YAMAHA

Share the Soul of Sound

Annual Report 2005 | Year ended March 31, 2005

CREATING ‘KANDO’

Forward-looking statements

The plans and strategies regarding Yamaha's future prospects presented in this annual report have been drawn up by the Company's management based on information available at the current time and, therefore, are subject to risks and uncertainties. Accordingly, our actual performance may differ significantly from our predictions depending on changes in the operating and economic environments, demand trends, the value of key currencies, such as the U.S. dollar and the euro, technological advancements and developments in intellectual property litigation.

The common theme running through Yamaha's business since its establishment in 1887 has been a belief in the power of music to inspire. Going beyond mere sounds, music binds people together in a shared emotional experience. The value of musical instruments lies in their ability to enable performers to move and inspire an entire audience. The concept of being affected through this kind of emotional connection is expressed in the Japanese word 'kando.' It is the force that breathes life into the Yamaha brand.
As such, Yamaha has incorporated it into the company's brand slogan, "CREATING 'KANDO' TOGETHER," which has permeated the entire organization. More than a century on since the creation of the first organ, Yamaha has been the world's leading manufacturer of musical instruments. The company produces a nearly full lineup of acoustic instruments, which are played and appreciated the world over.

TOGETHER

Yamaha has embraced the digital age and the new possibilities inherent in digital technologies. Our missions are to reproduce the beautiful sounds that resonate from acoustic instruments by way of digital means, create all-new tones through digital technology and open the door to a new world of performance. Yamaha technologies are used in many applications, from mobile phone sound chips and electronic and digital instruments such as synthesizers and portable keyboards to professional recording studio equipment and home theater sound systems.

The company continues to develop the Yamaha brand by positioning itself as a sound professional. Although the style of our business will evolve with the times, we will never lose sight of the fact that sound and music are an integral part of the human experience. Yamaha is confident that its products and services can continue to be a source of pleasure and inspiration for many decades to come.

Share the Soul of Sound with millions of performers.

Music is the ultimate expression of sound. It transcends boundaries of nationality and ethnicity, gender and generation. Yamaha is proud to be a manufacturer of musical instruments that make sounds capable of connecting people and bringing them together. Just as one performer inspires many, Yamaha aspires to be one company bringing the joy of music to humanity.

Share the Soul of Sound with millions of professionals.

Professional music production demands the equipment to reproduce accurately what professionals hear and feel. Yamaha builds a profound knowledge of sound and music into digital technologies that push the production envelope. The music created with Yamaha technology resonates in the hearts of people everywhere.

Share the Soul of Sound with armchair enthusiasts everywhere.

Your living room is transformed into another world with the push of a button. Yamaha home theater sound systems create a virtual reality, taking your TV, DVD or video viewing experience to an entirely new level of enjoyment. Be moved, without moving.

Share the Soul of Sound with millions of movers.

The ring of a phone is an invitation to communicate, to feel, to share. Sound from a mobile creates a real connection to others. Yamaha squeezes this emotion plus all of its digital expertise into tiny sound chips now integral to many mobile handsets. The Yamaha brand embodies a true connection through sound.

Financial Highlights

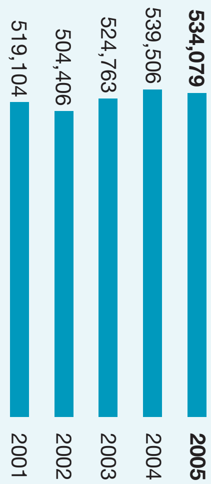
Yamaha Corporation and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
For the year:			
Net sales	**¥ 534,079**	¥ 539,506	**$ 4,973,266**
Operating income	**35,695**	45,056	**332,387**
Net income	**19,697**	43,541	**183,416**
At year-end:			
Total assets	**¥ 505,577**	¥ 508,731	**$ 4,707,859**
Total shareholders' equity	**275,200**	259,731	**2,562,622**

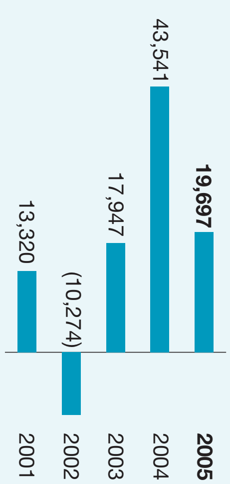
	Yen		U.S. Dollars
Per share data:			
Net income	**¥ 95.06**	¥ 210.63	**$ 0.89**
Shareholders' equity	**1,334.51**	1,259.28	**12.43**
Dividends	**20.00**	15.00	**0.19**
Number of employees at year-end	**23,828**	23,903	

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥107.39 = U.S.$1.00, the approximate rate prevailing on March 31, 2005.

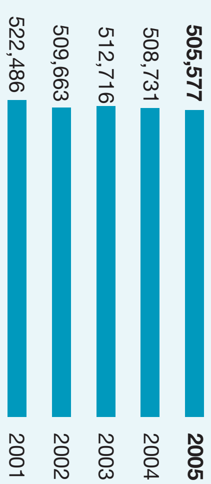
Net Sales
(Millions of Yen)



Net Income (Loss)
(Millions of Yen)



Total Assets
(Millions of Yen)



Sound Management

Fiscal 2005 (the year ended March 2005) was the first year of the Yamaha Group's YSD50 medium-term business plan. We aimed to achieve two key objectives during the year. First, we promoted the specialization and concentration of our business to create a more profitable base of operations. Second, we clarified strategic goals for expansion over the longer term. Based on these initiatives, we adopted fixed-asset impairment accounting standards, notably in the recreation business, ahead of the statutory deadline, and introduced a series of high-value-added products and innovative new products during the year. Although we fell short of the first-year sales and profit targets set out in the YSD50 plan, we will strive to achieve all plan goals by March 2007.

Fiscal 2005 in review

Covering the period from April 2004 to March 2007, the YSD50 plan commits us to the stable generation of high earnings, aiming to realize a business structure capable of sustained development. In pursuit of these goals, the plan sets out three main policies: "achieving sustainable development and stable, high earnings," "creating and developing innovative, high-quality products and services" and "emphasizing corporate social responsibility (CSR)." The main performance goal is to achieve consolidated operating income of ¥50 billion in fiscal 2007 while eliminating actual interest-bearing debt completely. In fact, we already succeeded in eliminating actual interest-bearing debt in fiscal 2005, two years ahead of schedule.

The first year of YSD50 was a key one for creating the conditions necessary for growth in the coming years. We achieved this by launching several new products to boost sales while undertaking restructuring unprofitable operations. One of the main thrusts was to boost the earnings power of our musical instrument business by stimulating the Japanese market using new approaches. Besides opening new-concept music schools, we also invested in sales bases and developed business models aimed at attracting customers. Overseas, we reinforced our marketing capability in China. On the production side, we invested in overseas manufacturing facilities and pursued process-based reforms to boost our cost competitiveness.

These efforts did result in an increase in sales of musical instruments, but this was offset by lower sales in other business segments. Consolidated net sales amounted to ¥534,079 million, a fall of 1.0% compared with the previous year. Operating income declined 20.8% to ¥35,695 million. Please refer to the Review of Operations for further details of performance within each segment.

In fiscal 2005, we elected to adopt fixed-asset impairment accounting standards ahead of the statutory deadline. This resulted in a related charge of ¥32,703 million. We also booked an extraordinary gain of ¥19,927 million following an approval in December 2004 to return the substitutional portion of historical welfare pension funds to the Japanese government. Net income fell 54.8% to ¥19,697 million.

A clearer and more selective focus

Our business divides into six operating segments: musical instruments, AV/IT, lifestyle-related products, electronic equipment and metal products, recreation and others. Of these, the electronic components business has been the main profit driver for the Yamaha Group in recent years, notably due to the success of LSI sound chips for mobile phones owing to widespread uptake of these devices. Rapid technical evolution makes this a difficult sector to read. Although the Yamaha Group will continue to focus on it, we recognize that our earnings must become much less dependent on this market.

In the musical instrument and AV/IT segments, we continue to invest in our core competences in sound and music. We have leveraged our strengths in digital technology to increase the value added by the Yamaha brand, and these two divisions are contributing solidly to profit growth at the consolidated level. We have been more selective in the two segments of lifestyle-related products and recreation, and this remains an ongoing focus. In fiscal 2005 we completed a strategic review of the lifestyle-related products business and took a decision to divest the construction materials operations (doors, floors) while focusing on kitchens and bathrooms, two areas where we can employ our technology to the best advantage. In the recreation segment, we absorbed one subsidiary (Kiroro Development Corporation) into the parent company to boost efficiency and also renovated a number of hotel and restaurant facilities. We plan to review our continued presence in this segment on an ongoing basis, while also striving to provide services that are better tailored to each resort's local characteristics.

Musical instruments rooted in life and culture

I believe the manufacture and sale of musical instruments is a unique business because music and the instruments used to create it are intimately associated with local customs and culture. Even on a mass-production scale, the musical instruments business will not grow without some sort of connection to the way people in different parts of the world make music. For instance, simply creating a breakthrough product cannot of itself lead to a surge in the number of users. Consequently I believe that a manufacturer such as Yamaha supplying a full lineup of musical instruments must dedicate itself to a step-by-step process of supporting the creation, performance and appreciation of music by society. Besides making products that professional artists will use and enjoy, we must also develop new instruments and provide services to encourage beginners that have never played a note. In short, we must foster the market's growth via a multifaceted approach.

A good example of this approach is the network of Yamaha music schools that we began in 1954. These facilities aim to draw their musicianship and appreciation in children from a young age. Current enrollment levels exceed 700,000 students worldwide (500,000 of these in Japan). While a business in their own right, the music schools also play a valuable role by cultivating a future growing market for instruments through greater numbers of performers. Numbers of children enrolled in music schools have been on the decline in Japan, prompting us to renovate our facilities across the country and run TV advertising campaigns to stimulate demand. These efforts contributed in 2004 to the first increase in enrollment levels in 14 years.

One growth segment in the musical instrument market in Japan that we continue to target is the middle-aged and senior age bracket of people. This group is often referred to as the Beatles generation or the folk-song generation in Japan and includes many who enjoyed participating in live musical performance as youngsters. The number of these "active seniors" now seeking to revive their musical interest after retirement is increasing. At Yamaha, we hope to provide these potentially avid consumers with a variety of means to reconnect with their love of music creation. Examples include rental systems of musical instruments, which are growing in popularity in Japan. We also plan to create a chain of more than 100 music schools for adults by the end of March 2007. Other initiatives targeting active seniors include developing opportunities and venues across Japan for keen amateurs to share their common interest in music, to organize small-scale concerts and to perform. In doing so, we hope to create a new wave of interest in musical performance in Japan.

We are also working to create new market segments. For instance, we are developing ways to help complete beginners and those with little previous interest in music gain the satisfaction and enjoyment of playing a musical instrument. This involves creating new products that emphasize fashion and allow novices to perform with relative ease. In this quest, our command of digital technology is a huge advantage. One example of such a product that we launched in fiscal 2005 is the EZ-TP™, a voice-controlled instrument that allows the player to mimic the sounds of a real trumpet. It has been well received in the market.

Demand for musical instruments also has a distinctly local flavor. For example, player pianos have generated steady demand in the US, but to date there has been much less interest for such products in Europe. In Japan, where many people do not enjoy the space or seclusion to practice aloud, our "Silent™" series of headphone-equipped pianos, guitars, drums and violins have proved highly popular. These examples underscore the necessity of tailoring instrument development to local market needs to ensure Yamaha's continued growth.

China presents both an opportunity and a threat to our musical instruments business. The consumer market is potentially huge, but we also face competition from low-priced instruments manufactured in China. We plan to compete with high-value-added products such as electronic pianos that feature our superior digital technologies. At the same time, we are in the process of developing our own manufacturing and sales network in China. Local production of pianos and guitars began in fiscal 2005 at a new operating site. We plan to expand sales going forward by fully integrating operations at existing bases in the country.

Creating a realistic sound field using digital technology

Besides making musical instruments, Yamaha also helps supply sound and music in many everyday settings. One area with high growth potential is commercial audio, which includes a variety of professional equipment such as mixers, power amplifiers and speakers for concert halls, churches and other venues. This is a field where we can offer customers the benefits of Yamaha acoustic design technology, as showcased at the World Exposition in Aichi, Japan that opened in March 2005.

Home theater systems are another area with global potential for Yamaha. Large flat-screen televisions capable of receiving digital broadcasts are now growing in popularity across the world. These sets all deserve high-quality audio systems. Our strength in this field is Cinema DSP™ (Digital Sound Field Processing) technology, which can reproduce highly realistic sound environments. Using sound-field measurement data for world-famous theaters, concert halls and other musical venues, we have developed a Cinema DSP™ custom LSI sound chip that can accurately reproduce live acoustics. Yamaha is now the leading supplier of home theater systems in the U.S. In fiscal 2005, we launched the YSP-1 Digital Sound Projector™, which can provide 5.1-channel surround sound for home theater systems in a single-bodied component. We plan to start selling this product worldwide in fiscal 2006.

Expansion of business emphasis from "music" to "sound"

While creating a highly profitable structure within our core businesses, we must also seek to develop new businesses that can sustain growth over the coming years. Our core expertise at Yamaha is in sound. This implies that we need to extend our business base from our perceived core in music to one based more broadly on sound. Such a shift will open up new business possibilities. Of course, the world of sound encompasses numerous business fields, not all of which we want to enter. We intend to sharpen our focus as we start formulating the next medium-term business plan, based on our core strengths.

To this end, in February 2004 we established a new department reporting directly to me that will develop

Yamaha's sound and lifestyle strategy. During the year, we also constructed a new experimental space called OtoBA that closely resembles an ordinary home so that we can research themes related to sound in the modern home and discover in more detail what makes sound pleasing to the human ear. We expect such research to yield new business directions.

A firmly CSR-oriented approach

CSR has recently become important as another indicator of corporate value. It includes many aspects of a firm's responsibilities to stakeholders, ranging from corporate governance and compliance issues to policies on employment, the environment and social contribution. We have always considered such aspects to be an important part of what a company is about, and our corporate goals encompass clear dedication to customers, shareholders, those who work with Yamaha and society. We continue to pursue initiatives to reduce our environmental impact, such as our zero-emissions drive. With corporate responsibility under the spotlight, we know that firms that do not measure up cannot expect to generate sustained growth. From this standpoint, we have made CSR a key element of the YSD50 medium-term business plan's objectives. Our plan is to ensure that all Yamaha products and activities are CSR-oriented, thereby ensuring their greater social acceptance. CSR initiatives undertaken in fiscal 2005 are discussed in more detail in a later section of this annual report. Please also refer to the environmental and social report that we publish annually (available from our web site).

Enhanced corporate value through a reinvigorated brand

Brands are a key store of corporate value. Today, I believe the Yamaha brand is recognized as a hallmark of quality, safety and reliability. Children can become familiar with the Yamaha brand at a young age through our music schools. Our full line-up of musical instruments and high-quality audio systems help reassure customers that we are experts in music and musical instruments. We must continue to develop new products and services that build on this trust in the brand to expand the fan base for Yamaha. Our goal must be to add "excitement" and "innovation" to the brand values of trust and reliability with which Yamaha is already associated.

This goal demands that we develop stronger connections with talented young artists the world over. One method is to link our brand image with that of the motorcycles made by our affiliate Yamaha Motor Co., Ltd. The key is to continue developing innovative new products that will create excitement among the younger generation. We plan to pursue this course so we can continue to build the value of our brand.

As professionals in sound and music, I see Yamaha's three greatest assets as:

* Our ability to attract employees who truly love music.
* Our ability to blend the skills of the craftsman with mass-production expertise.
* A productive corporate culture that stimulates free expression irrespective of age.

The Yamaha Group continues to evolve into a group acknowledged as one of the world's leaders in sound and music. I ask all those reading this report to grant us your continued support and understanding.

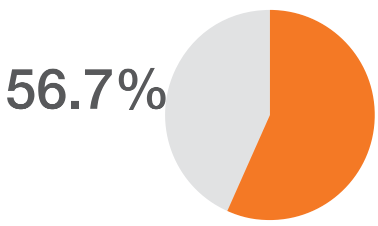
June 2005

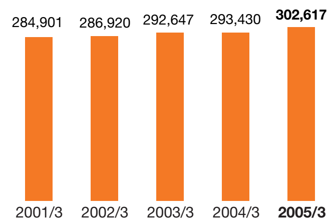
President and Representative Director
Shuji Ito

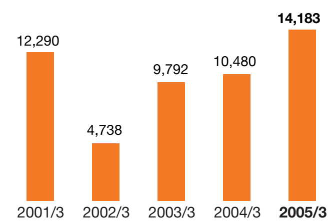
Company Segments at a Glance

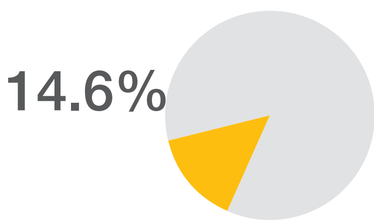
Segment	Major Products & Services
Musical Instruments	● Pianos ● Electronic and digital musical instruments (electronic pianos, Electones™, portable keyboards, synthesizers, etc.) ● Wind instruments (trumpets, flutes, saxophones, etc.) ● String instruments (guitars, violins, etc.) ● Percussion instruments (drums, vibraphones, etc.) ● Educational musical instruments (recorders, Pianicas™, etc.) ● Professional audio equipment (digital mixers, power amplifiers, etc.) ● Soundproof rooms (AVITECS™) ● Music schools, English schools ● Content distribution service
AV/IT	● Audio products (AV amplifiers and receivers, speaker systems, etc.) ● Visual products (digital cinema projectors, etc.) ● Network karaoke ● Routers
Lifestyle-Related Products	● System bathrooms ● System kitchens ● Washstands
Electronic Equipment and Metal Products	● Semiconductors ● Specialty metals
Recreation	● Comprehensive recreation facilities (Kiroro™, Tsumagoi™, Katsuragi-Kitanomaru™, Toba Hotel International™, Nemunosato™, Haimurubushi™) ● Ski resort (Kiroro™) ● Golf courses (Katsuragi Golf Club™, Nemunosato Golf Club™)
Others	● Golf products ● Automobile interior wood components ● Industrial robots ● Metallic molds and components

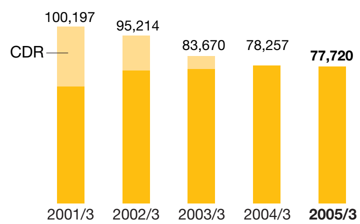
Breakdown of Net Sales	Net Sales (Millions of yen)	Operating Income (Loss) (Millions of yen)

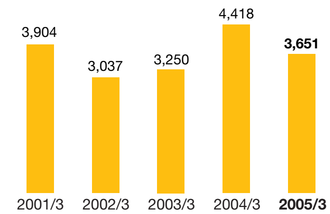


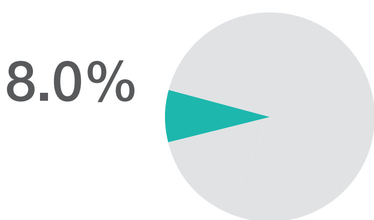


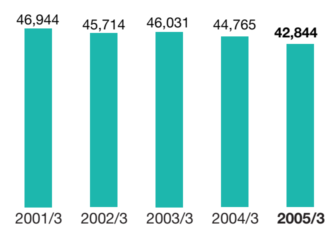


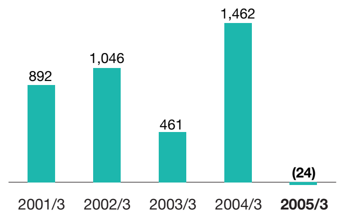


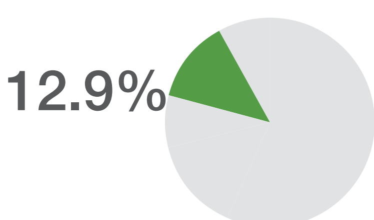


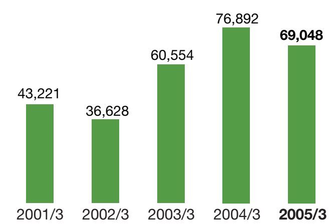


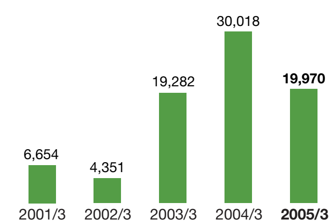


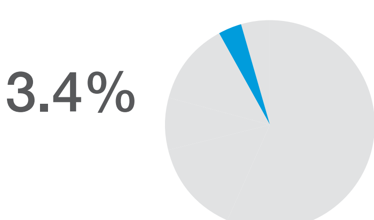


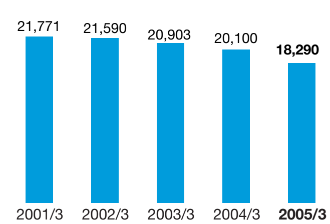


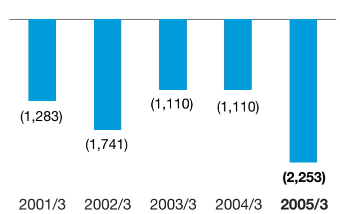


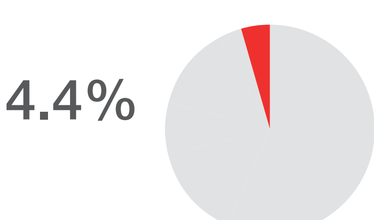


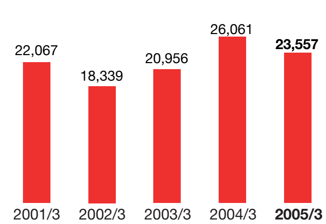


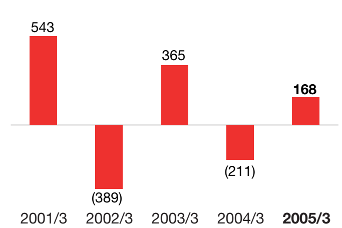












play and connect

Concert grand piano CFIIIS

Clavinova™ CLP-F01

Business outline

Besides musical instruments, this segment includes the manufacture and sale of mixers, recorders and other professional audio equipment, the operation of music schools and English language schools, and content distribution services such as ringtone melodies for mobile phones. Yamaha also sells a variety of music-related products sourced from other manufacturers and accessories. Musical instruments fall into three main categories: acoustic (pianos and wind, string and percussion instruments), electronic and digital (such as electronic pianos, Electone™ organs, portable keyboards and synthesizers), and hybrid instruments that combine both acoustic and digital qualities (such as player pianos Disklavier™ and the Silent™ series). Yamaha is the world's only integrated manufacturer of a full lineup of musical instruments spanning all acoustic and digital types.

