

# Management's Discussion and Analysis

- Sales and earnings in fiscal 2009 declined year on year  
The Company posted its first net loss in seven business terms due to the decline in operating income, coupled with extraordinary losses accompanying business structural reforms
- The impact of a worsening economic climate and a strong yen pulled sales and earnings lower than the previous year in every segment
- The Company bought back and cancelled ¥18 billion of treasury stock
- The Company built a stronger management position from restructuring for enacting structural reforms and impairment measures for certain fixed assets and goodwill

## Overview

### Economic Environment

In fiscal 2009, ended March 31, 2009, the financial crisis triggered by the U.S. subprime loan problem spread to the broader global economy, leading to a worldwide economic slowdown that engulfed not only the United States, but also Europe and Japan. From the fall of the year, the collapse of a major financial institution sparked widespread financial instability, leading to a serious and simultaneous global recession that caused the emerging markets, which have driven global economic growth for some time, to lose momentum. Similarly, Japan saw corporate earnings deteriorate dramatically due to escalating crude oil and raw material prices in the first half of the year, and the yen's rapid and sharp appreciation in the second. Amid broader employment instability stemming from production cutbacks and mounting uncertainty, consumer spending ground nearly to a halt, resulting in grave economic conditions.

### Business Environment for the Yamaha Group

Impacted by an adverse macroeconomic environment, in the second half of the year the Company witnessed an increasingly pronounced economic slowdown in its mainstay musical instruments, AV products, and other businesses where it interacts directly with customers, as slumping sales in the U.S. market gradually spread to Japan, Europe and emerging markets.

Businesses targeting the corporate sector, meanwhile, were affected by inventory adjustments accompanying weak sales of products such as automobiles, mobile phones and digital cameras. Accordingly, orders for automobile interior wood components for luxury cars, magnesium molded parts, sound generators for mobile phones, and other products fell sharply in the run up to the second half of the year.

Furthermore, earnings deterioration was brought about by high prices for raw materials in the first half of the year, especially for copper, nickel, steel, plastic and other materials used in the production of musical instruments, as well as the yen's fast and dramatic appreciation.

### Business Performance Summary

Faced with a harsh business environment in fiscal 2009, Yamaha worked to develop high-value-added products and invested aggressively in growth business domains. In parallel, the Company strove to expand sales in the Chinese market and build a presence in emerging markets. Steps were also taken to boost earnings power by consolidating and shuttering production sites in Japan and overseas, and to enhance management efficiency by

realigning sales subsidiaries in Europe. At the same time, the Company formed a Management Reform Committee to cope with the worse-than-expected global economic slowdown, sought to improve earnings power in the short term by cutting management costs, reviewing capital investments, reducing prices for materials and raw materials, and raising wholesale prices in response to foreign currency exchange rate fluctuations. In conjunction, Yamaha is reviewing and examining the future direction of each business, reassessing its structure from a medium- to long-term standpoint.

As a result of the foregoing, net sales for the year ended March 31, 2009 declined by 16.3% year on year to ¥459,284 million, with operating income down 57.8% to ¥13,845 million. The Company recorded a net loss for the year of ¥20,615 million, compared with net income of ¥39,558 million in the previous fiscal year, due to impairment losses related to fixed assets and goodwill, as well as business restructuring expenses posted as extraordinary losses.

### Business Structure Reforms

Yamaha has formed a Management Reform Committee and is reviewing and examining the future direction of each business in an effort to reassess its business structure from a medium- to long-term standpoint.

In fiscal 2009, the Company booked ¥4,863 million in expenses related to structural reforms as extraordinary losses. In this context, and as a follow-up to the 2007 closure of its piano and wind instrument factories in the U.S., Yamaha made a decision to dissolve piano manufacturing subsidiaries in the United Kingdom and Taiwan. This decision will leave Yamaha with three piano manufacturing bases, with one each in Japan, China and Indonesia. In Japan, closure of the factories at the headquarters and integration with the factory in Kakegawa are scheduled for summer 2010. Elsewhere, the Company opted to withdraw from the business of magnesium molded parts for digital single-lens reflex cameras. Similarly, in lifestyle-related products, Yamaha has exited from the manufacture and sale of kerosene-fired water heaters, and is pursuing greater selectivity and focus in this business segment. In electronic devices, Yamaha has chosen to cancel further activities in the silicon microphone business, having deemed the prospects of profitability to be difficult at this time due to delays in the development of its long-awaited silicon microphone, as well as drops in sales prices brought on by intensifying competition.

In addition to structural reforms, Yamaha recognized impairments on certain fixed assets and goodwill and implemented other initiatives, with the aim of realizing early improvement of earnings power in each business. In the consolidated statements of operations, these

actions resulted in the posting of extraordinary losses consisting of ¥15,323 million in impairment losses, and a loss on valuation of investments in capital of subsidiaries and affiliates of ¥3,301 million.

Going forward, Yamaha will continue to conduct Groupwide reviews and consideration of profit plans, particularly in unprofitable businesses, and press ahead with further structural reforms as required.

## Analysis of Management Performance

### Net Sales

#### Sales by Business Segment

Net sales in fiscal 2009 declined ¥89,469 million, or 16.3% year on year, to ¥459,284 million. Lower sales stemmed from transfer of the electronic metal products business and transfer of four recreation facilities in the recreation business enacted in fiscal 2008 (approx. ¥14.3 billion), as well as foreign currency effects (approx. ¥34.9 billion). In addition, sales fell in musical instruments and across all segments due to adverse economic conditions, with the most severe declines noted in the electronic devices and the others business segments.

