

Yamaha Group Medium-Term Management Plan

(April 2013-March 2016)

April 5, 2013



- 1. Review of Previous Plan (YMP125)**
- 2. New Medium-Term Management Plan**

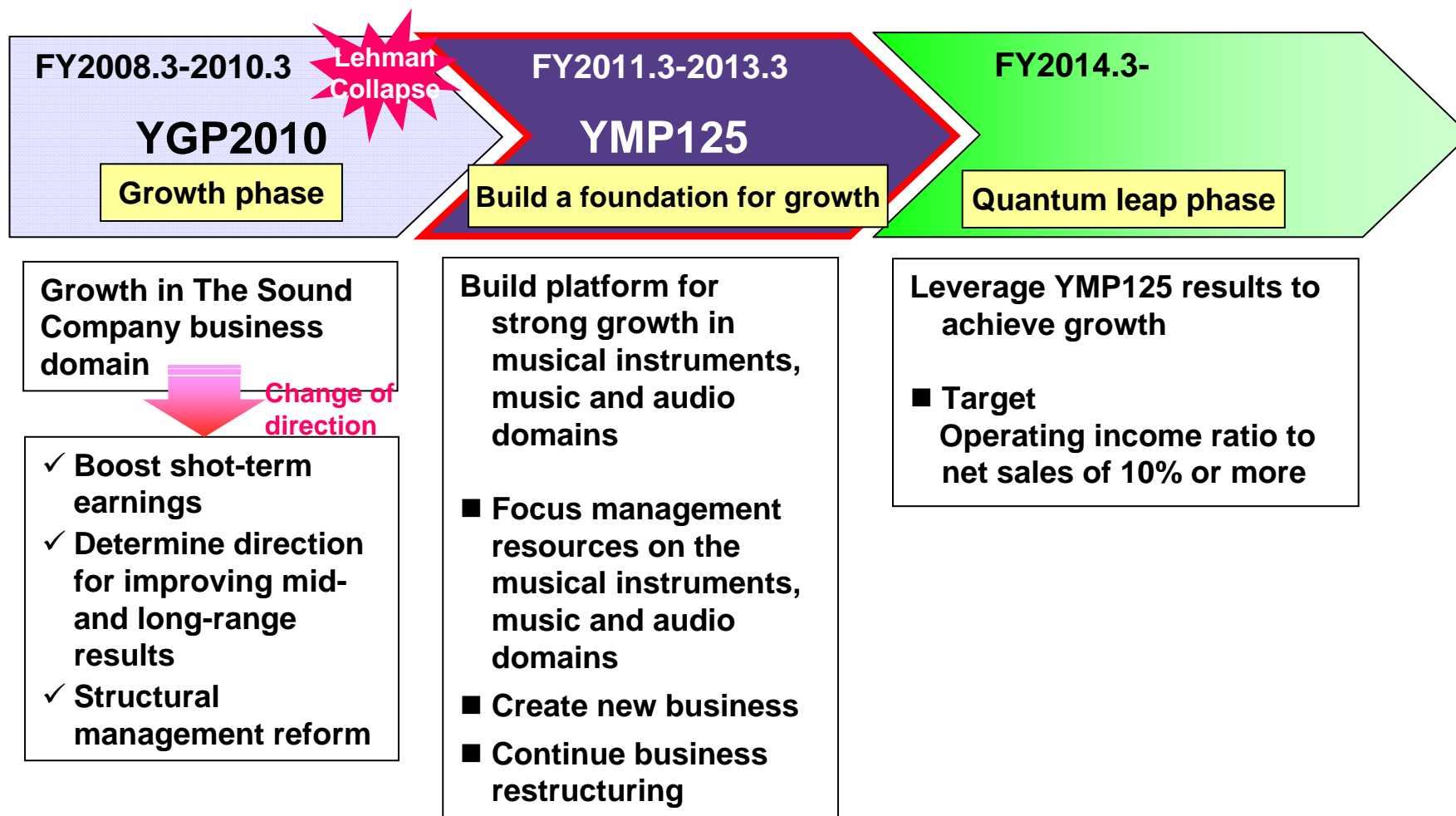
* Figures of FY2013.3 in this document are projections announced on February 6, 2013.

Review of Previous Plan (YMP125)

Positioning of Previous Medium-Term Management Plan YMP125

Yamaha Management Plan 125

Build up a structure for future growth towards 125th anniversary



Review of YMP125 Financial Results

Billions of yen

	FY2010.3 Results	FY2013.3 Projections	YMP125 Targets	vs. YMP125 Targets
Net Sales	414.8 372.6*	365.0	427.0	-15%
Actual growth rate over three years		-2%*	+15%*	
Operating Income	6.8	7.0	25.0	-18.0
Operating income ratio	2%	2%	6%	
ROE	-2%	0%	7%	
FCF (over three years)	-	13.2	40.0	-26.8

*Excluding the lifestyle-related products and magnesium molded parts business

Exchange Rate (yen)

Net Sales	US\$	93	81	90
	EUR	131	105	127
Operating Income	US\$	93	81	90
	EUR	130	103	127

YMP125 Key Strategies



Accelerate growth in emerging markets

- Target: ¥100 billion in five years (¥83.5 billion in three years)

Increase market share in developed markets through product strategy

- Total piano* strategy, combo** strategy, growth in PA equipment and AV products

Build optimal production structure to meet trends in demand

Create business models for service and content businesses

Create new business in the Sound Domain

*Total piano: acoustic, digital and hybrid piano

** Combo: guitar, guitar amplifier, drum

Review of YMP125 Key Strategies



Accelerate growth in emerging markets

Billions of yen

	FY2010.3 Results	YMP125 Targets	FY2013.3 Projections	vs. YMP125 Targets	vs. YMP125 Targets (%)	Actual growth rates over three years (excl. forex)
China	16.3	24.5	<u>24.9</u>	+0.4	102%	106%
Other Emerging Countries	48.0	59.0	<u>52.2</u>	-6.8	88%	97%

Review of YMP125 Key Strategies



Increase market share in developed markets through product strategy

Billions of yen

	FY2010.3 Results	YMP125 Targets	FY2013.3 Projections	vs. YMP125 Targets	vs. YMP125 Targets (%)	Actual growth rates over three years (excl. forex)
Total Piano Strategy	72.3	80.0	<u>72.5</u>	-7.5	91%	99%
Combo Strategy	15.8	22.0	<u>16.1</u>	-6.9	73%	82%
PA Equipment	27.1	38.0	<u>31.5</u>	-6.5	83%	94%
AV Products	46.2	54.0	<u>41.7</u>	-12.3	77%	87%

Build Optimum Production Structure to Meet Trends in Demand

Piano Production Restructuring

Savings achieved through factory consolidation	YMP125 Target	Result
	¥0.6 billion per annum	¥1.0 billion per annum

Completed consolidation of Japanese production at Kakegawa factory in August 2010, achieved goal of 3-base structure with Hangzhou Yamaha (China) and YI (Indonesia)

Wind Instrument Production Restructuring

Savings achieved through factory consolidation	YMP125 Target	Result
	¥0.5 billion per annum	¥0.5 billion per annum

Completed consolidation of Japanese production at Toyooka factory in March 2012, achieved goal of 3-base structure with New Xiaoshan factory (China) and YMPI (Indonesia)