Fiscal 2005 performance

Sales of musical instruments increased in Japan and in North America on a local currency basis, but stagnated in Europe on a local currency basis due to slow sales in Germany and France. Sales of pianos declined amid depressed sales in North America and slower demand in the Japanese market. Sales of electronic musical instruments increased, due mainly to higher sales of the STAGEA™ model of Electone™. Although sales of professional audio equipment and the Clavinova™ range increased, sales of portable keyboards and synthesizers fell. In other instruments, the weakness of demand in the Japanese market resulted in lower sales of guitars.

Revenues from music school operations increased as child enrollments in Japan leveled out after a long decline and music schools for adults posted solid growth. Enrollments at Yamaha's English language schools also increased, resulting in higher revenues.

Sales from ringtone melody services also expanded, due mainly to growth from markets outside Japan.

Overall segment sales increased 3.1% year-on-year to ¥302,617 million and operating income surged 35.3% to ¥14,183 million.

Saxophone YAS-82Z

Market trends and business strategy

Yamaha has over a century of experience in making musical instruments. The company has won extensive plaudits for achieving high quality over the world's only fully comprehensive range of musical instruments. Yamaha is also a leader in the development of electronic and digital musical instruments, hybrid instruments and professional audio equipment. A reservoir of technical expertise acquired over decades imbues the Yamaha brand with a reputation for quality and reliability.

Although demand for large keyed instruments such as pianos and electronic organs continues to decline in Japan and overall musical instrument demand is flat in North America and Europe, global demand is expanding due to growth markets such as China and the Middle East. Yamaha expects demand to continue to stagnate in Japan and the West, with growth concentrated in China and other parts of Asia.

The musical instruments market is thought to have reached maturation. Yamaha, however, believes there is still scope for further growth as the proportion of musical performers remains less than 10% of the total population. Besides the shared joy that musical performances can generate, it also has the ability to bring families and friends together. Communication through music is a phenomenon that is expanding everyday. Yamaha therefore intends to expand its business in this area by contributing to the development of musical culture through the continued creation of musical instruments and through the promotion of other activities related to musical expression.

Acoustic instruments

Yamaha continues to build on its technical heritage through research into new shapes, materials and components and the development of innovative designs. Many of the world's leading musicians choose Yamaha for the combination of timbre, expressiveness, excellent performance characteristics and high level of finishing quality in the instrument's craftsmanship. Yamaha constantly works to improve the lineup via development programs based on close communication with leading artists. Examples of such joint projects with members of famous orchestras include the development of wind instruments with the Vienna Philharmonic Orchestra and a recent program for trumpets with the Chicago Symphony Orchestra (which uses Yamaha trumpets exclusively as a result). The "Chicago" models have now been commercialized and launched to global critical acclaim.

Silent session drum™ DTXPLORER™

Acoustic guitar LL36

Digital mixing console
PM5D-RH

Portable PA System
STAGEPAS™ 300

Yamaha pianos are played by many of the world's top pianists in leading concert halls and other world-renowned conservatories. Yamaha supplies intensively examined grand pianos for many leading international piano competitions as their official instruments, and along with the support offered by many highly skilled piano tuners, helps expand the world of artistic expression for many up-and-coming young pianists.

To cultivate strong relationships with pianists, Yamaha has operations offering artist services in Paris, New York and Tokyo. For wind instruments, Yamaha operates workshops for repairs, maintenance and adjustments in Frankfurt, Vienna, Grand Rapids (Michigan, USA), New York and Tokyo. These bases help solidify relationships with leading musicians.

During the year ended March 2005, Yamaha relocated artist services operations for pianists in New York to central Manhattan and also augmented the services offered by wind instrument facilities, in the process creating a new subsidiary. In China, Yamaha is responding to growing demand for pianos by setting up a new base of operations for artist communications and the training of local personnel.

Going forward, Yamaha plans to reinforce its position as the world's leading musical instrument manufacturer by combining efforts to develop better instruments with programs to deepen links with leading artists across a wide range of genres.

Electronic and digital instruments

World-class digital sound generating technology enables Yamaha's home keyboards to produce highly realistic sounds close to those of original acoustic instruments. Yamaha's music production equipment like synthesizers are also a mainstay of live musical performances and music production following always the latest trend in pop music. As well as instruments in their own right, these music-production platforms deliver pioneering digital music solutions.

The high-end Electone™ model STAGEA™, which was introduced in March 2004, achieved good volume growth. Direct Internet access functionality enables STAGEA™ users to download song data or conduct auditions without the need for a computer. Television commercials and other promotions in Japan primarily targeted young users.

In electronic pianos, Yamaha launched the CLP-F01, a new model within the Clavinova™ range based on a novel lifestyle-related interior design concept. The product was well received in Japan and Western markets. Yamaha continues to pursue new possibilities in digital musical instruments, blending innovative design with the latest technology to develop products that customers will fully enjoy.

Hybrid instruments

Combining acoustic and digital technologies, Yamaha's hybrid instruments are creating a whole new segment of demand. The Disklavier™ Mark IV series, a new range of player pianos with the latest automatic functions, has sold well in the U.S. market since its introduction. Player pianos remain in demand in the U.S. as entertainment items, and the increased range of digital functions on the latest models is expected to help broaden overall usage. For instance, network technology opens up the novel possibility of piano users enjoying professional artists' live performances remotely from the comfort of their own homes. Similarly, piano lessons could be given over a network, an idea that Yamaha is currently developing with various music colleges in Japan.

First introduced in 1993, the Silent™ series of instruments uses Yamaha's advanced sound muting technology to allow players to rehearse or practice in complete privacy. These instruments have proven popular with beginners and professionals alike around the world, and are even used in live performances and CD recordings. The range now includes pianos, guitars, violins and other string instruments, brass instruments such as the trumpet and Silent session drums™. In the year under review, Yamaha extended the lineup of the Silent™ series of pianos, bass and drums.

Another recent hybrid hit is the easy trumpet EZ-TP™, a voice-controlled instrument that allows even a raw beginner to mimic the sounds of a real trumpet and enjoy performing. As with other Yamaha portal instruments such as the easy guitar EZ-EG™, this concept is simple

Silent Electric Violin™
SV-200

Synthesizer MOTIF™ ES8

enough to be accessible to beginners while providing a genuine feel. This series is also helping to broaden the base of potential musicians.

Professional audio equipment

With an excellent technical reputation for its cutting-edge sound technology, Yamaha's commercial audio equipment is used in many of the world's concert halls, theaters, churches, television studios and other venues. Yamaha offers a full range of mixers, amplifiers and speakers that blend advanced technical expertise with well-designed human interfaces. Digital mixers such as the PM1D and PM5D (launched in the year under review) are becoming established as global standards. Yamaha continues to develop these various product ranges to offer the best total commercial audio solutions.

In January 2005, Yamaha acquired Steinberg Media Technologies GmbH, the world leader in computer software for music production. The acquisition promises to accelerate the Studio Connections joint development project that Yamaha had initiated with Steinberg in April 2004, with the goal of creating a seamless fusion of music production software and hardware (including synthesizers and mixers) to satisfy the needs of music creators everywhere.

Music schools

With the aim of introducing the joy of music to as many people as possible, Yamaha operates music schools in more than 40 countries around the world. Enrollment levels currently exceed 700,000 students worldwide.

In Japan, Yamaha successfully reversed a more-than-a-decade-long decline in student enrollment numbers at music schools by tailoring marketing more closely to modern lifestyle trends. Major factors were a television commercial campaign that targeted student recruitment and the development of a new Unistyle™ range of music schools in suburban locations offering various high-quality services.

Yamaha continued to target the "active seniors," many of whom now have the time and money to pursue musical interests that they perhaps had to abandon in their youth. Yamaha continued working to ignite this stealth boom with marketing campaigns offering special music lessons to pupils in their 50s and other musical primer courses for adults. Yamaha aims to open a core of 100 music schools specifically for adults by March 2007. The opening of 14 facilities in the year under review brought the cumulative total to 65. Elsewhere, Yamaha pursued other initiatives to stimulate growth in the population of musical performers by promoting instrument rentals and developing venues for concerts and other amateur performances.

Content businesses

The market for ringtones in Japan has expanded to around ¥80 billion due to the success of mobile Internet services. Yamaha has been a leading player in this business, taking advantage of the synergy of the company's large music database and production of LSI sound chips as the platform.

Meloccha™, ringtone melody distribution service

Yamaha's web portal for ringtone services (Meloccha™) and related sites provide a wide range of popular services for mobile download. Examples include a site that offers over 3,500 tunes for music boxes and MelodicLover™, a ringtone melody service that covers many modern music genres including hip hop, techno and house. Yamaha has also launched ringtone services in more than ten other countries, including Taiwan, China, the U.S., Europe and Australia.

In January 2004, Yamaha took the ringtone concept a stage further by offering downloads of original song clips by Yamaha recording artists to subscribers of the EZweb network offered by Japanese mobile carrier KDDI Corporation. This song-based content distribution service (Chaku-Uta™, using the Utaccha™ portal) has since been extended to Japan's other two major mobile networks. In March 2005, Yamaha inaugurated an upgraded version of the service that allows a complete song to be downloaded. These sites' originality and technical excellence continue to build sales revenues from mobile download services. Future development includes exploiting Yamaha's strengths to create opportunities linked to media and networked musical instruments.

Note: Chaku-Uta™ is a trademark of Sony Music Entertainment Inc.

entertainment

Business outline

This segment comprises audio and visual equipment (including amplifiers, receivers, speaker systems and digital cinema projectors), commercial network karaoke equipment and routers. AV equipment is the main driver of segment earnings. The strategic focus is home theater systems, reflecting Yamaha's core competences in music and sound.

CinemaStation™ DVX-S150

Fiscal 2005 performance

In audio equipment, sales of middle-to-high-end AV amplifiers and receivers expanded, notably in North America. Sales in Japan and Europe declined, however, reflecting fiercer competition. In information and communication equipment, sales rose due to strong corporate router demand. Segment sales declined 0.7% year-on-year to ¥77,720 million, in part due to adverse currency movements. Operating profit slipped 17.4% to ¥3,651 million.

Digital cinema projector DPX-1200

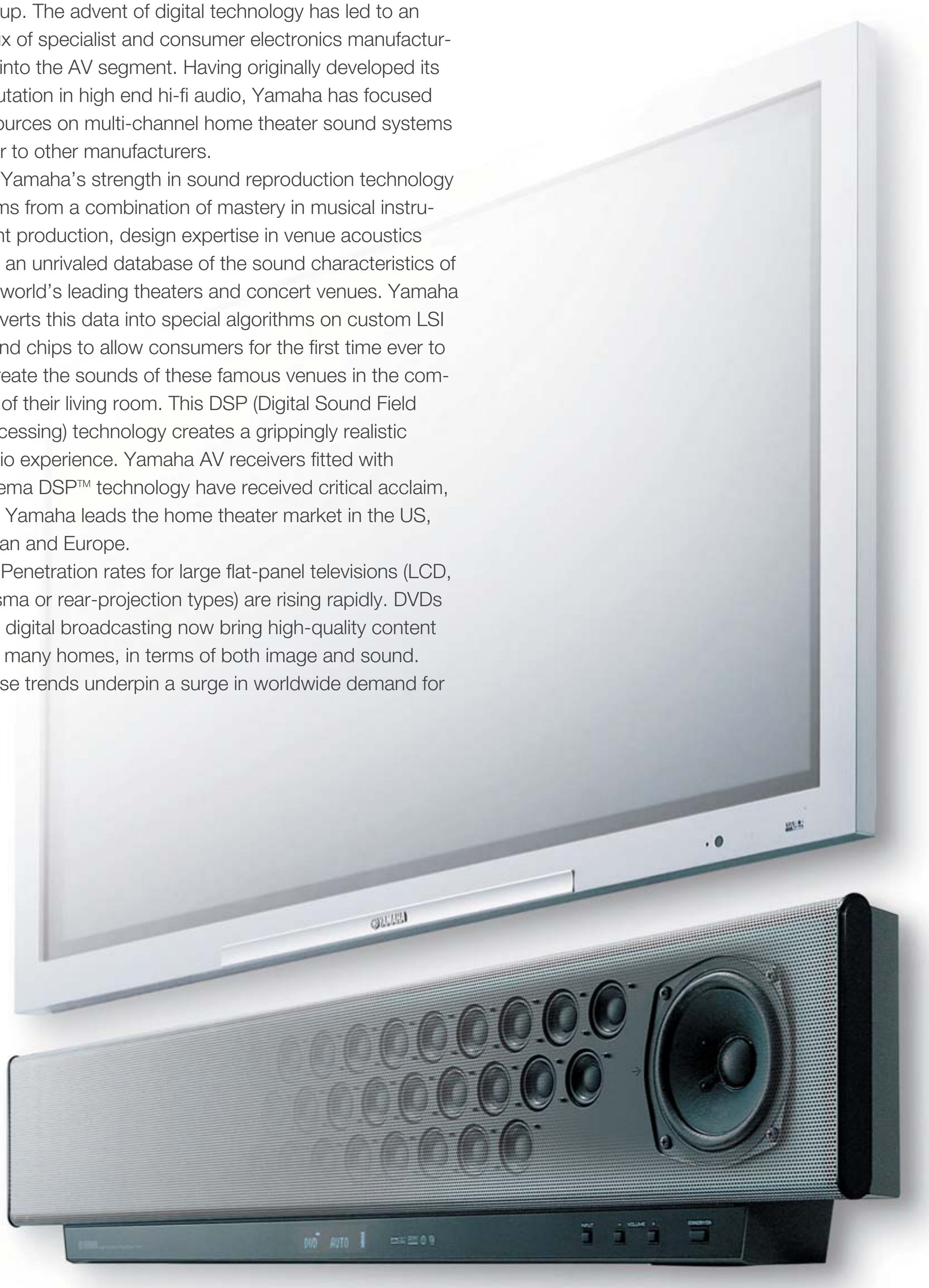
Market trends and business strategy

AV equipment

This segment is a core business area for the Yamaha Group. The advent of digital technology has led to an influx of specialist and consumer electronics manufacturers into the AV segment. Having originally developed its reputation in high end hi-fi audio, Yamaha has focused resources on multi-channel home theater sound systems prior to other manufacturers.

Yamaha's strength in sound reproduction technology stems from a combination of mastery in musical instrument production, design expertise in venue acoustics and an unrivaled database of the sound characteristics of the world's leading theaters and concert venues. Yamaha converts this data into special algorithms on custom LSI sound chips to allow consumers for the first time ever to recreate the sounds of these famous venues in the comfort of their living room. This DSP (Digital Sound Field Processing) technology creates a grippingly realistic audio experience. Yamaha AV receivers fitted with Cinema DSP™ technology have received critical acclaim, and Yamaha leads the home theater market in the US, Japan and Europe.

Penetration rates for large flat-panel televisions (LCD, plasma or rear-projection types) are rising rapidly. DVDs and digital broadcasting now bring high-quality content into many homes, in terms of both image and sound. These trends underpin a surge in worldwide demand for



Digital Sound Projector™ YSP-1

Home music network system
MusicCAST™

home theater systems as consumers seek a more authentic audio experience to match the high quality of the digital images. Yamaha expects to benefit as the clear global leader in the field. Besides Japan and the West, China is another market with huge potential in home theater systems, with many forecasters expecting it to become the second-largest market after the U.S.

Combining high quality sound and imaging, Yamaha's home theater systems provide a total entertainment solution. In fiscal 2005, Yamaha introduced the YSP-1 Digital Sound Projector™. This revolutionary product delivers real 5.1-channel surround sound from a single, compact front-mounted unit, which eliminates the rear-positioned speakers. With revolutionary technology, Yamaha expects the YSP-1 to contribute strongly to the future growth of AV equipment operations.

Another key product launched during the year was the DPX-1200 digital cinema projector, with color reproduction capability and low noise design. The Music CAST™ home music network system, which uses a home-based server loaded with music and wireless LAN technology to enable users to enjoy music in any room, also received plaudits.

During fiscal 2005, Yamaha forged an alliance with Klipsch Audio Technologies, the top manufacturer of high-end speakers in the U.S. The alliance covers the joint development of speakers and home theater systems, sets up an exclusive distribution arrangement for Klipsch products in Japan and also provides for sales cooperation in markets outside Japan. The move bolsters the positioning of Yamaha AV equipment in Japan and overseas markets.

The AV equipment market is fiercely competitive. Product cycles are typically short. Yamaha's strategy for boosting profits in this field is to develop products that specifically meet customer needs and launch them in a timely fashion. To achieve this, Yamaha integrates the management of core business processes from design, development and purchasing to production, sales and customer service. Strict supply-chain management spanning manufacturing bases in Japan, Malaysia, China and Indonesia also ensures Yamaha stays competitive in world markets.

Commercial network karaoke equipment

Yamaha develops and manufactures network karaoke equipment for the Japanese market in conjunction with a leading network karaoke provider. Although the market for karaoke equipment is mature in Japan, the network segment continues to grow. Recent widespread adoption of broadband has spawned new uses for network karaoke equipment. Besides downloading songs online, users can utilize upstream capabilities to upload singing data. This creates new possibilities for live auditions or provision of performance feedback. With its high-level expertise in sound production and distribution technology, Yamaha is contributing to the development of karaoke culture in novel value-added ways.

Routers

Higher penetration of ADSL and fiber-optic cable has made high-speed Internet connections the commercial norms. Yamaha targets home-based businesses and small enterprises (including shops and branch offices).

VPN router RTX1500

Yamaha offers a broad lineup of reliable, high-security routers that provide back-up functions using VPN* or ISDN technology. The RTX1000 VPN router and the RT57i model have both received high marks as the industry standard for small businesses. Cumulative router sales volume reached one million units in December 2004 ahead of Yamaha's tenth year in the industry in 2005. Expansion plans focus on markets outside Japan.

Technical glossary:

* VPN (Virtual Private Network): Addition of authentication, encryption and other security technologies turns a public network such as the Internet into a network for virtually private use.

Flagship digital home theater system

sound lifestyles

Business outline

Yamaha applies wood-processing expertise and coating technologies developed from piano manufacturing operations along with unique chemical-processing and original equipment-developing-technologies to the creation of system products for the home such as kitchens and bathrooms. Yamaha Livingtec Corporation is the main consolidated subsidiary operating in this segment.

Fiscal 2005 performance

Sales dropped sharply in the first half of the year owing to the delayed launch of lower-priced system kitchens and bathrooms. The introduction of new products in the second half of the year gained back a part of what had been lost, but segment sales for the whole year declined 4.3% year-on-year to ¥42,844 million. The segment showed an operating loss of ¥24 million compared with operating income of ¥1,462 million in fiscal 2004.

Technical innovations

One area where Yamaha has a clear advantage is in techniques for artificial marble. Yamaha has developed its own technology to form components in almost any shape. In October 2004, Yamaha introduced new system kitchens featuring marble sinks that fit seamlessly with the marble counter. More stylish, practical and easier to clean, these have become a popular choice among customers. Yamaha now plans to apply this technology to basins also.

Another innovative kitchen product developed by Yamaha is a C (cyclone) hood designed to keep the range extremely clean. Vortices created inside the hood expel smoke and particles through gates situated on the sides. This mechanism ensures that the inside of the hood attracts only small amounts of oil and dirt.

For the bathroom, Yamaha has developed a sauna that applies the theory of mist formation to create special clouds of water particles of just three microns in size. At this diameter, which is less than 1% of the size of the water droplets produced by an atomizer, the mist not only humidifies the skin but also washes wastes out of the pores. This additional cleansing benefit makes the sauna ideal as a beauty treatment. Tests conducted by research institutes and leading beauty salons in Japan have scientifically documented these effects.

Market trends and business strategy

The market for home equipments in Japan segments between new construction and remodeling. Requirements also differ between the separate markets for houses and condominium developments. Yamaha mainly develops and sells products for individual houses.

Amid persistently low growth in domestic demand, builders targeted the young second-generations of baby-boomers, who increasingly dominate the market for new houses. Therefore, pressures to cut prices remain fierce. This has negatively affected Yamaha, whose products are at the medium-to-luxury end of the market.

The home remodeling market is growing rapidly. In this market, the consumer frequently makes the final choice. Yamaha continues to work to expand its product lineup for the needs of this market and to build awareness of its product range.

Recognizing past failures to keep the product range in tune with the needs of a changing market, in April 2005 the

System kitchen Dolce™

System bathroom Beaut™

company installed a new senior management team at Yamaha Livingtec as part of a series of drastic reforms. The immediate goal is to make the Yamaha range more price-competitive by adding 20% to the value added through a combination of reduced production costs and enhanced productivity. Over the longer term, the company plans to undertake a complete overhaul of all design, marketing, purchasing and sales systems to refocus the brand on Yamaha's strengths in this field.

Yamaha has also introduced major organizational changes to make segment operations more responsive to market trends and to improve decision-making. Besides flattening the organization, Yamaha has strengthened the links between head office and field sales offices to improve strategy execution. In addition, a new department has been established to develop products specifically for the home remodeling market, in coordination with a new general manager appointed for the Tokyo area. To improve contacts with potential consumers, Yamaha has set up a new office at its head office that acts to oversee and enhance domestic show rooms. The office will formulate new criteria to boost the image of showroom facilities and introduce training programs for sales staff.