#### Musical Instruments

Sales in fiscal 2009 decreased by ¥33,390 million, or 9.8%, to ¥306,630 million. Excluding declines resulting from foreign currency effects (approx. ¥27.6 billion), sales (including approx. ¥5.1 billion from new consolidations) on a real basis declined by roughly ¥5.8 billion year on year, or 1.7%.

By product, piano sales declined year on year with sales growth in China unable to fully compensate for lower demand in the U.S. and Japanese markets. Sales volume for pianos worldwide declined by roughly 1,100 units from the previous year to around 94,200 units. While sales of medium-priced and premium pianos made in Japan declined, sales of affordable-price-range pianos made in China increased, accelerating the decline in unit sales prices. In digital musical instruments, sales were lower, most notably in the North American market. In wind instruments, sales were lackluster overall, but in string and percussion instruments, acoustic guitars recorded firm sales. Growth in electric acoustic guitars was especially strong, particularly in the United States. The same was true for electronic drums, where sales increased in the North American market. Sales of professional audio equipment, most notably digital mixers for which growth had been anticipated, ended flat for the year due to worsening economic conditions. Sales in the music entertainment business were favorable, reflecting healthy performance in the musical entertainment media business, including CDs, as well as the musical publications field.

By region, and on a local currency basis, sales in Japan were lower year on year. In North America, adverse economic conditions caused sales to decline significantly from the previous fiscal year. In contrast, sales in Europe were on a par with the previous year, reflecting sales benefits from new digital musical instruments. In other regions, sales grew as growth undertones continued to emerge in Latin America. In China, piano production at Hangzhou Yamaha Musical Instruments Co., Ltd. (Hangzhou Yamaha) increased as this market maintained double-digit year-on-year growth.

#### AV/IT

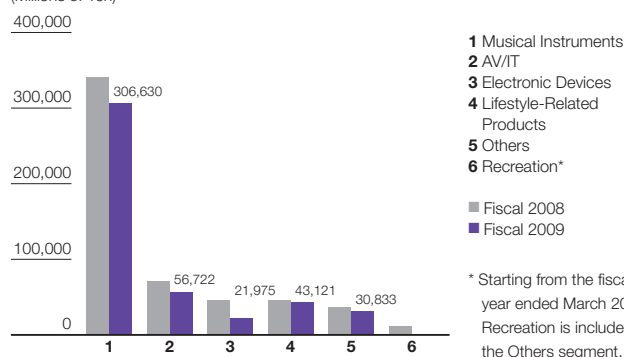
Sales in fiscal 2009 declined ¥14,091 million, or 19.9% year on year, to ¥56,722 million. In AV products, sales of AV receivers and home theater products struggled in the key markets of North America and Europe, reflecting the impact of the global economic slowdown. In front surround system products, shipments of the YRS-1000, Digital Sound Projector™ YSP series TV stands with built-in subwoofers, held firm in the Japanese market, while sales in the European and U.S. markets declined. Sales of routers and commercial online karaoke equipment produced on an OEM basis were also lower compared to the previous year. Delays in sales channel development, meanwhile, led to sluggish sales of conferencing systems.

#### Electronic Devices

In fiscal 2009, sales decreased by ¥23,024 million, or 51.2% year on year, to ¥21,975 million. Sales in the semiconductor business alone, excluding the impact of transfer of the electronic metal products business in the previous fiscal year (approx. ¥9.2 billion), declined by roughly ¥13.9 billion, or 38.7%. In semiconductors, sales of sound generators for mobile phones fell sharply, reflecting lower sales volumes for mobile phones in the Japanese market, and the ongoing shift to sound-generation software for mobile phones in overseas markets. Shipments of audio and graphic controllers used in amusement equipment were also lower year on year, hit hard by deteriorating market conditions. Sales of digital amplifiers used in flat-panel TVs and mobile phones ended the year flat, as development delays prevented expansion in shipment targets. Yamaha opted to withdraw from full-scale entry into the silicon microphone business, new devices that were expected to replace sound generators for mobile phones, after determining that it would be difficult to secure earnings given falling unit sales prices stemming from increased competition.

### Sales by Business Segment

(Millions of Yen)



## Lifestyle-Related Products

Sales in fiscal 2009 decreased by ¥2,398 million, or 5.3% year on year, to ¥43,121 million. Sales of system kitchens and system bathrooms were on a growth trajectory around mid-year. This was caused by an increase in demand for new housing starts owing to the tax incentive scheme for housing loans effective before the end of December 2008, which followed a lessening of the drop in new housing starts due to enforcement of Japan's revised Building Standards Law in June 2007. Sales fell from the start of 2009, however, with the expiration of the incentive scheme, causing the number of new housing starts to tumble dramatically compared to the same period a year earlier. In this context, the company took steps to strengthen the remodeling business, continuing its drive to enhance convenience by creating and relocating showrooms, sponsor events, and develop sales channels. Despite these efforts, however the percentage of segment sales accounted for by remodeling remained largely unchanged year on year, at 21%.

## Others

Sales in fiscal 2009 fell ¥16,564 million, or 34.9% year on year, to ¥30,833 million. Excluding lower sales from the transfer of four recreation facilities in the previous fiscal year (approx. ¥5.1 billion), sales declined by approximately ¥11.5 billion, or 27.1%. Sales of golf products were up year on year on brisk sales in Japan during the first half of the year. Sales were substantially lower, however, for automobile interior wood components for luxury cars and magnesium molded parts for single-lens reflex digital cameras. Similarly, sales in the factory automation (FA) business declined year on year due to erosion in corporate capital investments caused by the weak economic conditions. Furthermore, the Company has chosen to withdraw from the magnesium molded parts business by fiscal 2010 in order to fulfill existing orders from manufacturers.