Build New Service Business Models

Music Playing Business

- ✓ Student numbers are increasing overseas, especially in Asia, but within Japan adults' music lessons are not compensating for the decline in music school enrollments due to the falling birth rate, and overall numbers continue to decline

Music Entertainment Business

- ✓ Although new music distribution business was developed in response to expansion in the smart phone market, planned extension of music publishing business was not achieved

Create New Business in the Sound Domain

Environmental Acoustics Business

- ✓ Sound modulation panels, speech privacy systems, and thin light flexible (TLF) speakers were launched, but made only a limited contribution to sales figures

yamaha+ Activities

- ✓ Established organizational structures to identify and foster new business

Summary

- ✓ **Results were well below targets, due to inability to cope with higher-than-anticipated appreciation of the yen**
- ✓ **As markets recovered from East Japan earthquake and Thai flood damage, actual sales deviated sharply from projected sales, and lower production due to rising inventories had a major impact on business**
- ✓ **New business creation made a limited contribution to overall results**

However:

- ★ **China, a key element in business strategy, achieved targeted level of growth**
- ★ **As Yamaha marked its 125th anniversary, Yamaha expanded its market presence by launching of industry-leading products including grand and hybrid pianos, electric acoustic guitars, small guitar amplifiers, mid-range digital mixers, and AV receivers.**
- ★ **Consolidation of piano and wind instrument production in Japan was completed according to plan**

New Medium-Term Management Plan

Yamaha Group Corporate Philosophy



Corporate Objective

“CREATING ‘KANDO’ TOGETHER”

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.

Management Philosophy

Customer-Oriented and Quality-Conscious Management

Yamaha fully satisfies its customers by offering quality products and services that incorporate new and traditional technologies as well as refined creativity and artistry.

Transparent and Sound Management

Yamaha delivers proper returns to shareholders by ensuring a solid business performance and achieves lasting development through transparent and sound management.

Valuing People

Yamaha strives to be an organization where each person’s individuality and creativity are respected and all can demonstrate their full potential through their work.

Harmony with Society

Yamaha is a good corporate citizen that contributes to the development of society, culture, and the economy by observing laws, demonstrating high ethical standards, and endeavoring to protect the environment.

*‘Kando’ (is a Japanese word that) signifies an inspired state of mind.

Management Vision

What Yamaha is aiming for:

A trusted and admired brand

Become even more customer-oriented and quality-conscious, further increase brand value

Being a company with “operation centered on sound and music”

Hone our specialist expertise in sound and music

Grow through both products and services

Create new value by pursuing synergy between products and services to cultivate strengths in proposing solutions that match customers' lifestyles

Business Domains

Redefinition of Business Domains



Classify competencies according to technologies and know-how, and redefine business domains targeting synergy

Business that brings richer sound to more customers by concentrating outstanding craftsmanship and production technology capabilities in precision processing of wood and metal

Acoustic Musical Instruments

- Pianos
- Wind/Educational Instruments
- String & Percussion Instruments

Business that offer customers high-quality lifestyles by bringing together Yamaha's unique, creative services and content with its expertise in facility operation

Education/Leisure

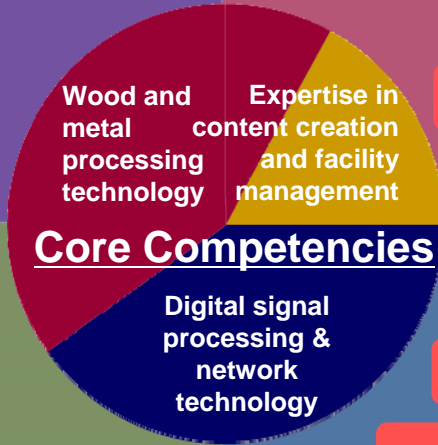
- Golf Products
- Recreation
- English Language Schools
- Music Schools
- Music Software

- Automobile Interior Wood Components/FA Equipment

Industrial Parts/Machinery

Business that supports the growth of our corporate clients' businesses by making maximum use of Yamaha core competencies

- Semiconductors



- Digital Musical Instruments
- AV Products
- PA Equipment

Electronics

Business that offers new added value to our customers by applying cutting-edge technologies in fields such as digital signal processing and networking

- Network Devices

Outline of New Medium-Term Management Plan

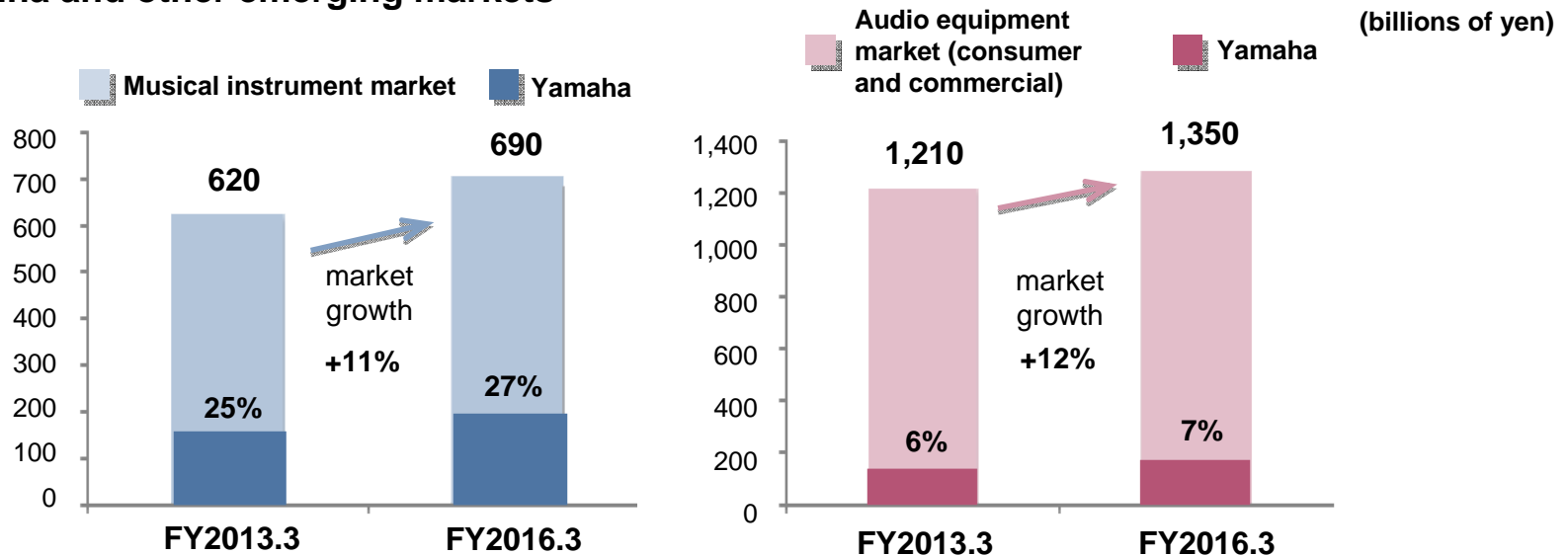
Yamaha Management Plan 2016
(YMP2016)

Factors

- (1) Continuing growth in China and other emerging markets
- (2) Demand plateauing in developed markets as birth rates fall and populations age
- (3) Although consumer focus on low prices will intensify, there is also high interest in premium products
- (4) Trend toward commoditization of electronic products is accelerating, and price competition is becoming fiercer
- (5) The Internet is making information increasingly borderless