Yamaha Livingtec retains a wealth of talented chemicals specialists. The aim remains to apply this talent and to leverage Yamaha's technical superiority to create high-quality kitchen and bathroom products that consumers demand, and to manufacture these at sufficiently low cost to remain competitive in the market. Having initiated major internal reforms in fiscal 2005, the company aims to rebuild with the goal of making a significant contribution to Yamaha Group earnings.

technological

Business outline

This segment mainly comprises the semiconductor business run by Yamaha Semiconductor Division and its manufacturing subsidiary Yamaha Kagoshima Semiconductor Inc. and high-performance copper and nickel alloys and the related processed parts business run by Yamaha Metanix Corporation. Semiconductor products find applications in many areas ranging from mobile phones, communications equipment, amplifiers in home theater systems and amusement equipment. High performance alloys and components are used in such a wide variety of applications as PC components, mobile phones and automobiles.

Fiscal 2005 performance

Sales of LSI sound chips for mobile phones grew steadily in the first half of the year but then slowed in the second half as handset manufacturers adjusted inventory levels and LSI prices were under harsh downward pressures. As a result, segment sales declined 10.2% year-on-year to ¥69,048 million. Operating income amounted to ¥19,970 million, a drop of 33.5% compared with the previous year.

Market trends and business strategy

Electronic equipment (semiconductors)

Yamaha originally entered the semiconductor business in order to manufacture sound-generating components for electronic musical instruments in-house. In recent years, LSI sound chips for mobile phones have become a significant source of corporate-wide profits. This business has expanded intensively due to rapid increases in mobile phone penetration, notably in East Asia. Semiconductors are now a core part of Yamaha Group operations.

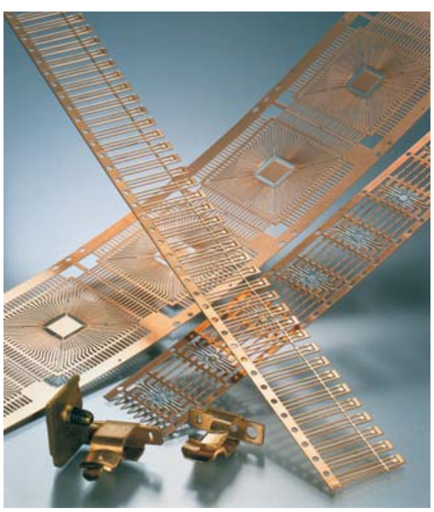
One of the principal keys to Yamaha's success in this business has been the development of FM sound-generating technology that can be fitted onto a chip. Clear treble performance, free control of sound tone and low data intensity relative to sound quality has made Yamaha's technology the ideal choice for mobile-phone applications. Yamaha offers software to maximize the use of such sound-generating functions, such as authoring software for creating music data, and proposal of schemes for contents distribution services. Yamaha has also developed SMAF™ (Synthetic Music Mobile Application Format), a multimedia content format for conversion and playbacks of ringtones and simultaneous delivery of sound, graphics and text to mobile phones.

The market for mobile sound LSIs is evolving rapidly, as 'Chaku-Uta™' (true-tone ringtone) becomes very popular and the use of sound-generation software increases. More competitors of sound LSIs are also entering the market. Yamaha plans to seize new business opportunities by leveraging strengths in sound and music production developed and maintained in the Yamaha Group.

Yamaha semiconductors are used in many more applications. Amusement equipment, such as pachinko machines, is one such application in which Yamaha provides sound generation LSIs and graphics control LSIs. The latest amusement equipment is often equipped with several sound speakers and a large LCD screen, creating a need for devices with the high-powered components necessary to deliver the realistic sounds and exciting visuals that will enhance the effect of sound and graphics

Cinema DSP™ circuit board

Sound chip for mobile phones



Lead frames and alloys for connectors

of the contents of amusement equipment. Yamaha has developed products specifically for this market, with considerable success. Another segment with significant business potential is automobiles, where electronic devices with sound- and image-processing power are in increasing demand. Yamaha is also developing new business opportunities for device products that build on its unrivaled expertise in the nexus of sound, music and networks.

Metal products

This business is highly susceptible to semiconductor-related cyclical pressures. Yamaha Metanix has operated under extremely harsh business conditions over the past few years. Yamaha has responded with the adoption of a more selective operational focus and measures to boost efficiency. The main product groups in the current sales mix are copper-based lead frame materials and connector materials, nickel-based lead frame materials, and related processed parts.

Based on technology supplied by U.S. partner Olin Corporation, Yamaha's C7025 copper-based lead frame material has become a de facto global standard, and is our major business driver. Yamaha continues to develop new materials in the expectation that the lead frame business will remain highly competitive.

Another key area of focus is high-performance alloy (HPA) connector materials. Growing environmental concerns are now limiting the use of beryllium-copper alloys in materials for high-end connectors and springs. Yamaha has developed alternative HPA materials based on more eco-friendly copper-titanium alloys (the YCuT™ series), and is also supplying new copper-based connector materials originally developed by Olin. Both developments have been well received in the market. Amid buoyant demand for connector materials, which are used widely in digital consumer electronics and automotive electronic components, these products promise to be a major new source of our growth.

In the processed parts segment, Yamaha is applying technical expertise in materials, product and process design and evaluation-analysis technology to develop new products that are tailored to the precise needs of customers.

Over the past ten years, Yamaha has employed TPM (Total Production Management) activities to boost productivity while eliminating waste and reducing costs. Yamaha plans to continue applying TPM systems and programs in order that operations are strong and flexible enough to cope with ongoing market changes.

relax and enjoy

Business outline

Yamaha operates six resorts in Japan in locations stretching from Hokkaido in the north to Okinawa in the south, each with its own special local characteristics. The role played by these operations is primarily one of enhancing the image of the Yamaha brand.

Fiscal 2005 performance

Difficult conditions in the domestic tourism market were compounded by factors such as an unusually intense typhoon season and an ongoing decline in the number of skiers. Lower visitor numbers resulted in a 9.0% year-on-year fall in segment sales to ¥18,290 million. The segment recorded an operating loss of ¥2,253 million, compared with an operating loss of ¥1,110 million in fiscal 2004. Yamaha absorbed consolidated subsidiary Kiroro Development Corporation into the parent company on July 1, 2004 to raise efficiency.

Market trends and business strategy

Yamaha's business strategy in this segment is to build repeat custom and higher visitor numbers by offering high levels of hospitality and maximizing the particular local characteristics of each resort to secure profitability. In recent years the slowdown in consumer spending in Japan has had a negative impact on recreation operations. This has been exacerbated by structural factors such as a decline in skiing. Although performance has varied by location, segment profitability as a whole has slumped as a result.

At this stage Yamaha plans to keep all six resorts operating, while considering the rationalization of designated facilities. Since restoration of profitability is the primary issue, Yamaha has moved to adopt Japanese asset-impairment accounting standards ahead of the statutory timetable, to change the calculation of depreciation costs to the declining-balance method and to apply stricter profitability criteria in facility assessment. These changes are expected to cut depreciation costs by reducing the balance of depreciable fixed assets, enabling the overall segment to return to profit by the year ending March 2007.

Although overall industry conditions remain harsh, Yamaha continues to develop this business by catering to varied customer needs based on the particular strengths of each resort.

Kiroro™

Located in Japan's northern island, Hokkaido, Kiroro™ comprises skiing facilities and two hotels. Profits have declined as skiing has fallen in popularity in Japan and as the number of domestic tourists visiting Hokkaido has dropped off. Yamaha is working to offset the declining number of mainland visitors by making it easier for locals to ski at Kiroro™. A major rebuilding of one part of the course is planned for summer 2005 to attract more local families. Management is also focusing on boosting hotel occupancy levels by promoting off-season stays as part of tour itineraries, by raising the resort's profile with travel agencies, and by attracting more conference and seminar business.

Tsumagoi™

Located in Shizuoka Prefecture in central Japan, the comprehensively equipped leisure resort of Tsumagoi™

Kiroro™

Katsuragi Golf Club™

Haimurubushi™

Tsumagoi™

Toba Hotel International™

Nemunosato™

provides a 1.7 million m^2 haven of greenery for sports, music and relaxation. Visitor numbers have fallen as the popularity of sports has declined among young Japanese amid a protracted consumption slowdown, despite efforts to broaden the clientele by adding spa facilities. This issue has become most acute on weekdays outside of the peak summer season. Yamaha is promoting the resort as a venue for group tours and company training courses on weekdays and for individual customers on weekends and holidays to maximize facility utilization. Attracting more corporate business is a good prospect due to the resort's excellent transport links and high-level meeting and communications facilities. This strategy promises to restore profits.

Katsuragi Golf Club™, Katsuragi-Kitanomaru™

Situated in Shizuoka Prefecture, the golf club has a championship level course that provides year-round golfing opportunities due to a mild climate. Created by famous course designer Seiichi Inoue, the links feature stunning scenery and a choice of two courses. The nearby accommodation at Katsuragi-Kitanomaru™ is based on a transplanted traditional folk dwelling and recreates the image of a Japanese castle. Yamaha has promoted the golf course as a reasonably priced top-class venue. Profits at the golf club have revived in recent years due to the recovery in Japanese corporate earnings, despite consumption slowdown and a cut in green fees. Yamaha hopes to build on this progress by encouraging more course players to experience the elegance and high-class services available at the hotel.

Toba Hotel International™

This tourist resort includes a high-class hotel and lies between the sea and the mountains of Ise-shima National Park. Local attractions include pearl production and Ise shrine, the spiritual center of Shinto. Despite idyllic surroundings, visitor numbers have dwindled due to a lack of convenient high-speed train access from Tokyo or Osaka. In 2005, Yamaha is promoting the resort as a side destination for visitors to the World Exposition in nearby Aichi as part of half-week tour itineraries. The recently opened Central Japan International Airport (Centrair) also promises to boost numbers of visitors from abroad.

Nemunosato™, Nemunosato Golf Club™

Nemunosato™ is a spacious 3 million m^2 resort situated on a peninsula in the center of picturesque Ise-shima National Park. It is fully equipped for golf, outdoor sports and water sports, and also boasts a spa. The onsite professional music facilities have attracted lower bookings for events and recordings in recent years, and visitor numbers have also declined in the face of deterioration of facilities and difficult road access. In fiscal 2005, Yamaha undertook renovation work on hotel, villa and restaurant facilities to make these better meet the specific needs of long-stay and short-stay visitors. Yamaha is also working to raise levels of service and improve resort access following the opening of Centrair.

Haimurubushi™

The resort is located in Kohamajima, the center of the Yaeyama islands, a small chain that lies about 440km south of Okinawa. With a climate similar to that of Miami or Hawaii, the resort is ideal for year-round water sports. Haimurubushi™ has benefited in recent years from the popularity of Okinawa as a domestic tourist destination as people seek out isolated spots on the Japanese archipelago. Surveys suggest this trend will persist. In February 2005, Yamaha completed the construction of a new hotel and adjacent poolside restaurant as well as the renovation of the resort's main dining facilities. Both moves aim to attract more long-stay visitors of mature years.

diversification

Business outline

This segment includes four businesses: golf products and automobile interior wood components (Yamaha Corporation) and factory automation (FA) equipment and metallic molds and other components (Yamaha Fine Technologies Co., Ltd). These businesses rely on the world-class production skills and technologies that Yamaha originally developed in musical instrument manufacturing, such as materials and wood processing, finishing, specialty molding and mechatronics.

Fiscal 2005 performance

Sales of golf products declined amid unfavorable market conditions. Inventory adjustments by handset manufacturers had a negative impact on sales of magnesium parts for mobile phones, while the automobile interior wood component business also posted lower sales due to changeover periods between new models. The segment recorded operating income of ¥168 million (following an operating loss of ¥211 million in the previous year), despite a drop in sales of 9.6% year-on-year to ¥23,557 million.

Market trends and business strategy

Golf equipment

Building on Yamaha's strong base in materials processing technology, the latest "inpres™" series of clubs, launched in December 2004, are made using a cold-forging process that results in stronger clubs because the materials undergo no thermal degradation. Pinpoint laser welding guarantees high precision, while a special design that eliminates the rear side of the sole lifts club-head resistance. A full lineup of clubs caters to golfers of all levels. Yamaha takes full advantage of the championship course at the Katsuragi Golf Club™ to promote Yamaha golf products. The high quality of the range was underlined when Orie Fujino used inpres™ clubs to win the Japan LPGA season-opening Daikin Orchid Ladies.

The Japanese market for golf products has contracted by about 30% from its peak, and fewer young people are taking up the game. In a highly competitive sector, Yamaha is developing its next generation of clubs prior to the introduction of new rules limiting club-head resistance in 2008. Yamaha aims to build its brand and expand its business in this area by strengthening the product lineup.

Automobile interior wood components

Building on multifaceted technical expertise in the processing and finishing of wood gained from musical instrument production, Yamaha supplies panels, steering wheels and other interior parts for luxury models to automakers in Japan and abroad. Yamaha has mastered the difficult process of coloring and forming natural wood to make specialty materials and combining these with other materials such as aluminum and plastic to create customized luxury interior components. Precision molding skills covering metal, plastic and wood mean that Yamaha is one of the few firms capable of supplying mass-production quantities of luxury high-performance wood panels to order. Manufacturing flexibility and high-end technical expertise make Yamaha a global leader in this field.

Amid a wave in the popularity of wood paneling, unit prices have come under pressure recently as auto manufacturers have sought drastic cost savings. Competition

Golf club inpres™ D

Automobile interior wood components

Magnesium parts used in mobile phones

Bare board tester Micro prober M504

from suppliers outside Japan has also emerged. Market conditions have become harsher, especially as more manufacturers relocate production facilities to China and other countries. Yamaha is responding to market uncertainties by developing new technologies and by seeking to reduce production costs. At the same time, Yamaha is looking to expand design consulting and support services in the field.

Metallic molds and components, FA equipment

Yamaha has developed a design and production system for metallic molds based on solid 3D models and a rationalizing system of press manufacture derived from many years of experience in the area.

Yamaha also owns production technology for making magnesium and plastic components using an integrated process from mold development to final coating. These components are used in consumer electronic appliances, including mobile phones and digital cameras, and various other items in communications and precision industries. Yamaha Fine Technologies has also introduced a new extrusion-based thixomolding process for magnesium processing that is safer and more eco-friendly than conventional methods.

Competition has become fiercer in the field of magnesium components for mobile phones amid handset model proliferation, shorter product cycles and demand for smaller batch sizes plus more advanced functions. Handset makers are tending to opt for plastic over higher-priced magnesium. Highly variable order quantities and emerging competition from China exacerbate market uncertainties. Yamaha plans to respond by reducing the break-even point for these operations and developing new magnesium components for products such as digital cameras.

In the FA business, amid heavy investment by the consumer electronics industry in new production capacity in China, conditions have been relatively favorable in the market for equipment used to process and inspect printed electronic circuits. Yamaha's leak testers have also benefited from rising demand within the auto industry, where such machines are used to test aluminum wheels and other parts. Yamaha's robot systems, which the company develops in conjunction with Fanuc Ltd., have received many plaudits, particularly in the optimization of sophisticated production systems as a finishing process. Based on its own production technology, Yamaha is focused on developing new FA equipment selections for the IT and auto sectors.

Emphasis on CSR in Management

Yamaha aims to strike a balance between the needs of different stakeholders, based on the recognition that the company's long-term sustainable growth is contingent on fulfillment of its corporate social responsibility (CSR). This belief is one of the three basic policies contained in the YSD50 medium-term business plan, and commits the Yamaha Group to emphasize the importance of CSR.

For many years, Yamaha has devoted resources to preserving the environment. Besides its economic role, Yamaha has also made a major social contribution in the field of musical culture. In 2001, Yamaha adopted the slogan "CREATING 'KANDO' TOGETHER" as an expression of the corporate philosophy of the Yamaha Group. This principle states clearly how Yamaha aims to fulfill its responsibilitiies as a corporate citizen to four key sets of stakeholders—customers, shareholders, those who work with Yamaha and society. This involves reinforcing corporate governance, raising the quality of services to customers, ensuring appropriate and timely disclosure, and maintaining a harmonious balance with society and the environment.

This section provides an overview of CSR activities within the Yamaha Group. For more details, please download the Yamaha Environmental & Social Report from the company's web site.
URL http://www.global.yamaha.com/about/environmental_activities.html

Yamaha's Corporate Philosophy
Corporate Objective

Yamaha will continue to create 'Kando' and enrich culture with technology and passion born of sound and music, together with people all over the world.
'Kando' (is a Japanese word that) signifies an inspired state of mind.

To Customers

Yamaha will fully satisfy the customer, by offering high quality products and services, which use new and traditional technologies, as well as creativity and artistry, and continue to be a known, trusted and loved brand.

To Shareholders

Yamaha will increase the satisfaction and understanding of its shareholders by striving for healthy profits and returns, and by achieving productivity, using high quality, transparent management, and practicing disclosure.

To those who work with Yamaha

Yamaha will develop relationships of mutual trust with all of those who work with Yamaha in accordance with fair rules based on social norms, and strive to be an organization in which individuals can demonstrate their abilities fully, have confidence, and have pride.

To Society

Yamaha will give first priority to safety, and will care for the environment. Yamaha will be a good corporate citizen, and observe laws and work ethically, developing the economy, and contributing to local and global culture.

Brand Slogan

CREATING 'KANDO' TOGETHER

Strengthening corporate governance

Stronger corporate governance is a key management objective at Yamaha. The company believes that an honest commitment to fulfilling corporate economic, environmental and social responsibilities is critical for ensuring continual growth in the value of the company and its brands. Yamaha sees corporate governance as involving the development of effective organizational structures and systems and the adoption of suitable measures to ensure that management attains high standards, based on appropriate and timely disclosure and full transparency.

Measures taken to date to strengthen corporate governance include:

* Reinforcement of oversight function of Board of Directors
* Clear division of responsibilities between directors and executive officers
* Introduction of enhanced systems of disclosure
* Institution of structures for consolidated group management
* Creation of Compliance Committee and publication of Compliance Guide

Compliance Guide

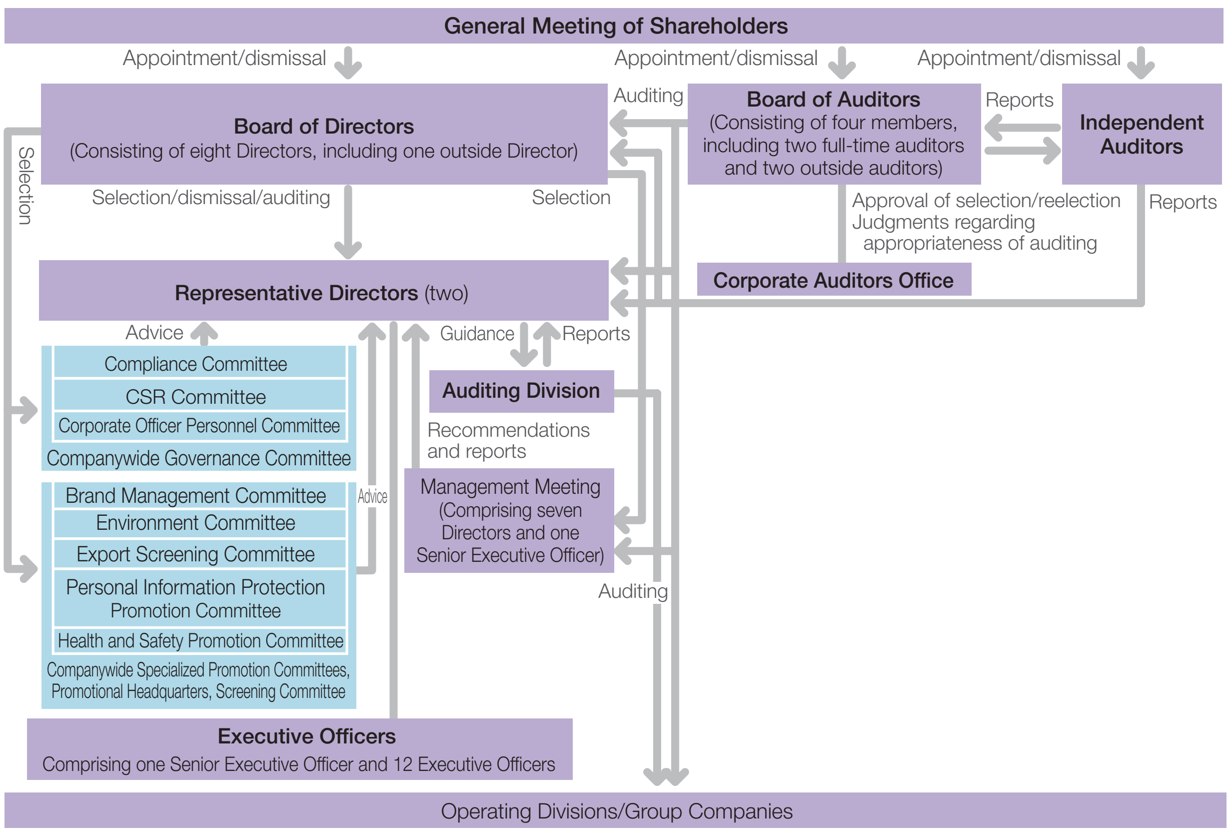
In June 2004, Yamaha designated three existing bodies—the Compliance Committee, the CSR Committee and the Corporate Officer Personnel Committee—as bodies responsible for companywide corporate governance. These three committees each perform separate roles. Based on internal regulations and standards developed by the CSR Committee that are even more rigorous than national legislation, the Compliance Committee oversees activities across the company to ensure that Yamaha fulfills its corporate responsibility to operate in compliance with laws and ordinances. The duties of the Corporate Officer Personnel

Committee include candidate selection for director, auditor and executive officer positions, oversight of executive remuneration issues and operation of personnel development programs for nurturing future candidates for management positions.

The chart below illustrates corporate governance structures and internal control systems at Yamaha.

Risk management systems

Since different parts of the organization are typically involved in dealing with the various types of risk that Yamaha faces, the Yamaha Group risk management system covers the entire operations of the company and is overseen by a number of central committees. This structure aims to facilitate dynamic and optimized responses to risk based on the potential degree of business impact. The central committees involved with risk management are the Compliance Committee, the Brand Management Committee, the Environment Committee, the Export Screening Committee, the Personal Information Protection Promotion Committee and the Health & Safety Promotion Committee.



Inclusion in socially responsible investment (SRI) indices

Since March 2002 Yamaha has been a constituent of the FTSE4Good Global Index, a leading SRI index. Yamaha was also selected as a constituent of the FTSE4Good Japan Index when it was launched in September 2004. In addition, Yamaha has been a constituent of the Morningstar SRI Index since its launch in July 2003. Many SRI funds in Japan include Yamaha. The company aims to maintain its efforts regarding CSR-oriented activities.