## Sales by Region

In fiscal 2009, sales in Japan declined ¥41,770 million, or 15.1%, to ¥234,844 million. This outcome reflected lower sales both at the four recreation facilities and in electronic metal products due to the transfer of businesses, as well as across all business segments. Declines were particularly severe in semiconductors, automobile interior wood components for luxury cars, and magnesium molded parts.

Outside of Japan, sales decreased by ¥47,698 million, or 17.5% year on year, to ¥224,440 million. Along with declines due to a strong yen, sales of musical instruments, AV products and other products were lower on a real basis compared to the previous year due to the impact of the worldwide recession. Sales in overseas markets accounted for 48.9% of net sales, edging down 0.7 of a percentage point from the 49.6% noted a year ago.

By region, sales in North America decreased by ¥23,511 million, or 26.2% year on year, to ¥66,392 million. Sales of products such as pianos, portable keyboards and AV products declined due to foreign currency effects from the yen's appreciation and the economic slowdown. Excluding foreign currency effects, sales in North America declined approximately ¥13.7

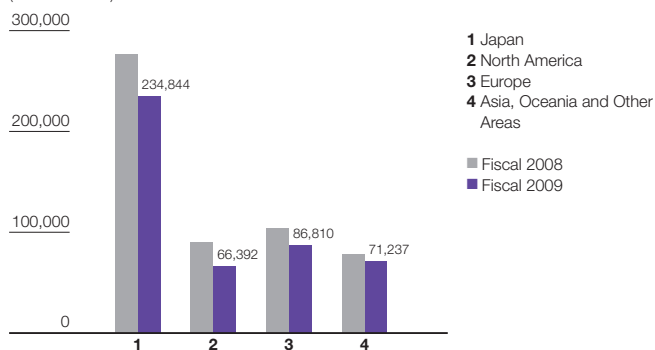
billion, or 15.2%, from the previous year.

In Europe, sales declined ¥17,304 million, or 16.6%, to ¥86,810 million. This figure was the result of lower sales due to a weak euro and decreased sales of AV products year on year. In contrast, including sales from new consolidations (roughly ¥1.5 billion), sales of musical instruments were virtually unchanged from the previous year. Excluding foreign currency effects, real sales in Europe were down roughly ¥4.1 billion, or 3.9%.

Sales in Asia, Oceania and other areas decreased by ¥6,883 million, or 8.8% year on year, to ¥71,237 million. Sales in the musical instruments business continued to grow, notably in Latin America. Double-digit sales growth also continued in China, particularly in the musical instruments business, with increased piano production by Hangzhou Yamaha contributing to improved sales. In contrast, sales in South Korea, formerly a sales leader in Asia, declined in step with a weaker won. Overall, real sales (sales excluding foreign currency effects) increased by around ¥5.0 billion, or 6.3% year on year.

## Sales by Region

(Millions of Yen)



## Cost of Sales and Selling, General and Administrative Expenses

The cost of sales in fiscal 2009 decreased by ¥53,304 million, or 15.5% compared to the previous fiscal year, to ¥290,381 million. The cost of sales rose due to increases in the price of raw materials (approx. ¥3.1 billion). However, in addition to lower sales, the yen's appreciation, as well as the transfer of the electronic metal products business and four recreation facilities resulted in a reduction in costs. The cost of sales ratio rose by 0.6 of a point compared to the previous fiscal year, from 62.6% to 63.2%.

Consequently, gross profit decreased by ¥36,163 million, or 17.6% year on year, to ¥168,902 million. The gross profit ratio declined by 0.6 of a point compared to the previous fiscal year, from 37.4% to 36.8%.

Selling, general and administrative (SG&A) expenses decreased by ¥17,163 million, or 10.0% from the previous fiscal year, to ¥155,057 million. Advertising expenses and sales promotion expenses declined by ¥6,178 million, or 21.3% from ¥29,033 million in the previous year, to ¥22,855 million. Personnel expenses decreased by ¥4,341 million, or 6.4% from ¥67,487

million, to ¥63,145 million. Transport expenses also decreased by ¥1,275 million, or 7.3% from ¥17,359 million in the previous year, to ¥16,083 million. The ratio of SG&A expenses to net sales recorded an increase of 2.4 points year on year, rising to 33.8%. Excluding foreign currency effects from a strong yen, selling, general and administrative expenses on a real basis decreased by about ¥9.7 billion compared to the previous year. If effects from the transfer of the electronic metal products business and four recreation facilities (approx. ¥5.3 billion) and new consolidations (approx. ¥3.4 billion) are considered, selling, general and administrative expenses actually decreased by ¥7.8 billion, or 4.5%.

## Operating Income

Operating income for fiscal 2009 decreased by ¥18,999 million, or 57.8% year on year, to ¥13,845 million. Excluding roughly ¥6.9 billion of this decline due to foreign currency effects from a strong yen, operating income decreased by around ¥12.1 billion, or 37.0%. Key factors in this decline included lower profits from decreased production, higher prices for raw materials (approx. ¥3.1 billion), amortization of shortfall in retirement benefits provision (approx. ¥2.1 billion), and amortization of goodwill. These factors outweighed major cost reductions, upward revisions in wholesale prices, and other efforts taken by Yamaha to shore up income.

## Operating Income (Loss) by Business Segment

By segment, operating income in the musical instruments segment in fiscal 2009 was ¥19,198 million, ¥8,726 million, or 31.3%, lower than the fiscal 2008 figure of ¥27,924 million. In addition to decreased sales year on year stemming from the economic slow-down, the gross profit ratio declined from foreign currency effects accompanying a strong yen and increased costs due to higher prices for raw materials, among other factors.

