	144,593	144,166	1,361,003
Total assets	¥560,184	¥522,362	$5,272,816

See Notes to Consolidated Financial Statements.

As of March 31, 2018	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 4) 2018
Liabilities			
Current liabilities:			
Notes and accounts payable—trade (Note 23)	¥ 19,946	¥ 17,828	$ 187,745
Short-term loans payable (Notes 23 and 30)	11,131	11,170	104,772
Current portion of long-term loans payable (Notes 23 and 30)	41	30	386
Accounts payable—other and accrued expenses (Note 23)	45,527	43,961	428,530
Income taxes payable	16,325	2,410	153,662
Deferred tax liabilities (Note 27)	33	11	311
Provision for product warranties	1,774	1,687	16,698
Other	7,171	5,465	67,498
Total current liabilities	101,953	82,565	959,648
Noncurrent liabilities:			
Long-term loans payable (Notes 23 and 30)	—	40	—
Long-term accounts payable	5,406	6,972	50,885
Deferred tax liabilities (Note 27)	23,243	22,161	218,778
Deferred tax liabilities for land revaluation (Note 8)	9,587	9,587	90,239
Net defined benefit liabilities (Note 26)	21,098	23,039	198,588
Long-term deposits received (Note 23)	9,090	9,102	85,561
Other	1,457	1,454	13,714
Total noncurrent liabilities	69,884	72,359	657,794
Contingent liabilities (Note 7)			
Net Assets			
Shareholders' equity:			
Capital stock:			
Authorized — 700,000,000 shares;			
Issued 2018 — 197,255,025 shares	28,534	—	268,581
2017 — 197,255,025 shares	—	28,534	—
Capital surplus	40,165	40,054	378,059
Retained earnings	294,904	250,649	2,775,828
Treasury stock	(48,556)	(23,731)	(457,041)
Total shareholders' equity	315,048	295,507	2,965,437
Accumulated other comprehensive income:			
Unrealized holding gain on securities	79,729	80,282	750,461
Unrealized gain from hedging instruments	109	103	1,026
Revaluation reserve for land (Note 8)	16,095	16,095	151,497
Foreign currency translation adjustments	(23,862)	(24,219)	(224,605)
Remeasurements of defined benefit plans	(600)	(2,645)	(5,648)
Total accumulated other comprehensive income	71,470	69,616	672,722
Non-controlling interests	1,826	2,314	17,188
Total net assets	388,345	367,437	3,655,356
Total liabilities and net assets	¥560,184	¥522,362	$5,272,816

See Notes to Consolidated Financial Statements.

Consolidated Statement of Operations

Yamaha Corporation and its consolidated subsidiaries Year ended March 31, 2018	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 4) 2018
Net sales	**¥432,967**	¥408,248	**$4,075,367**
Cost of sales (Notes 9, 10 and 12)	**258,465**	242,451	**2,432,841**
Gross profit	**174,501**	165,796	**1,642,517**
Selling, general and administrative expenses (Notes 11 and 12)	**125,668**	121,493	**1,182,869**
Operating income	**48,833**	44,302	**459,648**
Other income (expenses):			
Interest and dividend income	**4,694**	3,774	**44,183**
Interest expenses	**(359)**	(290)	**(3,379)**
Sales discounts	**(2,903)**	(2,616)	**(27,325)**
(Loss) gain on sales or disposal of property, plant and equipment, net (Note 13)	**(221)**	3,544	**(2,080)**
Gain on sales of investment securities (Note 14)	**25,824**	259	**243,072**
Loss on impairment of fixed assets (Note 15)	**(27)**	(630)	**(254)**
Amortization of goodwill (Note 16)	**—**	(1,499)	**—**
Business structural reform expenses (Notes 15 and 17)	**—**	(3,032)	**—**
Loss due to transition to a defined contribution pension plan	**(148)**	(892)	**(1,393)**
Tariff assessment from previous periods, etc.	**(174)**	—	**(1,638)**
Other, net (Note 18)	**(1,045)**	(20)	**(9,836)**
	25,638	(1,404)	**241,322**
Income before income taxes	**74,471**	42,898	**700,970**
Income taxes (Note 27):			
Current	**21,377**	8,728	**201,214**
Deferred	**(1,330)**	(12,706)	**(12,519)**
	20,046	(3,978)	**188,686**
Net income for the period	**54,424**	46,876	**512,274**
Net income attributable to non-controlling interests	**46**	156	**433**
Net income attributable to owners of parent	**¥ 54,378**	¥ 46,719	**$ 511,841**

See Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Yamaha Corporation and its consolidated subsidiaries Year ended March 31, 2018	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 4) 2018
Net income for the period	¥54,424	¥46,876	$512,274
Other comprehensive income:			
Unrealized holding gain (loss) on securities	(568)	25,234	(5,346)
Unrealized gain from hedging instruments	5	200	47
Foreign currency translation adjustments	458	(4,853)	4,311
Remeasurements of defined benefit plans	2,045	8,675	19,249
Share of other comprehensive income of affiliates accounted for using equity method	15	9	141
Total other comprehensive income (Note 19)	1,956	29,267	18,411
Comprehensive income	¥56,380	¥76,143	$530,685
(Composition)			
Comprehensive income attributable to owners of parent	¥56,232	¥76,133	$529,292
Comprehensive income attributable to non-controlling interests	¥ 147	¥ 10	$ 1,384

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Net Assets

Yamaha Corporation and its consolidated subsidiaries Year ended March 31, 2018	Millions of yen												
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock (Note 20)	Capital surplus	Retained earnings (Note 20)	Treasury stock (Note 20)	Total shareholders' equity (Note 20)	Unrealized holding gain (loss) on securities	Unrealized gain (loss) from hedging instruments	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of April 1, 2016	¥28,534	¥40,054	¥213,050	¥(20,945)	¥260,694	¥55,038	¥ (97)	¥16,743	¥(19,513)	¥(11,320)	¥40,850	¥2,344	¥303,889
Changes of items during the period:													
Dividends from surplus (Note 20)			(9,768)		(9,768)								(9,768)
Net income attributable to owners of parent			46,719		46,719								46,719
Reversal of revaluation reserve for land			648		648								648
Purchase of treasury stock				(2,785)	(2,785)								(2,785)
Disposition of treasury stock					—								—
Net changes of items other than shareholders' equity						25,244	200	(648)	(4,706)	8,675	28,765	(30)	28,735
Total changes of items during the period	—	—	37,598	(2,785)	34,813	25,244	200	(648)	(4,706)	8,675	28,765	(30)	63,548
Balance as of April 1, 2017	¥28,534	¥40,054	¥250,649	¥(23,731)	¥295,507	¥80,282	¥103	¥16,095	¥(24,219)	¥ (2,645)	¥69,616	¥2,314	¥367,437
Changes of items during the period:													
Dividends from surplus (Note 20)			(10,123)		(10,123)								(10,123)
Net income attributable to owners of parent			54,378		54,378								54,378
Reversal of revaluation reserve for land					–								–
Purchase of treasury stock				(25,012)	(25,012)								(25,012)
Disposition of treasury stock		111		187	298								298
Net changes of items other than shareholders' equity						(553)	5	0	357	2,045	1,854	(488)	1,366
Total changes of items during the period	–	111	44,254	(24,824)	19,541	(553)	5	0	357	2,045	1,854	(488)	20,907
Balance as of March 31, 2018	¥28,534	¥40,165	¥294,904	¥(48,556)	¥315,048	¥79,729	¥109	¥16,095	¥(23,862)	¥ (600)	¥71,470	¥1,826	¥388,345

See Notes to Consolidated Financial Statements.

Yamaha Corporation and its consolidated subsidiaries Year ended March 31, 2018	Thousands of U.S. dollars (Note 4)												
	Shareholders' equity					Accumulated other comprehensive income							
	Capital stock (Note 20)	Capital surplus	Retained earnings (Note 20)	Treasury stock (Note 20)	Total shareholders' equity (Note 20)	Unrealized holding gain (loss) on securities	Unrealized gain (loss) from hedging instruments	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of April 1, 2017	$268,581	$377,014	$2,359,271	$(223,372)	$2,781,504	$755,666	$ 970	$151,497	$(227,965)	$(24,896)	$655,271	$21,781	$3,458,556
Changes of items during the period:													
Dividends from surplus (Note 20)			(95,284)		(95,284)								(95,284)
Net income attributable to owners of parent			511,841		511,841								511,841
Reversal of revaluation reserve for land													—
Purchase of treasury stock				(235,429)	(235,429)								(235,429)
Disposition of treasury stock		1,045		1,760	2,805								2,805
Net changes of items other than shareholders' equity						(5,205)	47	0	3,360	19,249	17,451	(4,593)	12,858
Total changes of items during the period	—	1,045	416,547	(233,660)	183,933	(5,205)	47	0	3,360	19,249	17,451	(4,593)	196,790
Balance as of March 31, 2018	$268,581	$378,059	$2,775,828	$(457,041)	$2,965,437	$750,461	$1,026	$151,497	$(224,605)	$ (5,648)	$672,722	$17,188	$3,655,356

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Yamaha Corporation and its consolidated subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Operating activities:			
Income before income taxes	¥ 74,471	¥ 42,898	$ 700,970
Depreciation and amortization	10,777	11,145	101,440
Loss on impairment of fixed assets	27	630	254
Amortization of goodwill	61	2,307	574
Increase (decrease) in allowance for doubtful accounts	(38)	47	(358)
(Gain) on liquidation of subsidiaries and affiliates	—	(229)	—
Loss on valuation of investment securities	11	7	104
(Gain) on sales of investment securities	(25,821)	(259)	(243,044)
Increase (decrease) in net defined benefit liabilities	1,129	(7,166)	10,627
Interest and dividend income	(4,694)	(3,774)	(44,183)
Interest expenses	359	290	3,379
Foreign exchange losses (gains)	259	(111)	2,438
Equity in losses (gains) of affiliates	8	(7)	75
Loss (gain) on sales or disposal of property, plant and equipment, net	221	(3,544)	2,080
Business structural reform expenses	—	3,032	—
(Increase) in notes and accounts receivable—trade	(5,756)	(3,036)	(54,179)
(Increase) in inventories	(312)	(3,387)	(2,937)
Increase (decrease) in notes and accounts payable—trade	2,053	(550)	19,324
(Decrease) increase in accounts payable due to transition to a defined contribution pension plan	(1,235)	7,241	(11,625)
Other, net	1,527	(852)	14,373
Subtotal	53,049	44,679	499,332
Interest and dividend income received	4,672	3,780	43,976
Interest expenses paid	(274)	(230)	(2,579)
Payment of business structural reform expenses	(348)	(565)	(3,276)
Income taxes paid	(9,599)	(8,520)	(90,352)
Net cash provided by operating activities	47,498	39,142	447,082
Investing activities:			
Net (increase) in time deposits	(189)	(2,094)	(1,779)
Payments for purchase of property, plant and equipment	(22,962)	(13,276)	(216,133)
Proceeds from sales of property, plant and equipment	379	5,263	3,567
Payments for purchase of investment securities	(2)	(191)	(19)
Proceeds from sales and redemption of investment securities	27,535	318	259,177
Proceeds from liquidation of subsidiaries and affiliates	—	329	—
Payments for investments in capital	—	(9)	—
Payments of loans receivable	(29)	(38)	(273)
Collection of loans receivable	52	46	489
Other, net	(15)	(11)	(141)
Net cash provided by (used in) investing activities	4,766	(9,663)	44,861
Financing activities:			
Net increase in short-term loans payable	515	2,765	4,848
Repayments of long-term loans payable	(29)	(30)	(273)
Proceeds from deposits received from membership	125	125	1,177
Repayments for deposits received from membership	(365)	(5,582)	(3,436)
Purchase of treasury stock	(25,012)	(8)	(235,429)
Cash dividends paid	(10,123)	(9,768)	(95,284)
Cash dividends paid to non-controlling interests	(636)	(40)	(5,986)
Other, net	(58)	(47)	(546)
Net cash used in financing activities	(35,584)	(12,588)	(334,940)
Effect of exchange rate change on cash and cash equivalents	53	(1,238)	499
Net increase in cash and cash equivalents	16,733	15,651	157,502
Cash and cash equivalents at the beginning of period	100,669	85,018	947,562
Cash and cash equivalents at end of period (Note 21)	¥117,403	¥100,669	$1,105,073

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1 Summary of Significant Accounting Policies

(a) Basis of presentation

Yamaha Corporation (the Company) and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile. However, in accordance with "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force (PITF) No.18), the accompanying consolidated financial statements have been prepared by using the accounts of overseas consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items. The Company and all consolidated subsidiaries are referred to herein after as the "Yamaha Group."