Notes: 1. Socially Responsible Investment (SRI): Socially responsible investment is a process that takes social, ethical and environmental criteria into account when evaluating and selecting companies to invest in aimed at generating stable profits. Such criteria include legal compliance, employment and personnel issues, consumer response and contribution to society and the community, which complement conventional financial criteria.
2. FTSE: Joint venture between The Financial Times Ltd. (U.K.) and the London Stock Exchange

The Yamaha Group is not merely about supplying products and services based on sound and music. The company also aims to make a meaningful social contribution, in the process creating multiple points of contact and establishing various forums for dialog with many people. Examples include the sponsorship of concerts, which allow people to enjoy different types of music. Yamaha makes regular donations of musical instruments, and is also involved in beautification campaigns and a variety of social development projects.

Japan

Pacific Flora 2004

Yamaha supplied professional audio equipment for Pacific Flora 2004, which lasted for just over six months from April 8, 2004 at Lake Hamana Garden Park. The Yamaha Group also sponsored several concerts held during the exhibition.

The 2005 World Exposition, Aichi, Japan

Yamaha is one of the official sponsors of the 2005 World Exposition, Aichi, Japan, which extends for six months from March 25, 2005. Yamaha is involved in a variety of roles, including supplying professional audio equipment at the Expo Dome and halls. The company also contributes to the success of the event by supplying musical instruments for various events and sponsoring a number of concerts.

Sponsorship of concerts for amateur musicians

Since 1999, Yamaha has sponsored the Amateur Band Concert Japan featuring various musical genres that provide an opportunity for amateur bands in Japan to perform. Held in Ebisu, Tokyo in September 2004, the sixth annual concert was held for 13 finalists selected from over 500 initial entries. The level of performance proved extremely high.

Yamaha also sponsored large-scale free participation concerts in different parts of Japan to provide amateur musicians of all levels and ages an opportunity to rehearse and perform in concert settings. The events proved a popular way of enabling many people to experience the excitement of performing in public.

13th Hamamatsu Jazz Week

In conjunction with the city of Hamamatsu and various local groups and media firms, Yamaha sponsored the 13th Hamamatsu Jazz Week, which happened during June 5-13, 2004. Managed jointly by the local government and citizen's groups, this event aims to allow people of all ages to enjoy jazz. Hamamatsu Jazz Week is now a major fixture on the regional cultural calendar and is also known as one of Japan's leading jazz events.

10th Hamamatsu International Wind Instrument Academy & Festival

Sponsored by Yamaha in conjunction with the city of Hamamatsu, local groups and the Yamaha Music Foundation, this event took place from July 29 to August 3, 2004. Featuring 19 world-class performers and teachers, 133 instructees and 250 attendees, the 2004 event celebrated its 10th anniversary with lessons involving over 380 people. The cumulative number of musicians receiving instruction at this academy now exceeds 1,500, and it has become a widely respected event both in Japan and abroad.

Donation of musical instruments

Yamaha Piano Service Co., Ltd. donated a digital grand piano (GranTouch™) to the AFLAC Parents House in Asakusabashi that is operated by the Children's Cancer Association of Japan. The facility provides accommodation for families of children from the provinces who are undergoing advanced cancer treatment at specialist hospitals in Tokyo. Besides economic assistance, the facility also aims to provide spiritual support for families in their time of need. The piano is being used for a variety of concerts and other events.

Using funds raised through original sticker sales at its annual Gospel Night event, Yamaha donated percussion made by Remo Inc. to four homes for disabled children. Yamaha also organized special therapy sessions to teach the children how to enjoy playing these instruments.

Assistance for handmade guitar projects

Voluntary activities by Yamaha employees include helping with a student-led project based in the city of Hamamatsu that provides learning assistance to foreign children. Yamaha employees help the students (who also donate their time to the project on a voluntary basis) teach the children how to make handmade guitars on designs, material selection and assembly procedures, as well as acting as expert consultants on safety and other related matters.

Note: Simple one-stringed guitar using cardboard and a square piece of timber

Yamaha Symphonic Band

Founded in 1961, this is an amateur band for Yamaha employees featuring brass and woodwind instruments. The group's annual concert is famous for showcasing new pieces by young composers. The 30-plus pieces introduced to date have greatly augmented the wind repertory in Japan. Band members have also achieved numerous individual honors, including a total of 26 gold medals at the All Japan Band Competition, spanning all categories. The Yamaha Symphonic Band performs regularly at a variety of local events.

Overseas

Charity Program in U.S.

Yamaha Corporation of America (YCA) runs a philanthropic program called Yamaha Cares that provides educational and welfare services to communities across the U.S. In the year ended March 2005, Yamaha Cares provided funds to pay the fall semester fees for a 7-year-old child prodigy from Russia who has been admitted to the world-renowned Juilliard School of Music in New York. Frank & Camille's Fine Pianos, a local YCA retailer, also raised money through a charity auction to donate to her family.

Support for young musicians in Canada

Yamaha Canada Music Ltd. has supported MusicFest Canada, one of Canada's leading music festivals, as official instrument supplier since 1972. The 2004 event, which took place in late May in Montreal, involved over 9,000 high school music students. Yamaha also funded a C$4,000 scholarship and provided guest artists and technicians for the 2004 event.

Free music lessons offered to students in U.K.

In conjunction with popular radio station Classic FM, Yamaha-Kemble Music (U.K.) Ltd. organized a concert for bands involving over 8,000 students and provided free beginners' music lessons for 5,100 students.

Supply of musical instruments for charity recording

On the 20th anniversary of the original charity hit, Yamaha-Kemble Music (U.K.) Ltd. played a part in the re-recording of the Band Aid song, Do They Know It's Christmas? The company supplied guitars, basses and other instruments for the hastily arranged recording in London and organized a charity auction of the artist-autographed instruments afterwards. The record topped the British charts for four weeks in December 2004, generating funds to help provide aid for refugees in Africa.

Assistance for Indonesia's earthquake and tsunami victims

In response to the devastating earthquake and tsunami that hit countries around the Indian Ocean in December 2004, Yamaha Group employees raised over ¥20 million for UNICEF and other charities. Besides the parent company, Yamaha Group firms that contributed included Yamaha Insurance Service Co., Ltd., Yamaha Travel Service Co., Ltd., the Yamaha Music Foundation, and various local subsidiaries (six in Indonesia and two in Malaysia).

Environmental Activities

The Yamaha Group has positioned environmental preservation as a key issue for management due to its critical relevance to all humanity. Since formulating its corporate policy on the environment in 1994, Yamaha has worked to raise awareness of environmental issues among employees through education and training programs, and has also initiated various environmental programs.

Yamaha's Policy on the Environment

Premise

Earth exists not only for those of us who currently live on it, but also for our descendants. We must live in a way that will ensure a future for our children and grandchildren. It is, therefore, our duty to protect our valuable environment so that all living creatures can continue to live on this planet forever.

Policy

Yamaha's corporate objective is to continue to create 'Kando' and enrich culture with technology and passion born of sound and music, together with people all over the world. We have to be aware that corporate activities are deeply related to the environment, and we at Yamaha acknowledge our responsibility to nature. We are dedicated to enriching people's lives and helping to preserve the environment as we live together harmoniously in society.

The Six Principles of Yamaha's Corporate Environmental Activity

1. Make efforts to develop technology and provide products that will be as sensitive as possible to the earth's animals, plants and environment.
2. Promote energy-saving activities and make effective use of resources in the areas of research and development, production, distribution, sales and service.
3. Minimize and recycle waste products, and simplify waste disposal procedures at each stage of production and distribution, as well as during and after use.
4. Strictly follow environmental rules and regulations, encourage environmental protection activities, and ensure the well-being of employees and citizens by practicing sound environmental management.
5. In developing operations overseas, make environmental protection a priority through investigation and understanding of the environmental standards of the host country.
6. Actively distribute information, contribute to the community and carry out educational activities concerning environmental preservation.

Environmental management systems

Yamaha first established a department for environmental management in 1974, upgrading it to the status of a division in 1992. Full-scale environmental activities began around the time of the establishment of the department, and the company had already eliminated CFCs from its operations by 1993. In 1994, Yamaha established the Environment Committee. Chaired by a director with environmental responsibilities, this group studies specific issues and oversees companywide environmental activities.

Yamaha initiated ISO14001 certification processes in 1997 and has since completed the certification of all Yamaha Group manufacturing sites in Japan and overseas as well as all resort facilities. Certification of all major sales offices in Japan (in Tokyo, Osaka and Nagoya) is due to be completed by March 2006.

Development of eco-conscious products

Yamaha aims to add eco-friendliness to the list of Yamaha brand qualities, in addition to safety and reliability. The development of eco-conscious products at Yamaha has three major facets, outlined below.

Reduced use of chemicals

The Yamaha Group formulated internal standards on the use of chemical substances in products in 2003. Management of the use of chemicals based on these standards aims to reduce the environmental impact of Yamaha products. Yamaha is also pursuing green procurement initiatives in cooperation with its suppliers in Japan and overseas. One aim is to be fully compliant by the end of March 2006 with the EU directive on the Restriction of Hazardous Substances (RoHS) through the elimination of six specific substances from Yamaha products.

Conservation of energy and resources

Reduction of energy consumption and conservation of resources are key issues in the development of Yamaha Group products. In the year ended March 2005, Yamaha introduced six models of digital amplifier that feature significantly lower power consumption. Yamaha also launched highly efficient products designed to use less than 0.1W of power in standby mode.

Expanded use of life cycle assessment (LCA) methods

LCA methodology aims to facilitate the design of eco-conscious products by estimating the environmental impact of products throughout the entire life cycle, from raw material procurement and manufacture to distribution, use and disposal. Yamaha introduced this highly effective tool for some AV/IT products in the year ended March 2004, using estimates of environmental impact based on CO_2 emission equivalents. This approach has provided valuable insights into the characteristics of environmental impact with different products. The data are now being applied to the development of eco-conscious products in various areas.

Eco-friendly manufacturing activities

The Yamaha Group is implementing a number of measures to reduce the environmental impact of production activities, as discussed below.

Standards for Chemical Content in Products and Green Procurement Standards

Photovoltaic power generating system at Yamaha's head office

Wastewater treatment system

Clean-up campaign at Lake Hamana

A booklet on the environment for school pupils

Targeting of zero emissions

The Yamaha Group aims to make effective use of waste as resources while targeting zero emissions to ease pressure on landfills. This policy entails reductions in waste generation alongside promoting the re-use of waste items as far as possible at each manufacturing site—for example, by studying new waste sorting and recycling methods. Using such methods, the target of zero emissions (the state where the volume of final disposal at a landfill is 1% or less of that of total waste generation) has already been achieved at Yamaha Kagoshima Semiconductor Inc. and the plants at Toyooka and Kakegawa. Yamaha aims to achieve zero emissions at all manufacturing sites by the end of 2005.

Prevention of global warming via energy conservation

Yamaha Group sites in Japan and overseas are engaged in various programs to cut energy consumption, which is believed to prevent global warming by reducing CO_2 emissions. The present target for the Yamaha Group is to reduce CO_2 emissions from manufacturing sites by March 2011 to 94% of levels recorded in the year to March 1991. In the year ended March 2005, Yamaha installed a rooftop photovoltaic power generating system at its head office, which became operational in January 2005. With a generating capacity of about 70,000kWh, this facility will result in estimated annual primary fuel savings of 17,000 liters in crude oil equivalents, for a reduction in CO_2 emissions of approximately 46 tons per year.

Management of chemical substances

The Yamaha Group is introducing above ground chemical storage tanks with double-hulled structures to prevent chemical leakages. The company has also upgraded its processing facilities for wastewater by installing emergency holding tanks to hold unprocessed wastewater. Yamaha undertakes regular site training programs to ensure that all site personnel are prepared to take swift action in the event of any emergency, and that all communication and control systems are in place and well maintained.

Separately, the Yamaha Group continues to work to cut emissions of chemicals covered by the PRTR (Pollutant Release and Transfer Register) system. The company aims to achieve a 20% reduction in usage of PRTR chemicals by March 2007, relative to usage levels for the year to March 2003. Measures being implemented include installation of exhaust gas recycling equipment, programs to reduce usage of specific substances, and the introduction of alternative chemicals with lower environmental impact.

Environmental communications and social contribution activities

Yamaha Group companies disclose a variety of environment-related information and share this data with local communities to promote harmonious relations. Many Yamaha Group employees participate in local cleanup and community beautification programs as part of efforts to protect the natural environment. One example is an ongoing annual campaign to clean up Lake Hamana, which is situated near Yamaha's corporate headquarters. The 26th such event attracted 6,000 volunteers from towns and villages near the lake—including 300 members of families of Yamaha employees—to collect empty cans and other garbage. Similar campaigns happen at other Yamaha plants and operating sites.

Visitor facilities at some Yamaha sites feature exhibitions on environmental activities aimed at increasing local understanding of the company's efforts. Yamaha also publishes booklets on the environment for distribution to local elementary and middle school pupils.

Research & Development and Intellectual Property

The technological expertise developed within the Yamaha Group is the major factor that underpins the company's broad base of operations. Yamaha invests substantially in research and development activities to support the creation of advanced technology. Securing, protecting and using related intellectual property is another prime aim to ensure that Yamaha retains a competitive technical edge.

R&D contribution to brand and technology development

Leveraging its core technological expertise in sound and music developed over many years, Yamaha strives to increase the value of the Yamaha brand and to stimulate new demand via the development of innovative, high-quality products and novel enterprises. Yamaha has cultivated an excellent global reputation for innovative product design that attracts customers worldwide, boosts the competitiveness of the product range and raises the profile of the Yamaha brand. Core technological expertise and innovative product design are key intellectual properties in Yamaha.

The next stage in the evolution of the Yamaha brand is to develop sound-related technologies to support network-based sound lifestyles and to develop materials and devices dealing with human senses and sensibilities. As an expert in the field of sound (including the sounds of human voices and environments), Yamaha is focusing on creating new business opportunities. For instance, Yamaha is working on blending acoustic, digital signal processing and network technologies to enable sound to become the basis for important aspects of home life such as conveying information or security. Yamaha is also researching the positive social role of music in health maintenance as another potential business.

Besides burnishing its core technologies to support future business development, Yamaha also invests in employee training to ensure that core skills are passed on and nurtured within its work force. Other key aspects of R&D include various programs to maintain and upgrade technologies for product development and manufacturing. All these efforts strengthen the Yamaha brand while boosting the value of the company's intellectual property and other intangible assets.

R&D organization

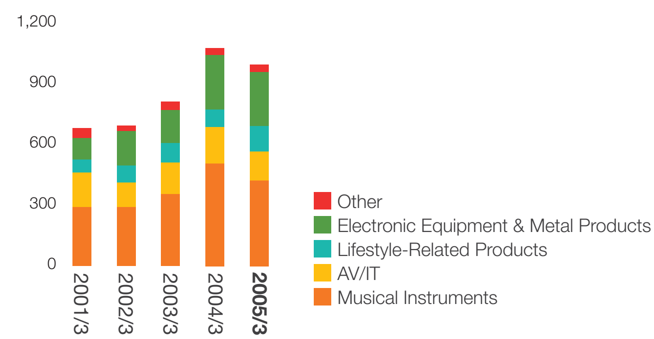
R&D activities at Yamaha are divided into three elements. First, product development divisions attached to each business segment work on product development. Second, a central innovative technology division focuses on new research and technical development projects spanning the entire company. Third, separate companywide project teams work on specific strategic research and product development themes. Within the innovative technology division are separate R&D centers for sound technology development (musical instruments, audio equipment, electronic equipment and software) and material and device development (new materials and devices). The companywide project teams include one division that promotes digital media business development and another that focuses on sound-within-lifestyle strategies, including the development of core sound technologies and new enterprises.

Intellectual Property

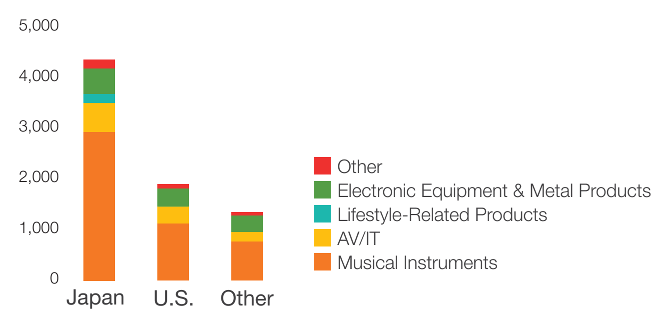
Patents

The charts below illustrate growth in the number of Yamaha patent applications published in Japan and the number of patents owned as of the end of March 2005 by business segment. The musical instruments business accounts for over 40% of Yamaha's published patent applications in Japan and over 60% of all patents owned.

Yamaha Patent Applications Published in Japan
(Number of patents)



Patents Owned by Yamaha (as of March 31, 2005)



Patent strategy

Patent acquisition

Growth of Patent Power is a theme spannig the entire company. Boosting efforts to acquire more patents worldwide is a key theme across all business segments at Yamaha. The company is particularly focused on gaining more overseas patents, notably in China. Patent acquisition to contribute to business is set as a specific objective in each of Yamaha's core businesses.

Expanding patent application and acquisition is regarded as a key element of business strategy. Yamaha also undertakes annual reviews to evaluate all patents owned as part of broader efforts to optimize intellectual property assets.

The prioritized target areas for patent filing in each business segment are outlined below.

Musical instruments:
Network-related technologies; new-concept musical instruments; professional audio-related technologies

AV/IT:
Sound projectors; network-related technologies

Lifestyle-related products:
Technologies related to artificial marble; mist sauna-related technologies

Electronic equipment and metal products:
Sound-related devices

Other Yamaha operations aim to achieve numbers of patent filings corresponding to the scale of each business.

Companywide R&D functions focus on filing patent applications in areas related to the use of sound in lifestyle applications.

Patent-related work is built into management for development-stage work, ensuring the filing of patent applications at key milestones of progress in all R&D programs.

Patent use

In all business segments, patent acquisition and use are regarded as a fundamental part of commercial differentiation and the securing and maintenance of an advantageous business position. In the AV/IT and electronic equipment & metal products segments, Yamaha makes use of cross-licensing arrangements to augment operational freedom. Yamaha also engages in licensing its patents to third-party; for instance, in the AV/IT business Yamaha is participating in a joint licensing group for optical disk recording technology patents that is led by Philips and Sony.

Patent management systems and methods

A corporate legal and intellectual property division oversees Yamaha's patent strategy and the integrated management of all patents held by the Yamaha Group. Specific personnel at each business and R&D division are assigned to intellectual property roles to ensure the company's patent strategy is coherent with business and R&D strategies. Respect for intellectual property and maintaining of confidentiality are also key concepts in Yamaha's internal compliance guidelines, which form part of the code of conduct for Yamaha Group personnel and member firms.

Internal incentives for inventions

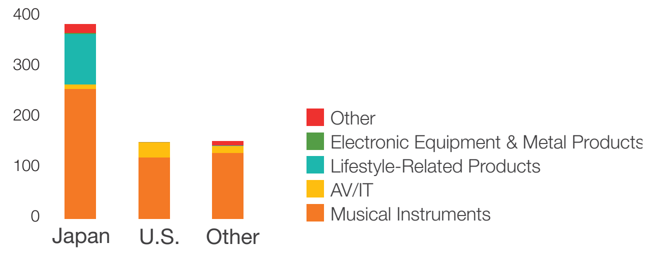
In line with both legal considerations and internal regulations, Yamaha makes payments of remuneration to inventors at the various stages of patent acquisition and use, i.e. patent filing, patent registration, practice of patent and licensing-out of patent. These payments are designed to reward and provide an incentive for invention.

To encourage greater numbers of patent applications and registrations, Yamaha also strives to cultivate a dynamic corporate culture that values innovation and honors the achievements of inventors. In fiscal 2004, Yamaha established its own patent awards to recognize the inventions that offer the greatest potential and their originators.

Designs

The chart illustrates the number of designs (registered in governmental patent offices) owned by Yamaha at the end of March 2005. The musical instruments business accounts for about 70% of the total. In recent years, Yamaha has increased the number of product design applications in the China Patent office as part of countermeasures against counterfeits.

Registered Designs Owned by Yamaha (as of March 31, 2005)



Intellectual property risk

At the time of publication of this report, the Yamaha Group was not involved in any intellectual property dispute with the potential to have a significant impact on the company's business.

Board of Directors, Corporate Auditors and Executive Officers

Board of Directors

Katsuhiko Kishida
Chairman and Representative Director

Shuji Ito
President and Representative Director

Hirokazu Kato
Managing Director

In charge of technology and development:
Digital Contents Business Division,
Digital Media Business Development Division and
Technology Planning Division

Tsuneo Kuroe
Managing Director

In charge of human resources:
Corporate Planning Division,
Personnel Division and
Information Systems Division

Toru Hasegawa
Director

Chairman and Director of Yamaha Motor Co., Ltd.

Shinya Hanamoto
Director

In charge of corporate affairs:
General Administration Division and Environmental Management Division

Tokihisa Makino
Director

In charge of finance:
Accounting & Finance Division,
Auditing Division and
Golf Products Division

Yasushi Yahata
Director

In charge of manufacturing:
Car Parts Division,
Quality Assurance Division and
Production Engineering Division

Corporate Auditors

Naomoto Ota (Full-Time)

Michio Horikoshi (Full-Time)

Kunio Miura

Haruhiko Wakuda

Executive Officers

Senior Executive Officer

Mitsuru Umemura
General Manager, Musical Instruments Group

Executive Officers

Katsuhiro Tokuda
General Manager, Pro Audio & Digital Musical Instruments Division

Hajime Hayashida
General Manager, HG Piano Development Division

Yoshikazu Tobe
General Manager, Public Relations Division

Motoki Takahashi
General Manager (Europe), Yamaha Corporation and President, Yamaha Music Holding Europe G.m.b.H.