The AV/IT segment recorded an operating loss of ¥410 million, a decline of ¥2,249 million from operating income of ¥1,839 million in the previous year. This outcome resulted from a decrease in sales of AV products, centered on the European and U.S. markets, due to the effects of global economic weakness.

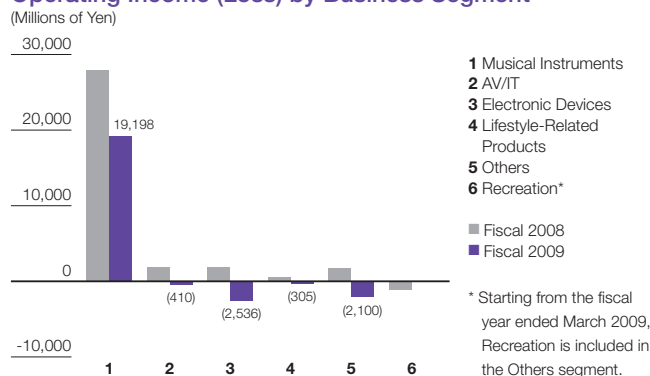
Similarly, the electronic devices segment posted an operating loss of ¥2,536 million, a decline of ¥4,400 million from operating income of ¥1,863 million in the previous year. Income fell as sales continued to decline in this segment due to the ongoing shift to sound-generation software over sound generator devices for mobile phones, coupled with lower sales volumes for mobile phones in the Japanese market.

The lifestyle-related products segment also recorded an operating loss of ¥305 million, down ¥894 million from ¥588 million in operating income in the previous year. The loss was mainly the result of decreased sales and a higher cost of sales due to higher

prices for raw materials.

The others segment also posted an operating loss of ¥2,100 million, down ¥2,729 million from operating income of ¥628 million a year earlier. While profitability initially improved on the transfer of four recreation facilities in the previous year, income from automobile interior wood components for luxury cars and magnesium molded parts decreased on sharply lower sales.

## Operating Income (Loss) by Business Segment



## Operating Income (Loss) by Region

By region, in fiscal 2009, the Company recorded an operating loss of ¥1,647 million for Japan, representing a year-on-year decrease of ¥16,218 million. In addition to foreign currency losses due to a strong yen, income fell on lower sales in semiconductors, lifestyle-related products, and others business.

In North America, operating income declined by ¥3,030 million year on year to ¥1,863 million, primarily due to substantially lower sales of musical instruments and AV products.

In Europe, decreased sales of AV products caused operating income to decline by ¥646 million to ¥5,160 million.

In Asia, Oceania and other areas, operating income declined by ¥162 million year on year to ¥7,796 million.

## Non-Operating Income and Expenses

In fiscal 2009, non-operating income decreased by ¥2,336 million, or 37.7% year on year, from ¥6,192 million to ¥3,856 million. Of this amount, interest and dividend income decreased by ¥1,323 million, or 33.7%, to ¥2,601 million, compared to ¥3,925 million the previous fiscal year. Other non-operating income decreased by ¥866 million, or 40.9% year on year, from ¥2,120 million to ¥1,254 million.

Non-operating expenses decreased by ¥731 million, or 11.3% year on year, from ¥6,453 million to ¥5,722 million. Of this amount, interest expenses decreased by ¥453 million, or 42.4% year on year, from ¥1,068 million to ¥615 million. Sales discounts due to early payment declined from ¥4,105 million to ¥3,416 million, a decrease of ¥688 million, or 16.8%, in year-on-year terms. Other non-operating expenses rose from ¥1,278 million to ¥1,690 million, an increase of ¥411 million, or 32.2%.

## Extraordinary Income and Losses

Extraordinary income for fiscal 2009 was ¥793 million, down ¥31,932 million, or 97.6%, from ¥32,725 million the previous fiscal year. This primarily reflects the absence of ¥29,756 million posted as gain on sales of investments in subsidiaries and affiliates from the sale of a portion of the Company's equity holdings in Yamaha Motor Co., Ltd. in the previous year. Gain on sales of property, plant and equipment decreased by ¥1,371 million from ¥1,656 million in the previous year, to ¥284 million. Similarly, gain on sales of investment securities decreased by ¥758 million year on year from ¥763 million, to ¥5 million. The Company also posted ¥231 million as a gain on liquidation of subsidiaries due to the sale of assets of subsidiaries targeted for liquidation.

Extraordinary losses were up ¥22,133 million year on year to ¥24,932 million, compared to ¥2,799 million in the previous year. This mainly resulted from business restructuring expenses (¥4,863 million), a loss on impairment of fixed assets (¥15,323 million), and a loss on valuation of investments in capital of subsidiaries and affiliates (¥3,301 million). The impairment loss consisted largely of ¥5,559 million for the impairment of fixed assets related to the semiconductor business, as well as charges related to the impairment of fixed assets in the recreation business (¥3,918 million), and the amortization of goodwill (¥5,665 million). Business restructuring expenses are estimated based primarily on expenses related to the dissolution of piano manufacturing subsidiaries in the U.K. and Taiwan (¥1,663 million), the realignment of distribution centers in Europe (¥1,660 million), the Company's withdrawal from the magnesium molded parts business (¥808 million), and cancellation of further activities in the semiconductor silicon microphone business (¥439 million), all of which were booked as extraordinary losses. The Company also posted a loss on valuation of investments in capital of subsidiaries and affiliates of ¥3,301 million related to investments in unconsolidated subsidiaries.

## Income Before Income Taxes and Minority Interests

In fiscal 2009, the Company posted a loss before income taxes and minority interests of ¥12,159 million, a decrease of ¥74,670 million from pre-tax income of ¥62,510 million in the previous year. This outcome was attributable to a decline in operating income, coupled with sharply higher extraordinary losses. The ratio of loss before income taxes and minority interests to net sales fell from 11.4% to negative 2.6%, a year-on-year decrease of 14.0 points.