Market Scale Projections and Yamaha Market Share

Demand for key musical instruments and audio products is expanding, especially in China and other emerging markets



Attain continual growth

Expand sales with focus on emerging markets and electronics business

Strengthen profitability to support growth

Steadily build on results of structural reform

Enhance specialization and professionalism to create new added value

Generate results from function-specific organizational units, foster specialist personnel

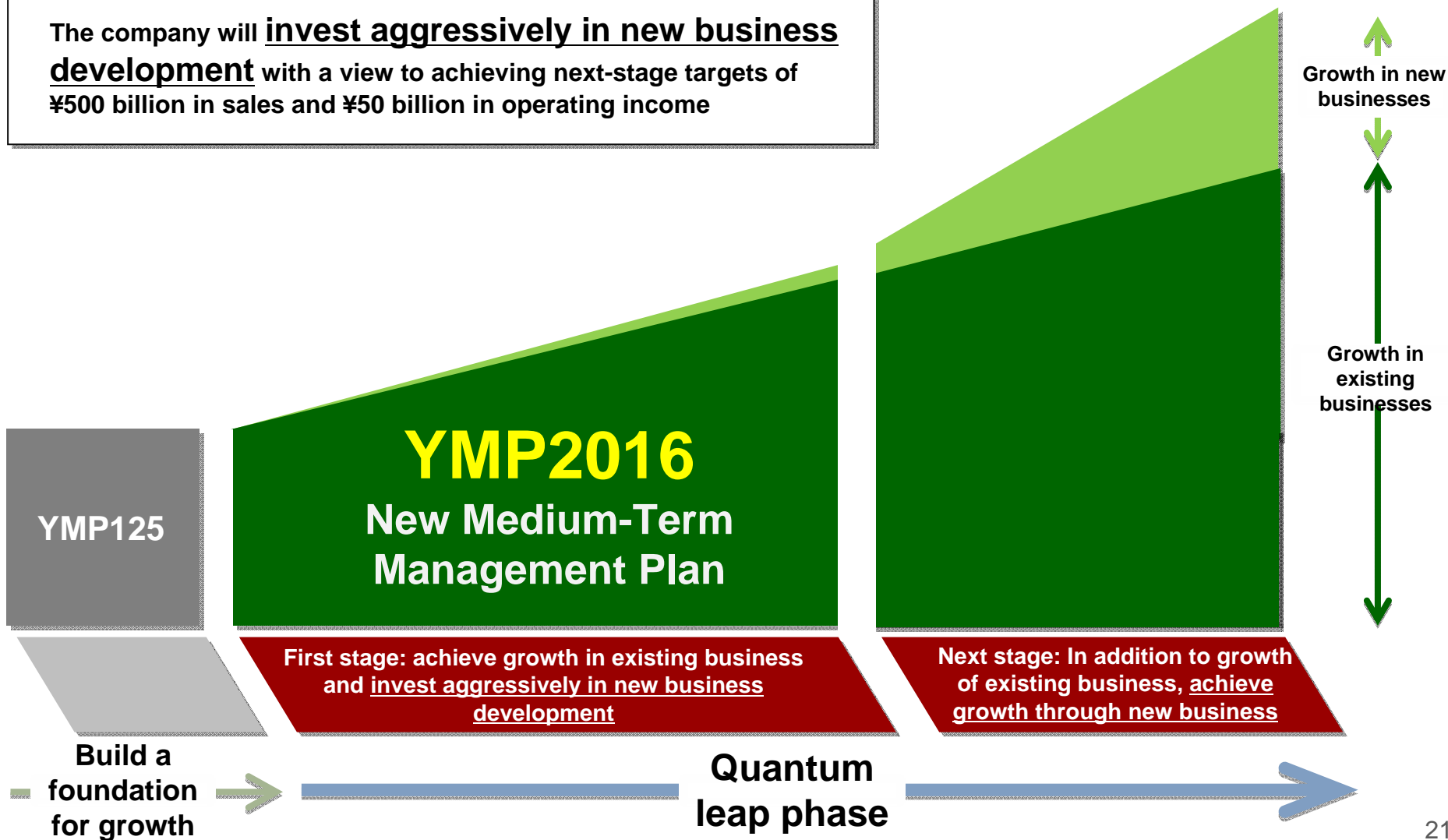
New Medium-Term Management Plan -Positioning



The new Medium-Term Management Plan will **achieve steady growth in existing business** as the first stage of the “quantum leap” phase

The company will **invest aggressively in new business development** with a view to achieving next-stage targets of ¥500 billion in sales and ¥50 billion in operating income

Sales: ¥500 billion
Operating income: ¥50 billion



New Medium-Term Management Plan -Numerical Targets



Billions of yen

	FY2013.3 Projections	FY2016.3 Targets	changes
Net Sales	365.0	430.0	+65.0
Actual growth rate over three years		+14%	
Operating Income	7.0	30.0	+23.0
Operating income ratio	2%	7%	
ROE	0%	10%	
Free Cash Flows (over three years)		50.0	

Exchange Rate (yen)