The consolidated financial statements are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan. As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

(b) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the parent company and all subsidiaries over which it exerts substantial control either through majority ownership of voting stock and/or by other means. As of March 31, 2018, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 59 and 2 (66 and 2 in 2017). From the fiscal year ended March 31, 2018, the Company has excluded five domestic subsidiaries and two overseas subsidiaries from its scope of consolidation. Yamaha Piano Manufacturing Japan Co., Ltd. has been excluded from the scope of consolidation due to a merger with Yamaha Musical Products Corporation. As a result of this merger, the corporate name of Yamaha Musical Products Corporation has been changed to Yamaha Music Manufacturing Japan Corporation. Yamaha Music Media Corporation, Yamaha Music Artist, Inc., Yamaha Music Publishing, Inc., and Epicurus Corporation have been excluded from the scope of consolidation due to an absorption by Yamaha Music Entertainment Holdings, Inc. CAB INDUSTRIES S.A.R.L. and PATRICK CENSIER S.A.R.L. have been excluded from the scope of consolidation as a result of a merger with NEXO S.A.

Investments in affiliates (other than subsidiaries as defined above) whose decision-making and control over their operations are significantly affected in various ways by the Yamaha Group are accounted for by the equity method. Investments in two affiliates were accounted for by the equity method for the year ended March 31, 2018 (two in 2017). Investments in unconsolidated affiliates not accounted for by the equity method are carried at cost.

Eleven overseas subsidiaries have a financial closing date as of December 31, which differs from the financial closing date of the Company; however, financial statements as of March 31 are prepared and reported by these overseas subsidiaries for consolidation purposes.

(c) Securities

Securities owned by the Yamaha Group have been classified into two categories, held-to-maturity and available-for-sale, in accordance with the accounting standards for financial instruments. Under these standards, held-to-maturity debt securities are either amortized or accumulated to face value by the straight-line method. Marketable securities classified as available-for-sale securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Nonmarketable securities classified as available-for-sale securities are carried at cost. If the market value of marketable securities classified as available-for-sale securities declines significantly, such securities are written down to their respective fair value, thus establishing a new cost basis. The amount of each write-down is charged to income as a loss on valuation of investment securities unless the fair value is deemed recoverable. The Company has established a policy for the recognition of loss on valuation of investment securities if the market value at the year-end has declined significantly and a recovery to fair value is not anticipated. Cost of securities sold is determined by the weighted-average method.

(d) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are stated principally at the cost method (a method of reducing book value when the profitability of the inventories declines), cost being determined by the periodic average method. Inventories of the Company's overseas consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the moving average method.

(e) Depreciation

Depreciation of property, plant and equipment (excluding leased assets) is calculated by the straight-line method, at rates based on the estimated useful lives of the respective assets.

Estimated useful lives:
Buildings: 31–50 years (accompanying facilities: 15 years)
Structures: 10–30 years
Machinery and equipment: 4–12 years
Tools, furniture and fixtures: 5–6 years

Depreciation of leased assets under finance leases, other than those for which the ownership transfers to the lessee, is calculated by the straight-line method over the lease period with the residual value at zero.

(f) Allowance for doubtful accounts

To properly evaluate accounts receivable, the allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables. The amount of the provision is based on the historical experience with write-offs for normal receivables and individual estimation of the collectability of receivables due from specific companies in financial difficulties.

(g) Provision for product warranties

Provision for product warranties is provided to cover the cost of customers' claims relating to after-sales service and repairs. The amount of this provision is based on a percentage of the amount or volume of sales after considering the historical experience with repairs of products under warranty or individual estimation.

(h) Retirement benefits
In calculating retirement benefit obligations, the benefit formula is primarily used as the method for allocating projected retirement benefits to periods of service up to March 31, 2018.

Prior service cost is amortized as incurred by the straight-line method over a period (10 years) that is shorter than the average remaining years of service of the employees participating in the plans.

Actuarial gain or loss is amortized in the following year in which the gain or loss is recognized, primarily by the straight-line method, over a period (10 years) that is shorter than the average remaining years of service of the employees participating in the plans.

(i) Construction contracts
For the construction work in progress, if the outcome of the construction activity during the course of the construction is deemed certain, the percentage of completion method is applied.

When the above condition is not met, the completed-contract method is applied.

The method for estimating the amount recognized by the percentage of completion method is based on the ratio of costs incurred to the estimated total cost.

(j) Criteria for presentation of finance leases (as lessor)
Finance lease transactions where the Company or a consolidated subsidiary is the lessor of the leased assets, in which ownership is not transferred to the lessee, are recorded as lease investment assets which are included in the item "Other" account under "Current assets." Sales and cost of sales related to these finance lease transactions are recognized at the time the lease fees are received.

(k) Foreign currency translation
Monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the exchange rates in effect at each balance sheet date. The resulting exchange gain or loss is recognized as other income or expense. Assets and liabilities of overseas consolidated subsidiaries are translated at the exchange rates in effect at each balance sheet date. The components of net assets excluding translation adjustment and non-controlling interests are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Differences arising from translation are presented as translation adjustments and non-controlling interests in the accompanying consolidated balance sheet.

(l) Derivative financial instruments
The Company has entered into various derivative transactions in order to manage certain risk arising from adverse fluctuations in foreign currency exchange rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

(Hedge accounting)

To manage the fluctuation of foreign exchange risk in normal export and import transactions, the Company and its consolidated subsidiaries arrange their forward foreign exchange contracts and currency options, within amounts necessary, in accordance with internal rules of each company.

Hedging instruments are forward foreign exchange contracts and purchased foreign currency put options. Hedged items consist of forecast transactions, and recognized receivables and payables denominated in foreign currencies. Forecast transactions denominated in foreign currencies designated as hedged items are accounted for by the benchmark method.

Where hedge effectiveness is not reassessed given that the anticipated cash flows have been fixed by hedging activities and the risk of changes in cash flows is completely avoided, forward foreign exchange contracts related to receivables and payables denominated in foreign currencies are accounted for by the allocation method whereby translation differences are allocated into the hedged items. See Note 25.

(m) Amortization method and amortization period for goodwill
Amortization of goodwill is carried out separately for each goodwill item over a reasonable amount of years using the straight-line method.

(n) Cash and cash equivalents
Cash on hand and in banks and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(o) Income taxes
Deferred income taxes are recognized by the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

The Company and certain of its domestic subsidiaries have adopted the consolidated taxation system.

(p) Consumption tax
National and local consumption taxes are excluded from transaction amounts. Non-deductible national and local consumption taxes on assets are treated as expenses.

2 New Accounting Standards Not Yet Adopted

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 30, 2018)

(a) Overview
This is a comprehensive accounting standard for revenue recognition. Specifically the accounting standard establishes the following five-step model that will apply to revenue from customers.

Step 1: Identify the contract(s) with the customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligation in the contract.
Step 5: Recognize revenue when/as a performance obligation is satisfied.

(b) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2020.

(c) Impact of the adoption of accounting standard and implementation guidance.

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

3 Additional Information

The Company sold a portion of its holdings of Yamaha Motor Co., Ltd. shares. As a result, the Company reported a gain on sales of investment securities of ¥25,823 million ($243,063 thousand) for the fiscal year.

4 U.S. Dollar Amounts

Solely for the convenience of the reader, the accompanying consolidated financial statements for the year ended March 31, 2018 have been presented in U.S. dollars by translating all yen amounts at ¥106.24 = U.S.$1.00, the exchange rate prevailing on March 31, 2018. This translation should not be construed as a representation that yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

5 Accumulated Depreciation

Accumulated depreciation of property, plant and equipment at March 31, 2018 and 2017 amounted to ¥185,212 million ($1,743,336 thousand) and ¥182,053 million, respectively.

6 Investment Securities

Investment securities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Investment securities in unconsolidated subsidiaries and affiliates	¥917	¥918	$8,631
Investments in capital in unconsolidated subsidiaries and affiliates	31	31	292

7 Contingent Liabilities

At the end of the fiscal year ended March 31, 2018, five of the Company's consolidated subsidiaries in Indonesia (hereinafter, Consolidated Subsidiaries), including PT. Yamaha Musical Products Indonesia (hereinafter, YMPI) received notices of tax liability reassessments from the Indonesian tax authorities to pay a total of $36,218 thousand, including additional taxes, etc. (which amounts to ¥3,847 million when converted at the exchange rate prevailing at the end of the fiscal year) related to tax returns filed from FY2008 through FY2016.

Since the Company and its Consolidated Subsidiaries cannot agree with the content of the points raised by the tax authorities, they are proceeding with filing objections with the tax authorities, taking the matter to tax courts, requesting mutual agreement procedures, and other related action. Note that depending on the results of filing of a formal objection, the Company may be liable for tax surcharges.

The main contents of this matter are as follows.

In August 2017, YMPI received a notice of tax liability reassessment from the Indonesian tax authorities to pay taxes of $12,953 thousand, including additional taxes, etc. (which amounts to ¥1,376 million when converted at the exchange rate prevailing at the end of the fiscal year) in connection with sales prices, etc., during the fiscal year ended March 31, 2016.

However, the points raised by the Indonesian tax authorities are unreasonable, including a requirement for YMPI, which functions only as a manufacturing subcontractor, to report an extremely high level of operating profit of about 40%. The Company and YMPI, therefore, cannot agree with the points raised by the tax authorities and filed formal objections in November 2017. In addition, from the perspective of preventing double taxation, the Company has filed a request with Japan's National Tax Administration Agency for mutual agreement procedures based on tax treaties in March 2018.

In addition, in February 2018, YMPI received a notice of tax liability reassessment from the Indonesian tax authorities to pay taxes of $13,999 thousand, including additional taxes, etc. (which amounts to ¥1,487 million when converted at the exchange rate prevailing at the end of the fiscal year) in connection with sales prices, etc., during the fiscal year ended March 31, 2013.

However, the points raised by the Indonesian tax authorities are unreasonable, including a requirement for YMPI, which functions only as a manufacturing subcontractor, to report an extremely high level of operating profit of about 40%. The Company and YMPI, therefore, cannot agree with the points raised by the tax authorities and will make a formal objection.

8 Land Revaluation

For the year ended March 31, 2018, the Company has carried over the revaluation of their landholdings at the date of revaluation in accordance with the "Law Concerning the Revaluation of Land" (Law No.34 published on March 31, 1998). The date of revaluation was March 31, 2002.