Hiroshi Sekiguchi
General Manager, AV & IT Business Group

Takuya Tamaru
General Manager, Sound Life Marketing & Development Laboratory

Kosuke Kamo
General Manager, Legal & Intellectual Property Division

Koji Niimi
General Manager, Innovative Technology Group

Hiroo Okabe
Deputy General Manager, Musical Instruments Group

Yasuhiro Kira
General Manager, Product Design Laboratory

Tatsumi Ohara
General Manager, Semiconductor Division

Tsutomu Sasaki
General Manager, Purchasing & Logistics Division

(June 24, 2005)

The Japanese economy plotted a course of gentle recovery in fiscal 2005 as improved corporate performance allowed companies to raise capital investment levels in the face of higher consumer spending. Economic uncertainty heightened in the second half of the year due to inventory corrections in digital product sectors and sharp rises in crude oil prices. In overseas markets, the Asian economy maintained strong growth, while expansion remained solid in the U.S. and steady in Europe.

Yamaha Corporation ("the Company") tackled a number of issues in pursuit of the goals formulated in the YSD50 medium-term business plan, which covers the period from April 2004 to March 2007. Net sales achieved in the first year of the plan (fiscal 2005, ended March 31, 2005) declined 1.0% year-on-year to ¥534.1 billion, which was below projections. Sales rose in the musical instruments business following the successful launch of STAGEA™, a new Electone™ model with advanced functions, but sales fell in the electronic equipment and metal products business amid lower prices for LSI sound chips for mobile phones. Sales also declined in the lifestyle-related products, recreation, and others segment such as automobile interior wood components, and metallic molds and components.

Although profits received a boost from currency translation gains due to the yen's depreciation against the euro and cost-reduction initiatives, the decline in sales of semiconductors, which command high gross margins, resulted in a significant fall in gross profit. Material costs rose sharply and oil price inflation translated into higher transport costs. Operating income amounted to ¥35.7 billion, a fall of 20.8% compared with the previous year.

By business segment, profits increased in musical instruments due to higher sales, but declined steeply in the electronic equipment and metal products business. Profits dropped off in the lifestyle-related products segment due to decreased sales, and operating losses widened in the recreation segment. Income taxes rose significantly in fiscal 2005 in connection with the cancellation of the parent company deficit. Combined with the drop in operating income, this resulted in a 54.8% year-on-year decline in net income to ¥19.7 billion.

In terms of changes in financial condition, total assets at the fiscal 2005 year-end amounted to ¥505.6 billion, a decline of ¥3.2 billion, or 0.6%, from the previous year. The application of asset-impairment accounting resulted in a significant fall in property, plant and equipment. This was partially offset by increases in cash and bank deposits, inventories and other current assets. As a result of using increased operating cash flow to repay debt, interest-bearing liabilities at the fiscal 2005 year-end declined to ¥46.6 billion from ¥48.9 billion a year earlier. Accrued employees' retirement benefits declined following the return of the substitutional portion of welfare pension funds to the government, which contributed to a fall in long-term liabilities. Shareholders' equity increased from ¥259.7 billion to ¥275.2 billion, primarily as a result of net income, unrealized gains on holdings in equity-method affiliates and an improvement in the account for translation adjustments, due mainly to yen depreciation against the euro. The shareholders' equity ratio increased by 3.3 points, from 51.1% to 54.4%. The Company also achieved its YSD50 goal of lowering the level of interest-bearing debt to below that of cash and bank deposits two years ahead of target. Return on equity (net income divided by shareholders' equity) equaled 7.4%.

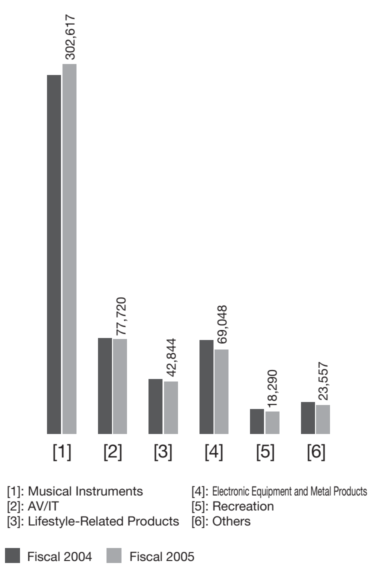
Contents

	Millions of Yen					
	2005	2004	2003	2002	2001	2000
For the year:						
Net sales	**¥ 534,079**	¥ 539,506	¥ 524,763	¥ 504,406	¥ 519,104	¥ 527,897
Cost of sales	**335,483**	337,813	338,307	340,411	346,200	371,758
Gross profit	**198,595**	201,693	186,456	163,994	172,904	156,140
Selling, general and administrative expenses	**162,899**	156,637	154,413	152,951	149,902	148,057
Operating income	**35,695**	45,056	32,043	11,043	23,001	8,082
Income (loss) before income taxes and minority interests	**33,516**	47,456	22,612	(5,784)	23,491	(47,601)
Net income (loss)	**19,697**	43,541	17,947	(10,274)	13,320	(40,777)
At year-end:						
Total assets	**¥ 505,577**	¥ 508,731	¥ 512,716	¥ 509,663	¥ 522,486	¥ 543,088
Total shareholders' equity, net	**275,200**	259,731	214,471	201,965	196,733	221,750
Total current assets	**225,581**	201,704	221,089	211,140	231,872	205,979
Total current liabilities	**145,820**	123,596	158,148	144,498	175,371	178,281

	Yen					
Amounts per share:						
Net income (loss)	**¥ 95.06**	¥ 210.63	¥ 86.65	¥ (49.75)	¥ 64.50	¥ (197.45)
Shareholders' equity	**1,334.51**	1,259.28	1,040.06	978.15	952.62	1,073.75

	%					
Ratios:						
Current ratio	**154.7%**	163.2%	139.8%	146.1%	132.2%	115.5%
Shareholders' equity ratio	**54.4**	51.1	41.8	39.6	37.7	40.8
Return on assets	**3.9**	8.5	3.5	(2.0)	2.5	(7.6)
Return on equity	**7.4**	18.4	8.6	(5.2)	6.4	(18.7)

Net Sales by Business Segment
(Millions of Yen)



Business Results

Net Sales by Business Segment

Sales rose on a year-on-year basis in the musical instruments business, but sales from semiconductors fell due to price erosion of LSI sound chips for mobile phones amid fierce competition. Sales also declined in the lifestyle-related products and recreation segments. Total net sales fell 1.0% year-on-year to ¥534.1 billion.

Sales in the musical instruments segment increased by ¥9.2 billion, or 3.1%, compared with the previous year to ¥302.6 billion. The effects of exchange rate movements (the yen depreciated against the euro but rose against the U.S. dollar) depressed sales by ¥3.1 billion, implying real growth in sales of ¥12.3 billion, or 4.2%. Sales in the North American market fell due to yen appreciation against the dollar, but increased in local currency terms. Sales reversed a downward trend in Japan, in part due to the successful launch of STAGEA™, a new Electone™ model. Market conditions remained generally difficult in Europe, although the strengthening of the euro resulted in a gain in sales in yen-based terms. Elsewhere, sales of musical instruments grew steadily in South Korea, the Middle East and China. Product categories recording year-on-year sales increases included Electones™, electronic pianos and professional audio equipment. Sales of portable keyboards and synthesizers dropped, however, and sales of guitars declined due to a slump in the Japanese market.

Numbers of infant and child pupils enrolled at Yamaha music schools leveled out, and music schools for adults registered a steady increase in student numbers. Ringtone melody services for mobile phones generated higher sales revenue due to the sales increase in markets outside Japan.

Sales in the AV/IT segment declined by ¥0.6 billion, or 0.7%, compared with the previous year to ¥77.7 billion. Sales of medium- and high-end amplifiers and receivers rose, notably in the North American market, but fell in Japan and Europe amid fierce competition. Sales of enterprise-use routers continued to grow steadily.

Sales in the lifestyle-related products segment declined by ¥1.9 billion, or 4.3%, compared with the previous year to ¥42.8 billion. This was mainly due to the delayed introduction of lower-priced system bathrooms and kitchens to respond to market shifts, although launches of new products in the second half helped to recover some of the lost ground.

Sales in the electronic equipment and metal products segment fell by ¥7.8 billion, or 10.2%, compared with the previous year to ¥69.0 billion. Fierce competition in the market for LSI sound chips for mobile phones led to significant erosion of unit prices, causing a substantial decline in sales compared with the previous year. Although electronic metal materials performed well in the first half of the year, an inventory correction in the market from the middle of 2004 caused overall sales to decline.

In the recreation segment, business was negatively affected by a continued fall in the number of skiers and by unseasonable weather, notably by an unusually long typhoon season. Total segment sales fell by ¥1.9 billion, or 9.0%, compared with the previous year to ¥18.3 billion.

In other operations, sales of golf equipment fell on a year-on-year basis amid poor market conditions. Sales also fell in the automobile interior wood components business due to effects related to model changeovers. The factory automation business expanded as a result of higher capital investment in China and other markets. Sales of metallic molds and components business declined as handset makers conducted inventory adjustments for magnesium components for mobile phones and shifted toward components made from cheaper materials to lower production costs. Overall segment sales declined by ¥2.5 billion, or 9.6%, compared with the previous year to ¥23.6 billion.

Sales by Geographic Area

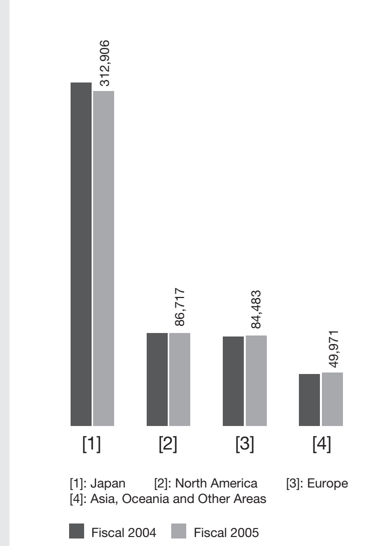
Sales of musical instruments rose on a year-on-year basis in Japan, reflecting the successful launch of STAGEA™, but sales of other consumer-oriented products and services declined, notably in the lifestyle-related products segment and recreation segment. Sales of LSI sound chips for mobile phones and other semiconductors dropped significantly. Total sales in Japan declined 2.5% year-on-year to ¥312.9 billion.

Sales in North America totaled ¥86.7 billion, a slight increase over the previous year. The effect of generally strong growth in sales of musical instruments and AV products was partially affected by the yen's appreciation against the dollar.

Despite a decline in local currency terms, sales in Europe advanced 1.2% on a year-on-year basis to ¥84.5 billion as a result of yen depreciation against the euro.

In other regions, higher sales of musical instruments in South Korea and the Middle East contributed to growth of 2.9% in sales to ¥50.0 billion. Sales rose in China, although growth was below expectations. Products driving growth in this country included pianos, wind instruments and professional audio equipment.

Net Sales by Geographical Area
(Millions of Yen)



Cost of Sales and SG&A Expenses

Cost-reduction efforts helped to offset sharply higher material costs. The overall cost of sales declined by ¥2.4 billion compared with the previous year. Gross profit fell by ¥3.1 billion to ¥198.6 billion, reflecting the ¥5.4 billion year-on-year decline in sales. The gross profit margin fell 0.2 points, from 37.4% to 37.2%.

Selling, general and administrative (SG&A) expenses increased by ¥6.3 billion compared with the previous year to ¥162.9 billion. This reflected more advertising and promotional spending, including television commercials in Japan, as well as increased overseas distribution costs due to higher oil prices, and changes in the rebate system at certain European subsidiaries from sales rebates to strategic sales promotions. The ratio of SG&A expenses to sales increased 1.5 points, rising from 29.0% to 30.5%.

Operating Income

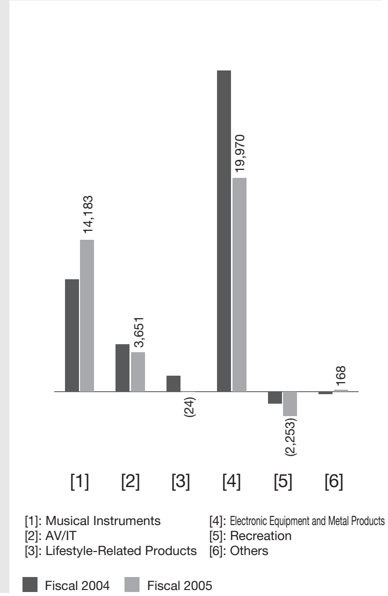
Operating income fell by ¥9.4 billion on a year-on-year basis to ¥35.7 billion.

By business segment, operating income in the musical instruments business increased by ¥3.7 billion to ¥14.2 billion. This reflected a combination of higher sales, reduced manufacturing costs and cuts in personnel expenses and other fixed costs.

Operating income declined in the AV/IT segment by ¥0.7 billion to ¥3.7 billion. Lower prices in home theater systems caused by fierce competition were partially offset by currency gains and lower manufacturing costs.

Price competition mainly in the mass market was also severe in the lifestyle-related products segment, leading to a fall in gross profit margins. Combined with lower sales, this result-

Operating Income (Loss) by Business Segment
(Millions of Yen)



ed in a significant year-on-year drop in operating income in the lifestyle-related products segment, which recorded a small operating loss.

In the electronic equipment and metal products segment, price erosion also affected LSI sound chips for mobile phones. Lower gross margins led to a year-on-year drop of ¥10.0 billion in segment operating income to ¥20.0 billion.

Losses widened in the recreation segment due to a continued decline in sales revenue, despite efforts to raise efficiency. The operating loss amounted to ¥2.3 billion. The Company wrote down fixed assets in this segment by ¥32.0 billion in line with the adoption of asset-impairment accounting standards. Another key change in accounting treatment made in fiscal 2005 was in the depreciation method used for assets in this segment. Previously, the Company used the straight-line method. Effective from fiscal 2005, the Company switched to the declining-balance method for calculating depreciation. This stricter method conforms to the approach used in other business segments and is also more appropriate for assessing the true profitability of Yamaha's resort operations.

Operating income from other operations totaled ¥0.2 billion, compared with an operating loss in the previous year. This mainly reflected significant reductions in manufacturing costs within the factory automation and metallic molds and components businesses.

Other Income and Expenses

Net non-operating income recorded a year-on-year deterioration of ¥0.4 billion, falling from ¥6.0 billion to ¥5.6 billion. This mainly reflected a drop of ¥1.3 billion in equity in earnings of unconsolidated subsidiaries and affiliates, from ¥10.4 billion to ¥9.1 billion, due to a change in the fiscal year-end of equity-method affiliate Yamaha Motor Co., Ltd. This change resulted in a one-time reduction in the firm's contribution to equity-method earnings due to the inclusion of only nine rather than twelve months of income. Net financial income improved by ¥0.7 billion.

Extraordinary losses associated with the early application of asset-impairment accounting totaled ¥32.7 billion. This was only partially offset by extraordinary gains totaling ¥19.9 billion due to the return of the substitutional portion of welfare pension funds to the government and gains on sales of investment securities worth ¥6.5 billion. Overall, extraordinary losses expanded by ¥4.2 billion compared with the previous year, increasing from ¥3.6 billion to ¥7.8 billion.

Net Income

Income before income taxes and minority interests declined by ¥13.9 billion on a year-on-year basis, falling from ¥47.4 billion to ¥33.5 billion. The cancellation of the parent company deficit resulted in the normalization of the Company's accounts for tax purposes, leading to higher income taxes. As a result, net income for the year declined sharply, from ¥43.5 billion to ¥19.7 billion.

Foreign Exchange Rate Movements and Risk Hedging

In terms of the average exchange rates recorded during the year, the yen rose ¥5 against the U.S. dollar in fiscal 2005, to ¥108/$. The effect of this change on sales in year-on-year terms was a decline of ¥4.8 billion. In contrast, the yen depreciated against the euro in fiscal 2005 to an average exchange rate of ¥135/€, which resulted in a year-on-year gain in sales of ¥1.2

billion. Including fluctuations of the yen against other currencies such as the Australian dollar, the net effect of foreign exchange rate movements on sales in year-on-year terms was a decline of ¥3.8 billion.

With regard to effects on profits, the average yen-U.S. dollar settlement rate was ¥6 higher than in the previous year in favor of the yen. The effect on profits in year-on-year terms was a decline of ¥0.5 billion. The average yen-euro settlement rate was ¥133/€, a loss of ¥4 compared with the previous year in favor of the euro. The effect on profits in year-on-year terms was a gain of ¥1.7 billion. Including the effects of other currencies, the net effect of foreign exchange rate movements on profits in year-on-year terms was a gain of ¥1.4 billion.

The Company undertakes hedging operations against currency risks in Japan. U.S. dollar-related currency fluctuation risks are hedged by marrying risk associated with dollar receipts from exports with risk associated with dollar payments for imported products. The Company hedges the value of risks associated with the euro, Australian dollar, and Canadian dollar by projecting related export revenues and purchasing relevant three-month currency forwards.

Financial Condition

Assets, Liabilities and Shareholders' Equity

Assets

Total assets at March 31, 2005 amounted to ¥505.6 billion, a decrease of ¥3.2 billion compared with the previous year-end. Current assets increased by ¥23.9 billion. Although notes and accounts receivable declined by ¥7.4 billion, inventories increased by ¥6.3 billion (due primarily to higher inventory levels within musical instruments and AV/IT operations), while cash and bank deposits increased by ¥19.2 billion. Other current assets also rose by ¥5.8 billion, due mainly to an increase in deferred tax assets. Due to the application of accounting for asset impairment ahead of the statutory timetable, the value of property, plant and equipment declined by ¥32.3 billion, from ¥178.7 billion to ¥146.4 billion. This mainly reflected the write-down of facilities within the recreation segment.

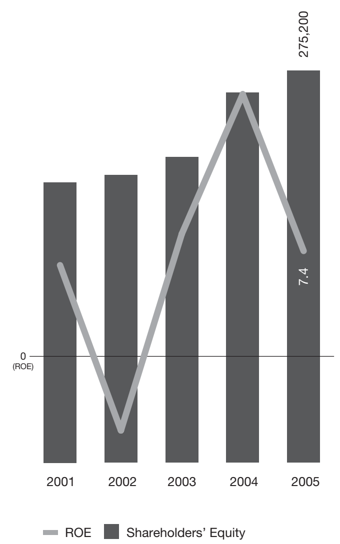
Liabilities

Total liabilities at March 31, 2005 amounted to ¥226.5 billion, a fall of ¥19.0 billion from the figure at the previous year-end (¥245.5 billion). The main factors involved were a fall in accrued employees' retirement benefits due to the return of the substitutional portion of welfare pension funds to the government, the refund of resort membership deposits, and a reduction in long-term debt despite an increase in income taxes payable.

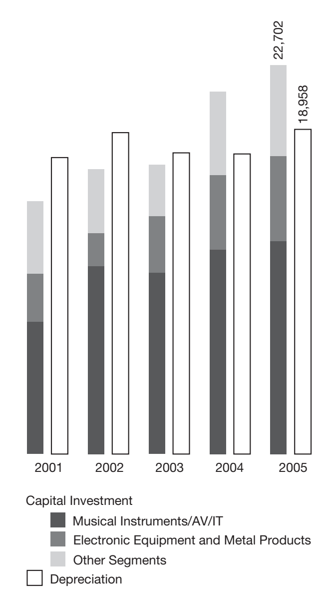
Actual Interest-Bearing Debt

Reflecting net income for fiscal 2005 and the decline in notes and accounts receivables and other factors, the balance of actual interest-bearing debt* at March 31, 2005 improved by ¥21.4 billion from a figure of ¥16.8 billion at the previous year-end, with total borrowings of ¥46.6 billion and cash and bank deposits of ¥51.2 billion. The Company thus achieved its

Shareholders' Equity and ROE
(Millions of Yen, %)



Capital Investment and Depreciation
(Millions of Yen)



goal, formulated in the YSD50 medium-term business plan, to reduce the balance of actual interest-bearing debt to zero a full two years ahead of target.

* The balance of actual interest-bearing debt is defined as the sum of borrowings and convertible bonds, less cash and bank deposits.

Shareholders' Equity

Shareholders' equity rose by ¥15.5 billion compared with the previous year-end, to ¥275.2 billion. This was mainly the result of net income and unrealized gains on holdings in equity-method affiliates. There was also a reduction in the reserve for land revaluation following the application of asset-impairment accounting. The shareholders' equity ratio was 54.4% as of March 31, 2005. Return on equity (net income divided by shareholders' equity) equaled 7.4%.

Cash Flows

Net cash provided by operating activities in fiscal 2005 totaled ¥39.6 billion. This figure was ¥18.8 billion lower than in the previous year, primarily due to reduced net income and the increase in inventories.

Net cash used in investing activities totaled ¥12.9 billion. Compared with the previous year's figure of ¥18.8 billion, the reduction in cash outflow of ¥5.9 billion was primarily due to proceeds from sales of investment securities and property despite higher capital investment levels.

Net cash used in financing activities decreased to ¥8.4 billion. This was mainly due to the repayment of long- and short-term debt, refunds of resort membership deposits, and an increase in dividend payments to shareholders. Cash outflow was reduced substantially by ¥41.8 billion from the previous year. Cash used in financing activities in the previous year totaled ¥50.1 billion, reflecting such factors as the redemption of convertible bonds, repayments of long- and short-term debt and the payment of Kiroro™ member deposits due to the expiration of the deferment period.

Including a net positive effect of ¥1.1 billion due to foreign exchange rate movements and a net cash decrease due to a decline in the number of subsidiaries excluded from the scope of consolidation, the year-end balance of cash and cash equivalents totaled ¥50.4 billion, a year-on-year increase of ¥19.1 billion.

Capital Expenditures and Depreciation

Capital investment levels continued to rise, increasing by 7.3% year-on-year to ¥22.7 billion. Capital spending in the musical instruments business increased by ¥1.2 billion to ¥11.3 billion, reflecting investments in molds for new products and the establishment of new Yamaha music schools. Capital spending in the electronic equipment and metal products business increased by ¥0.6 billion to ¥5.0 billion, mainly reflecting the renovation of production equipment at Yamaha Kagoshima Semiconductor Inc. Capital spending in the recreation segment amounted to ¥2.3 billion, representing a year-on-year increase of ¥1.5 billion. This was due principally to investment in the Haimurubushi™ resort to expand the number of guest rooms. Depreciation and amortization expense increased by ¥1.4 billion compared with the previous year to ¥19.0 billion.