Net Sales	US\$	81	85
	EUR	105	115
Operating Income	US\$	81	85
	EUR	103	115

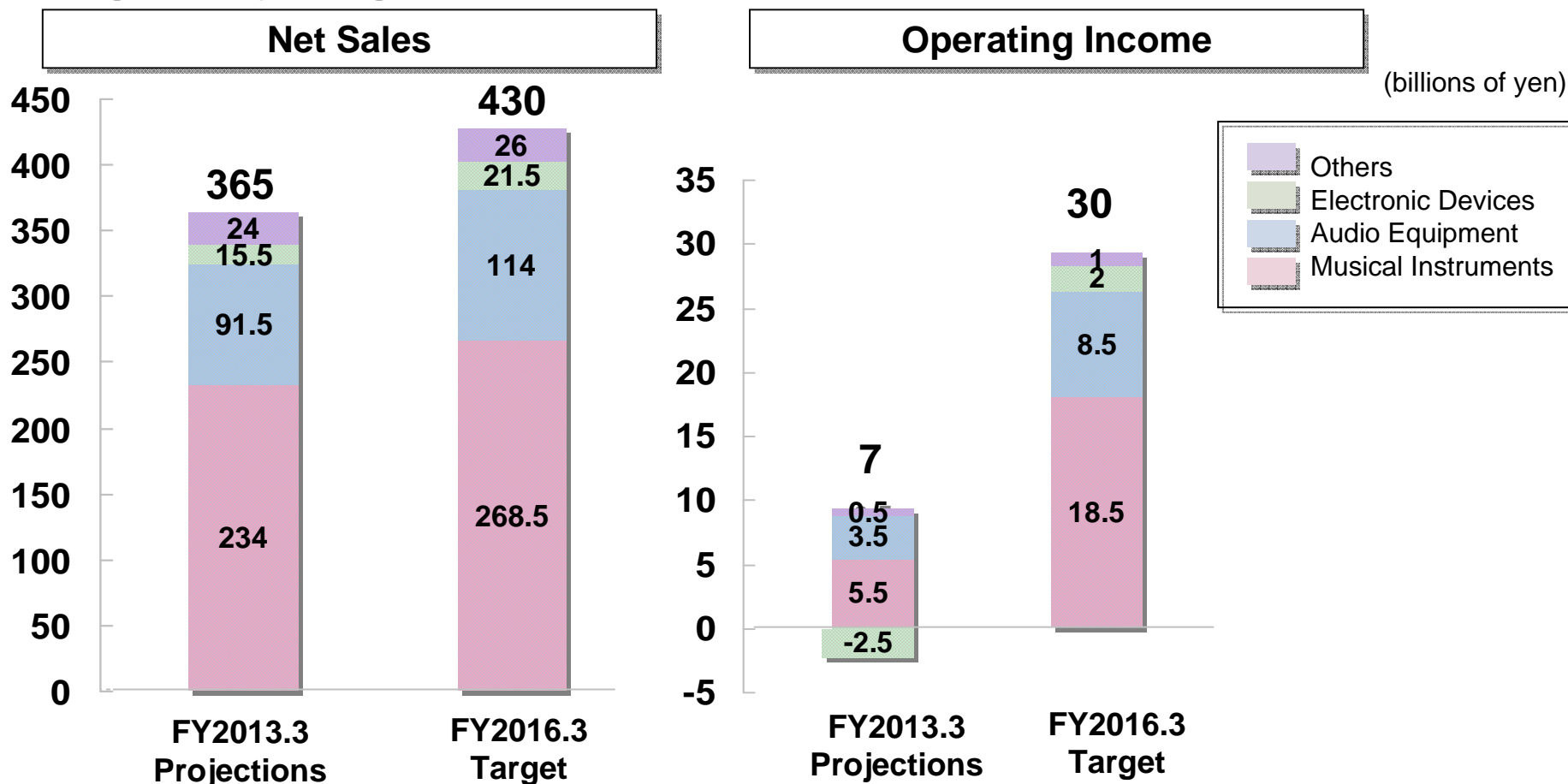
R&D Expenses, Capital Expenditures



Billions of yen

	FY2011.3-2013.3 (over three years)	FY2014.3-2016.3 (over three years)	changes
R&D Expenses	67.9	68.5	+0.6
Capital Expenditures	35.7	46.0	+10.3
(Depreciation)	(36.3)	(41.0)	+4.7
Special Allocation for Growth Investment	-	33.0	-

New Medium-Term Management Plan -Targets by Segment



[Segment Realignment]

As a result of certain organizational realignments, effective in the first quarter of FY2014.3, some segments are realigned as follow;

1. AV/IT segment will now be renamed audio equipment segment.
2. PA equipment business, which was previously reported as part of the musical instruments segment will now be reported as part of the audio equipment segment.

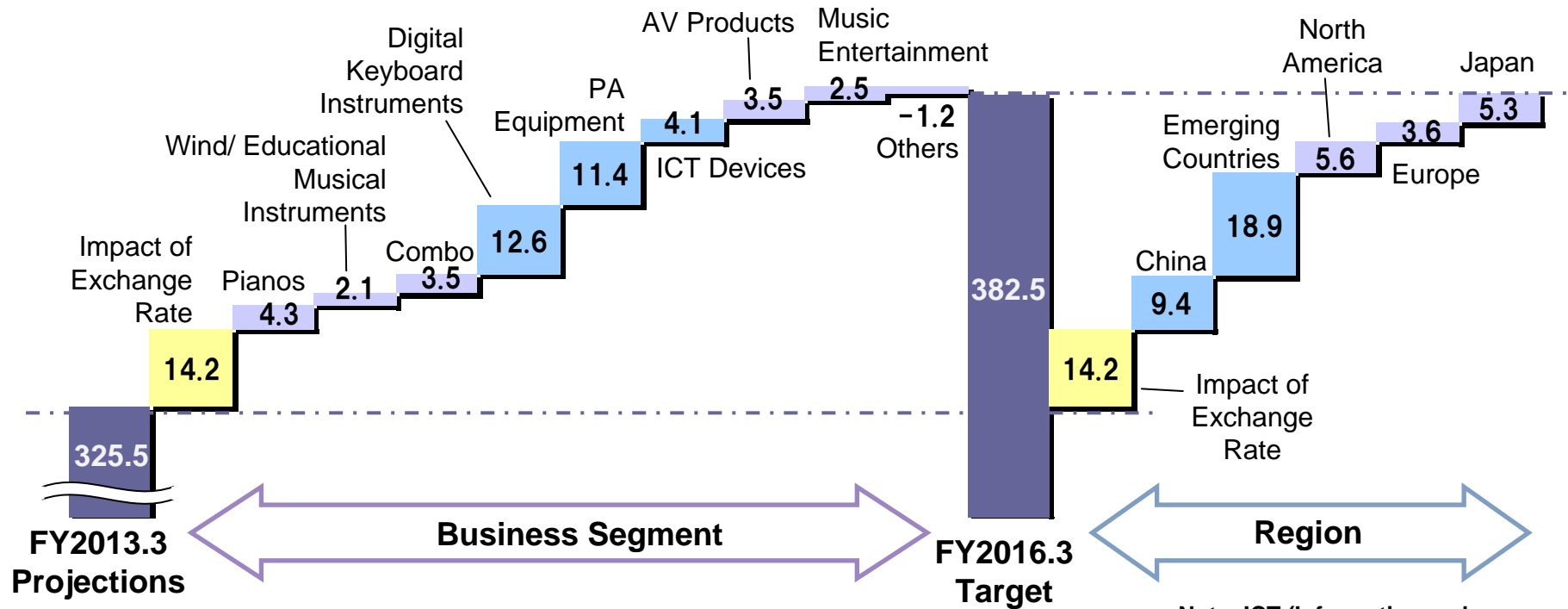
*In this presentation, Yamaha has reflected segment changes to segment net sales and operating income for FY2013.3 to provide better visibility.

Net Sales Analysis



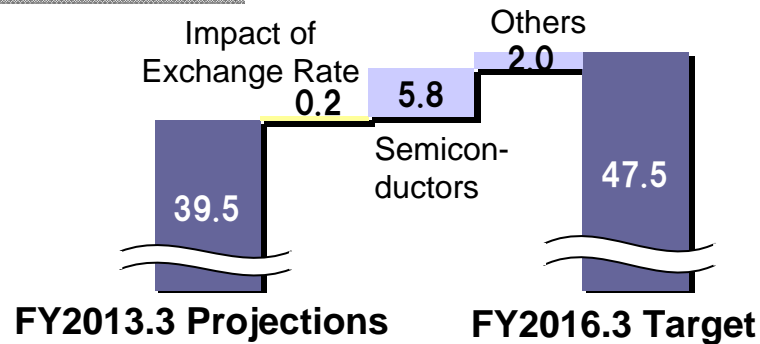
(billions of yen)

Musical Instruments/Audio Equipment



Note: ICT (Information and Communication Technology) devices = network devices + audio communication devices