## Current Income Taxes and Deferred Income Taxes

Current, deferred income taxes, inhabitants' taxes and enterprise tax declined by ¥13,548 million, or 60.9% on a year-on-year basis, to ¥8,714 million, compared to ¥22,263 million in the previous year.

## Minority Interests in Income

Minority interests in income in fiscal 2009 ended in a loss of ¥258 million, a decrease of ¥947 million compared to a positive ¥689 million recorded in the previous year.

## Net Income

As a result of the foregoing, the Company recorded a net loss for the year ended March 31, 2009 of ¥20,615 million, a decline of ¥60,173 million from net income of ¥39,558 million in the previous year. The ratio of net income to net sales fell 11.7 points to negative 4.5%, down from 7.2% in the previous year. The net loss per share equaled ¥103.73, compared with net income per share of ¥191.76 in fiscal 2008.

## Fluctuation in Foreign Exchange Rates and Risk Hedging

Yamaha conducts business operations on a global scale centered on musical instruments. As such, the Company's business structure is relatively vulnerable to the effects of fluctuations in foreign currency exchange rates. The Company's consolidated financial statements bear out the fact that various currencies, among them the U.S. dollar, the euro, the Australian dollar, the Canadian dollar, and the British pound, are impacted by foreign currency effects stemming from risks associated with currency translation and transactions denominated in those currencies. Of these risks, currency translation risks only materialize when consolidated subsidiaries translate their financial statements for a specified period or on a specified date into Japanese yen. Transaction-related risks materialize when earnings and expenses and/or assets and liabilities are denominated in different currencies. For this reason, the Company has risk hedges in place for transaction-related risks only. Specifically, U.S.-dollar-related currency fluctuation risks are hedged by marrying risk associated with dollar receipts from sales of exports with risk associated with dollar payments for imported products. The Company hedges the value of risks associated with the euro and the Australian and Canadian dollars by projecting related export revenues and purchasing relevant three-month currency forwards.

Sales at overseas consolidated subsidiaries are calculated using the average exchange rates recorded during the year. On this basis, in fiscal 2009, the yen rose by ¥13 against the U.S. dollar compared with the previous year, to ¥100 per U.S.\$1. The year-on-year effect of this change was a decrease of approximately ¥10.9 billion in sales at overseas consolidated subsidiaries. The yen appreciated by ¥17 against the euro year on year for an average exchange rate of ¥144 to €1, resulting in a decrease of roughly ¥8.4 billion in sales. Overall, the net effect on sales of foreign exchange rate movements, including the downward effect of approximately ¥15.6 billion in fluctuations of the yen against such other currencies as the Australian and Canadian dollars, was a substantial decline of around ¥34.9 billion compared with fiscal 2008.

In operating income, for the U.S. dollar, benefits from the aforementioned marriage of risks related to the currency enabled the Company to largely hedge the effects of currency exchange rates stemming from fluctuations in settlement rates. The translation of operating income figures by overseas subsidiaries,

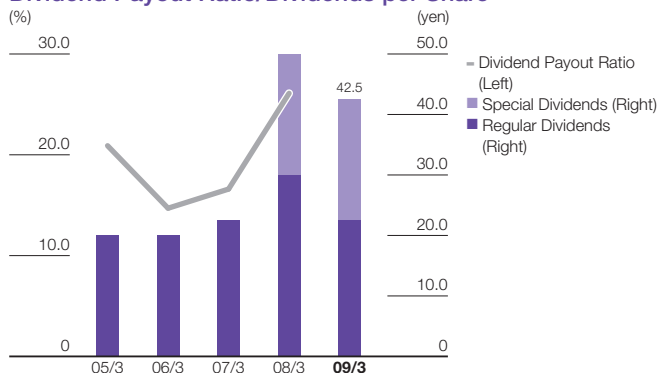
however, caused income to decline by approximately ¥0.4 billion. The average settlement rate against the euro was ¥153 to €1, an appreciation of just ¥5, due in part to forward buying contracts. However, operating income decreased by around ¥1.7 billion, due primarily to exchange rate fluctuations. Including the approximate ¥4.7 billion effect of currencies other than the U.S. dollar and the euro, the net effect on operating income of exchange rate movements was a decline of roughly ¥6.9 billion compared with the previous fiscal year.

## Dividends

Total dividends per share in fiscal 2009 amounted to ¥42.5. This figure included a special dividend of ¥20, with a regular dividend per share of ¥22.5, down ¥7.5 compared to the previous year due to worsening business performance.

The special dividend is from the sale of a portion of the Company's equity holdings in Yamaha Motor Co., Ltd., for which Yamaha has decided to issue dividends of ¥20 per share for the three years from fiscal 2008 to fiscal 2010.

### Dividend Payout Ratio/Dividends per Share



## Acquisition and Cancellation of Treasury Stock

In fiscal 2009, the Company used proceeds from the abovementioned sale of a portion of its equity holdings in Yamaha Motor Co., Ltd. to purchase 9,033,800 of its own shares (4.4% of its issued shares), and cancelled 9,269,601 shares of treasury stock (4.5% of its issued shares) during the year.

## Analysis of Financial Position

### Financing Policy

The Yamaha Group finances its capital needs with respect to working capital used for business activities and business expansion primarily from cash-on-hand, operating cash flows and bank loans.

Yamaha's basic financing policy is to procure stable, low-cost funding while preserving sufficient liquidity.