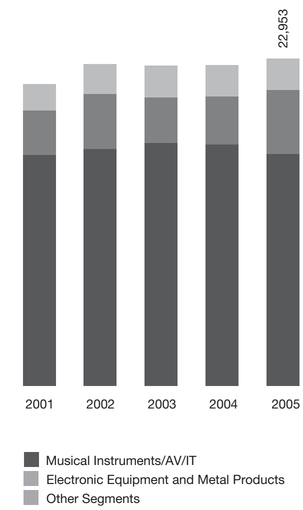
R&D Expenses

R&D spending increased 2.0% year-on-year to ¥23.0 billion. The ratio of R&D spending to sales was 4.3%, roughly the same level as in the previous year. Most of this spending was directed at product development for the electronic and digital musical instruments, AV/IT and semiconductor businesses. R&D budgets also funded programs to develop basic technologies related to sound (speakers, sound field control, voice synthesis, DSP, etc.) and HIC innovations (sound-absorbent materials, actuators, MEMS, etc.)

Technical glossary:

1. HIC (Human Interface Components): HICs are devices and materials whose qualities enhance the functional performance of musical instruments and AV systems by improving the human and emotional interface. An example would be a device that can help create a truly quiet sound environment.
2. MEMS (Micro Electro Mechanical Systems): A device in which sensors, actuators and electronic circuitry are all built onto a single silicon substrate. Examples would include silicon microphones or audio sensors.

R&D Expenses
(Millions of Yen)



Consolidated Balance Sheets

Yamaha Corporation and Consolidated Subsidiaries
At March 31, 2005 and 2004

ASSETS	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 3) 2005
Current assets:			
Cash and bank deposits (Note 19)	**¥ 51,205**	¥ 32,053	**$ 476,813**
Marketable securities (Notes 6 and 18)	**457**	1,150	**4,256**
Notes and accounts receivable — trade	**73,688**	81,114	**686,172**
Less: Allowance for doubtful accounts	**(2,114)**	(2,389)	**(19,685)**
Inventories	**78,434**	72,146	**730,366**
Deferred income taxes (Note 12)	**16,495**	12,291	**153,599**
Prepaid expenses and other current assets (Note 7)	**7,412**	5,337	**69,019**
Total current assets	**225,581**	201,704	**2,100,577**
Property, plant and equipment, net of accumulated depreciation (Notes 5, 6 and 9):			
Land (Note 8)	**64,050**	75,362	**596,424**
Buildings and structures	**45,370**	66,524	**422,479**
Machinery and equipment	**35,607**	33,802	**331,567**
Construction in progress	**1,399**	2,978	**13,027**
Property, plant and equipment, net of accumulated depreciation	**146,428**	178,667	**1,363,516**
Investments and other assets:			
Investment securities (Notes 4, 6 and 18)	**101,015**	101,017	**940,637**
Long-term loans receivable	**924**	1,276	**8,604**
Lease deposits	**5,309**	5,146	**49,437**
Deferred income taxes (Note 12)	**17,425**	17,379	**162,259**
Excess of cost over net assets acquired	**148**	234	**1,378**
Other assets	**8,743**	3,305	**81,414**
Total investments and other assets	**133,567**	128,359	**1,243,756**
Total assets	**¥ 505,577**	¥ 508,731	**$4,707,859**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 3) 2005
Current liabilities:			
Short-term loans (Note 6)	¥ 17,825	¥ 16,711	$ 165,984
Current portion of long-term debt (Note 6)	22,259	7,388	207,273
Notes and accounts payable — trade	37,686	39,947	350,927
Accrued expenses	45,167	45,888	420,589
Income taxes payable	12,603	2,492	117,357
Advances received	2,775	3,333	25,840
Deferred income taxes (Note 12)	4	94	37
Other current liabilities (Note 7)	7,498	7,737	69,820
Total current liabilities	145,820	123,596	1,357,855
Long-term liabilities:			
Long-term debt (Note 6)	6,514	24,772	60,657
Deferred income taxes (Note 12)	200	198	1,862
Deferred income taxes on land revaluation (Note 8)	14,346	13,569	133,588
Accrued employees' retirement benefits (Note 14)	28,269	50,012	263,237
Directors' retirement benefits	950	939	8,846
Long-term deposits received	28,917	30,799	269,271
Other long-term liabilities	1,522	1,600	14,173
Total long-term liabilities	80,722	121,891	751,671
Minority interests	3,834	3,511	35,702
Contingent liabilities (Note 15)			
Shareholders' equity (Note 13):			
Common stock:			
Authorized—700,000,000 shares;			
Issued 2005—206,524,626 shares			
2004—206,524,626 shares	28,534	28,534	265,704
Capital surplus	40,054	40,054	372,977
Earned surplus	212,340	203,485	1,977,279
Reserve for land revaluation (Note 8)	22,453	15,866	209,079
Net unrealized holding gain on other securities	7,364	10,979	68,572
Translation adjustments	(35,267)	(38,937)	(328,401)
Treasury stock, at cost	(279)	(252)	(2,598)
Total shareholders' equity, net	275,200	259,731	2,562,622
Total liabilities and shareholders' equity	¥ 505,577	¥ 508,731	$ 4,707,859

Consolidated Statements of Income

Yamaha Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2005	2004	**2005**
Net sales	**¥ 534,079**	¥ 539,506	**$4,973,266**
Cost of sales (Note 10)	**335,483**	337,813	**3,123,969**
Gross profit	**198,595**	201,693	**1,849,288**
Selling, general and administrative expenses (Note 10)	**162,899**	156,637	**1,516,892**
Operating income	**35,695**	45,056	**332,387**
Other income (expenses):			
Interest and dividend income	**708**	539	**6,593**
Interest expense	**(1,020)**	(1,535)	**(9,498)**
Sales rebates	**(4,327)**	(4,378)	**(40,292)**
Loss on sale or disposal of property, net	**(1,129)**	(2,297)	**(10,513)**
Equity in earnings of unconsolidated subsidiaries and affiliates	**9,110**	10,447	**84,831**
Gain on sales of investment securities	**6,534**	5	**60,844**
Gain on transfer of substitutional portion of retirement benefit obligation and related pension plan assets	**19,927**	—	**185,557**
Loss on impairment of fixed assets (Note 9)	**(32,703)**	—	**(304,526)**
Other, net (Note 11)	**722**	(381)	**6,723**
	(2,179)	2,400	**(20,291)**
Income before income taxes and minority interests	**33,516**	47,456	**312,096**
Income taxes (Note 12):			
Current	**14,497**	4,769	**134,994**
Deferred	**(1,088)**	(1,387)	**(10,131)**
	13,408	3,382	**124,853**
Income before minority interests	**20,107**	44,074	**187,233**
Minority interests	**409**	532	**3,809**
Net income	**¥ 19,697**	¥ 43,541	**$ 183,416**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Yamaha Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2005	2004	**2005**
Common stock:			
Balance at beginning of year			
(2005—206,524,626 shares; and 2004—206,523,263 shares)	**¥ 28,534**	¥ 28,533	**$ 265,704**
Add:			
Conversion of convertible bonds	**—**	1	**—**
Balance at end of year			
(2005 and 2004—206,524,626 shares)	**¥ 28,534**	¥ 28,534	**$ 265,704**
Capital surplus:			
Balance at beginning of year	**¥ 40,054**	¥ 40,052	**$ 372,977**
Add:			
Conversion of convertible bonds	**—**	1	**—**
Balance at end of year	**¥ 40,054**	¥ 40,054	**$ 372,977**
Earned surplus:			
Balance at beginning of year	**¥ 203,485**	¥ 162,344	**$1,894,823**
Add:			
Net income	**19,697**	43,541	**183,416**
Effect of changes in scope of consolidation	**—**	545	**—**
Reversal of reserve for land revaluation arising from change in interest in an affiliate	**188**	569	**1,751**
Effect of changes in financial periods of consolidated subsidiaries	**—**	64	**—**
Deduct:			
Cash dividends paid	**3,611**	2,063	**33,625**
Bonuses to directors and statutory auditors	**121**	82	**1,127**
Effect of changes in scope of consolidation	**36**	116	**335**
Effect of changes in interest in consolidated subsidiaries	**371**	95	**3,455**
Reversal of reserve for land revaluation	**6,890**	1,220	**64,159**
Balance at end of year	**¥ 212,340**	¥ 203,485	**$1,977,279**
Reserve for land revaluation:			
Balance at beginning of year	**¥ 15,866**	¥ 16,152	**$ 147,742**
Net change during the year	**6,587**	(286)	**61,337**
Balance at end of year	**¥ 22,453**	¥ 15,866	**$ 209,079**
Unrealized holding gain on other securities:			
Balance at beginning of year	**¥ 10,979**	¥ 378	**$ 102,235**
Net change during the year	**(3,615)**	10,601	**(33,662)**
Balance at end of year	**¥ 7,364**	¥ 10,979	**$ 68,572**
Translation adjustments:			
Balance at beginning of year	**¥ (38,937)**	¥ (32,753)	**$ (362,576)**
Net change during the year	**3,670**	(6,184)	**34,175**
Balance at end of year	**¥ (35,267)**	¥ (38,937)	**$ (328,401)**
Treasury stock, at cost:			
Balance at beginning of year			
(2005—368,014 shares; 2004—391,160 shares)	**¥ (252)**	¥ (236)	**$ (2,347)**
Net change during the year	**(27)**	(16)	**(251)**
Balance at end of year			
(2005—380,610 shares; 2004—368,014 shares)	**¥ (279)**	¥ (252)	**$ (2,598)**

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Yamaha Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2005	2004	**2005**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 33,516**	¥ 47,456	**$ 312,096**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**19,039**	17,695	**177,288**
Loss on impairment of fixed assets	**32,703**	—	**304,526**
Allowance for doubtful accounts	**(233)**	(407)	**(2,170)**
Loss on revaluation of investment securities	**70**	110	**652**
Loss on revaluation of investments in affiliates	**70**	393	**652**
Employees' retirement benefits, net of payments	**(21,786)**	(3,983)	**(202,868)**
Interest and dividend income	**(708)**	(539)	**(6,593)**
Interest expense	**1,020**	1,535	**9,498**
Equity in earnings of unconsolidated subsidiaries and affiliates	**(9,110)**	(10,447)	**(84,831)**
Gain on sales of investment securities other than those of subsidiaries	**(6,529)**	(5)	**(60,797)**
Gain on sales of investments in subsidiaries	**—**	(14)	**—**
Gain on liquidation of subsidiaries	**(4)**	(126)	**(37)**
Loss on sales or disposal of property, net	**1,129**	2,297	**10,513**
Foreign exchange (gain) loss	**(180)**	217	**(1,676)**
Fines and penalties	**—**	339	**—**
Changes in operating assets and liabilities:			
Accounts and notes receivable — trade	**8,636**	(698)	**80,417**
Inventories	**(4,654)**	6,346	**(43,337)**
Accounts and notes payable — trade	**(2,798)**	1,283	**(26,055)**
Other, net	**(6,144)**	2,798	**(57,212)**
Subtotal	**44,033**	64,248	**410,029**
Interest and dividends received	**2,081**	1,301	**19,378**
Interest paid	**(1,024)**	(1,582)	**(9,535)**
Fines and penalties paid	**—**	(339)	**—**
Income taxes, net of payments	**(5,501)**	(5,278)	**(51,225)**
Net cash provided by operating activities	**39,588**	58,349	**368,638**
Cash flows from investing activities:			
Proceeds from time deposits	**9**	697	**84**
Purchases of property	**(21,450)**	(18,721)	**(199,739)**
Proceeds from sales of property	**2,527**	552	**23,531**
Purchases of investment securities	**(113)**	(266)	**(1,052)**
Proceeds from sales and redemption of investment securities	**9,416**	371	**87,680**
Other, net	**(3,285)**	(1,408)	**(30,589)**
Net cash used in investing activities	**(12,896)**	(18,775)	**(120,086)**
Cash flows from financing activities:			
Increase (decrease) in short-term loans	**902**	(11,179)	**8,399**
Proceeds from long-term debt	**5,373**	2,651	**50,033**
Repayment of long-term debt	**(8,851)**	(8,778)	**(82,419)**
Redemption of convertible bonds	**—**	(24,314)	**—**
Cash dividends paid	**(3,611)**	(2,063)	**(33,625)**
Resort membership deposits received	**7**	—	**65**
Refund of resort membership deposits	**(1,889)**	(6,049)	**(17,590)**
Cash dividends paid to minority shareholders	**(211)**	(384)	**(1,965)**
Other, net	**(28)**	(23)	**(261)**
Net cash used in financing activities	**(8,306)**	(50,141)	**(77,344)**
Effect of exchange rate changes on cash and cash equivalents	**1,099**	(1,599)	**10,234**
Net increase (decrease) in cash and cash equivalents	**19,485**	(12,167)	**181,441**
Cash and cash equivalents at beginning of the year	**31,245**	42,976	**290,949**
Increase due to inclusion in consolidation	**—**	1,150	**—**
Decrease due to exclusion from consolidation	**(337)**	(127)	**(3,138)**
Decrease in cash and cash equivalents arising from changes in financial periods of subsidiaries	**—**	(587)	**—**
Cash and cash equivalents at end of the year (Note 19)	**¥ 50,393**	¥ 31,245	**$ 469,252**

See 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 countries of domicile. The Company and all consolidated subsidiaries are referred to herein as the "Yamaha Group." The accompanying 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 statements prepared by the Company as required by the Securities and Exchange Law of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which 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 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 a result, the accompanying consolidated financial statements include the accounts of the Company and 86 and 89 consolidated subsidiaries for the years ended March 31, 2005 and 2004, respectively.

All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates (other than subsidiaries as defined above) whose decision-making and control over their own operations is significantly affected in various ways by the consolidated group are accounted for by the equity method. Investments in two affiliates have been accounted for by the equity method for the years ended March 31, 2005 and 2004.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

Certain foreign subsidiaries are consolidated on the basis of fiscal periods ending December 31 a balance sheet date, which differs from that of the Company; however, the necessary adjustments are made when the effect of this difference is material.

All assets and liabilities of the subsidiaries are revalued at fair value on acquisition, if applicable, and the excess of cost over the underlying net assets at the dates of acquisition is amortized over a period of five years on a straight-line basis.

(c) 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 if not hedged by forward foreign exchange contracts, or at the contracted rates of exchange when hedged by forward foreign exchange contracts. The resulting exchange gain or loss is recognized as other income or expense.

Assets and liabilities of the overseas consolidated subsidiaries are translated at the exchange rates in effect at each balance sheet date and revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation adjustments are presented as components of shareholders' equity and minority interests in the consolidated financial statements.

(d) Cash and cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(e) Securities

Securities owned by the Yamaha Group have been classified into two categories, held-to-maturity and other, in accordance with the accounting standard for financial instruments. Under this standard, held-to-maturity debt securities are either amortized or accumulated to face value by the straight-line method. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. If the market value of the marketable securities classified as other securities has declined significantly, such securities are written down to fair value, thus establishing a new cost basis. The amount of each write-down is charged to income as an impairment loss unless the fair value is deemed recoverable. The Company has established a policy for the recognition of an impairment loss if the market value at the year-end has declined more than 30% unless the fair value is deemed recoverable.

Cost of securities sold is determined by the weighted-average method.

(f) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the last-in, first-out 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.

(g) Depreciation and amortization

Depreciation of property, plant and equipment is calculated principally by the declining-balance method (except that certain consolidated subsidiaries employ the straight-line method) at rates based on the estimated useful lives of the respective assets.

Estimated useful lives:

Buildings:	31-50 years (Leasehold improvements: 15 years)
Structures:	10-30
Machinery and equipment:	4-11
Tools, furniture and fixtures:	5-6 (Molds: 2 years)

Effective April 1, 2004, the Company and its consolidated subsidiaries changed their method of depreciation of certain facilities utilized for the recreation business from the straight-line method to the declining-balance method due to the deterioration of their economic value as a result of recent unfavorable conditions in the recreation segment. With this change, depreciation expense increased by ¥1,274 million ($11,863 thousand) and income before income taxes and minority interests decreased by ¥1,274 million ($11,863 thousand).

The effect on segment information is disclosed in Note 21.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables. The level of the provision is determined based on the historical experience with write-offs plus an estimate of specific probable doubtful accounts based on a review of the collectibility of individual receivables.

(i) Retirement benefits

Accrued employees' retirement benefits: Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the pension fund assets.

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

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

See Note 14 for the method of accounting for the separation of the substitutional portion from the corporate portion of the benefit obligation under the Welfare Pension Fund Plan.

Directors' and statutory auditors' retirement benefits: The Company's directors and statutory auditors are customarily entitled to receive lump-sum retirement payments based on the Company's internal bylaws. The Company provides a 100% allowance for retirement benefits for its directors and statutory auditors based on its own internal regulations.

(j) Warranty reserve

A warranty reserve is provided to cover the cost of customers' claims relating to after-sales service and repairs. The amount of this reserve is estimated based on a percentage of the amount or volume of sales and after considering the historical experience with repairs of products under warranty.

(k) Leases

Non-cancelable leases are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases, except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(l) Income taxes

Deferred income taxes are recognized by the liability method. Under the liability 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.

(m) Derivative financial instruments

Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which the unrealized gain or loss is deferred as an asset or a liability. Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method, which is utilized to hedge against risk arising from fluctuation in foreign exchange rates.

The Yamaha Group does not conduct an assessment of the effectiveness of its hedging activities because the relationship between the anticipated cash flows fixed by the hedging activities and the avoidance of market risk is so clear that there is no need to evaluate the effectiveness of each hedge against the respective hedged item.

(n) Land revaluation

Pursuant to the "Law Concerning the Revaluation of Land," land used for the business operations of the Company, two consolidated subsidiaries and an affiliate was revalued. The excess of the revalued carrying amount over the book value before revaluation has been included in shareholders' equity.

This land revaluation was determined based on the official standard notice prices. It was conducted in accordance with the relevant regulations of the Corporation Tax Law of Japan with certain adjustments as deemed necessary.

(o) Appropriation of retained earnings

Under the Commercial Code of Japan (the "Code"), the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. Refer to Note 22.

2. Change in Method of Accounting

A new Japanese accounting standard entitled "Impairment of Fixed Assets" was issued in August 2002 and is effective for financial years beginning on or after April 1, 2005. Early adoption is permissible for the financial year beginning on or after April 1, 2004. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies are required to recognize an impairment loss in their income statement or if certain indicators of assets impairment exist and if the book value of the fixed assets exceeds the undiscounted sum of their future cash flows.

Effective April 1, 2004, the Company and its consolidated subsidiaries opted for an early adoption of the new accounting standard for the impairment of fixed assets. The effect of the adoption of this standard was to recognize an impairment loss of ¥32,703 million ($304,526 thousand) and to decrease depreciation expense by ¥1,238 million ($11,528 thousand). As a result, income before income taxes and minority interests decreased by ¥31,464 million ($292,988 thousand).

After the recognition of the impairment loss, "fixed assets" represents the total recoverable amount which is stated at the carrying amount less the accumulated impairment loss. See Note 21 for the effect of the loss on impairment of fixed assets on the segment information.

3. U.S. DOLLAR AMOUNTS

Solely for the convenience of the reader, the accompanying financial statements for the year ended March 31, 2005 have been presented in U.S. dollars by translating all yen amounts at ¥107.39 = U.S.$1.00, the exchange rate prevailing on March 31, 2005. 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.

4. INVESTMENT SECURITIES

Investment securities at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Investments in and advances to unconsolidated subsidiaries and affiliates	**¥ 70,859**	¥ 62,522	**$ 659,829**
Other	**30,155**	38,495	**280,799**
Investment securities	**¥ 101,015**	¥ 101,017	**$ 940,637**

5. ACCUMULATED DEPRECIATION

Accumulated depreciation at March 31, 2005 and 2004 amounted to ¥234,910 million ($2,187,448 thousand) and ¥227,779 million, respectively.

6. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans consisted of unsecured loans payable to banks at weighted-average interest rates of 2.0% and 1.9% per annum at March 31, 2005 and 2004, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Loans from banks, due through 2008 at average rates of 1.1% and 1.9% for current and noncurrent portions, respectively	**¥ 28,773**	¥ 32,160	**$ 267,929**
Total long-term debt	**28,773**	32,160	**267,929**
Less: Current portion and convertible bonds scheduled for redemption	**22,259**	7,388	**207,272**
	¥ 6,514	¥ 24,772	**$ 60,661**

The assets pledged as collateral for long-term debt and certain other current liabilities at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
March 31,	**2005**	2004	**2005**
Marketable securities	**¥ 250**	¥ 1,100	**$ 2,328**
Property, plant and equipment, net of accumulated depreciation	**378**	2,577	**3,520**
Investment securities	**1,514**	929	**14,098**
	¥ 2,143	¥ 4,607	**$ 19,955**

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 22,259	$ 207,272
2007	4,892	45,553
2008	1,621	15,094
2009	—	—
2010 and thereafter	—	—
	¥ 28,773	$ 267,933

7. DEFERRED GAIN OR LOSS ON HEDGES

Deferred gain or loss on hedges at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Deferred gain on hedges	**¥ 24**	¥ 811	**$ 223**
Deferred loss on hedges	**(496)**	(5)	**(4,619)**
Deferred (loss) gain on hedges, net	**¥ (472)**	¥ 805	**$ (4,395)**

8. LAND REVALUATION

The Company, two consolidated subsidiaries and an affiliate have carried over the revaluation of their landholdings at the following dates in accordance with the “Law Concerning the Revaluation of Land” (Law No. 34 published on March 31, 1998).

	Dates of Revaluation
A consolidated subsidiary and an affiliate	March 31, 2000
The Company and a consolidated subsidiary	March 31, 2002

The Company and two consolidated subsidiaries determined the value of their 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). An affiliate determined the value of its land based on a reasonable adjustment to its value as determined by a method which the Commissioner of the National Tax Administration established and published in order to standardize the determination of land value. Land value is the underlying basis for the assessment of land tax as specified in Article 16 of the Local Tax Law which is governed by Item 4 of Article 2 of the Enforcement Order for the "Law Concerning the Revaluation of Land".