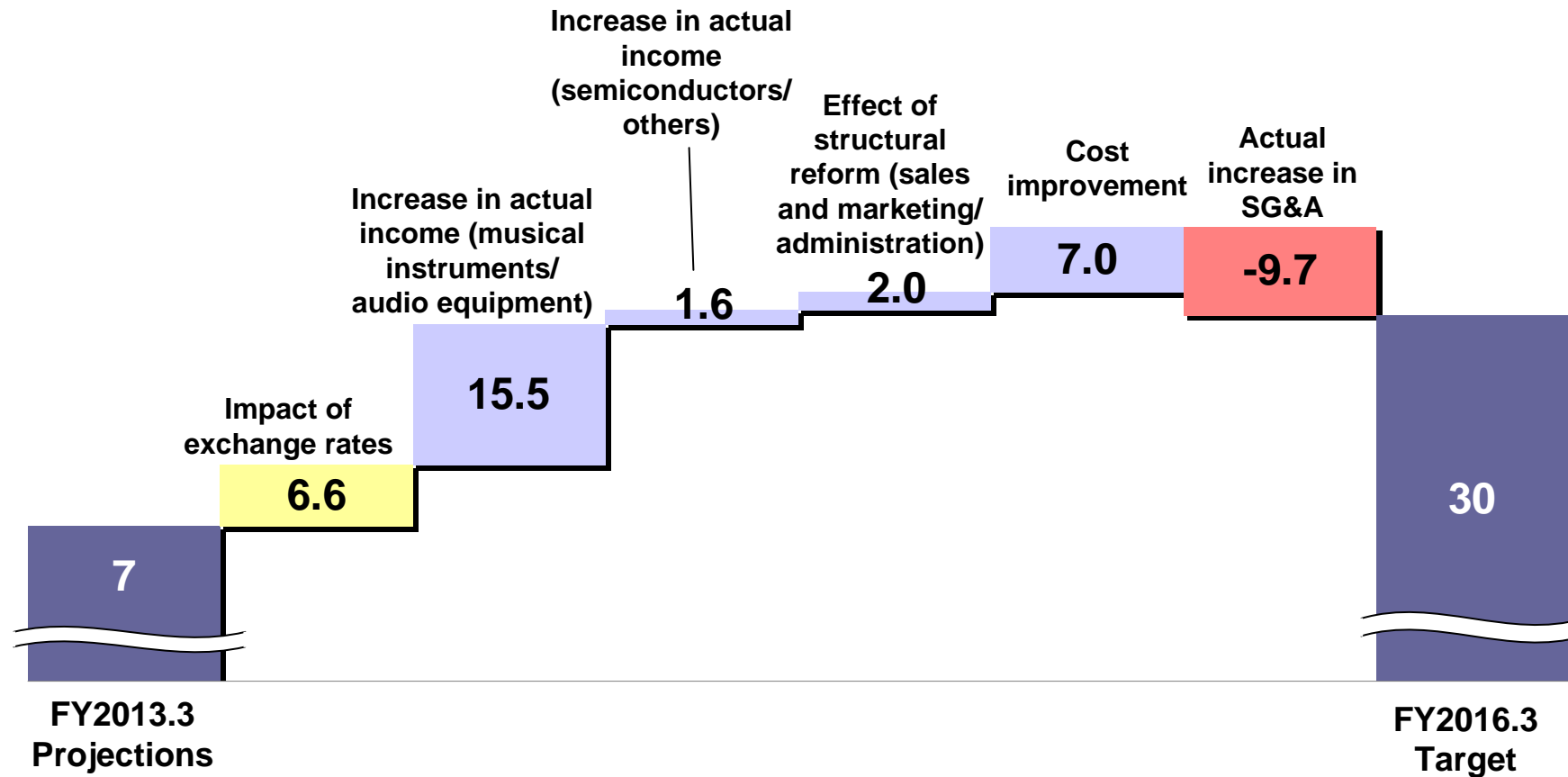
Electronic Devices/Others



Operating Income Analysis



(billions of yen)



YMP2016 Key Strategies

Four Key Strategies



Accelerate Growth in Emerging Countries

Expand Sales in the Electronics Business Domain

Strengthen Cost Competitiveness

Create New Businesses

Accelerate Growth in Emerging Countries

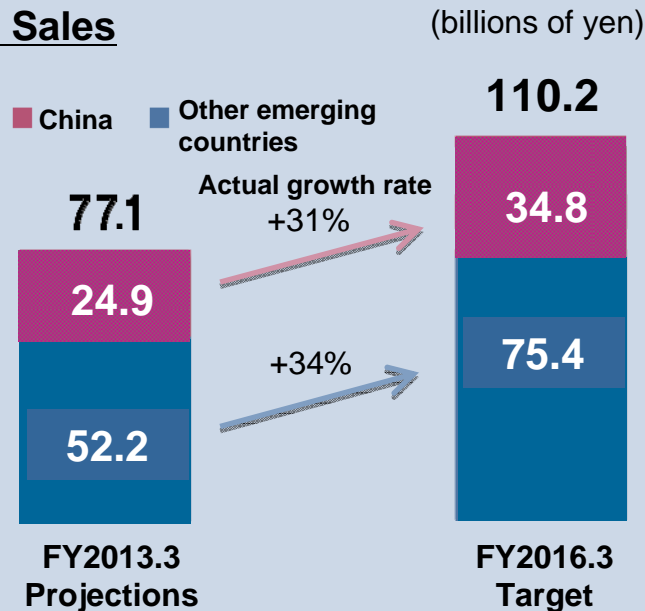
Three-Year Target

Achieve growth of ¥33.1 billion (actual increase of +33%) in China and other emerging countries

Priority Measures

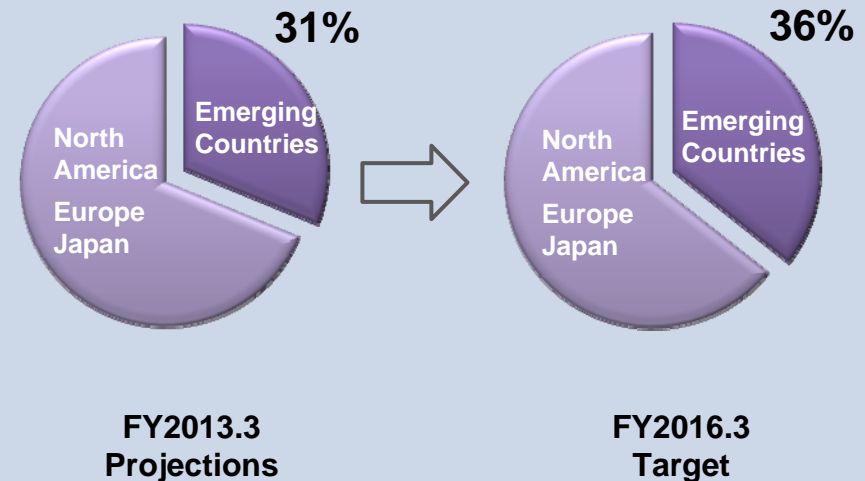
1. Focus management resources on key areas and expand sales network
2. Increase music-playing population through music popularization activities

Net Sales



Sales Ratio

(Musical Instruments and Audio Equipment Hardware Products)



Accelerate Growth in Emerging Countries

China

Market Environment

- Ongoing urbanization, changing lifestyles
- Market growth in 3rd- and 4th-tier cities
- Development of Web culture, growth in e-commerce
- Beginnings of falling birth rate and aging population

Transform strategy in response to changes in market character and trend



- Encourage expansion in key products to become pillar growth as acoustic pianos
- Accelerate opening and expansion of specialty stores in urban areas
- Strengthen efforts to supply emerging Web-based dealers
- Expand sales networks in 3rd- and 4th-tier cities, where consumption is growing

Other Emerging Markets

Identify priority countries and areas, and accelerate growth

Priority Countries/Areas	3-year growth rate
Brazil	+58%
Russia	+50%
Indonesia	+50%
India	+84%
Vietnam	+63%
Middle East/Africa/CIS	+98%