The Company determined the value of its land based on the respective value registered in the land tax list or the supplementary land tax list as specified in No.10 or No.11 of Article 341 of the Local Tax Law governed by Item 3 of Article 2 of the Enforcement Order for the "Law Concerning the Revaluation of Land" (Cabinet Order No.119 published on March 31, 1998).

The excess of the revalued carrying amount of such land over its market value at March 31, 2018 and 2017 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Excess of revalued carrying amount of land over market value	¥(7,347)	¥(7,271)	$(69,155)

9 Inventories

Inventories at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Merchandise and finished goods	¥65,064	¥66,149	$612,425
Work in process	13,339	12,687	125,555
Raw materials and supplies	15,721	14,290	147,976
Total	¥94,126	93,127	$885,975

Write-downs of inventories for the years ended March 31, 2018 and 2017 were recognized in the following account:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Cost of sales	¥177	¥(107)	$1,666

Note: Figure shown in parentheses is a profit item.

10 Provision for Loss on Construction Contracts

Provision for loss on construction contracts was included in the following account for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Cost of sales	¥(11)	¥(149)	$(104)

Note: Figure shown in parentheses is a profit item.

11 Selling, General and Administrative Expenses

Principal items of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Sales commissions	¥ 1,186	¥ 1,157	$ 11,163
Transport expenses	12,878	11,841	121,216
Advertising expenses and sales promotion expenses	19,416	17,558	182,756
Allowance for doubtful accounts	103	149	970
Provision for product warranties	612	(38)	5,761
Retirement benefit expenses	3,696	3,752	34,789
Salaries and benefits	52,957	52,238	498,466
Rent	3,410	3,740	32,097
Depreciation and amortization	2,104	2,299	19,804

Note: Figure shown in parentheses is a profit item.

12 R&D Expenses

R&D expenses, included in selling, general and administrative expenses and cost of sales for the years ended March 31, 2018 and 2017, amounted to ¥24,797 million ($233,405 thousand) and ¥24,415 million, respectively.

13 Sales or Disposal of Property, Plant and Equipment

For the year ended March 31, 2018

Gain on sales of property, plant and equipment principally resulted from sales of land, and tools, furniture and fixtures. Loss on disposal of property, plant and equipment principally resulted from disposal of buildings, and machinery, tools, furniture and fixtures.

For the year ended March 31, 2017

Gain on sales of property, plant and equipment principally resulted from sales of noncurrent assets of ¥2,182 million related to realignment of the resort business. Loss on disposal of property, plant and equipment principally resulted from disposal of buildings and structures, and land.

14 Sales of Investment Securities

For the year ended March 31, 2018

Gain on sales of investment securities principally resulted from sales of a portion of its holdings of Yamaha Motor Co., Ltd. shares of ¥25,823 million ($243,063 thousand) for the fiscal year.

15 Loss on Impairment of Fixed Assets

The following table summarizes loss on impairment of fixed assets for the year ended March 31, 2017. (The table for the year ended March 31, 2018 has been omitted since the amounts are not material.)

Group of fixed assets	Location	Impaired assets	Millions of yen 2017
Idle assets, etc.	Kakegawa City, Shizuoka, and elsewhere	Buildings and structures	¥1,039
		Machinery, vehicles, tools, furniture and fixtures	123
		Land	1,437
		Construction in progress	34
		Total	¥2,634

Of the above, impairment loss of ¥2,004 million related to realignment of the resort business is included in the business structural reform expenses.

Method for Grouping of Assets
Within its segment classification, the Yamaha Group forms the smallest asset units that generate cash flow together.

Background Leading to the Recognition of Impairment Losses
Impairment losses were recognized on idle assets that will not be used in the future, assets that are expected to become idle assets, and assets that the Company expects to dispose of.

Calculation of the Recovery Value
The recovery value of idle assets, etc., is estimated from the net sales value; indicators include value estimates prepared by real estate appraisers, the assessed value for the tangible fixed assets tax, and other sources.

16 Amortization of Goodwill

For the year ended March 31, 2018
None

For the year ended March 31, 2017
An immediate amortization of goodwill was recognized based on Item 32 of the "Practical Guideline Related to Capital Consolidation Procedures in Consolidated Financial Statements" (Final Revision on November 28, 2014, the Accounting Practice Committee Report No.7 issued by the Japanese Institute of Certified Public Accountants).

17 Business Structural Reform Expenses

For the year ended March 31, 2018
None

For the year ended March 31, 2017
In addition to losses of ¥2,652 million (including ¥2,004 million of impairment loss on noncurrent assets) incurred in connection with the realignment of the resort business, the Company incurred losses of ¥380 million due to extra retirement allowance in connection with reductions in personnel at overseas manufacturing and development operations.

18 Other Income (Expenses)

The components of "Other, net" in "Other income (expenses)" for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Foreign exchange losses	¥(1,301)	¥(218)	$(12,246)
Gain on liquidation of subsidiaries and affiliates	—	229	—
Loss on valuation of investment securities	(11)	(6)	(104)
Others	267	(25)	2,513
Other, net	¥(1,045)	¥ (20)	$ (9,836)

19 Information on Consolidated Statement of Comprehensive Income

Reclassification adjustments and tax effects related to each component of other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Other comprehensive income			
Unrealized holding gain (loss) on securities			
Amount arising during the year	¥ 25,019	¥ 36,108	$ 235,495
Reclassification adjustments for gains and losses recognized in the Statement of Operations	(25,824)	(244)	(243,072)
Amount before tax effect adjustment	(804)	35,864	(7,568)
Tax effect	235	(10,630)	2,212
Total	(568)	25,234	(5,346)
Unrealized gain (loss) from hedging instruments			
Amount arising during the year	7	287	66
Tax effect	(1)	(87)	(9)
Total	5	200	47
Foreign currency translation adjustments			
Amount arising during the year	458	(4,853)	4,311
Remeasurements of defined benefit plans			
Amount arising during the year	227	4,322	2,137
Reclassification adjustments for gains and losses recognized in the Statement of Operations	2,672	3,502	25,151
Amount before tax effect adjustment	2,899	7,824	27,287
Tax effect	(854)	850	(8,038)
Total	2,045	8,675	19,249
Share of other comprehensive income of affiliates accounted for using equity method			
Amount arising during the year	15	9	141
Total	¥ 1,956	¥ 29,267	$ 18,411

20 Information on Consolidated Statement of Changes in Net Assets

The following tables present information related to the accompanying consolidated statement of changes in net assets for the years ended March 31, 2018 and 2017:

(a) Common stock

Number of shares	2018	2017
Beginning of the year	197,255,025	197,255,025
Increase	—	—
Decrease	—	—
End of the year	197,255,025	197,255,025

(b) Treasury stock

Number of shares	2018	2017
Beginning of the year	9,820,691	8,971,933
Increase	5,663,794*1	848,758*3
Decrease	77,600*2	—
End of the year	15,406,885	9,820,691

*1 Increase owing to purchase of treasury stock based on the resolution of the Board of Directors:	5,660,700 shares
Increase owing to purchase of outstanding fractional shares of less than one trading unit:	3,094 shares
*2 Decrease owing to disposition of treasury stock as restricted stock compensation:	77,600 shares
*3 Increase owing to purchase of treasury stock based on the resolution of the Board of Directors:	846,200 shares
Increase owing to purchase of outstanding fractional shares of less than one trading unit:	2,558 shares

(c) Subscription rights to shares

None

(d) Cash dividends

(1) Amount of dividend payments

2018

Date of approval	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars) (Note 4)	Dividends per share (Yen)	Dividends per share (U.S. dollars) (Note 4)	Record date	Effective date
Jun. 22, 2017 (Annual General Meeting of Shareholders)	Common stock	¥4,873	$45,868	¥26.00	$0.24	Mar. 31, 2017	Jun. 23, 2017
Nov. 1, 2017 (Board of Directors)	Common stock	¥5,250	$49,416	¥28.00	$0.26	Sept. 30, 2017	Dec. 7, 2017

Notes: Dividends per share of ¥26.00 ($0.24) approved on June 22, 2017 consisted of regular dividends of ¥26.00 ($0.24).
Dividends per share of ¥28.00 ($0.26) approved on November 1, 2017 consisted of regular dividends of ¥28.00 ($0.26).

2017

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Jun. 22, 2016 (Annual General Meeting of Shareholders)	Common stock	¥4,895	¥26.00	Mar. 31, 2016	Jun. 23, 2016
Nov. 7, 2016 (Board of Directors)	Common stock	¥4,873	¥26.00	Sept. 30, 2016	Dec. 8, 2016

Notes: Dividends per share of ¥26.00 approved on June 22, 2016 consisted of regular dividends of ¥26.00.
Dividends per share of ¥26.00 approved on November 7, 2016 consisted of regular dividends of ¥26.00.

(2) Dividends whose effective date is in the year subsequent to that in which the record date falls

2018

Date of approval	Type of shares	Source of dividends	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars) (Note 4)	Dividends per share (Yen)	Dividends per share (U.S. dollars) (Note 4)	Record date	Effective date
Jun. 25, 2018 (Annual General Meeting of Shareholders)	Common stock	Retained earnings	¥5,091	$47,920	¥28.00	$0.26	Mar. 31, 2018	Jun. 26, 2018

Note: Dividends per share of ¥28.00 ($0.26) approved on June 25, 2018 consisted of regular dividends of ¥28.00 ($0.26).

2017

Date of approval	Type of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Jun. 22, 2017 (Annual General Meeting of Shareholders)	Common stock	Retained earnings	¥4,873	¥26.00	Mar. 31, 2017	Jun. 23, 2017

Note: Dividends per share of ¥26.00 approved on June 22, 2017 consisted of regular dividends of ¥26.00.

21 Supplementary Cash Flow Information

The following table represents a reconciliation of "Cash and deposits" and "Cash and cash equivalents" at March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Cash and deposits	¥122,731	¥105,859	$1,155,224
Time deposits with a maturity of more than three months	(5,327)	(5,189)	(50,141)
Cash and cash equivalents	¥117,403	¥100,669	$1,105,073

22 Leases

2018

Lessees' accounting

Operating Lease Transactions

Future minimum lease payments subsequent to March 31, 2018 on noncancellable leases are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 4)
2019	¥ 637	$ 5,996
2020 and thereafter	2,056	19,352
Total	¥2,693	$25,348

Finance Lease Transactions in which Ownership is not transferred to the Lessee Commencing on or before March 31, 2008

(a) Amounts related to leased assets corresponding to the acquisition cost, accumulated depreciation and net book value at the end of the year

	Millions of yen			Thousands of U.S. dollars (Note 4)		
As of March 31, 2018	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	¥799	¥500	¥298	$7,521	$4,706	$2,805
Other	—	—	—	—	—	—
Total	¥799	¥500	¥298	$7,521	$4,706	$2,805

Amounts corresponding to the acquisition costs include interest expense since the balance of future minimum lease payments accounts for only a small percentage of property, plant and equipment as of the balance sheet date.

(b) Amounts corresponding to the future minimum lease payments subsequent to March 31, 2018

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 4)
2019	¥ 47	$ 442
2020 and thereafter	250	2,353
Total	¥298	$2,805

Amounts corresponding to the future minimum lease payments include interest expense since the balance of future minimum lease payments accounts for only a small percentage of property, plant and equipment as of the balance sheet date.