The excess of the revalued carrying amount over market value at the balance sheet dates is summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
March 31,	**2005**	2004	**2005**
Excess of revalued carrying amount over market value	**¥ (15,042)**	¥ (13,834)	**$ (140,069)**

9. IMPAIRMENT LOSS ON FIXED ASSETS

The following table summarizes the impairment loss on fixed assets for the year ended March 31, 2005:

		Millions of Yen	Thousands of U.S. Dollars
Group of Fixed Assets	Impaired Assets	**2005**	**2005**
Assets in recreation business	Buildings and structures	**¥ 22,321**	**$ 207,850**
	Land	**9,666**	**90,008**
	Total	**¥ 31,988**	**$ 297,868**
Unused assets	Buildings and structures	**¥ 71**	**$ 661**
	Land	**532**	**4,954**
	Other	**111**	**1,034**
Total	Total	**¥ 715**	**$ 6,658**
	Buildings and structures	**¥ 22,392**	**$ 208,511**
	Land	**10,199**	**94,972**
	Other	**111**	**1,034**
	Total	**¥ 32,703**	**$ 304,526**

a) Grouping of assets into cash-generating units

Assets are classified into groups based on their business segment as cash-generating units which are defined as the smallest identifiable group of assets which generate cash inflows and which are largely independent of the cash inflows from other assets or groups of assets.

b) Principal circumstances leading to recognition of impairment loss

An impairment loss on assets in the recreation business was recognized due to unfavorable results which resulted in operating losses. An impairment loss on unused assets was recognized as a recovery in market value is not expected and because certain assets have been scheduled for disposal.

c) Determination of recoverable amount

The recoverable amount of the assets in the recreation business was measured by their usage value and future cash flows at a discount rate of 9.4%. The recoverable amount of the unused assets was measured by the net realizable value based on a valuation under the current tax regulations unless other market-based evidence was available.

10. R&D EXPENSES

R&D expenses, included in selling, general and administrative expenses and cost of sales for the years ended March 31, 2005 and 2004, amounted to ¥22,953 million ($213,735 thousand) and ¥22,503 million, respectively.

11. OTHER INCOME (EXPENSES)

The components of "Other, net" in "Other income (expenses)" for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31	**2005**	2004	**2005**
Additional lump-sum early retirement incentive program payments	**¥ (755)**	¥ —	**$ (7,030)**
Loss on revaluation of investments in unconsolidated subsidiaries and affiliates	**(70)**	(393)	**(652)**
Loss on revaluation of investment securities	**(70)**	(110)	**(652)**
Structural reform expenses	**(52)**	(6)	**(484)**
Fines and penalties for violations of EC fair competition laws by four regional entities	**—**	(339)	**—**
Social security premiums paid following revision of overall salary system	**—**	(922)	**—**
Other, net	**1,669**	1,389	**15,541**
	¥ 722	¥ (381)	**$ 6,723**

12. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 40.9% for the years ended March 31, 2005 and 2004.

Income taxes of the overseas consolidated subsidiaries are, in general, based on the tax rates applicable in their countries of incorporation.

The major components of deferred tax assets and liabilities as of March 31, 2005 and 2004 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Deferred tax assets:			
Write-downs of inventories	**¥ 1,827**	¥ 1,612	**$ 17,013**
Unrealized gain on inventories and PP&E	**3,303**	—	**30,757**
Allowance for doubtful receivables	**976**	1,066	**9,088**
Depreciation	**12,328**	9,597	**114,797**
Impairment loss	**17,646**	—	**164,317**
Unrealized loss on investment securities	**2,038**	2,298	**18,978**
Accrued employees' bonuses	**4,117**	4,690	**38,337**
Warranty reserve	**992**	867	**9,237**
Retirement benefits	**9,550**	17,667	**88,928**
Tax loss carryforward	**3,778**	9,240	**35,180**
Other	**10,076**	9,999	**93,826**
	66,635	57,039	**620,495**
Valuation allowance	**(25,688)**	(18,305)	**(239,203)**
Total deferred tax assets	**¥ 40,946**	¥ 38,734	**$ 381,283**
Deferred tax liabilities:			
Reserve for deferred gain on properties	**(1,507)**	(1,617)	**(14,033)**
Reserve for asset replacement	**(369)**	—	**(3,436)**
Reserve for special depreciation	**(283)**	(159)	**(2,635)**
Unrealized gain on securities	**(4,541)**	(6,957)	**(42,285)**
Other	**(529)**	(621)	**(4,926)**
Total deferred tax liabilities	**(7,230)**	(9,355)	**(67,325)**
Net deferred tax assets	**¥ 33,716**	¥ 29,378	**$ 313,958**

A reconciliation of the statutory and effective tax rates for the year ended March 31, 2005 has been omitted as the difference between these tax rates was immaterial.

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2004 is as follows:

	Year ended March 31, 2004
Statutory tax rate	¥ 40.9 %
Equity in earnings of unconsolidated subsidiaries and affiliates and non-temporary differences not deductible for tax purposes	(7.5)
Inhabitants' per capita taxes and other	0.4
Effect of change in statutory tax rate	1.6
Change in valuation allowance	(25.4)
Tax-rate variances of overseas subsidiaries and other	(2.9)
Effective tax rate	7.1 %

13. LEGAL RESERVE AND ADDITIONAL PAID-IN CAPITAL

The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also provides that, to the extent that the sum of additional paid-in capital and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

14. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., the welfare pension fund plan (WPFP), tax-qualified pension plans and lump-sum payment plans which substantially cover all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rate of pay, length of service, and the conditions under which termination occurs. Certain employees may be entitled to additional special retirement benefits which have not been provided for based on the conditions under which termination occurs. In addition, certain overseas consolidated subsidiaries have defined benefit and contribution plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2005 and 2004 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Retirement benefit obligation	**¥ (160,761)**	¥ (210,069)	**$(1,496,983)**
Plan assets at fair value	**100,340**	112,990	**934,351**
Unfunded retirement benefit obligation	**(60,421)**	(97,078)	**(562,632)**
Unrecognized actuarial gain or loss	**32,861**	49,554	**305,997**
Unrecognized past service cost	**1,992**	(2,487)	**18,549**
Net retirement benefit obligation at transition	**(25,567)**	¥ (50,012)	**$ (238,076)**
Prepaid pension expenses	**¥ 2,702**	¥ (50,012)	**$ 25,161**
Accrued retirement benefits	**¥ (28,269)**	¥ (50,012)	**$ (263,237)**

Notes: (1) The government-sponsored portion of the WPFP benefits at March 31, 2004 has been included in the amounts shown in the above table.

(2) On December 1, 2004, the Company and certain domestic subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under its WPFP. On March 29, 2005, the Company completed the transfer of the related pension assets to the Japanese government.

In accordance with "Practical Guidelines for Accounting for Retirement Benefits," the Company recognized a gain on the transfer of substitutional portion of the benefit obligation and the related pension plan assets of ¥19,927 million ($185,557 thousand) for the year ended March 31, 2005.

The components of retirement benefit expenses for the years ended March 31, 2005 and 2004 are outlined as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Service cost	**¥ 5,808**	¥ 7,022	**$ 54,083**
Interest cost	**3,774**	4,774	**35,143**
Expected return on plan assets	**(4,152)**	(3,645)	**(38,663)**
Amortization of past service cost	**(99)**	(63)	**(922)**
Amortization of actuarial gain or loss	**5,423**	5,229	**50,498**
Additional retirement benefit expenses	**2,307**	1,643	**21,482**
	13,062	14,961	**121,631**
Gain on transfer of substitutional portion of benefit obligation and related pension assets	**19,927**	—	**185,557**
Total	**¥ (6,864)**	¥ 14,961	**$ (63,977)**

The assumptions used in accounting for the above plans are as follows:

	2005	2004
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**4.0%**	4.0%
Amortization of past service cost	**10 years (straight-line method)**	10 years (straight-line method)
Amortization of actuarial gain or loss	**10 years (straight-line method)**	10 years (straight-line method)

15. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Export bills discounted with banks	¥ 1,400	$ 13,037
Guarantees of indebtedness of others	478	4,451

16. AMOUNTS PER SHARE

	Yen		U.S. Dollars
Years ended March 31	**2005**	2004	**2005**
Net income:			
Basic	**¥ 95.06**	¥ 210.63	**$ 0.89**
Diluted	**93.88**	196.01	**0.87**

	Yen		U.S. Dollars
March 31	**2005**	2004	**2005**
Net assets	**¥ 1,334.51**	¥ 1,259.28	**$ 12.43**

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the conversion of convertible bonds.

Net assets per share are based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each balance sheet date.

The calculation of basic net income per share and diluted net income per share was determined as follows:

Years ended March 31	2005		2004	
Basic net income per share:				
Net income	**¥ 19,697**	**million**	¥ 43,541	million
Amounts not attributable to shareholders of common stock	**100**		121	
Directors' bonuses appropriated from retained earnings	**100**		121	
Amounts attributable to shareholders of common stock	**19,597**		43,419	
Weighted-average number of shares outstanding	**206,151**	**thousand shares**	206,146	thousand shares
Diluted net income per share:				
Adjustments arising from dilution	**¥ (243)**	**million**	¥ (846)	million
Interest on corporate bonds, net of taxes	**—**		273	
Equity in earnings of unconsolidated subsidiaries and affiliates	**(243)**		(1,120)	
Increase in number of shares outstanding	**—**	**thousand shares**	11,052	thousand shares
Dilution arising from conversion of convertible bonds	**—**	**thousand shares**	11,052	

17. LEASES

Lessees' accounting

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2005 and 2004 which would have been reflected in the consolidated balance sheets if the finance leases currently accounted for as operating leases had been capitalized:

	Millions of Yen			Thousands of U.S. Dollars		
Year ended March 31, 2005	Tools and equipment	Other	Total	Tools and equipment	Other	Total
Acquisition costs	**¥ 2,430**	**¥ 610**	**¥ 3,041**	**$ 22,628**	**$ 5,680**	**$ 28,317**
Accumulated depreciation	**1,243**	**289**	**1,532**	**11,575**	**2,691**	**14,266**
Net book value	**¥ 1,187**	**¥ 321**	**¥ 1,508**	**$ 11,053**	**$ 2,989**	**$ 14,042**

	Millions of Yen		
Year ended March 31, 2004	Tools and equipment	Other	Total
Acquisition costs	¥ 2,593	¥ 606	¥ 3,200
Accumulated depreciation	1,413	219	1,633
Net book value	¥ 1,179	¥ 387	¥ 1,567

Lease expenses relating to finance leases accounted for as operating leases amounted to ¥795 million ($7,403 thousand) and ¥853 million for the years ended March 31, 2005 and 2004, respectively.

Depreciation of leased assets is computed by the straight-line method over the respective lease terms and the interest portion is included in the lease payments.

Future minimum lease payments subsequent to March 31, 2005 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 653	$ 6,081
2007 and thereafter	855	7,962
Total	¥ 1,508	$ 14,042

Lessors' accounting

The following amounts represent the acquisition costs, accumulated depreciation and the net book value of leased assets relating to finance leases accounted for as operating leases at March 31, 2005 and 2004:

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31	**2005**	2004	**2005**
Acquisition costs	**¥ 6,242**	¥ 5,752	**$ 58,125**
Accumulated depreciation	**4,231**	4,135	**39,398**
Net book value	**¥ 2,011**	¥ 1,616	**$ 18,726**

Lease income and depreciation expenses relating to finance leases accounted for as operating leases amounted to ¥1,197 million ($11,146 thousand) and ¥663 million ($6,174 thousand), and ¥1,082 million and ¥638 million, respectively, for the years ended March 31, 2005 and 2004.

Depreciation of leased assets is computed by the straight-line method over the respective lease terms and the interest portion is included in the lease income.

Future minimum lease income subsequent to March 31, 2005 for finance leases accounted for as operating leases is summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 1,180	$ 10,988
2007 and thereafter	2,266	21,101
Total	¥ 3,447	32,098

18. SECURITIES

(a) Held-to-maturity debt securities with determinable market value

	Millions of Yen			Thousands of U.S. Dollars		
Year ended March 31, 2005	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Government and municipal bonds	**¥ 459**	**¥ 462**	**¥ 2**	**$ 4,274**	**$ 4,302**	**$ 19**
Corporate bonds	**639**	**643**	**3**	**5,950**	**5,988**	**28**
Other	**1,549**	**1,566**	**16**	**14,424**	**14,582**	**149**
	2,649	**2,672**	**22**	**24,667**	**24,881**	**205**
Securities whose carrying value does not exceed their fair value:						
Government and municipal bonds	**—**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**199**	**199**	**(0)**	**1,853**	**1,853**	**(0)**
	199	**199**	**(0)**	**1,853**	**1,853**	**(0)**
Total	**¥ 2,849**	**¥ 2,871**	**¥ 22**	**$ 26,529**	**$ 26,734**	**$ 205**

Year ended March 31, 2004	Millions of Yen Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government and municipal bonds	¥ 260	¥ 262	¥ 2
Corporate bonds	390	392	2
Other	1,950	1,968	17
	2,600	2,623	23
Securities whose carrying value does not exceed their fair value:			
Government and municipal bonds	—	—	—
Corporate bonds	100	100	(0)
Other	299	296	(3)
	399	396	(3)
Total	¥ 3,000	¥ 3,020	¥ 20

(b) Other securities with determinable market value

	Millions of Yen			Thousands of U.S. Dollars		
Year ended March 31, 2005	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Stock	**¥ 9,184**	**¥20,671**	**¥11,486**	**$ 85,520**	**$192,485**	**$106,956**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**52**	**54**	**2**	**484**	**503**	**19**
	9,236	**20,725**	**11,488**	**86,004**	**192,988**	**106,975**
Securities whose carrying value does not exceed their acquisition costs:						
Stock	**0**	**0**	**(0)**	**0**	**0**	**0**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
	0	**0**	**(0)**	**0**	**0**	**0**
Total	**¥ 9,237**	**¥ 20,725**	**¥ 11,488**	**$ 86,014**	**$192,988**	**$106,975**

Year ended March 31, 2004	Millions of Yen Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Stock	¥ 11,927	¥ 29,533	¥ 17,606
Bonds	—	—	—
Other	51	51	0
	11,978	29,584	17,606
Securities whose carrying value does not exceed their acquisition costs:			
Stock	10	9	(0)
Bonds	—	—	—
Other	—	—	—
	10	9	(0)
Total	¥ 11,988	¥ 29,594	¥ 17,605

(c) Other securities sold during the years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Sales of other securities	**¥ 9,402**	¥ 6	**$ 87,550**
Profit on sales	**6,534**	5	**60,844**
Loss on sales	**4**	—	**37**

(d) Securities without determinable value

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Other securities:			
Unlisted securities (other than securities traded over-the-counter)	**¥ 6,990**	¥ 7,050	**$ 65,090**

(e) Schedule for redemption of other securities with maturities and held-to-maturity debt securities at March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars	
Year ended March 31, 2005	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Bonds:				
Government and municipal bonds	**¥ 59**	**¥ 399**	**$ 549**	**$ 3,715**
Corporate bonds	**200**	**439**	**1,862**	**4,088**
Other	**150**	**1,599**	**1,397**	**14,890**
Total	**¥ 410**	**¥ 2,439**	**$ 3,818**	**$ 22,712**

	Millions of Yen	
Year ended March 31, 2004	Due in one year or less	Due after one year through five years
Bonds:		
Government and municipal bonds	¥ —	¥ 260
Corporate bonds	150	340
Other	1,000	1,249
Total	¥ 1,150	¥ 1,850

19. SUPPLEMENTARY CASH FLOW INFORMATION

The following table represents a reconciliation of cash and cash equivalents at March 31, 2005 and 2004:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Cash and bank deposits	**¥ 51,205**	¥ 32,053	**$ 476,813**
Time deposits with a maturity of more than three months	**(812)**	(808)	**(7,561)**
Cash and cash equivalents	**¥ 50,393**	¥ 31,245	**$ 469,252**

20. DERIVATIVES AND HEDGING ACTIVITIES

The Yamaha Group utilizes derivative financial instruments such as forward foreign exchange contracts and currency options for the purpose of hedging its exposure to adverse fluctuation in foreign currency exchange rates, but does not enter into such transactions for speculative or trading purposes.

The Yamaha Group may, from time to time, enter into foreign forward exchange agreements in order to manage certain risks arising from adverse fluctuation in foreign exchange transactions. The Yamaha Group has implemented internal regulations under which any significant foreign exchange risks will be hedged.

No specific disclosure for derivatives has been made as the Yamaha Group, as a matter of principle, holds only derivative positions which meet the criteria for deferral hedge accounting.

21. SEGMENT INFORMATION

The business and geographical segments and overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 are outlined as follows:

Business Segments

	Millions of Yen								
Year ended March 31, 2005	Musical instruments	AV/IT	Lifestyle-related products	Electronic equipment and metal products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income (loss)									
Sales to external customers	¥ 302,617	¥ 77,720	¥ 42,844	¥ 69,048	¥ 18,290	¥ 23,557	¥ 534,079	¥ —	¥ 534,079
Intersegment sales or transfers	—	—	—	2,143	—	—	2,143	(2,143)	—
Total sales	302,617	77,720	42,844	71,192	18,290	23,557	536,222	(2,143)	534,079
Operating expenses	288,434	74,069	42,869	51,221	20,543	23,388	500,527	(2,143)	498,383
Operating income (loss)	¥ 14,183	¥ 3,651	¥ (24)	¥ 19,970	¥ (2,253)	¥ 168	¥ 35,695	¥ —	¥ 35,695
II. Total assets, depreciation and capital expenditures									
Total assets	¥ 279,126	¥ 41,855	¥ 16,382	¥ 46,380	¥ 17,582	¥ 104,250	¥ 505,577	¥ —	¥ 505,577
Depreciation	7,819	1,492	1,518	4,183	2,621	1,322	18,958	—	18,958
Impairment loss	379	46	155	60	31,988	72	32,703	—	32,703
Capital expenditures	11,311	1,111	1,195	4,955	2,323	1,804	22,702	—	22,702

	Thousands of U.S. Dollars								
Year ended March 31, 2005	Musical instruments	AV/IT	Lifestyle-related products	Electronic equipment and metal products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income (loss)									
Sales to external customers	$ 2,817,925	$ 723,717	$ 398,957	$ 642,965	$ 170,314	$219,359	$ 4,973,266	$ —	$4,973,266
Intersegment sales or transfers	—	—	—	19,955	—	—	19,955	(19,955)	—
Total sales	2,817,925	723,717	398,957	662,930	170,314	219,359	4,993,221	(19,955)	4,973,266
Operating expenses	2,685,855	689,720	399,190	476,962	191,293	217,786	4,660,834	(19,955)	4,640,870
Operating income (loss)	$ 132,070	$ 33,998	$ (223)	$ 185,958	$ (20,980)	$ 1,564	$ 332,387	$ —	$ 332,387
II. Total assets, depreciation and capital expenditures									
Total assets	$ 2,599,181	$ 389,748	$ 152,547	$ 431,884	$ 163,721	$ 970,761	$ 4,707,859	$ —	$4,707,859
Depreciation	72,809	13,893	14,135	38,951	24,406	12,310	176,534	—	176,534
Impairment loss	3,529	428	1,443	559	297,868	670	304,526	—	304,526
Capital expenditures	105,326	10,345	11,128	46,140	21,631	16,799	211,398	—	211,398

Year ended March 31, 2004	Musical instruments	AV/IT	Lifestyle-related products	Electronic equipment and metal products	Recreation	Others	Total	Eliminations or unallocated amounts	Consolidated
	Millions of Yen								
I. Sales and operating income (loss)									
Sales to external customers	¥ 293,430	¥ 78,257	¥ 44,765	¥ 76,892	¥ 20,100	¥ 26,061	¥ 539,506	¥ —	¥ 539,506
Intersegment sales or transfers	—	—	—	2,131	—	—	2,131	(2,131)	—
Total sales	293,430	78,257	44,765	79,023	20,100	26,061	541,638	(2,131)	539,506
Operating expenses	282,950	73,839	43,303	49,005	21,211	26,272	496,581	(2,131)	494,450
Operating income (loss)	¥ 10,480	¥ 4,418	¥ 1,462	¥ 30,018	¥ (1,110)	¥ (211)	¥ 45,056	¥ —	¥ 45,056
II. Total assets, depreciation and capital expenditures									
Total assets	¥ 247,863	¥ 42,075	¥ 19,011	¥ 51,978	¥ 53,843	¥ 93,958	¥ 508,731	¥ —	¥ 508,731
Depreciation	7,447	1,694	969	3,388	2,853	1,167	17,522	—	17,522
Capital expenditures	10,099	1,827	1,678	4,358	774	2,420	21,160	—	21,160

Notes: (1) The business segments have been determined based on the application or nature of each product in the market.

(2) Major products in each business segment:

Business segment	Major products & services
Musical instruments	Pianos, digital musical instruments, wind instruments, stringed instruments, percussion instruments, educational musical instruments, professional audio equipment, soundproof rooms, music schools, English schools, ringing melody distribution service
AV/IT	Audio products, visual products, routers
Lifestyle-related products	System bathrooms, system kitchens, washstands, components for housing facilities
Electronic equipment and metal products	Semiconductors, special metals
Recreation	Sightseeing and accommodation facilities, ski resorts, golf courses
Others	Golf products, automobile interior wood components, industrial robots, molds and magnesium parts

The major products are described in the accompanying “Review of Operations.”

Accounting changes: Effective April 1, 2004, the Company opted for early adoption of a new accounting standard for impairment of fixed assets. The effect of this adoption was to decrease depreciation (operating expenses) by ¥1,238 million ($11,528 thousand) in the recreation segment. In addition, the effect of a change in the method of accounting for depreciation from the straight-line method to the declining-balance method for certain recreational facilities was to increase depreciation (operating expenses) by ¥1,274 million ($11,863 thousand) in the recreation segment. As a result of these changes, the operating loss in the recreation segment increased by ¥35 million ($326 thousand) for the year ended March 31, 2005.