Boost sales by ¥17 billion in the above growth markets

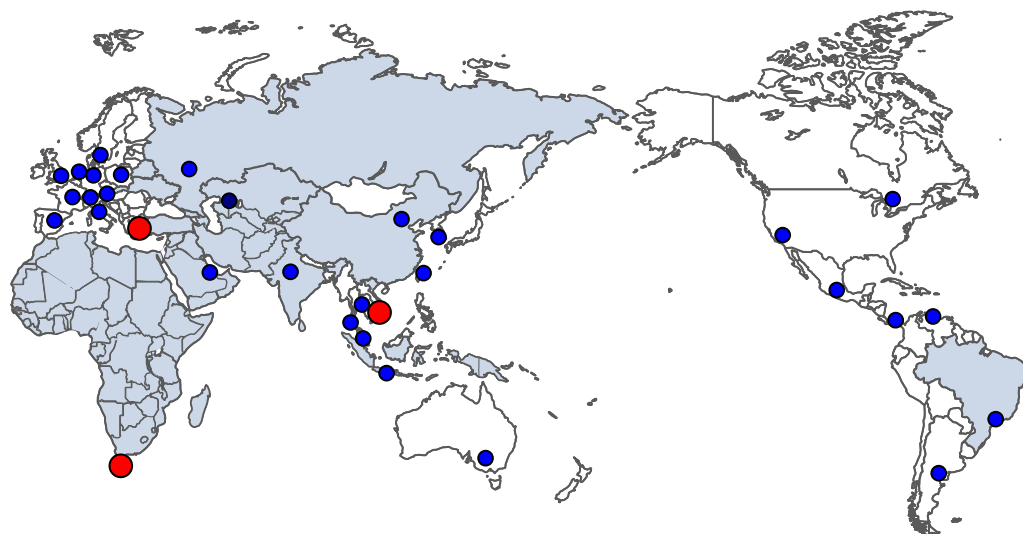
Accelerate Growth in Emerging Countries

Priority Measures

1. Focus management resources on key areas and expand sales network

- Increase sales and marketing staff by 300 personnel, develop and strengthen sales networks
- Establish sales subsidiary in Vietnam and branch in Turkey, and begin operation (April 2013)
- Establish representative office in South Africa and proceed to develop market (April 2013)

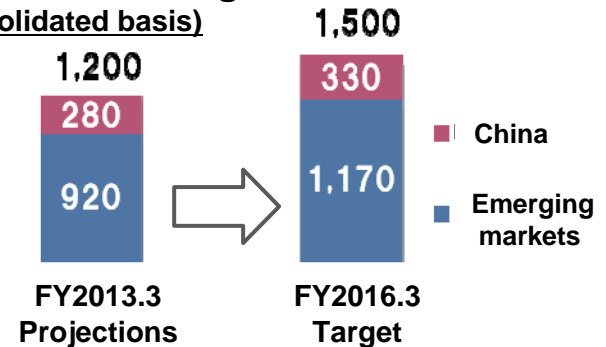
Yamaha Overseas Bases and Priority Countries/Areas



-  Priority countries and areas
-  Sales subsidiaries/ branches
-  Newly established sales subsidiary/ branch/ representative office

Sales & Marketing Staff

(consolidated basis)



Sales outlets

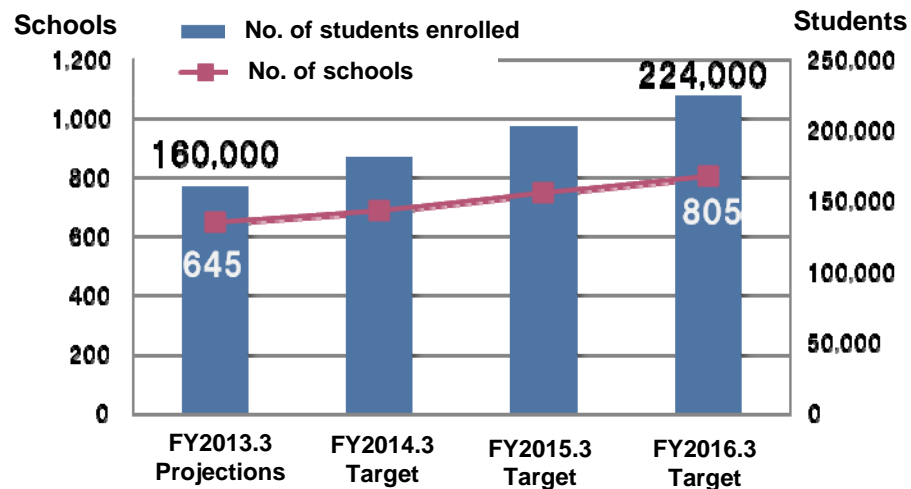


Priority Measures

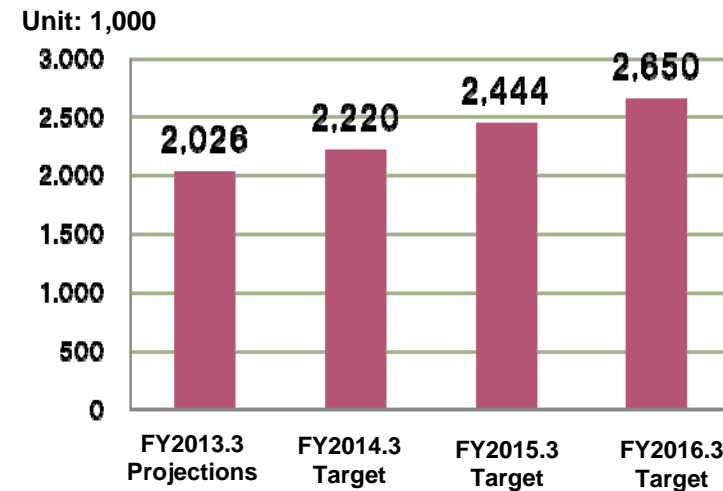
2. Increase music-playing population through music popularization activities

- Continuing expansion of Yamaha Music Schools
 - Establish 160 new schools and increase enrollments by 64,000
- Expand development of local schools with a focus on creating demand for musical instruments
 - Increase local schools in India by 33 to achieve 3,800 new enrollments
- Awareness-raising activities relating to school music lessons
 - Accelerate promotion of musical ensembles in Asia
(Potential markets: Laos, Cambodia, Bangladesh)

Enrollments at Yamaha Music Schools in China and other emerging markets



Recorder sales in emerging markets excluding China



Expand Sales in Electronics Business Domain

Three-Year Target Achieve growth of ¥34 billion (actual growth of +28%) for digital keyboard instruments, professional audio equipment, and ICT devices