(c) Amounts corresponding to the lease payments and depreciation

Year ended March 31, 2018	Millions of yen	Thousands of U.S. dollars (Note 4)
Lease payments	¥47	$442
Depreciation	47	442

(d) Method of calculating the amount of the depreciation of leased assets

Depreciation of leased assets is calculated by straight-line method over the lease period with their residual value at zero.

Lessors' accounting

Operating Lease Transactions

Future minimum lease amounts receivable subsequent to March 31, 2018 on noncancellable leases are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 4)
2019	¥354	$3,332
2020 and thereafter	303	2,852
Total	¥657	$6,184

2017

Lessees' accounting

Operating Lease Transactions

Future minimum lease payments subsequent to March 31, 2017 on noncancellable leases are as follows:

Years ended / ending March 31	Millions of yen
2018	¥ 807
2019 and thereafter	2,490
Total	¥3,297

Finance Lease Transactions in which Ownership is not transferred to the Lessee Commencing on or before March 31, 2008

(a) Amounts related to leased assets corresponding to the acquisition cost, accumulated depreciation and net book value at the end of the year

	Millions of yen		
As of March 31, 2017	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	¥799	¥453	¥345
Other	—	—	—
Total	¥799	¥453	¥345

Amounts corresponding to the acquisition costs include interest expense since the balance of future minimum lease payments accounts for only a small percentage of property, plant and equipment as of the balance sheet date.

(b) Amounts corresponding to the future minimum lease payments subsequent to March 31, 2017

Years ended / ending March 31	Millions of yen
2018	¥ 47
2019 and thereafter	298
Total	¥345

Amounts corresponding to the future minimum lease payments include interest expense since the balance of future minimum lease payments accounts for only a small percentage of property, plant and equipment as of the balance sheet date.

(c) Amounts corresponding to the lease payments and depreciation

Year ended March 31, 2017	Millions of yen
Lease payments	¥47
Depreciation	47

(d) Method of calculating the amount of the depreciation of leased assets

Depreciation of leased assets is calculated by straight-line method over the lease period with their residual value at zero.

Lessors' accounting

Operating Lease Transactions

Future minimum lease amounts receivable subsequent to March 31, 2017 on noncancellable leases are as follows:

Years ended / ending March 31	Millions of yen
2018	¥470
2019 and thereafter	445
Total	¥915

23 Financial Instruments

(a) Overview

(1) Policy for financial instruments

The Yamaha Group, in principle, limits its cash management to deposits for which principals are guaranteed and interest rates are fixed. In addition, the Yamaha Group raises funds mainly through bank borrowings. Further, Yamaha and its owned domestic subsidiaries practice group finance. The Yamaha Group uses derivatives for the purpose of reducing risk, and limits derivative transactions to actual exposure. The Yamaha Group does not enter into derivative transactions for speculative purposes.

(2) Types of financial instruments and related risk

Trade notes and accounts receivable are exposed to the credit risk of its customers. In addition, the Yamaha Group is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies.

Short-term investment securities and investment securities are exposed to market risk. Those securities are composed of mainly the stock of Yamaha Motor Co., Ltd., a former affiliated company which shares the Yamaha brand, and shares of common stock of other companies with which it has business relationships. Trade notes and accounts payable, other accounts payable, and accrued expenses have payment due dates within one year. In addition, trade accounts payable that are denominated in foreign currencies are exposed to foreign currency exchange risk. Short-term loans payable are raised mainly in connection with business activities. Long-term deposits received are membership deposits received from customers in the Yamaha Group's resort business. The Yamaha Group is exposed to liquidity risk from its trade notes and accounts payable, other accounts payable, accrued expenses, short-term loans payable, and long-term deposits received.

Regarding derivatives, the Yamaha Group enters into forward foreign exchange contracts with netting arrangements and currency options (foreign currency put options) to reduce foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies in normal export and import transactions.

Forward foreign exchange contracts are exposed to foreign currency exchange risk. For currency options, since the Yamaha Group only uses purchased foreign currency put options, the risk of loss is limited to the option premium.

Derivative transactions are accounted for by hedge accounting. The method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities are described in Note 1 (l) Derivative financial instruments (Hedge accounting).

(b) Risk management for financial instruments

The Yamaha Group has established a Group financial management policy, and the Company and its consolidated subsidiaries have prepared rules based on this policy for the following risk:

(1) Credit risk (the risk that customers may default)

The Yamaha Group has prepared a policy for managing its credit exposure and trade receivables. In accordance with the rules, the Yamaha Group monitors the credit exposure limits of each customer and organizes all trade receivables by customer, and confirms the outstanding balances with customers regularly. For receivables that become past due, rules require taking steps to understand the causes and preparing a schedule for the recovery of this exposure.

To minimize the credit risk of the counterparty in derivative transactions, the Yamaha Group enters into transactions only with financial institutions that have a sound credit profile.

(2) Market risk (the risks arising from fluctuations in exchange rates, interest rates, and other indicators)

For trade receivables denominated in foreign currencies, the Yamaha Group minimizes the foreign exchange risk arising from the receivables by entering into forward foreign exchange contracts and arranging for currency options, after netting by the payables denominated in foreign currencies, within the limits of actual transactions. Also, the trade accounts payable denominated in foreign currencies are maintained within the amount of accounts receivable denominated in foreign currencies at all times.

For short-term investment securities and investment securities, the Yamaha Group periodically reviews the market value and the financial position of the issuer with which the Yamaha Group has a business relationship.

In conducting derivative transactions, based on the policy stated in (1) above, the Company and its consolidated subsidiaries hold discussions, establish internal rules for the management of derivatives, and then conduct and manage such transactions in accordance with the rules.

Derivative transactions of the Company and its subsidiaries are concentrated in each accounting and finance department of these companies. Internal rules set forth the roles of each accounting and finance department, reports to be submitted to top management, communications to be sent to related departments, and maximum upper limit on position.

Monthly reports including the outstanding balance of derivative transactions and quantitative information such as market trends of foreign exchange rates are submitted to top management.

(3) Liquidity risk (the risk that the Group may not be able to meet its obligations on the scheduled dates)

The Yamaha Group manages liquidity risk based on the cash flow plans of the Company and its consolidated subsidiaries and through the practice of group finance at the Company and its wholly owned subsidiaries in Japan.

(4) Supplementary explanation of the estimated fair value of financial instruments

The estimated fair value of financial instruments is their quoted market price if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

In addition, the notional amounts of derivatives in Note 25 are not indicative of the actual market risk involved in derivative transactions.

(c) Estimated fair value of financial instruments

Carrying value on the consolidated balance sheet as of March 31, 2018 and 2017, and difference between carrying value and estimated fair value, are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. See Note (ii) below:

	Millions of yen			Thousands of U.S. dollars (Note 4)		
As of March 31, 2018	Carrying value*1	Estimated fair value*1	Difference	Carrying value*1	Estimated fair value*1	Difference
Cash and deposits	¥122,731	¥122,731	¥ —	$1,155,224	$1,155,224	$ —
Notes and accounts receivable—trade	56,499	56,499	—	531,805	531,805	—
Investment securities						
Subsidiaries and affiliates securities	721	352	(369)	6,787	3,313	(3,473)
Available-for-sale securities	127,658	127,658	—	1,201,600	1,201,600	—
Notes and accounts payable—trade	(19,946)	(19,946)	—	(187,745)	(187,745)	—
Accounts payable—other and accrued expenses	(45,527)	(45,527)	—	(428,530)	(428,530)	—
Derivatives*2	155	155	—	1,459	1,459	—

	Millions of yen		
As of March 31, 2017	Carrying value*1	Estimated fair value*1	Difference
Cash and deposits	¥105,859	¥105,859	¥ —
Notes and accounts receivable—trade	50,995	50,995	—
Investment securities			
Subsidiaries and affiliates securities	723	414	(308)
Available-for-sale securities	129,536	129,536	—
Notes and accounts payable—trade	(17,828)	(17,828)	—
Accounts payable—other and accrued expenses	(43,961)	(43,961)	—
Derivatives*2	148	148	—

*1 Figures shown in parentheses are liability items.
*2 The value of assets and liabilities arising from derivatives is shown at net value, with net liability position shown in parentheses.

Notes:

(i) Methods for computing the estimated fair value of financial instruments, securities and derivative transactions

Cash and deposits and notes and accounts receivable — trade

Since these items are settled in a short period of time, the carrying value approximates fair value.

Investment securities

The fair value of stocks is based on quoted market prices. The fair value of debt securities is based on either the quoted market price or prices provided by the financial institutions making markets in these securities.

Information on securities classified by holding purpose is contained in Note 24.

Notes and accounts payable — trade and accounts payable — other and accrued expenses

Since these items are settled in a short period of time, the carrying value approximates fair value.

Derivatives Transactions

See Note 25.

(ii) Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Carrying value			
Unlisted stocks	¥1,962	¥2,512	$18,468
Long-term deposits received	9,090	9,102	85,561

Because no quoted market price is available and estimating their future cash flows is deemed to be prohibitively expensive, the estimated fair value of these financial instruments was extremely difficult to determine, and has not been disclosed.

(iii) The redemption schedule for receivables and securities with maturities as of March 31, 2018 and 2017

As of March 31, 2018	Millions of yen				Thousands of U.S. dollars (Note 4)			
	Within one year	Between one and five years	Between five and ten years	Over ten years	Within one year	Between one and five years	Between five and ten years	Over ten years
Cash and deposits	¥122,731	¥—	¥—	¥—	$1,155,224	$—	$—	$—
Notes and accounts receivable—trade	56,499	—	—	—	531,805	—	—	—
Total	¥179,230	¥—	¥—	¥—	$1,687,029	$—	$—	$—

As of March 31, 2017	Millions of yen			
	Within one year	Between one and five years	Between five and ten years	Over ten years
Cash and deposits	¥105,859	¥—	¥—	¥—
Notes and accounts receivable—trade	50,995	—	—	—
Total	¥156,855	¥—	¥—	¥—

(iv) The redemption schedule for long-term debt with maturities as of March 31, 2018 and 2017

As of March 31, 2018	Millions of yen					
	Within one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	Over five years
Short-term loans payable	¥11,131	¥—	¥—	¥—	¥—	¥—
Long-term loans payable	41	—	—	—	—	—
Lease obligations	54	53	33	17	16	70
Other interest-bearing debt	—	—	—	—	—	—
Total	¥11,227	¥53	¥33	¥17	¥16	¥70

As of March 31, 2018	Thousands of U.S. dollars (Note 4)					
	Within one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	Over five years
Short-term loans payable	$104,772	$ —	$ —	$ —	$ —	$ —
Long-term loans payable	386	—	—	—	—	—
Lease obligations	508	499	311	160	151	659
Other interest-bearing debt	—	—	—	—	—	—
Total	$105,676	$499	$311	$160	$151	$659

As of March 31, 2017	Millions of yen					
	Within one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	Over five years
Short-term loans payable	¥11,170	¥—	¥—	¥—	¥—	¥—
Long-term loans payable	30	30	10	—	—	—
Lease obligations	59	55	55	33	17	86
Other interest-bearing debt	—	—	—	—	—	—
Total	¥11,260	¥85	¥65	¥33	¥17	¥86