Geographical Segments

Year ended March 31, 2005	Japan	North America	Europe	Asia, Oceania and other areas	Total	Eliminations or unallocated amounts	Consolidated
	Millions of Yen						
I. Sales and operating income							
Sales to external customers	**¥ 327,895**	**¥ 85,465**	**¥ 83,289**	**¥ 37,429**	**¥ 534,079**	**¥ —**	**¥ 534,079**
Intersegment sales or transfers	**139,933**	**1,428**	**526**	**59,410**	**201,299**	**(201,299)**	**—**
Total sales	**467,828**	**86,894**	**83,815**	**96,840**	**735,379**	**(201,299)**	**534,079**
Operating expenses	**442,131**	**82,692**	**79,913**	**93,061**	**697,799**	**(199,415)**	**498,383**
Operating income	**¥ 25,697**	**¥ 4,202**	**¥ 3,901**	**¥ 3,779**	**¥ 37,580**	**¥ (1,884)**	**¥ 35,695**
Total assets	**¥ 401,298**	**¥ 36,354**	**¥ 35,395**	**¥ 50,752**	**¥ 523,800**	**¥ (18,222)**	**¥ 505,577**

Year ended March 31, 2005	Japan	North America	Europe	Asia, Oceania and other areas	Total	Eliminations or unallocated amounts	Consolidated
	Thousands of U.S. Dollars						
I. Sales and operating income							
Sales to external customers	**$ 3,053,310**	**$ 795,838**	**$ 775,575**	**$ 348,533**	**$ 4,973,266**	**$ —**	**$ 4,973,266**
Intersegment sales or transfers	**1,303,036**	**13,297**	**4,898**	**553,217**	**1,874,467**	**(1,874,467)**	**—**
Total sales	**4,356,346**	**809,144**	**780,473**	**901,760**	**6,847,742**	**(1,874,467)**	**4,973,266**
Operating expenses	**4,117,059**	**770,016**	**744,138**	**866,570**	**6,497,802**	**(1,856,923)**	**4,640,870**
Operating income	**$ 239,287**	**$ 39,128**	**$ 36,326**	**$ 35,189**	**$ 349,939**	**$ (17,544)**	**$ 332,387**
Total assets	**$ 3,736,828**	**$ 338,523**	**$ 329,593**	**$ 472,595**	**$ 4,877,549**	**$ (169,681)**	**$ 4,707,859**

Year ended March 31, 2004	Japan	North America	Europe	Asia, Oceania and other areas	Total	Eliminations or unallocated amounts	Consolidated
	Millions of Yen						
I. Sales and operating income							
Sales to external customers	¥ 336,008	¥ 85,483	¥ 81,685	¥ 36,329	¥ 539,506	¥ —	¥ 539,506
Intersegment sales or transfers	137,091	1,439	514	58,995	198,041	(198,041)	—
Total sales	473,100	86,922	82,199	95,325	737,548	(198,041)	539,506
Operating expenses	441,685	82,240	77,645	92,103	693,674	(199,224)	494,450
Operating income	¥ 31,415	¥ 4,682	¥ 4,554	¥ 3,221	¥ 43,873	¥ 1,183	¥ 45,056
Total assets	¥ 413,059	¥ 31,380	¥ 33,089	¥ 47,949	¥ 525,479	¥ (16,747)	¥ 508,731

Notes: (1) Geographical segments are divided into categories based on their geographical proximity.

(2) The major nations or regions included in each geographical segment are as follows:

(a) North America — U.S.A., Canada

(b) Europe — Germany, England

(c) Asia, Oceania and other areas — Singapore, Australia

Overseas Sales

	Million of Yen			
Year ended March 31, 2005	North America	Europe	Asia, Oceania and other areas	Total
Overseas sales:				
Overseas sales	**¥ 86,717**	**¥ 84,483**	**¥ 49,971**	**¥ 221,173**
Consolidated net sales	**—**	**—**	**—**	**534,079**
Overseas sales as a percentage of consolidated net sales	**16.2%**	**15.8%**	**9.4%**	**41.4%**

	Thousands of U.S. Dollars			
Year ended March 31, 2005	North America	Europe	Asia, Oceania and other areas	Total
Overseas sales:				
Overseas sales	**$ 807,496**	**$ 786,693**	**$ 465,323**	**$ 2,059,531**
Consolidated net sales				
Overseas sales as a percentage of consolidated net sales	**16.2%**	**15.8%**	**9.4%**	**41.4%**

	Millions of Yen			
Year ended March 31, 2004	North America	Europe	Asia, Oceania and other areas	Total
Overseas sales:				
Overseas sales	¥ 86,671	¥ 83,473	¥ 48,552	¥ 218,697
Consolidated net sales	—	—	—	539,506
Overseas sales as a percentage of consolidated net sales	16.1%	15.5%	9.0%	40.5%

Note: The major nations or regions included in each geographical segment are as follows:

(a) North America—U.S.A., Canada

(b) Europe—Germany, England

(c) Asia, Oceania and other areas—Singapore, Australia

22. SUBSEQUENT EVENT

Appropriation of retained earnings

The following appropriation of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2005, were approved at a general meeting of the shareholders of the Company held on June 24, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥ 2,579	$ 24,015

ERNST & YOUNG SHINNIHON

- Certified Public Accountants
Nihon Seimei Hamamatsu Center Bldg.
319-28, Kajimachi, Hamamatsu City
Shizuoka 430-0933, Japan

- Phone: (053) 453-0390
Fax: (053) 452-2257

Report of Independent Auditors

The Board of Directors
YAMAHA CORPORATION

We have audited the accompanying consolidated balance sheets of YAMAHA CORPORATION and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of YAMAHA CORPORATION and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information:

As disclosed in Note 2, effective April 1, 2004, the Company adopted a new accounting standard entitled "Impairment of Fixed Assets."

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 27, 2005

Ernst & Young ShinNihon

History

1887	Torakusu Yamaha builds his first reed organ
1897	Nippon Gakki Co., Ltd. (currently Yamaha Corporation), is established on October 12 with capital of ¥100,000 and Torakusu Yamaha as president
1898	Corporate emblem of tuning fork and trademark logo of a pheonix holding a tuning fork in its beak are adopted
1900	Production of upright pianos begins
1902	Yamaha produces its first grand piano
1903	Yamaha makes use of its woodworking expertise to begin building high-quality furniture
1914	Production of Butterfly Brand harmonicas begins
1921	Yokohama factory is established (Nishikawa Gakki Seizo Kabushiki Kaisha is absorbed)
1922	Production of high-quality hand-wound phonographs begins
1926	Labor dispute causes a 105-day-long strike
1930	Yamaha opens its audio laboratory
1932	Yamaha succeeds in developing its first pipe organ
1935	Magna Organ, an electronic instrument, debuts
1937	Tenryu factory is established
1954	Yamaha Music school is established and pilot classes are held Yamaha produces its first Yamaha motorcycle “YA-1” Yamaha produces its first Hi-Fi Player
1955	Yamaha Motor Co., Ltd., is established
1958	Yamaha de México, S.A. de C.V. (Mexico City), is established
1959	Yamaha Technical Laboratories open Electone™ “D-1” electronic organ is launched
1960	Yamaha boat production begins (later shifted to Yamaha Motor Co., Ltd.) Yamaha International Corporation (currently Yamaha Corporation of America, California) is established
1964	Toba Hotel International™ is opened Production of fiberreinforced-plastic bathtubs begins
1965	Production of wind instruments (“YTR-1” trumpet) begins
1966	Yamaha’s first electric guitars (“SG” series) and drums are launched Yamaha Music Foundation is founded Yamaha Music (Asia) Pte., Ltd. (Singapore), is established Yamaha Europe G.m.b.H. (currently Yamaha Music Central Europe G.m.b.H., Rellingen, Germany) is established
1967	The first Light Music Contest is held “CF” concert grand piano debuts Nemunosato™ resort opens
1968	Issue of shares at market price is made (first such issuance in Japan)
1969	Taiwan Yamaha Musical Inst. Mfg. Co., Ltd. (Taoyuan Hsien), is established Yamaha stages the first composition contest (later Popular Song Contest)
1970	Kaohsiung Yamaha Co., Ltd. (Taiwan), is established Yamaha Canada Music Ltd. (Toronto) is established Company takes over Nippon Wind Instrument Co., Ltd. Yamaha stages the first Tokyo International Popular Song Festival
1971	Production of semiconductors begins
1972	Production of IC lead frames begins Yamaha sponsors the first Junior Original Concert™ Yamaha Exporting, Inc. (California), is established
1973	Yamaha Musique France S.A.S. (Croissy-Beaubourg) is established Yamaha Musical do Brasil Ltda. (São Paulo) is established Yamaha Musical Products, Inc. (Michigan, U.S.A.), is established
1974	“CSY-1” synthesizer debuts Tsumagoi™ resort opens Yamaha Music (Malaysia) Sdn. Bhd. (Kuala Lumpur) is established
1975	Yamaha Svenska AB (currently Yamaha Scandinavia AB, Sweden) is established Yamaha de Panamá (currently Yamaha Music Latin America, S.A.) is established Electone™ “GX-1” is launched PT. Yamaha Indonesia (Jakarta) is established
1976	Second semiconductor factory (currently Yamaha Kagoshima Semiconductor Inc.) opens System kitchens are launched Katsuragi Golf Course™ opens
1979	Yamaha Music Manufacturing, Inc. (Georgia, U.S.A.), is established Haimurubushi™ resort opens Yamaha Kyohan Co., Ltd. (currently Yamaha Music Trading Corporation), is established
1980	PortaSound™, a portable keyboard, is launched
1981	Yamaha Electronics Corporation, U.S.A.(California), is established Yamaha Elektronik Europa G.m.b.H. (Rellingen, Germany) is established Production of manufacturing-use robots begins
1982	Yamaha’s first Disklavier™ is launched Yamaha develops a line of carbon composite golf clubs
1983	Clavinova™, an electronic piano, is launched “CFIII” concert grand piano debuts “DX7” and “DX9” digital synthesizers are launched Production of custommade LSIs begins
1984	LSI chips for FM sound sources and for image processing are developed
1986	Yamaha Music Australia Pty., Ltd. (Melbourne), is established Yamaha Electronics (U.K.) Ltd. (Watford) is established Yamaha-Hazen Electronica Musical S.A.(currently Yamaha-Hazen Música S.A., Madrid) is established

1987	YSK (currently Yamaha Fine Technologies Co., Ltd.) is established
	Yamaha Kagoshima Semiconductor Inc. is incorporated
	Yamaha English School operations begin
	The Company name is officially changed to "Yamaha Corporation"
1988	Yamaha Electronique France S.A.S. (Croissy-Beaubourg) is established
	YST active servo technology is launched
1989	AVITECS™ soundproof room is launched
	The Museum of Modern Art, New York, selects the wind MIDI controller "WX7" for its permanent collection
	Production of automobile interior wood components begins
	PT. Yamaha Music Manufacturing Indonesia (Jakarta) is established
	Tianjin Yamaha Electronic Musical Instruments, Inc. (China), is established
1990	Yamaha Musica Italia S.p.A. (Milan) is established
1991	Yamaha Electronics Manufacturing Malaysia Sdn. Bhd. (Ipoh) is established
	The Museum of Modern Art, New York, selects the "YST-SD90" active servo speaker for its permanent collection
	Yamaha Livingtec Corporation is established
	Yamaha Metanix Corporation is established
	Kiroro™ resort opens
1993	Silent Piano™ debuts
	Network karaoke developed with Daiichikosho Co., Ltd.
1994	Yamaha Music Media Corporation is established
1995	Theater sound system is launched
	Guangzhou Yamaha-Pearl River Piano Inc. (China) is established
	ISDN remote router is launched
	Silent Brass™ system is launched
1996	"DTX™" Silent Session Drum™ is launched
	Yamaha Trading (Shanghai) Co., Ltd. (China), is established
	Yamaha KHS Music Co.,Ltd. (Taiwan), is established
	Yamaha Electronics Asia Pte., Ltd. (Singapore), is established
1997	Silent Violin™ is launched
	Stanford University and Yamaha unveil the SONDIUS-XG™ joint licensing program
	Yamaha Music Gulf FZE (U.A.E.) is established
	Xiaoshan Yamaha Musical Instruments Co., Ltd. (China), is established
	PT. Yamaha Musical Products Indonesia (East Java Province) is established
	PT. Yamaha Music Manufacturing Asia (Indonesia) is established
	Yamaha Business Support Corporation is established
1998	Silent Cello™ is launched
1999	Shipments of LSI sound chips for mobile phones begin
	PT. Yamaha Electronics Manufacturing Indonesia (East Java Province) is established
2000	Mobile phone ringing melody distribution service begins
	Record company, Yamaha Music Communications Co., Ltd., is established
	MusicFront™ service for discovering new artists and distributing music over the Internet begins
	Braviol™, an acoustic violin, is launched
	Yamaha Music InterActive Inc. (New York) is established
2001	Yamaha Electronics Trading (Shanghai) Ltd. is established
	All Yamaha production sites achieve ISO14001 certification
	Yamaha Music Korea Ltd. (Seoul) is established
	Silent Guitar™ is launched
2002	Management subsidiaries for each of Yamaha's resorts are established
	Yamaha Music & Electronics (China) Co., Ltd. (Beijing), is established
	Yamaha Electronics (Suzhou) Co., Ltd. (China), is established
	Yamaha Music Holding Europe G.m.b.H. (Rellingen, Germany) is established
	"NEW CFIIIS" is used at the 12th "Tchaikovsky International Competition" (Piano section winner: Ayako Uehara)
2003	Yamaha Instrument Rental system is launched
	Level 1 American Depositary Receipt program is initiated
	Yamaha Electronics Marketing Corporation begins operations
	Hangzhou Yamaha Musical Instruments Co., Ltd. (China), is established
2004	STAGEA™, an electronic organ, is launched
	Yamaha Artist Services Inc. (New York) is established
	Artida™, an acoustic violin is launched
	Business alliance with Klipsch Audio Technologies (USA)
	Easy trumpet EZ-TP™ is launched
	Digital Sound Projector™ technology is jointly developed with 1 Ltd. (UK)
	Digital Sound Projector™ YSP-1 is launched
2005	Portable PA system STAGEPAS™300 is launched
	Steinberg Media Technologies G.m.b.H. is acquired

Network

Overseas Network

The Americas
Yamaha Corporation of America
Yamaha Electronics Corporation, U.S.A.
Yamaha Music Manufacturing, Inc.
Yamaha Exporting, Inc.
Yamaha Musical Products, Inc.
Yamaha Artist Services Inc.
Yamaha Music InterActive Inc.*
Yamaha Canada Music Ltd.
Yamaha de México, S.A. de C.V.
Yamaha Music Latin America, S.A.
Yamaha Musical do Brasil Ltda.*

Europe
Yamaha Music Holding Europe G.m.b.H.
Yamaha Music Central Europe G.m.b.H.
Yamaha Elektronik Europa G.m.b.H.
Steinberg Media Technologies G.m.b.H.*
Yamaha Scandinavia AB
Yamaha Musique France S.A.S.
Yamaha Electronique France S.A.S.
Yamaha-Kemble Music (U.K.) Ltd.
Kemble & Company Ltd.
Yamaha Electronics (U.K.) Ltd.
Kemble Music Ltd.*
Yamaha-Hazen Música S.A.
Yamaha Musica Italia S.p.A.

Asia/Oceania
Taiwan Yamaha Musical Inst. Mfg. Co., Ltd.
Kaohsiung Yamaha Co., Ltd.
Yamaha KHS Music Co., Ltd.
Yamaha Music & Electronics (China) Co., Ltd.
Tianjin Yamaha Electronic Musical Instruments, Inc.
Guangzhou Yamaha-Pearl River Piano Inc.
Xiaoshan Yamaha Musical Instruments Co., Ltd.
Yamaha Electronics (Suzhou) Co., Ltd.
Hangzhou Yamaha Musical Instruments Co., Ltd.*
Yamaha Trading (Shanghai) Co., Ltd.*
Yamaha Electronics Trading (Shanghai) Co., Ltd.*
PT. Yamaha Indonesia
PT. Yamaha Music Manufacturing Indonesia
PT. Yamaha Music Indonesia (Distributor)
PT. Yamaha Music Manufacturing Asia
PT. Yamaha Musical Products Indonesia
PT. Yamaha Electronics Manufacturing Indonesia
Yamaha Music (Asia) Pte., Ltd.
Music Plaza Pte., Ltd.
Yamaha Electronics Asia Pte., Ltd.
Yamaha Music (Malaysia) Sdn. Bhd.
Audio-Visual Land (Malaysia) Sdn. Bhd.
Consolidated Music Sdn. Bhd.
S.P. Music Centre Sdn. Bhd.
Yamaha Electronics Manufacturing Malaysia Sdn. Bhd.
Yamaha Music Korea Ltd.
Yamaha Music Australia Pty., Ltd.
Yamaha Music Gulf FZE
Siam Music Yamaha Co., Ltd.*

Domestic Network

Musical Instruments
Yamaha Music Tokyo Co., Ltd.
Yamaha Music Nishi-Tokyo Co., Ltd.
Yamaha Music Yokohama Co., Ltd.
Yamaha Music Kanto Co., Ltd.
Yamaha Music Osaka Co., Ltd.
Yamaha Music Kobe Co., Ltd.
Yamaha Music Setouchi Co., Ltd.
Yamaha Music Tokai Co., Ltd.
Yamaha Music Kyushu Co., Ltd.
Yamaha Music Hokkaido Co., Ltd.
Yamaha Music Tohoku Co., Ltd.
Yamaha Music Trading Corporation
Yamaha Music Media Corporation
Yamaha Music Craft Corporation
Yamaha Sound Technologies Inc.
Yamaha Music Communications Co., Ltd.
Music Lease Corporation
Yamanashi Kogei Co., Ltd.
Sakuraba Mokuzai Co., Ltd.
YP Winds Corporation
Yamaha Hall Co., Ltd.
Yamaha Piano Service Co., Ltd.*
Seikindo Music Co., Ltd.*

AV/IT
D.S. Corporation
Yamaha Electronics Marketing Corporation

Lifestyle-Related Products
Yamaha Livingtec Corporation
Yamaha Living Products Corporation
Joywell Home Corporation*

Electronic Equipment and Metal Products
Yamaha Kagoshima Semiconductor Inc.
Yamaha Metanix Corporation
Yamaha Hi-Tech Design Corporation

Recreation
Kiroro Associates Co., Ltd.
Tsumagoi Co., Ltd.
Katsuragi Co., Ltd.
Toba Hotel International Co., Ltd.
Nemunosato Co., Ltd.
Haimurubushi Co., Ltd.

Others
Yamaha Credit Corporation
Yamaha Insurance Service Co., Ltd.
Yamaha Fine Technologies Co., Ltd.
YP Engineering Co., Ltd.
Yamaha Travel Service Co., Ltd.
Nihon Jimu Center Co., Ltd.
YP Video Corporation
Yamaha Business Suport Corporation*

Companies Accounted for Using the Equity Method
Yamaha Motor Co., Ltd.
Korg Inc.

*Non-consolidated subsidiary or affiliate
As of June 2005

Investor Information

Head Office
10-1, Nakazawa-cho, Hamamatsu, Shizuoka 430-8650, Japan

General Administration Division
Tel: +81 53 460-2800 Fax: +81 53 460-2802

Accounting & Finance Division
Tel: +81 53 460-2141 Fax: +81 53 464-8554

Fiscal Year-end Date
March 31

Dividends
Year-end: To the shareholders of record on March 31
Interim: To the shareholders of record on September 30

Date of Establishment
October 12, 1897

Stated Capital
¥28,534 million

Number of Common Stock
Authorized: 700,000,000 shares
Issued: 206,524,626 shares

Number of Shareholders
19,890

Number of Employees
23,828
(Includes average number of temporary employees: 5,254)

Number of Consolidated Subsidiaries
86

Number of Companies Accounted for by the Equity Method
2

Stock Exchange Listings
Tokyo
First Section, Code No. 7951

Transfer Agent and Registrar
The Chuo Mitsui Trust and Banking Co., Ltd.
Nagoya Branch
Stock Transfer Agency Department
Address: 3-15-33, Sakae, Naka-ku, Nagoya 460-8685, Japan
Tel: +81 52 262-1520

Depositary for American Depositary Receipts
Deutsche Bank Trust Company Americas
Ratio: 1 ADR = 1 share of common stock
Type: Level 1 with sponsor bank
Symbol: YAMCY
U.S. Securities Code: 984627109

Newspaper for Official Notice
Nihon Keizai Shimbun

Annual General Meeting of Shareholders
June

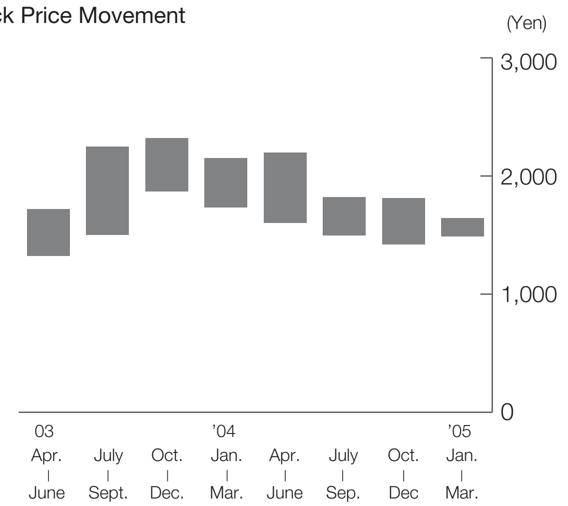
Auditor
Ernst & Young ShinNihon

Main Shareholders

The Master Trust Bank of Japan, Ltd. (Trust Account)	9.91%
Japan Trustee Service Bank, Ltd. (Trust Account)	5.81%
Mitsui Sumitomo Insurance Co., Ltd.	4.32%
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	4.25%
The Shizuoka Bank, Ltd.	4.04%
Sumitomo Life Insurance Company	3.53%
Nippon Life Insurance Company	3.14%
Mizuho Corporate Bank, Ltd.	2.80%
Sumitomo Mitsui Banking Corporation	2.52%
Nippon Tochi-Tatemono Co., Ltd.	1.64%

(As of March 31, 2005)

Stock Price Movement



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YAMAHA CORPORATION
Public Relations Division

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