The Company estimates that present liquidity in hand is equivalent to approximately one month of consolidated net sales, a figure covered by the ¥41,373 million in cash and cash equivalents recorded as of March 31, 2009. However, to ensure fund availability over the medium term, Yamaha has established commitment lines with financial institutions with a total value of ¥20.0 billion.

In principle, each subsidiary is responsible for meeting its own requirements with respect to fund procurement. However, Yamaha Corporation, when necessary, takes part in bank negotiations on the subsidiary's behalf. Should surplus funds become available at subsidiaries in Japan, these funds are loaned to Yamaha Corporation in an effort to promote efficient fund utilization for the entire Group. Moreover, a cash management system has been adopted for certain subsidiaries.

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

### Ratings

Rating Agency	Long-term Preferred Debt Rating
Rating and Investment Information, Inc. (R&I)	A (stable)
Japan Credit Rating Agency, Ltd. (JCR)	AA- (stable)

### Assets

Total assets at March 31, 2009 amounted to ¥408,974 million, a decrease of ¥131,372 million, or 24.3%, from ¥540,347 million at the end of the previous fiscal year. Of these, current assets decreased by ¥73,656 million, or 26.7% year on year, from ¥275,754 million to ¥202,097 million. Net property, plant and equipment, and investments and other assets together totaled ¥206,876 million, down ¥57,715 million, or 21.8%, from the previous year-end figure of ¥264,592 million.

### Current Assets

Current assets at March 31, 2009 totaled ¥202,097 million, down ¥73,656 million, or 26.7%, from the end of the previous fiscal year. Key factors included decreases in cash and deposits and short-term investment securities (including negotiable deposits) resulting largely from the payment of income taxes, share-buyback, payment of dividends and the acquisition of companies, and decrease in notes and accounts receivable.

Cash and deposits declined ¥32,246 million, or 43.8% year on year, to ¥41,373 million. Notes and accounts receivable (after allowance for doubtful accounts) declined by ¥14,590 million, or 22.4%, to ¥50,536 million. Short-term investment securities amounted to ¥1,280 million, down ¥29,919 million, or 95.9%, due to a decrease in negotiable deposits. Inventories amounted to ¥80,694 million, a year-on-year increase of ¥4,390 million or 5.8%. This figure includes a decrease in inventory of roughly ¥6.1 billion due to currency translation effects. Excluding this factor, the increase in inventory on a real basis was roughly ¥10.5 billion, or 13.8%. Lower sales of musical instruments and semiconductors led to the increase in inventory. Inventory in other segments was at close to appropriate levels. Deferred tax assets declined by ¥6,736 million, or 38.2%, to ¥10,905 million. Other current assets rose by ¥5,446 million, or 45.9%, to ¥17,307 million. The current ratio at the fiscal 2009 year-end was 224%, virtually on a par with the figure of 229% from a year earlier, sustaining liquidity at a high level during fiscal 2009.

### Net Property, Plant and Equipment

Net property, plant and equipment as of March 31, 2009 was ¥127,613 million, down ¥11,962 million or 8.6% compared to the end of the previous fiscal year. The primary contributor was impairment measures largely targeting land and manufacturing facilities.

Construction in progress presently consists mainly of the Company's Ginza Building under reconstruction, Kakegawa piano factory, where plans to consolidate piano factories in Japan are to be completed in the summer of 2010, and the piano factory in Hangzhou, China to expand floor space.

### Investments and Other Assets

Investments and other assets excluding intangible assets as of March 31, 2009 amounted to ¥75,667 million, a year-on-year decrease of ¥46,877 million or 38.3%. This primarily reflects a decrease in investment securities compared with the previous fiscal year.

Investment securities decreased by ¥52,812 million, or 48.0% year on year, to ¥57,131 million. This was primarily due to a decrease in the value of Yamaha Motor Co., Ltd. stock and other listed stocks held. Deferred tax assets increased ¥7,501 million to ¥9,566 million.

Intangible assets as of March 31, 2009 increased by ¥1,125 million, or 45.5% year on year, to ¥3,596 million.

Goodwill was ¥306 million, down ¥998 million, or 76.5%, from ¥1,304 million at the previous fiscal year-end. Other intangible assets, however, increased ¥2,123 million from ¥1,166 million a

year earlier, to ¥3,290 million. The increase in other intangible assets resulted from the posting as intangible assets of land usage rights of certain subsidiaries, reported as "land" until the end of previous fiscal year, accompanying the application of "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements."

### Liabilities

Total liabilities as of March 31, 2009 amounted to ¥157,133 million, a decrease of ¥40,184 million, or 20.4%, from the previous year-end figure of ¥197,318 million. Current liabilities decreased by ¥30,124 million, or 25.1%, to ¥90,050 million. Noncurrent liabilities decreased by ¥10,060 million, or 13.0% to ¥67,083 million.

### Current Liabilities

Current liabilities as of March 31, 2009 were ¥90,050 million, a decrease of ¥30,124 million, or 25.1%, compared to the figure at the end of the previous fiscal year. Major contributors to this decrease were declines in notes and accounts payable and accrued expenses and income taxes payable.

Notes and accounts payable were ¥25,625 million, ¥9,391 million, or 26.8%, less than at the end of the previous fiscal year. Short-term loans payable and the current portion of long-term loans payable decreased by ¥3,191 million to ¥15,700 million, down 16.9% compared to the end of fiscal 2008. Total accrued expenses amounted to ¥34,012 million, down by ¥7,430 million, or 17.9% year on year. Due to the payment of corporation tax, income taxes payable totaled ¥2,090 million, a decrease of ¥12,826 million, or 86.0%, from the previous year. The Company also posted ¥3,161 million as a provision for charges related to the closure of piano factories in the U.K. and Taiwan.