24 Securities

(a) Available-for-sale securities with fair market value

As of March 31, 2018	Millions of yen			Thousands of U.S. dollars (Note 4)		
	Carrying value	Acquisition costs	Unrealized gain	Carrying value	Acquisition costs	Unrealized gain
Securities whose carrying value exceeds their acquisition costs:						
Stock	¥127,658	¥14,874	¥112,783	$1,201,600	$140,004	$1,061,587
Other	—	—	—	—	—	—
Subtotal	¥127,658	¥14,874	¥112,783	$1,201,600	$140,004	$1,061,587
Securities whose carrying value does not exceed their acquisition costs:						
Stock	¥ —	¥ —	¥ —	$ —	$ —	$ —
Other	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	¥127,658	¥14,874	¥112,783	$1,201,600	$140,004	$1,061,587

As of March 31, 2017	Millions of yen		
	Carrying value	Acquisition costs	Unrealized gain
Securities whose carrying value exceeds their acquisition costs:			
Stock	¥129,536	¥15,892	¥113,644
Other	—	—	—
Subtotal	¥129,536	¥15,892	¥113,644
Securities whose carrying value does not exceed their acquisition costs:			
Stock	¥ —	¥ —	¥ —
Other	—	—	—
Subtotal	—	—	—
Total	¥129,536	¥15,892	¥113,644

(b) Available-for-sale securities sold during the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Sales of available-for-sale securities	¥27,245	¥291	$256,448
Gain on sales	25,824	259	243,072
Loss on sales	3	—	28

25 Derivatives and Hedging Activities

As of March 31, 2018 and 2017, there were no derivative transactions outstanding for which hedge accounting has not been applied. The notional amounts, the estimated fair value of the notional amount, and the estimated fair value of the derivative instruments outstanding as of March 31, 2018 and 2017, for which hedge accounting has been applied are summarized as follows:

As of March 31, 2018	Hedged items	Millions of yen				Calculation of fair value
		Notional amount		Estimated fair value of notional amount	Estimated fair value of derivative instruments	
		Total	Over one year			
Forward foreign exchange contracts accounted for by benchmark method:						Prices provided by financial institution
Sell:	Accounts receivable					
Euros		¥12,996	¥—	¥12,840	¥155	
Forward foreign exchange contracts accounted for allocation method:						Market Price
Sell:	Accounts receivable					
Euros		1,861	—	—	—	
Total		¥14,858	¥—	¥ —*	¥ —*	

* The estimated fair value is included in the fair value of accounts receivable, since the forward foreign exchange contracts are accounted for as part of accounts receivable under the allocation method in hedge accounting.

As of March 31, 2018	Hedged items	Thousands of U.S. dollars (Note 4) Notional amount Total	Over one year	Estimated fair value of notional amount	Estimated fair value of derivative instruments	Calculation of fair value
Forward foreign exchange contracts accounted for by benchmark method:						Prices provided by financial institution
Sell:	Accounts receivable					
Euros		$122,327	$—	$120,858	$1,459	
Forward foreign exchange contracts accounted for allocation method:						Market Price
Sell:	Accounts receivable					
Euros		17,517	—	—	—	
Total		$139,853	$—	$ —*	$ —*	

* The estimated fair value is included in the fair value of accounts receivable, since the forward foreign exchange contracts are accounted for as part of accounts receivable under the allocation method in hedge accounting.

As of March 31, 2017	Hedged items	Millions of yen Notional amount Total	Over one year	Estimated fair value of notional amount	Estimated fair value of derivative instruments	Calculation of fair value
Forward foreign exchange contracts accounted for by benchmark method:						Prices provided by financial institution
Sell:	Accounts receivable					
Euros		¥13,473	¥—	¥13,324	¥148	
Forward foreign exchange contracts accounted for allocation method:						Market Price
Sell:	Accounts receivable					
Euros		815	—	—	—	
Total		¥14,288	¥—	¥ —*	¥ —*	

* The estimated fair value is included in the fair value of accounts receivable, since the forward foreign exchange contracts are accounted for as part of accounts receivable under the allocation method in hedge accounting.

26 Retirement Benefits

(a) Outline of the Company's retirement benefit system

To provide employee retirement benefits, the Company and its consolidated subsidiaries have funded and unfunded defined benefit pension plans and defined contribution pension plans.

The defined benefit pension plan (funded and unfunded plans) pays a lump-sum or an annual pension based on the employee compensation point system.

In certain cases, the Company pays employees who are retiring, etc., additional retirement benefits that are not considered to be retirement benefit obligations as calculated under actuarial methods based on retirement benefit accounting principles.

Certain consolidated subsidiaries that have defined benefit pension plans calculate net defined benefit liabilities and retirement benefit expenses using the simplified method.

Revisions in the pension plans

Certain subsidiaries of Yamaha Corporation revised their pension plans as of October 1, 2017, and made the transition of a portion of such plans from defined benefit to defined contribution plans.

Accompanying this, Yamaha has applied "Accounting Treatment of Pension Plan Transitions" (Corporate Accounting Application Guidelines No. 1). As a consequence, the Company recognized an extraordinary loss due to transition to a defined contribution pension plan amounting to ¥148 million ($1,393 thousand) for the year ended March 31, 2018.

(b) Defined benefit pension plans

(1) Changes in the retirement benefit obligations for the years ended March 31, 2018 and 2017 (excluding plans that apply the simplified method)

	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 4) 2018
Retirement benefit obligations at the beginning of year	¥106,920	¥120,551	$1,006,401
Service cost	4,040	4,665	38,027
Interest cost	720	544	6,777
Actuarial gain or loss	1,692	(1,123)	15,926
Retirement benefits paid	(7,633)	(8,571)	(71,847)
Prior service cost	—	(2,343)	—
Decrease due to transition to a defined contribution pension plan	—	(6,869)	—
Other	(238)	66	(2,240)
Retirement benefit obligations at end of year	¥105,502	¥106,920	$993,053

(2) Changes in the plan assets for the years ended March 31, 2018 and 2017 (excluding plans that apply the simplified method)

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Plan assets at the beginning of year	¥85,563	¥83,994	$805,375
Expected return on plan assets	1,693	1,659	15,936
Actuarial gain or loss	1,886	837	17,752
Contribution by the Yamaha Group	2,941	5,579	27,683
Retirement benefits paid	(6,127)	(6,550)	(57,671)
Other	(9)	42	(85)
Plan assets at end of year	¥85,947	¥85,563	$808,989

(3) Changes in net defined benefit liabilities for plans that apply the simplified method for the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Net defined benefit liabilities at the beginning of year	¥1,428	¥1,461	$13,441
Retirement benefit expenses	176	237	1,657
Retirement benefits paid	(138)	(213)	(1,299)
Contribution to plan	(27)	(29)	(254)
Decrease due to transition to a defined contribution pension plan	(204)	—	(1,920)
Other	32	(27)	301
Net defined benefit liabilities at end of year	¥1,266	¥1,428	$11,916

(4) Reconciliation between the funded status of the plans (retirement benefit obligations and plan assets) and the amounts recognized in the consolidated balance sheet (net defined benefit liabilities and net defined benefit assets) as of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Retirement benefit obligations of funded plans	¥ 87,073	¥ 89,328	$ 819,588
Plan assets	(86,451)	(86,235)	(813,733)
	622	3,092	5,855
Retirement benefit obligations of unfunded plans	20,199	19,692	190,126
Net assets and liabilities recorded in the consolidated balance sheet	20,821	22,784	195,981
Net defined benefit liabilities	21,098	23,039	198,588
Net defined benefit assets	(276)	(254)	(2,598)
Net assets and liabilities recorded in the consolidated balance sheet	¥ 20,821	¥ 22,784	$ 195,981

Note: Including plans that apply the simplified method.

(5) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Service cost	¥ 4,040	¥ 4,665	$ 38,027
Interest cost	720	544	6,777
Expected return on plan assets	(1,693)	(1,659)	(15,936)
Amortization of actuarial gain or loss	2,904	3,385	27,334
Amortization of prior service cost	(188)	(475)	(1,770)
Retirement benefit expenses calculated by simplified method	176	237	1,657
Other	4	82	38
Retirement benefit expenses for defined benefit pension plans	5,964	6,781	56,137
Loss due to transition to a defined contribution pension plan	¥ 148	¥ 892	$ 1,393

Note: In the year ended March 31, 2017, other than the amount described above the Company posted an extraordinary loss (business structural reform expenses) of ¥260 million on premium severance pay and other contribution items in connection with the realignment of resort business.

(6) Remeasurements of defined benefit plans

Components of remeasurements of defined benefit plans (before taxes)

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Prior service cost	¥ (234)	¥1,844	$ (2,203)
Actuarial gain or loss	3,134	5,980	29,499
Total	¥2,899	¥7,824	$27,287

(7) Accumulated remeasurements of defined benefit plans

Components of accumulated remeasurements of defined benefit plans (before taxes)

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Unrecognized prior service cost	¥(2,050)	¥(2,284)	$(19,296)
Unrecognized actuarial gain or loss	2,826	5,960	26,600
Total	¥ 776	¥ 3,676	$ 7,304

(8) Items for plan assets

(i) Components of plan assets

Ratio of primary components of total plan assets

	2018	2017
Life insurance company general accounts	57%	58%
Stocks	23%	20%
Bonds	13%	19%
Cash and deposits	1%	1%
Other	6%	2%
Total	100%	100%

(ii) Determining expected long-term rate of return

In determining the long-term rate of return of plan assets, the Company considers the current and projected asset allocations, as well as the current and expected long-term investment returns from the various assets that constitute the plan assets.

(9) Items related to the basis of actuarial calculation

Items that form the primary basis for actuarial calculations as of March 31, 2018 and 2017

	2018	2017
Discount rate	0.4%	0.5%
Expected long-term rate of return	2.0%	2.0%

(c) Defined contribution pension plans

Required contributions to defined contribution pension plans of consolidated subsidiaries totaled ¥1,376 million ($12,952 thousand) and ¥664 million in the years ended March 31, 2018 and 2017, respectively. In addition, aside from the above required contributions, the Company also posted ¥134 million of additional retirement benefit expenses in the year ended March 31,2017.

27 Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes, and enterprise tax which, in the aggregate, resulted in effective statutory tax rates of approximately 30.2% and 30.2% for the years ended March 31, 2018 and 2017, respectively. Income taxes of the overseas consolidated subsidiaries are, in general, based on the tax rates applicable in their respective countries of incorporation.

The major components of deferred tax assets and liabilities as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Deferred tax assets:			
Write-downs of inventories	¥ 1,686	¥ 1,769	$ 15,870
Unrealized gain on inventories and property, plant and equipment	3,822	1,847	35,975
Allowance for doubtful accounts	280	319	2,636
Depreciation	6,962	7,214	65,531
Loss on impairment of fixed assets	3,534	3,616	33,264
Loss on valuation of investment securities	1,963	2,011	18,477
Accrued employees' bonuses	2,298	2,362	21,630
Provision for product warranties	304	310	2,861
Long-term accounts payable	1,816	2,186	17,093
Net defined benefit liabilities	5,934	6,568	55,855
Tax loss carryforwards	5,085	5,835	47,863
Other	6,179	5,275	58,161
Gross deferred tax assets	39,867	39,320	375,254
Valuation allowance	(12,922)	(13,282)	(121,630)
Total deferred tax assets	¥ 26,944	¥ 26,037	$ 253,614
Deferred tax liabilities:			
Reserve for deferred gain on property, plant and equipment	¥ (793)	¥ (820)	$ (7,464)
Reserve for special account for acquisition of replacement property	(2,204)	(2,204)	(20,745)
Reserve for special depreciation	(2)	(4)	(19)
Unrealized holding gain on securities	(33,250)	(33,485)	(312,971)
Other	(1,396)	(853)	(13,140)
Total deferred tax liabilities	(37,647)	(37,369)	(354,358)
Net deferred tax liabilities	¥(10,702)	¥(11,331)	$(100,734)

A reconciliation between the effective statutory tax rate and the effective tax rate for the years ended March 31, 2018 and 2017 is as follows:

	2018	2017
Effective statutory tax rate	30.2%	30.2%
Adjustments:		
Differences in tax rates of overseas consolidated subsidiaries	(1.2)	(1.7)
Non-temporary differences not deductible for tax purposes	(0.6)	(0.7)
Per capita inhabitants' taxes	0.2	0.4
Foreign withholding tax	1.1	1.0
Allowances for changes in valuation	(2.2)	(39.2)
Amortization of goodwill	0.0	1.6
Special deduction for R&D expenses	(1.6)	(0.8)
Other	1.0	(0.1)
Effective tax rate after adjustments for tax-effect accounting	26.9%	(9.3)%

(Change in the Method of Presentation)
In the previous fiscal year, special deduction for R&D expenses was included in other in the above table.