Priority Measures

Digital keyboard instruments

1. Expand market share through rigorous differentiation
2. Respond to lower prices to cultivate further market demand

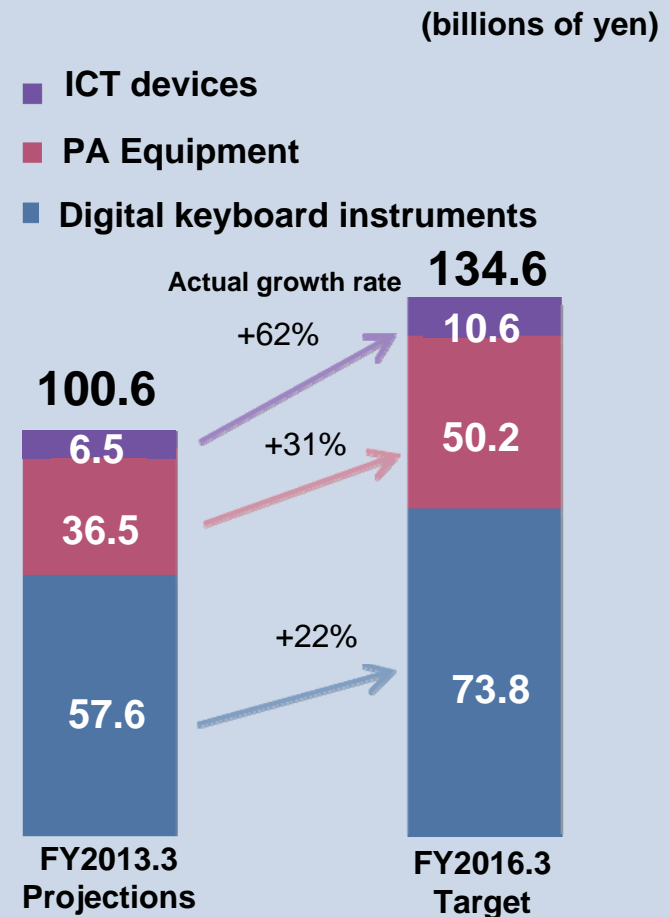
PA equipment

1. Enhance development capabilities to expand key product line-up and maintain solid growth
2. Enter new fields to expand business scale

ICT devices

1. Transform router business into network device solution business
2. Expand web conferencing USB microphone and speaker business into audio communication device business

Note: ICT (Information and Communication Technology) devices = network devices + audio communication devices



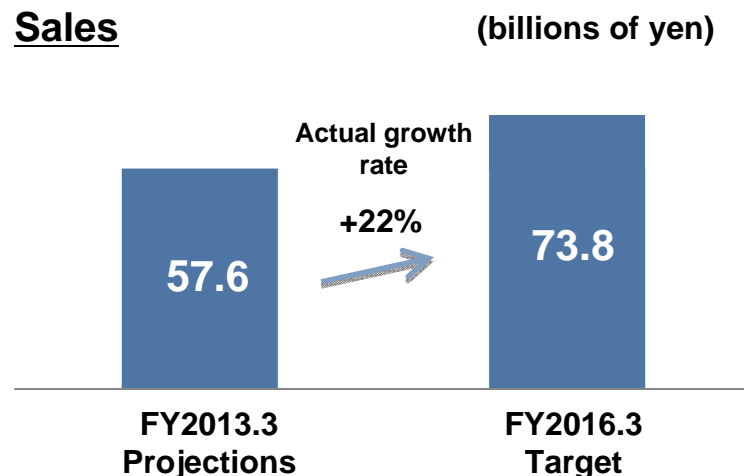
Digital keyboard instruments Priority Measures

1. Expand market share through rigorous differentiation

- Develop new, highly realistic sound and real-touch keyboard
- Enhance local content (style data, sound) to better match market needs

2. Respond to lower prices to cultivate further market demand

- Continue developing China-specific models and foster demand for keyboard products other than acoustic pianos
- Develop low priced products to meet specific demand in emerging market



Portable keyboard for Chinese market



Portable keyboard for Indian market



Expand Sales in Electronics Business Domain

Professional audio equipment Priority Measures

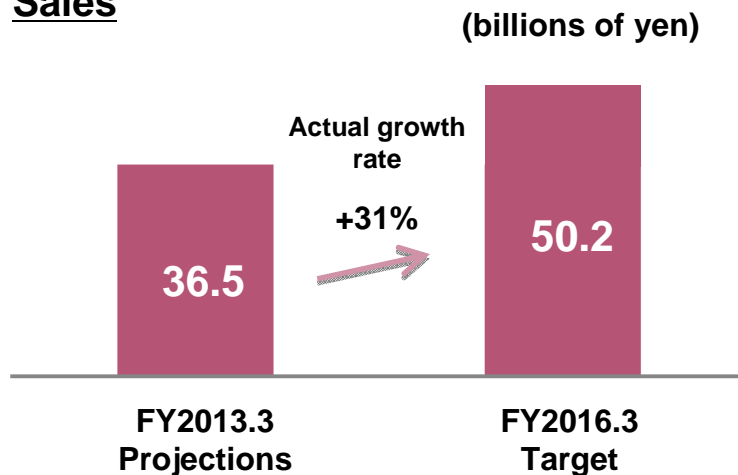
1. Enhance development capabilities to expand key product line-up and maintain solid growth

- Strengthen development capabilities through personnel increased in fiscal 2013 (approx. 100)
- Expand digital mixer line-up and cater to low-price markets
- Expand product line-up for musical instrument sales networks and increase sales in emerging markets

2. Enter new fields to expand business scale

- Enter into commercial installation market
- Re-enter professional production market

Sales



DAW system for professional production market



Expand Sales in Electronics Business Domain

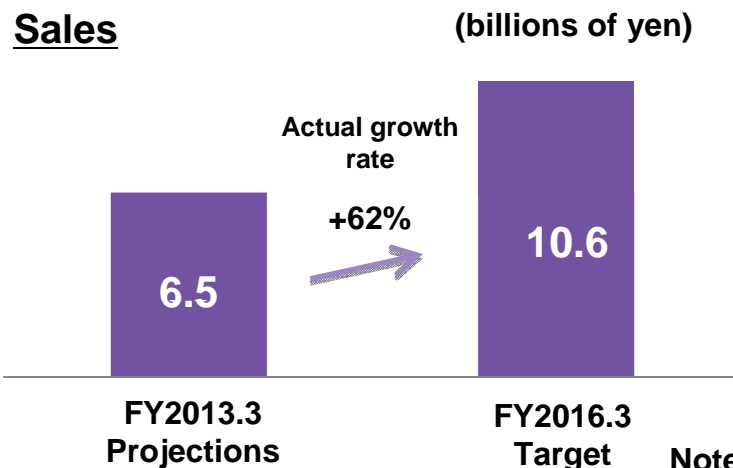
ICT devices Priority Measures

1. Transform router business into network device solution business

- Extend the product range of switch and access point devices in addition to routers
- Offer solution services to resolve issues encountered by small-medium networks

2. Establish audio communication device business by expanding web conferencing microphone and speaker business

- Expand business into systems that support hands-free communication
- Expand overseas sales with focus on OEM business