### Noncurrent Liabilities

Noncurrent liabilities as of March 31, 2009 amounted to ¥67,083 million, down ¥10,060 million, or 13.0%, compared to the end of the previous fiscal year, primarily due to a decrease in noncurrent deferred tax liabilities accompanying the lower market valuation of investment securities.

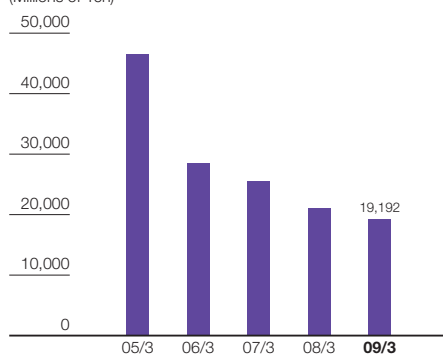
Long-term loans payable rose ¥1,345 million to ¥3,491 million, representing a year-on-year increase of 62.7%. Noncurrent deferred tax liabilities declined by ¥13,872 million, or 99.1%, to ¥126 million. Similarly, long-term deposits received decreased by ¥316 million, or 1.9%, to ¥16,723 million following the refund of resort membership deposits in the recreation business.

## Net Interest-Bearing Liabilities

In terms of interest-bearing liabilities as of March 31, 2009, short-term loans payable and long-term loans payable totaled ¥19,192 million. Cash and deposits were ¥41,373 million, resulting in cash and cash equivalents, less the net of short-term and long-term loans of ¥22,180 million. This figure represents a decrease of ¥60,801 million, or 73.3%, from ¥82,982 million (including negotiable deposits recorded under short-term investment securities on the consolidated balance sheets) at the previous fiscal year-end. This outcome largely resulted from the payment of income tax and other tax payments, a share-buyback, the payment of dividends, and payments for the acquisition of companies to stimulate future business growth.

## Interest-Bearing Liabilities

(Millions of Yen)



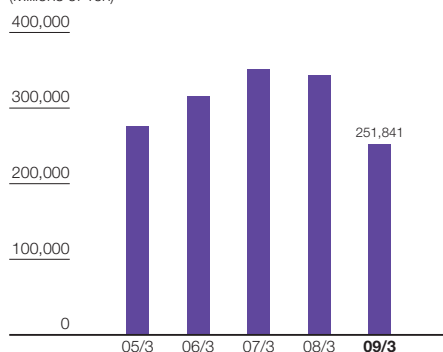
## Net Assets

Net assets as of March 31, 2009 totaled ¥251,841 million, a decrease of ¥91,187 million, or 26.6%, compared to the figure of ¥343,028 million at the end of fiscal 2008. Retained earnings declined by ¥52,567 million, or 22.9%, to ¥176,739 million, reflecting, in addition to the net loss of ¥20,615 million, ¥10,581 million in dividend payments, and ¥18,328 million for the purchase and cancellation of treasury stock. The valuation difference on available-for-sale securities fell by ¥29,128 million to ¥19,817 million, representing a decrease of 59.5%. This was due to a decrease brought about by market valuation of shares held in Yamaha Motor Co., Ltd. and other listed companies.

Appreciation of the yen resulted in a year-on-year decrease in foreign currency translation adjustments of ¥12,555 million, amounting to ¥34,495 million. The equity ratio was 60.9% at

## Net Assets

(Millions of Yen)



March 31, 2009, a decrease of 2.0 percentage points from 62.9% at the previous year-end.

Return on equity (ROE) was negative 7.0%.

## Cash Flows

Net cash used in operating activities in fiscal 2009 was ¥2,235 million, in contrast to net cash of ¥37,225 million provided in the previous year. In addition to sharply lower earnings, this was due mainly to an increase in income tax and other tax payments.

Net cash used in investing activities was ¥25,999 million. In fiscal 2008, the Company recorded a gain of ¥67,778 million as a result of the sale of investments in subsidiaries and affiliates, including the sale of a portion of Yamaha's equity holdings in Yamaha Motor Co., Ltd., which that year resulted in net cash provided of ¥41,999 million. In fiscal 2009, however, in addition to the purchase of property, plant and equipment, the Company purchased French sound reinforcement loudspeaker manufacturer NEXO S.A. during the year under review.

Net cash used in financing activities totaled ¥31,041 million, representing an increase of ¥11,726 million from the fiscal 2008 figure of ¥19,314 million. This primarily reflected the share-buyback and cash dividends paid.

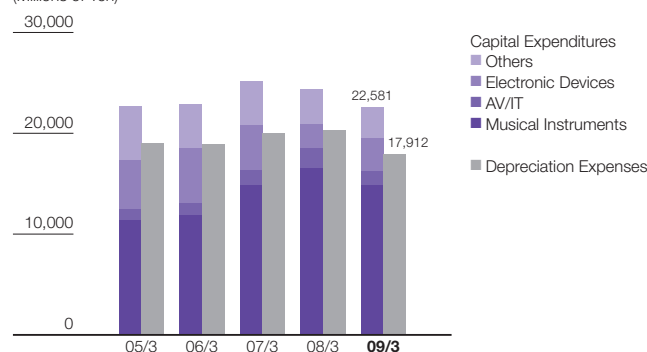
As a result of the above, the fiscal 2009 year-end balance of cash and cash equivalents amounted to ¥41,223 million, including the net effect of exchange rate fluctuations and changes in the scope of consolidation, representing a year-on-year decrease of ¥62,147 million.