However, since the amount has become material, it has been presented separately from the year ended March 31, 2018. To reflect this change in presentation, the corresponding figure for the previous fiscal year has been reclassified.

As a result, in the above table for the previous fiscal year, other, which was reported as (0.9)%, has been restated as special deduction for R&D expenses of (0.8)% and other of (0.1)%.

28 Segment Information

For the years ended March 31, 2018 and 2017

(a) Summary of reporting segments

Business segments are composed of business units that provide separate financial information, and are regularly reviewed by the Board of Directors of the Company for the purpose of business performance evaluation and management resource allocation decisions.

The Company's business segments, based on its economic features and similarity of products and services, comprise its two principal reporting segments, which are musical instruments and audio equipment. Other businesses have been grouped together in the "Others" segment.

The musical instruments business segment includes the manufacture and sales of pianos; digital musical instruments; wind, string, and percussion instruments; and other music-related activities. The audio equipment business segment includes the manufacture and sales of audio products, professional audio equipment, information and telecommunication equipment, and certain other products. The "others" segment includes electronic devices business, automobile interior wood components, factory automation (FA) equipment, golf products, recreation, and certain other lines of business.

(b) Method for calculating the sales, income (loss), assets, liabilities, and other items for reporting segments

The accounting treatment for reporting segments is carried out through principles and procedures that are the same as those used for preparing the consolidated financial statements.

Figures for income in reporting segments are on an operating income basis.

Intersegment sales and transfers are based on prevailing market prices.

(c) Information by product and service

	Millions of yen						
	Reporting segment						
As of March 31, 2018	Musical instruments	Audio equipment	Total	Others	Total	Adjustments and elimination	Consolidated
Sales:							
Sales to external customers	¥274,486	¥121,788	¥396,275	¥ 36,692	¥432,967	¥ —	¥432,967
Intersegment sales or transfers	—	—	—	342	342	(342)	—
Total	274,486	121,788	396,275	37,035	433,310	(342)	432,967
Segment income	¥ 34,644	¥ 10,715	¥ 45,359	¥ 3,473	¥ 48,833	¥ —	¥ 48,833
Segment assets	¥321,624	¥ 77,784	¥399,408	¥160,775	¥560,184	¥ —	¥560,184
Other items:							
Depreciation and amortization	¥ 7,335	¥ 2,701	¥ 10,036	¥ 740	¥ 10,777	¥ —	¥ 10,777
Loss on impairment of fixed assets	¥ 27	—	¥ 27	—	¥ 27	¥ —	¥27
Increase in property, plant and equipment and intangible assets	¥ 18,440	¥ 4,207	¥ 22,647	¥ 2,085	¥ 24,732	¥ —	¥ 24,732

	Thousands of U.S. dollars (Note 4)						
	Reporting segment						
As of March 31, 2018	Musical instruments	Audio equipment	Total	Others	Total	Adjustments and elimination	Consolidated
Sales:							
Sales to external customers	$2,583,641	$1,146,348	$3,729,998	$ 345,369	$4,075,367	$ —	$4,075,367
Intersegment sales or transfers	—	—	—	3,219	3,219	(3,219)	—
Total	2,583,641	1,146,348	3,729,998	348,598	4,078,596	(3,219)	4,075,367
Segment income	$ 326,092	$ 100,857	$ 426,948	$ 32,690	$ 459,648	$ —	$ 459,648
Segment assets	$3,027,334	$ 732,154	$3,759,488	$1,513,319	$5,272,816	—	$5,272,816
Other items:						—	
Depreciation and amortization	$ 69,042	$ 25,424	$ 94,465	$ 6,965	$ 101,440	$ —	$ 101,440
Loss on impairment of fixed assets	$ 254	$ —	$ 254	$ —	$ 254	$ —	$ 254
Increase in property, plant and equipment and intangible assets	$ 173,569	$ 39,599	$ 213,168	$ 19,625	$ 232,794	$ —	$ 232,794

Notes: 1. The item "Adjustments and elimination" for the year ended March 31, 2018 contains the following:
The sales adjustment item of ¥(342) million ($(3,219) thousand) comprises eliminations of transactions among the Company's business segments.
2. "Segment income" for the year ended March 31, 2018 means the operating income of the segment as presented in the Consolidated Statement of Operations.
3. Among the assets of the Others segment, the amounts of investment securities related to Yamaha Motor Co., Ltd. (the market value reported on the accompanying consolidated balance sheet) were ¥110,164 million ($1,036,935 thousand).

As of March 31, 2017	Millions of yen: Reporting segment: Musical instruments	Audio equipment	Total	Others	Total	Adjustments and elimination	Consolidated
Sales:							
Sales to external customers	¥257,664	¥115,484	¥373,148	¥ 35,099	¥408,248	¥ —	¥408,248
Intersegment sales or transfers	—	—	—	402	402	(402)	—
Total	257,664	115,484	373,148	35,501	408,650	(402)	408,248
Segment income	¥ 32,138	¥ 10,447	¥ 42,586	¥ 1,716	¥ 44,302	¥ —	¥ 44,302
Segment assets	¥294,687	¥ 75,555	¥370,242	¥152,120	¥522,362	¥ —	¥522,362
Other items:							
Depreciation and amortization	¥ 7,245	¥ 2,920	¥ 10,166	¥ 978	¥ 11,145	¥ —	¥ 11,145
Loss on impairment of fixed assets	¥ 546	¥ 83	¥ 630	¥ 2,004	¥ 2,634	¥ —	¥ 2,634
Increase in property, plant and equipment and intangible assets	¥ 11,469	¥ 4,047	¥ 15,516	¥ 2,364	¥ 17,881	¥ —	¥ 17,881

Notes: 1. The item "Adjustments and elimination" for the year ended March 31, 2017 contains the following:
The sales adjustment item of ¥(402) million comprises eliminations of transactions among the Company's business segments.
2. "Segment income" for the year ended March 31, 2017 means the operating income of the segment as presented in the Consolidated Statement of Operations.
3. Among the assets of the Others segment, the amounts of investment securities related to Yamaha Motor Co., Ltd. (the market value reported on the accompanying consolidated balance sheet) were ¥114,325 million.

(d) Information by geographical segment

(i) Sales information based on the geographical location of the customers

Year ended March 31, 2018	Millions of yen: Japan	Overseas: North America (U.S.A.)	Europe	China	Asia, Oceania, and other areas	Total	Consolidated
Net sales	¥133,726	¥86,888 (76,249)	¥84,815	¥54,188	¥73,348	¥299,240	¥432,967
Sales as a percentage of consolidated net sales	30.9%	20.1% (17.6)%	19.6%	12.5%	16.9%	69.1%	100.0%

Year ended March 31, 2018	Thousands of U.S. dollars (Note 4): Japan	Overseas: North America (U.S.A.)	Europe	China	Asia, Oceania, and other areas	Total	Consolidated
Net sales	$1,258,716	$817,846 (717,705)	$798,334	$510,053	$690,399	$2,816,642	$4,075,367
Sales as a percentage of consolidated net sales	30.9%	20.1% (17.6)%	19.6%	12.5%	16.9%	69.1%	100.0%

Notes: 1. Sales information is based on the geographical location of customers, and is classified by country or region.
2. Main country and regional divisions other than Japan:
(a) North America: U.S.A. and Canada
(b) Europe: Germany, France, and U.K.
(c) Asia, Oceania, and other areas: Republic of Korea and Australia

Year ended March 31, 2017	Millions of yen: Japan	Overseas: North America (U.S.A.)	Europe	China	Asia, Oceania, and other areas	Total	Consolidated
Net sales	¥138,404	¥83,032 (74,231)	¥76,463	¥45,827	¥64,520	¥269,843	¥408,248
Sales as a percentage of consolidated net sales	33.9%	20.3% (18.2%)	18.7%	11.2%	15.9%	66.1%	100.0%

Notes: 1. Sales information is based on the geographical location of customers, and is classified by country or region.
2. Main country and regional divisions other than Japan:
(a) North America: U.S.A. and Canada
(b) Europe: Germany, France, and U.K.
(c) Asia, Oceania, and other areas: Republic of Korea, and Australia

(ii) Sales, income (loss), assets, and property, plant and equipment information based on group locations

	Millions of yen							
Year ended March 31, 2018	Japan	North America	Europe	China	Asia, Oceania, and other areas	Total	Adjustments and elimination	Consolidated
Sales:								
Sales to external customers	¥144,277	¥90,846	¥85,473	¥48,024	¥ 64,344	¥432,967	¥ —	¥432,967
Intersegment sales or transfers	170,472	2,338	2,461	31,372	59,861	266,506	(266,506)	—
Total	314,749	93,184	87,935	79,397	124,206	699,473	(266,506)	432,967
Segment income (loss)	¥ 32,027	¥ 3,587	¥ 1,059	¥ 7,357	¥ 6,360	¥ 50,392	¥ (1,559)	¥ 48,833
Segment assets	¥374,688	¥41,360	¥40,759	¥54,765	¥ 75,270	¥586,844	¥ (26,660)	¥560,184
Property, plant and equipment	¥ 84,502	¥ 1,635	¥ 3,585	¥11,547	¥ 14,547	¥115,817	¥ —	¥115,817

	Thousands of U.S. dollars (Note 4)							
Year ended March 31, 2018	Japan	North America	Europe	China	Asia, Oceania, and other areas	Total	Adjustments and elimination	Consolidated
Sales:								
Sales to external customers	$1,358,029	$855,102	$804,527	$452,033	$ 605,648	$4,075,367	$ —	$4,075,367
Intersegment sales or transfers	1,604,593	22,007	23,165	295,294	563,451	2,508,528	(2,508,528)	—
Total	2,962,622	877,108	827,701	747,336	1,169,108	6,583,895	(2,508,528)	4,075,367
Segment income (loss)	$ 301,459	$ 33,763	$ 9,968	$ 69,249	$ 59,864	$ 474,322	$ (14,674)	$ 459,648
Segment assets	$3,526,807	$389,307	$383,650	$515,484	$ 708,490	$5,523,758	$ (250,941)	$5,272,816
Property, plant and equipment	$ 795,388	$ 15,390	$ 33,744	$108,688	$ 136,926	$1,090,145	$ —	$1,090,145

Notes: 1. Sales information is based on Group locations where sales take place, and is classified by country or region.
2. Main country and regional divisions other than Japan:
This classification is the same as "Sales information based on the geographical location of the customers."
3. The item "Adjustments" contains the following:
The sales adjustment item of ¥(266,506) million ($(2,508,528) thousand) comprises eliminations of transactions among the Company's business segments.
4. Consolidated segment income corresponds to operating income presented in the consolidated statement of operations.