Wireless LAN access point



L2 switch



Note: ICT devices = network devices + audio communication devices

Strengthen Cost Competitiveness

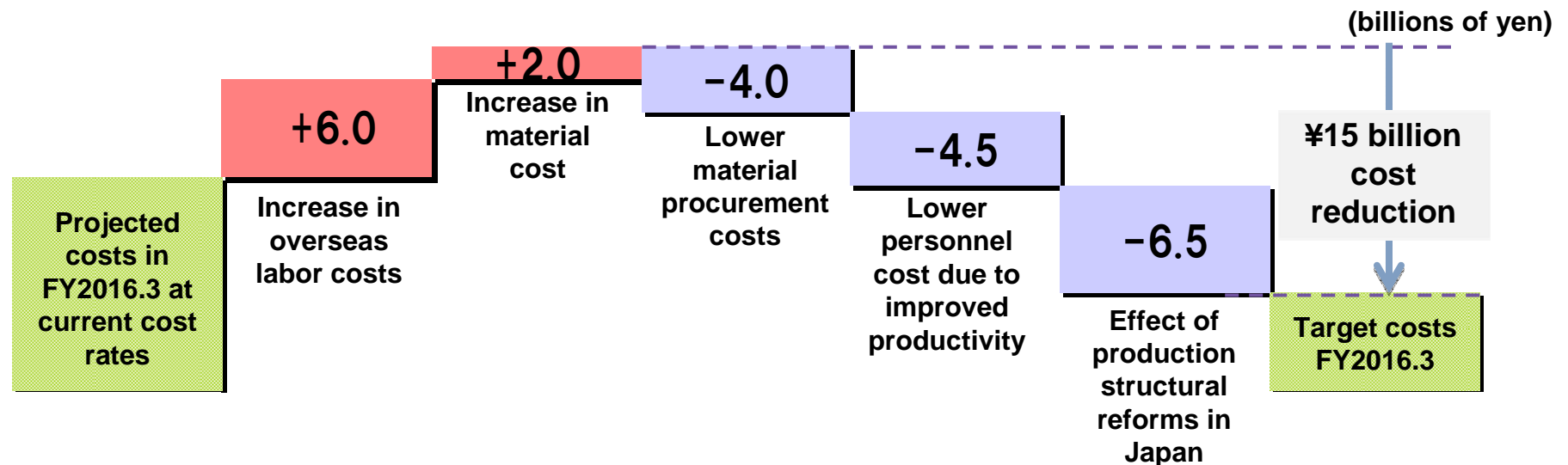


Three-Year Target:

Achieve cost savings of ¥15 billion by improving operating rates in existing production bases and cutting unit costs

Priority Measures

1. Transform Japanese production to create compact structure capable of dealing flexibly with change
2. Further strengthen manufacturing capabilities in Chinese and Indonesian factories, where labor costs are rising sharply



Absorb cost increases of ¥8 billion due to sharp rise in labor costs at overseas factories etc., and reduce costs by ¥7 billion

Priority Measures

1. Transform Japanese production to create lean structure capable of dealing flexibly with change

- **Realign musical instrument production divisions to set up subsidiaries (April 2014)**
- **Utilize imported parts and materials to reduce costs, and harness core skills and technologies to create high value for customers**

2. Further strengthen manufacturing capabilities in Chinese and Indonesian factories, where labor costs are rising sharply

- **Reduce costs by boosting local procurement of materials and parts**
- **Add value by bringing outsourced production in-house**
- **Streamline operations by introducing new production methods and improving processes**

Three-Year Target:

Develop new businesses to accelerate growth in quantum leap phase

Priority Measures

- 1. Invest in M&A and capital tie-ups**
- 2. Invest in venture firms**
- 3. Pursue new business projects in-house**

1. Invest in M&A and capital tie-ups

- Accelerate growth through M&A and capital tie-ups in fields expected to expand, such as commercial audio equipment

Special allocation for growth investment: ¥30 billion

2. Invest in venture firms

- Invest in venture firms to discover next-generation technologies and services

Special allocation for growth investment: ¥3 billion

3. Pursue new business projects in-house

- Top-down support for projects already under way
- Invite suggestions from staff and use in-house projects involving engineers from different disciplines to identify new businesses
- Conduct workshops for young employees to strengthen capabilities in identifying new businesses

Strengthen and Utilize Individuals' Specialist Capabilities

Priority Measures

1. Enhance development of global human resources

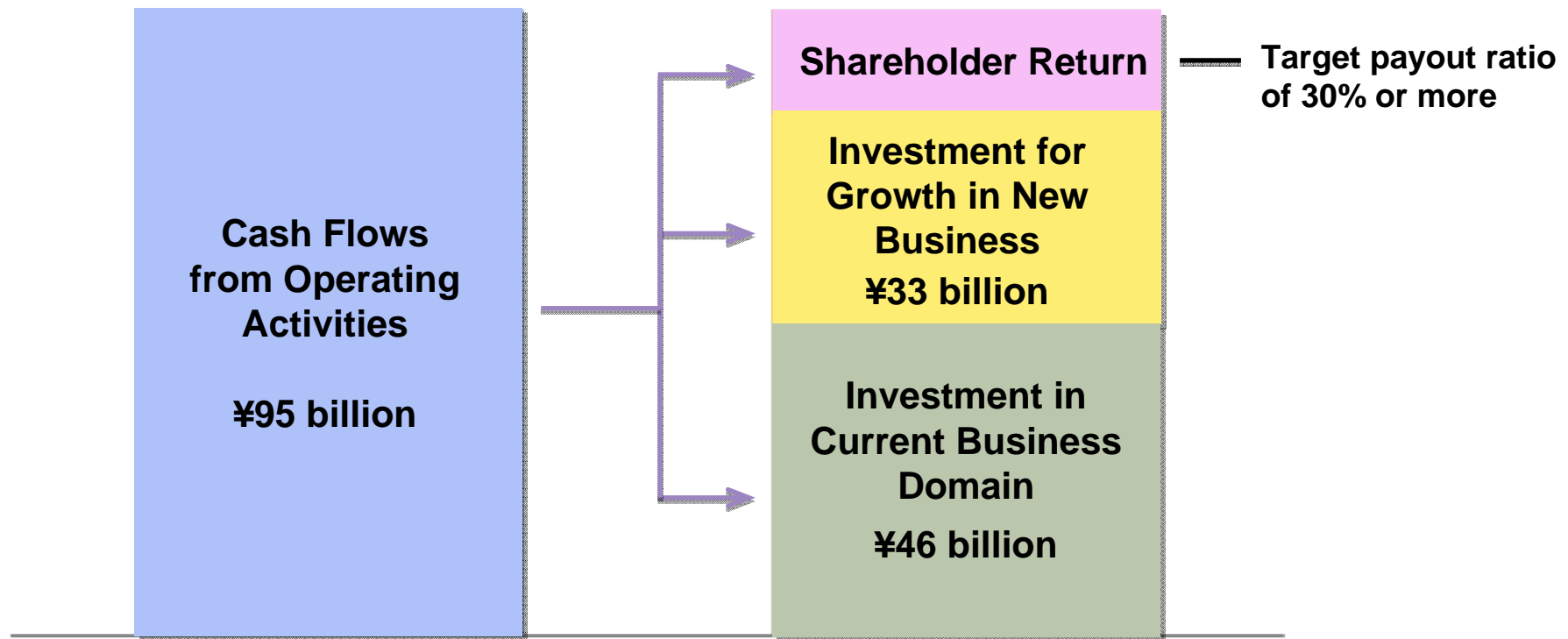
- **Develop managers for subsidiaries worldwide**
- **Develop personnel with highly specialized skills in the areas of development, production, sales, and administration**

2. Make greater use of personnel at global level

- **Promote more local personnel to management positions in subsidiaries with the target of 60% in the position during the quantum leap phase**
- **Promote localization of R&D and engineering**

Actively invest in growth while continuing stable dividends

Three year cash flow distribution plan



In this report, the figures forecast for the Company's future performance have been calculated on the basis of information currently available to Yamaha and the Yamaha Group. Forecasts are, therefore, subject to risks and uncertainties.

Accordingly, actual performance may differ greatly from our predictions depending on changes in the economic conditions surrounding our business, demand trends, and the value of key currencies, such as the U.S. dollar and the euro.



**125 YEARS
OF PASSION &
PERFORMANCE**