## Capital Expenditures and Depreciation Expenses

Capital expenditures in fiscal 2009 declined to ¥22,581 million from ¥24,394 million, a decrease of ¥1,813 million, or 7.4% year on year. This outcome primarily reflects a review of investments, including the postponement or cancellation of non-urgent investments, taken as part of measures to improve business performance in the second half of the year. Of this total, the musical instruments segment posted a year-on-year decrease of ¥1,679 million, to ¥14,793 million from ¥16,472 million in fiscal 2008. This reflects investment in molds for new products, investments to increase piano production capacity at Hangzhou Yamaha, the consolidation of piano manufacturing bases in Japan at the Company's factory in Kakegawa, investment for the building of an employee dormitory, and the reconstruction of the Ginza Building.

## Capital Expenditures/Depreciation Expenses

(Millions of Yen)



Capital expenditures in the electronic devices segment were ¥3,247 million, up ¥812 million from ¥2,435 million in the previous fiscal year. This increase reflected investment for the upgrade and refurbishment of Yamaha Kagoshima Semiconductor Inc. In the lifestyle-related products segment, capital expenditures were ¥1,006 million, an increase of ¥359 million from ¥647 million in the previous year, due mainly to investment in showrooms.

Total depreciation and amortization expenses amounted to ¥17,912 million, decreasing by ¥2,377 million, or 11.7%, from the fiscal 2008 figure of ¥20,289 million.

## R&D Expenses

R&D expenses in fiscal 2009 decreased by ¥1,647 million, or 6.6% year on year, to ¥23,218 million. The ratio of R&D expenses to net sales was 0.6 points higher than in fiscal 2008, rising from 4.5% to 5.1%.

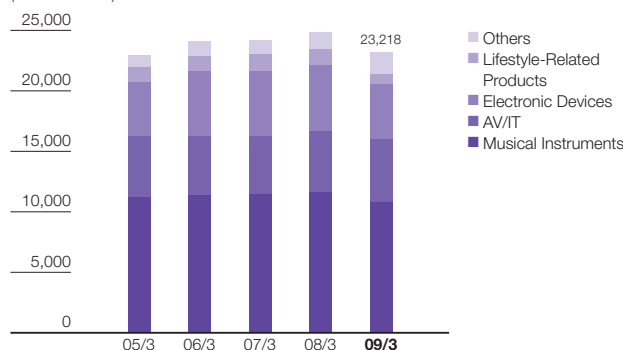
Most of this spending was directed at product development in digital musical instruments, and in the AV/IT and semiconductor businesses. Specifically, the spending supported research and product development of hybrid pianos that blend acoustic and digital technologies, as laid out in Yamaha's Total Piano Strategy; development of digital products leveraging digital network technology; and development of high-value-added semiconductors that integrate MEMS\* technology with analog and digital technologies.

R&D budgets also funded programs to research and develop basic sound- and music-related technologies (sound sources, voice synthesis, architectural acoustics, etc.), and new devices such as speakers and sensors.

\* Micro Electro Mechanical Systems (MEMS) are devices in which components such as sensors, actuators and electronic circuitry are integrated on a single silicon substrate. Specific examples include silicon microphones, sensors, etc.

## R&D Expenses

(Millions of Yen)



## Forecast for Fiscal Year 2010

### Performance Forecasts

The yen is expected to remain strong in the year ending March 31, 2010, and the operating environment surrounding Yamaha's businesses will remain as uncertain as the previous year. In this climate, sales are projected to struggle in the first half of the year due to the economic slowdown. However, the economy is likely to mount a recovery in the second half of the year with inventory adjustments having run their course. Prices for raw materials should also trend gradually lower.

Business forecasts for fiscal 2010 assume exchange rates for the full year of ¥95 per U.S.\$1, ¥120 per €1, ¥60 per AUD1, ¥75 per CAD1, and U.S.\$6.80 per CNY1. Net sales are expected to decline year on year due to the effects of the global economic slowdown and the yen's appreciation. A similar decline is likely for operating income where, in addition to the yen's appreciation, income will be impacted by negative factors that include lower sales volumes and decreased production stemming from inventory adjustments. These factors are expected to outweigh Groupwide cost reductions and efforts to raise wholesale prices, particularly for musical instruments, as well as benefits gained from lower prices for raw materials and structural reforms enacted in the previous year. In contrast, the Company is projecting net income for the year, reflecting extraordinary losses taken in the previous year.

### Capital Expenditure Forecast

Management is projecting total capital expenditures of ¥18,300 million in fiscal 2010, down ¥4,281 million, or 19.0%, from the fiscal 2009 figure of ¥22,581 million, as the Company further restricts investments in a deteriorating economic climate.

Major items contributing to capital spending will be regular investment in molds for production of new products, investment for facility upgrade and refurbishment, investment related to sales and marketing, R&D investment, and rationalization-related expenses, as well as investment for the consolidation of piano factories in Japan, investment for increased piano production in China, and investment for reconstruction of the Ginza Building.

Depreciation and amortization expenses are forecast to decrease by ¥2,712 million in fiscal 2010 to ¥15,200 million, compared with ¥17,912 million in fiscal 2009.

### Profit Distribution Policy (Dividend Forecast)

Prefaced on the aim of boosting consolidated return on equity (ROE), Yamaha's basic policy is to distribute profits in line with consolidated performance, while, based on prospective levels of medium-term consolidated earnings, also setting aside an appropriate amount of retained earnings to strengthen the Company's management position through investments in R&D and capital expenditure to drive corporate growth. Specifically, Yamaha will endeavor to sustain consistent and stable dividend payments and has set a goal of 40% for its consolidated dividend payout ratio. Based on this policy, Yamaha plans to pay a total dividend of ¥30 per share for the full fiscal year of 2010, including interim dividend payments of ¥15 per share. The ¥30 comprises a regular dividend per share of ¥10, as well as a special dividend of ¥20 from the past sale of a portion of the Company's equity holdings in Yamaha Motor Co., Ltd.