	Millions of yen							
Year ended March 31, 2017	Japan	North America	Europe	China	Asia, Oceania, and other areas	Total	Adjustments and elimination	Consolidated
Sales:								
Sales to external customers	¥147,306	¥86,991	¥76,664	¥40,077	¥ 57,207	¥408,248	¥ —	¥408,248
Intersegment sales or transfers	152,887	2,371	2,460	31,459	56,153	245,332	(245,332)	—
Total	300,193	89,363	79,125	71,537	113,360	653,580	(245,332)	408,248
Segment income	¥ 20,675	¥ 4,610	¥ 4,052	¥ 7,941	¥ 6,467	¥ 43,747	¥ 555	¥ 44,302
Segment assets	¥344,333	¥42,541	¥37,466	¥47,696	¥ 72,443	¥544,482	¥ (22,119)	¥522,362
Property, plant and equipment	¥ 75,880	¥ 1,768	¥ 3,183	¥10,793	¥ 13,851	¥105,475	¥ —	¥105,475

Notes: 1. Sales information is based on Group locations where sales take place, and is classified by country or region.
2. Main country and regional divisions other than Japan:
This classification is the same as "Sales information based on the geographical location of the customers."
3. The item "Adjustments" contains the following:
The sales adjustment item of ¥(245,332) million comprises eliminations of transactions among the Company's business segments.
4. Consolidated segment income corresponds to operating income presented in the consolidated statement of operations.

(e) Information related to the amount of amortization of goodwill and the unamortized amount of goodwill by reporting segment

For the year ended March 31, 2018

	Millions of yen			
	Musical instruments	Audio equipment	Others	Total
Amounts amortized in the year ended	**¥57**	**¥ 3**	**¥—**	**¥61**
Balance as of March 31, 2018	**¥—**	**¥—**	**¥—**	**¥—**

	Thousands of U.S. dollars (Note 4)			
	Musical instruments	Audio equipment	Others	Total
Amounts amortized in the year ended	**$537**	**$28**	**$—**	**$574**
Balance as of March 31, 2018	**$ —**	**$—**	**$—**	**$ —**

For the year ended March 31, 2017

	Millions of yen			
	Musical instruments	Audio equipment	Others	Total
Amounts amortized in the year ended	¥57	¥2,249	¥—	¥2,307
Balance as of March 31, 2017	¥57	¥ 3	¥—	¥ 60

(f) Information on gain on negative goodwill by reporting segment

None

29 Amounts per Share

Years ended March 31	Yen 2018	Yen 2017	U.S. dollars (Note 4) 2018
Net income per share:			
Basic	**¥291.81**	¥249.17	**$2.75**

As of March 31	Yen 2018	Yen 2017	U.S. dollars (Note 4) 2018
Net assets per share	**¥2,125.51**	¥1,948.01	**$20.01**

Basic net income per share is computed based on the net income and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share for the years ended March 31, 2018 and 2017 has not been presented because there were no potentially dilutive securities at March 31, 2018 and 2017.

Net assets per share are based on the number of shares of common stock outstanding at each balance sheet date.

The basic net income per share is calculated as follows:

Years ended March 31	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 4) 2018
Basic net income per share:			
Net income attributable to owners of parent	**¥54,378**	¥46,719	**$511,841**
Amounts not attributable to shareholders of common stock	**—**	—	**—**
Net income attributable to shareholders of common stock	**54,378**	46,719	**511,841**
Weighted-average number of shares outstanding (shares)	**186,347,105**	187,500,903	**—**

30 Short-Term Loans Payable and Long-Term Debt

Short-term and long-term loans payable, lease obligations, and guarantee deposits as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Short-term loans payable	¥11,131	¥11,170	$104,772
Current portion of long-term loans payable	41	30	386
Current portion of lease obligations	54	59	508
Long-term loans payable	—	40	—
Lease obligations	190	248	1,788
Guarantee deposits	40	39	377
Total	¥11,459	¥11,589	$107,860

The annual weighted-average interest rates applicable to above short-term loans payable and long-term debt at March 31, 2018 were as follows:

	2018
Short-term loans payable	1.8%
Current portion of long-term loans payable	1.8%
Long-term loans payable	—
Guarantee deposits	1.2%

Note: The average interest rate shown above is the weighted average of the interest rates on loans calculated by using the balance of such obligations outstanding at the end of the year. For lease obligations, no average interest rate is shown because the amounts in the consolidated balance sheet include the amounts corresponding to interest paid from total lease payments.

31 Notes Receivable and Payable Maturing on the Balance Sheet Date

Notes receivable and payable are settled on the date of clearance. As March 31, 2018 was bank holiday, notes receivable and payable maturing on that date could not be settled and were settled on the following business day and included in the ending balances of notes and accounts receivable-trade, and notes and accounts payable-trade as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Notes receivable	¥ 5	¥—	$ 47
Notes payable	¥13	¥—	$122

32 Related Party Transactions

None

33 Subsequent Events

Reduction in Capital Reserve and Cancellation of Treasury Stock

The Company announced on May 1, 2018, that the Board of Directors decided to place a proposal entitled "Reduction in Capital Reserve" on the agenda of the 194th Ordinary General Shareholders' Meeting to be held on June 25, 2018, to provide funding for the cancellation of treasury stock. The proposal was subsequently approved at this meeting.

In addition, accompanying the completion of the buyback of the Company's shares that was announced on November 28, 2017 and concluded on March 23, 2018, the Board of Directors decided at the same meeting to cancel a portion of the Company's treasury stock based on Article 178 of the Companies Act of Japan.

The details are as follows:

(a) Objective of the reduction in capital reserve

To provide for the cancellation of treasury stock, the Company will reduce the level of the capital reserve and transfer this amount to other capital surplus, as provided for in Article 448-1 of the Companies Act.

(b) Outline of the reduction in capital reserve

(1) Amount of capital reserve to be reduced
Reduction of ¥37,000,000,000 ($348,268,072) in total capital reserve of ¥40,054,319,267 ($377,017,312)

(2) Item of capital surplus to be increased and amount
Increase in other capital surplus: ¥37,000,000,000 ($348,268,072)

(c) Schedule for reduction in capital reserve

(1) Date for Board decision: May 1, 2018
(2) Date of announcement to creditors: May 15, 2018
(3) Final date for submission of creditor objections: June 15, 2018
(4) Date of resolution at General Shareholders' Meeting: June 25, 2018
(5) Date of effectiveness: June 26, 2018

(d) Outline of the cancellation of treasury stock

(1) Type of treasury shares to be cancelled: The Company's common stock
(2) Number of treasury shares to be cancelled: 5,700,000 (representing 2.89% of Company shares issued prior to the cancellation)
(3) Date of cancellation: June 26, 2018

Note: After the cancellation of shares, the total number of shares issued will be 191,555,025.

(e) Other matters

This matter will not result in any change in total net assets or have an effect on performance.

Independent Auditor's Report

Ernst & Young ShinNihon LLC

Building a better working world

Independent Auditor's Report

The Board of Directors
YAMAHA CORPORATION

We have audited the accompanying consolidated financial statements of YAMAHA CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of YAMAHA CORPORATION and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 26, 2018
Hamamatsu, Japan

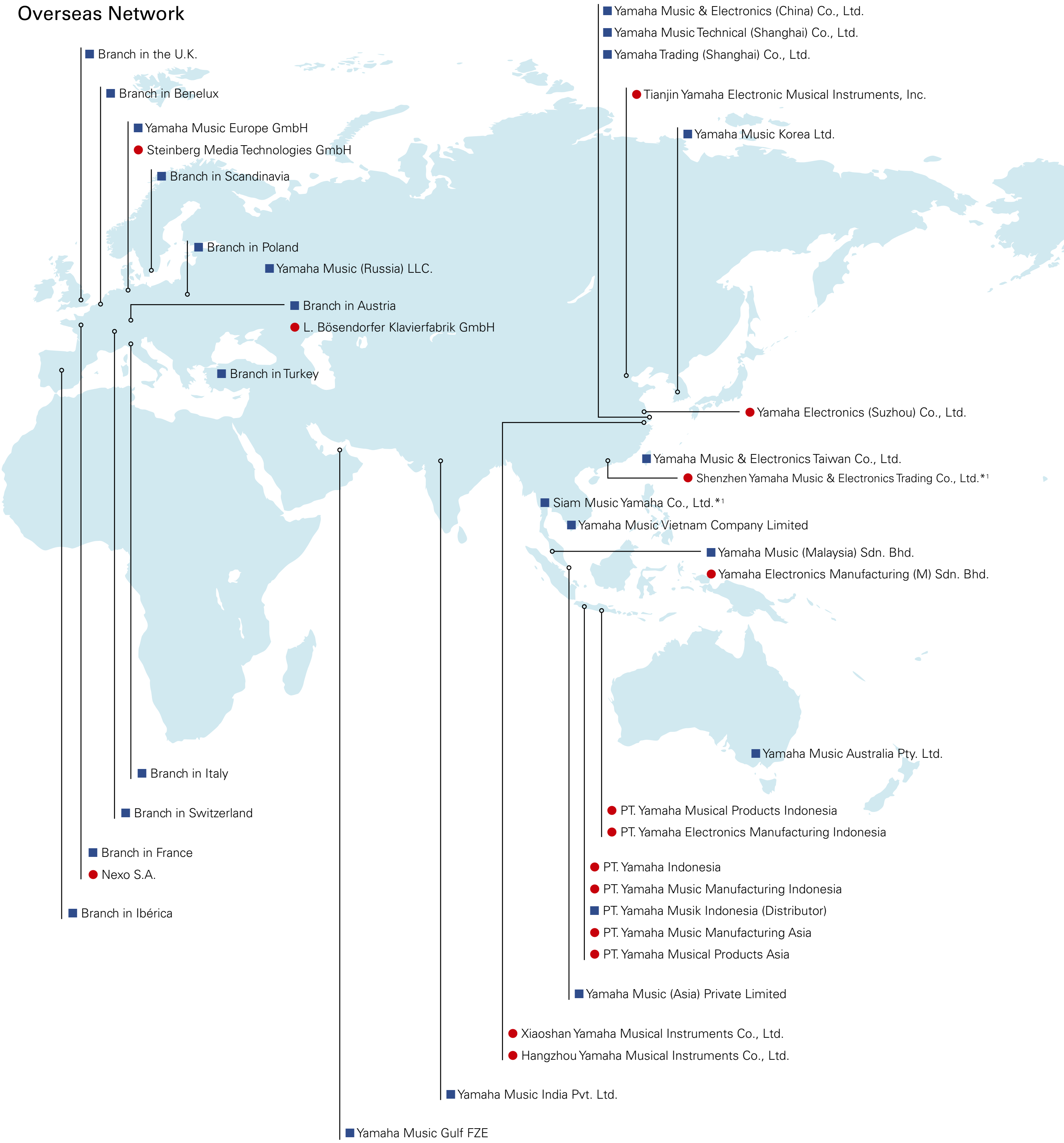
A member firm of Ernst & Young Global Limited

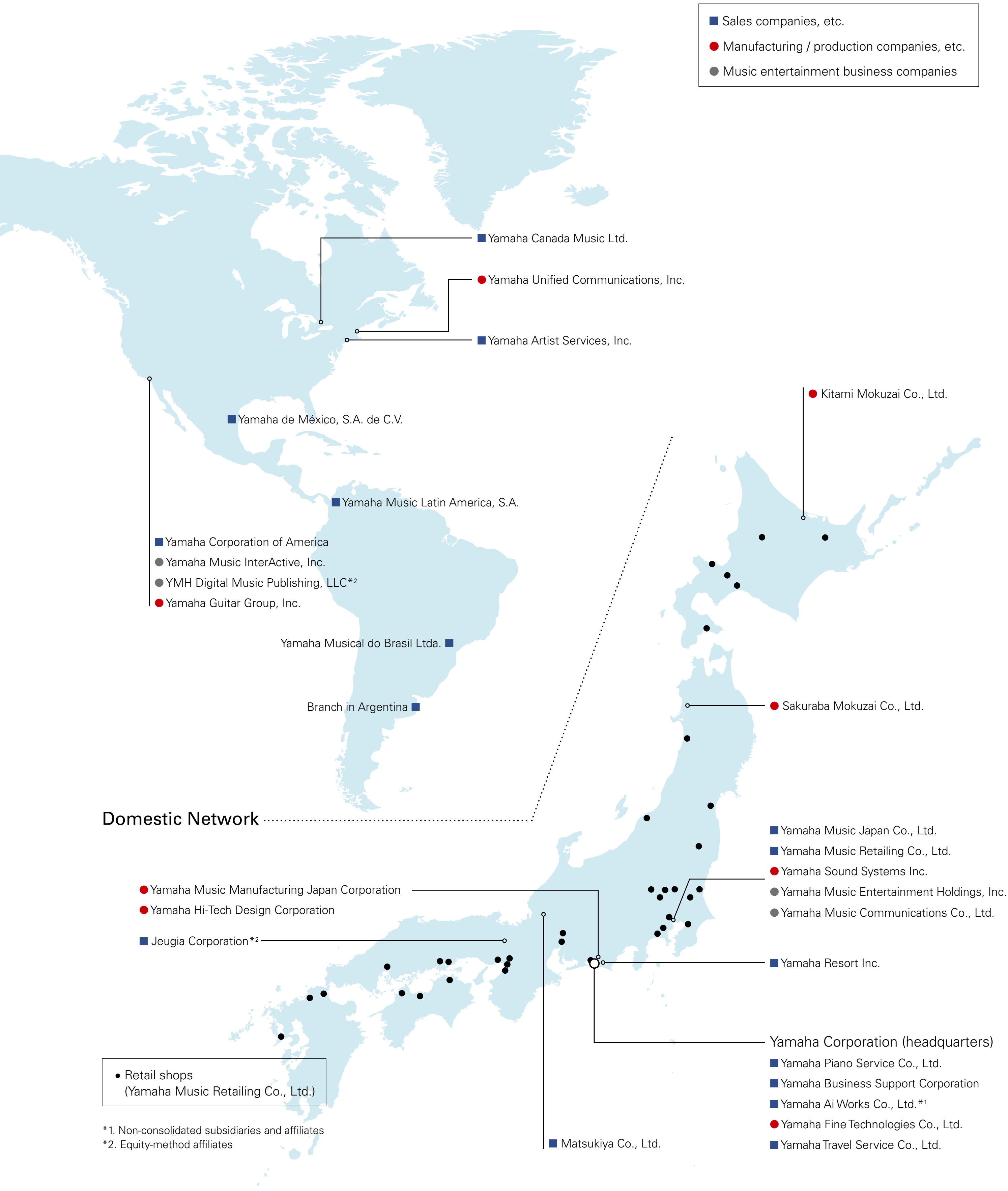
Main Networks

(As of July 1, 2018)

The Yamaha Group is currently expanding its business on a global basis, with locations in over 30 countries and regions across the world.

Overseas Network





*1. Non-consolidated subsidiaries and affiliates
*2. Equity-method affiliates

Stock Information

(As of March 31, 2018)

Dividends	Year-end: To the shareholders of record on March 31 Interim: To the shareholders of record on September 30
Number of Shares of Common Stock	Issued: 197,255,025 (includes treasury stock of 15,406,885)
Stock Exchange Listing	Tokyo First Section, Code No. 7951
Administrator of Shareholders' Registry	The Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department 3-15-33, Sakae, Naka-ku, Nagoya, Aichi 460-8685, Japan
Public Notices	Shall be issued electronically at the following URL, except when an accident or other unavoidable occurrence prevents this, in which case they shall be released in the *Nihon Keizai Shimbun* business daily released in Tokyo. https://www.yamaha.com/ja/about/public_notices/ (only in Japanese)
Ordinary General Shareholders' Meeting	June
Number of Shareholders	17,992

Shareholder Composition

	Number of shareholders	Ratio of number of shares to total (%)
Individuals	17,147	14.6
Financial institutions	60	53.8
Japanese corporations	197	6.2
Foreign investors	556	24.3
Securities companies	32	1.1
Total	17,992	100.0

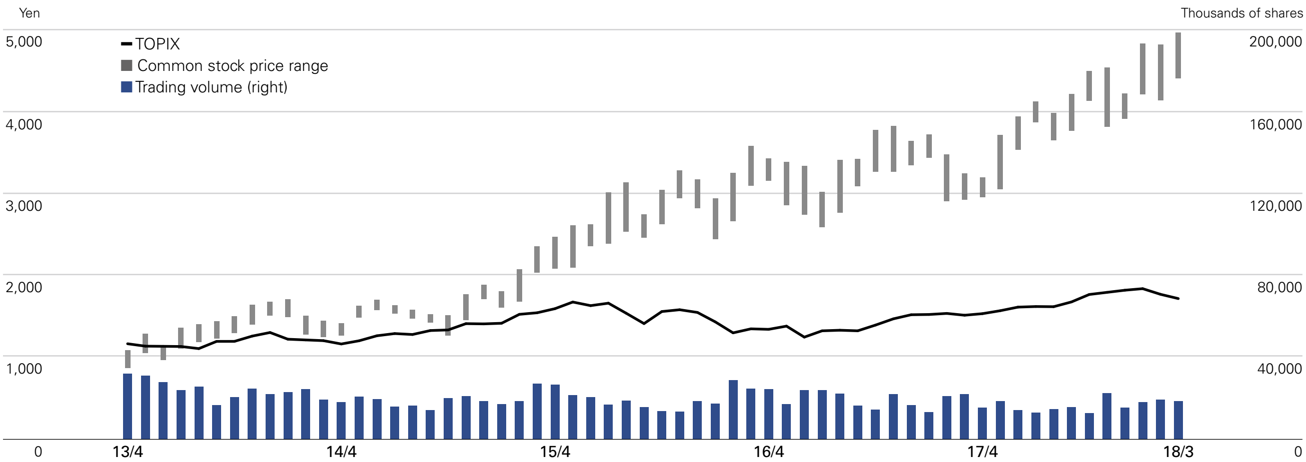
Note: The figure for individuals includes treasury stock.

Major Shareholders

Number of shareholders	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust a/c)	14.5
Japan Trustee Services Bank, Ltd. (trust a/c)	9.1
Yamaha Motor Co., Ltd.	5.7
Mitsui Sumitomo Insurance Co., Ltd.	4.4
The Shizuoka Bank, Ltd.	4.2
Sumitomo Life Insurance Company	4.0
Mizuho Bank, Ltd.	3.6
Nippon Life Insurance Company	2.8
State Street Bank and Trust Company 505001	1.7
Trust & Custody Services Bank, Ltd. (securities investment trust a/c)	1.7

Note: Yamaha Corporation holds 15,406,885 shares of treasury stocks which have been excluded from the above Major Shareholders. The shareholding ratio is calculated by excluding treasury stock from total outstanding shares.

Common Stock Price Range and Trading Volume



Fiscal year ended	2014/3	2015/3	2016/3	2017/3	**2018/3**
Share price at the end of fiscal year (Yen)	1,329	2,104	3,390	3,065	**4,675**
Share price—high (Yen)	1,705	2,355	3,575	3,820	**4,960**
Share price—low (Yen)	873	1,267	2,083	2,588	**2,955**
Trading volume (Million shares)	340	268	276	288	**255**

Fiscal year ended	2014/3	2015/3	2016/3	2017/3	**2018/3**
Dividend yield (%)	2.03	1.71	1.30	1.70	**1.20**
Price to earnings ratio (Times)	11.2	16.3	20.1	12.3	**16.0**
Price to book value ratio (Times)	0.95	1.18	2.12	1.57	**2.20**
Number of shares issued (Thousand shares)	197,255	197,255	197,255	197,255	**197,255**
Market capitalization at the end of fiscal year (Millions of yen)	262,152	415,025	668,695	604,587	**922,167**
Percentage of shares owned by foreign investors (%)	29.0	31.4	25.2	24.4	**24.3**

Company Information

(As of March 31, 2018)

Corporate Profile

Company Name	Yamaha Corporation
Headquarters	10-1, Nakazawa-cho, Naka-ku, Hamamatsu, Shizuoka 430-8650, Japan
Year of Foundation	1887
Date of Incorporation	October 12, 1897
Paid-in Capital	28,534 million yen
Number of Employees (Consolidated)	20,228 (Excluding average number of temporary employees: 7,558)
Number of Subsidiary Companies	63 (of which 59 are consolidated companies)
Account Settlement Date	March 31
Accounting Auditor	ShinNihon LCC*

* On July 1, 2018, ShinNihon LCC changed its name to "EY ShinNihon LLC."

Major External Evaluations and Incorporation in Indices

Yamaha is included in socially responsible investment (SRI) indexes*[1] and SRI funds, which give consideration to environmental and social factors, both in Japan and overseas. Yamaha is also included in the three ESG indices in Japan that are selected by GPIF*[2].

- Nikkei Stock Average (Nikkei 225)
- JPX-Nikkei Index 400
- TOPIX Mid 400 / TOPIX 500 / TOPIX 1000
- MSCI ESG Leaders Indexes*[3]
- MSCI Japan ESG Select Leaders Index*[3,4]
- MSCI Japan Empowering Women Index (WIN) *[3,4]
- FTSE4Good
- FTSE Blossom Japan*[4]
- Morningstar Socially Responsible Investment Index (MS-SR)

JPX-NIKKEI 400

FTSE4Good

FTSE Blossom Japan

MSCI 2018 Constituent MSCI ESG Leaders Indexes

MSCI 2018 Constituent MSCI Japan Empowering Women Index (WIN)

MSCI 2018 Constituent MSCI Japan ESG Select Leaders Index

MS-SRI モーニングスター社会的責任投資株価指数 Morningstar Socially Responsible Investment Index

- Institutional Investor Magazine's "The 2017 All-Japan Executive Team"
  Selected in the Electronics / Consumer sector
  · Second place in Best CEO Division
  · Second Place in Best Investor Relations Program Division
  · Second Place in Best Analyst Days Division
  · Third Place in Best Website Division

- 2017 Internet IR Award

Internet IR Commendation Award 2017 Daiwa Investor Relations

In addition, as an indicator of long-term financial soundness, Yamaha asks credit rating agencies to provide a long-term debt rating every year and has received the following evaluations.

Credit Ratings (As of March 31, 2018)

Rating and Investment Information, Inc. (R&I)	A
Japan Credit Rating Agency, Ltd. (JCR)	A+

*1. SRI indexes: Indexes that group together companies that demonstrate an outstanding performance in terms of both profitability and sustainability and indicate trends in the stock prices of such companies.
*2. GPIF: Government Pension Investment Fund
*3. THE INCLUSION OF YAMAHA CORPORATION, IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF YAMAHA CORPORATION BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.
*4. Three indices selected by GPIF

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